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## **EARNINGS FUNCTION: AN EMPERICAL ANALYSIS OF EDUCATION AND EARNINGS IN HIMACHAL PRADESH**

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### **ABSTRACT**

*This paper is an attempt to apply the familiar human capital theory to the data of Mandi district of Himachal Pradesh in order to examine the influence of two important variables of human capital viz education and experience on the individual earnings. The earnings function is estimated with the help of the methodology as suggested by Mincer (1974). This study has also computed the approximate earnings premium associated with the different levels of education. The empirical evidences clearly shows that the earnings functions have been well represented by the functional relationship in which education (as measured by number of years of schooling), experience and experience squared were the elements. The results of this paper suggest that, a complete model with both the human capital variables and family background variables have explained a substantial portion of the variance in earnings with the available data. There are evidences to show that a higher premium to schooling is associated with higher level of education followed by secondary and elementary levels. In this backdrop, the findings in this paper suggests that the government need to initiate special efforts to increase educational investment planning in Himachal Pradesh in order to increase the educational level and earnings of people.*

**KEYWORDS:** *Earnings function, Education, Experience and family background.*

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### **INTRODUCTION**

Education in developed countries is considered to be a consumption item with a view to have an easier way of life but in developing countries like India it becomes an investment for achieving self sustained economic growth. To achieve this objective, combination of man and material factors is tried out. It is acknowledged that human capital generates higher returns than other kind of investments and such returns tend to be more evenly spread when compared with other form of investment (Tilak, 1986). In spite of the fact that almost all the studies conducted under

the rubric of Human Capital theory on education in both developed and developing countries, have established a positive correlation between two variables viz., education and earnings, so far as the impact of family background on earnings is concerned, not much progress has been made over the last one decade. The present study is an attempt to understand with the help of empirical analysis the impact of education and family background on earnings. This study distinguishes itself from the other studies conducted in developing countries, because in it actual labour market experience is used rather Mincerian type and some supplementary information on family background is also used. This paper has also calculated the approximate earnings premium associated with successive levels of education.

There are some important studies available on this research problem in India. Dasgupta and Tilak (1983), Datta (1985), Tilak (1986), Debi (1988), Srinivasan (1993), Duraisamy and Duraisamy (1995), Shrivastava and Shrivastava (1999), Kaur (2006) Debi (2007) Duraisamy and Raj (2008), Debi and Das (2010) have analysed the impact of education on earnings with the help of strict human capital earnings function and explored earnings function in the labour market framework. With some differences broad conclusions of these studies were: (1) education is one of the most important determinants of earnings, along with experience and training it has accounted for a large variation in earnings irrespective of sex, caste, sector of work etc.; (2) Family background variables, which supported to represented ability and quality of education, generally did not affect earnings so much even though coefficient value of some family background variables particularly father's education has found to be significant; (3) Rate of return were highest in higher education followed by secondary and elementary levels of education; (4) The same increasing returns apply across countries, the more developed the country, higher the returns to human capital at all levels. The high return to education in low income countries may be attributed to the relative scarcity of skilled human capital.

The paper is organized into five sections. The first section deals with the introduction while the research questions are raised in the second section. The analytical framework is discussed in the third section. The fourth section presents the empirical analysis and results. The last section provides the concluding observations and suggestions.

## **RESEARCH QUESTIONS**

The following specific questions are examined in this paper:

1. Are earnings enhanced by the level of education in urban area of Mandi district.
2. Can education be considered as an instrument to reduce inequality.

## **ANALYTICAL FRAMEWORK**

### **DATA AND SAMPLING**

The present study is based on a primary survey conducted in the city of Mandi in Himachal Pradesh, India. Mandi district is one of the educationally developed districts of Himachal Pradesh (Kaur, 2008). This district falls in mid-hill zone of the state and therefore the topography, climate conditions, access to resources as well as the cropping pattern, income and consumption pattern in this district bears similarities in some areas to that low hill zone, while in other areas to high hill zone of the state. The design of sample came out of the latest available electoral roll of Mandi town. The literacy rate of the town is quite impressive as per the census of 2011 (95.02 per cent). It is also the center of trade and commerce of the whole district. There

were 9,947 households in Mandi town. The electoral divided the town in to 13 different wards. After arranging all the wards of town in ascending order on the basis of population, two wards have been selected at random which presents about 10 per cent of total households of the town. Stratified random sampling technique, strata being the level of education has been used in selecting the individual households from different wards. Basic information of educational attainment, earnings, experience, age, occupation and on the family background characteristics have been collected form 130 households which form 1.31 per cent of the total number of households in the city. Since present study is restricted only to the salaried employees and not on self- employed individuals, the households which fall in the latter category has been rejected and replaced by other in the sample list. The schedules have been administered by personal interviews with the head of household or if unavailable, with the senior most member of the households.

### THE MODEL

The present study used the earnings function of the Mincerian (Mincer, 1974) type to examine the contribution of human capital to earnings. The underlying methodological framework of the study is based on multiple regression technique. The semi log model used in the study is as follows.

$$\ln Y = \alpha + \beta_1 S + \beta_2 EX + \beta_3 EX^2 + \beta_4 S \cdot EX + u$$

Where,

$\ln Y$  = Log of annual earnings.

$\alpha$  = Intercept term.

$\beta$  = Respective regression coefficient, which estimates average effect of a unit change in schooling.

$S$  = Years of schooling completed ignoring failures.

$EX$  = Experience in years.

$EX^2$  = Experience square.

$u$  = Random variable.

The rationale behind squaring experience and including it as a separate variable in the earnings function is to meet the mostly observed parabolic effect of declining age-earning profile after a given age. Actual years of labour market experience, rather than Mincerian (1974) way of calculating experience (Age- schooling- 6years) has been taken in present study. The inclusion of an interaction term ( $S \cdot EX$ ) between schooling and experience helps us to ascertain whether complementarities between schooling and experience exists or not. Some of the proponents of human capital theory argue that the schooling and earnings relationship as in the earlier model is incomplete. According to them in addition to schooling and experience family background is likely to be as important. In present study family background variable measured by father's education and occupation has been included in the expanded model. The extended model takes the following form;

$$\ln Y = \alpha + \beta_1 S + \beta_2 EX + \beta_3 EX^2 + \beta_4 S \cdot EX + \beta_5 FAED + \beta_6 FAOC + u$$

Where,

FAED = Father's education measured in years.

FAOC = Father's occupation measured by dummy variable.

## EMPIRICAL ANALYSIS AND RESULTS

### CHARACTERISTICS OF SAMPLED HOUSEHOLDS

Some of the main characteristics of the urban sample are presented in Table 1. The annual average earnings of a person in Mandi have been found Rs. 1,75,800 in the reference year. The average annual earnings obtained during the reference year have been computed by dividing total earnings of all individuals by number of persons engaged in employment. The earnings differential across gender is quite high. The average earnings of male worker is Rs. 1,78,983. It is Rs. 34,483 higher than that of a female worker. Trend in returns on education between genders is similar to the study of Debi and Das (2010). So far as the variations in earnings are concerned it is higher with in women compared to men. The demographic composition of the sample households indicate that 40 per cent of the population belongs to Scheduled Caste (SC) and Other Backward Categories (OBC) with the dominant group being SC population. The average years of schooling are 10.33 years for women, 11.52 for men and 11.14 as a whole for both men and women.

**TABLE 1 CHARACTERISTICS OF THE SAMPLED HOUSEHOLDS**

Sample	Number	Annual Earnings			Years of Schooling		
		Mean	Standard Deviation	Coefficient of Variation	Mean	Standard Deviation	Coefficient of Variation
Total	130	1,75,800	1,11,795.5	0.64	11.41	4.50	0.39
Men	118	1,78,983	1,00,553.3	0.56	11.52	4.25	0.39
Women	12	1,44,500	1,94,211	1.34	10.33	4.38	0.42

Source: Calculated

### AVERAGE ANNUAL AGE - EDUCATION – EARNINGS PROFILE

The age specific earnings profile by education levels of the sampled population is presented in Table 2 and graphically depicted in Figure 1.1. The well behaved age – education – earnings profile is expected to have following characteristics (Tilak, 1987; Unni, 1996 and Debi and Das, 2010): (a) earnings are positively correlated with education, (b) a profile tends to rise with age to a peak and then tends to fall, (c) profile for higher educated individuals are steeper than for less educated; and (d) the higher the level of education, the later the age at which earnings reach their peak. As seen from the table, the age – education – earnings profile based on sample largely correspond to the 'well behaved' profile that the average lifetime earnings systematically increase with an increase in the education levels of worker. Further the differentials grow larger and larger as one move up the education ladder and also with every advance in age. The general shape of the basic earnings profile with respect to age and education coincides with, what would be expected from the human capital theory's prediction: a positive but declining rate of growth of earnings.

**TABLE 2 AVERAGE ANNUAL AGE-EDUCATION-EARNINGS PROFILE (Rs)**

Age Group	Elementary	Secondary	Higher
21-25	-	-	48,000
26-30	36,000	84,000	1,80,000
31-35	48,000	-	2,49,600
36-40	76,000	1,30,000	2,52,000
41-45	89,123	1,38,000	2,92,000
46-50	99,429	1,63,200	3,00,000
51-55	1,02,667	1,97,143	3,34,800
56-60	1,21,500	2,70,000	3,54,000
All age group	81,821	1,63,724	2,51,350

Source: Calculated

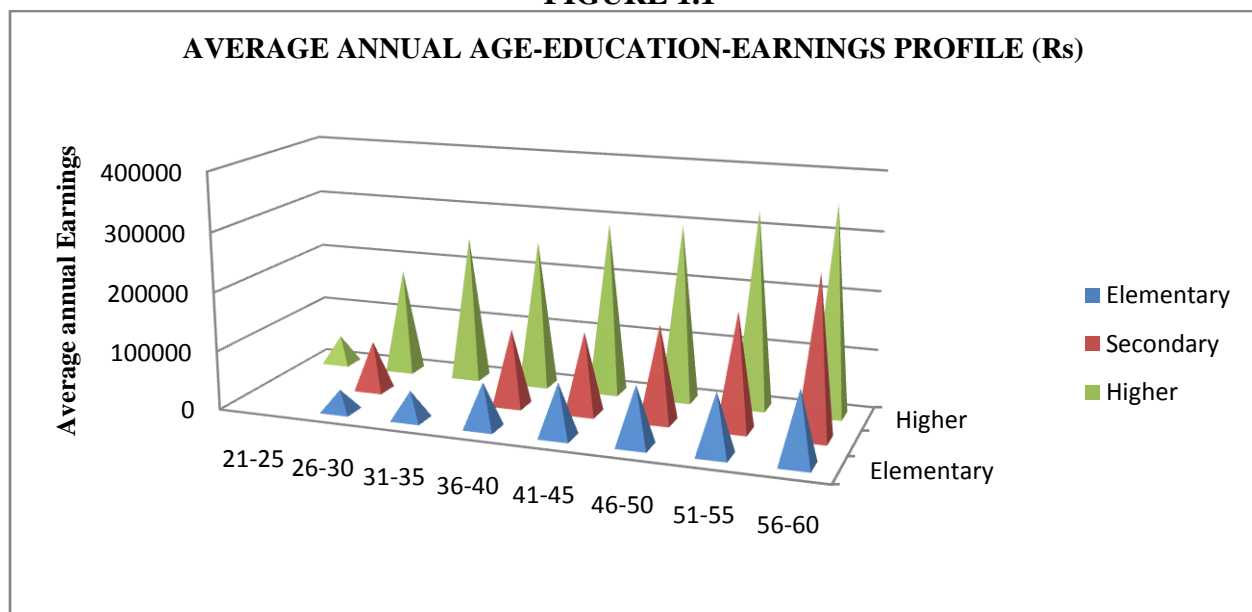
**FIGURE 1.1**

Table 3 presents the means and standard deviations of the variables used in human capital earnings model. It is to be noted that mean earnings rise monotonically for every increase in the education level. Table 4 depicts the inter correlation matrix for all the variables introduced in the human capital earnings model.

**TABLE 3 VARIABLES USED IN THE HUMAN CAPITAL EARNING SFUNCTION**

Variables	Symbol	Mean	Standard Deviation	Coefficient of Variation
Annual Earnings	Y	1,75,800	1,11,795.5	0.64
Log of Annual Earnings	InY	5.16	0.29	0.06
Years of Schooling	S	11.42	4.50	0.39
Years of Experience	EX	13.98	7.76	0.56
Father's Education (Years)	FAED	5.22	3.34	0.83
Father's Occupation (Dummy)	FAOC	0.58	0.50	0.86

Source: Calculated.

**TABLE 4 CORRELATION MATRIX OF THE VARIABLES USED IN THE HUMAN CAPITAL EARNINGS MODEL**

Variables	InY	S	EX	(EX) <sup>2</sup>	S.EX	FAED	FAOC
InY	1.0000	0.6733	0.1456	0.1139	0.5911	0.4832	0.2431
S		1.0000	-0.3028	-0.2692	0.3682	0.7336	0.3558
EX			1.0000	0.9711	0.6918	-0.3374	-0.0984
(EX) <sup>2</sup>				1.0000	0.6507	-0.3056	-0.0812
S.EX					1.0000	0.1263	0.1461
FAED						1.0000	0.5104
FAOC							1.0000

Source: Calculated.

Table 5 presents the results of the alternative specifications of the estimated regression equations fitted in all the observations in the sample. Consider first the regression equation (I) where schooling is the only independent variable, experience being controlled. Schooling yields about four per cent private rate of return and the earnings function which rely on formal education alone explain 45 per cent the variation in earnings. However, when schooling and experience are taken together in equation (II) the explanatory power of the model increases markedly to about 58 per cent and both the coefficients are significant. Inclusion of the quadratic form of experience in equation (III) marginally increases the power of the model to 62 per cent. The table also depicts the parabolic age earnings profile of an individual. The coefficient of schooling and experience are found to be highly significant but the coefficient value of experience squared is found negative but insignificant. Equation (IV) raises the average private rate of return to 5 per cent but the explanatory power of the model remains the same at 62 per cent. When the interaction term S.EX is included into the model coefficient value associated with experience squared and interaction term is found to be negative but insignificant.

This discussion is based on the assumption that individuals are of equal ability and face equal opportunities to invest in education. Labour market is assured to be perfect competitive and employment demand for workers are similar and is bases only upon productivity characteristics developed through schooling. Under such condition education determines skill and ultimately labour's marginal productivity in labour market, where he is paid according to his contribution to increase in output. Low income of an individual is attributed to his low productivity. Education is viewed as a means of raising productivity and earnings. However it has been found that the relationship between educational attainment and individual earning is not at all that straight forward. A variety of factors render this relationship more complex. An individual's economic success in the labour market depends on the quality and quantity of labour services he supplies, which in turn are determined by a number of factors such as family background characteristics, innate ability, inherited traits, attitude, values and motivations. Only a portion of individual's productivity and earnings can thus attributed to education.

**TABLE 5 ESTIMATED EARNINGS FUNCTION: LOG OF ANNUAL EARNINGS (lnY) AS THE DEPENDENT VARIABLE (N=130)**

$$\ln Y = \alpha + \beta_1 S + \beta_2 EX + \beta_3 EX^2 + \beta_4 S.EX + \beta_5 FAED + \beta_6 FAOC + u$$

Equ . No.	Constant	Coefficient Values of the Independent Variables						R <sup>2</sup>	F-Value
		S	EX	(EX) <sup>2</sup>	S.EX	FAOC	FAED		
1.	4.6699	0.0428* (10.303)						0.4533	106.15
2.	4.3871	0.0502* (13.214)	0.0141* (6.437)					0.5878	90.56
3.	4.1860	0.0516* (14.152)	0.0443* (5.193)	-0.0009* (-3.644)				0.6271	70.63
4.	4.2021	0.0506* (6.945)	0.0428* (3.552)	-0.0009* (-3.268)	0.00007 (0.166)			0.6272	52.57
5.	4.2014	0.0505* (6.823)	0.0429* (3.538)	-0.0009* (-3.256)	0.00007 (0.163)	0.0027 (0.082)		0.6272	41.729
6.	4.2330	0.0452* (5.188)	0.0417* (3.435)	-0.0008* (-3.192)	0.0001 (0.375)	-0.0145 (-0.391)	0.0067* (1.133)	0.6310	35.0683

Note: Figures in the parentheses are t-statistics.

Asterisks (\*) signify statistical significance at 1 per cent level.

Asterisks (\*\*) signify statistical significance at 5 per cent level.

Following along these lines the human capital earnings function has been expanded by including family background variables. It has been attempted to quantify the effects of an individual's family background as measured by father's education and occupation status on his earnings in the presence of individual's own characteristics by employing the regression technique, where father's education has been measured by years of schooling completed and father's occupation measured by dummy variables. Findings on the explanatory power of our model which includes only father's occupation as a proxy of family background are presented in Equation (V). It is found that inclusion of father's occupation does not affect the explanatory power of the model as it remained the same at 62 per cent. When both the variables of family background are included in the model the explanatory power of the model increases to 63.1 per cent. But the coefficient attached to schooling has been reduced from 5.05 to 4.52. Father's education is found to be positive but not statistically significant. The coefficient value attached to father's occupation is found to be negative but not statistically significant.



Addition of family background variable in the model could not improve  $R^2$  by any significant magnitude statistically as well numerically. A direct policy implication from this finding is that education does not act as an escape route from the lower rungs of the society. The individuals from the poor socio-economic origins, who are able to acquire education do as well in the labour market as with the same educational attainment though from well off families. A considerably high explanatory power of schooling and experience indicates that policy makers can reduce the inequality in earnings by expanding education and reducing the dispersion of schooling in the society.

