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Editor's Note

Indian retail industry is booming and the zeal is reflected in the contribution of our students. We have an article and a synopsis of summer internship project on the same topic besides one on application of six sigma in software companies. The very objective of our 'Catch them Young' concept – introduced in 2007 – has borne fruit and the students take as much interest in such academic pursuits as they do in other creative, but non-academic activities.

In our research contributions, we have a mix of Behavioural Science, Finance and General Management. The topics covered analyses the link between Job involvement and satisfaction of 'needs', asset correlations modeling in credit risk, development of Indian economy and the role of Special Economic Zones in it as well as a survey on Whistle Blower Policy in Indian 'navaratna' companies.

I thank all our avid readers for the feedback given to us regarding 'Kindler'. Your appreciation and suggestions guide us in our endeavour to make it a 'journal of choice' for all researchers.

P. Ahmed

Parveen Ahmed Alam
Editor, Kindler

RESEARCH CONTRIBUTIONS

The Role of Need Saliency in Job Involvement among Medium Sector Industrial Managers

*Kalpana Sahoo**

ABSTRACT

The centrality of work in modern economies has made an understanding of the psychology of motivation and job satisfaction a key component of business and management. Motivation is the reason or reasons for engaging in a particular behaviour, especially human behaviour. Motivation refers to the initiation, direction, intensity and persistence of human behaviour. This study examines need saliency model in the context of job involvement. Eighty adult male managers from medium sector industrial organizations participated in this study. A multi-part questionnaire standardized for trans-cultural use measured their perceived importance of job outcome factors, and their level of satisfaction. The results supported the hypothesis that job involvement is significantly related to salient need satisfaction and unrelated to non-salient need satisfaction. Implications in terms of managing employees' motivation was discussed.

INTRODUCTION

Management of human resources in organization has employed Western-based knowledge until very recently. More specifically, organizations have adopted Maslow-type framework for enhancing employee's motivation. According to this approach (**Maslow, 1954**), an organization is effective in ensuring human motivation to the extent it fulfils conditions for the satisfaction of higher order (intrinsic) needs such as interesting and challenging nature of work. **Herzberg (1996)** posits similar view in identifying motivators. Self-determination theory (SDT), developed by **Edward Deci & Richard Ryan (1985)**, focuses on the importance of intrinsic motivation in driving human behavior. Like Maslow's Hierarchical Theory and others that built on it, SDT posits a natural tendency toward growth and development.

This framework makes a dichotomy between extrinsic factors and intrinsic factors. Intrinsic factors such as interesting and challenging nature of job considered as higher-order factors are thought to have greater potency in motivating individuals than extrinsic factors. Accordingly, intrinsic factors are viewed as preferable to extrinsic factors.

A close examination of this conceptualization brings out two major limitations of the framework. First, the framework does not appear to be pan-cultural. Maslow's ordering of need is a function of cultural priority. In Maslow's Hierarchy of Need, individual needs are

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given higher status compared with community needs. This Need Hierarchy may be applicable to Western societies which are basically individualistic societies.

On the contrary, the extension of this Hierarchy to non-Western societies is not justified. Many non-Western systems are basically "us" (collectivistic) societies. A number of these societies have gained their freedom in the twentieth century - they are not yet free of colonial hangover. In such a context, security and social needs may appear more meaningful to people compared with self esteem and self actualization needs. Thus, Hierarchy of Needs is not invariant across all cultural systems.

Second, this conceptual problem is further compounded by a scrutiny of empirical studies supporting the linkage between intrinsic needs and employee motivation. The studies examining the linkage between the two have employed measures of job involvement (motivation) which have much intrinsically worded statements. Since both intrinsic needs and job involvement measures share much common words, a positive association becomes very likely, **Corn and Kanungo (1980)** empirically matched intrinsic motivation with extrinsic motivation - they found no difference on job involvement between intrinsically motivated and extrinsically motivated managers in Canada. These limitations have provided impetus for the growth of more trans-cultural model of job involvement. More recently **Kanungo (1982)** has offered a motivational framework to account for job involvement and work involvement across cultures. The model blends both the streams of sociological and psychological thinking on work alienation and involvement.

The motivational approach asserts that individual's behaviours, both on and off-the-job, are a function of the saliency of need states with them. Individual beliefs that they are job involved or alienated depends on whether the job is perceived to have the potential for satisfying their salient needs, be they extrinsic or intrinsic. Need saliency theory states that some needs are more important for people than other needs. **Kanungo (1982)** advocated that satisfaction of intrinsic needs at work may be sufficient but not a necessary condition for work involvement. Unlike previous approaches, the present approach suggests that job involvement can best be understood if we find out the nature and the saliency of needs in workers, as determined by prior socialization and present job conditions. Workers belonging to different cultures differ with respect to the importance they attach to various job outcomes. It is necessary to recognize that the Western work models cannot be extrapolated in India. The different cultural parameters and differing socialization patterns have different implications for organizations in the West and in India respectively. With this rationale, **Kanungo (1982)** has developed measuring devices of work alienation that have better cross-cultural applicability than traditional instruments. With the application of this scale, it is possible to examine need saliency theory across settings and cultures.

The present work makes an important assertion that job involvement is basically a function of the satisfaction of needs that are considered salient in a given socio-cultural context. Since the study of need saliency in all kinds of organizations is beyond the scope of a single investigation, the present work is directed to examine needs saliency in the context of medium sector industrial organizations.

More specifically, the study is geared to examine the hypothesis that job involvement is positively related to the satisfaction of salient needs. It also tests the prediction that job involvement is unrelated to the satisfaction of non-salient needs.

METHOD

The purpose of this investigation is to examine need saliency and job involvement across two career phase groups and two educational levels. The setting of the study involves medium sector industrial organizations.

SAMPLE AND DESIGN

Eighty male employees were sampled from medium sector organizations which include textile mills spread out in the state of Orissa. All of the participants were managers and were in the age group of 21 years to 58 years. The study involved a 2 x 2 factorial design where less educated and educated employees (split on the basis of their education) were crossed with two levels of their career phases (juniors and seniors) on the basis of their length of organizational experience and performance.

MEASURES

The measures of job involvement (*Kanungo, 1982*) consist of sub-scales of perceived importance of job factors, job satisfaction, and job involvement. The robustness of the scale has been reported elsewhere (*Kanungo, 1982*). Its trans-cultural validity is also documented (*Mishra, Kanungo, Rosentiel, & Stuchler, 1985*).

MEASURES OF PERCEIVED IMPORTANCE OF JOB FACTORS

This is a measure reflecting the nature of the cognitive state of psychological identification with job. This measure consists of 15 job factors. The subjects are required to rank the factors according to their perceived importance. Eight of the factors are considered extrinsic but organizationally controlled job factors: adequate salary, fair pay, promotion opportunity, fringe benefits, job security, company policy and comfortable working conditions. There are four interpersonally-mediated extrinsic job outcomes: technically competent supervisor, good peer group relations, considerate supervision, and recognition. The remaining three job factors are intrinsic in nature: responsibility and independence, a sense of achievement, and interesting nature of work.

MEASURE OF JOB SATISFACTION

In the second part of the questionnaire the respondents are asked to indicate on a six-point scale. The present level of satisfaction or dissatisfaction on their job with respect to each of the 15 job factors and to one more factor indicates an overall satisfaction. The job factors are again listed in random order. Ordinal weights of 1 to 6 were assigned respectively to the six points on the scale ranging from extremely satisfied (6) to extremely dissatisfied (1).

MEASURES OF JOB INVOLVEMENT

Three measures in different formats are used. An eight item semantic differential (JISD), a ten item questionnaire (JIC), and two item graphic measures (JIC) are included to

measure job involvement. The JISD requires individuals to think about their present job in the context of their job and evaluate if using each of seven point scale Bi-polar description such as, involving-non-involving important, non-important and so on are employed. The JIQ includes a number of statements. Respondents are asked to indicate their agreement/disagreement on six point scale. The JIG consists of two sets of pictures. In each set, the individual and his/her job are pictorially presented. In one set, seven boxes consisting of two circles each are presented. The two circles represent the individual and his or her job respectively. In the first box, the two circles are placed away from each other in varying degree and in the seventh box; the two circles overlap totally, representing total involvement in the job. The second set also comprises seven diagrams, each diagram consisting of an individual and a desk, representing the individual and his job. The figures are placed at different distances from each other, depicting how close or how far one is from his or her job. For each set, respondents are asked to choose a particular picture pair that represents his/her relationship with the job.

PROCEDURE

The subjects were contacted individually at their respective working situation. Each subject was individually given the questionnaire of job involvement. The questionnaire comprised scales of perceived importance of job outcomes, job satisfaction, and a three part job involvement measures. They were told that there was no right or wrong answer. They were given the impression that the tests are not indicative of any ability factor. No labels such as perceived job outcomes, job satisfaction and job involvement were used. The participants were given enough time to respond to the required parts of the questionnaire which were then collected from them.

It is important to point out that salient needs were identified as those needs rated first and second; non-salient needs were those needs rated fourteenth and fifteenth. Accordingly, the level of satisfaction of salient needs and non-salient needs were scored separately for each participant. In addition, total satisfaction across all needs was computed for each individual. Finally, job involvement measures in the form of JISD, JI and JIG scores were available.

The analysis was geared to examine need saliency hypothesis. In addition, group differences were also investigated.

RESULTS

An important feature of the present investigation involves the use of multi-measure of job involvement. Although internal consistency of JISD, JIQ and JIG has been reported elsewhere (*Mishra et al., 1985*) in cross-cultural context, the present study provides further support. The correlational analysis shows that JISD, JI and JIG are correlated significantly with each other. This is shown not only in the total pool of participants but else in each of the sub-groups.

The major thrust of the investigation involves need saliency hypotheses. It is posited that job involvement is significantly related to the satisfaction of salient needs and is unrelated to satisfaction of non-salient needs. The correlation between each of the measures of job

involvement (JISD, JIQ, and JIG) and salient need satisfaction shows significant positive association. This pattern is shown in each of the sub-groups as well as in the total pool of participants. There are only a couple of cases where correlation coefficients are non-significant. Yet, these correlation coefficients indicate trends in the expected direction, although the correlation does not reach the level of statistical significance.

The hypothesis that job involvement is unrelated to the satisfaction of non-salient needs is also supported. The correlation between each of the measures of job involvement and non-salient need satisfaction does not indicate significant relation. This is found in each of the sub-groups as well as in the total pool of participants.

With respect to the relationship between salient need satisfaction and total satisfaction, positive association is predicted. The results of the study confirm this prediction. It is shown that the relationship between salient need satisfaction and total satisfaction is highly significant in many cases. Excepting a single case, correlation between non-salient need satisfaction and total satisfaction is non-significant. This is in line with our expectation.

Analyses of variance carried out on each of the relevant dimensions (need saliency, non-salient needs, total satisfaction, overall satisfaction, JISD, JIQ & JIG) across groups does not yield significant age level effect.

The examination of mean scores indicate that the senior group and the highly educated group demonstrate greater need satisfaction. Considering the non-salient need satisfaction, the senior employees and the highly educated employees have higher scores than the junior employees and highly educated employees have higher scores than the junior employees and employees with less education. Highly educated employees experience greater total satisfaction than do less educated employees. The mean scores show that less educated and highly educated employees show almost same overall satisfaction. Highly educated employees show greater JISD and JIQ mean scores than do less educated employees. Taking into account the JIG scores, there is very little difference between junior and senior employees.

DISCUSSION

The basic objective of the present study was to examine the association between need saliency and job involvement among medium sector industrial managers. It is observed in the present study that salient need satisfaction is related to job involvement. The hypothesis that job involvement is unrelated to non-salient need satisfaction is also supported in this study.

It is important to point out that **Mishra (1982)** examined this need saliency model in Indian private and public sector industrial employees and found empirical support. Sahoo (2000) have also found support for administrative and industrial organizations.

The pattern of importance attached to various needs that individuals seek to satisfy in different life contexts differ, depending upon one's past socialization and cultural influences. It is found in the present study that salient need satisfaction is related to overall satisfaction

and total satisfaction. There is a positive relationship between job satisfaction and job involvement. When one's salient needs are satisfied, whether they are extrinsic or intrinsic in nature, it affects his or her overall satisfaction and this, in turn, affects the job involvement of the person. It is also found that salient need satisfaction bears a positive association with both total satisfaction and overall satisfaction.

Kanungo and Corn (1980) have carried out one study where they matched the managers with respect to the priority they attach to intrinsic vis-à-vis extrinsic needs. When the priorities were matched, it was found that intrinsically motivated managers are involved to the extent extrinsically managers are motivated. Our present investigation also supports the conclusion that the difference between extrinsic and intrinsic need is an artificial one. Instead of valorizing extrinsic and intrinsic needs, motivation can be thought of as a function of the satisfaction of salient needs.

The techniques adopted for job involvement-semantic (Differential Techniques, Questionnaire, and Graphic Measurement Techniques) are not only multiple in nature but are also found to be internally consistent. The correlational analysis in the present study shows that these three measures of job involvement are related to each other.

IMPLICATION

The study offers two major implications. First, it is shown that job involvement is basically a function of the level of satisfaction of salient needs. Hence, it is important to identify salient needs in a given subset of human population and provide conditions for the satisfaction of those needs in an organization. This implies that there is no justification in making a rigid dichotomy between intrinsic and extrinsic needs. The dichotomy brings valorization and treats intrinsic needs superior to extrinsic needs. As implied by the present investigation, what is important is the saliency (or priority) attached to specific needs. Consequently, an organization can ensure employees' motivation by managing to identify and satisfy salient needs.

Although it may be very desirable to satisfy as many human needs as possible, it is seldom feasible. Organizations, especially in developing countries, often experience resource constraints. However, it is within the scope of possibility to manage employee's motivation by taking care of a limited number of salient needs.

Second, it is important to point out that need saliency construct bring out the significance of cultural variation. It suggests that salient needs are varied in different cultures. Similarly different organizations may constitute their own socio-cultural milieu. Accordingly, identification of salient needs are to be undertaken separately in various cultures. Furthermore, salient needs of supervisors may not be same as those of subordinates in an organization. Hence, application of need saliency model requires investigation across job contexts as well as organizational types.

In sum, an effective management of employees' motivation can be approached from a newly emerging pan-cultural model of work behavior.

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TABLE-1

Correlation Between Salient, Non-Salient Need Satisfaction and Total Satisfaction

| Groups | Needs | Total | Overall | |
|------------------|-------------|-------|--------------|--------------|
| | | | Satisfaction | Satisfaction |
| Junior and less | Salient | | .80** | .87** |
| Less Education | Non-Salient | .35 | | .36 |
| Junior and | Salient | | .85** | .76** |
| Highly Educated | Non-Salient | | .39 | .32 |
| Seniors and | Salient | | .77** | .54** |
| Less Education | Non-Salient | .44** | | .39 |
| Seniors and | Salient | | .67** | .58** |
| Highly Educated | Non-Salient | | .31* | .36 |
| All Participants | Salient | .79** | | .67** |
| | Non-Salient | | .32* | .29 |

* P<.05

** P<.01

TABLE-2**Mean Need Satisfaction and Involvement Score of Participants**

| Variables | Groups | Junior | | Senior | | Combined | |
|----------------------|-----------------|--------|-------|--------|-------|----------|-------|
| | | M | SD | M | SD | M | SD |
| Salient Needs | Less Educated | 7.10 | 3.67 | 7.85 | 2.56 | 7.47 | 3.11 |
| | Highly Educated | 8.30 | 3.10 | 2.10 | 2.13 | 8.70 | 2.61 |
| | Combined | 7.70 | | 8.47 | | | |
| Non-Salient Needs | Less Educated | 6.50 | 2.19 | 6.70 | 2.13 | 6.60 | 2.16 |
| | Highly Educated | 7.60 | 2.39 | 7.90 | 1.99 | 7.75 | 2.19 |
| | Combined | 7.05 | | 7.30 | | | |
| Total Satisfaction | Less Educated | 54.20 | 14.03 | 61.05 | 12.79 | 57.63 | 13.41 |
| | Highly Educated | 59.60 | 13.76 | 61.00 | 10.28 | 60.30 | 12.02 |
| | Combined | 59.90 | | 61.03 | | | |
| Overall Satisfaction | Less Educated | 3.55 | 1.45 | 4.40 | 1.19 | 3.98 | 1.36 |
| | Highly Educated | 2.80 | 1.51 | 3.95 | 1.47 | 3.88 | 1.49 |
| | Combined | 3.68 | | 4.18 | | | |
| JISD | Less Educated | 40.98 | 7.43 | 45.00 | 7.84 | 42.95 | 7.63 |
| | Highly Educated | 45.35 | 6.84 | 45.15 | 6.53 | 45.25 | 6.68 |
| | Combined | 43.12 | | 45.08 | | | |
| JIQ | Less Educated | 38.10 | 6.38 | 42.25 | 5.97 | 40.18 | 6.17 |
| | Highly Educated | 41.50 | 5.74 | 41.10 | 8.87 | 41.30 | 7.30 |
| | Combined | 39.80 | | 41.68 | | | |
| JIG | Less Educated | 10.15 | 2.58 | 11.80 | 2.04 | 10.98 | 2.49 |
| | Highly Educated | 11.85 | 1.87 | 11.45 | 2.82 | 11.65 | 2.34 |
| | Combined | 11.00 | | 11.63 | | | |

A Study of Asset Correlations Modelling and Analysis in Credit Risk for Economic Capital Framework

Rudra P. Pradhan and Pooja Bhaumik***

ABSTRACT

Credit risk modeling practices in the banking industry often use an internal ratings-based approach to capital requirements. The most important drivers of credit risk in a portfolio are probability of default, loss given default and asset correlations. Owing to a regulatory focus on the first two drivers; correlations, despite their critical importance, did not receive much importance. Increased credit management practices and economic capital frameworks have caused an interest in the study of correlations. The focus of this study and analysis is asset correlations, used in modeling credit risk in portfolios. The data used is from a particular entity of a reputed international bank, using time series data. We find that measuring asset correlations accurately can provide better measurements of default correlations and credit risk. The results have important significance in economic and regulatory capital frameworks.

INTRODUCTION

The analysis of retail portfolio banking has been separated within banking operations historically. Banks are seeking to enhance their capabilities in modeling, measuring, analyzing and managing the credit risk of the combined portfolio. A need exists to improve correlation modeling of the interaction between retail and non-retail asset types in the portfolio. The Basel Accords aim to create an international standard that banking regulators can use when creating regulations about how much capital banks need to put aside to guard against the types of risk that the banks face. These rules mean that the greater the risk to which the bank is exposed, the greater the amount of capital the bank needs to hold to safeguard its solvency and overall economic stability. Economic Capital is the amount of capital a bank needs to ensure to maintain the level of safety it offers to its debt holders. It has, therefore, to take into account all the risks and the possible expected and unexpected losses. The credit risks associated with the retail products of the bank are major contributors to the risk. The correlations between the various retail products are critical drivers of the total risk.

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While the bank regulators worked to implement the Basel II Accord, a number of banks started developing internal models to independently determine their own needs for economic capital in support of their risk-taking activities. These models attempted to address not only the risk differences among loan classes but also the differences in the risks of individual loans within a class. For many banks, which had relatively conservative lending activities, the resulting internally-generated capital requirements often fell below the regulatory minimum. The opportunity for regulatory capital arbitrage arose, as these gaps emerged. As such, banks with internal assessments that called for less capital than required by regulation might be tempted to arbitrage this difference by taking on more risky loans at the margin. The Basel Accord takes these into account by incorporating risk-weighted approaches to capital assessment. Institutions which have sophisticated IRB (Internal Ratings-Based) approaches to quantifying credit risk, the intent is to map an exposure's internal rating into a regulatory capital requirement that is calibrated to reflect the underlying credit risk. For banks without adequate credit risk quantification methods, a regulatory standardized risk-weighting approach will apply (**Hamerle, Leibi and Roesch, 2003**). Asset correlation has a critical role in modeling credit risk, and therefore it is important to assess the relationship between asset correlations and credit risk.

