
ISSN (Online) : 2279-0667
Published by:-
www.tarj.in
TRANS Asian Journal of Marketing
&
Management Research (TAJMMR)

TAJMMR ISSN (online) : 2279-0667

Editor-in-Chief : Dr. Karun Kant Uppal

Impact Factor : SJIF 2021 = 7.263
Frequency : Monthly
Country : India
Language : English
Start Year : 2012

Published by : www.tarj.in

Indexed/ Listed at : Ulrich's Periodicals Directory, ProQuest, U.S.A.

E-mail ID: tarjjournals@gmail.com

VISION

The vision of the journals is to provide an academic platform to scholars all over the world to publish their novel, original, empirical and high quality research work. It propose to encourage research relating to latest trends and practices in international business, finance, banking, service marketing, human resource management, corporate governance, social responsibility and emerging paradigms in allied areas of management. It intends to reach the researcher's with plethora of knowledge to generate a pool of research content and propose problem solving models to address the current and emerging issues at the national and international level. Further, it aims to share and disseminate the empirical research findings with academia, industry, policy makers, and consultants with an approach to incorporate the research recommendations for the benefit of one and all.

SR. NO.	PARTICULAR	PAGE NO.	DOI NUMBER
1.	**'PENALTIES' UNDER THE RIGHT TO INFORMATION ACT IN INDIA: AN ANALYSIS** Dr. Sangeeta Taak	4-12	10.5958/2279-0667.2021.00043.2
2.	**INCREASING COMPETITIVENESS BY MODERNIZATION OF MANUFACTURING IN THE DIGITAL ECONOMY** Mirsaidova Shaxnoza Areslonbekovna	13-17	10.5958/2279-0667.2021.00042.0
3.	**IMPACT OF CAPITAL STRUCTURE ON PROFITABILITY IN NEPALESE COMMERCIAL BANKS** Dhan Raj Chalise	18-33	10.5958/2279-0667.2021.00044.4
4.	**A STUDY ON THE OPINION OF INTERNAL AND EXTERNAL STAKEHOLDERS ON GROWTH OF INSURANCE SECTOR AFTER INCREASE IN FDI** Mrs. T. Anuradha	34-38	10.5958/2279-0667.2021.00045.6

'PENALTIES' UNDER THE RIGHT TO INFORMATION ACT IN INDIA: AN ANALYSIS

Dr. Sangeeta Taak*

*Assistant Professor of Law,
Rajiv Gandhi National University of Law Punjab,
INDIA
Email id: sangeetataak@rgnul.ac.in

DOI: 10.5958/2279-0667.2021.00043.2

ABSTRACT

The Right to Information Act, 2005 (RTI Act 2005) is a benevolent piece of legislation which empowers the each and every individual citizen of India to get information from the public office. It is important to know what 'information' under the RTI Act is. Information is which is already there in the record[1]. If it is not in the record, it is not the information. The public office must keep a record of the information in electronic copy to save themselves and easy disposal of the RTI applications. No one can conceal the information which is for public. RTI also gives power to an individual. Right to Information Act (hereinafter RTI) empowers an individual to get information within fifteen days.

KEYWORDS: *Individual Citizen, Penalize, Wrongdoer, Impose Penalties, Leading Question.*

INTRODUCTION

The Right to Information Act, 2005 (RTI Act 2005) is a benevolent piece of legislation which empowers the each and every individual citizen of India to get information from the public office. It is important to know what 'information' under the RTI Act is. Information is which is already there in the record[1]. If it is not in the record, it is not the information. The public office must keep a record of the information in electronic copy to save themselves and easy disposal of the RTI applications. No one can conceal the information which is for public. RTI also gives power to an individual. Right to Information Act (hereinafter RTI) empowers an individual to get information within fifteen days. It also includes a special feature to penalize the wrongdoer. This Act also empowers the Central Information Commission to penalize the CPIO in case they wrongfully or with malice refuses to give information. This objective of this provision of penalty is to show respect to the Act as well as the complainant. However, this provision has to be used carefully and has been used in the gross situation. Section 20 of the Right to Information Act[2]. Section 20 of the Act deals with the Penalties. It empowers the Information Commissioner to impose penalties against PIO (Public Information Officer) for refusing to give information.

This paper recommends firstly, that the future of RTI is in Section 2(f), Section 20 and section 7(1)(j). I shall also explain the misunderstanding of these sections by the PIOs in most of the cases and that is the reason it attracts penalty. Secondly, the Amendment of RTI 2019 is a threat to the RTI Act.

The RTI Act was enacted to empower every citizen of India and it really empowered. Firstly, the use of the Provision of this Act empowers only in those cases the information is sought in the right direction. Secondly, the Citizens must use the RTI Act. The information must be asked as per the provisions of the Act. I believe it because just asking a leading question shall not serve the purpose. For example, if someone files a RTI to ask why my Ration Card has not been issued? The reply under RTI can't be given. No one knows the exact reason. If the same information is asked in RTI as I have filed an application for my Ration Card two months back and the receipt is attached and send me the information that how many ration cards are issued for the last two months? It shall directly lead to an answer why the ration card was not issued in time. If it is delayed due to bribe, then the matter shall come into the notice on its own.