### EARNINGS STREAM ACROSS SCHOOLING GROUPS

In order to know the relative contribution of the three levels of education a single multiple regression equation has been estimated in which the three levels of education viz. elementary, secondary and higher have been incorporated along with experience and quadratic form of experience. The levels of education, used in the equation are in terms of dummy variable. Table 6 presents the regression results across schooling groups. There seems to exist only one optimal level of schooling that is higher education that maximized terminal earnings and lifetime earnings, each of which raise monotonically with educational attainment. It is clear from the table that experience, experience squared and higher education have their coefficient values with positive signs so these variables contribute positively to earnings stream. But elementary and secondary education variables have negative signs which depicts a negative impact on earnings although it is insignificant at one per cent level of significance. With the increase in the level of education the contribution of education also increases and the contribution of higher education is found to be relatively more than other two levels of education.

**TABLE 6 REGRESSION RESULT OF EARNINGS FUNCTION**

$$\ln Y = \alpha + \beta_1 D_1 + \beta_2 D_2 + \beta_3 EX + \beta_4 EX^2$$

Independent Variables	Regression Coefficient	Standard Error	T – Value
Experience	0.042	0.009	4.779
Experience Squared	0.001	0.001	-3.487
Elementary Education	-0.165	0.041	-2.322
Secondary Education	-0.107	0.040	-1.383
Higher Education	5.084*	0.062	82.137
$R^2$		0.602	
F		47.22	

Note: Asterisks (\*) signify statistical significance at 1 per cent level.

### CONCLUSION

In this paper, an attempt has been made to analyze the earnings first within a strict human capital framework and then by including some of the family background characteristics in the model with the help of cross-section data. A complete model with both the human capital variables viz. formal education and actual labour market experience with experience's quadratic form and interaction term, has explained a substantial portion (62 per cent) of the variance in earnings with the available data. This is comparatively high by the standard of both developed and less developed countries, and thus has implications for higher educational investment planning in Himachal Pradesh. The rapid growth of industry requires an educated and flexible labour force.

Various studies have shown that an educated and skilled labour force contributed significantly to the rapid industrialization of the South East Asian Region. If the state wishes to achieve rapid growth which encompassed the large mass of the peoples, universal education is a basic requirement.

Inclusion of family background variables like father's education and occupation improved the explanatory power of the model only by one per cent. And finally the contribution of human capital to earnings increases with the increase in the level of education. From the policy implications point of view it is quite difficult to generalize these empirical findings as the sample comes from a district of a state. But then every study has its limitations. Our analysis has been restricted to family background, individual's education and labour market experience.

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## KUZNETS CURVE: THE CASE OF THE INDIAN ECONOMY

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### ABSTRACT

*This paper examines the functional relationships between income inequality, economic factors, institutions, and Kuznets' inverted-U hypothesis. A model that incorporates interactive as well as direct effects of several factors to capture their combined effect on inequality is developed. The model is estimated using the Gini coefficient using a cross-sectional data set for 25 Indian states in the years 1983, 1993 and 2000. The results do not support Kuznets' hypothesis; however, the relationship between growth and inequality is conditioned by a host of economic and institutional factors.*

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### INTRODUCTION

The relationship between income inequality and growth was first given by Simon Kuznets and is known as the Kuznets curve. It shows that there is an inverted U-shaped relationship between growth and income inequality i.e. the inequality first increases in the early stages of development, reaches a certain maximum and then declines as the country reaches a high level of development. As a poor economy develops there is a shift of labour force from agricultural to higher paying non-agricultural sector of the economy. This leads to an initial increase in the inequality between the sectors and as a whole. This happens to the point where factor movement equalizes returns across the factors. The above hypothesis derives a great deal of interest due to the concern that development hurts the poor.

Empirical tests of the Kuznets hypothesis have shown the effect to be true for some cases and not true for some. Early tests of the hypothesis for England, Germany and the United States seemed to support Kuznets' hypothesis, but in a large number of later studies, a wide variety of results emerged with some challenging the hypothesis and others supporting it. Most of these studies used cross-sectional data while a few used time-series data. These earlier studies often suffered from serious problems with the quality and availability of the underlying data.

### BACKGROUND

Estimates of the distribution of income or consumption provided by a World Bank project (Deininger and Squire, 1996) seemed to provide some general support for Kuznets' hypothesis when cross-section data were examined. For instance, Jha (1996) reports that despite problems

with data comparability, the Kuznets hypothesis holds. Huang et al. (2007) also verify the Kuznets prediction for countries with mild income inequality but do not find such support for countries where inequality is either too high or too low. Quite a few empirical studies refute the Kuznets hypothesis, however. For example, Fields (1991) finds that there is no tendency for income inequality in poor countries to increase (rather than decrease) and no tendency for income inequality in rich countries to decrease (rather than increase). Similarly, Ravallion and Chen (1997) in their study of 67 developing and transitional economies covering the 1981-94 period find that income distribution improved with economic growth as often as it worsened. And as the first users of the new dataset, Deininger and Squire (1998) found no support for the Kuznets hypothesis in the cross-country data on income and asset distribution. Lundberg and Squire (2003) claim that growth and inequality move together, determined by a simultaneous process.

## METHODOLOGY AND DATA

There is a long run relation between inequality and growth and is influenced by many factors including income. The effect of income on inequality can be dampened by other factors such as education, financial development, social and political freedom etc.

This paper tests the effect of income and some other factors on inequality of the states in India. We use the following model to estimate the inequality in states at a particular time.

$$Gin_{it} = F(INC_{it}, INC_{it}^2, EDU_{it}, POP_{it}, DUM)$$

The subscript i refers to state and t refers to the time period.

Gin= Gini Coefficient of the state

INC= Per Capita Income of the state

INC<sup>2</sup>= Square of Per Capita Income of the state

EDU= Level of Education in the state

POP= Population density of the state

DUM=Dummy variable for the years

This paper uses the following regression equation for state i at period t :

$$Gin_{it} = b_1 + b_2INC_{it} + INC_{it}^2(b_3 + b_4EDU_{it} + b_5POP_{it}) + b_6DUM_{83} + b_7DUM_{93} + b_8EDU_{it} + b_9POP_{it} + e_{it}$$

The above equation includes interactive as well as direct effect of several factors to capture their combined effect on inequality.

The paper estimates the model using the Gini Coefficient. In addition to rural and urban gini coefficient we use a combined gini coefficient. To combine the rural and urban gini to form a single index we use the geometric mean. The use of arithmetic mean is avoided to give appropriate weights to both the coefficients. The state-wise per capita income is used as Income. EDU is the state-wise literacy rate in India. Due to lack of data the states of Arunachal Pradesh, Meghalaya, Nagaland, Sikkim, Tripura, Chandigarh, Dadra & Nagar Haveli and Lakshwadeep have been dropped from the analysis.

## ESTIMATION AND RESULTS

If we run the regression with Rural gini coefficient as the dependent variable and the above independent variables we get the following results

$$\text{RURGIN} = .1934431 + 3.84e^{-06}\text{INC}_{it} - 3.47e^{-11}\text{INC}_{it}^2 - 2.56e^{-08}[\text{INC}_{it}^2 * \text{EDU}_{it}]$$

$$(4.49) \quad (0.78) \quad (-0.19) \quad (-0.03)$$

$$-1.17e^{-14}[\text{INC}_{it}^2 * \text{POP}_{it}] + .0879655 \text{DUM}_1 + .0295793 \text{DUM}_2 - .0000176 \text{EDU}_{it}$$

$$(-0.48) \quad (4.03)* \quad (2.64)* \quad (-0.03)$$

$$+ 1.81e^{-06}\text{POP}_{it}$$

it

$$(0.03)$$

$$R^2 = 0.3737 \quad \text{No. of Observations} = 73$$

t-statistics are written in parenthesis

The above results show that the coefficients of all independent variables except the dummy variables are insignificant and thus have not affected rural inequality significantly. The significant coefficients of the dummy variables show that rural inequality has fallen over time from 1983 to 2000.

If we run the regression with Urban gini coefficient as the dependent variable and the above independent variables we get the following results:

$$\text{URBGIN} = .1954142 + 3.51e^{-06}\text{INC}_{it} - 1.44e^{-10}\text{INC}_{it}^2 - 1.59e^{-06}[\text{INC}_{it}^2 * \text{EDU}_{it}]$$

$$(3.34) \quad (0.53) \quad (-0.57) \quad (-1.37)$$

$$-1.09e^{-14}[\text{INC}_{it}^2 * \text{POP}_{it}] + .0389706 \text{DUM}_1 + .0172478 \text{DUM}_2 - .0009961 \text{EDU}_{it}$$

$$(0.33) \quad (1.32)* \quad (1.13)* \quad (1.24)$$

$$+ .00013 \text{POP}_{it}$$

$$(1.63)$$

$$R^2 = 0.1926 \quad \text{No. of Observations} = 73$$

t-statistics are written in parenthesis

The above results show that the coefficients of all independent variables except the dummy variables are insignificant and thus have not affected urban inequality significantly. The significant coefficients of the dummy variables show that urban inequality has fallen over time from 1983 to 2000.

If we run the regression with Combined gini coefficient as the dependent variable and the above independent variables we get the following results :

$$\text{CMBGIN} = .1905684 + 3.70e^{-06}\text{INC}_{it} - 8.48e^{-11}\text{INC}_{it}^2 - 8.74e^{-07}[\text{INC}_{it}^2 * \text{EDU}_{it}]$$

$$(4.23) \quad (0.72) \quad (-0.44) \quad (-0.97)$$

$$-7.32e^{-16}[\text{INC}_{it}^2 * \text{POP}_{it}] + .0654369 \text{DUM}_1 + .0239259 \text{DUM}_2 - .0005074 \text{EDU}_{it}$$

(0.03)                      (2.87)\*                      (2.04)\*                      (0.82)

$$+.0000691 \text{POP}_{it}$$

$$(1.12)$$

$$R^2 = 0.2351 \quad \text{No. of Observations} = 73$$

t-statistics are written in parenthesis

The above results show that the coefficients of all independent variables except the dummy variables are insignificant and thus have not affected overall inequality significantly. The significant coefficients of the dummy variables show that overall inequality has fallen over time from 1983 to 2000.

The above three regressions give similar results and the coefficients of the income term is positive whereas the coefficient of square of income term is negative giving evidence for inverted-U shaped Kuznets hypothesis but as these coefficients are insignificant in all the above cases we can conclude that the inverted-U shaped hypothesis does not hold true for the above empirics.

Now we look at the effect of dropping the square of income terms for all the regression and how it alters the result:

$$\text{RURGIN} = .1917241 + 2.28e^{-06} \text{INC}_{it} + .0001884 \text{EDU}_{it} - 6.14e^{-06} \text{POP}_{it}$$

(7.13)                      (1.60)                      (0.43)                      (-1.84)\*

$$+.0869433 \text{DUM}_1 + .0324231 \text{DUM}_2$$

$$(5.40)*                      (3.05)*$$

$$R^2 = 0.3621 \quad \text{No. of Observations} = 73$$

t-statistics are written in parenthesis

The above results show that the coefficient of population density and the dummy variables are significant. The negative sign of the coefficient of the population density implies that as the population density in rural area rises, it leads to an increase in inequality. A possible explanation could be that the increase in population density in the rural areas is due to an increase in the dependent population and thus has not reached a stage where its demographic dividend for most people can be realized, leading to increase in inequality. The significant coefficient of the dummy variable shows that rural inequality has fallen over time from 1983 to 2000.

$$\text{URBGIN} = .2425145 - 1.18e^{-06} \text{INC}_{it} + .000778 \text{EDU}_{it} + 9.60e^{-06} \text{POP}_{it}$$

(6.49)                      (-0.60)                      (1.29)                      (2.07)\*

$$+.0279526 \text{DUM}_1 + .019821 \text{DUM}_2$$

$$(1.25)(1.34)$$

$$R^2 = 0.3621$$

No. of Observations= 73

t-statistics are written in parenthesis

In the above regression only the coefficient of population density is significant and is of positive sign. The difference between the urban and rural cases could be because the urban area is at a higher stage of demographic dividend and thus an increase in population density means that the earning population increases (due to migration etc.) and thus leading to a fall in inequality. As the levels of health, education, social participation and economic as well as social awareness are still lower in the rural areas of the country as compared to the urban areas the population in the rural areas is not able to exploit the resources available to them efficiently and thus the difference between the developed and underdeveloped increases leading to an increase in inequality. For Urban areas the difference between underdeveloped and developed is lower due to the global facilities available to all and thus leading to a fall in inequality.

$$\text{CMBGIN} = .2147254 + 7.01e^{-07}\text{INC}_{it} + .0004698\text{EDU}_{it} + 4.86e^{-06}\text{POP}_{it}$$

$$(7.52) \quad (0.46) \quad (1.01) \quad (0.14)$$

$$.0595875\text{DUM}_1 + .0264706 \text{DUM}_2$$

$$(3.49)^* \quad (2.34)^*$$

$$R^2 = 0.1970 \quad \text{No. of Observations} = 73$$

t-statistics are written in parenthesis

In the above regression only the coefficients of the dummy variables are significant implying that the overall inequality in Indian states has fallen as a whole.

We removed all the square of income terms from the regression and then regressed the rural, urban and combined gini coefficients on income, education, population density and the dummies. The coefficient of the population density term in the case of rural and urban regressions becomes significant at 10% and 5% levels respectively. In the case of combined gini it still remains insignificant. But removing the squares of incomes from the regressions would not be an ideal assumption as it would make the model weaker.

## CONCLUSION

From the above regressions we conclude that if the square of per capita income is included in our regression model, there seems to be no significant relation between income and inequality. Furthermore, there is no significant evidence that supports the inverted U-shaped Kuznets hypothesis leading to the conclusion that it does not hold true in the Indian context. If square of per capita income term is removed from the regression a relation between population density and inequality arises which is different for rural and urban areas. In rural areas inequality rises with population density whereas it falls in urban areas.

The model has been tested for heteroskedasticity as well as autocorrelation for all the above regressions. There is no biasness in the model and the model is robust.

The model is not free of all limitations. The no. of observations is 73 and it uses a common dataset of the independent variables for three different dependent variables i.e. rural gini coefficient, urban gini coefficient and the combined gini coefficient.



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## FOREIGN DIRECT INVESTMENT IN INDIAN RETAIL SECTOR - ASPECTS OF INDIAN ECONOMY

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### ABSTRACT

*FDI is considered to be the lifeblood of economic development especially for the developing and underdeveloped countries. The spectacular growth of FDI in global economic landscape has made it an integral part of the development strategy of both developed and developing nations. It plays an important role in the long term development of a country not only as a source of capital but also for enhancing competitiveness of domestic economy through transfer and up gradation technology, managerial skills and capabilities in various sectors, strengthening infrastructure, raising productivity and generating new employment opportunities. Rise in purchasing power, growing consumerism and brand proliferation in india. India was being looked up by many foreign nations as the scope of investment is seen to be high in our country for availability of huge resources. The growing Indian market has attracted a number of foreign retailers and domestic corporate to invest in this sector. FDI in retail sector can expand markets by reducing transactions and transformation costs of business through adoption of advanced supply chain. Allowing FDI proves good as improvements in supply chain technologies and informational externalities to local players and competitive dynamic that could benefit consumers and suppliers. Competition is best for consumers as it gives them variety, better quality. Oppositions have raised concerns about employment losses, promotion of unhealthy competition among organized domestic retailers from the market and distortion of urban cultural development.*

**KEYWORDS:** *Foreign direct investment, Indian retail sector, Organized retailing, Unorganized retailing, FDI Policy, GDP.*

### INTRODUCTION

FDI can be defined as a cross border investment, where foreign assets are invested into the organizations of the domestic market excluding investment in stock. It brings private funds from the overseas into products or services. FDI refers to capital inflows from abroad that invest in the production capacity of the economy and are usually preferred over other forms of external

finance because they are non- debt creating, non- volatile and their return on investment depends on the performance of the project financed by the investors. In fact, FDI provides a win-win situation to both host and the home countries. The home countries want to take advantages of the vast markets opened by industrial growth. The host countries want to acquire technological and managerial skills and supplement domestic savings and foreign exchange. According to A.T.Kearney's Annual Global Retail Development Index (GRDI) for the year 2012, India has been placed at 5<sup>th</sup> rank on the basis of retail investment attractiveness. According to Investment commission of India, retail sector is expected to grow almost three times its current levels to \$660 billion by 2015.

### **MEANING OF RETAIL**

Retail is the sale of goods and services from individuals or businesses to the end user. The general meaning of term retail is transformation. It is the interaction between the producer of the product and ultimate consumer who purchase goods for personal consumption. Retailers are part of an integrated system called supply chain. A retailer purchase goods or products in large quantities form manufacturers directly or through wholesaler and then sells smaller quantities to the consumers for a profit. Retailing can be done in either fixed locations like stores or markets, door to door or by delivery. Retailing is the last link that connects the individual consumer with the manufacturing and distribution chain.

### **CLASSIFICATION OF RETAIL INDUSTRY**

Retail industry is mainly divided into:

1. Organized retailing
2. Unorganized retailing

**ORGANIZED RETAILING:** it refers to trading activities undertaken by licensed retailers, those who are registered for sales tax, income tax etc. These include corporate backed hypermarkets and retail chains, privately owned large retail businesses e.g. maul, supermarkets, hypermarkets.

**UNORGANIZED RETAILING:** it refers to the traditional formats of low cost retailing like owner operated general stores, kirana shop, paan/ beedi shops, convenience stores, hand carts, street vendors etc.