CREDIT RISK QUANTIFICATION IN CORPORATE AND RETAIL LENDING

For modeling in corporate lending, most approaches rely on mark-to-market valuation methodologies and models. Valuing portfolios in these sophisticated models require access to market credit-spread data. They are generally based on risk classification schemes, where transition probabilities are assigned to individual loans. These transition probabilities are based on market data representing expectations for default or decline in value over the time period. Another parameter is the correlation of performance outcomes across individual exposures, where a set of common underlying risk factors is the source of correlation (**Dwyer, 2006**). Thus, these models quantify the degree to which the portfolio is susceptible to large losses in value. Capital can then be allocated to protect the bank, at some determined level, against the low-probability but high-consequence events in the far tail of the loss probability distribution.

Retail lending differs considerably from corporate lending, and while default probabilities of individual retail credits are classified and measured using sophisticated scoring methods, internal economic capital models are also being developed for retail. Several reasons exist as to why portfolio credit risk modeling experienced less attention on the retail side. The industry observed that not just profitability but also institution's solvency are threatened by large losses in the corporate loan portfolio. However, because of the low exposures on individual loans, and the relatively predictable loss on the retail side, most bank risk managers have historically devoted less attention and resources to consumer loan portfolios. Historically, retail portfolios have been viewed by the industry and its regulators as homogeneous sets of small transactions that might have relatively higher, but largely predictable, expected loss characteristics. Unexpected credit losses from these portfolios were expected to be relatively low, requiring only modest levels of capital. However, the growing size and increased volatility of retail portfolios are attracting increased attention

from bank risk managers and regulators. There has been an increase in the proportion of retail exposures for many institutions, attributable to the rising levels of consumer debt providing sustained loan growth to many banks. Unsecured credit card debt has seen a dramatic growth and is a notable contributor to the phenomenon of increasing retail exposures. An awareness of the need for sophisticated retail credit risk management tools has developed.

The retail models are developed with definitions created around credit scores. The key predictive parameters are the expected average probability of default, the loss given a default and the default correlation. Default correlations measure the degree to which default probabilities on individual exposures are determined by common underlying factors that are subject to change.

ASSET CORRELATIONS

The most important drivers for determining credit risk are probability of default (PD), loss given default (LGD), and default correlation. The latter, despite its critical importance, has not received as much attention as the first two drivers. This is mainly owing to a regulatory focus on PD and LGD. The increased acceptance of credit portfolio management practice and of economic capital framework has sparked heightened interest in the study of default correlations. The most common approach to modeling default correlations is to combine default probabilities with asset correlations. The underlying idea is that two borrowers will default in the same period if both their asset values are insufficient to pay their obligations. Asset correlation helps define the joint behavior of the asset values of the two borrowers. Asset correlation has a critical role in modeling credit risk, and therefore it is important to assess the relationship between asset correlations and credit risk (**Lopez, 2005**). Default-implied asset correlations use default data to calculate single and pair-wise default probabilities, and then deduce asset correlations from them. These default-implied asset correlations are further summarized by variables such as rating, industry and firm size. Credit correlations include default correlations and credit migration correlations. Default correlation measures the extent to which the default of one borrower is related to another borrower, while credit migration correlation measures the joint credit quality change for the two borrowers. Default correlations can be inferred from the individual default probabilities and the asset correlations. The joint probability of two borrowers defaulting during the same time period is the likelihood that both borrowers' asset values fall below the respective default points during that period (**Zeng and Zhang, 2001**). This probability can be determined from knowing the correlation between the two borrowers' asset values and the individual likelihood of each defaulting.

CONCEPTS OF DEDUCING CORRELATIONS - CREDIT QUALITY AND THE RETAIL INDEX

By looking at a time series of default rates for a credit portfolio over time, there are two main measures of interest - the average default rate and the volatility of the default rates. The tendency of clustered defaults (high default rate volatility) is the concern in credit portfolio management and organizations attempt to control/avoid this. Hence, there is an

element of surprise and unpredictability related to high default rates and this is what represents 'correlation' within the framework.

In other words, time series with higher default rate volatility implies higher correlation. In terms of measuring correlation, what this boils down to is to decompose the time series of default rates into the predictable part (expected default frequency) and the unpredictable part (the part that indicates the level of correlation). When multiple portfolios are involved and cross portfolio correlation is needed, it is necessary to further analyze the unpredictable part and split it into the average correlation (R-squared) and the time dependent deviation from the average, a retail index, which captures how the "state of the economy" have amplified the average unpredictability of the default rate of the portfolio. Thus, it is possible to capture the cross retail business correlation and diversification.

The parameters are studied from the methodology that Moody's KMV uses for the estimation of correlation parameters among retail accounts from historical retail data. The modeling framework revolves around decomposing the time series of default rates into the following components:

- Average/expected default rate - estimating the default rate
- Average volatility of default rates (tendency of clustered defaults) - estimating intra asset correlations (R-squared)
- Change in the state of the economy (measuring the default rate amplifier - betas)

The starting point of the methodology and the basis for calculating the predictable part of the default rate time series is the creation of groups of homogeneous retail accounts. A homogeneous retail group is a group of retail borrowers where all the borrowers are similar from a credit risk perspective. This means that all the borrowers have the same probability of default and have the same sensitivity to the factors in the state of the economy. Homogeneous groups can be formed along multiple dimensions, such as product type, time from origination, geographical region, etc. It is dependent on the availability of data. The analysis starts with the modeling of credit quality at the individual borrower level and then proceeds with the aggregation of borrower level credit quality to a portfolio level value/loss distribution. During the process, the correlation between borrowers, where R-squared is one of the parameters plays a key role. The modeling of borrower credit quality is as follows:

$$r_i = \sqrt{\phi} + \sqrt{1 - \phi} \varepsilon_i \quad \text{for all } i \in \text{a homogeneous retail group} \quad [1]$$

This formula states that the change in credit quality of any retail borrower is assumed to be modeled through a variable r_i . In this formula, ϕ is the univariate group - risk factor which represents the "state of the economy" in a particular period and ε represents the borrower - specific risk that affects the particular borrower's credit quality. While the shocks in the systematic factor ϕ shared equally by all retail accounts in the homogeneous group, the borrower-specific shocks are unique to each individual.

The parameter RSQ (R-Squared) represents the sensitivity of the changes in an individual's credit quality to changes in the "state of the economy". In this framework, the intra-group correlations, i.e., the correlation between each pair of individual borrowers in the group, are of the same value as RSQ. It represents the average correlation (sensitivity with respect to changes in the state of the economy) between borrowers in a homogeneous group. For a given level of average default rate, a higher level of correlation leads to a higher level of variation in the default rates.

The credit quality of a borrower is affected by the "state of the economy", ϕ . It represents the retail index for a specific retail segment which represents the state of the economy's effect on the default rate for a segment through the observation period. The impact of a systematic shock (change in the state of the economy) on the credit state or default probability of individual accounts depends on their level of systematic risk, i.e. the sensitivity to changes in the state of the economy (R-squared).

Portfolios with high R-squared are more sensitive to changes in the economy and for a given average probability of default, will have a wider range of default probabilities. Different retail segments may be sensitive to different economic factors or have different sensitivities to the same economic factors. Therefore, multiple retail indices need to be developed to capture the cross retail business correlation and diversification.

MODELLING ASSET CORRELATIONS

Correlations between two borrowers can be measured by their individual default probabilities and the asset correlations. A borrower is likely to default when his asset value falls below the value of his obligations, i.e. his default point; and the joint probability of two borrowers defaulting during the same time period is the likelihood that both borrowers' asset values fall below their respective default points during that period (**Tasche, 2005**). This probability can be determined from knowing the correlation between the two firms' asset values and the individual likelihood of each firm defaulting.

With this idea we can calculate the joint default probability of borrower x with borrower y, denoted as JDF_{xy} , as:

$$JDF_{xy} = \text{Prob} (\text{asset value } x < \text{default point } x \text{ and asset value } y < \text{default point } y) \\ = N_2(N^{-1}(CEDF_x), N^{-1}(CEDF_y), \rho_{xy}) \quad [2]$$

Where N_2 is the bivariate normal distribution, N^{-1} is the inverse of the normal distribution, $CEDF$ is the cumulative default probability and ρ_{xy} is the asset correlation between borrower x and borrower y.

After we have the joint default probability, the asset correlation between borrower x and borrower y can be derived as:

[3]

The credit risk capital for an exposure under Basel II IRB framework is given by:

$$= \sqrt{\frac{PD}{1-\rho}} + \sqrt{\frac{\rho}{1-\rho}} \quad [4]$$

Where PD is the default probability, LGD is the loss given default, and ρ can be considered as the average asset correlation of all pair-wise asset correlations in the portfolio.

Further, the joint distribution of the asset values can be specified by the asset values of borrowers as driven by a factor model as:

$$= \sqrt{\rho}\phi + \sqrt{1-\rho}\varepsilon \quad [5]$$

where r_{it} is the asset return of borrower i at time t , ϕ_t is the systematic factor, ρ is the correlation between the borrower i and the systematic factor, and ε_{it} is the idiosyncratic factor of borrower i . From the above, we can see that asset correlations play a pivotal role in portfolio credit risk modeling. Thus, it is very necessary to understand how asset correlations are related to realized default correlations and portfolio risk.

EMPIRICAL INVESTIGATION

The dataset concentrates on a particular regional entity of a reputed international bank and consists of data from the three countries in the region. Let the countries be represented as XA, XB, and XC. The data was obtained from January 2005 to April 2008, i.e., 40 months. There are six portfolios for XA - Credit Card, Overdraft, Personal Loan, Mortgages, Car Loans, and Consumer Finance; five portfolios for XB - Auto Finance, Credit Card, Mortgage, Personal Loans and Overdrafts; three portfolios for XC - Mortgages, Credit Card and Other Retail.

An account is said to have defaulted if the customer has missed a payment that was due. Default rate is calculated for each product group per month as the number of new defaults/ number of active accounts for the product group. It was decided to use 120-150 DPD for the count of number of defaults in the default definition used. Also, a lag period corresponding to the delinquency bucket was used for more accurate results. Therefore, a four month lag (corresponding to 120-150 DPD) was used in the default rate calculations.

ESTIMATION OF CORRELATIONS

For a pair of borrowers in two different groups consisting of homogeneous borrowers within the same group, we can use the following equation to estimate the realized default correlation for borrowers belonging to these two groups:

$$\rho = \frac{\text{Cov}(d_c, d_g)}{\sqrt{\text{Var}(d_c) \text{Var}(d_g)}} \quad [7]$$

Where d_c and d_g are the estimated default probabilities for borrowers in groups c and g

d , respectively, and ρ_{cd} is the estimated joint default frequency between borrowers in group c and borrowers in group d. Here, we have the default probability defined for each group rather than for each borrower, similarly, joint default probability is defined between two groups rather than between two borrowers. For each time period, we can observe a realization of ρ_{cd} . We can then use the time series data to estimate the expected values of ρ_{cd} . We can also write the above equation as:

$$\rho_{cd} = \frac{\rho_{cd}}{\sqrt{\rho_{cc} \rho_{dd}}} \quad [8]$$

Under the assumptions that all borrowers in the group have comparable default probabilities and all pair-wise default correlations within the group are equal, then the realized default correlation converges to true default correlations. When we conduct Monte Carlo simulations, we assume both ϕ and ε_{it} follow standard normal distribution. For each time period, the systematic return and the idiosyncratic returns are combined to generate total returns for the borrowers. These returns are then compared to $N^{-1}(EDF)$. If a borrower's return is less than $N^{-1}(EDF)$, it will default. We then calculate the default rates and the default correlations from the time series of realized default rates.

The following table shows the results of the analysis as per the retail indices/portfolios. XA, XB and XC are the three countries in the entity and their time series data has been analyzed for each of the six retail indices of XA, five retail indices of XB, and three retail indices of XC.

Table 1: Analysis of Asset Correlations from the Default Rates of each Retail Portfolio

| Portfolio | Average Default Rate | Asset Correlations |
|---------------------|----------------------|--------------------|
| XA Auto | 0.37% | 1.33% |
| XA Consumer Finance | 1.04% | 2.13% |
| XA Credit Cards | 2.14% | 5.51% |
| XA Mortgages | 0.82% | 2.32% |
| XA Overdrafts | 2.01% | 5.10% |
| XA Personal Loans | 1.14% | 2.84% |
| XB Auto Finance | 0.11% | 0.51% |
| XB Cards | 0.80% | 2.50% |
| XB Mortgages | 0.21% | 1.22% |
| XB Loans | 0.11% | 0.48% |
| XB Overdrafts | 0.32% | 1.23% |
| XC Credit Cards | 1.03% | 2.47% |
| XC Mortgage | 0.18% | 1.19% |
| XC Other Retail | 1.91% | 4.01% |

The Unexpected Losses were calculated as per the above method and analyzed when asset correlations were included and when they were not included. The same analysis was also done for the volatility of the portfolio. The results are as shown graphically below in Figures 1 & 2:

Figure 1: Comparison of Portfolio Unexpected Loss Calculated with and without Asset Correlation

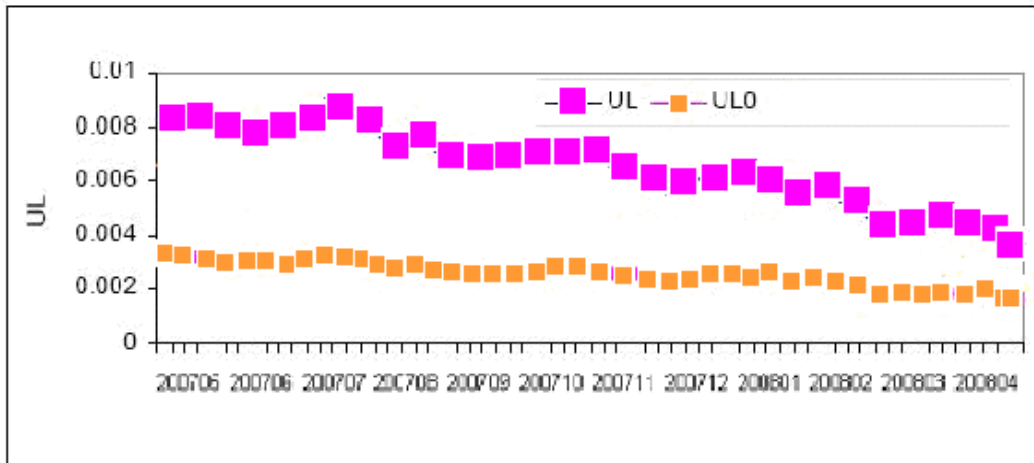
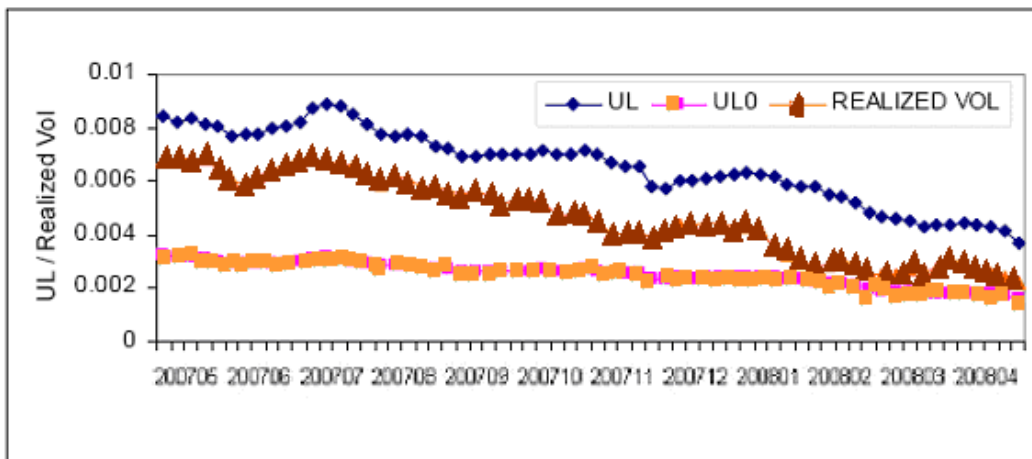


Figure 2: Comparison of Portfolio Unexpected Loss and Realized Volatility Calculated with and without Asset Correlation



The realized portfolio volatilities are generally below the unexpected loss calculated with the asset correlations. The realized portfolio volatilities are generally above the unexpected loss using zero asset correlations. This shows that using the EDF values alone cannot make the portfolio unexpected loss high enough to match the realized risk level. Therefore, a failure to incorporate correlations would lead to an underestimate of risk.

Some major findings from the above study and analysis include:

- Borrowers with lower EDF values, or higher ratings, tend to have higher asset correlations. It is to be noted that as a firm approaches default, its firm-specific risk increases and its systematic risk decreases. But it is not always true. When a significant negative shock triggers widespread defaults in a specific sector, the percentages of systematic risk of those firms could increase as the result of the large negative shock. This is similar to the findings of several earlier studies (see *Lee et al., 2009; Dullmann, 2007; and Lopez, 2002*).
- Asset correlations demonstrate themselves more during periods of deteriorating credit quality. This reflects the cyclical nature of defaults in an economy.
- Asset correlation information adds significant economic value. Ignoring asset correlations will lead to an underestimation of realized default correlations and portfolio volatility.

CONCLUSION

The above study and analysis has several practical implications for credit risk management. Asset correlation, the tendency of asset values of borrowers to move together, is empirically significant and cannot be ignored in practice. Measuring only default probability and loss given default when measuring portfolio credit risk is insufficient. The measurement of subsequently realized default correlations and portfolio risk can be improved by accurately measuring asset correlations. The improvement is significant both in statistical and economic terms. Accurate measurement of portfolio risk and better differentiation between the relative risks of portfolios is achieved. The importance of model validation for portfolio credit risk models is also highlighted in the study. Validating asset correlation models have greater empirical challenges than those in validating PD and LGD models. Measuring default correlation is often an exercise of jointly assessing default probability and asset correlation. The framework and statistical techniques in this paper can be used in independently validating asset correlation models in the context of modeling portfolio credit risk. Thus, asset correlation having such a critical importance in measuring portfolio credit risk, institutions should emphasize more on assessing and validating the asset correlations used in their economic capital and portfolio risk calculations.

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Special Economic Zones and Development of Indian Economy

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ABSTRACT

Special Economic Zones (SEZ) is not a new concept in India, and in fact it has already made some impact. However, the advantage derived is far behind than that derived in Singapore or Hong Kong. This paper is an attempt to analyse and bring forward some strategic issues for India's lagging behind in the light of various macro-economic policies in India. A conceptual strategic growth model is proposed for development of Indian economy with reference to SEZs. Political and social issues are also discussed.

This paper is an attempt to underscore the concept of SEZ, its evolution and competitiveness in the light of various macro-economic policies in India. A conceptual model is proposed to highlight the macro-variables and related policies that need to be adapted for deriving sustainable benefits through SEZ.

INTRODUCTION

Trade policy of any country can be appreciated in the broader context of its macro-economic policies. Nations have adopted different strategies to boost exports; one of them being the establishment of Special Economic Zones (SEZs), which has gained much importance in the last three decades. However, the establishment of such special geographic areas, to achieve economic gains is not a new idea. SEZs have been established by many countries for augmenting exports in their respective trade policies. While some countries have been able to achieve dynamic and substantial gains from SEZs, many others have not. SEZs contribute about 64% of the total exports in Mauritius, 40% in Mexico, 20% in Bangladesh and Sri Lanka while in India it has been around 4% of the total exports (**Agarwal, 2004**).

The growth of SEZs in the last three decades has gained momentum in different parts of the world, with different objectives. They are at various stages of development on the basis of different economical and political backgrounds. Different definitions/formats are used for free economic zones. In fact, it poses a challenge to the academicians to classify them definitively. It is not possible to generalise the different SEZs situated in different

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parts of the world and define them by one single term. Some of the commonly accepted definitions/concepts are outlined below:

“SEZs are geographically or functionally limited parts of an economy in which rules and other institutions concerning production and distribution of goods and services differ from those in the rest of the economy. These special institutions are realized in order to promote and favour economic activities in a specific area. Generally, they offer both financial incentives, such as lower taxes and tariffs, and subsidies as well as substantial deregulation of the legal and administrative framework (**Ahrens and Meyer-Baudeck, 1995**).” In Japan it is known as, ‘Foreign Access Zones’, while in Mexico it is called, ‘Maquiladora Operations’ with the same concept. As per World Export Processing Zones Association (WEPZA) Report 2002, there are more than 115 countries with more than 3000 zones providing employment to 42 million.