In this paper the data of cases shall be used in which the penalties were imposed under section 20 of the RTI Act. The cases have been chosen randomly. It is because, I believe that the clause of 'Penalties' had brought a revolution in the RTI cases, the penalties are to be paid from the pocket of the PIO so that the PIO must be ensured before taking an exemption under section 8 of the Act.

The scope of this paper shall be the cases decided by CIC in which penalties are imposed. These cases are of utmost importance as it has sparked the ray of hope in the eyes of a common man.

This paper recommends that the future of RTI is in Section 2(f), Section 20 and section 7(1) (j). I shall also explain the misunderstanding of these sections by the PIOs in most of the cases and that is the reason it attracts penalty.

In the case of Chandranshu Mehta vs Sangeet NatakAkademi[3] on 14 September, 2018 decide by Sridhar Acharyulu, The penalty of Rs. 25,000 was imposed in this case when a whistle blower lost the job for demanding an information and the information which was provided in an envelope where all the enclosures were missing. It was further added that the appellant has been harassed by respondent not giving the information.

In another case where the penalty of 25,000[4], was imposed[5] in T Subbamma vs Department of Posts,[6] where the CPIO and Superintendent of Post Office replied the widow that the National Saving Certificates were encashed by the investor. The Widow was surprised as her husband had already dead how can he come and get the NSC from post office.

In this case a poor and uneducated widow Mrs. T. Subbamma asked the Superintendent of Post Office, Kurnool asked a very valid question "how a dead person came three years after death to post office and realized five KVPs worth Rs. 50/- Thousand with interest Sir"? This question exposed a fraud that occurred in the post office and the misleading replies to her RTI requests.

The most important fact to understand is the meaning and importance of section 8(1)(h). It explains‘ Guidelines’ under “Vigilance” is in conflict with section 8(1)(h)[7] of Right to Information Act, 2005 while the second paragraph is in tune with the exemption clause. The ‘secret’ and ‘confidential’ words must not be used to commit fraud under the protection of section 8 of RTI. It is very important for PIO’s to understand the RTI with its true spirit of the makers of the legislature.

For example, if the ‘guidelines’ are issued by the authority in some public offices under the term ‘vigilance’ or ‘secrecy’ or ‘confidential’ it shall not be considered under the law. As section 22[8] of the RTI Act overrides conflicts of law under the heading of rules and regulations. It means any guidelines having conflict of interest with the RTI Act shall have no effect.

In another case of Manohari vs Department of Posts[9] on 9 August, 2018 where the penalty of Rs. 5000 was imposed and compensation was allowed when an appellate sought information regarding senior citizen pension and it was not provided for five years. The first, reason submitted was that records have been weeded out as the records pertaining to money orders are retained till 18 months from the date of its payment. Secondly, the PIO denied the information on the plea that thousands of money orders were issued by him therefore the information could not be provided to the appellant.

So, the Commission put penalty on CPIO for not providing with the information and for removing pension related documents, which are permanent in nature. How a document can be weeded when the RTI is pending.

In the words of the then CIC S. Acharyulu, it was stated that the Right to get Pension for retired employees, old aged, disabled etc. is a Right to life under Article 21 of the Constitution of India. It is a method to live with dignity for these people.The appellant in this case suffered serious violation of his right to live with dignity because of undue denial of pension.The act of delay by the public authority violated his right to life under Article 21, Right to Pension as per his service rules and contract of employment with Government, breach of citizen's charter besides being breach of his right to information.” Sometimes ignoring the RTI to one person is affects the right to life of chain of persons. For example, in the present case ignoring a reply to a widow about her pension means making her children suffering because of the want of money.

In the case of *Balkrishna Porwal* v. *PIO, Department of Posts*[10], decided by Sridhar Acharyulu that “to exercise these rights the accused is entitled to all material information such as inquiry report, statements of witnesses and other relevant documents. These documents must be made available during the process of inquiry as per principles of natural justice, which he claimed in his second appeal. The appellate accused was denied of the relevant document under the Sexual harassment Committee under section 16 of the Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act 2013 (in short SHW Act of 2013) and invoking exemptions under Section 8(1) (d) and (g) of RTI Act.He further added that the appellant-accused has a right of appeal over the findings or recommendations of the Complaints Committee. He also has a right to claim that the complaint is false and find if any evidence also is false, for which penalty is provided in SHW Act 2013". When under section 11[11] and section 13[12] of the Sexual Harassment Act, 2013 it is categorically stated to provide the requisite documents to concerned parties, then why the accused appellate was denied of this information? In the present case the CPIO invoked exemption Section 8(i)(d)[12] but in actual provision of exemption U/s 8(i)(g)[13] is applicable in present case.

In this case the CPIO used wrong provision of RTI for exemption and without any reason refused to give information for which penalty is attracted. So, it was ordered to give information to the accused and penalty was imposed under section 20[14] of the RTI Act. The CPIO pleaded that he had not denied information under malice, so penalty should not be imposed upon him[15]. However, in the case of *Ankur Mutreja* vs *Delhi University* [16] decided that penalty can be imposed if the denial is (a) without reasonable cause, (b) intentional and (c) malafide. The CIC also took the same point of view and cleared that it is clear that penalty under section 20 can be imposed even if the information is denied without malice. The penalty of Rs. 25000 was imposed by CIC in this case for denying the information to the accused.