The Indian retail sector is highly fragmented with 97% of its business run by unorganized retailers. The organized retail however is at a very nascent stage. The sector is largest source of employment after agriculture, has deep penetration into rural India generating more than 10% of India's GDP.

### **FDI IN RETAIL IN INDIA**

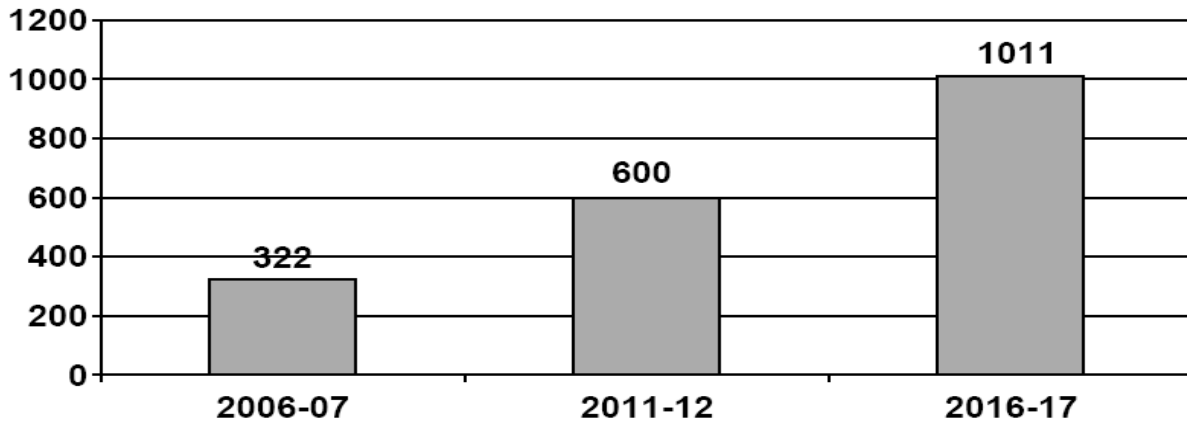
The retail industry is the sector of economy which is consisted of individual stores, commercial complexes, agencies, companies and organizations etc. involved in the business of selling finished products to end- users directly and indirectly.

The retail sector of India is vast, has huge potential for growth and development as majority of its constituents are unorganized. Retail sector of India contributes about 15% of National GDP and employs a massive workforce, after agriculture sector. FDI in India's retail business can be

made through any of routes like joint ventures, franchising, cash and carry operations, non store formats.

IN 2010, the Indian retail market was valued at \$435 billion. The sector is expected to grow to \$535 by 2013. In 2010, India attracted the largest number of new retailers. According to study conducted by ICRIER, total retail business in India will grow at 13% annually, from \$ 322 billion in 2006-2007 to \$ 590 billion in 2011- 2012 and further \$ 1 trillion by 2016-2017.

### Size of Indian Retail (in US\$ bn)



#### FDI IN SINGLE BRAND RETAIL

It is concerned with a retail store selling a single brand with foreign investment. It implies that foreign companies would be allowed to sell goods internationally under a single brand viz Reebok, Adidas. For example: if Nike were to obtain permission to retail its products in India, retail stores could only sell product under Nike brand and not Reebok brand. Till 2011, FDI in single brand retail sector of India was limited to 51%, now as per the recent development of government of India (September 2012) this limit is finally extended up to 100% ownership by foreign retailers and investors.

#### FDI IN MULTIBRAND RETAIL

It implies that a retail store can sell multiple brands under one roof. By opening up FDI in multi brand retail will allow foreign giants like Wal-Mart, Tesco, Carrefour to offer a wide range of products of household items and grocery directly to consumers. The government of India in their recently declared policy has decided to allow FDI up to 51% in multi brand retail in India. The recommendations of FDI policy in multi brand retail are:

1. At least 50% of total FDI is to be invested in back- end infrastructure
2. At least 30% of their goods and products will be procured from local companies and industries
3. At least \$100 million FDI in multi brand retail sector is required
4. Retail outlets can be set up in cities having a population of at least 1 million

**OPPORTUNITIES OF FDI IN RETAIL IN INDIA**

- 1. ENHANCED COMPETITION AND REDUCTION IN PRICES:** Retail trade in India is fragmented, unorganized, un-networked, inefficient and individually small. Entry of the many other multinational corporations will obviously promise intensive competition between different companies offering their brands in a particular product market. To increase their market share, competition among them will result in availability of many varieties and reduced prices.
- 2. IMPROVEMENT IN SUPPLY CHAIN SYSTEMS:** FDI in retail will provide solution to all issues regarding inefficient supply chain system in India. Improvement of supply chain / distribution efficiencies, coupled with capacity building and introduction of modern technology will help arrest the wastages. As much as 40% of India's fruits and vegetables rot due to lack of processing facilities. The foreign retail houses like Wal-Mart and Carrefour can bring better managerial practices and IT-Friendly techniques to cut wastages and set up integrated supply chains to gradually replace present disorganized retail market.
- 3. IMPROVED TECHNOLOGY AND LOGISTICS:** FDI will help to improve technology in the area of the processing, grading handling and packaging of material and further technical developments in the areas like electronic weighting. Further transportation facilities can get a boost in the form of precooling chambers and refrigerated vans which will help to reduce wastage.
- 4. IMPROVED STANDARD OF LIVING:** Allowing FDI in Indian single brand retail will certainly bring in more luxurious goods and services to the country. Such goods backed with good promotional support will induce Indian buyers to buy and consume them and lead to improvement in their standard of living. People employed in multinational retail enterprises will be paid attractive salaries and wages which will lead to increase in affordability.
- 5. EFFICIENT ENFORCEMENT OF LAWS:** The presence of international companies in Indian retail will facilitate effective and efficient enforcement of tax laws and will help to increase tax revenue. Tax evasion by the players of the organized sector will not be possible like those of unorganized sector.
- 6. BENEFITS FOR THE FARMERS:** India is the second largest country in the world in the terms of production of fruits and vegetables. India has very limited storage facilities like cold chain storage plant. Due to this farmers are under heavy losses. The FDI can help in that area to improve whole system of storage. In addition to this with the giant retailers setting up shops and investing in farm gates to supermarket shelves, the middlemen in the chain will be cut out, resulting in higher profits for farmers.
- 7. BETTER EMPLOYMENT OPPORTUNITIES:** The entry of foreign companies into Indian retailing will not only help to create employment opportunities but also ensure quality in them. This helps to find better quality jobs, improve their standard of living and life styles on par with developed nations.
- 8. CHEAPER PRODUCTION FACILITIES:** FDI will ensure better operations in production cycle and distribution. Due to economies of operation production facilities will be available at a cheaper rate thereby resulting in availability of variety products to the ultimate consumers at a reasonable and lesser price.

## THREATS OF FDI IN REATIL SECTOR

FDI imposes some threats to the domestic retailers, foreign players and for the economy. Critics of FDI feel that liberalization would adversely affect the small retailers, farmers and consumers and give rise to monopolies of large corporate houses which can adversely affect the pricing and availability of goods. The major threats are:

- 1. CREATE UNEMPLOYMENT:** Retail in India has tremendous growth potential and is the second largest employer in India. Major foreign retailers who will be directly procuring from main supplier will lead to unemployment and also middlemen who have been working in this industry will be thrown out of their jobs.
- 2. DISTORTION OF CULTURE:** FDI in Indian retail will directly or indirectly contribute to the enhancement of tourism. It may lead to change in the culture of people in India. The youth may easily imbibe negative aspects of foreign culture and lifestyles and develop inappropriate consumption pattern, not suited to cultural environment.
- 3. THREAT TO DOMESTIC RETAILERS:** FDI in single brand retail will strengthen organized retail in the country. These organized retailers will tend to dominate the entire consumer market. It would lead to unfair competition and ultimately suit in exit of domestic retailers.
- 4. LEADS OF INCREASE IN REAL ESTATE PRICES:** Foreign companies which enter into India to open up their malls and stores will certainly look for places in cities. It will result into war for place and also increase in the cost of real estate in the cities.
- 5. LOSS OF SELF COMPETITIVE STRENGTH:** The organized retail sector is still under developed and in a nascent stage, therefore companies may not be able to compete with the big global giants. If existing firms collaborate with these global giants they might have to give up by losing their self competitive strength.
- 6. CEATION OF CARTEL BY GLOBAL PLAYRS:** Foreign players may create monopoly by making their products available at discounted rates to grab the market share and after this they may create a cartel to exploit consumers by inducing price hike.

## POLICY SUGGESTIONS

Many foreign companies have already entered into Indian market through the available modes such as franchising and exporting. They are much eager to change their entry to FDI that would strength their operations in India. The Indian economy needs policy reforms so that it can maintain growth and development. Here are some suggestions which if followed will help to bring in more benefits than threats in the country:

- India needs to invest in infrastructure development because India is lacking only in this which will affect our retail industry majorly.
- FDI should be allowed in less sensitive sectors and also in the sectors wherein domestic companies are established strongly.
- The small retailers (unorganized sector) should bring some changes in their attitude and affairs. They can form consortium and make bulk purchases, this will help to lower down cost of purchase.

- A high level National commission should be set up to study the problems of retail sector. So that they can provide their valuable suggestions to the government.
- The government should improve basic infrastructure of the country so that it can attract foreign investors.
- The policy makers should make such policies in which foreign investment can be used for enhancing domestic production, savings and exports via technological advancement.
- The government should take initiatives to improve manufacturing sector. So that displaced employees of retail industry could be well accommodated there.
- India should make FDI policies little bit more liberal so that it can face competition with other emerging economies.

## CONCLUSION

It can be concluded that the advantages of allowing unrestrained FDI in the retail sector evidently outweigh the disadvantages attached to it. Same can be deduced from the examples of the countries like Thailand and China, where too the issue of allowing FDI in the retail sector was first met with incessant protests, but later turned out to be one of the most promising political and economic decision of the government and led not only to rise in the level of employment but also led to the development of their country's GDP. FDI in the buzzing India retail sector should not just be freely allowed but should be significantly encouraged. Allowing FDI in multi brand retail can bring about supply chain improvement, manpower and skill development, up gradation in agriculture, efficient small and medium scale industries and benefits to government through greater GDP, tax income and employment generation. It is also pertinent to note that it can be safely contended that with the possible advent of unrestricted FDI flows in retail market, the interests of retailers constituting the unorganized retail sector will not be gravely undermined, since nobody can force a consumer to visit a mega shopping complex or a small retailer. Consumers can shop in accordance with their utmost convenience, wherever they get the lowest price, maximum variety and a good consumer experience. But the change that the movement of retailing sector into FDI regime would bring about will require more involved and informed support from government.

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## IMPLICATIONS OF CSR AND SUSTAINABLE BUSINESS DEVELOPMENT: A CASE OF NALCO

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### ABSTRACT

*Corporate social responsibility (CSR) is not a new concept in India. CSR is a buzzword and twofold. One hand, it shows the ethical behaviour that an organization depicts towards its internal and external stakeholders. On the other hand, it shows the responsibility of an organization towards the environment and society in which it operates. Starting from the times of barter system to today's modern era of plastic money, the mankind has trodden a remarkably long path. The business houses have started realizing that they would have to rise over and above the profitability and take care with their survival in the society directly or indirectly. Social responsibility is a duty every individual or business has to perform so as to maintain a balance between the economy and the ecosystem. Today, CSR has become the mantra of every business organization. It is necessity to adopt a sustainable developmental model through adopting well CSR policies. The business firms exploit the natural resources of the society, may cause incidental damage to environment and inconvenience to the people. Therefore, they have a responsibility towards the society to share a part of their profit. The aim of the present study is to focus on CSR activities of NALCO. This research paper also explains around developing an understanding about the CSR, concept and the activities taken by NALCO towards the upliftment of common masses as well as towards nation building.*

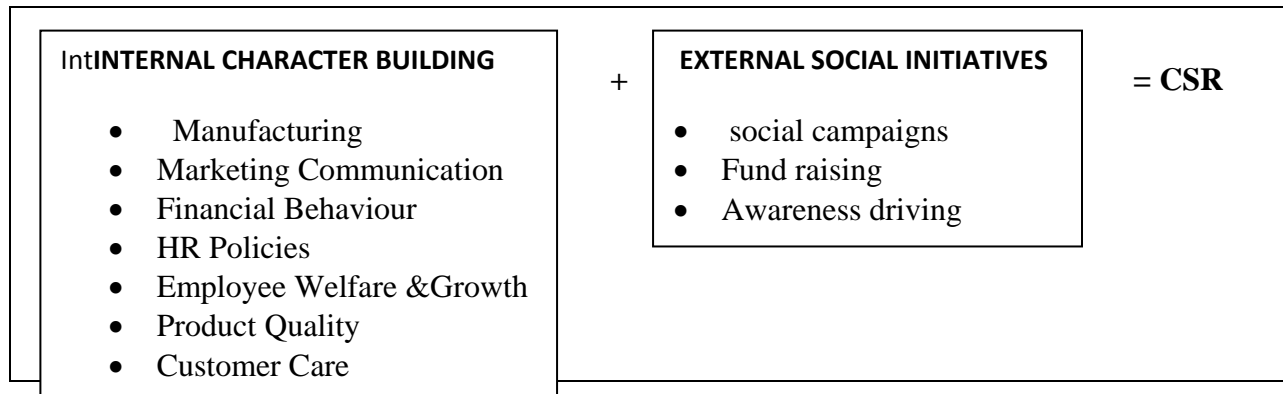
**KEYWORDS:** CSR, Employee, Profitability, Society, Stakeholders. Sustainable Development, NALCO.

### INTRODUCTION

Whenever you are in doubt... recall the face of the poorest and the weakest man whom you may have seen and ask yourself if the step you contemplate is going to be of any use to him? Will he gain anything by it? Will it restore him to control over his own life and destiny? That test alone can make our plans and programmes meaningful.

Mahatma Gandhi

CSR is a concept whereby companies integrate social, health and environmental concerns in their business operations with the stakeholders on a voluntary basis. CSR can play a key role in contributing towards sustainable development. The increasing number of companies, CSR and sustainability has become cross-cutting issues. CSR can contribute a lot the social, environmental and economic objectives of them. The main focus is on how CSR might contribute to competitiveness at the level of the individual enterprise. The concept of CSR originated in the 1950's in the USA but it became prevalent in early 1970s. During the 1980's to 2000, corporations recognized and started accepting a responsibility towards society. CSR focuses on the wealth creation for the optimal benefit of stakeholders. Figure 1 depicts CSR as a combination of internal character building and external initiatives. Development of a "sound internal character" is vital to a corporate because stakeholder perceives the brand image of the corporate not only through the voluntary campaigns but also from the way the corporate conducts itself in its normal routine activities. Figure-1 shows in detail.



It is emphasized that while it is good to be "seen to be doing good", it is true that "being good" is the first step to "seen to be doing good", without which the latter is incomplete, ineffective and lacks solid foundation. The need for the corporate to be seen as socially aware, progressive and responsible is as relevant and vital in today's time. Socially responsible companies consider the full scope of their impact on communities and the environment when making decisions, balancing the needs of stakeholders with their need to make profit. In India companies like TATA and Nestle are practicing the CSR for decades, long before CSR become a popular basis. As per United Nations and the European Commission, CSR leads to triple bottom-line: profits, protection of environment and fight for social justice. Gandhi's influence put pressure on various industrialists to put an emphasis on the socio-economic development of the nation. Thus, public and private business organizations will need to come together to set standards, share best practices, jointly promote CSR and pool resources where useful. CSR essentially requires companies to conduct business beyond compliance with the law and beyond shareholder wealth maximization.

### CSR - A RATIONALE

CSR, in India has become integral part of business strategy beyond charity and donations from responsible activities towards sustainable development by exhibiting their strength to make a crucial change in the society. As compared to western, we do not have security, adequate health and education services net, so business organizations should come forward for bridging these

gaps .Jamshed Irani ,Director, TATA Sons Ltd. has quoted that “for any business to sustain in the long run they have to look beyond business”. Dr. Manmohan Singh, Ex-Prime Minister of India rightly has opined that “CSR must not be defined by tax planning strategies alone. Rather, it should be defined within the frame work of a corporate philosophy, which factors the need of the community and the region in which a corporate entity functions”. The Tata Group became pioneer in the area of CSR in India, followed by the Birla, Bajaj and other industrial houses in the country. The government has been evolving a large numbers of welfare schemes for the people but it shows that in most of the cases the benefits do not reach the most deserving. The industry has to play an inevitable role in transforming the society into a pattern of socialistic society by directly involving in social issues. The survey of Confederation of Indian Industry (2002) has highlighted that the desires to be a good corporate citizen and brand values are the key elements of CSR among companies. Mr. Sudhir K Shina of Arcelor Mittal India Ltd. has said “CSR has clearly emerged a means for the creation of intangible assets like image, reputation, credibility and trust that provides a solid social face to companies. Positive image, reputation and credibility therefore facilitate companies obtain the social license to operate their businesses sustainably”. To promote CSR activities in a strategic way, The FICCI-Aditya Birla CSR Centre for Excellence has been set-up on February 17, 2010 in New Delhi. The Ministry of Corporate Affairs issued voluntary guidelines for CSR in India, which signifies that CSR policy should include the following core subjects:

- ✓ Care for all stakeholders
- ✓ Ethical functioning
- ✓ Respect for worker’s rights and welfare
- ✓ Respect for human rights
- ✓ Respect for environment
- ✓ Activities for social and Inclusive Development

<b>CSR FRAMEWORK: WHERE BIG CORPORATIONS SHOULD BE SPENDING THEIR CSR RESOURCES</b>			
<b>Value</b>	<b>Purpose</b>	<b>Impact</b>	<b>Benefits</b>
CSR as value creation	Innovative and promotes sustainable business model	Fundamental strategic and operational impact	<ul style="list-style-type: none"> <li>• Shared value (business-institutions and communities)</li> <li>• Promoting competitiveness and innovation</li> <li>• Promoting a sustainable business model</li> <li>• Integrating business into the community</li> <li>• Developing human Capital (Key in developing countries)</li> <li>• Incorporating into the business strategy</li> </ul>
CSR as risk management	Compliance	Medium to high strategic and	<ul style="list-style-type: none"> <li>• Mitigating operational impact</li> <li>• Mitigating operational risk</li> </ul>

		operational impact	<ul style="list-style-type: none"> <li>• Supporting external relationships</li> </ul>
CSR as corporate philanthropy	Providing funding and skills	Little strategic and operational impact	<ul style="list-style-type: none"> <li>• Corporating philanthropy and sponsorships</li> <li>• Short-term benefits not always sustainable</li> <li>• Limited funds available</li> <li>• Impact diluted because limited budget is allocated to many charities</li> <li>• Corporating competencies and other business assets not fully utilized</li> <li>• Misalignment between business and social responsibility strategies and functions</li> <li>• Resulting in minimal social and business impact of social programs</li> </ul>
Source: Wikipedia, The Free Encyclopedia			

### OBJECTIVE OF THE PRESENT STUDY

The main objective of the present study is to focus the CSR for PDP activates of NALCO over the years. The other objectives of the present study the followings.