The Government of India has experimented with three categories of such enclaves (**Singhal, 2005**), viz, Free Trade Zones, Export Processing Zones and Special Economic Zones. According to the Department of Commerce, “Special Economic Zone (SEZ) is a specifically delineated duty free enclave and shall be deemed foreign territory for the purposes of trade operations, duties and tariffs”. In addition to special rules there are special regulations regarding taxation, environment, labour and governance of SEZ. These zones are self-contained and integrated with their own infrastructure and support services. Infrastructure typically includes transport system, power generation and distribution, telecom, hospitals, hotels, educational institutions, leisure and entertainment units, various residential, industrial, commercial complexes, water supply sanitation, sewerage system and any other facility required for such development.

Chinese SEZs as a Reference Model

China has attained substantial gains through its SEZs among the most widely cited success stories of developing countries. An attempt has been made to understand the objectives, its development process and finally how Chinese SEZs may be used as a reference for establishing a successful Indian SEZ model.

The transition in Chinese economy started in 1979 with the establishment of SEZs. A gradual approach was adopted towards reforms and opening of its economy. SEZ worked as second best liberalisation for the opening of the Chinese economy to the world, and it provided considerable economic benefits to the nation. The strategies behind SEZ in China were to attract foreign direct investment, emphasis on managerial and skill training, technology transfer and employment generation, (**Kundra, 2000**).

Following objectives were further identified, and these have remained consistent since 1979:

1. To develop the coastal area of China through experimental, controlled enclaves;
2. To provide a window to the outside world — to technology, knowledge and management.

SEZs in China have independent administrative authority with large role delegated to

states in which SEZs are being located. China used its SEZs for creation of regions with concentrated industrial activities and worked for creating of synergies through backward and forward linkages. It generated the industrial activities in that region since the administrative authority assured the participation of population in the development process. The agglomeration strategy worked, and the entire region got developed in the process. Another important strategy adopted was in choosing locations in the regions proximate to non-resident Chinese Diasporas in the border region of Hong-Kong, Taiwan, Macau, Singapore, etc. The strategy resulted in influx of funds to the nation significantly and these regions started emerging as the manufacturing hubs of the whole world (**Guangwen, 2001**). The taste of success with the establishment of SEZ in one region created a cascading effect on the economy and SEZ after SEZ were established in different regions. It can be termed as “Capitalistic region in the Socialist state”. The ethnic Chinese with a common language and cultural proximity with the mainland were able to attract foreign investment. This created an ambience where large capital could be channelised and linkages between the ethnic Chinese and the foreign investors established. This suggests that SEZ can be used not only as a growth policy but also for regional development and eventually for complete transformation of economics of a nation.

The Government of India adopted SEZ to boost export with the objective to replicate the export led growth of China. The Chinese example of opening up its economy and attempting reforms with the help of SEZ, offers some definite policy lessons for India (**Kundra, 2000**):

- The formulation of aims and policies has to be on a long term basis. It is a strategic decision which should be planned to reap benefits only after a certain period of time.
- Deciding the location of an SEZ has to be pragmatic based on economic criteria. It could be on the basis of the existing industrial clusters which have developed due to various social or cultural reasons or it could be areas where the available infrastructural facilities would provide further impedes for growth.
- Sector or areas for SEZ should be selected with backward and forward linkages for the development of agglomerates. The selection and relocation of firms from domestic area to SEZ area (for financial incentive) should be discouraged.
- The establishment and managing of SEZ has to be properly planned.
- Only short term financial incentives should be provided at SEZ. It makes the companies self sustaining.

Indian SEZs

The concept of SEZs existed in India in different forms such as Free Trade Zones (FTZs), Export Oriented Unit (EOU), or Export Processing Zones (EPZs). The country's first FTZ came up in Kandla in 1965. After Kandla, seven EPZs were established in different parts of India. However, these zones could not yield result, because of lack of clarity of objective in setting up these zones. The inward looking policy and heavy control regime marred the prospects of developing these zones. The Government appointed various committees to

review the working of these zones. The final evaluation of the Tandon Committee (1982) strongly recommended additional 4 to 5 zones in the country to provide a direction to the country's export promotion efforts (*Agarwal, 2004*).

Four new EPZs were established between 1984-87 at Noida (Uttar Pradesh), Falta (West Bengal), Cochin (Kerala) and Chennai (Tamil Nadu). With the liberalization of Indian economy in 1991, wide-ranging measures were initiated by the Government for revamping and restructuring of the EPZs (*Kundra, 2000*).

In April 2000, SEZ was conceptualized with the additional benefits/features to companies as compared to EPZ, and all the existing EPZs were converted into SEZs. SEZs were identified as, "specifically delineated duty-free enclaves that are deemed foreign territory for the purpose of trade operations, duties and tariffs. Foreign investments were to be allowed till 100 per cent, exemption of income tax, single-window clearances scheme and a host of preferential policies and tax breaks were announced for SEZ developers and tenants". The policy related to SEZ is contained in the foreign trade policy and incentives and other benefits available for SEZ developers and the units located in the SEZ are provided by various circular and notifications by respective ministry and departments. Before the enactment of Special Economic Zone Bill, 2005 by the Government, there were eleven functioning SEZs at Falta and Salt Lake (West Bengal), Kandla and Surat (Gujarat), Santacruz (Maharashtra), Cochin (Kerala), Chennai (Tamil Nadu), Vizag (AP), Indore (MP), Jaipur (Rajasthan) and Noida (UP). In addition, approvals were given for setting up of 35 new SEZs in private/joint/state sector before the Bill was placed in Parliament.

SEZs in India functioned from 01.11.2000 to 09.02.2006 under the provisions of the Foreign Trade Policy, and fiscal incentives were made effective through the provisions of relevant statutes. India's Foreign Trade Policy 2004-09 duly recognizes the potential of SEZ for enhancing export and generating employment, especially in semi-urban and rural areas. With this background, SEZ policy has been formulated to reduce restriction, i.e., liberal access to capital, duty free imports, and flexible labour laws, provision of incentives such as long term income tax concession, better infrastructure, single window clearance, and permission for Domestic Tariff Area (DTA) sale and sourcing. A comprehensive law passed by the legislation, i.e., the SEZ bill has been implemented from 10th of February, 2006.

MACRO-ECONOMIC PERSPECTIVES OF SEZs AND ECONOMIC ISSUES

The success of SEZ may be assessed in terms of its contribution to the economy. A study of various statistical data indicates that SEZs have progressed in terms of number of units, export earnings, employment growth, FDI investment and infrastructure capabilities. Some of the selected macro-economic variables are further analyzed. Their contribution to the Indian economy further highlights the role and importance of SEZ.

Growth of SEZ: There are about 17 functional SEZs in India. Consequent upon the SEZ Rules w.e.f. 10th February, 2006, formal approval has been granted to 242 out of 462 proposals and number of valid in principle approvals are 135. In the middle of 2008, the number of notified SEZs were 222 out of 462 (www.sezindia.nic.in). The land under SEZ

has increased substantially. There is approx. 642 sq km land under formally approved and notified SEZ and 1213 sq km under valid in principle approvals. This is a small percentage of total land in India but with the new proposals coming up, the total land requirement of 101 proposals is estimated at 20,503 hectares. In the coming years, major changes are expected for industrial agglomerates in India, which reveal the scope for development.

Export Potential of SEZ: The overall export performance of SEZ has increased by 381% from 2003-04 to 2007-08. Exports from the SEZs during 2006-07 were of the order of 3,46,145.6 million (Rs) as compared to the export of 6,66,376.821 million (Rs) during 2007-08 (**Ministry of Commerce and Industry, Government of India**). In the 1990s, the engineering sector accounted for the largest share of exports followed by drugs, electronics and gems & jewellery. Exports of gems and jewellery which had only a share of 11% in 1990 rose rapidly to 42% of the total SEZ exports in India in 2002. The share of electronics exports also grew from 25% to 34% during the same period, although 50% of the electronics sector being software. Thus in 2002, the electronics and gems & jewellery sectors accounted for more than 75% of the total exports from SEZs in India. Out of the approved SEZ as on 10th October 2007, around 52% of the projects are related to IT and IT-Enabled service sectors. Such a focused development on key exporting sectors is expected to develop India as a major destination of IT/ITES and such outsourced services. The share of EPZs in a country's exports is an index of their relative role amongst various other instruments of export promotion (**Kundra 2000, p. 69**). As is evident from **Figure 1**, exports from SEZs have a steady increasing trend over the period of time; the export figure from SEZs has actually doubled over the period of time.

Employment Growth in SEZ: The total employment in SEZ increased from 70 to around 89,000 from 1966 to 2002. At present, 1087 units are in operation in the SEZs, established prior to the Act coming into force, providing direct employment to over 1.85 lakh persons; about 40% of whom are women. Table 1 suggests that growth in employment in EPZ/SEZ in the initial years from 1966 to 1990 was quite high, but had gone down after liberalisation of the economy. This may be the fact that no new EPZs were established during 1991 to 2001.

If we follow the employment trend out of the notified and formally approved SEZs, it may be observed that they would provide 22,00,000 and 4 million additional employment respectively. At present 33.62 billion people are employed in SEZ. Such employment would surely change the social demographics of the people working in the SEZ regions.

FDI Inflows in SEZ: Investment made in these Zones is in the order of Rs. 772.1 billion as on 31st March, 2008. Under the SEZ scheme, therefore, FDI is expected to assume a much larger role as is evident from Table 2. The Ministry of Commerce and Industry predicted that FDI investment in SEZ would further increase to US\$ 2 billion by 2009. This suggests that SEZ as a strategy may be developed to create synergies between the local as well as foreign investors.

Issues related to SEZ: Thus the study of various macro-economic variables of SEZ in Indian economy reveals its impact on Indian economy. However, several issues related

to SEZs emerge, which suggest the need for further planning and development at different stages. Some of the critical issues that emerge are discussed below:

The SEZ Act has incorporated the participation of private sector, which has resulted in sharp inflow of project applications by leading corporate houses in India. Since the role of infrastructure creation is of paramount importance, as we have seen in the case of China, participation of private sector in developing, managing and maintaining the SEZ is a welcome step. SEZs are now been empowered to provide licenses for 100% FDI and allow all manufacturing activity in the SEZ. Six states in India have passed the state SEZ legislation, unfortunately though these Acts are silent about labour reforms which is urgently required.

Another issue about the minimum size of the SEZ, has mired into controversy. The SEZ scheme seems to encourage maximisation of land acquisitions and state governments are offering land to SEZ developers at concessional rate. Considering the eviction difficulties in this country, such rebate should not be given,. This is a rather negative step for developing SEZ. This will result in attraction of short term real estate players to misuse this opportunity.

The attraction of tax breaks for being located in SEZ has witnessed two important phenomenon in India, first is the mere re-location of existing firms towards SEZ area and second is investment diversion rather than creation. This may attract 100,000 crore of investment but it is not enough convincing evidence of SEZs' attracting investment over and above what might anyway have occurred.

One of the other important facts debated over is that socially, culturally and politically we are not geared up to execute, large centralized projects efficiently (*Karnik, 2006*). Mr. Tarun Khanna (*Mckinsey Quarterly, 2005*) summarises that genius of India lies in its grass root entrepreneurship. Although the number of approved SEZs is high, but the pace of implementation remains slow because of slow land acquisition process and inadequate experience of developers to manage every aspects of setting up a SEZ. Besides these issues, labour laws, environmental norms and quality standards, needs to be adopted.

SEZ Model for Sustainable Benefits

Based on secondary information and literature review, a SEZ Model for sustainable benefits is proposed considering various macro variables of Indian economy. The model aims at:

- Developing processes for integrating with the world economy through backward and forward linkages and projecting SEZ as a window to the outside world, and
- Analysis of macro-environment variables which are important for sustainable development of SEZ in India.

With these aims, the following important aspects are addressed in the model:

- First step is a Macro Environment Feasibility Study which includes political, social, technological and economic studies.

- Next step is Location Analysis, area/region-wise to identify product/services sector where competitive and comparative advantage could be achieved for India.
- Development and administrative strategies to ensure the interest of various stakeholders, viz., central, state and private partners.

FEASIBILITY OF THE MODEL FOR INDIA

Today, such models are not only related to firm level, but also at national, regional and global levels. Global skills for managing human resources, natural and financial resources and in particular, global sourcing, and marketing skills are needed to make an economic impact for sustainable benefits. Efficient logistics and supply chain visibility (**Vishwanadham, 2006**) are some of the strategic solutions required for efficient integrated systems and value delivery networks. Such integration can be achieved through development of core competencies in SEZs, which exist in their macro-environment.

The first step in the approach is macro-environment feasibility study that includes analyzing the strength, weakness, opportunities and threats (SWOT) of the business environment (social, economic, technological, cultural and political). The various variables in macro-environment and their applicability to SEZ are further elaborated as follows :

Economic Feasibility: A zone-wise economic feasibility should be undertaken to identify their contributions to national economy as well as the competitive and comparative advantages. India has core competencies in certain export items such as gems & jewellery, handicrafts, carpets, textiles and the most recent IT and IT-Enabled services. A focused sectoral development would give it competitive and comparative advantages through a better synergy between Center and State involving international financial institutions, consultancies and suitable NGOs. However, a political consensus in a democratic country like India is a must.

Technological Feasibility: Products/services need to be continuously upgraded and enhanced through quality infrastructure and innovations. Quality infrastructure includes better multi-modal transportation facility, internet connectivity, water and electricity supply and other sources of energy management systems. Substantial efforts need to be undertaken in this direction. SEZs may be instrumental in developing India as a global manufacturing hub and as centers of excellence.

Socio/Cultural Feasibility: SEZs are major development projects, which may shape India's future development and growth. However, the China 'model' is unlikely to work for India, given the contrasting socio-political framework in the two countries. To put it rather crassly, China's policy on land acquisition for developmental projects is actually unreasonable and undue land appropriation by local-level officials leveraging the might of the state. India, being a democratic country needs a very pragmatic and equitable land acquisition policy, which ensures participation of farmers and other social systems existing in the country. The recent incidents in West Bengal and some neighbouring states are burning examples.

Location Strategy: Taking decision for investing in India is easy, but deciding which region or zone to invest is a tough one. Various kinds of build-operate-and-transfer (BOT) models are available depending on the context. Strategic location and multi-modal connectivity with major trading destinations are critical factors for success of the SEZs. It has been observed that the most successful zones are strategically located giving the units in the zone an easy gateway to international trade (*Vishwanadham, 2006*). SEZs are interfaces or windows to the outside world. For location analysis of SEZ, the first step is to identify specific zones or regions considering the core competencies of that area. Once it is done, it is necessary to develop zones as industrial clusters of specific products and services.

Development Strategies: Two development strategies may be identified: one is to start developing a new site, where cost is likely to be higher, and it will take longer duration to cover that investment since in the initial years the number of users will be low. Second, is to upgrade existing location, which seems to be better in case of India since it is less expensive to augment existing facilities and existing location is expected to be near to industrial base and quite accessible to worker availability. Focused sector-wise development of such zones or regions has given immense benefits so far, especially in the development of labour-intensive manufacturing sectors such as textiles, apparel, automotive components, footwear, leather goods, jewellery, processed foods, electronics assembly, and some high-technology products and services as IT-Enabled services, biotechnology (e.g. pharmaceuticals) that relies on India's brilliant scientific and engineering capacity. The focus area should be export-intensive manufacturing sector.

Administrative Strategy: At present, the SEZs administration functions as a typically inefficient government department office. Ideally, they should be autonomous, under specific Acts with specific responsibilities and with functional departments for managing specific issues within SEZs. For example, there can be an Investor Services Department for the investment processing issues, an Industrial Relations Department for handling labour issues, and so on.

SEZ Model cannot work in isolation. A public-private partnership is to be developed under cohesive Centre and State relationship. Each partnering relationship may be identified as a project which would include the following stages:

- Project Preparatory activities: includes getting formal/informal approvals, assistances available to SEZ, regulatory and statutory approvals required at Central and State levels
- Project Development activities: includes not only development of business plan, which includes feasibility study, strategy formulation, financial modelling, risk management but also developing linkages and conglomerates for backward and forward integration with domestic economy and global economy
- Project Implementation Structure: involves operations and management arrangements, project execution and detailed operational plans. It would include organizational structure, marketing, financial structuring and manpower planning

- Project Execution: includes engineering, procurement, management and supervision

Such a strategic model at different levels, as given in **Figure 2**, would ensure sustainable benefits for the Indian economy and would be successful in integrating with the world economy considering the macro-variables of Indian economy.

CONCLUSION

There should be a holistic approach in planning, development and administration of the SEZs. The Government needs to enact legislation, create a focused administrative set up to govern SEZs, offer highly attractive incentives and locate zones at the best possible locations. SEZs must be liberated from nepotism and other political evils vis-à-vis vested interest, through simplified transparent policies. Further, SEZs are a part of the economy and require overall improvement in the investment to ensure success and long term sustainability. But, it should, no way, be viewed as a sole alternative to the overall development model of a country.

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Figure 1



(Source: <http://www.ciionline.org/northern>)

Table 1: Employment growth in the Indian export processing zones

| Year | Total Employment (in numbers) | Average Employment per unit (in numbers) |
|------|-------------------------------|------------------------------------------|
| 1966 | | 70 |
| 1970 | 450 | 450 |
| 1975 | 1450 | 725 |
| 1980 | 6000 | 3000 |
| 1985 | 16200 | 4050 |
| 1990 | 35205 | 5868 |
| 1995 | 61431 | 10239 |
| 2000 | 81371 | 11624 |
| 2002 | 88977 | 12711 |

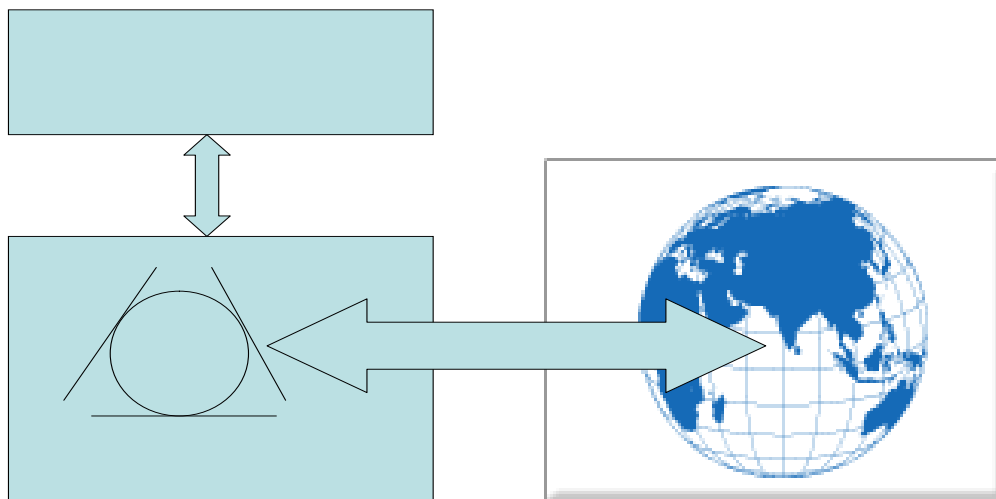
(Source: Ministry of Commerce, Government of India)

Table 2: Share (%) of Foreign Direct Investment in SEZ in India

| Year | Share in FDI (%) |
|------|------------------|
| 1997 | 17.3 |
| 1998 | 17.4 |
| 1999 | N.A |
| 2000 | 18.5 |
| 2001 | 21.7 |
| 2002 | 21.2 |
| 2003 | 24.9 |

(Source: Ministry of Commerce, Government of India)

Figure 2: Sustainable model for SEZ India



Do Indian Companies Blow the Whistle? : A Survey on 'Whistle Blower Policy' with special reference to Indian Navaratna Companies

*Sudipta Ghosh**

ABSTRACT

Corporate Governance is an ethical, long term and sustainable way to maximise shareholders' wealth. It becomes one of the most discussed issues in modern accounting and finance world, particularly after some corporate scandals around the world like failure of Enron, WorldCom, etc. Again, Corporate Governance is all about ethical conduct in (particularly) business organizations. Whistle blower policy (a part of corporate governance) is the establishment of a mechanism for employees to report concerns about unethical behaviour, actual or suspected fraud, or violation of company's code of conduct or policy on ethics and also provides necessary safeguards against victimization of employees who avail of the mechanism. Indian companies are also complying with the Whistle Blower policy norm. In this paper, an attempt has been made to analyse the current status of whistle blower policy with special reference to Indian navaratna companies.