In the case of *Piya Halder* v. *PIO*, Department of Posts, the maximum penalty of Rs. 25,000/- was imposed and the officer was directed to pay a sum of Rs. 25,000/- in 5 equal monthly instalments as wife was denied to give the information about her husband's overwork under section 8(1)(j)[17] under the RTI Act stating that it was not in good faith.

The CIC decided that the husband and wife can file RTI for the information

In this case the Appellant Mrs. Piya Halder is wife of Mr. Subroto Haldar, asked the that she was not allowed to have the association of her husband, because he was being posted at various tables and asked to work far beyond working hours, resulting in delayed arriving back to home almost every day. She is asking for the basis of the additional work, different postings, over working given to her husband etc. Her husband is the employee of the public authority and thus entitled to know the basis of entrusting overwork to him, and in her capacity as his wife, appellant has every right to seek such information.

The CPIO denied under section 8(1)(j) to reply mentioning that there is no public interest in it and it is not related to public affairs?

The CIC stated that allowing vacancies to grow and not filling them causing over work to existing employees is not personal information of any officer, and it cannot attract any exception like section 8(1)(j) of RTI Act. CIC decided that denying the information in such kind of cases amounts to reckless and illegal use of privacy exception without any justification. When wife asked why over time is not being paid or compensatory leave is not given to her husband. It is a duty of CPIO to reply to the RTI than to denyas husband is not a bonded labour and public authority has a duty to explain his employee and his wife too because she is directly affected by overworking of her husband.

After all these cases of penalty the question remains unanswered that whether the RTI Act shall serve the purpose or the proper use of RTI Act will serve the purpose?The RTI has been widely used now a days to get the information however, the main concern of the CPIO is to claim exemption under RTI or denying the RTI. It is important to understand that the information is for all and it is a right. No one is asking a favor for information. If it is meant for public then it must be disclosed to the parties[19]. Moreover, weeding out of record during the pendency of RTI application is a gross misconduct and can invite the penalty under section 20 of the RTI Act.

Under this legislation the CIC was so powerful before the amendment of the 2019 in RTI Act. However, after the amendment of the 2019 the changes have been made which has affected the powers of the CIC.For example, the Section 3(c) of the RTI Amendment Act states that the Central Government shall have the absolute powers to fix the salaries, allowances and conditions of the Information Commissioners. Before the amendment of 2019 the salaries, allowances and tenure were used to be fixed by the Election Commissioners and State Chief Secretaries[20]. It means that now, the Central Government shall have power to decide the tenure, service and salaries etc., of CIC and Information Commissioners according to their interest which was earlier within the jurisdiction of Election Commissioners.

Before the Amendment of the RTI Act, the CIC had asked even the highest authorities like Prime Minister and Finance Minister and RBI to disclose some documents to the public[21] for which they were reluctant. For example, in one of the situations when The CIC had asked RBI governor Urijit Patel to explain “why a maximum penalty should not be imposed on him for “dishonoring” the apex court verdict, which had upheld a decision taken by then information commissioner Shailesh Gandhi, calling for disclosure of names of willful defaulters. The commission considered the governor as the deemed PIO responsible for non-disclosure and defiance of Supreme Court orders and CIC orders and directs him to show cause why a maximum penalty should not be imposed on him for these reasons[22]”

This shows a big concern and big responsibility on CIC and courage to go for it. However, certain queries are unanswered when the CPIO are working under the directions of the higher authorities then how information can be released even if they wish to? However, there are some instances where the CPIO did not give reply recklessly defying or using wrong section of RTI Act to deny the request of RTI.

In conclusion I would like to state that on the basis of abovementioned cases the casual attitude or the hiding of information attitude compel the public to reach CIC. If CIC orders to pay penalty, then it means that somewhere the RTI Act has failed in implementing its spirit.The spirit of RTI must be kept by the PIO and CPIO’s. The information asked must also be very clear. It should not be more than 500 words. After the amendment of 2019, the RTI ‘s basic structure is same but the powers of CPIO is reduced. RTI must be used not abused and information must be given if it is public in nature. The penalty is the extreme case and it shows the casual behavior of the PIO. If PIO are fully aware or trained about what information is to be given or not.

We have got this RTI Act after a lot of struggles and the spirit of this Act should be preserved at any cost. Denial of information is also a part of this Act. However, denial should not be used were the Public Right to get information is involved, right to life of an individual is involved. A humane touch is required to decide any RTI. Moreover, it is already proved in the above-mentioned cases that denial of right is also illegal. It is wastage of the time of the accused and the CIC. It is also necessary to protect the whistle blowers and the amendment in RTI should be made to strengthen the Act. CIC has gone to this extent by whipping the NGT's Information officer not to charge more than prescribed in the RTI Act. They were charging Rs. 5 per page for providing information whereas it is Rs. 2/- mentioned in the RTI Act[23].

At the end, I agree and quote Dr Sridhar Acharyulu when he says that "the hope of RTI lies in Section 2 (f), Section 8 (2), Section 8 1 (j) and Section 22. RTI Act can override all legislations in the country, once we bring information into the ambit of information, the PIO is entrusted with the obligation of delivering that information. In my view, this is not properly used by PIOs and is grossly misused by higher institutions like RBI with other banks following it."