- To understand the concept of CSR
- To know about the LALCO foundation, and
- To know the contribution to government exchequer
- To know the contribution beyond CSR activities

### RESEARCH METHODOLOGY OF THE STUDY

Research methodology is an important aspect of any research or investigation. It enables the researcher to look at the problem in a systematic, meaningful and orderly manner. Research methodology of this study comprises the nature of data, sources of data, tools and period of study. These elements are discussed in briefly given below.

#### I. NATURE OF DATA

The data is must for any research work. The data may be quantitative or qualitative, financial and non-financial. Here, only the financial data of various years of NALCO has been taken for proper analysis and interpretation to get the conclusion.

#### II. SOURCES OF DATA

The sources of data are primary and secondary. The data for the present study has been collected mainly from secondary sources i.e. internet, journals, annual report and website of NALCO.

### III. TOOLS AND TECHNIQUES

For analyzing the data and to draw the meaningful conclusions, a number of financial and statistical tools and techniques are used. Here, the limited tools like percentage and trend analysis have been used.

### IV) PERIOD OF THE STUDY

The period of study has been covered only for 5 years i.e. from the financial year 2009-10 to 2013-14 of NALCO.

### LIMITATION OF THE STUDY

The researcher has his/her own limitations in each study and the present study is not free from the following limitations.

1. Generally, the secondary data has been collected from many sources. The limitation of the secondary data is found to be present in the study.
2. The data has been taken for a period of 5 years i.e. from 2009-10 to 2013-14 for analysis and interpretation. However, it has been restricted to lesser period because of non availability of relevant data. Thus, uniformity in the analysis of NALCO cannot be made.
3. The study has been restricted only NALCO. Other aluminium industries have been excluded. So, it is very difficult to generalize the findings of the study.
4. Mainly a few techniques have been used in this study.
5. The primary data has been ignored from the study.
6. Last but not the least, the time and resources are other limiting factors.

Therefore, the users of the study should take utmost care and keep these said limitations in mind while using the findings and suggestions judiciously.

### DEFINITION, TYPES AND MODELS OF CORPORATE SOCIAL RESPONSIBILITY (CSR)

There is no single universally accepted definition of CSR, though there are some definitions given by certain authorities. Most ideal definition of CSR has been given by World Business Council for Sustainable Development “CSR is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large”.

TYPES OF CSR	
Business Ethics	Company code of conduct.
Environmental Stewardship	Reducing pollution or a carbon footprint.
Community Investment	Ensuring the local community where you operate is seeing the benefits of the organization.
Fair Trade	Ensuring suppliers are treated fairly.
Charitable Efforts	Giving money directly to charities.
Volunteering	Encouraging the employees to give company time to social benefits.

### 1. ETHICAL MODEL (1930 – 1950)

The significance this model is to promote of trusteeship that is revived and reinterpreted by Gandhiji. The businesses are motivated to manage their business entity as a trust held in the interest of the community. The idea prompted many family run businesses to contribute towards socio-economic development. The efforts of TATA group has directed towards the well being of the society.

### 2. STATIST MODEL (1950 – 1970S)

Under the aegis of Jawahar Lal Nehru, this model came into being in the post- independence era. The post-independence era has been driven by a mixed and socialist kind of economy. The important feature of this model is that the state ownership and legal requirements decided the corporate responsibilities.

### 3. LIBERAL MODEL (1970S – 1990S)

The model has been given by Milton Friedman. As per this model, corporate responsibility is confined to its economic bottom line. This implies that it is sufficient for business to comply the law and generate wealth which through taxation and private charitable choices can be directed to social ends.

### 4. STAKEHOLDER MODEL (1990 – PRESENT)

The model came into existence during 1990s as a consequence of realization that with growing economic profits, businesses also have certain societal roles to fulfill. The model expects companies to perform according to “triple bottom line” approach. The businesses are also focusing on accountability and transparency through several mechanisms.

Model	Focus	Champions
Ethical	Voluntary commitment by companies to public welfare	M K. Gandhi
Statist	State ownership and legal requirements determine corporate responsibility	Jawahar Lal Nehru
Liberal	Corporate responsibilities limited to private owners (Shareholders)	Milton Friedman
Stakeholder	Companies respond to the needs of stakeholders- customers, employees, communities, etc.	R. Edward Freeman

### NATIONAL ALUMINIUM COMPANY LIMITED (NALCO): AN OVERVIEW

NALCO was incorporated as a public sector enterprise of the Ministry of Mines, Government of India in 1981. It has two units in Odisha at Angul and Damanjodi. It is Asia's the sixth largest, integrated aluminium complex, encompassing bauxite mining, alumina refining, aluminium smelting and casting, power generation, rail and port operations. The main units of NALCO are at Damanjodi (Mines & Refinery complex) and Nalconagar, Angul (Smelter & Power Plant Complex). The company's headquarter is located in Bhubaneswar. The ongoing second phase of expansion is set to make it the sixth largest producer of the metal in the world. The company and its units have received various national, state and institutional awards for excellence in safety and environment management at various times to its credit. NALCO produces various products such as aluminium metal: ingots, sows, billets, wirerods, alloy wire

rods, cast strips alumina and hydrate: calcined alumina, Zeolite-A and special products such as specialty hydrate/alumina, (alumina chemicals) and aluminium rolled products.

### MISSION AND OBJECTIVE OF NALCO

The mission statement of NALCO is “To achieve growth in business with a global competitive edge providing satisfaction to the customers, employees, share holders and community at large”. The objectives of NALCO are the followings.

1. To maximize capacity utilization, optimize operational efficiency and productivity.
2. To maintain the highest international standards of excellence in product quality, cost efficiency, customer service and provide steady growth in business by technology up-gradation, expansion and diversification.
3. To have global presence and earn foreign exchange through export turnover of 50% of total sales and to have around 1/3rd domestic market share.
4. To continue to remain the lowest cost producer of alumina in the world and to strive to become low cost aluminum producing global company in five years time.
5. To become the 6th largest company in the world in alumina production.
6. To complete 2nd phase expansion within 50 months from the zero date.
7. To promote a result-oriented organizational ethos and work culture those empowers employees and helps realization of individual and organizational goals and maximize internal customer satisfaction.
8. To foster high standards of health, safety and environment-friendly products and to develop a strong R&D base and increase business development activities.
9. To strive for production of value added downstream products.
10. To participate in peripheral development of the area.

### CSR AND NALCO

NALCO commits to fulfill its obligation of CSR through its peripheral development programmes an under which it allocates 1% of its net profit every year for the socio economic development in the local areas surrounding the plant sites in specific and the state of Odisha in general.

<b>TABLE-1 NALCO CONTRIBUTION TO EXCHQURER (RS. IN CRORE)</b>			
<b>Year</b>	<b>Central Govt.</b>	<b>State Govt.</b>	<b>Total</b>
2004-05	1341	210	1591
2005-06	1566	300	1866
2006-07	2459	348	2807
2007-08	1646	287	1933
2008-09	1143	273	1416

Source: Annual Report of NALCO,2008-09

Table-1 shows the contribution of funds of NALCO to central and state government exchequer for various years for the greater interest of nation. It is observed from the table that the contribution has been increased to the financial 2006-07 and decreased for the subsequent years.

## NALCO AND SPORTS EVENTS

NALCO has been emphasizing on promotion of games and sports at the state and national level. NALCO has sponsored the following sports events organized in Odisha.

- Nalco Cup State Basket ball Championship.
- Nalco Cup State Hockey Championship.
- Nalco Cup State Open Tennis Tournament.
- Nalco Invitation Golf Tournament of Eastern Zone.
- Asian Junior Tennis Championship-2009.

NALCO has also provided financial assistance to organize Star Cricket Match-09 by Utkal Television Parivar and All India Beach Football Competition at Puri.

Year	CSR Amount	Trends (%)	Profit After Tax(PAT)	Trends (%)
2009-10	11.28	100	814.22	100.00
2010-11	26.77	237	1069.30	131.00
2011-12	34.22	303	849.50	104.00
2012-13	30.99	275	592.83	73.00
2013-14	29.00	257	642.35	79.00

Source: Annual Report of NALCO of various years

Table-2 portrays the CSR amount towards PDP as well as PAT from the financial year 2009-10 to 2013-14. It is observed from the table that NALCO has done the outstanding PDP activities i.e. health camp, social security, education, environment protection, etc. over the years. The trends of CSR has been increased from 2009-10 to 2011-12 then it has been decreased for the last two years. Similarly, the trends of PAT has been increased the first initial years and then decreased next two years. The last financial year's trend has been increased again.

## NALCO AND BUSINESS SUSTAINABILITY DEVELOPMENT

NALCO's dedication builds the organization towards business sustainable. It starts at the top level and reviews the safety, health, environment and sustainability principles to make the refinements and re-signs as a demonstration in annually. Nalco's safety, health, environmental and sustainability principles including its goal to "strive for continuous improvement in the most wanted safety, health and environment protection with the zero injuries, illnesses, incidents, waste generation and emissions." Sustainability issues have been enshrined by NALCO thought and actions since its inception. The figure-2 shows the NALCO's societal and sustainability concerns.

Leadership	Chairman, Managing Director, Directors and Senior Management are having a unique set of sustainability key performance areas commensurate with their functional areas.
Risk Management	NALCO risk management framework covers issues of commercial and sustainability importance



Ethical Conduct	NALCO has defined guidelines and processes for ethical conduct of its employees in all its business operations and engagement with its supply chain.
Social Responsibility	Its commitments to achieve its CSR goal are demonstrated by 2% of profit commitment towards social development activities.
Environmental Impacts	Nalco has committed to reduce its environmental impacts by way of research and innovation.
Source: NALCO Sustainable Development Report 2011-12	

According to Corporate Plan and Vision 2020, NALCO has business growth plans which are responsible and in line with government regulations and social aspirations. NALCO is working hard to diversify its business both in terms of geographical spread and in terms of enhancing its functional portfolio. Nalco makes sure that sustainability is accorded a high priority through initial community engagement, technology selection and operations.

### **MATERIAL SUSTAINABILITY ISSUES AND ACCOUNTABILITY OF NALCO**

A memorandum of understanding (MoU) is executed between NALCO and Ministry of Mines, Government of India each year. This is a key accountability document which has sustainability embedded in the various performance indicators. The material sustainability and accountability issues of NALCO are shown in Figure-3.

<b>FIG. 3 MATERIAL SUSTAINABILITY ISSUES AND ACCOUNTABILITY OF NALCO</b>	
Economic Aspects	<ul style="list-style-type: none"> <li>• Ethics, transparency in pricing and business relationships</li> <li>• Bauxite resource availability and quality</li> <li>• Reducing uncertainty in energy sources availability</li> <li>• Vendor and ancillary development</li> <li>• Infrastructure, shipping and logistics</li> </ul>
Environmental aspects	<ul style="list-style-type: none"> <li>• Energy management</li> <li>• Greenhouse gas emissions and climate change</li> <li>• Water management-fresh water withdrawal and effluent discharges</li> <li>• Environmental management- noise, significant air emissions, effluent and waste</li> <li>• Waste management and land rehabilitation</li> </ul>
Labour practices	<ul style="list-style-type: none"> <li>• Talent and skill management of its workforce</li> <li>• Labour management relations</li> <li>• Occupational, health and safety</li> </ul>
Human rights	<ul style="list-style-type: none"> <li>• Adherence to human rights in employees relations</li> <li>• Adherence to human rights with service providers</li> <li>• Adherence to human rights in investment and procurement</li> </ul>
Society	<ul style="list-style-type: none"> <li>• Taking appropriate operational safeguards, minimizing community impacts due to its operations in Angul, Damanjodi and Vishakhapatnam</li> <li>• Peripheral development projects along with government appointed bodies</li> <li>• Community projects, grants based on needs assessment</li> </ul>
Product	<ul style="list-style-type: none"> <li>• Tackling the energy intensive nature of aluminum production with</li> </ul>

responsibility	innovative concepts such as “ aluminium park” <ul style="list-style-type: none"> <li>• Public policy advocacy in aluminium recycling</li> <li>• Customer satisfaction practices</li> </ul>
Source: NALCO Sustainable Development Report 2011-12	

### NALCO FOUNDATION

The NALCO Foundation has been registered on 28th July 2010, under the Indian Trusts Act 1882. It has been established with the vision to be an agent to pursue the holistic development. The main objectives behind the NALCO Foundation are the followings.

- ✓ To work with communities in the vicinity of NALCO projects
- ✓ To take up sustainable development projects to support education, health, drinking water and basic amenities along with income generation programmes;
- ✓ To empower women to find a rightful place in Nation building;
- ✓ To empower children, physically and mentally challenged persons, old and destitute persons for a dignified living;
- ✓ To promote art, culture, heritage and sports, with emphasis on tribal art and culture in the vicinity of NALCO projects;
- ✓ To promote environmental conservation measures

NALCO has allocated 0.5% of its net profit every year for PDP activities since its inception. Then, the amount was doubled to 1% since 2002-03. In 2010-11 the CSR budget of the company has been doubled at 2% of the net profit. The amount has been allocated to NALCO Foundation: 2010-11: Rs.8.14 2011-12: Rs.10.69 and 2012-13: Rs. 8.49 crores respectively. The total amount available under NALCO Foundation is Rs. 27.32 crores.

### BEYOND THE PDP OF NALCO

After the super cyclone in Odisha in the year 1999, NALCO has constructed 197 primary schools-cum-cyclone shelters, under Prime Minister's National Relief Fund Scheme. NALCO has received the funds from PM's Office: Rs.6.37 crore and contributed from its own source Rs.1.31 crore for this purpose. Table-3 shows beyond the PDP activities of NALCO.

TABLE-3 BEYOND PDP OF NALCO		
Year	Particulars	Amount (Rs. in crore)
1999	To National Defence Fund during Kargil War	1.18
1999	For the victims of super cyclone in Orissa	1.39
2001	To PM's National Relief Fund for the victims of Gujarat earthquake	1.70
2004	To Sports Authority of India towards training of Indian contingent for Athens Olympics	1.00
2005	To PM's National Relief Fund for the victims of tsunami	2.44
2005	To PM's National Relief Fund for the victims of J&K earthquake :	2.98
2008	To Chief Minister Relief Fund for the victims of flood in Odisha	5.00

2011	Interim dividend to Govt. of India	232
Source: NALCO Sustainable Development Report		

## CONCLUSION

CSR is an evolving process and not an end. CSR became the chant of every business organization today. CSR is the deliberate inclusion of public interest into corporate decision-making, and the honoring of a triple bottom line: people, planet and profit. The corporate sector is being blamed for the negative impact on the natural environment in terms of pollution and global warming, waste disposal, deforestation, etc. There is an imperative need to adhere to prudential standards in matter of environment standard on the part of both the government and corporate sector as challenges. Without this, it is difficult for companies and their stakeholders to judge the efficiency or effectiveness of these well-intentioned interventions. In the age of LPG, the concept of CSR can't be ignored by the corporate firms. By keeping in mind the changing market scenario business firms have to change their work culture as per the market demands. As per the changing market demands, need of the hour is for the development of CSR framework. CSR activity has to play a positive impact not only on development of community but also on their business developments. The NALCO has successfully implemented its social obligation responsibility by improving financial performance and creating its image in the minds stakeholders thorough CSR activities. NALCO has involved in playing significant roles in the economic development of the areas where NALCO operates. Rehabilitation, employment and income generation for local people, development of infrastructure, environment care and humanitarian goodwill missions have earned NALCO a place of pride, not only in the corporate world of India but also in the hearts of the people of Odisha. The doubling of CSR fund, NALCO has become more mellowed and matured, sharing its success with the society at large.