INTRODUCTION

Corporate Governance is one of the most discussed issues in modern accounting and finance world, particularly after some corporate scandals around the world, like failure of Xerox, Enron, WorldCom, Tyco International, Adelphia Communications, etc. After the massive financial fraud of Satyam Computer Services Ltd., it is becoming important for India also. Corporate Governance is the system by which businesses are directed and controlled (as per Cadbury Report). It is an ethical, long term and sustainable way to maximise 'shareholders wealth'. But in a broader sense it does not concern about 'shareholders wealth' only but considers 'stakeholders wealth' also. It has different dimensions, so that it is considered as a multi-faceted subject. It brings transparency, responsibility and accountability in an organization. It ensures an effective and efficient operation of a company in the interest of all stakeholders (including shareholders).

Corporate Governance is closely related with ethics. Ethics is the code of values and principles that helps a person to decide what is right and what is wrong, discriminate between good and bad and therefore, select the right course of action. Corporate Governance is all about ethical conduct of an organization. It provides the ethical / value structure for taking corporate decisions. 'Whistle Blower Policy' is a mechanism that

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covers ethical aspect of an organization. More specifically it is the establishment of a mechanism for employees to report concerns about unethical behaviour, actual or suspected fraud, or violation of company's code of conduct or ethics policy. Simultaneously, it provides adequate safeguards against victimization of employees who avail of the mechanism. Whistle blowing is the act of reporting wrong doing to internal or external parties.

CORPORATE GOVERNANCE: A BRIEF DISCUSSION

Governance is something to do about accountability. Good governance is important for any organization as it has a relation with productivity. Here, productivity means creation of satisfaction and social awareness. It has already been mentioned that Corporate Governance is a system by which businesses are directed and controlled; again it is a system to maximise shareholders' value/wealth in a sustained, ethical and long term process. Corporate Governance is not a one time job; rather it is a continuous process. The principal objective of good Corporate Governance is to enhance value. It makes a proper balance and builds good relationship between corporation and its stakeholders like Shareholders, Board of Directors, Management, Employees, Suppliers, Customers, Lenders, Government, Regulators, People, Environment and the community at large. One complete definition of Corporate Governance is provided in the *preamble* of the OECD Principles of Corporate Governance, such as "Corporate Governance.....involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate Governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined."

The super structure of Corporate Governance is built on different pillars like honesty, trust and integrity, responsibility, accountability, openness, performance orientation, mutual respect and commitment to the organization. It has some important principles also. **V. Sithapathy and R.R.Iyer** have rightly identified those principles as follows:

1. People are more important than processes
2. Shareholder accountability
3. External audit must be independent and penetrating
5. Disclosure and transparency are crucial to make integrity
6. There must be an appropriate regulatory regime to back these obligations

Corporate Governance is a well accepted and widely discussed topic. Different organisations throughout the world studied Corporate Governance practices. Some of them are:

- (1) World Bank (1999)
- (2) ADB or Asian Development Bank (2000)
- (3) OECD or Organisation for Economic Co-operation and Development (1999)
- (4) IMF or International Monetary Fund (1999), etc.

Naturally, code and principles of Corporate Governance differs from one country to another. Every country has drawn its own code and principles of Corporate Governance. To protect

corporate failure, different countries established different committees on Corporate Governance. Some renowned global committees on Corporate Governance are Cadbury Committee (1992), Greenbury Committee (1995), Hample Committee (1998), Blue Ribbon Committee (1999), OECD Principles for Corporate Governance (1999), LSE Combine Code (1998). In this direction, adoption of Sarbanes-Oxley Act, 2002 in the US (enacted on July 30, 2002, as a reaction to a series of major corporate and accounting scandals, such as Enron, WorldCom, etc.) is one major development.

ETHICS AND CORPORATE GOVERNANCE

The word 'ethics' originated from Greek word 'ethos' which means a system of moral principles - the basis for deciding right or wrong actions and implies customs, habits, discipline, culture, etc. According to the Church of Scientology, "Ethics may be defined as the actions an individual takes on himself to ensure his continued survival across the dynamics. It is a personal thing. When one is ethical, it is something he does himself by his own choice." Business ethics is a part/form of applied ethics that examines ethical principles and ethical problems related to a business environment.

But how is Corporate Governance related to business ethics? According to **Prof. P. Chattopdhyay**, "Corporate Governance and business ethics are twins....The ethical issues bring to the fore the questions of morality in which case the law may or may not intervene depending on circumstances.....Business practices such as hostile takeover, price war, espionage, indifferent quality, misfeasance, deceit and misrepresentation are widely practiced though unethical. Corporate Governance cannot be acceptable without high standard ethical conduct".

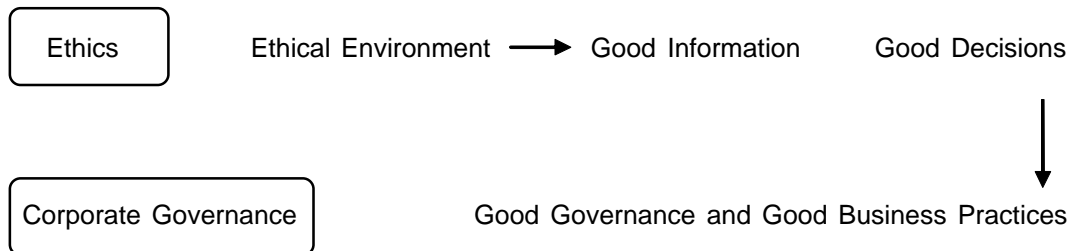
Corporate Governance is considered as a voluntary, ethical code of business which deals with the morals, ethics, values and behaviour of the company. Actually ethics is the part of governance. And governance (more specifically good governance) is the backbone of any long term successful business. We can consider business as a series of decision making process. Good decisions have positive influences on Corporate Governance and thus on businesses. Now good decision is only possible in an ethical environment. Because ethical environment encourages some basic characteristics of good information like:

- (1) relevance
- (2) integrity
- (3) timeliness
- (4) reliability
- (5) adequacy
- (6) comparability, etc.

and we all know that good and correct information is the basic input of good decision making process. On the other hand, establishment of good governance maximises the chance of maintaining the ethics and ethical environment. So in this way, ethics and Corporate Governance are related to each other. The following figure is relevant for getting a clear picture.

Figure: 1

Relation between Ethics and Corporate Governance



Any business is affected by several factors like:

- (1) business environment
- (2) financial factors
- (3) information (like information management, systems, and intellectual capital)
- (4) business operations
- (5) governance, etc.

Again, governance is influenced and directed by strategies, ethics, legal framework, culture, etc. We can establish the above stated paragraph in the following figure to get a relation between ethics, governance and business.

Figure: 2

Ethics, Governance and Business: Interaction and Relation

Peter Wallace and John Zinkin also described ethics as a part of governance. They stated ethics in terms of employee behaviour. According to them, 'standard of employee behaviour (is) necessary to provide a positive influence on the way business is conducted'. They identified two key areas in relation to ethics, viz. (1) Reputation and (2) Community stewardship/Corporate social responsibility.

CORPORATE GOVERNANCE: INDIAN PERSPECTIVE

How far is Corporate Governance important for India? What is the degree of 'Corporate Cleanliness' of India relative to the other countries of the world? What is India's 'Corporate Illegal Corruption Index' (CICI)? What is the 'Aggregate Corporate Governance Score' of India among emerging markets? To search for the answers, let us first look at the following tables:

Table: 1

World Governance Indicators

(A World Bank ranking of countries according to quality of governance in three areas)

Best possible score: 100; Worst: 0

| | Regulation Quality | Corruption Control | Rule of Law |
|--------------|---------------------------|---------------------------|--------------------|
| Hong Kong | 99 | 92.3 | 90.5 |
| India | 46.1 | 47.3 | 56.2 |
| China | 45.6 | 30.9 | 42.4 |
| Pakistan | 28.6 | 21.3 | 19.5 |
| Bangladesh | 20.9 | 9.7 | 24.8 |
| US | 90.8 | 91.3 | 91.9 |
| Germany | 92.7 | 93.2 | 94.3 |

(Source: *The Telegraph, Calcutta Edition, 10 January 2009*)

Table: 2

Corporate Legal and Illegal Corruption Index

Table (created by World Bank expert Daniel Kaufmann with 2004 data) shows each country's Corporate Illegal Corruption Index (CICI), Corporate Legal Corruption Index (CLCI), an average of the two termed Corporate Ethics Index (CEI), and Corporate Governance Index (CGI).

Best possible score: 100; Worst: 0

| | CICI | CLCI | CEI | CGI |
|--------------|-------------|-------------|-------------|-------------|
| Hong Kong | 90.8 | 59.1 | 75 | 69.2 |
| China | 43.6 | 49.4 | 46.5 | 35.3 |
| India | 39.4 | 29.8 | 34.6 | 55.4 |
| Pakistan | 22.1 | 23.5 | 22.8 | 31.3 |
| Bangladesh | 12.3 | 18.9 | 15.6 | 24.3 |
| US | 84 | 30.8 | 57.4 | 89.8 |
| Germany | 85 | 62.4 | 73.7 | 90.8 |

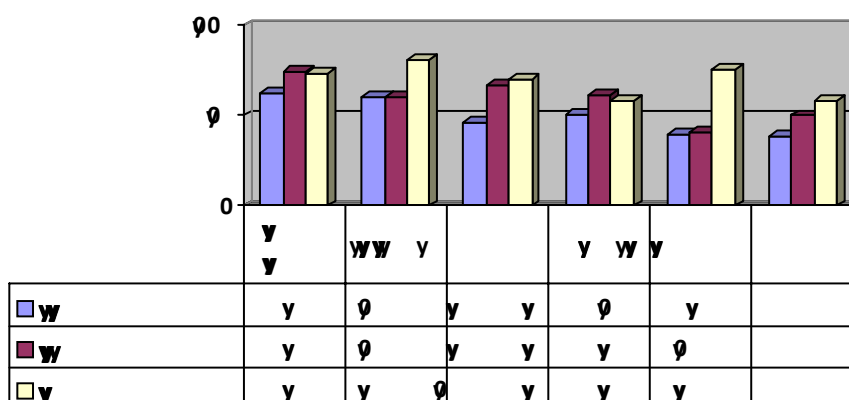
(Source: The Telegraph, Calcutta Edition, 10 January 2009)

Table: 3

Aggregate Corporate Governance Score

(The score includes 188 companies from countries represented)

Best possible score: 100; Worst: 0



(Source: McKinsey Investor Opinion Survey, 1999-2000)

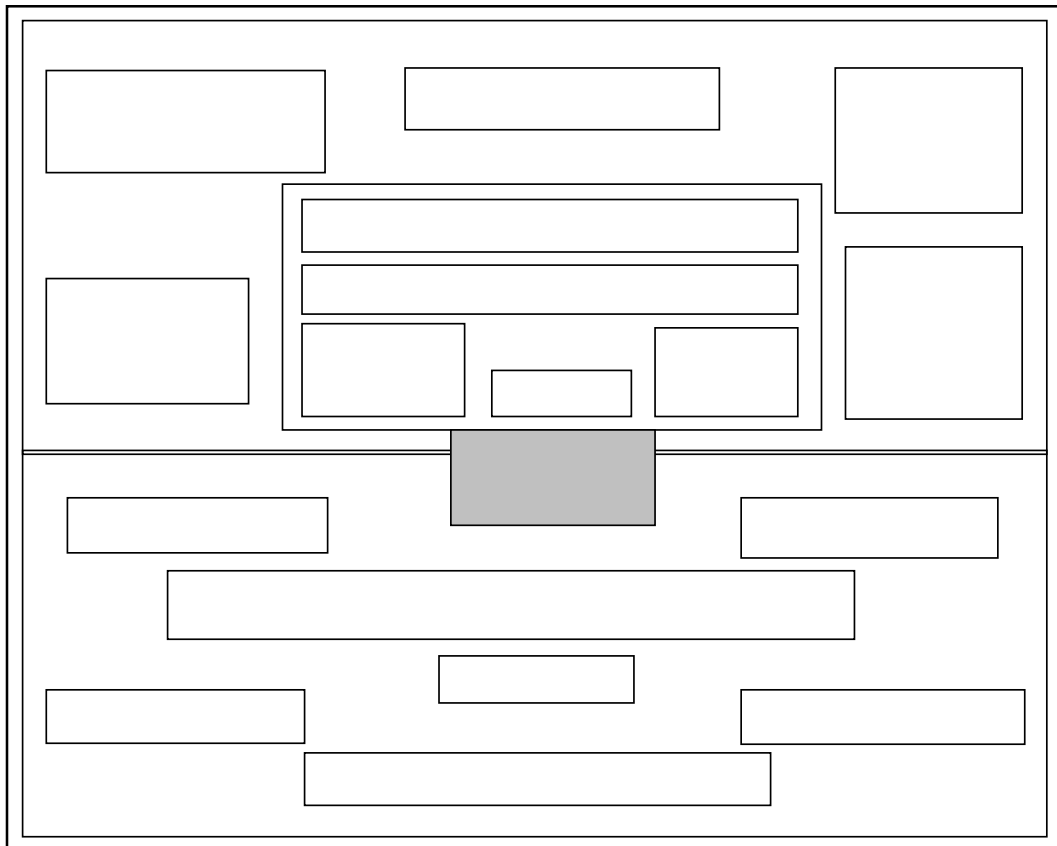
In this direction, we can also mention about the scams in India's banking history. Government-owned Central Bank of India has admitted a Rs 127-crore fraud. The fraud was committed between December 2007 and March 2008 in Kolkata. Again, Mr. V Pattabhiraman, the then Branch Manager of Central Bank of India's Royapettah Branch in Chennai got four years of imprisonment with a fine of Rs 2.40 lakhs for involvement in a bank fraud case. Certainly, these two incidences put a negative impact to the image of the country's banking industry. In later case, top official was involved in fraud. The debacle of Satyam is another example of corporate fraud in Indian corporate sector where top officials were involved.

The above discussions clearly indicate that Corporate Governance is very much required in India. Different initiatives have been taken in this direction. Different committees were set up to build the structure of Corporate Governance in India. Some renowned committees on Corporate Governance in Indian perspective are Kumar Mangalam Birla Committee (2000), Naresh Chandra Committee (2002), N. R. Narayana Murthy Committee (2003), and J.J. Irani Committee (2005).

The Indian corporate are governed by the Company's Act 1956. It also provides the basic legislation applicable to the Indian Corporate Governance system. Some other Acts which have an impact on Corporate Governance are, Foreign Exchange Management Act, 1999; Industries (Development and Regulation) Act, 1951; Monopolies and Restrictive Trade Practices Act, 1969; Securities and Exchange Board of India Act, 1992, etc. A proper understanding of Corporate Governance needs a deep and detail insight regarding management thought process, internal environment, and external environment of an organisation so that the benefits of Corporate Governance to the society can be obtained.

Following diagram shows the Indian Corporate Governance system:

Figure: 3
Indian Corporate Governance System/Model



(Source: Corporate Governance Principles, Policies and Practices by A. C. Fernando)

CLAUSE 49 AND WHISTLE BLOWER POLICY

Clause 49 of the Listing Agreement deals with Corporate Governance norms that a listed entity should follow. It is based on the recommendations of the Kumar Mangalam Birla Committee (2000). Then revision in CLAUSE 49 of the Listing Agreement was made in 2004 by SEBI which monitors and regulates Corporate Governance of listed companies in India through CLAUSE 49. This clause is incorporated in the Listing Agreement of Stock Exchanges with companies and it is compulsory for them to comply with its provisions.

So CLAUSE 49 of the Listing Agreement has two versions: (1) Old version or the original CLAUSE 49 (2000), and (2) Revised version or the revised CLAUSE 49 (2004). The central topic of this paper, i.e., ‘Whistle Blower Policy’ is the item no. 7 of Non–mandatory Requirements of the revised clause.

We can divide the term 'Whistle Blower Policy' in two parts: (1) Whistle Blower and (2) Whistle Blower Policy.

A 'Whistle Blower' is an employee or ex-employee or any other stakeholder who provides information about his or her company which he or she reasonably believes provides evidence of

- (i) A violation of a law or regulation by the company
- (ii) Financial malpractice
- (iii) A danger to public health or safety.

On the other hand Whistle Blower Policy is a mechanism which enables any employee (who observes any unethical practice) to approach the audit committee without informing their supervisors.

Whistle blowing means that one makes a noise to alert others of misconduct. Whistle blowers can raise a voice against wrongdoers (but the fact is they do not have power/ authority over the wrongdoers). This policy is a part of Non-Mandatory Requirements of CLAUSE 49 (Revised) of Listing Agreement. With reference to Whistle Blower Policy, Annexure ID (7) of CLAUSE 49 (Revised) of Listing Agreement states that:

"The company may establish a mechanism for employees to report to the management concerns about unethical behaviour, actual or suspected fraud or violation of the company's code of conduct or ethics policy. This mechanism could also provide for adequate safeguards against victimization of employees who avail of the mechanism and also provide for direct access to the Chairman of the Audit Committee in exceptional cases. Once established, the existence of the mechanism may be appropriately communicated within the organization".

(Source: Corporate Governance Practice & Procedures, V.Sithapathy and R.R.Iyer)

The prime objective of the Whistle Blower Policy is the establishment of a mechanism so that employees can report concerns about unethical behaviour, actual or suspected fraud or violation of company's code of conduct or ethics policy.

But the vital question is who will blow the whistle in this material and practical world? Surveys of the public at large in USA indicate that most believe that CPAs have a moral duty to ensure accuracy, assure client honesty, and detect financial statement fraud (**Ronald C. Parisi**).

THE CASE STUDY

The case study or survey is made on the 'navaratna' companies of India. 'Navaratna' literally means 'nine jewels'. Navaratna companies are considered as the jewels due to their key roles and importance in industrialisation, development and growth of modern India. List of the navaratnas is collected from the website of the Department of Public Enterprises. According to Wikipedia, "The Navaratna status is offered to PSEs, which gives a company enhanced financial and operational autonomy and empowers it to invest up to Rs. 1000 crore or 15% of their net worth on a single project without seeking

government approval. In a year, these companies can spend up to 30% of their net worth not exceeding Rs. 1000 cr. They will also have the freedom to enter joint ventures, form alliances and float subsidiaries abroad. *Navaratna* status is conferred by Department of Public Enterprises. To be qualified as a *Navaratna*, the company must obtain a score of 60 (out of 100). The score is based on six parameters which include net profit to net worth, total manpower cost to total cost of production or cost of services, PBDIT (Profit before Depreciation, Interest and Taxes) to capital employed, PBDIT to turnover, EPS (Earning per Share) and inter-sectoral performance. Additionally, a company must first be a *Miniratna* and have four independent directors on its board before it can be made a *Navaratna*". Following is the list of the *navaratnas* (as on November, 2009):

1. Bharat Electronics Limited
2. Bharat Heavy Electricals Limited
3. Bharat Petroleum Corporation Limited
4. Coal India Limited
5. GAIL (India) Limited
6. Hindustan Aeronautics Limited
7. Hindustan Petroleum Corporation Limited
8. Indian Oil Corporation Limited
9. Mahanagar Telephone Nigam Limited
10. National Aluminium Company Limited
11. NMDC Limited
12. NTPC Limited
13. Oil & Natural Gas Corporation Limited
14. Power Finance Corporation Limited
15. Power Grid Corporation of India Limited
16. Rural Electrification Corporation Limited
17. Shipping Corporation of India Limited
18. Steel Authority of India Limited

For the study, necessary data related to whistle blower policy have been obtained from Annual Report (2008-09) of the above stated companies. The study period is April 2008–March 2009.

For understanding the current status of the whistle blower policy adopted by the *navaratna* companies, the following table is important. **Table: 4** reveals the current position of the Whistle Blower Policy as depicted in respective Annual Report (2008-09) of the selected companies.