The PIO and must have a higher moral, legal and human obligation to take up the case of pensions and pension-arrears on priority and at least send a hearing notice within 48 hours. This should not take more than the minimum time required for communicating the appellant. If the phone/mobile or whatsapp, or email id is available, they shall use them to contact the applicant/appellant and to communicate the hearing notice/response. The fact should not be ignored is that the mobile phone is provided to the public servant, and his bills are paid from tax-payers money.

REFERENCES:

1. Section 2(f) RTI Act, 2005 "information" means any material in any form, including records, documents, memos, e-mails, opinions, advices, press releases, circulars, orders, logbooks, contracts, reports, papers, samples, models, data material held in any electronic form

2. Section 20(1) Where the Central Information Commission or the State Information Commission, as the case may be, at the time of deciding any complaint or appeal is of the opinion that the Central Public Information Officer or the State Public Information Officer, as the case may be, has, without any reasonable cause, refused to receive an application for information or has not furnished information within the time specified under sub-section (1) of section 7 or malafidely denied the request for information or knowingly given incorrect, incomplete or misleading information or destroyed information which was the subject of the request or obstructed in any manner in furnishing the information, it shall impose a penalty of two hundred and fifty rupees each day till application is received or information is furnished,

so however, the total amount of such penalty shall not exceed twenty-five thousand rupees: Provided that the Central Public Information Officer or the State Public Information Officer, as the case may be, shall be given a reasonable opportunity of being heard before any penalty is imposed on him: Provided further that the burden of proving that he acted reasonably and diligently shall be on the Central Public Information Officer or the State Public Information Officer, as the case may be.

3. CIC/SANAK/A/2018/164504/01976

4. Postal Office gets maximum penalty for denying info to dead man's son, 6th July, 2018, available at ww.ndtv.com/india-news/postal-official-gets-maximum-penalty-for-denying-info-to-dead-man-s-son-1878620

5. The account details of a deceased cannot be denied to legal heirs on the grounds of personal information, the Central Information Commission has ruled as it imposed the maximum penalty provided under the RTI on a postal department officer. The case pertains to a person who was seeking details of policies taken by his deceased father, available at www.outlookindia.com/newsscroll/account-details-of-deceased-cannot-be-denied-to-legal-heirs-cic/1343894

6. CIC/POSTS/A/2017/123421

7. Section 8 (1) (h) information which would impede the process of investigation or apprehension or prosecution of offenders;

8. The provisions of this Act shall have effect notwithstanding anything inconsistent therewith contained in the Official Secrets Act, 1923, and any other law for the time being in force or in any instrument having effect by virtue of any law other than this Act.

9. CIC/POSTS/A/2017/130196

10. BalkrishnaPorwal v. PIO, Department of Posts

11. Provided further that where both the parties are employees, the parties shall, during the course of inquiry, be given an opportunity of being heard and a copy of the findings shall be made available to both the parties enabling them to make representation against the findings before the Committee.

12. Inquiry report- a. On the completion of an inquiry under this Act, the Internal Committee or the Local Committee, as the case may be, shall provide a report of its findings to the employer, or as the case may be, the District Officer within a period of ten days from the date of completion of the inquiry and such report be made available to the concerned parties.

13. 8(1)(d) information including commercial confidence, trade secrets or intellectual property, the disclosure of which would harm the competitive position of a third party, unless the competent authority

14. 8(1)(g) information, the disclosure of which would endanger the life or physical safety of any person or identity the source of information or assistance given in confidence for law enforcement or security purposes;

15. 20 Penalty (i) where the central Information Commission any complaint or appeal of option that CPIO has without any reasonable cause refused to receive an applicant for information or has not furnished information within time specified in Section 7(i) or malafidely denied the request for information of knowingly given incorrect information of misleading information or destroyed information."

16. Officer accused of sexual harassment has right to case information, defend himself: CIC, available at thewire.in/government/officer-accused-of-sexual-harassment-has-right-to-case-information-defend-himself-cic

17. https://indiankanoon.org/doc/16873969/

18. Section 8(1)(j) information which relates to personal information the disclosure of which has no relationship to any public activity or interest, or which would cause unwarranted invasion of the privacy of the individual unless the Central Public Information Officer or the State Public Information Officer or the appellate authority, as the case may be, is satisfied that the larger public interest justifies the disclosure of such information.

19. 60% denials were in violation of RTI Act: Study available at taxguru.in/corporate-law/60-denials-violation-rti-act-study.html#4_IC_orders_in_violation_of_the_RTI_Act. It was mentioned in this report that as per assessments of 2014, 2017 & 2018 annually ICs across India dispose an estimated 2 lakh appeals & complaints. Since for 549 cases disposed, potential loss of Rs 55.7 lakh was caused, hence loss in 2 lakh cases can be estimated to be Rs. 203 crore.

20. Krishandas Rajagopal, SC decides to examine the amendments to RTI which empowers the government, New Delhi, February, 2020, available at, www.thehindu.com/news/national/sc-decides-to-examine-amendments-to-rti-which-empowers-government/article30708797.ece

21. RBI Governor Urjit Patel gets CIC notice over wilful defaulters list, available at /www.hindustantimes.com/india-news/cic-issues-show-cause-notice-to-rbi-governor-urjit-patel-for-non-disclosure-of-wilful-defaulters-list/story-wSPbHYQpI0EkZxWtiO7f7M.html

Where the CIC also asked the Prime Minister's Office, the finance ministry and the Reserve Bank of India (RBI) to make public the letter of former RBI governor Raghuram Rajan on bad loans.