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## ROLE OF SEBI IN CAPITAL MARKET REFORMS IN INDIA – A STUDY OF INVESTORS PERSPECTIVES

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### ABSTRACT

*The present paper provides a platform for understanding and analyzing the investor's perceptions towards the role of SEBI in formulating capital market reforms in India. Markets exist to facilitate the purchase and sale of goods and services. The financial market exists to facilitate sale and purchase of financial instruments. The 1990s have witnessed the emergence of the securities market as a major source of finance for trade and industry in India. A growing number of companies have been accessing the securities market rather than depending upon loans from financial institutions or banks. The corporate sector is increasingly depending on external sources for meeting its funding requirements. Capital market involves various instruments which can be used for financial transactions. Capital market provides long term debt and equity finance for the government and the corporate sector. Capital market can be classified into primary and secondary markets. The primary market is a market for new shares whereas in the secondary market, the existing securities are traded. The capital market operations are regulated by the Securities and Exchange Board of India (SEBI). Thus, capital market plays a major role in the development of industries in India. Several measures have been taken in the last decade to make the securities market in India better regulated, more efficient and generally safer. The regulator, SEBI, is regarded throughout the world as independent and effective. The regulator has put in place a well-designed disclosure based regulatory regime. The analysis made with the help of both primary data through structured questionnaire and secondary data through various sources. Since this paper gives an overview of capital market,*

*advantages and disadvantages of capital market and key issues in Indian capital market. Finally, this paper offer suitable conclusion for the need and the relevance of reforms in capital market.*

**KEYWORDS:** *Banks, Capital Market, Financial Institutions, Primary and Secondary Market and SEBI etc.*

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## **INTRODUCTION**

Information technology is extensively used in securities market, the most advanced and scientific risk management system are also employed by stock exchanges. It is well known that trading platform has become automatic, electronic, anonymous, order-driven, nationwide and screen-based. Shouting and gesticulations have yielded place to punching and clicking. Speed and efficiency are the hallmark of the current system. Across the system, multitude of market participants trade with one another anonymously and simultaneously. On any trading day, more than 10000 terminals come alive in 400 towns and cities ; information is flashed on real time basis. Equal opportunity is provided for all concerned to access the information. Transparency is ensured in respect of dissemination of information, price and quantum of the order; but, member's identity is sought to be hidden to prevent any bias in response. Today, a trading member need not wend his way to any stock exchange building or elsewhere; he can comfortably sit at his computer terminal and execute the order. Laptops, palmtops, hand mobiles, in fact, challenge the relevance of the brick and mortar.

Another material development, which proved to be of immense relief of the investors, was dematerialization of the scrips. Now 99% of the scrips in the market are dematerialized. Almost 100% of the trades in D-mat form. Inconvenience of the physical custody and transfer, tedium of intimating change of address and problems of bad delivery, late delivery, non-delivery and the risks of forgery and frauds have virtually disappeared. At the stock exchanges, robust risk management system has been put in place, value-at-risk margining and exposure limits on-line monitoring of margins and positions. Clearing corporations and settlement guarantee fund mechanism for trade settlement-all these have made Indian capital market now arguably world class, in terms of transparency, efficiency and safety.

## **REVIEW OF LITERATURE**

1. Dr. S. B. Kamashetty and C. M. Mathapati (November 2012) made a study on "Reforms in the Indian Primary Market: Some Reflections" in their article they stated that SEBI has introduced a number of reforms for the control and supervision of capital market and investor protection. Primary market reforms by the SEBI: New reforms by, SEBI, in the primary market, include improved disclosure standards and simplification of issue procedures. SEBI has also introduced a code for advertisement for public issues for ensuring fair and true picture. In order to reduce the cost of issue, underwriting of issues has been made optional and in case if the subscription is less than 90%, the whole sum collected should be returned back to the investors.

2. G. Sabarinathan (December 2010) made a study on "SEBI's Regulation of the Indian Securities Market: A Critical Reviews of the Major Developments" in his article he found that the Indian capital market has witnessed major reforms in the decade of 1990s and thereafter. Now it is on the verge of development. Thus, the Government of India and SEBI has taken a number of measures in order to improve the working of the Indian stock exchanges and to make it more progressive and vibrant. The major reforms undertaken in capital market of India includes the

establishment of SEBI, establishment of Creditors Rating Agencies, increasing of Merchant Banking activities, outstanding performance of Indian economy, raising electronic transactions, growing of mutual fund industry, growing of stock exchanges in India, investors' protection, growth of derivative transactions, insurance sector reforms and commodity trading.

3. M. Syam Babu, Dr. B. Ramachandra Reddy and Dr. G. Narasimhulu (February 2010) made a study on "Indian Equity Markets-Performance Analysis in 2009" in their article they opine that after a rapid downfall in 2008, the Indian capital markets performed very well in 2009. The SENSEX, in 2009, surprised investors by gaining 80% over the previous year. Actually, in 2009, all sectors did not participate in the upward rally of the stock market. Hence, the performance in 2010 will depend on the sector wise performance in 2009. Broadly, the major sectors involved in stock market activity are auto, banking, capital goods, consumer durables, FMCG, healthcare, information technology, metal, oil and gas, power and realty stocks. During 2009, 20 companies came out with IPO's and raised Rs. 19303.81 crore. The total market capitalization of the issues was reduced by just 1.25% (from Rs. 19303.81 crore to Rs. 19545.63 crore by the end of 2009). It is known that the returns from investment in capital market depend on the macro and micro environment. The macro environment consists of the economic, political, psychological and demographic factors. Apart from these factors, investors have to observe the micro environments while investing.

### **STATEMENT OF THE PROBLEM**

Many steps have been taken in the recent years to reform the capital market for the efficient and effective functioning. But still there are number of problems which need to be reformed. Most of the transactions are carry forward with a motive of speculation which derives benefit from short term price fluctuations. And, another major problem is that, the Indian stock market is subject to high volatility. The high rate of volatility is not conducive for the smooth functioning of the stock market. And the presence of insider trading activities leads to the price sensitive information which affects the price of securities of that company. And the presence of fraudulent and unfair trade practices in securities market by the stock brokers or sub-brokers.

### **OBJECTIVES OF THE STUDY**

01. To identify the different procedures in order to reduce the high rate of volatility.
02. To seek positive and negative opinion from the public regarding fair and timely delivery and settlement procedures.
03. To identify the role of stock brokers and sub-brokers in the capital market.
04. To promote awareness among the investors regarding the securities market.
05. To identify the policies and programs for free flow of operations in the Indian Capital market.

### **METHODOLOGY**

Primary data will be collected through structured questionnaires by using 60 respondents through random sampling technique. The data collected through various secondary sources like newspaper, annual reports, websites, magazines, books, articles, journals, internet source etc. The study confined only to the capital market reforms in India. It is mainly focused on the SEBI and

RBI guidelines and it is mainly focused on some of the major stock exchanges in India like BSE and NSE.

### CONCEPT OF CAPITAL MARKET

The capital market is one of the significant aspects of every financial market. Hence it is necessary to study its correct meaning. Broadly speaking, the capital market is a market for financial assets which have a long or indefinite maturity. Unlike money market instruments the capital market instruments become mature for the period above one year. It is an institutional agreement to borrow and lend money for a longer period of time. It consists of financial institutions like IDBI, ICICI, UTI, LIC etc. These institutions play the role of lenders in the capital market. Capital market involves various instruments which can be used for financial transactions. Capital market provides long term debt and equity finance for the government and the corporate sector. Capital market can be classified into primary and secondary markets. The primary market is a market for new shares whereas in the secondary market, the existing securities are traded. Capital market institutions provide rupee loans, foreign exchange loans, consultancy services and underwriting. The capital market operations are regulated by the Securities and Exchange Board of India (SEBI). Thus, capital market plays a major role in the development of industries in India.

**TABLE 1: ADVANTAGES AND DISADVANTAGES OF INDIAN CAPITAL MARKET**

Sl. No.	Advantages	Disadvantages
01.	Mobilization of Savings	High volatility of Stock Market
02.	Capital Formation	Prevalence of Insider Trading
03.	Economic Welfare	Lack of Liquidity
04.	Stability in values of Securities	Scarcity of Floating Securities
05.	Source for expansion and technological up gradation	Dominance of Financial Institutions

Source: <http://www.cbbh.ba/pdf.php?id=697&lang=en>

**TABLE 2: KEY ISSUES IN THE INDIAN CAPITAL MARKET REFORMS**

01.	SEBI Act, 1992 and amendments
02.	Dematerialization of Securities-1997
03.	Disclosures of investor protection guidelines, 2000-compliance with due skill, diligence and care, disclose truth.
04.	Trading cycle-Uniform Rolling Settlement, 2001
05.	Screen based trading-2003-matching orders in time/price priority.
06.	Derivative trading.
07.	RTGS-Real Time Gross Settlement System was introduced by RBI in 2004.
08.	Risk management
09.	Foreign Investment in securities markets-infrastructure companies-Foreign Investment up to 49 per cent has been allowed in infrastructure companies in the securities market
10.	PAN-Mandatory-Budget announcement of 2007-08
11.	NISM-The National Institute of Securities Market has been set up for teaching and training intermediaries in the securities market and promoting research.

Source: <http://finance.mapsofworld.com/capital-market/reform.html>



## ANALYSIS AND INTERPRETATION OF DATA

TABLE 3: DEMOGRAPHIC STATUS OF RESPONDENTS

Particulars	No. of Respondents	Percentage
<b>Gender</b>		
Male	35	58.33
Female	25	41.67
<b>Total</b>	<b>60</b>	<b>100.00</b>
<b>Age</b>		
18-25 years	5	8.33
26-30 years	18	30.00
31-40 years	15	25.00
Above 40 years	22	36.67
<b>Total</b>	<b>60</b>	<b>100.00</b>
<b>Qualification</b>		
Under graduate	5	8.33
Graduate	26	43.33
Post-Graduate	26	43.33
Others	3	5.00
<b>Total</b>	<b>60</b>	<b>100.00</b>
<b>Occupation</b>		
Businessman	20	33.33
Employee	22	36.67
Student	7	11.367
Professionals	11	18.33
Others	0	0.00
<b>Total</b>	<b>60</b>	<b>100.00</b>
<b>Income Level</b>		
Less than Rs. 1,00,000	10	16.67
Rs. 1,00,001 to Rs. 3,00,000	26	43.33
Rs. 3,00,001 to Rs. 5,00,000	20	33.33
Above Rs. 5,00,001	4	6.67
<b>Total</b>	<b>60</b>	<b>100.00</b>

Source: Field Survey

The above table gives clear picture of the demographic and socio-economic information about respondents of the study. Out of 60 respondents, majority of the respondents are male comes under the age group of above 40 years, are graduates and post graduates. Most of them were businessman and employee and their income level in between Rs. 1,00,000 to Rs. 3,00,000.

**TABLE 4: OPINIONS OF RESPONDENTS**

<b>Particulars</b>	<b>No.</b>	<b>of</b>	<b>Percentage</b>
<b>Whether the respondents are investors in the Indian Capital Market or not</b>			
Yes	45		75
No	15		25
<b>Total</b>	<b>60</b>		<b>100</b>
<b>How long the respondents have been investing in the Indian Capital Market</b>			
Less than 1 year	15		25.00
1 to 5 years	13		21.67
6 to 10 years	22		36.67
11 to 20 years	10		16.67
21 to 30 years	00		0.00
<b>Total</b>	<b>60</b>		<b>100.00</b>
<b>Essentiality of the reforms in the Indian Capital Market</b>			
Very essential	38		63.33
Essential	22		36.67
Not so essential	00		0.00
Not at all essential	00		0.00
<b>Total</b>	<b>60</b>		<b>100.00</b>
<b>Sector which would expects the reforms shall be made</b>			
Industrial Securities Market	43		71.67
Government Securities Market	15		25.00
Long term debt market	02		3.33
<b>Total</b>	<b>60</b>		<b>100.00</b>
<b>Main objective/aim of the reforms in the Indian Capital Market</b>			
Creating growth enabling institutions	08		13.33
Improved price discovery mechanism	10		16.67
An appropriate regulatory framework	20		33.33
Reducing the transaction costs	05		08.33
Growth of the Indian Economy	17		28.33
<b>Total</b>	<b>60</b>		<b>100.00</b>
<b>Main reasons for reforms in the Indian Capital Market</b>			
Liberalization	18		30.00
Technological innovation	15		25.00
Regulatory framework	10		16.67
Financial products and services	14		23.33
Corporate Governance practices	03		05.00
Others	00		00.00
<b>Total</b>	<b>60</b>		<b>100.00</b>
<b>Factors which influence the Indian capital market to make reforms</b>			
Political factors	13		21.67
Economic factors	30		50.00

Social factors	00	00.00
Technological factors	13	21.67
Legal factors	04	06.67
<b>Total</b>	<b>60</b>	<b>100.00</b>
<b>Considerable role to be played by the Regulatory Bodies in the reforms of the Indian Capital Market.</b>		
SEBI	39	65.00
Ministry of Company Affairs (MCA)	10	16.67
Department of Economic Affairs (DEA)	05	08.33
Reserve Bank of India (RBI)	06	10.00
<b>Total</b>	<b>60</b>	<b>100.00</b>
<b>Major issue to be considered while reforming the Indian Capital Market.</b>		
Providing fiscal incentives	10	16.67
Introducing safety	15	25.00
Providing investors education on massive scale	07	11.67
Strict enforcement of law relating to insider trading	21	35.00
Strict imposing all the norms and regulation of	07	11.67
<b>Total</b>	<b>60</b>	<b>100.00</b>
<b>Reforms which fosters for the economic growth of the country</b>		
Augmenting the quantities of real savings	24	40.00
Increasing the net capital inflow from abroad	20	33.33
Raising the productivity	16	26.67
<b>Total</b>	<b>60</b>	<b>100.00</b>
<b>Kind of growth which can be expected from the reforms in the Indian Capital</b>		
Market capitalization	10	16.67
Number of listed firms	05	08.33
Trading volumes	24	40.00
Growing network of intermediaries	07	11.67
Improving the market performance	12	20.00
Reducing the transaction costs	02	03.33
<b>Total</b>	<b>60</b>	<b>100.00</b>
<b>Whether the reforms in the capital market will reduce the scams or not</b>		
Yes	40	66.67
No	20	33.33
<b>Total</b>	<b>60</b>	<b>100.00</b>
<b>Features which are expected to be in the innovative financial instruments and services</b>		
Less Risk	10	16.67
Fair Return	09	15.00
Guaranteed settlement	15	25.00
Transparency and Efficiency	10	16.67
Liquidity	16	26.67
<b>Total</b>	<b>60</b>	<b>100.00</b>
<b>The reforms will enhance the performance of the securities listed in the Stock Exchanges in</b>		
Strongly Agree	35	58.33

Agree	25	41.66
Disagree	0	00.00
Neither agree nor disagree	0	00.00
Strongly disagree	0	00.00
<b>Total</b>	<b>60</b>	<b>100.00</b>
<b>Whether the reforms has failed to reduce the dominance of financial institutions or not</b>		
Yes	24	40
No	36	60
<b>Total</b>	<b>60</b>	<b>100</b>
<b>Reasons for the dominance of the financial institutions over the capital market in India</b>		
Safety net provided by the FIs	10	41.66
Constant rate of return	06	25.00
Moderate/Less risk	05	20.83
Transparency and Efficiency in operations	03	13.50
<b>Total</b>	<b>24</b>	<b>100.00</b>
<b>Opinions regarding the statement "A well developed capital market is the mirror" for the developed economy</b>		
Strongly Agree	38	63.33
Agree	21	35.00
Disagree	00	00.00
Neither agree nor disagree	01	01.67
Strongly disagree	00	00.00
<b>Total</b>	<b>60</b>	<b>100.00</b>
<b>Whether the reform will enhance the performance and efficiency of the companies listed on the stock exchanges in India</b>		
Yes	45	75
No	15	25
<b>Total</b>	<b>60</b>	<b>100</b>
<b>Type of education program which has to be undertaken by the SEBI</b>		
Fundamental Education	16	26.67
Technical Education	17	28.33
Trading in the Capital Market	15	25.00
Capital Market Models	12	20.00
Others	00	00.00
<b>Total</b>	<b>60</b>	<b>100.00</b>

Source: Field survey

From the above table it is analyzed that Majority of the respondents invest their funds in Indian Capital Market for a period of 6 to 10 years and believe that reforms in capital market is very essential especially in industrial securities. The main objectives for reforms in Indian Capital Market is to bring an appropriate regulation and promote growth in Indian economy and it felt necessitate only after liberalization because of drastic changes in economic and political conditions. Respondents felt that SEBI play a pivotal role in formulating and implementing reforms for the Indian Capital Market and they consider strict enforcement of law and introducing safety for investors and they expect more trading volumes and thereby reducing

transaction cost and guaranteed settlement of transactions. More number of the respondents strongly agreed that “A well developed capital market is the mirror” for the developed economy” and they expected to get technical, fundamental and trading education from SEBI.

### **FINDINGS**

1. It is found out from the survey that, companies raise their capital/fund which is required for the operations of the organization within the country itself.
2. Some respondents opine that, the reforms will certainly not reduce the scams which have been occurring in the capital market.
3. Nearly 60% of the respondents opine that, the performance of the securities listed on the stock exchanges is dependent on the reforms and also will enhance the performance of the securities.
4. Nearly 40% of the respondents opine that the financial institutions plays a dominating role in the Indian Economy because of the safety net and guaranteed settlement provided by the financial institutions.
5. It is found out that, there is poor liquidity in the market and it needs to be considered while making reforms in the capital market.
6. Most of the respondents prefer to have the transparency in accounting practices in the securities market.
7. It is found out that the transaction costs needs to be reduced.
8. It is found out that the settlement process must be made easy for the quick and timely settlement of the transactions in the securities market.
9. It is found out that there is inefficiency in the performance of the Indian Capital Market and it need to consider more attention.