Table: 4**Current status of the whistle blower policy/framework/mechanism taken by the company as per the Annual Report 2008-09**

| Name of the company | Current status |
|-----------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Bharat Electronics Limited | The Company has not adopted the non-mandatory requirements as mentioned in Annexure-I D of Clause 49. |
| Bharat Heavy Electricals Limited | <ol style="list-style-type: none"> 1. The Company is ensuring to make appropriate disclosures, complying with various laws to maintain ethical standards. 2. The Company does not strictly have the mechanism of whistle blower policy. 3. No personnel/employee having any grievance has been denied access to the Audit Committee. |
| Bharat Petroleum Corporation Limited | Error in page loading. |
| Coal India Limited | No material information regarding whistle blower policy is provided in Annual Reports. |
| GAIL (India) Limited | The company has put a mechanism to act on complaints from whistle blowers. |
| Hindustan Aeronautics Limited | No material information regarding Whistle Blower Policy is provided in Annual Reports. |
| Hindustan Petroleum Corporation Limited | No specific information is provided. Only following is given: The Corporation is complying with the non-mandatory requirements as per Clause 49 of the Listing Agreement. |
| Indian Oil Corporation Limited | <ol style="list-style-type: none"> 1. A well-defined policy framework consisting of Whistle Blower Policy is in place. 2. Employees are free to report any improper activity resulting in violation of laws, rules, regulations or code of conduct by any of the employees to the Competent Authority or Audit Committee. 3. No employee has been denied access to the Audit Committee. |
| Mahanagar Telephone Nigam Limited | <ol style="list-style-type: none"> 1. No separate Whistle Blower Policy. 2. No personnel have been denied access to the Audit Committee. |

Table: 4 (contd.)

| Name of the company | Current status |
|-------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| National Aluminium Company Limited | <ol style="list-style-type: none"> 1. Central Vigilance Commission i.e. CVC guidelines are followed. 2. No separate Whistle Blower mechanism has been formulated. |
| NMDC Limited | To review the functioning of the Whistle Blower mechanism. |
| NTPC Limited | <ol style="list-style-type: none"> 1. No separate Whistle Blower Policy. 2. A Whistle Blower mechanism is in place under the provisions of "Fraud Prevention Policy" adopted by the Company. 3. All reports of fraud or suspected fraud are investigated with utmost speed. |
| Oil & Natural Gas Corporation Limited | <ol style="list-style-type: none"> 1. To review the functioning of the Whistle Blower mechanism. 2. Guidelines of CVC are applicable. 3. No person is denied access to the Audit and Ethics Committee |
| Power Finance Corporation Limited | <ol style="list-style-type: none"> 1. The Company's Whistle Blower Policy is in-built in the Grievance Redressal System. 2. A suggestion box has been kept at the registered office of the Company. 3. All the employees are encouraged to bring to the Management's notice concerns about suspected unethical behaviour, malpractice, wrongful conduct, fraud and violation of Company's policies without fear of reprisal. 4. The Company affirms that no personnel have been denied access to the audit committee. |
| Power Grid Corporation of India Limited | No material information regarding Whistle Blower Policy is provided in Annual Reports. |
| Rural Electrification Corporation Limited | Not yet framed by the Company. |
| Shipping Corporation of India Limited | Whistle Blower Policy is followed as per Central Vigilance Commission (CVC) guidelines |

Table: 4 (contd.)

| Name of the company | Current status |
|----------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Steel Authority of India Limited | <ol style="list-style-type: none"> 1. CVC has not permitted SAIL to formulate the Whistle Blower Policy. 2. The company has not adopted Whistle Blower Policy. 3. The Company has not denied access to any personnel to approach the Management on any issues. |

Now it is important to make a critical analysis about the present position of whistle blowing policy of *navaratnas* by taking some parameters. Four parameters have been selected in this context. Providing information regarding whistle blowing in Annual Report is an important issue. So *No. of companies provided / (did not provide) information regarding whistle blower policy/framework/mechanism in their Annual Report 2008-09* is the first parameter. Companies are classified on the basis of the above parameter as given in **Table No. 5**.

Table: 5

No. of companies provided / (did not provide) information regarding whistle blower policy/framework/mechanism in their Annual Report 2008-09

| | | | |
|---------|-----------|-----------|----------|
| | | | |
| 18 | 13 | 3 | 1 |
| (100 %) | (77.77 %) | (16.67 %) | (5.56 %) |

In this context the position of the *navaratnas* is quite good. Near about 78 % companies provided information regarding whistle blower policy/framework/mechanism in their Annual Report 2008-09.

For successful implementation of whistle blowing policy, access to the Audit and Ethics Committee by the concerned person is one of the necessary requirements and it (i.e., the access) should be explicitly mentioned by the companies in their Annual Report. So the second parameter is *No. of companies specifically mentioned / (did not specifically mention) the term "No person is denied access to the Audit and Ethics Committee" in their Annual Report 2008-09*. **Table 6** classifies the companies under study on the basis of this second parameter.

Table: 6

No. of companies specifically mentioned / (did not specifically mention) the term “No person is denied access to the Audit and Ethics Committee” in their Annual Report 2008-09

| | | | |
|---------|-----------|-----------|----------|
| | | | |
| 18 | 6 | 11 | 1 |
| (100 %) | (33.33 %) | (61.11 %) | (5.56 %) |

The result is not impressive at all. Only 33.33% companies mentioned the term “No person is denied access to the Audit and Ethics Committee” in their Annual Report 2008-09. But here judgment is vital. Though more than 61% companies did not provide the term “No person is denied access to the Audit and Ethics Committee” in their Annual Report 2008-09, it does not mean that whistle blowing is completely ignored by those companies. They did not mention the specific term explicitly. In spite of that they may have adequate provisions for whistle blowing. But, as an overall comment, we can say that the result is not good with respect to this parameter, because mentioning the specific term (i.e., the second parameter) is also important.

Next parameter is set as *No. of companies specifically disclosed / (did not specifically disclose) about the applicability of CVC (Central Vigilance Commission) guidelines in their Annual Report 2008-09*. The result is presented in **Table: 7**. The Central Vigilance Commission was established by the Government of India in the year 1964 on the basis of the recommendations of the Committee on Prevention of Corruption. Its prime function is to advise and guide Central Government agencies in the field of vigilance. CVC is the apex vigilance institution. It monitors all vigilance activities under the Central Government and advises various authorities in Central Government organizations in the area of planning, executing, reviewing and reforming their vigilance work. It has general check and supervision power over vigilance and anti-corruption work in Ministries or Departments of the Govt. of India. One can find the important features of ‘Whistle Blower Resolution’ in the official website of Central Vigilance Commission. According to that resolution, “If any person is aggrieved by any action on the ground that he is being victimized due to the fact that he had filed a complaint or disclosure, he may file an application before the Commission seeking redress in the matter, wherein the Commission may give suitable directions to the concerned person or the authority”. So following of Central Vigilance Commission’s guidelines by the companies in their respective Annual Reports empowers the general people. It is better to disclose the applicability of CVC guidelines in Annual Reports. Specific disclosure of applicability of CVC guidelines may bring in more

transparency. An attempt has been made to get the picture about the applicability of CVC guidelines in the next table.

Table: 7

No. of companies specifically disclosed / (did not specifically disclose) about the applicability of CVC (Central Vigilance Commission) guidelines in their Annual Report 2008-09

| | | | |
|---------|-----------|-----------|----------|
| | | | |
| 18 | 3 | 14 | 1 |
| (100 %) | (16.67 %) | (77.77 %) | (5.56 %) |

Again, here, result is not impressive. Only 16.67% companies are disclosing specifically about the applicability of CVC guidelines in their Annual Report 2008-09. A substantial portion of companies (almost 78%) did not specifically disclose about the guidelines. So, whether these companies are following any other guidelines or not that is not very clear. But inspite of that, at least, we can say that these companies provided information about whistle blowing mechanism (please refer Table: 5).

The last parameter has two parts: (1) *No. of Companies which have not yet framed/adopted Whistle Blower Policy or Non-Mandatory Requirements* and (2) *No. of Companies where current status of Whistle Blower Policy is not found due to either technical problem or lack of information*. **Table 8** is to be considered to get the analysis about this parameter.

Table: 8

(1) No. of Companies has not yet framed/adopted Whistle Blower Policy or Non-mandatory Requirements and (2) No. of Companies where current status of Whistle Blower Policy is not found due to either technical problem or lack of information.

| | | | |
|---------|-----------|-----------|-----------|
| | | | |
| 18 | 7 | 5 | 6 |
| (100 %) | (38.89 %) | (27.78 %) | (33.33 %) |

27.78% companies' current status of Whistle Blower Policy is not found due to either technical problem or lack of information. 38.89% companies' has not yet framed / adopted whistle blower policy or non-mandatory requirements. This result is not satisfactory. Adoption of non-mandatory requirements is a necessary step for whistle blowing policy, because whistle blowing policy is a part of non-mandatory requirements. On the other hand, for one third of companies (33.33%), Whistle Blower Policy/non-mandatory requirement is either adopted by the companies or found in their respective Annual Report. It is a positive sign.

CONCLUSION

In conclusion, we can say that, a major portion of Indian *navaratna* companies are in the process of complying with the Whistle Blower Policy norm. So those *navaratnas* can be considered as relatively more transparent, responsible and accountable organisations. *Navaratnas* are the prestigious institutes of India. They are a vital part of Indian growth and modernisation. The *navaratna* companies played the crucial role for India's rapid industrialisation since independence. So it is quite expected that they should follow the whistle blowing policy and in this way they should encourage other organisations also. This study recommends that all *navaratnas* should follow and disclose Whistle Blower Policy/mechanism and adopt CVC guidelines as early as possible.

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STUDENTS' CONTRIBUTIONS

□ **Article**

□ **Snapshot: Internship Project Synopses**

ARTICLE

Retail Marketing in India

Sanat Kumar Patra*

ABSTRACT

Over the last few years, retail has become one of the fastest growing sectors in the Indian economy. In fact, India has topped the annual list of the most attractive countries for international retail expansion, according to AT Kearney's Global Retail Development Index. The booming services sector combined with the growth in disposable income and saturation in western retail markets are providing impetus to this boom.

India's retail industry accounts for 10 percent of its GDP and 8 percent of the employment to reach \$17 billion by 2010. About 300 new malls, 1,500 supermarkets and 325 departmental stores are being built in the cities at present. Even big western retailers like Wal-Mart and Tesco are entering into the Indian market.

In spite of the size and scope, retailing is not yet recognized as an industry. India does not allow 100 percent foreign direct investment (FDI) in the retailing sector. However, the Indian government does allow FDI (100 percent) in wholesale cash-and-carry trade as well as in single-brand retail outlets with 51 percent foreign investment. Several international companies are taking advantage of these as well as franchising and strategic licensing routes to enter India.

The Indian organized retail pie offers huge opportunities to U.S. companies offering packaged foods, houseware products, apparel and accessories, cosmetics, footwear and watches. In addition, there are new opportunities for retail industry equipment and services suppliers to cater to the booming Indian market.

INTRODUCTION

"For a long time we focused on what we termed the Second Moment of Truth, the point at which the consumer uses the product. But we realized we were missing half the story by not looking at the First Moment of Truth when the consumer actually chooses the product."

- Matthew Parry, Head of Customer Shopper Marketing & Commercial Innovation
UK & Eire, P&G

The word '*retail*' is derived from the French word '*retailer*', meaning cut a piece off or 'to break bulk'. In simple terms, it implies a first-hand transition with the customer. *Retailer* can be defined as a dealer or trader who sells goods in small quantities, or one who repeats or relates.

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“*Retailing* is the sale of goods and services to the ultimate consumer for personal, family or household use.” According to Kotler, “Retailing includes all the activities involved in selling goods or services to the final consumers for personal, non business use”. Retailing, can thus be defined as, consisting of all such activities involved in the marketing of goods and services directly to the consumers for their personal, family or household use. Retailing involves a direct interface with the customer and the coordination of business activities from end to end, right from the concept or design stage of a product or offering, to its delivery and post delivery service to the customer.

Before venturing into the topic itself, let us understand a few more terminologies associated with retail marketing.

Manufacturers: business whose primary economic role is the production of goods.

Wholesaler: acts as market intermediaries between producers and end users of products and services.

Retail Market: refers to a place where a group of consumers with similar needs and group of retailers meet using a similar retail format to satisfy those consumer needs.

Retail Marketing: the process by which a retailer tries to identify the target market in order to satisfy the target market’s needs and build up a sustainable competitive advantage.

Retail Industry: The retail industry is a sector of the economy that is comprised of individuals and companies engaged in the selling of finished products to end user consumers. Multi-store retail chains in the U.S. are both publicly traded on the stock exchange and privately owned.

MARKET DEMAND

With market liberalization, growing consumerism and the entry of corporate players, the Indian retail sector is currently experiencing developments at an evolutionary rate like nowhere else in the world. The Indian consumer is rapidly evolving and is now being exposed to shopping as an experience and is charmed with a host of international brands at competitive prices. Today, the Indian consumer expects a wide array of choices in the form of better quality retail outlets, product choices and brand options. He expects every benefit being offered in the developed markets. Indian retail is going all out to provide the consumers what they seek.

On their part, the consumers have started spending more and more of their increasing disposable incomes. In the last few years, Indian retail especially in the organized segment, has grown from strength to strength, bringing in a new consumer class, with a greater exposure to overseas markets. Some of the reasons for this growth are:

- Rise in the disposable incomes of this class of consumers along with their aspirations
- Over the last year salaries have increased by approximately 15-20 percent
- The growth of the Indian middle class from its current share of 22 percent to 32 percent of the total population in 2010 end

- Greater availability of quality retail space with formats such as department stores, hypermarkets, supermarkets and specialty stores finding more and more acceptance

Indian retailing, however, is facing several challenges. Property and real estate issues, capital availability, legal framework, human resources, supply chain development and management, and logistics are amongst the prominent ones. The foremost challenge facing the organized retail industry in India is competition from the unorganized sector. Traditional retailing, with 12 million outlets, was established in India centuries ago. It has low cost structure, mostly owner-operated, has negligible real estate and labour cost and little or no taxes to pay. Consumer familiarity that runs from generation to generation is one big advantage for the traditional retailing sector. In contrast, players in the organized sector have big expenses to meet, and yet have to keep prices low enough to be able to compete with the traditional sector. High costs for the organized sector arises from higher labour costs, social security to employees, high quality real estate, much bigger premises, comfort facilities such as air conditioning, back-up power supply, taxes, etc. Organized retailing also has to cope with the middle class psychology that the bigger and brighter the sales outlet is, the more expensive it will be.

Despite these difficulties, investors' interest in this sector is growing at a frantic rate. In addition, with tariffs on imported consumer items gradually being aligned to meet prescribed WTO norms and reduction of import restrictions, the retailing sector is bound to grow manifold in the coming years. The depth of the Indian market and the variations of the consumer profile indicate a bright future for the sustained growth of the Indian retail sector.

MARKET DATA

Of the total organized retail space being developed throughout India, up to 40 percent is concentrated in smaller cities. However, the major development activity is around urban areas especially in cities such as Mumbai, National Capital Region (in and around Delhi), Pune, Hyderabad, Bangalore, Chennai and Kolkata.

According to Knight Frank (real estate consultants), the following are the significant developments in the areas:

- **National Capital Region (NCR):** The NCR market is said to lead the retail real estate development in India. A new trend to develop specialized malls (e.g., for gold, bridal wear, etc.) as well as large sized malls (over 30,000 sq. feet) is fast catching on with new mall developers and promoters. A strategy to locate hotels in malls is also gaining ground.
- **Mumbai:** Organized retailing has gained tremendous ground in the last few years and has become the preferred retail format. It will also have the second highest density of malls in the country.
- **Pune:** The retail space development is on the rise in India's eight richest city, indicating that the retail sector in Pune has prospered.

- **Bangalore:** Although the retail sector in Bangalore is growing, it is showing signs of slowing down due to acute shortage of retail space. This shortage will ease out once the malls currently under construction are completed.
- **Chennai:** This city is proving to be one of the most vibrant markets of South India. The prospects for organized retailing in Chennai seem very bright with 12 malls expected to come up in the next three years.
- **Kolkata:** One of the fastest growing retail destinations, Kolkata is witnessing increased penetration of the organized retail segment.

The #1 Emerging Retail Market

An exploding economy, a business-minded government, and a burgeoning middle class with a love for all things western makes India the ideal market for retail organizations looking to expand global operations.

The Indian retail industry is the fifth largest in the world. Comprising organized and unorganized sectors, Indian retail industry is one of the fastest growing industries in India, especially over the last few years. Though initially, the retail industry in India was mostly unorganized, however with the change of tastes and preferences of the consumers, the industry is getting more popular these days and getting organized as well. With growing market demand, the industry is expected to grow at a pace of 25-30% annually. The Indian retail industry grew from Rs. 35,000 crore in 2004-05 to Rs. 109,000 crore by 2010 end.

MAJOR RETAILERS IN INDIA

Pantaloon:

Pantaloon is one of the biggest retailers in India with more than 450 stores across the country. Headquartered in Mumbai, it has more than 5 million sq. ft retail space located across the country. It's growing at an enviable pace and is expected to reach 30 million sq. ft by the year 2010 end. In 2001, Pantaloon launched the country's first hypermarket 'Big Bazaar'. It has the following retail segments:

- Food & Grocery: Big Bazaar, Food Bazaar
- Home Solutions: Hometown, Furniture Bazaar, Collection-i
- Consumer Electronics: e-zone
- Shoes: Shoe Factory
- Books, Music & Gifts: Depot
- Health & Beauty Care: Star, Sitara
- E-tailing: Futurebazaar.com
- Entertainment: Bowling Co.

Tata Group

Tata group is another major player in Indian retail industry with its subsidiary Trent, which operates Westside and Star India Bazaar. Established in 1998, it also acquired the largest

book and music retailer in India, 'Landmark', in 2005. Trent owns over 4 lakh sq. ft retail space across the country.

RPG Group

RPG Group is one of the earlier entrants in the Indian retail market, when it came into food & grocery retailing in 1996 with its retail Foodworld stores. Later it also opened the pharmacy and beauty care outlets 'Health & Glow'.

Reliance

Reliance is one of the biggest players in Indian retail industry. More than 300 Reliance Fresh stores and Reliance Mart are quite popular in the Indian retail market. It is expecting its sales to reach Rs. 90,000 crore by 2010 end.

AV Birla Group

AV Birla Group has a strong presence in Indian apparel retailing. The brands like Louis Phillipe, Allen Solly, Van Heusen, Peter England are quite popular. It is also investing in other segments of retail. It will invest Rs. 8000-9000 crores by 2010 end.

K. Raheja Group

The K. Raheja operated Shopper's Stop, credited with starting the retail revolution in India, is said to be the leader in the department store format. Presently, Shopper's Stop has around 19 stores across India

In addition, with corporate bigwigs such as Reliance, Tata, AV Birla Group, Godrej, Bharti, Mahindra, ITC Group and the Wadia group investing billions of dollars in their retail ventures, huge opportunities exist for U.S. companies in supplying retail shop fit equipment and services including developers, designers, human resources, architecture and IT.

RETAIL FORMATS IN INDIA

- **Hypermarts/supermarkets:** large self-servicing outlets offering products from a variety of categories.
- **Mom-and-pop stores:** they are family owned business catering to small sections; they are individually handled retail outlets and have a personal touch.
- **Departmental stores:** are general retail merchandisers offering quality products and services.
- **Convenience stores:** are located in residential areas with slightly higher priced goods due to the convenience offered.
- **Shopping malls:** the biggest form of retail in India, malls offers customers a mix of all types of products and services including entertainment and food under a single roof.
- **E-trailers:** are retailers providing online buying and selling of products and services.
- **Discount stores:** these are factory outlets that give discount on the MRP.
- **Vending:** it is a relatively new entry, in the retail sector. Here, beverages, snacks and other small items can be bought via vending machine.

- **Category killers:** small specialty stores that offer a variety of categories. They are known as category killers as they focus on specific categories, such as electronics and sporting goods. This is also known as Multi Brand Outlets or MBO's.
- **Specialty stores:** are retail chains dealing in specific categories and provide deep assortment. Mumbai's Crossword Book Store and RPG's Music World are a couple of examples.