22. CIC issues show cause notice to RBI for casual approach to its notice, available at economictimes.indiatimes.com/topic/Sridhar-Acharyulu/news/9/9

23. NGT told to charge as per RTI rules for providing information available at www.livemint.com/Politics/1ugi4Y5B6FuVGSkBxccPBJ/NGT-told-to-charge-as-per-RTI-rules-for-providing-informatio.html

INCREASING COMPETITIVENESS BY MODERNIZATION OF MANUFACTURING IN THE DIGITAL ECONOMY

Mirsaidova Shaxnoza Areslonbekovna*

*Senior Lecturer,
Tashkent State Technical University named after Islam Karimov,
UZBEKISTAN

DOI: 10.5958/2279-0667.2021.00042.0

ABSTRACT

The article considers the issues of increasing competitiveness as a result of effective use of modern information systems technologies in the modernization of various sectors of the digital economy. Digital economy is a socio-economic system in the form of electronic, Internet, network and virtual economy, aimed at increasing the efficiency of production of goods and services through digital data, which is directly related to the development of information and communication technologies of economic activity. The development of the digital economy has led to a sharp increase in the amount of information needed to make management decisions in the economy at different levels.

KEYWORDS: *Digital Economy, Modern Information Technologies, Sectors Of The Economy, Competitiveness, Competitive Environment, Energy Sector.*

INTRODUCTION

Digital economy is a socio-economic system in the form of electronic, Internet, network and virtual economy, aimed at increasing the efficiency of production of goods and services through digital data, which is directly related to the development of information and communication technologies of economic activity. The development of the digital economy has led to a sharp increase in the amount of information needed to make management decisions in the economy at different levels. Ultimately, the knowledge of the staff and the development of information and communication technologies in the national economy show an increase in its level of development and competitiveness. In developed countries and newly industrialized countries, the share of the digital economy in GDP has reached 7%. The emergence of digital economies in these countries is leading to an increase in high efficiency in their economies. In particular, the United States spends $ 400 billion annually. Exports more than $ 1 billion worth of “digital services”. More than 5% of its GDP falls on the Internet and information and communication technologies. Since the beginning of the XXI century, the rapid penetration of digital economy technologies has created the need to develop information systems in various fields, adapting to new conditions. The term "digital economy" was first used in 1995 by Nicholas Negroponte, a scientist at the University of Massachusetts, to describe to his colleagues the benefits of a new economy based on information systems and the Internet and its rapid development. Is developing rapidly.

The digital economy is understood as the process of efficient use of digital data, large-scale data sets, production processes and technologies that are transmitted quickly and conveniently using the Internet and mobile communications. In the digital economy, new technologies and effective economic relations are emerging as a result of the use of the Internet, mobile communications, the achievements of modern information technologies, innovative and cognitive technologies in the existing production and economic processes.

The new opportunities that are emerging in the context of the "digital economy", the convenience of concluding contracts in economic relations or a completely new method of electronic protection of funds and documents, contribute to their wide spread popularity in world economic relations.

According to scientists, "In the context of the digital economy, a hybrid world is created on the basis of a combination of real and virtual worlds"

In order to apply the new technologies emerging in the conditions of such a digital economy in industrial network systems, it will be possible to have a deep understanding of its essence and apply it in the system based on its capabilities.

The use of the digital economy platform and electronic digital signatures in the provision of public services and the use of "e-government" is becoming increasingly popular. The application of digital economy technologies in various sectors of the economy has the following positive effects:

Increased labor productivity; cost reduction; increase in capitalization; increase in quality of life; formation of new markets; increased competitiveness; increased security;

The role of "digital economy" technologies in the gross domestic product of developed countries is growing from year to year. It requires the creation of a possible Internet system, the creation of the infrastructure of the digital economy, and a number of other organizational tasks. The application of digital economy technologies requires the creation of a platform for its application, the creation of a digital environment (a set of software and management complexes) that meets the needs of consumers and manufacturers and includes the provision of various services and functions.

The digital economy platform allows different participants to communicate directly with each other, facilitating their communication. Examples of such platforms today are the platforms of international companies’ Alibaba Group, Uber, Amazon, Google, Facebook.

The United States and China are the world's leading countries in the application of the digital economy, and they have adopted their own programs to accelerate the development of the industry. In addition, the United Kingdom, the European Union, Korea, Japan, Australia, Belarus and a number of other countries. .

They are doing the following in this direction:

- Developed their own concepts and strategies for the development of the digital economy;

- Have chosen their directions for the development of all sectors of the digital economy;

- Have their own views on the impact of change on sectors of the economy;

-Have their own views on possible quality changes in other areas and have begun practical work in this area.

The work carried out in the countries in this area on the digital economy is aimed at developing a program for its development, defining its strategy, creating its infrastructure, development of technical and telecommunications systems.

The application of information technology in the economic and other spheres requires are consideration of the informatization process in the digital economy, taking into account the potential of the digital economy and the resulting situation.