### **SUGGESTIONS**

1. It is suggested for the companies which are listed in the stock exchanges to raise the required capital not only from the domestic investors but also from the overseas market through bonds and other securities. Such foreign exchange funds have a greater impact on the development of the nation. Moreover, Foreign Direct Investments (FDIs) also bring in foreign capital as well as foreign technology that leads to greater economic development.
2. There must be transparency in the transactions occurring in the capital market and the SEBI has to frame certain rules and regulations and also the strict enforcement of these regulations on the market participants is necessary which are very helpful to reduce the scams in the capital market.
3. The performance of the securities listed on the stock exchanges is not only dependent on the reforms in the capital market but also on the performance, efficiency and transparency in the accounting and reporting practices of the companies and also on the ratings given by the credit rating agencies. Thus, it is suggested to maintain just, fair and trustable accounting and reporting practices in the companies.

4. In order to reduce the domination of the financial institutions, it is suggested to ensure the innovative financial instruments like derivatives, mutual funds, which offers huge returns and less risk.
5. In order to enhance the liquidity in the capital market, it is suggested to widen the share issue base and also the investors base, enhancing efficiency of the intermediary services and improving the market infrastructure and also increasing the product range, may enhance the liquidity in the capital market.
6. In order to maintain transparency in the accounting and transacting practices in the securities market, it is necessary to appoint the audit committee in order to audit the financial statements prepared by the intermediaries and also they have to abide by the strict rules and regulations framed by the SEBI.
7. In order to promote awareness among the investors regarding the capital market, it is necessary for the market regulators to conduct certain education and training program regarding the capital market and its trading mechanism and also by giving advertisements in the media about the innovative instruments may attract the investors to invest in the capital market.

### **LIMITATIONS**

It is found out that the respondents are not willing to respond on their own wish. The sample respondents are chosen from the Shimoga District because of the time restrictions. The respondents were respond only on the request of the researcher. The stock brokers are not having enough knowledge to respond to the queries.

### **CONCLUSIONS**

Reforms in the securities market, particularly establishment and empowerment of SEBI, allocation of resources by market, screen based nation-wide trading, dematerialization and electronic transfer of securities, availability of derivatives of securities, etc. have greatly improved the regulatory framework and efficiency and safety of issue, trading, clearing and settlement of securities. However, efforts are on to improve working of the securities market further. The main change, which has witnessed the Indian Securities Market, is that earlier trading in both primary market and secondary market was done physically and is now replaced by electronic systems available for trading. With the strengthening of the regulatory system and introduction of various Acts has empowered the Indian Securities Market and therefore has become a better option for investing the resources.

Securities and Exchange Board of India (SEBI) have been playing an important role in regulating the business in the Securities Market and to protect the interest of the investors. With the strategic aims in view, the SEBI has been constantly reforming, reviewing and reappraising its policies and programs, formulating new policies and regulations/programs to cover areas hitherto unregulated or inadequately regulated and to implement them in a manner to promote the growth of the market with transparency, fairness, efficiency and integrity.

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## **AN ASSESSMENT OF DISPOSAL ASPECTS OF ADMITTED CASES WITH PUNJAB STATE HUMAN RIGHTS COMMISSION: PERCEPTION OF THE DEALING STAFF**

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### **ABSTRACT**

*Human rights are the rights related to life, liberty, equality and dignity of the individual guaranteed by the constitution or embodied in the international covenants and enforceable by the courts. Human rights are those basic standards without which people cannot live with dignity. This very denial of Human Rights is just like not considering the person his 'being human'. The advocacy of Human Rights is to demand that the human dignity of all people be respected. The Protection of Human Rights Act was enacted in the year 1993 in India. It provided for the creation of a National Human Rights Commission and State Human Rights Commissions. Since the passing of this Act and setting up of the various Commissions the human rights violations have been brought under the microscopic vision of the Commissions and efforts have been made to minimize such violations. The PSHRC came into being in the year 1997 and ever since its existence the Commission has been handling nearly 10,000 cases of violation per year. It is equally important to assess the disposal of these admitted cases in the state. This present study is an attempt to assess the disposal of admitted cases with PSHRC.*

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### **INTRODUCTION**

Human rights are those basic standards without which people cannot live with dignity. This very denial of Human Rights is just like: not considering the person his being human. The advocacy of Human Rights is to demand that the human dignity of all people be respected. The present day society encounters such blots on its face as custodial deaths, encroachments on public paths, breach of privacy, illegal detentions, cruelty in punishments, unchecked pollution of water and air, unabated ecological degradation, pursuit of hazardous employment, child labour and other exploitation, juvenile cruelty, failure of the state to provide basic health and educational facilities, wide spread prostitution, female feticide, offences against mentally challenged person, lack of enabling facilities for the physically disabled, sexual harassment, obscenity etc. These are

perpetrated by the public authorities either by their acts of commission, or through their acts of omission in the performance of their duty. Through various judicial pronouncements, law relating to human rights has been developed essentially in the above fields of freedom and dignity of the humans.

There are two faces of Human rights violations; one is when the state denies an individual or individuals the bestowed rights and the other facet is where the society deprives the individual or individuals from the bestowed rights. In the first category the issues like rise in custodial deaths, breach of privacy, illegal detentions, cruelty while investigating, unchecked pollution of water and air, handling juvenile delinquency, failure of the state to provide basic health and educational facilities. Whereas in the second category the issues are like unabated ecological degradation, pursuit of hazardous employment, child labour, bounded labour, encroachments on public paths and other exploitation such as wide spread prostitution, female feticide, offences against mentally challenged person, lack of enabling facilities for the physically disabled, sexual harassment, obscenity and others. These are perpetrated by the public authorities by their acts either of Commission or through their acts of omission in the performance of their duty. Through various judicial pronouncements, law relating to Protection of Human Rights has been developed essentially in the field of Human Rights to ensure freedom and dignity of the humanity.

#### **ORIGIN OF HUMAN RIGHTS COMMISSION AT NATIONAL AND STATE LEVEL**

The Government of India introduced the Human Rights Commission Bill in the Lok Sabha on 14th May, 1992. On 28th September 1993 President of India promulgated an Ordinance namely 'Protection of Human Rights Ordinance'. This ordinance was replaced by the Protection of Human Rights Act 1993 which was passed by both the Houses of Parliament. Finally, The National Human Rights Commission (NHRC) was constituted under this Act on 12<sup>th</sup> October, 1993. This Act drew its inspiration mostly from international covenants like the International Covenant on Civil and Political Rights and the International Covenant on Economic, Social and Cultural Rights adopted by the General Assembly of the United Nations on the 16<sup>th</sup> December, 1966. Even in defining Human Rights the Act has mentioned about these covenants frequently. After the establishment of the NHRC it was mandatory for the State Governments to constitute the State Human Rights Commission. Thus keeping in view the PSHRC came into being.

The decision to establish the Punjab State Human Rights Commission was taken under the notification by the State Government on 17<sup>th</sup> March 1997 under The Protection of Human Rights Act 1993. The Commission started functioning on 16<sup>th</sup> July 1997. The section 21(2) of the Act makes provision for constitution of State Human Rights Commission consisting of:

1. A Chairperson who has been a Chief Justice of a High Court;
2. One Member who is, or has been the Judge of the High Court;
3. One member who is, or has been a District Judge in the State;
4. Two members to be appointed from amongst person having knowledge of, or practical experience in matters relating to Human Rights.

#### **OBJECTIVE OF THE STUDY**

1. To examine the disposal of admitted cases with Punjab State Human rights Commission.

## RESEARCH METHODOLOGY

This study is based on the perception of the dealing staff of PSHRC. For the present study both Primary and Secondary data has been collected. For purpose of collection of primary data interview schedule was prepared. The Interview schedule prepared for dealing staff contained various statements pertaining to the procedures followed, working and handling of the cases in PSHRC and their comments thereupon.

For the purpose of collecting secondary data, the provisions of the National Human Rights Act, provisions of the Punjab State Human Rights Act were analysed and studied. Besides, the various books, journals, newspapers, reports were consulted. Moreover, various publications, reports, statistical abstracts and covenants of the both the Central and the State Government were also referred to various internet sites pertaining to Human Rights Organisations at the International, National and the State levels were searched for the relevant material. The used secondary data was aptly referred to.

## DATA ANALYSIS AND INTERPRETATION

The primary data so collected has been analysed by calculating percentages to support the findings. The data analysed has been presented neatly in the tabular form for easy comprehension.

## SAMPLE FOR THE STUDY

In order to conduct the present study a sample of 12 officials was taken; 5 Personal Assistants of the members of the commission including the chairperson and 7 data entry operators. The sample was selected keeping in mind the purpose of the study and selecting the staff which was in direct contact with admission and disposal of cases.

For the purpose of undertaking the present study following set of questions were asked to the dealing officials in handling and disposal of the Human Rights cases.

**TABLE 1: HOW MANY CASES PUNJAB STATE HUMAN RIGHTS COMMISSION RECEIVES PER MONTH?**

Attributes	Responses
50- 100	0
100- 150	0
150- 200	0
200 and above	12

Source: Computed from Primary Data

On asking the question that how many cases were received per month by Punjab State Human Rights Commission it was clear from the data highlighted in the Table 1 that majority of the respondents (100 per cent) were of the opinion that more than 200 cases were received by Punjab State Human Rights Commission monthly.

**TABLE 2: HOW MANY CASES PUNJAB STATE HUMAN RIGHTS COMMISSION DECIDE PER YEAR?**

Attributes	Responses
100- 150	0
150- 200	0

200- 250	0
250 and above	12

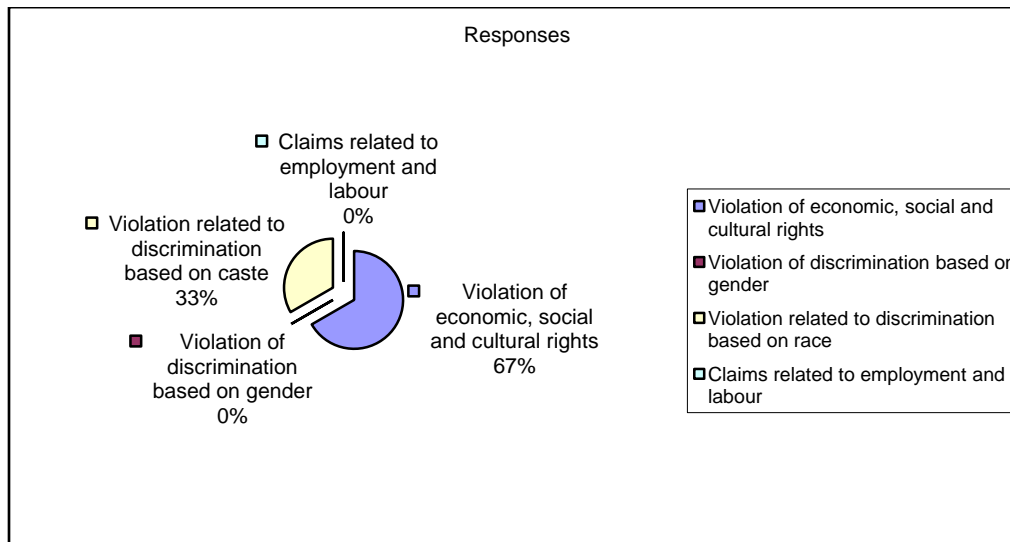
Source: Computed from Primary Data

While assessing that how many cases were decided by Punjab State Human Rights Commission annually it was evident from the response as illustrated in the Table 2 that all the respondents (100 per cent) reported that more than 250 cases were decided annually by PSHRC.

**TABLE 3: ON WHICH SPECIFIC HUMAN RIGHTS VIOLATIONS DO THE MAJORITY OF YOUR CASES CONCERN**

Attributes	Responses
Violation of economic, social and cultural rights	8
Violation of discrimination based on gender	0
Violation related to discrimination based on caste	4
Claims related to employment and labour	0

Source: Computed from Primary Data



Source: Computed from Primary Data

On asking the question regarding nature of Human Rights violations it was found that as per the data highlighted in the Table 3 it was found that majority respondents (67 per cent) were of the view that majority of the cases were concerned with the violation of economic, social and cultural rights and according to the four respondents (33 per cent) most of the cases were concerned with violations related to discrimination based on caste.

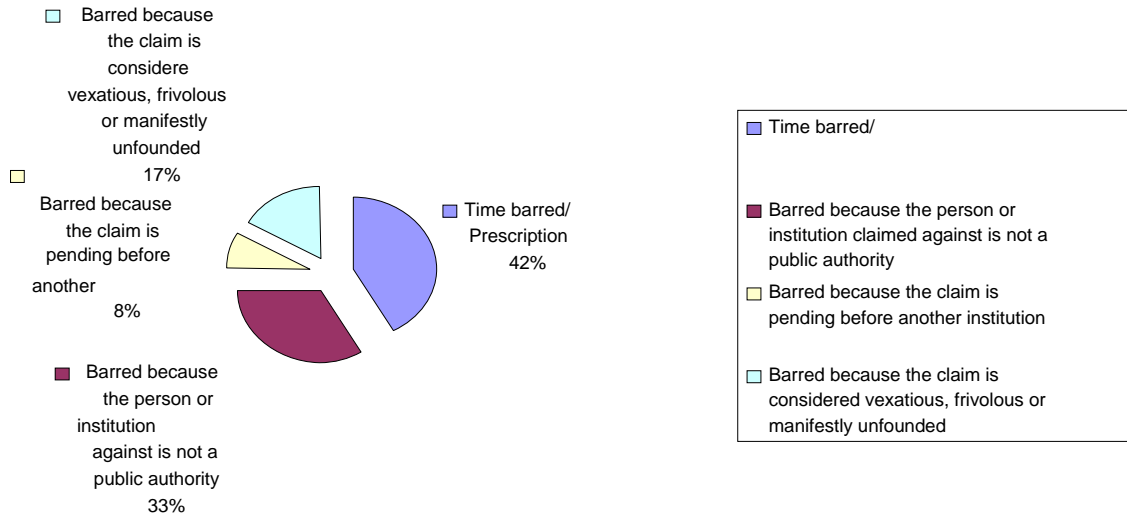
**TABLE 4: ON WHAT GROUNDS DOES PUNJAB STATE HUMAN RIGHTS COMMISSION REFUSE TO ADMIT CASES**

Attributes	Responses
Time barred/ Prescription	5
Barred because the person or institution claimed against is not a public authority	4
Barred because the claim is pending before another institution	1

<b>Barred because the claim is considered vexatious, frivolous or manifestly unfounded</b>	<b>2</b>
--	----------

Source: Computed from Primary Data

Responses



Source: Computed from Primary Data

On examining the issue that on what ground Punjab State Human Rights Commission refused to admit the cases, it can be seen from the data presented in the Table 4 that five respondents (42 per cent) were of the opinion that time barred was the main reason on which PSHRC refused to admit the cases whereas according to four respondents (33 per cent) the cases were not admitted because the person or institution claimed was not the public authority. Further two respondents (17 per cent) opined that the cases were barred because the claim was considered vexatious, frivolous and the claim was pending before another institution was also the reason reported by only one respondent (8 per cent) on which the PSHRC refused to admit the cases.

**TABLE 5: IS THERE A PROCEDURE FOR SCREENING OF CASES?**

Attributes	Responses
Yes	<b>12</b>
No	<b>0</b>

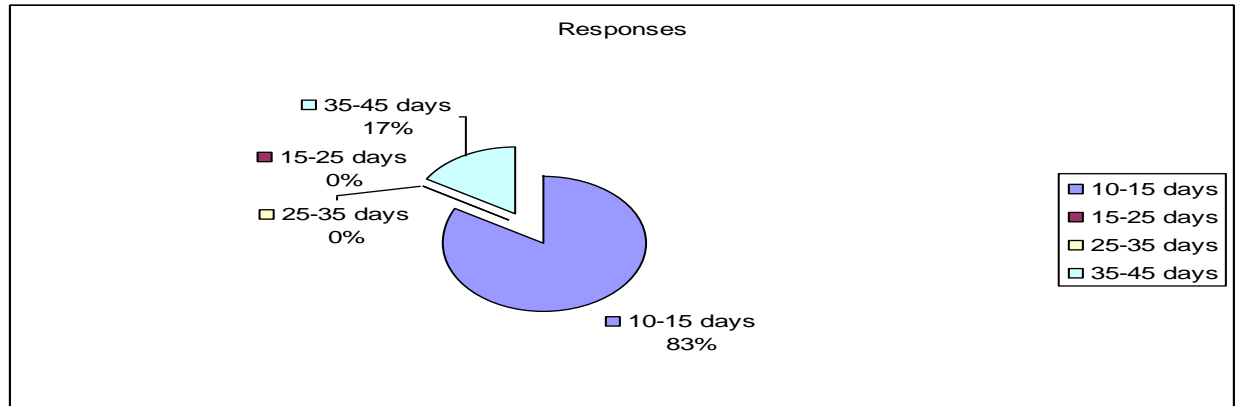
Source: Computed from Primary Data

In the Table 5 the presented data had been interpreted to test whether there was any procedure for screening of cases. On closer analysis it can be noted that maximum respondents (100 per cent) responded that there was a procedure for screening of cases.