CHALLENGES FACING INDIAN RETAIL INDUSTRY

- The tax structure in India favours small retail business
- Lack of adequate infrastructure facilities
- High cost of real estate
- Dissimilarity in consumer groups
- Restrictions in Foreign Direct Investment
- Shortage of retail study options
- Shortage of trained manpower
- Low retail management skill

THE FUTURE

The retail industry in India is currently growing at a great pace and is expected to go up to US\$ 833 billion by the year 2013. It is further expected to reach US\$ 1.3 trillion by the year 2018 at a CAGR of 10%. As the country has got a high growth rate, the consumer spending has also gone up and is also expected to go up further in the future. In the last four year, the consumer spending in India climbed up to 75%. As a result, the Indian retail industry is expected to grow further in the future days. By the year 2013, the organized sector is also expected to grow at a CAGR of 40%.

The BMI India Retail Report for the first-quarter of 2011 forecasts that total retail sales will grow from US\$ 392.63 billion in 2011 to US\$ 674.37 billion by 2014. Strong underlying economic growth, population expansion, the increasing wealth of individuals and the rapid construction of organized retail infrastructure are key factors behind the forecast growth. With the expanding middle and upper class consumer base, there will also be opportunities in India's Tier II and III cities.

Mass grocery retail (MGR) sales in India is expected to undergo enormous growth over the forecast period. BMI predicts that sales through MGR outlets will increase by 145 per cent to reach US\$ 21.35 billion by 2014.

BMI forecasts consumer electronic sales at US\$ 29.09 billion in 2011, with over-the-counter (OTC) pharmaceutical sales at US\$ 2.69 billion. The former sub-sector is expected to show growth of 55.6 per cent between 2011 and 2014, reaching US\$ 45.27 billion, with projected double-digit growth of key products such as notebooks, mobile handsets and TVs. OTC pharmaceuticals, meanwhile, should increase slightly more, by 56.5 per cent throughout the forecast period, to reach US\$ 4.21 billion.

China and India are predicted to account for more than 91 per cent of regional retail sales in 2011, and by 2014 their share of the regional market is expected to be more than 92 per cent. Growth in regional retail sales for 2011-2014 is forecast by BMI at 48.1 per cent, an annual average of 15 per cent.

According to a McKinsey & Company report titled 'The Great Indian Bazaar: Organised Retail Comes of Age in India', organized retail in India is expected to increase from 5 per cent of the total market in 2008 to 14-18 per cent of the total retail market and reach US\$ 450 billion by 2015.

Furthermore, according to a report titled 'India Organised Retail Market 2010', published by Knight Frank India in May 2010 during 2010-12, around 55 million sq ft of retail space will be ready in Mumbai, National Capital Region (NCR), Bengaluru, Kolkata, Chennai, Hyderabad and Pune. Besides, between 2010 and 2012, the organized retail real estate stock will grow from the existing 41 million sq ft to 95 million sq ft.

Driven by the growth of organized retail coupled with changing consumer habits, food retail sector in India is set to be more than double to US\$ 150 billion by 2025, according to a report by KPMG.

India's retail market is expected to be worth about US\$ 410 billion, with 5 per cent of sales through organized retail, meaning that the opportunity in India remains immense. Retail should continue to grow rapidly — up to US\$ 535 billion in 2013, with 10 per cent coming from organised retail, reflecting a fast-growing middle class, demanding higher quality shopping environments and stronger brands, according to the report 'Expanding Opportunities for Global Retailers', released by A T Kearney.

India has been ranked as the third most attractive nation for retail investment among 30 emerging markets by the US-based global management consulting firm, A T Kearney in its 9th annual Global Retail Development Index (GRDI) 2010.

Foreign direct investment (FDI) inflows between April 2000 and October 2010, in single-brand retail trading, stood at US\$ 197.04 million, according to the Department of Industrial Policy and Promotion (DIPP).

A few organization-specific future plans are as follows:

- Carrefour, the world's second-largest retailer, has opened its first cash-and-carry store in India in New Delhi. Germany-based wholesale company Metro Cash & Carry (MCC) opened its second wholesale centre at Uppal in Hyderabad, taking its number to six in the country.
- Electronic retail chain major, Next Retail India, plans to open 400 showrooms across the country during January-March 2011, increasing the total number of retail stores to 1,000 by the end of the fiscal year 2010-11.
- Jewellery retail store chain Tanishq plans to open 15 new retail stores in various parts of the country in the 2011-12 fiscal.
- V Mart Retail Ltd, a medium-sized hypermarket format retail chain, is set to

open 40 outlets over the next three years, starting with 13 stores in 2011, in Tier-II and Tier-III cities.

- Reliance Retail, the wholly owned subsidiary of Mukesh Ambani's Reliance Industries, is set to open 150 stores by the end of March 2011 and double the number of stores across the country in all formats within five years.
- Future Value Retail, a Future Group venture, will take its hypermarket chain Big Bazaar to smaller cities of Andhra Pradesh, with an investment of around US\$ 1.54 million to US\$ 4.41 million depending on the size and format.
- RPG-owned Spencer's Retail plans to set up 15-20 new stores in the country in 2011-12.
- Spar Hypermarkets, the global food retailing chain of the Dubai-based Landmark Group, expects to start funding its India expansion beyond 2013 out of its local cash flow in the country. So far, the Landmark Group has invested US\$ 51.31 million in setting up five hypermarkets and plans to pump in another US\$ 51.31 million into the next phase of expansion.
- Leading watchmaker Titan Industries Limited plans to invest about US\$ 21.83 million for opening 50 premium watch outlets Helios in next five years to attain a sales target of US\$ 87.31 million.
- British high street retailer, Marks and Spencer (M&S) plans to significantly increase its retail presence in India, targeting 50 stores in the next three years.
- Spain's Inditex, Europe's largest clothing retailer opened the first store of its flagship Zara brand in India in June 2010. It further plans to open a total of five Zara outlets in India.
- Bharti Retail, owner of Easy Day store — supermarkets and hypermarts — plans to invest about US\$ 2.5 billion over the next five years to add about 10 million sq ft of retail space in the country by then, according to a company spokesperson.

BEST PROSPECTS

The biggest opportunities for international brands are in the food and beverage segment. Within the food segment, the main growth opportunity is in processed foods. Indians have traditionally consumed less processed and prepared food and drinks than most other nations. However, this is changing especially in households where both husband and wife work. More Indians are opting for quick serve food products. Presently, there are not many local companies that produce processed foods and packaged ready-to-serve products. U.S. companies can take advantage of this void.

Another potential area of interest to U.S. companies is the jewellery market. Although India exports around US\$ 15.7 billion worth of gems and jewellery annually, India is also the largest importer and consumer of gold. According to India's Gems and Jewellery Export Promotion Council, the total jewellery market in India is around US\$13 billion. Currently small family-owned retailers serve the market. However, the market is evolving

and organized jewellery retailers are increasingly offering brand name solutions to satisfy the demand for quality and value.

PROSPECTIVE BUYERS

Rising income and a young population makes an amazing recipe for growth. According to recent data from India's Marketing Whitebook by Business World (provided in KPMG's report on Consumer Markets in India), India has around 208 million households. Of these, slightly more than six million are 'affluent' – that is, with a household income in excess of INR 215,000 (US\$ 4,943) per year. Another 75 million households are 'well off', earning between INR 45,000 (US\$ 1,034) and INR 215,000 (US\$ 4,943) per year. In the past, the organized consumer goods sector concentrated almost exclusively on the 'affluent' category, which forms the backbone of the Indian market. However, the 'well off' class with their increased spending power is becoming a target audience for organized retailers, distributors and consumer goods manufacturers.

In addition, organized retailing in small-town India is growing at 50-60 percent per year (as compared to 35-40 percent in the larger cities). According to recent studies conducted by the National Council of Applied Economic Research (NCAER), rural India is home to 720 million consumers across 627,000 villages. As urban markets are starting to get saturated, most companies are looking at the rural market to help in their company's growth.

MARKET ISSUES & OBSTACLES

Retailing is one of the few sectors of the Indian economy that is closed to Foreign Direct Investment (FDI). One of the major arguments against allowing FDI is that the advent of large retailers will cause the demise of the 'mom and pop' stores. However, those in favour of allowing FDI argue that there are obvious benefits of permitting FDI in retail, including that it will boost a key growth sector of the economy, create employment, benefit consumers with the increase in the retailers efficiency and competitiveness, and importantly bring best management practices and access to world-class technologies. Despite the perceived benefits of permitting FDI into the retail trade sector, reticence still exists amongst policy makers.

While the Government of India does not allow to 100 percent FDI, it does allow single brand retailers to own up to 51 percent of their India ventures. To mitigate the effects of the investment restrictions, international retailers have adopted different strategies for operating in India. These include franchising, cash and carry wholesale operations and strategic license agreements.

KEY FINDINGS

- In major markets like the US and the UK, retail spending is expected to decline, while emerging markets like China expect a growth in 2010.
- There are signs of improvement for US consumers, but the recent destruction of wealth is expected to limit consumer spending.
- Asia is believed to represent the best growth prospects for retailers and consumer-products companies in 2010.

- In India, garments, fashion accessories, cosmetics and white goods are expected to continue the uptrend of 2009 in 2010 and beyond.
- Forecasts show a continued growth of functional food in 2010, for example, by a higher nutritional value for consumers.

CONCLUSION

It can be concluded from the above data and findings that the Indian retail sector is still unconquerable and if harnessed to the full extent, can give a fair competing ground to all retailers. The following checkpoints ascertain the future and prospects of Indian retail industry:

- The Retail Sector in India can be split up into two, the organised and the unorganized. The organized sector, whose size is expected to triple by 2010 can be further split up into departmental stores, supermarkets, shopping malls, etc.
- In terms of value, the size of the retail sector in India is \$300 billion. The organized sector contributes about 4.6% to the total trade.
- The retail sector in India contributes 10% to the Gross Domestic Product and 8% to the employment of the country.
- In terms of growth, the FMCG retail sector is the fastest growing unit and the retail relating to household care, confectionery, etc, have lagged behind.
- The foreign retail giants were initially restricted from making investments in India. But now FDI of 51% is permitted in India only through single branded retail outlets. Multi brand outlets are still beyond their reach. Again they can only enter the market through franchisees. This was how Wal-Mart had entered joining hands with Bharati Enterprises.
- On line retailing is still to leave a mark on the customers due to lacunae that have been already mentioned.

In a nutshell we may conclude that the retail industry in India has a very bright future prospect. It is expected to enrich the Indian Economy in terms of income and employment generation.

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SYNOPSIS

Applying Six Sigma in Software Companies for Process Development

*Santosh Kumar**

The project was undertaken in Moonlight Software Development Marketing Private Limited which aims to carry on the business of education of computers & information technology study, software and hardware services, fashion & interiors designing, computer sales & services and also to provide software development, solutions, internet, company services, website designing, multi level marketing, hosting, e-commerce, computerized software, networking and all services related to consumer goods.

The company provides solutions to-

- Creating an attractive website within a tight budget
- Need for customized software for ones business process
- Need for consultancy services for ones software and hardware requirements
- Need for technical support

INTRODUCTION

In recent years, companies and organizations around the world are showing great interests in quality. Six Sigma approach is a structured quantitative method, which was invented by Motorola in 1986 for improving the product quality. Its aim is to enhance organization's performance by using statistical analytic techniques. After two decades of successful implementation in manufacturing, Six Sigma is approved as an effective methodology for improving quality.

Since Six Sigma has evolved over the last two decades, its definition is extended to three levels:

- Metric
- Methodology
- Management System

The Integrated Six Sigma approach satisfies all the three levels at the same time.

Now-a-days, some researchers believe that Six Sigma can bring large benefits for software companies. Furthermore, software companies have already started to implement Six Sigma approach, like Ericsson, Tata Consultancy Service, etc. However, there are still

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some problems and misconceptions existing about the applicability of Six Sigma in software companies.

OBJECTIVE

The main aim of this project is to provide steps for software companies who want to implement Six Sigma for process improvement. To achieve that, the following objectives shall be reached:

- Identify the differences of Six Sigma in manufacturing and software companies.
- Discuss the acceptance of Six Sigma in software companies.
- Compare the academic research results with the reality of software companies.
- Identify the state-of-art Six Sigma in software.
- Screen out the suitable Six Sigma tools and techniques for software companies.
- Discuss the future work for Six Sigma in software companies.

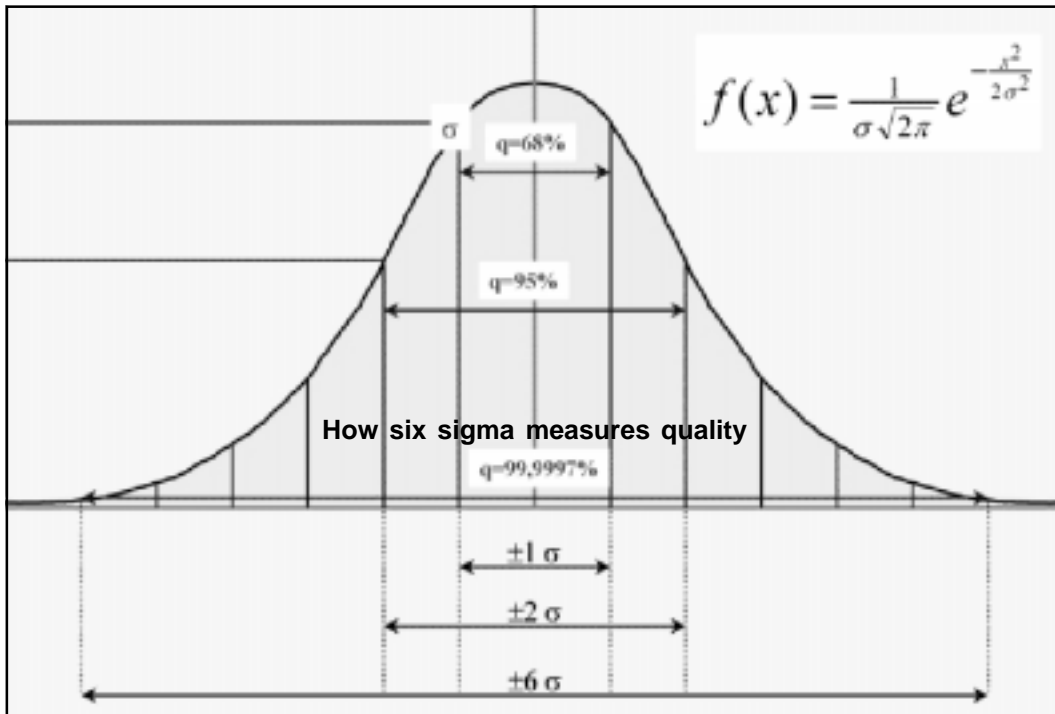
METHODOLOGY

A mixed methodology was used.

In the qualitative research methodology part, a detailed and comprehensive literature study was carried out. The literature study consisted of articles, books, web materials, discussion forms and others. The literature study was used to find out the characteristics of Six Sigma, the tools and techniques used in Six Sigma, and to analyze the suitability of these tools and techniques for process improvement in software companies. A list of tools and techniques has been provided, which are helpful for Six Sigma implementation. With the help of the literature study, the condition of Six Sigma in manufacturing has been identified. After completely understanding the usage of Six Sigma in manufacturing, the research moved to the following research questions – applicability of Six Sigma in software and why software companies choose Six Sigma for process improvement. In order to answer these research questions, different views, which have been provided by software specialists have been discussed. Once the differences were clear, it was easy to analyse the applicability of Six Sigma for software. Two interviews and two case studies are discussed to find out the differences.

FINDINGS AND ANALYSIS

Six Sigma is successfully used in manufacturing industry for two decades. The challenge was to employ Six Sigma in software development. In this thesis research we have concluded that Six Sigma is applicable in software development. There are differences between software and manufacturing process, but if we take care of them Six Sigma works well in software's.

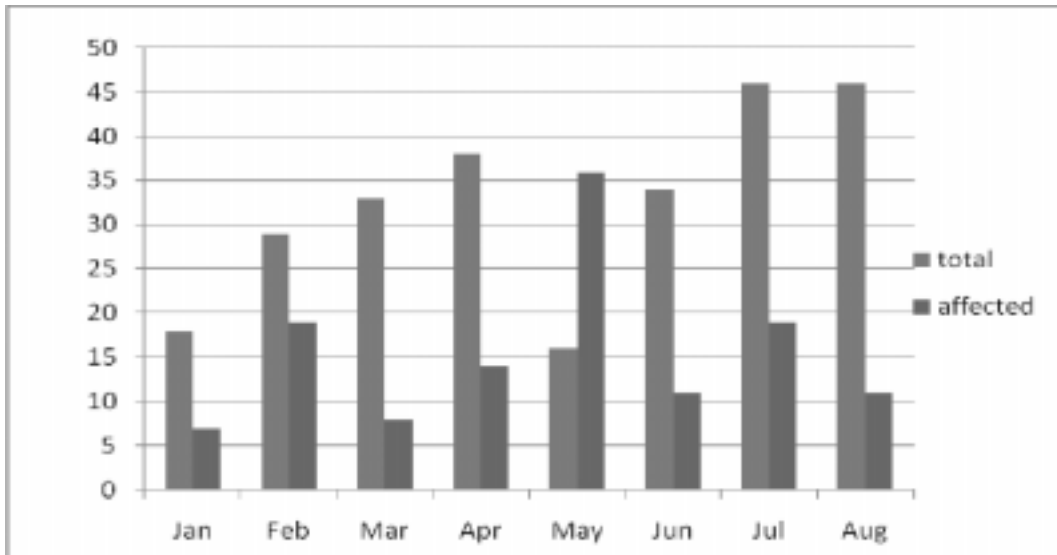


It can bring large benefits to software companies. There are software domains where Six Sigma is highly beneficial, i.e., complex systems, mission critical systems, etc. Six Sigma tools are very useful for software process improvement.

The main challenges of Six Sigma in software are to identify the CTQs (Critical To Quality) and to establish cost efficient project Ys that can be used to identify root cause, and measure improvements. Another challenge is that the processes used have quite long life span (a development project can take 2-3 years) and the processes are furthermore not to be classified as stable and repeatable.

Steps for the implementation of Six Sigma in software have been proposed after interviews and case study reviews. The final research result will help software companies and researchers step by step to achieve their quality goals.

The most common reason behind the failure of a software project is misunderstanding the user requirements. Agile methods use an iterative approach for requirements understanding. In Agile software development the customer is very much involved which make it easier to understand the requirements. In Six Sigma one of the primary objectives is to align business goals with the customer requirements. The DMAIC phases focus on customer's expectations and its tools helps to achieve this goal.



Projects affected by poor input quality

Six Sigma is good for software companies especially for the following situations.

- Legal Responsibility – Six Sigma approach helps to fulfill the legal responsibility. Now-a-days, if something goes wrong people go to the lawyers according to Human Rights Act. Up to now disasters are not blamed on software but a defective software can cause huge disasters. Software has many identical copies. These copies are installed in different companies. If there is some defect in the software then all the companies are at great risk of failure. Even the most powerful companies like Microsoft are fearful of such failures.
- Mission Critical Systems – Now-a-days, softwares are being developed for mission critical systems. The failure of a mission critical results in a great loss to society. Here comes Six Sigma which means 3.4 defects per million opportunities, it can prevent the software from failing. In 1988, American Airlines lost 59 million dollars in ticket sales. The problem was that discount tickets were mistakenly blocked in the ticket reservation system. As a result travelers moved to their competitors. These weaknesses can be removed by applying Six Sigma, which provides near defect free performance.
- Complex Systems – The application of Six Sigma is very effective in case of complex systems. For example, in a complex system with like 1000 modules, if all the parts are designed according to Six Sigma than there is a higher probability of getting a defect free system.
- Software Company – Software companies have a bad reputation of being buggy and late. Today software size is very large like more than thousands of lines.

It has more probability of having many defects. In this situation, Six Sigma can help us to get a near defect free product.

According to a survey conducted in software companies the following results were found. Most software companies have completed five to ten Six Sigma projects and their bottom-line saving per project is over £100k on an average. In most companies the Six Sigma level varies from 2.54 to 4 Sigma. Most companies in the survey used the following criteria to find the success of Six Sigma.