The wide spread use of digital economy in various sectors of the economy leads to increased labor productivity, time savings, expansion of convenience and opportunities, increased quality of products and services, economic growth. At the same time, it leads to increased competition between different manufacturers, vendor's and service providers.

One of the biggest challenges facing humanity today is the energy problem. Climate change, population growth, industrial developments are leading to an increase in demand for fuel and energy around the world. Demand for fuel and energy, especially in the autumn-winter season, will increase.

The Action Strategy for the priority areas of development of the Republic of Uzbekistan for 2017-2021, approved by the Decree of the President of the Republic of Uzbekistan Shavkat Mirziyoev's PF-4947 "On the Strategy for further development of the Republic of Uzbekistan" pays special attention to this issue. And modernization of existing ones, improvement of the supply of electricity and other fuel and energy resources to the population through the renewal of low-voltage power lines and transformer substations, as well as the implementation of measures to expand the use of renewable energy sources.

Improving the future competitiveness of the economy, improving the welfare of the population, often depends on the fact that we learn to use available resources, primarily "electricity and energy resources" as an economical economy. This means moving our economy to a new "technological rail", replacing and modernizing obsolete energy equipment. The reduction of energy in the "production - consumer" chain will allow Uzbek industry to successfully compete in the world economy.

Modern models of achieving competitiveness have a general character of economic development and feature the formation of a competitive environment. These factors include:

- The state of production in terms of quality and its efficiency;

-Scientific potential, qualifications, scientific and technical achievements of employees;

-Economic and social situation of related and service sub-sectors in the main competitive industries;

-Requirements;

- Prospects and structure of the enterprise.

A modern model of achieving competitiveness has a general character of economic development and features the formation of a competitive environment. These factors include:

- The state of production in terms of quality and its efficiency;

-Intellectual potential, qualifications, scientific and technical achievements of employees;

- The state of related and service sub-sectors in the main competitive industries;

-Requirements;

- Enterprise strategy and structure.

At the heart of the development and liberalization of the economy is, of course, the deepening of structural reforms, increasing its competitiveness through the modernization and diversification of key sectors of the national economy.

The development of competitiveness can be achieved in the following four stages:

-Competition based on factors of production;

-Investment-based competition;

-Know-based competition;

-Wealth- based competition.

The first three stages provide economic growth, and the last causes stagnation and crisis.

In the economic literature - in addition to the concept of competition - the concept of competition is also used. These two concepts represent practically the same content. Competitiveness is usually the ability of commodity producers to produce for sale in a foreign market at a price that provides minimal profitability.

Historically, the concept of competitiveness of countries has been based on the theory of comparative advantage, which determines the place of the national economy in the international division of labor. Comparative advantages here mean cheap labor in the country, rich natural resources, favorable geographical location, climate, infrastructure and other factors.

The introduction of digital technologies will accelerate all economic processes, but what changes will occur in the country as a result of the acceleration of these processes - economic growth or recession - will undoubtedly depend on the development of human capital. In the era of digitalization of the economy and at a time when the value of information is growing rapidly, society is experiencing radical changes. It should be noted that the main asset of the country in the digital economy will be human capital and its quality, that is, professionals with in-depth knowledge in the field of new technologies, able to apply them, improve the old.

LIST OF USED LITERATURE

1. https://www.gazeta.uz/uz/2020/01/24/president-speech/ .

2. https://review.uz/en/post/digital-economy-is-the-guarantee-of-the-development-of-our-country

3. 3.Report of the World Bank "Digital dividends" // http: // www-wds.world-bank.org.

4. http://iqtisodiyot.tsue.uz

TAJMMR: Trans Asian Journal of Marketing Management Research
ISSN: 2279-0667 Vol. 10, Issue 11-12, Nov- Dec, 2021 SJIF 2021 = 7.263
A peer reviewed journal

IMPACT OF CAPITAL STRUCTURE ON PROFITABILITY IN NEPALESE COMMERCIAL BANKS

Dhan Raj Chalise*

*Assistant Professor,
PhD Scholar,
Faculty of Management,
Tribhuvan University,NEPAL
Email id: chalisedr@shankerdevcampus.edu.np

DOI:10.5958/2279-0667.2021.00044.4

ABSTRACT

Present research was carried out to analyze and establish the interrelationship of capital structure (debt, equity and assets) on profitability in Nepalese commercial banks. For the study purpose two "A" class banks were chosen with purposive sampling method. The major component of a capital structure i.e., debt, equity and assets are taken as dependent variable whereas profitability is regarded as dependent variable. This study is based on five years data ranging from 2014–2015 to 2018–2019 and considered for financial analysis to establish the relationship among the study variable. Descriptive analysis i.e., statistics such as mean, standard deviation, and ratios and inferential statistics such as correlation and regression analysis has been carried out. It was found that Nepalese banks are highly levered and the trend of debt ratio is increasing over the period. Further the study revealed that return on equity tends to increase significantly with increase in total debt to total asset. Return on equity tends to decrease insignificantly with increase in total debt to total equity ratio. This study found a strong one-to-one relationship between capital structure variables and profitability variables with significant influence on profitability. Increase in use of debt fund in capital structure tends to minimize the net profit of the banks. Hence, this study suggest to minimize composition of debt on their capital structure in Nepalese commercial banks.