**IF, YES THEN WITHIN WHAT TIME FRAME**

Attributes	Responses
10-15 days	10
15-25 days	0
25-35 days	0
35-45 days	2

Source: Computed from Primary Data

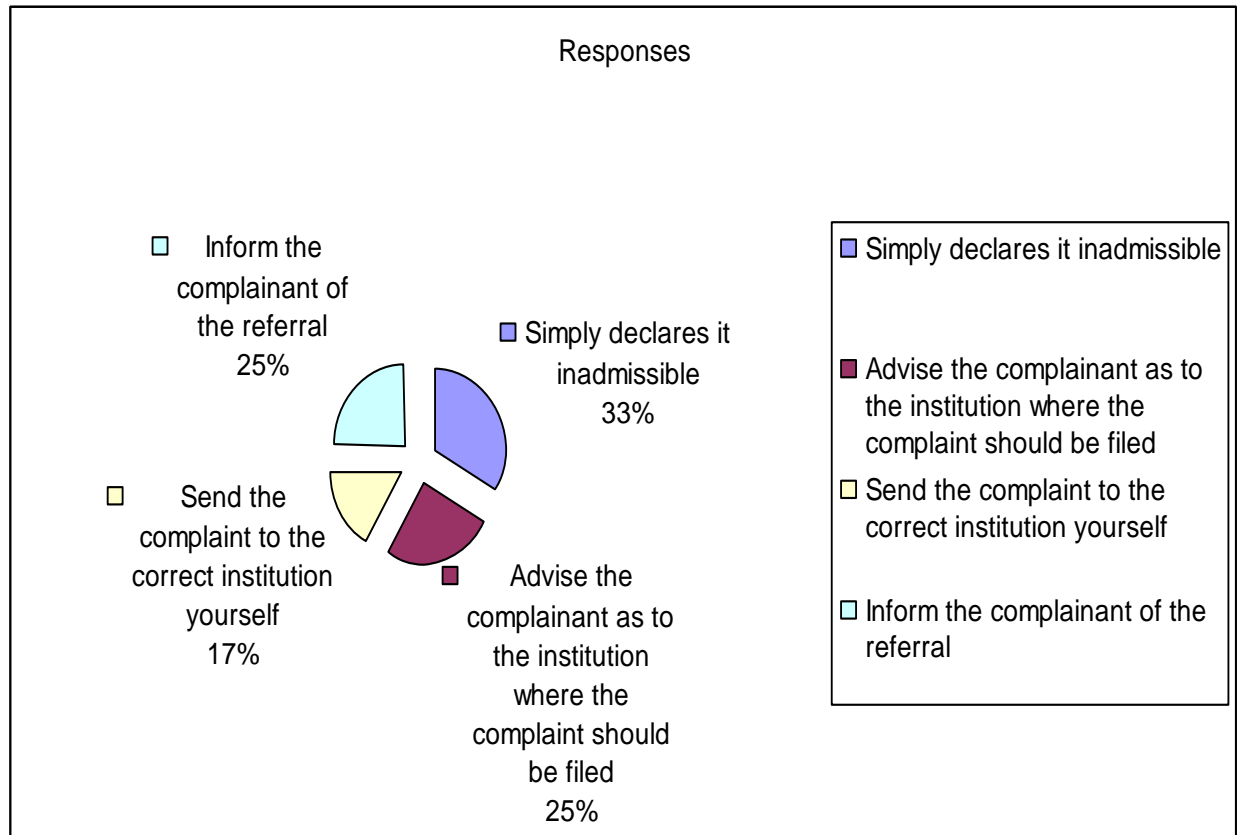


Source: Computed from Primary Data

Table 5 further endeavours to investigate the time frame for screening of cases and it was found that ten respondents (83 per cent) were of the view that 10-15 days was the time for screening cases whereas only two respondents (17 per cent) affirmed that the time for screening of cases was 35-45 days.

**TABLE 6: THE PUNJAB STATE HUMAN RIGHTS COMMISSION CONSIDERS THAT A COMPLAINT FALLS MORE PROPERLY WITHIN THE MANDATE OF ANOTHER INSTITUTION, THEN WHAT IS THE PROCEDURE ADOPTED?**

Attributes	Responses
Simply declares it inadmissible	4
Advise the complainant as to the institution where the complaint should be filed	3
Send the complaint to the correct institution yourself	2
Inform the complainant of the referral	3



Source: Computed from Primary Data

After analyzing the response to question if the Punjab State Human Rights Commission considers that a complaint falls more properly within the mandate of another institution, then what was the procedure adopted, from the data presented in the Table 6 it was found that four respondents (33 per cent) said that the complainant was declared inadmissible by the Commission whereas three respondents (25 per cent) believed that Commission advise the complainant to go to the institution where the complaint should be filed. It was further observed that two respondents (17 per cent) alleged that Commission send the complaint to the correct institution itself and three respondents (25 per cent) held that Commission inform the complainant of the referral process.

**TABLE 7: DOES PUNJAB STATE HUMAN RIGHTS COMMISSION HAS A DIRECT MANDATE TO CONDUCT INVESTIGATION?**

Attributes	Responses
Yes	12
No	0

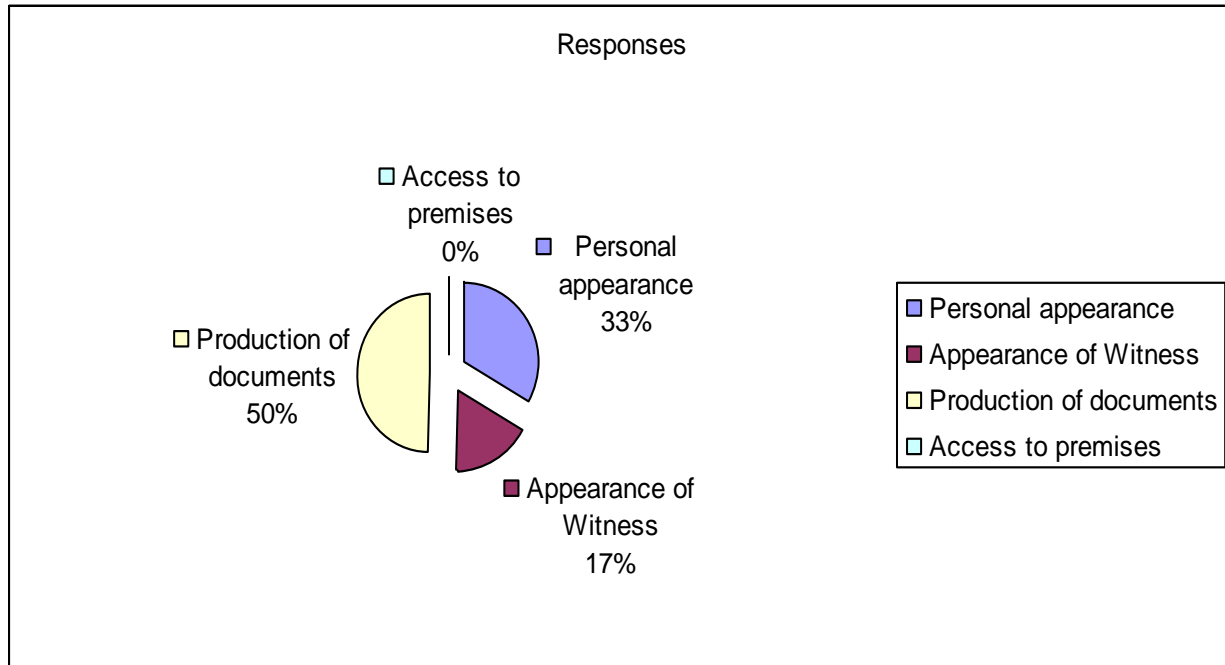
Source: Computed from Primary Data

On scouring that Punjab State Human Rights Commission had a direct mandate to conduct investigation. The data presented in the Table 7 revealed that majority of respondents (100 per cent) agreed with the statement.

**IF YES, DOES THE MANDATE CONFESS POWERS TO COMPEL FOR**

Attributes	Responses
Personal appearance	4
Appearance of Witness	2
Production of documents	6
Access to premises	0

Source: Computed from Primary Data



Source: Computed from Primary Data

Table 7 further meddled that did PSHRC had the mandate to confess power in order to compel, it was clear from the data that four respondents (33 per cent) confessed that PSHRC had power to compel on the basis of personal appearance, two respondents (17 per cent) revealed that PSHRC had power to compel on basis of appearance of witness whereas six respondents (50 per cent) reflected that PSHRC had power to compel on the basis of production of documents.

**TABLE 8: DOES THE PUNJAB STATE HUMAN RIGHTS COMMISSION ACCEPT ANONYMOUS COMPLAINTS?**

Attributes	Responses
Yes	5
No	7

Source: Computed from Primary Data

While examining that does Punjab State Human Rights Commission accept anonymous complaints, it was palpable from the responses as exemplified in the Table 8 that five respondents (42 per cent) reported in favour of the viewpoint whereas seven respondents (58 per cent) disagreed with the statement since that it was not specified in the Act.



**IF NO, GIVE REASON FOR NOT ACCEPTING THE ANONYMOUS COMPLAINT**

It is out of the preview of the Commission as it is not specified in Human Rights Act

**TABLE 9: DOES THE PUNJAB STATE HUMAN RIGHTS COMMISSION PERMIT TO PROCESS COMPLAINTS WHERE THE IDENTITY OF THE COMPLAINANT REMAINS CONCEALED FROM THE PARTY COMPLAINED AGAINST?**

Attributes	Responses
Yes	0
No	12

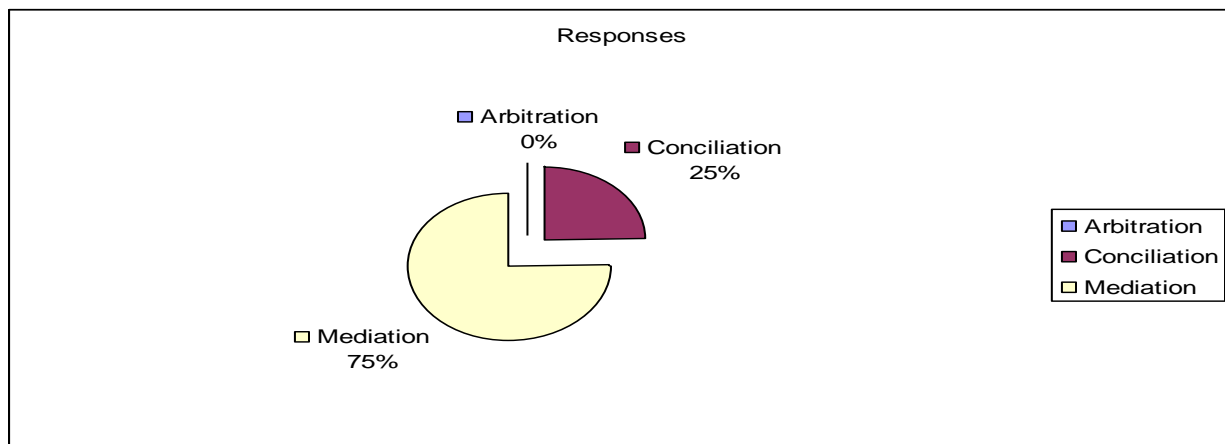
Source: Computed from Primary Data

On exploring the subject matter that does Punjab State Human Rights Commission permitted to process the complaints where the identity of the complainant remains concealed from the party complained against it can be seen from the data presented in the Table 9 that all respondents (100 per cent) were not in favour of the subject matter.

**TABLE 10 DOES PSHRC HAS A MANDATE TO CONDUCT?**

Attributes	Responses
Arbitration	0
Conciliation	3
Mediation	9

Source: Computed from Primary Data



Source: Computed from Primary Data

On assessing the question that does Punjab State Human Rights Commission had mandate to conduct arbitration, mediation and conciliation, from the data highlighted in the Table 10 it was instituted that three respondents (25 per cent) believed that PSHRC had mandate to conduct conciliation whereas nine respondents (75 per cent) alleged that PSHRC had mandate to conduct mediation.

### MAJOR FINDINGS

- ❖ Majority of the respondents were of the opinion that more than 200 cases were received by Punjab State Human Rights Commission monthly.
- ❖ All the respondents reported that more than 250 cases were decided annually by PSHRC.

- ❖ The higher number of respondents were of the view that majority of cases were concerned with the violation of economic, social and cultural rights.
- ❖ Most of the respondents were of the opinion that time barred or prescription was the main reason on which PSHRC refused to admit the cases.
- ❖ The respondents in large proportion stated that there was a procedure for screening of cases and majority of the respondents opined that time for screening of cases was between 10 to 15 days.
- ❖ Majority of the respondents were of the opinion that the complaint was declared as inadmissible by PSHRC if the complaint falls within the mandate of another institution.
- ❖ Punjab State Human Rights Commission had a direct mandate to conduct investigation and thus view was supported by majority of the respondents.
- ❖ It was found by majority of respondents that anonymous complaints were not accepted by PSHRC because it was not specified in the Human Rights Act.
- ❖ The respondents expressed in majority that PSHRC did not permit to process complaints where the identity of the complainant remains concealed from the party complaint against.
- ❖ It was agreed by majority of the respondents that PSHRC had mandate to conduct mediation.

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## ROLE OF EDUCATION IN ECONOMIC DEVELOPMENT

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### INTRODUCTION

Education in every sense is one of the fundamental factors of development. No country can achieve sustainable economic development without substantial investment in human capital. Education enriches people's understanding of themselves and world. It improves the quality of their lives and leads to broad social benefits to individuals and society. Education raises people's productivity and creativity and promote entrepreneurship and technological advances. In addition it plays a very crucial role in securing economic and social progress and improving income distribution among people.

Education is an important form of investment in human capital development. Infact, it can be regarded as a high level or a specialized form of human capital contribution of which to economic development is very significant. It is rightly regarded as the "engine of development in the new world economy".

### CONTRIBUTION OF EDUCATION

- It helps in the rapid industrialization of economy by providing manpower with professional, technical and managerial skills.
- In present content of transformation of nations into knowledge economies and knowledge societies, education provides not just educated workers, but knowledge workers to the growth of the economy.
- It creates attitudes and makes possible attitudinal changes necessary for the socialization of the individuals and the modernization and overall transformation of the societies.
- Education helps, through teaching and research in the creation, absorption and dissemination of knowledge. Education also helps in the formation of a strong nation-state and at the same time helps in globalization.
- Lastly, Education allow people to enjoy an enhanced "life of mind" offering the wider society both cultural and political benefits.

### EDUCATION AND ECONOMIC GROWTH

The contribution of education to economic growth is presumed to occur through a number of distinct yet interacting functions.

**FIRST:** It is believed that higher education contributes to economic growth the “production of knowledge” and that is largely takes place within the major universities through faculty members and their advanced students research and creative activities.

**SECOND:** It is generally acknowledged that colleges and universities contribute to national growth through the “diffusion of knowledge”, which may result from the cutual serve activies of their faculty, staff and students.

**FINALLY:** It is universally accepted that educational institutions contribute to the “transmission of knowledge” through extensive and varied teaching activities.

## **THE RELATIONSHIP OF EDUCATION TO ECONOMIC GROWTH EMPRICAL EVIDENCE**

### **MACROECONOMIC APPROACHES**

Perhaps the simplest framework in which to look at the effects of education on economic growth is offered by the growth accounting framework. The basic model is that output is a function of factor inputs as described by Solow (1956) .for the economy as a whole there are various ways to analyze the relationship but the most usual approach would be to suggest that grow in output (Q) is a function of the growth of inputs of labor (L) and capital (K) plus an unknown residual or error term (R). thus the basic equation is:-

$$Q=f(L,K,R)$$

The residual item is needed because investigations typically find that the growth in output is greater than the increase in labor and capital is the economy. Bassanini ve Scarpetta (2001) have investigated the role of human capital accumulation in explaining growth paths across 21 OECD countries over the 1971-98 period via panel data analyze. They provide human capital by the average number of years of formal education of working age population. The results point to a positive and significant impact of human capital accumulation to output per capita growth. The estimated long seen effect onoutput of one additional year of education (about 6%) is also consistent with microeconomic evidence on the private returns to schooling. They also found a significant growth effect from the accumulation of physical capital, and speed of convergence to the steady state output per capita growth path f around 15%/year. Wolf and Gittleman showed that higher education enrollment rates are correlated with labor productivity growth. The number of scientists and engineers per capita is also associated with economic growth.

### **MICROECONOMIC APPROACHES**

Conventionally the contribution of education to economic development is analyzed in terms of education-earnings relationships and more conveniently inform of rates of return. Rates of return ae summary statistic of the relationship between lifetime earnings and costs of education. After adjusting for direct costs associated with the corresponding levels of educational achievement (for example, tution and fees), and taking account of the fact that the value of a given sum of money will vary depending in the time at which it is spent or received, the (discounted net) earnings differentials can be expressed in classic “rates of return” terms.

Once both private and social rates of return are calculated, it is easy to calculate the difference in these rates,how much society benefits above and beyond the private return. It is this difference that provide and economic justification for govt. action.

Psacharopoulos (1973, 1985, 1994, 2004) provides an international survey of rates of return to education conventional rate of return analysis shows higher education in a less favourable light that it shows primary and secondary schooling. Psacharopoulos and Patrinos reviewed if country studies and found that social rates of return to investment in primary education are the highest (18.9%) followed by secondary education (13.1%). The returns to higher education are the least (10.8%). This pattern is more or less true in general with respect to private rates to returns also. Such evidence is extensively used to discourage public investment in higher education and to concentrate rather exclusive on primary education.