- Impact on bottom-line
- Reduction of defect rate
- Reduction in cost of poor quality

After the above discussion we can conclude that Six Sigma tools together with Agile development can help in understanding the real needs of the customer.

SCOPE FOR FUTURE WORK

THE COST OF SIX SIGMA IMPLEMENTATION

An investigation on the application of Six Sigma approach opened up an interesting area - the cost of Six Sigma including pre-cost, project cost, maintenance fee, recruitment spending, etc.

The cost spending on quality improvement is not cheap but worthy. However, all evidences in the research have pointed out that the cost of Six Sigma is not an easy burden for small size companies. To have a long-term improvement or to keep a long-term high performance, the support from abundant funds is very much essential.

Currently the implementation of Six Sigma approach is on its initial phase, especially for software. During the period of growth of understanding, self-improvement and integration between quality approaches, the cost of Six Sigma can be reduced on a reasonable and acceptable level.

THREATS TO VALIDITY

Validation for threats is very necessary to validate research results. Four main types of validity were conducted as below.

1. Internal Validity

The internal validity threats in the research are related to the procedures and experiences of participants. In this paper, people involved in studies came from different levels. That will influence the research result. Another threat relates to case studies, the chosen cases came from different fields. Although this can help to generate the generic method for common cases, it also can be a threat to puzzle researchers.

2. Construct Validity

To minimize this threat, the sources of author's research materials generally came from trustable or certificated originations, such as IEEE, ACM digital library, etc.

However, some sources still have a low level risk. This may mislead author's research direction

3. **Conclusion Validity**

The research conclusion concluded literature review, comparisons, interview and case studies. To minimize this threat, the author have invited several friends to help validate research paper.

4. **External Validity**

External validity is related to generalize research results with whole population. To degrade this threat, literatures and cases were selected from different fields in authors' research. At the same time, the research goal is to generate a generic method for software companies.

A few topics related to Six Sigma have been identified for further research, like:

1. **Comparing Six Sigma with other Quality Techniques**

There are many quality improvement techniques, i.e., CMMI, ISO 9000. It is a good area to have a comparison between Six Sigma and other quality improvement techniques. These comparisons can be made on the basis of different factors. They would be helpful to understand Six Sigma with respect to other techniques.

2. **Blending Six Sigma with CMMI**

CMMI (Capability Maturity Model Integration) is also a quality improvement technique. It would be very interesting to find whether CMMI and Six Sigma can be used together. How companies can blend CMMI and Six Sigma? Is there any possibility for a company using CMMI to implement Six Sigma as well? And at which level of CMMI the company should use Six Sigma for further improvements?

3. **Six Sigma for Small Sized Companies**

Six Sigma approach can be well adopted by large and medium sized companies. These companies have good resources, time and budget. But it would be interesting to find the applicability of Six Sigma in small sized companies.

4. **Lean Six Sigma**

Lean Six Sigma is an improvement methodology. It combines lean manufacturing and Six Sigma. The focus of Lean is on speed and the focus of Six Sigma is on quality. It would be very interesting to have a discussion on the combination of Lean and Six Sigma.

SYNOPSIS

Market Study to Test the Feasibility of Real Estate Development for Retail, Hotels, F&B, Commercial and Residential Space In Patna

*Usha Singh, Sooraj Anand , Shivani Jetley & Akhilesh Singh**

The following study was conducted for Ambuja Realty. This company has a simple mission - to make a difference to the way people live, by creating homes, hotels & restaurants, and commercial spaces that are more than four walls, that are part of a neighborhood which encapsulates the essence of our society. Building on the experience and expertise, they are now ready with a pan-India growth strategy to deliver an unprecedented number of high-quality projects in the forthcoming years.

One of their forthcoming projects is coming up at Patna for which a group of four members were assigned to perform market study about the real estate presence. Market research was done to study the market feasibility for developing organised retail, hotels, food & beverage, commercial & residential space in a 7.5 acre land in Patna.

INTRODUCTION

Bihar is one of the pitfall states of India. Patna (the capital), built on the ancient ruins of Patliputra, has re-emerged as a prominent city. Patna property market has flourished as the leading builders in India are venturing big time into large-scale development of residential and commercial properties in Patna. The entire skyline of Patna real estate market is undergoing a makeover - a growth in property investment in Patna has been registered from both the housing companies and building contractors in Patna as well as major property investors and developers, a huge influx of FDI in the Patna property market has been seen. The NRI real estate investments are also directed towards the city as the natural reserves of Bihar and the potential of the ongoing real estate development projects form a lucrative picture.

Thus, Patna has become the Land of Opportunity for investors to come. Current govt. rule has improved law & order in the state and their infrastructural development program made World Bank to announce Patna as the second best city in India to do business with after Delhi. Per capita income of Patna is Rs 31,441 - higher than the National Average of Rs 22,946.

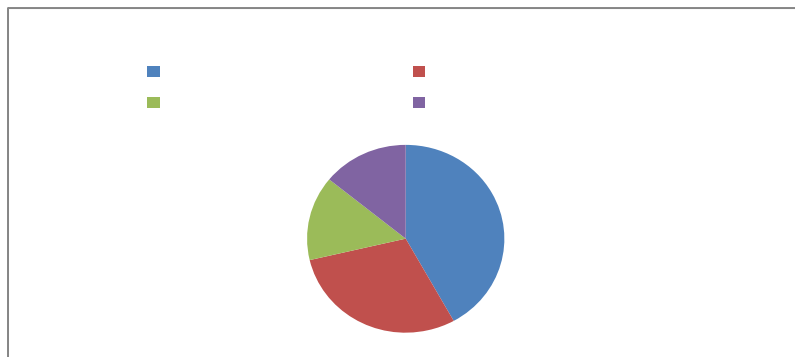
DEMOGRAPHICS OF THE CITY:

| | | | |
|---|------------------------|---|-----------|
| □ | Population | – | 47,18,592 |
| □ | Population growth rate | – | 30.17% |

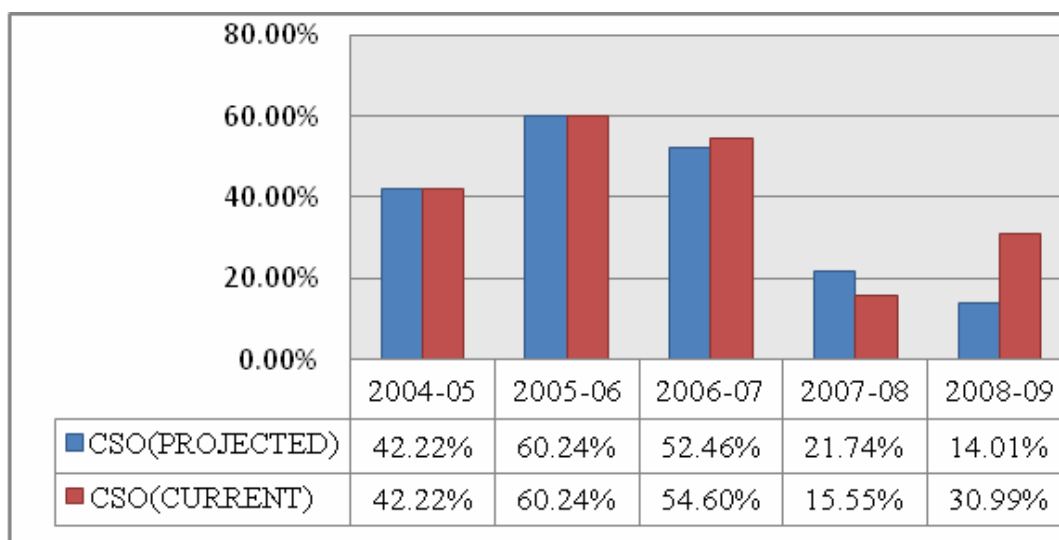
* Students, MBA13 (2009–11), Army Institute of Management, Kolkata

- Per capita income – Rs. 31441
- Population density – 1405/sq km
- Literacy rate – 62.92%
- Sex ratio – 873
- Urban population % – 41.6%
- No. of households – 7,26,364
- Household size – 6
- Languages – Hindi, Magadhi, Bhojpuri, Maithali
- Sub-divisions – Barh, Danapur, Masaurhi, Paliganj, Patna city, Patna sadar

GROWTH IN EACH CATEGORY OF INDUSTRY IN PATNA:



CITY BANKING & INFRASTRUCTURAL DEVELOPMENT



RETAIL

The Indian retail industry is divided into organized and unorganized retailing. Unorganized sector constitutes of the local kiranas, hand cart, the vendors on the pavement, etc. The organized sector, on the other hand, is trading undertaken by the licensed retailers who have registered themselves to sales as well as income tax. They constitute of corporate-backed hypermarkets and retail chains. This modern retail has entered India as seen in sprawling shopping centers, multi-storied malls and huge complexes offer shopping, entertainment and food, all under one roof. Currently the market share of organised modern retail is just over 4 percent of the total retail industry, thereby leaving a huge untapped opportunity. The sector is expected to see an investment of over \$30 billion within the next 4-5 years, catapulting modern retail in the country to \$175-200 billion by 2016, according to Technopak estimates.

Formats in Indian Organized Retail Sector

Supermarket, hypermarket, departmental stores, shopping mall, and speciality stores, 'Mom & Pop' stores, e-tailer, Discount stores, Category killers: MBOs (Multiple Business Units).

Major retailers in Indian market

- RPG Retail: Music World, Books & Beyond, Spencer's Hyper, Spencer's Super, Daily & Fresh
- Future Group: Big Bazaar, Food Bazaar, Pantaloons, Central, Fashion Station, Brand Factory, Depot, all, E-Zone
- The Tata Group: Westside, Star India Bazaar, Steel Junction, Landmark, Titan Industries with World of Titans showrooms, Tanishq outlets, Chroma
- K Raheja Corp Group: Shoppers Stop, Crossword, Hyper City, Inorbit Mall
- Lifestyle International: Lifestyle, Home Centre, Max, Fun City and International Franchise brand stores
- Pyramid Retail: Pyramid Megastore, TruMart
- Subhiksha: Subhiksha supermarket pharmacy and telecom discount chain
- Vishal Retail Group: Vishal Mega Mart.

HOSPITALITY

India has been ranked as the 4th most favoured country for holidays, above South Africa and Switzerland. Coupled with this, availability of low cost medical facilities and the introduction of low cost airlines are all expected to generate increased demand for hotel rooms across many cities in India. The hotel and tourism industry's contribution to the Indian economy by way of foreign direct investments inflows were pegged at US\$ 2.1 billion from April 2000 to March 2010, according to the Department of Industrial Policy and Promotion. Combining unparalleled growth prospects and unlimited business potential, the industry is certainly on the foyer towards being a key player in the nation's changing face. The Indian hospitality industry is projected to grow at a rate of 8.8 per cent during

2007-16, placing India as the second-fastest growing tourism market in the world. Initiatives like massive investment in hotel infrastructure and open-sky policies made by the government are all aimed at propelling growth in the hospitality sector.

- Existing hotel rooms in India: 202,963 (source FHRAI)
- Revenue of the Indian hotel industry FY 2009-10 USD 11.85 billion (70% unorganised), USD 5.08 billion (organized)

F&B

Restaurants and traditional food joints has been an age-old concept with the dominance of a large number of unorganized players operating as street vendors, roadside eateries and stand-alone restaurants. However, with growing urbanization and changing lifestyles, the organized players have occupied a firm foothold in this market which is worth INR 580 billion and shows huge potential for growth in future. The increasing trend of eating out coupled with the increasing share of young population has driven the market.

COMMERCIAL

Commercial office market is at very nascent stage at Patna. The current government regime has kept steady pace of development and hence surge for commercial office demand has increased in recent past. Nevertheless, systematic side drivers like government infrastructural and industrial policies have lured investors to get attracted to state. Patna, being the capital, has the advantage of being the zonal office of many industries. The past decade has seen India's service sector perform well, especially as an outsourcing centre for business applications, thereby, resulting in greater demand for IT and ITES work spaces. Normally work spaces in areas away from any city's main Central Business District (CBD), tend to lag behind, in terms of amenities and upgrades. This is a global trend. The concept of green buildings intelligent planning and minimum space wastage norms, which were first adopted by IT Parks have now subsequently spread to other commercial spaces as well. According to various reports by global property consultants, the segment had ended 2009 with a 29 percent decline in space absorption as compared to the previous year. The total absorption of commercial space across major Indian cities stood at 26.3 million sq ft in 2009 as against 37 million sq ft in 2008.

RESIDENTIAL

According to the Eleventh Five Year Plan (2007–2012), the housing shortage in urban areas was estimated to be 24.7 million units in 2007, of which over 88 per cent was in the economically weaker section (EWS). Further, the housing shortage in rural areas was estimated to be at 47.4 million units in 2007. In recent months, the residential real estate segment has witnessed a revival in demand, primarily due to improved affordability. Current space shortage is close to 19.4 million units, largely in the middle and low income groups. While the government has announced lower interest rates for home loans up to US\$ 41,667 (INR 2 million), developers have announced the launch of affordable housing projects, which will mostly come up in the suburbs of large cities and Tier I and Tier II cities. Mortgage finance is expected to increase penetration into the urban housing finance market.

THE PROJECT

The project was completed in three stages

- By understanding the various facets & working of organised retail, hospitality, F & B, commercial & residential sector of the market
- Market survey (retailers, hotel representatives, F&B joints, builders & developers/ agent, consumer, etc.)
- Collating of data and compilation of report

OBJECTIVES OF THE STUDY

- Define the profile of the city
- Understanding the key drivers, the economic base and the potential for Patna Market
- Identify the growth corridors and spines where the city is likely to expand in future and physically review the same
- Collate broad and indicative information on the trends, format and pricing of organized retail market, hotels, F&B, commercial & residential space and development in each sector
- Demand and supply analysis in each vertical
- Acceptance level towards new development in the market
- Collate information regarding the competitors and their strategies on establishing themselves in the market
- Future and further scope of such developments

METHODOLOGY

This part explains how the data was collected and how the whole project was carried out.

A. Type of research design

The research is basically exploratory in nature; mostly the data collected is qualitative, based on the responses of the respondents, hence further studies like analysis and projections which are needed were carried out later by the company itself.

B. Target places & people

- The city was divided into Eastern, Central & Western Patna
- Target places where these research methods were applied to collect the primary data for all the sectors include all the high streets, catchment area within the distance of 4 to 5 kms from the site location of Ambuja, colleges, residential areas, popular hangouts & eating joints.
- Targeted people
 1. Store or shop owners for retail
 2. Hotel managers or representatives for hotels & F&B
 3. Builders/constructors/developers for commercial & residential space.

C. Data collection

- **Secondary data:** Secondary data was related to general information about the state and the city. It is effective and applicable in this case for knowing on-going growth and development in Bihar in recent years, past & current profile of the city like current demographics, cultural, socio-economic surveys, banking, infrastructure and other developments in the city. The data was collected from various websites, research articles, books, etc.
- **Primary data:** It was needed to support secondary data and also access and understand the retailers, hotels & restaurants, developers/constructors and the customers. Tools used for the purpose were:
 - a) **Questionnaires:** 100 questionnaires were administered on people from retail, hospitality & real estate background and random people of varied age group.
 - b) **Personal/ Telephonic interviews:** Various hotel representatives, developers and business people were interviewed and references were collected from them who were then further interviewed.

D. Research instrument

The research instrument used in this particular research is an unstructured format based on physical interviews, mystery calling, mystery e-mailing, telephonic interviews made separately for our three target types of segments:-

- **End consumer:** who will eventually use the product and is the target base of all our promotions and is the end consumer. They can give their personal and individual point of view, which could be very subjective in nature, so we need to separate the 'noise' out of it.
- **Hotels & Restaurants:** all the star hotels & restaurants that will be direct competition to the company were taken into consideration, and the managers & representatives of hotels or restaurants who had a fair view about the hospitality industry and the growth and changes that were seen in the market were interviewed.
- **Retailer/property dealers:** the seller who is directly in touch with the end consumer and has an experience of few years to tell about the changes in the market and also he is dealing with many consumers so the subjective nature of the end consumer is ruled out. His point of view is relatively objective in nature and is true to most of the points. The retailers also include the EBO'S (exclusive business outlet) as well as the MBO's.
- **Developers/builders/property dealers:** he is the person in direct connection with the customer and is in tandem with all the latest happening of the market as he serves typically to commercial & residential and retail demand. His opinion and viewpoints matters a lot to the research.

Average interviewing time: End consumer 6-8 minutes (max 10); Hotel managers: 15 to 20 min; Retailers/developers/builders/ dealers 20-25 min.

The research was based entirely on the views of people and it was the data collected by the questionnaire that provided a clue and a trend in the pattern. Unstructured questions were also asked depending on the time constraints. The sampling methods and tools that were used were Convenience sampling, Snowball sampling, Questionnaire design, Telephonic interview, Personal interview, Observing the market, Mall Intercept, E-Mail (mailing the questionnaire), etc.

FINDINGS & ANALYSIS

Key findings of the project are:

A) City

- The city of Patna is very unique in terms of tastes, preferences, trends and demand driving variables.
- The city has witnessed improvement in law and order and infrastructure since the government changed in 2005.
- The capital and rental values in the main city have seen a tremendous upsurge in the past two years.
- Supply and demand mismatch for the legal allocation of land has mounted pressure on the developers and investors.
- People and activities are under direct influence of the political state of affairs, so all the investments are being held back for the time being as the elections are nearing and the people are waiting for the results.
- There is immense untapped potential in the market.
- The major threats to the city are its poor traffic condition, parking facilities and lack of cleanliness.

B) Retail sector

- The market size of organised retail in Patna is INR 5235 million.
- There is a very high market presence of local brands.
- Traditional retail dominates food, grocery and allied product sectors.
- There has been an influx of many international brands in the market in the past year and most of them are doing well.
- Organised retail penetration is on the rise & offers an attractive proposition for entry of new players as well as scope of expansion for existing ones.
- Apparels & consumer durable verticals are the fastest growing & segments like beauty care, home décor, books, music & gifts are still catching up; there is huge scope for further penetration in these segments.

- West Patna is seen as the most preferred area for expansion purposes by retailers.
- Retail market is full of stand alone shops and supermarkets. Shoppers still prefer to go to high streets and traditional markets.
- Brand awareness is steadily growing among consumers as branded stores are having significant sales and presence in the market.
- Retailers are apprehensive about shifting to a mall, the reasons being
 - 1) Affordability
 - 2) Genuine buyer does not go to a mall
 - 3) Recovery of investment
 - 4) Black money market
- Retailers in Central Patna will not like to expand to any other location, but if they do, it will be only for brand representation.
- The current scene is that people have money but no choices to go for better shopping options, location & experience.

C) Hospitality and F & B sector

- It has been observed that all the hotels are doing extremely well with annual occupancy ranging between 75-85%.
- Slack time: April, August, September and October (Occupancy: 30%-40%).
- Major chunk of revenue (approx 60%, i.e., 1.7 crore per month) to the sector comes from F& B and banquets section and 40% from rooms and others
- Un-accommodated demand: average 10 to 15 days in a month.
- Increase in room rate realizations and occupancy levels (actual room rent realization increased by 20% - 30% in past 3 years) due to supply lag.
- The hotels present do not have all the amenities and facilities according to the international hotel standards.
- The increase in domestic tourist arrival from 13,57,187 in 2005 to 43,06,087 in 2009 has led to an increase in demand for budget and mid-segment hotels in the market.
- Almost 80% of consumers of hotels' business clients are from infrastructure & service sector (banking, telecom, insurance & pharmacy companies).
- Restaurant culture and the concept of dining out have just started to develop in the city.
- There are very few eating joints that offer excellent ambience, décor, good service and variety in cuisines.

- Lack of space in the city due to which many restaurants suffer from poor visibility and poor parking facilities in most places.
- Bars are doing extremely well in the city, earning revenue of more than Rs.60,000-Rs.70,000 per day.
- Many international brands (like Holiday INN, Pind Baluchi) are planning to come up in Patna in the next 2 years.