KEYWORDS: *Capital Structure, Profitability, Debt, Commercial Bank.*

INTRODUCTION

Research on capital structure tries to explain the mix of securities and financing sources which are used by companies to finance real investment (**Myers, 2001) [24].** Generally, many alternative capital structures are available for the corporations for their best choices. For example they can issue either equity or debt. In addition they alternative of capital or a large amount of debt capital and some portion of equity capital and vice versa. It can arrange lease financing, use warrants, issue convertible bonds and other hybrid securities. The firm can issue dozens of distinct securities in different combinations; however, the rational attempt is to find the particular combination, which maximizes the overall market value of the firm. The pioneers of the determinants of corporate capital structure are **Modigliani & Miller (1958) [22],** which published their work almost half a century ago. Since the influential effort of **Modigliani and Miller (1958) [22]**, the fundamental question of whether a unique mixture of debt and equity capital maximizes the firm value, and if so, what factors could influence a firm's optimal capital structure has remained the subject of frequent debate in the literature corporate financial management. In addition to capital structure irrelevance, there are alternative theories of capital structure that include: trade-off theory, pecking order theory and agency theory **(Pandey, 2004) [26].** The trade-off theory is about establishing the optimal balance between the benefits and the cost of debt and equity. Use of internal financing is the suggestion of the pecking order theory. After this, companies use external financing, whereas firms prefer to use debt instead of equity financing. Managers are not always investing in projects in order to maximize the value of the firm to the shareholders, which causes conflicts between the manager and the shareholders **[1].**

Analyzing the MM theorem, **Miglo (2016) [20]** summarized the main ideas behind MM theorem as If the shares of levered firms are priced too high, investors will borrow on their own and use the money to buy shares in unlevered firms. This is sometimes called homemade leverage. If the shares of unlevered firms are priced too high, investors will buy share in levered firms and buy bonds. In order for the capital structure to matter, there must be some market imperfections that create friction in the process of either selling or buying securities. Modigliani and Miller (1958) are considered as the starting point of the modern theory of capital structure. It is based on the assumptions related to the behavior of investors and the capital market. So it illustrates that the firm value is unaffected by the capital structure of the firm. Securities are traded in a perfect capital market, all relevant information are available for insiders and outsiders to take the decision (no asymmetry of information), that is transaction cost, bankruptcy cost and taxation do not exist under these assumptions MM theory proved that there is no optimal debt to equity ratio and capital structure is irrelevant for the shareholders' wealth. **MM (1958) [21]** argued that the value of levered firm is same as the value of unlevered firm. Therefore they propose that managers should not concerned the capital structure and they can freely select the composition of debt to equity. Further in their preposition II they claim that increase in leverage increases the risk of the firm and as a result the cost of equity increases. But WACC of the firm remains constant as the cost of debt compensates with a higher cost of equity. The capital structure irrelevance theory found theoretically very sound then was based on impractical set of assumptions. Therefore this theory led to plenty of research on capital structure **[2].**

The pecking order theory of capital structure, the most influential theory of corporate finance was first proposed by **Myers and Majluf (1984) [24],** based on the notion of asymmetric information between firm insiders and outsiders and the resulting adverse selection problems. It suggests that firms have a particular preference order for capital used to finance their businesses **(Myers & Majluf, 1984) [24].** Managers will have more information about the true value of the firm's assets and future growth opportunities than outside investors, and hence investors closely observed financing decisions to infer information about a firm's prospects. Many studies have developed theoretical frameworks and conducted empirical tests to explain how firms chose between debt and equity and their relative proportion in firm financing **(Baker & Wurgler, 2007 [4]; Dittmar & Thakor, 2007 [10; Meier & Tarhan, 2007) [19]**. In contrast to the trade-off theory, pecking order theory has no predictions about an optimal debt ratio. It attempts to minimize adverse selection costs (Baker & Martin, 2011). The main assumption of the pecking order theory is there is no target capital structure. The firms choose capitals according to the following preference order: internal finance, debt, equity. The existence of information irregularity between managers and investors **(Myers and Majluf 1984) [24].** They also argued about managers have more inside information than investors and can act in favor of old shareholders. The pecking order theory ranks financing sources according to the degree they are affected by information asymmetry, where internal funds exhibit the lowest and equity the highest adverse selection costs. This suggests that, after the initial public offering, a firm should never issue equity unless debt financing has become invisible. This leads to the concept of debt capacity, which serves to limit the amount of debt within the pecking order and to allow for the use of equity **(Lemmon & Zender 2010; Shumway, 2001) [17].**

Owing to the information asymmetries between the firm and potential investors, the firm will prefer retained earnings to debt, short-term debt over long-term debt and debt over equity. **Myers and Majluf (1984) [24]** argued that if firms issue no new security but only use their retained earnings to support the investment opportunities, the information asymmetric can be resolved. That suggests issuing equity comes to be more expensive as irregular information insiders and outsiders increase. Firms which information asymmetry is large should issue debt to avoid selling underpriced securities. The capital structure declining events such offering new stock leads to a firm's stock price decline **[6].**