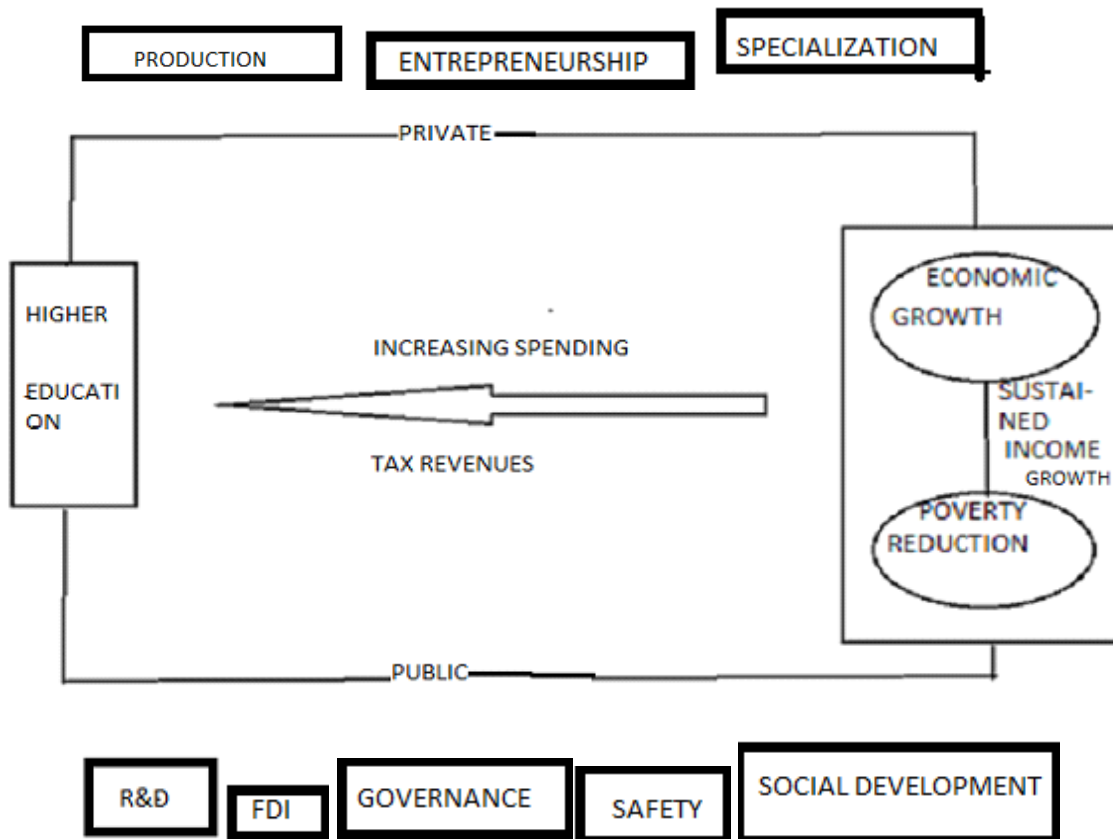
### HOW HIGHER EDUCATION SUPPORTS DEVELOPMENT?

Statistical analysis, case study, and common observation all point to the fundamental importance of higher education to development. Education promotes the followings.

- **INCOME GROWTH:** the vitality of education is a fundamental and increasingly important determinant of a nations position in the world economy. It contribute to labor productivity, entrepreneurial energy, and quality of life, enhances social nobility; encourages political participation; strengthens civil society and promotes democratic governance.
- **CREATING NEW TECHNOLOGY:** In knowledge economy, higher education can help economies keep up or catch up with more technologically advanced societies. Knowledge of people can also improve the skills and understanding, while the greater confidence and know-how inculcated by advanced schooling may generate entrepreneurship with positive effects on job creation.
- **ENLIGHTENED LEADERS:** Education can give leaders the confidence, flexibility, breadth of knowledge, and technical skills needed to effectively confront the economic and political realities of the 21<sup>st</sup> century. It also generates cadres of well trained teachers for all levels of the education system.
- **EXPANDING CHOICES:** development is fundamentally concerned with expanding the choices people can make. As such an accessible education system- offering a wide range of quality option for study – is a major achievement, bolstering social mobility and helping the talented to fulfill their potential.

### PUBLIC AND PRIVATE BENEFITS OF EDUCATION

Private	Public
Better employment prospects, higher salaries, greater ability to save and invest.	Higher earnings for well educated individuals raise tax revenues for govt. and ease demands in state finances.
Better health, quality of life, Boosting life time earnings.	They also translate into greater consumption, which benefits produces.



## THE CHANNELS OF EFFECT HIGHER EDUCATION TO ECONOMIC GROWTH

### CONCLUSION

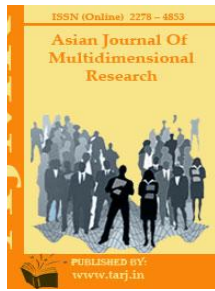
Individuals are interested in taking more schooling partly because they can earn more and get better jobs, on average, with more schooling. For many, more schooling can be a source of social mobility. Similarly, nation states and regions are interested in raising the average level of schooling in their population because they think that doing so will improve productivity, increase economic growth, raise the quality of jobs in the economy, and reduce poverty and inequality. Nations with more educated labor forces are characterized by higher output per worker but typically these nations also have more physical capital per worker.

The claim that educated workers adjust more effectively to rapid change in opportunities and technology implies that in today's more rapidly changing and more competitive markets, the payoff to education should rise.

The positive economic payoff to individuals with more education in the form of higher earnings suggests that their economic value to the society is higher than those who have lower education. Economists estimate the payoff to more education relative to the cost of that education just like they would estimate the payoff to any investment. They calculate what the amount invested in education yields in higher earnings over the lifetime of those with more education. A positive rate of return to education suggests that investing in education contributes to growth. And those levels of education associated with higher rates of return should be the levels in which additional investment produces the greater contribution to economic growth.

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## “BALANCED SCORECARD” RIGHT WAY IN STRATEGIC PLANNING

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### ABSTRACT

*Evaluation of the performance of an organization is essential for its sustainable development. Various measures have been evolved over a period of time for the purpose. However, most of these measures concentrate on only one of the facets of the organization. It is recognized that while an organization might be performing well in one area, it might be ill-performing in some other area. Consequently, balanced sustainable development of the organization becomes a difficult objective. The concept of Balanced Scorecard, developed by Robert Kaplan and David Norton in 1992, tries to overcome this limitation of the traditional techniques of performance evaluation. A Balanced Scorecard brings together, in a single management report, many of the seemingly disparate elements of a company's competitive agenda. It provides an organization the necessary tools for performance measurement and monitoring, directly addressing multiple aspects that support the overall vision and strategy by developing indicators for different factors. Once the use of the Balanced Scorecard filters down in the organization, the lower level employees are able to see the link between what they do and its impact on the company's bottom line goals (e.g., results benchmarks like profit). And the scorecard becomes a management tool where employees receive feedback that is timely enough to impact current or future performance. Unfortunately, the logic lying behind the scorecard approach to performance measurement can go away when measures are put to use in the face of practical contingencies affecting an organization. While there are good reasons to measure multiple dimensions of performance, there are also strong pressures to appraise performance along one dimension: better or worse. The Balanced Scorecard concept has intrinsic executive appeal, though for success the Balanced Scorecard must be viewed as the tip of the improvement iceberg. Processes within the organization are less visible, but equally essential to assure that the scorecard contained the right components and support systems. Adding simply more non-financial measures can result in*



*a loss of organizational focus and a dilution of effort. This paper critically evaluates the concept of Balanced Scorecard as a tool for performance measurement of an organization. Apart from the need for such a technique, the shortcomings are also discussed to understand why adoption of Balanced Scorecard technique is difficult in practice.*

**KEYWORDS:** *Balanced Scorecard, Performance Evaluation, Contingencies.*

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## **I. INTRODUCTION**

The traditional performance measurement systems for organization featured an overwhelming reliance on financial metrics. However, such financial metrics were ill suited to meet demands of modern business world characterized by value creation stemming from intangible assets such as employee know-how, strong customer relationship and cultures capable of innovation and change. The notion was simple, but the ramifications profound. As a remedy, the organizations around the world began to embrace the Balanced Scorecard system.

The concept of the Balanced Scorecard (BSC) was first introduced by Robert Kaplan and David Norton in 1992. Since its inception, the concept has been hailed as one of the most influential business ideas of the twentieth century. Thousands of organizations, spanning every conceivable type and size across the globe, have relied upon it. However, when it comes to practical application, organizations find it quite difficult to evaluate performance through a Balanced Scorecard, mainly due to the existence of various contingencies. Consequently, what appears to be an excellent tool for performance measurement turns out to be inefficient when applied in practice. This paper is intended at bringing out both strengths and weaknesses of Balanced Scorecard approach to performance evaluation of an organization.

The paper is divided into four sections in all. Section II brings out the significance of intangible assets for an organization and the need for Balanced Scorecard as a tool to evaluate performance. Section III discusses the contingencies, which render the use of Balanced Scorecard impractical and irrelevant, while restricting the inclusion of innovations and flexibility in it. Section IV discusses the flip side of the Balanced Scorecard approach due to the contingencies, while section V concludes.

## **II. MEASUREMENT OF INTANGIBLE ASSETS**

In the contemporary economic environment, factors like employee knowledge, relationship with the customers and the culture of innovation and changes generates success for an organization. In other words, the intangible assets are the key to long-term success in today's world. The power of intangibles manifest in the valuations is seen in modern organizations. According to Blair, the ordinary accounting techniques can measure only the physical assets of the companies.

However, these physical assets account for less than one fourth of the value of the corporate sector. This implies that more than 75 per cent of the sources of value inside an organization are ignored and not measured or reported in their books. Just about two decades ago, the values of intangible assets in a typical organization were estimated at around 38 per cent. This value has virtually doubled in the past two decades. Kaplan and Norton have recommended broadening the scope of the performance evaluation measures to include four areas of an organizational functioning:

a. Financial Performance

- b. Customer Knowledge
- c. Internal Business Processes
- d. Learning and growth Mechanism

This allows the monitoring of present performance of the organization. Not only that, but also this method tries to capture information about how well the organization is positioned to perform in the future.

Kaplan and Norton (1992, 1996) developed the Balanced Scorecard concept to address the perceived shortcomings in financially oriented performance measurement systems. The Balanced Scorecard approach supplements traditional financial measures with non-financial measures focused on at least three other perspectives – customers, internal business processes, and learning and growth. Kaplan and Norton contend that the Balanced Scorecard provides a number of mechanisms for linking long-term strategic objectives with short-term actions.

First, development of the Balanced Scorecard forces managers to develop consensus around the firm's vision and strategy. By requiring the vision and strategy to be expressed in terms of an integrated set of objectives and measures, senior executives must agree on how broad strategic objectives can be translated into operational measures that guide lower-level managers' actions.

Second, the Balanced Scorecard allows managers to communicate the firm's strategy throughout the organization, helping to ensure that employees understand the long-term strategy, the relations among the various strategic objectives, and the association between the employees' actions and the chosen strategic goals.

Third, by integrating strategic and financial plans, the Balanced Scorecard helps firms to allocate resources and set priorities based on the contribution of various initiatives to long-term strategic objectives. Corporate executives can learn the extent of investment needed in human resources, systems and procedures to improve future performance.

Fourth, by incorporating non-financial indicators of the drivers of strategic and financial success, the Balanced Scorecard provides strategic feedback and promotes learning through the monitoring of short-term strategic results, thereby allowing firms to modify objectives or strategies before financial results turn down. In fact, Balanced Scorecard puts strategy at the center of the management process. It also acts as the "operating system" for a new management process.

Fifth, a Balanced Scorecard complements measures of past performance, that is, the lagging indicators, with the future performance drivers, that is, the leading indicators. In this sense, a Balanced Scorecard is not only a tool to evaluate performance of an organization, but it is also a link between the past performance and future strategic actions of the organization. Such linkages are necessary to realize the performance objectives more efficiently.

Although Kaplan and Norton (1996) argue that the proper role of the Balanced Scorecard in determining compensation is not yet clear, a recent survey of scorecard implementations found that 70 percent of the respondents already used the Balanced Scorecard or some variant of it for compensation purposes. 17 percent are actively considering its use for this purpose (Towers Perrin, 1996). Similarly, research by Ittner et al. (1997) indicates that 36 percent of U.S. firms now use both financial and non-financial measures in the annual bonus contracts of their chief

executive officers, with significant weightage assigned to a function of strategic objectives of the organization.

### III. INTEGRATION OF CONTINGENCIES IN PERFORMANCE EVALUATION

The role of BSC is to identify different measures, which are significant in determining performance by assigning appropriate weightage to all such measures. A BSC method of performance evaluation involves linking strategy to action. It provides a framework that helps in solving its short-term operational problems with alignment to the long-term strategy. As the BSC practice became more widely adopted, more evidence became available to test its universal effects.

Interestingly, the evidence also explains variation in the effectiveness of the BSC practice as the measure of performance evaluation. So, while designing a BSC, these contingent factors become essential to consider. Several contingencies have been found to be important in studying the effectiveness of the practices. These include

1. Environmental uncertainty
2. Organizational structure
3. Size of the organization
4. Technology

Uncertainty associated with contingencies presents the organization with difficulties in planning the future as events cannot be identified or impact of events on operations is unknown. Evaluating performance becomes difficult as performance of the managers depends on events over which they have little control. Evaluating performance becomes difficult as performance of the managers depends on events over which they have little control.

Moreover, if the performance measurement criteria of the organization keep changing frequently, due to the changes taking place within the organization and outside the organization, it becomes difficult for the organization to frame the BSC. In this case, the organization needs to frame the BSC frequently to accommodate the changing criteria of performance evaluation. And it is always difficult to make changes in performance drivers, as they are not just performance indicators, but organizational strategy has to be formulated on its basis. So with the change in the performance indicators, a need arises to change the long-term and short-term strategy of the organization.

A BSC created as mechanistic nature of integrated performance may restrict innovation and flexibility, which are important for any organization in this changing world. The technology adopted by an organization presents varying degree of complexities. These complexities can lead to more complex business modeling with the large number of casual connections between strategy and operations. Such a model can result in a wide diversity of measures that can cause information overload. An attempt to manage performance against the measures exceeding the information processing capabilities of managers at the extreme level could result in a deteriorating performance.

Thus, in highly detailed and comprehensive business modeling, the associated performance measures will be ineffective if the conditions affecting the models are changing in unpredictable ways. Balanced Scorecard also involves detailed and complex business modeling due to its

generic measures, cause-and-effect relationships, which create problems in strategy linkage. Contingency approach sees that organizations change their performance measures over time to accommodate their changing circumstances, while attempting to maintain effectiveness of operations while designing their Balanced Scorecards (Donaldson, 2001).

#### **IV. BALANCED SCORECARD – AN INTERMEDIATE SOLUTION**

Ittner et al. (2003) found that financial firms using a BSC to reward managers had the potential to counter many of the criticisms of short-term accounting-based reward system. However the weights assigned to each performance measure used in the BSC differed from manager to manager and organization to organization. While undertaking evaluations and awarding bonuses, some measures were neglected, although these measures were the leading indicators of the strategic objectives of financial performance and customer growth.

Ittner and Larcker (1998a) report that scorecards assisted only a minority of managers in understanding goals and strategies or in relating their jobs to business objectives. They established that managers made little attempt to link non-financial performance measures to advance their chosen strategies. Most remarkably only 23 per cent of these managers were able to show that they built casual models and most of the managers could not validate the casual links. In an experimental study, Lipe and Salterio (2000) demonstrated that managers had cognitive difficulties working with measures to evaluate performance that were specific to a situation.

One difficulty in studying BSC is that the precise nature of an organization's scorecard is often not identified. There is a wide variation in the nature of Balanced Scorecard ranging from combinations of financial and non-financial measures to more comprehensive systems linking operations to various perspectives and to strategy (Ittner and Larcker 1998a; Hoque and James 2000; Ittner and Larcker 2003; Ittner et al. 2003). With a highly diverse set of measures managers must decide how they will spread their efforts over the different areas. So it is difficult for the manager to decide upon a balanced set of measures, which in turn makes designing a BSC difficult in practice.

In the situations of technological complexity, uncertainty and interdependence, it is possible to use probabilistic and subjective measures. However, some research works have shown that these softer measures tend to be manipulated by senior management. It may also happen that the range of measurement is compressed, which may lead to lesser differentiation in assessing the performance of the employees and an overall perception of unfairness (Predegast and Topel, 1993; Moers, 2005).

Ittner and Larcker (1998a) report that more than a third of respondents to a survey by the consulting firm Towers Perrin found it difficult to implant BSC for lower levels. In some organizations, more complex hierarchical structures may contribute to the difficulty of identifying as to how the implied business model translates across the organizational structure. And for effective implementation of BSC, organizations require structures that are sufficiently open and flexible to ensure that employees are empowered to search for alternatives to respond to strategic, uncertainties and that these are discussed regularly in face-to-face meetings (Simon 1995, 2000).

Moreover, Balanced Scorecard is expensive to design and implement. The size of the organization is an important factor that determines the extent to which the organization might have resources to experiment with the performance measurement systems.

## V. CONCLUSION

While financial aspects alone appear to be inefficient tool for performance evaluation of an organization, Balanced Scorecard technique appears to be a more comprehensive and more efficient tool for the purpose. Evidence suggests that many organizations have been able to generate better strategic links between short-term and the long-term objectives based on this technique. However, various contingencies inherent to the functioning of an organization make it difficult to implement this method effectively. Not only that the contingencies make practical implementation of the BSC technique a little difficult, but also different organizations face a wide variety and different sets of contingencies. Hence, it is almost impossible to build a single, common BSC for all organizations even within one business sector. Further, different BSCs may be required to assess the performance of a single organization over a period of time. Consequently, comparing different organizations on the basis of a BSC may become an even more complicated task.

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