D) Commercial & Residential Spaces

- Most of the offices are govt. buildings but upcoming of private telecom, BFSI, and pharmaceutical companies have made the demand for separate commercialized buildings.
- Conservative about investing in commercial, but apartment sector is in boom.
- A welcome note by the Govt. of Bihar to industrialists has provided driving force to commercial office demand.
- e-governance of Bihar Govt. by TCS and upcoming of STPI needs the modern architectural facilities of commercial buildings.
- Lack of established institutional market for existing current office schemes.
- Policy risk posed by restriction of project size for FDI.
- Uncertain policy environment.
- Availability and cost of debt for office projects.
- Patna being the centre of trade and commerce and availability of proper education and infrastructure has increased the demand for residential flats.
- Major scope for space development due to supply-demand mismatch.
- Unfavourable economics in terms of current rentals and selling price do not justify land cost.

E) Customer

- Optimistic about organised retail & other infrastructural developments in the city.
- People have money but not many options to spend or invest on.
- Ease of finance, and changing consumer dynamics.
- Population belonging to the upper class goes out of Patna to shop and for other purposes.
- Traditional Mindset.
- Majorly people are price oriented.
- Aware regarding the brands and quality.
- Buying pattern: Mostly festival and marriage season

- People from other states of Bihar come to Patna for shopping, so the target customers are not just residents of Patna but outsiders as well.

SWOT ANALYSIS OF THE PROJECT

STRENGTH:

- Growth and development
- Lot of untapped potential in the market
- One-way traffic plans

WEAKNESS:

- Urban sprawl
- Ill-organised
- Space crunch
- Traffic congestion
- Parking problem
- Poor public transport system and connectivity

OPPORTUNITIES:

- Nascent market
- Scope for growth
- Lot of brands and major players of retail like Reliance, Pantloons, Wal-Mart, etc., want to come into the market
- Few major organised retail outlets.

THREATS:

- People are easily affected by political influence.
- Pressure on land, water and resources.

RECOMMENDATION & CONCLUSION:

Recommendations

- 1) The product, facilities and positioning of the proposed “mix use of land” (i.e, developing mall, hotels & restaurant, commercial & residential space) would enable the company to compete effectively with real estate market in Patna.
- 2) Based on the site analysis, research and feedback from the customers, the development of the “proposed project” is feasible as the company would get the advantage of first mover, as there are no other competitors in the market of their stature.
- 3) As the demand and supply analysis of the market in all the sectors show a huge supply lag, it is recommended to the Company, that if it starts its operations early it is going to perform well and capture the targeted consumer & market.

- 4) With the increase in infrastructural development and growth in other sectors, there is a huge opportunity underlying in the market as this growth will lead to increased business and in turn, increase in customer inflow, leading to increase in the demand which could be satisfied by the proposed project.
- 5) The people of the city are witnessing a rise in purchasing power and spending capacity and have become very brand conscious and value conscious of late (especially in terms of apparels). Hence, it would be beneficial to have major apparel brands in the mall.
- 6) As we can see from the research that the banquet facility and the F& B sectors are the revenue generators for the hotels in the city, company can devise special product and put more focus on this category to penetrate in this segment and thus create a brand in the market.
- 7) The city does not have a single multiplex. They have single screen theatre that too with old facilities like low visibility, audio systems, parking issues, ticketing system, etc. Hence, multiplex screens will be a hit in the city as the city has young people in the age group of 25-40 and single theatres that are house full. City also does not have other sources of entertainment like Water Park, gaming zones, or horror shows, etc.
- 8) As for F & B, market is still not explored well; hence, there are very few higher segments dining destinations. As a result the higher income group has limited choices for eating out. Hence, a classic five star hotel or food joint at a central location could be a profitable proposition.
- 9) New commercial office buildings may be in demand due to upcoming e-governance projects handled by TCS, software giants like Wipro, Britannia, UB group industries, and STPI, food processing, power, etc. in coming future.
- 10) The consumer profile of Patna.
 - a. The family size is mostly 5-6
 - b. They want separate bed room for everybody as they are not compromising with the living standard.
 - c. The age group of the family is mostly 35-40

There is a huge demand for residential flats in Patna, mostly 3BHK.
- 11) As people are prone to political influence, a lot depends on the coming elections in Bihar. The Company will have to keep up with the political aspect of the city as well because this is the reason why many developments are still in pipeline and want to play wait & watch game.

CONCLUSION

The economic boom in the city continues unabated. With the GDP of the current fiscal expected to cross the 11.03% mark, a consumption boom is sweeping the city; corporate earnings are showing an impressive growth momentum, new job opportunities continue

to unfold salaries and disposable incomes continue to rise. This growth is not just limited to Patna but all the major towns and cities of Bihar and with rampant urbanization taking place the real estate sector is riding high. The growth of the service sector has had a direct impact on the real estate sector. Besides this, approximately 10-12 malls will come up in the market in the next 2 yrs. Another segment which is benefitting from the growth of the service sector is the hotel industry. Liberalisation of the Indian economy coupled with the growth in domestic business and a buoyant economic outlook, has led to an enhancement in business travel. Brands that were surveyed have been found doing extremely better than their counterparts in other cities. Thus, it could be said that Patna as an economy is currently going through an unprecedented booming phase, which is the right time for all sort of investments.

BOOK REVIEW

Marketing Management: A South Asian Perspective

Philip Kotler, Kelvin Lane Keller, Abraham Koshy, Mithileswar Jha

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Philip Kotler is the S C Johnson & Son distinguished Professor of International Marketing at the Kellogg School of Management, North Western University. He received his Master's degree at the University of Chicago and his Ph.D. at MIT - both in Economics. Professor Kotler did his Post-Doctoral work in Mathematics at Harvard University and in Behavioral Science at the University of Chicago. Dr Kotler has co-authored several books on Marketing and has published more than one hundred articles in leading journals.

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Marketing Management by Philip Kotler has always been a best seller for students of Marketing as well as for practitioners, because of its rich contents and relevance of the book to the ever-changing global economic scenario, which leaves its impact on marketing activities.

Since 1967, when the first edition of Marketing Management was published up to year 2009, the book has brought significant changes in its approach and presentation through its 13 editions.

A significant change took place in the 12th edition with the inclusion of Kevin Lane Keller, a top marketing academics of his generation, as co-author. He brought with him his rich experience of ground breaking research and has written a successful text on "Strategic Management". During this period, the world witnessed the uprising of economic giants from Asia, in general, and South Asia, in particular, drawing curious attention of the world because of its robustness and huge marketing potential.

During the publication of the 12th edition, 'South Asian Perspective of Marketing Management' was adapted, keeping in view the marketing environment of South Asia with special reference to Indian sub-continent. To enrich the edition and to add South Asian flavour, two Indian co-authors, Abraham Koshy and Mithileswar Jha from IIM Ahmedabad and IIM Bangalore respectively joined Kotler and Keller.

In the 13th edition of the book, all four authors have toiled hard to improve upon the richness of content its and quality of presentation.

While the 12th edition of the book describes Holistic Marketing indicating Socially Responsible Marketing as one of the key dimensions, 13th edition replaced the same with Performance Marketing.

Each chapter in the referred edition includes:

- Chapter introduction with a brief commentary and a short vignette that serves as a great discussion starter;
- Break-through Marketing to highlight innovative, insightful marketing accomplishments by leading organizations;
- Marketing Insight boxes delve into important marketing topics, often highlighting current research findings;
- Marketing Memo boxes offer practical advice and direction in dealing with various decisions at all stages of the marketing management process;
- At the end of each chapter, the discussion has been summarized and the applications include Marketing Debate and Marketing Discussion. The main objective is to involve the students and other readers in the ever-changing challenge of the marketing issues and to seek their viewpoints from such cases.

The book, **Marketing Management: A South Asian Perspective** is divided into eight parts spread over twenty-two chapters:

Chapter 1 begins with defining marketing in the 21st Century, indicating importance and scope of marketing. This is followed by describing core marketing concepts and also the marketing management tasks.

In this chapter, reference to advertisements like 'Nirma', 'Tata Ace', 'Incredible India, and also the advertisement for passive smoking, truly depicts South Asian flavor in marketing type of entities.

Chapter 2 deals with developing marketing strategies and plans by defining marketing and customer value, corporate and division strategic planning, business unit strategic planning, etc.. This chapter also discusses the nature and contents of marketing plan. Efforts have been made to establish a relationship between holistic marketing orientation and customer value which tends to address three key management questions namely:

- *Value Exploration*
- *Value Creation*
- *Value Delivery.*

In Chapter 3, matter relating to gathering of information and scanning the environment has been discussed. External Factor Assessment and identification of major sources of information have been given due importance in this chapter.

Chapter 4 discusses Marketing Research System and Marketing Research Process indicating the steps to be followed. This ultimately helps in measuring marketing productivity, forecasting and demand measurement.

Customer value, satisfaction and loyalty has been discussed at length including measures to maximize customer lifetime value in **Chapter 5**. Necessity for creating a Customer Database, Data Warehouse and Data Mining has found prominent place in this chapter.

Chapter 6 analyses Consumer Behaviour and factors that influences the same in decision-making. Theories and models of consumer decision-making have been aptly handled in this chapter.

Business buying process has been discussed in **Chapter 7**, mentioning the participants and stages in the buying process. This chapter also concentrates on Business– to–Business customer relationship, citing the example of GE in the Breakthrough Marketing box.

Identification of Market segments and targets have been discussed in **Chapter 8**, mentioning levels of market segmentation and bases for segmenting consumer and business markets.

In the market targeting, effective segmentation criteria have been detailed which includes:

- Measurable – Size, purchasing power and characteristics of the segments can be measured;
- Substantial – The segments are large and profitable enough to serve;
- Accessible – The segments can be effectively reached and served;
- Differentiable – The segments are conceptually distinguishable and respond differently to different market mix elements and programs;
- Actionable – Effective programs can be formulated for attracting and serving the segments.

Chapter 9 deals with different facets of competition and how customer and competitor orientations are balanced. Competitive strategies for market leaders, market challengers, market followers and market nichers have also been discussed in this chapter.

In Chapter 10, the meaning of Brand Equity, building, measuring and managing Brand Equity have been discussed in detail. This chapter also suggests methods of devising Branding strategy, which includes choosing brand names from:

- Individual Name;
- Blanket Family Names;
- Separate Family Names for all products;
- Corporate Name combined with individual product name.

Crafting the Brand Positioning has been discussed in **Chapter 11**, narrating in detail about developing and communicating Positioning Strategy, Differentiation Strategy, and Product

Life Cycle Marketing Strategy. To change the course for a brand, market modification, product modification and marketing program modification has been suggested. Marketing Strategy during decline stage has found prominence in this chapter. Market offering is one of the major determinants of successful marketing exercise. Part 5 of the book delves on shaping the market offerings in the following chapters.

Chapter 12 has been dedicated for setting of product strategy, identifying product characteristics and classification, establishing product and brand relationships and also documenting importance of packaging, labeling warranties and guarantees.

Chapter 13 deals with designing and managing of services, which helps in developing Customer Interface Systems.

Pricing Strategies and Program is the subject matter of discussion in **Chapter 14**. This chapter also deals with price adaptation, initiation to price and responding to competitors' price changes.

Marketing Channels, its role, channel design and management have been dealt with in this chapter.

In **Chapter 15**, value network, channel conflict and competition, etc. has been discussed with utmost clarity.

Growth of retail business has been phenomenal during the last decade. **Chapter 16** concentrates on managing retailing, wholesaling and logistics. The latter has always been a crucial issue for proper growth of market. Logistics has been discussed in great detail. In this chapter, four Marketing Memo boxes have been included to provide the readers a loud message about retailing in particular.

Chapter 17, 18 and 19 discusses on designing and managing mass communication, sales promotion, event management and public relations and also managing personal communications for better sales achievement.

The last part of the book deliberates on creating successful long-term growth by introducing new market offerings, tapping into global market and managing a holistic marketing organization in the long run. During the discussion, the concept of Socially Responsible Marketing has been emphasized.

To sum up, **Marketing Management: A South Asian Perspective** by Kotler et.al is a true guide to marketing students and practitioners in the discipline of marketing. In the rural marketing, some intervention on the unorganized rural segment would have helped to understand the dynamics of rural marketing better.

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Knowledge Management : Best Practices in Europe

Kai Mertins

Peter Heisig

Jens Vorbeck

Publisher: Springer-Verlag (2001)

ABOUT THE EDITORS

Kai Mertins has been the Director for Corporate Management at the Fraunhofer Institute for Production Systems and Design Technology (IPK). His special fields of interest are Manufacturing Strategy Development, Modeling and Planning for Production Systems, Shop Floor Control, Simulation and BPR.

Peter Heisig has been the Head of the Competence Centre Knowledge Management at Fraunhofer IPK, researching in the integration of knowledge management into daily business tasks and processes.

Jen Vorbeck was a Senior Researcher at Fraunhofer IPK, Berlin/Germany from 1997 until 2000. His special fields of interest are the issues of Motivation, Corporate Culture and Leadership in the context of Knowledge Management.

Knowledge Management (KM) is an organized leveraging of information and expertise to improve organizational innovation, responsiveness, productivity, and competence. This book is based on the practical observations from a comprehensive cross-industry survey in Europe about KM run by the Competence Centre KM at Fraunhofer IPK, Germany.

This Book has 4 parts spread over 17 chapters. Each part has its individual significance and proceeds from theory (**PART I - DESIGN FIELD**), practical observations (**PART II - SURVEY**), benchmarking practices (**PART III - CASE STUDIES**) to personal experiences with KM (**PART IV - KM IN EUROPE**). Total 121 figures related to the KM models significantly helps in visualizing the best practices in Europe.

Chapter 1 gives an introduction about how the practice of KM came into being and the first comprehensive German benchmarking study, conducted by Competence Center Knowledge Management at Fraunhofer IPK in Berlin, at the level of KM. This chapter briefs the overall approach of the book as well as the IPK's approach of constructing and sending questionnaires to 1000 top German companies, 200 top European companies, directly contacting the CEOs for survey.

Part I - DESIGN FIELDS covers chapter 1 to 5 and expresses about the basics, like KM in business, KM and HRM, Intellectual capital and KM tools. Editors' rich industry experience and literature survey reflect the integrated approach to knowledge management.

Chapter 2 describes the link between business process design and knowledge management. The pictorial representation of where the companies start KM and where they locate their core competence provide easy understanding at a glance. The chapter ends up with discussion on KM Building Blocks which has core emphasis on tacit part of knowledge.

Chapter 3 catches attention on the significance of human resource management in Knowledge Management. The main objectives of HRM are specified as building Competencies and Motivation; and the role of Knowledge Workers such as employees, middle level engineers and entrepreneurs, top management and back office persons, have been discussed.

Chapter 4 is committed to Intellectual Capital and talks about 13000 firms' survey and their results that Intellectual Capital is their critical factor for future survival. The emergence of Intellectual Capital with the publication of Skandia's 1994 report on Intellectual Capital and the relevance of Intellectual Capital in the Knowledge Economy is discussed. Thereafter, the concept of Balanced Score Card with pictorial representation and the methods of measuring intellectual capital are incorporated. **Chapter 5** begins with categorizing pictorially the knowledge management tools under three heads namely Verbal, Paper and Electronic tools. Afterwards, IT as a KM Tool and the Main technologies are briefly described. Later, it discusses five categories of KM tools for Finding, Creating, Packaging and Assembling, Applying and Reusing & Revalidating to help organizations to review their position on tool sufficiency.

PART II - SURVEY is dedicated to German top 1000 and European top 200 companies' survey results. **Chapter 6** presents general KM understanding along with the definition of Knowledge Management as per various companies through addressing questions like where knowledge management is important in business processes and where companies have started Knowledge Management in their business processes. Since how long and what percentage of companies have been performing Knowledge Management activities? What is the contemporary status of Knowledge Management? How Knowledge Management has helped in promotion of company goals? What measures have been adopted to motivate staff for efficient Knowledge Management? What aspects of corporate culture facilitate efficient Knowledge Management? How IT is important for Knowledge Management?

The 10 Best Practice Companies from the survey results are incorporated in **PART III - CASE STUDIES** which covers chapter 7 to 16. **Chapter 7** begins with a brief history of the *Arthur D. Little (ADL) Inc.*, then talks about distributed teams and one platform for KM. The KM best practice at ADL, the ADL (intranet) link's home page and case debriefing for systematic treatment of project experiences along with KM process and various important roles such as Knowledge Coordinator, Knowledge Advocate and Knowledge Stewards are elaborated. Success stories of the firm are shared in the end. **Chapter 8** revolves around the Cultural Change Program in *British Aerospace*, with a goal of becoming the benchmark of industry. Then, the editors have paid attention to the Virtual University, as an umbrella for learning, R&D and synergy across the company. The chapter incorporates detailed view of Best Practice Virtual Centers for Excellence, but the pictorial representation of the same is not so clear. **Chapter 9** outlines thorough study of *Booz Allen & Hamilton (BA & H)* and the position of Chief Knowledge Officer (CKO); afterwards the practice of barrier identification to implement better knowledge sharing and management is given. Proceeding with KM approach and Design Field of KM at BA & H, the corporate culture, Knowledge

On-line intranet solution and experience of the same has been discussed. The systematic approach of going from the definitions to Design Field, Barriers and so on have been impressive.

Chapter 10 elaborates about *Celemi*, a medium sized firm for change management with open corporate culture. The success stories of Intangible Asset Monitor installation, as well as the calculation of Intangible Assets in the firm are key features with practical implication for new firms to visualize the worth of intangible assets along with tangibles.

Chapter 11 focuses Customer Orientation at *Hewlett Packard (HP) Austria* being a pure marketing company, and the traditional corporate cultural of measuring customer satisfaction at HP. The barriers to knowledge sharing and the understanding of market and customers are accounted, and in the end a brief description of other approaches to KM at HP with four activities of Creating, Storing, Spreading and Applying are given. **Chapter 12** gives historical analysis, that how *IBM Global Services* started its KM Practices and then named the same as Intellectual Capital Management in integration with the Customer Relationship Management. A pyramid view of IBM's Approach to Intellectual Capital Management with debate on the aspects like Share Net, Knowledge Café's, Methodology databases, Communications and lastly the achievements of Intellectual Capital Management to IBM are prominent contents here.

Chapter 13 highlights *Phonak's* interdisciplinary approach towards dealing with hearing problems. The chapter carries definite implications for knowledge practitioners as well as for new entrants through the discussion of learning corporate culture and knowledge quadrant of Phonak. The chapter also remarks the central cultural strategy as a significant benchmark for low cost focused firms to obtain huge benefits with almost 0 (Zero) investment in KM. **Chapter 14** talks about *Roche Diagnostics'* integrated manufacturing concept of synchronized three factors Technology, Organization and Human Resources, in order to meet the increasing demand. The implementation of KM at laboratory system is described with an unclear figure and issues like Cultural Change and Trust Building are addressed. The Chapter closes with detailed description of best practice-process rally, KM tools and finally, the good experiences of Roche with KM at production level.

Chapter 15 discusses about Skandia Lebensversicherungen AG, the German subsidiary of Skandia, an international financial service and insurance group. The measurement of knowledge at Skandia with Navigator I, II & III; the international flow of experience and knowledge at Skandia symbolizing knowledge sharing at global level, and a section about Skandia's future Centre are major insides here. The rich content and learning at *Thomas Miller & Co. Ltd (TM & C)* is remarkably outlined in **Chapter 16**. It begins with a section on conversion of traditional library into Business Intelligence Centre at TM & C, thereafter the discussion on Miller Online Encyclopedia, the Miller Forum and the achievements of Thomas Miller & Co. Ltd to reflect Knowledge Management efforts for such a long term survival, are presented.

PART IV - KM IN EUROPE deals with leading KM projects in European Countries. **Chapter 17** portrays the words of representatives of different Institutes and Universities

about their respective KM approaches. In the end of each section, the name and contact details of concerned person are given, reflecting the culture of transparency and openness in Europe. Within this chapter, total 8 sections carry the brief account of KM of 8 different Institutes.

In the end, the Lists of figures with page numbers and recommended literature including journals, newsletters, special issues, reprints, studies on KM, further readings, studies on KM tool and other references, is given. The overall approach of the book is practical, and therefore it can be recommended for Practitioners, Specialists and Managers to implement or improve KM.

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