Trade-off theory is another traditional theory of capital that houses two schools of thought; the fundamental and Modigliani-Miller schools. The traditional fundamental trade off theory of Capital Structure expects that firms in the same industry should have similar or identical financial gearing ratios as they attempt to maximize the tax savings. The tax advantage, among other factors, makes the effective cost of debt to be lower than the nominal cost, and eventually reduces the weighted average cost of capital. Further, there exists optimal level of gearing if the weighted average cost of capital is least. However, when gearing level increases, any tax advantage of debt is ultimately outweighed by the shortcoming of increasing expected bankruptcy costs. Despite the theoretical appeal, most of the authors in financial management in their study have not found the optimal capital structure **(Simerly & Li, 2002) [32].**

The determinants of capital structure provide a significant indication which a firm has to consider before deciding on its capital structure. Because of its critical in an association that can pick the subject for a look into think about, it can assume an essential part in association's execution, and it can give many advantages to better execution. Capital structure boosted the market estimation of a firm having an appropriately planned capital structure the totals vale of the claim and proprietorship enthusiasms of investor are augmented. It can similarly limit the 'firm cost of financing by deciding a genuine blend of assets sources a firm can keep the general cost of funding to the least. It can expand the organization's market cost of offer by expanding profit per offer of the customary investor **(Mehar, 2018) [18].** The dependent factors are spread Ratio, Earning per Share and Return on Assets. In addition total debt to total equity, short term obligation, to total equity and long term obligation to total equity are autonomous factors. There is positive and significant impacts of total debt and short-term debt on the return on equity and negative and significant impacts of total debt and short-term debt on the return on assets (ROA). The study identified a positive impact of long-term debt on the ROA ratio **(Chaaranil and EI-Abiad 2019) [11]. Modugu and Kennedy (2013) [23]** argued that capital structure decision poses a lot of 1challenges to firms. Companies' assets are financed by either internal or external capital. The determination of appropriate mix of capital sources is one of the strategic decision public interest entities are confronted for. In deciding whether to finance the firm's assets with equity, debt or both, certain conditions must first be considered **[7].**

Banking industry in Nepal has a very long history of existence in various forms. In 1994, the Nepal bank limited, the first modern commercial bank in Nepal was established to fulfil the extended funding need as raised by possibility of trade, need and requirement of small and cottage industry. This is a major milestone in the history of Nepal as the country entered into an official financial system. Capital accumulation has significant role in rushing the economic growth of a nations. But the capacity of saving in the emerging country is quite low in relation to higher marginal propensity of consumption. In countries like ours, hence capital structure holds a major place in financial management **[27,28,30].** The growth of the banking sector is key to economic growth and development of the country. One of the reasons the banking sector lack progress and development is in the area of their financing and capital structure. It is important for banks to be able to finance their operations if they are to provide businesses with capital and also create job opportunities. To get a better understanding of how banks in finance their operations, it is important that we examine what determines their capital structure The firm is successful when capital structure is optimize and the capital is optimal when the overall cost of capital (WACC) of the firm is minimized with maximization of profitability. Recent developments in the global economy coupled with the financial crisis and credit crunch in the last decade have made researchers develop further interests in studying the banking sector. So, analysis of the capital structure of the selected will help optimal capital structure, which minimizes cost of capital and maximizes profitability **[31].** Capital structure is a firm's mix of debt and equity. Nowadays capital structure has become an incredibly important and intriguing area of theoretical and practical finance. It is believed that capital structure matters a lot as it is connected to the degree of business freedom. If it could predict the strategic flexibility for capital structure than we'll consider the constraints: leverage, dividends and so on. A study by **Baral (2004) [5],** shows that size, growth rate and earning rates are statistically significant determinants of capital structure of the Nepalese listed companies. There exists relation between the financial leverage and business risk is positive but it is insignificant. The study of capital structure management is to find the lowest possible cost of capital and consequently maximize the value of the firm. So, analysis of the capital structure of the selected banks will help in optimal capital structure, which minimizes the cost of capital and maximizes profitability **[10].**

Capital structure decision is important because of the need of maximizing the returns and the impact of such decisions on the firm's ability to deal with the competitive environment. The analysis of banks' capital structure helps to study financial performance of the banking sectors. This study is helpful for the researchers who are interested in doing research relating to capital structure management and performance evaluation **[12].** This study provides valuable information about the debt and equity (leverage) ratio of the selected Nepalese enterprise. Investors can be benefited by such information to perform securities analysis before taking investment decision. Financial managers of Nepalese enterprise get important information regarding optimum capital structure which will help them to make least cost combination of debt and equity. From the above discussion this study raise the issue that How does debt and equity impact profitability of Nepalese Commercial Bank and how is the relationship between debt and equity with earning per share and dividend per share of Nepalese Commercial Bank. Hence the prime objective of the study is to analyze the capital structure and effect on profitability of "A" class banks in Nepal. The other objective are:

1. To examine the relationship between leverage and profitability in terms of debt and equity with earning per share and dividend per share in Nepalese commercial banks.
2. To analyze the composition of capital structure and its impact on profitability in Nepalese A class banks.

This study follows **Singh and Tandon (2012) [33], Sailaja and Madhavi (2015) [29]** which has considered certain factors crucial in analyzing the capital structure of banks. Singh and Tandon (2012) after analyzing the capital structure ratios of State Bank of India and ICICI Bank, showed that capital structure consists of equity and debt funds. **Sailaja and Madhavi (2015) [29]** studied the effect of capital structure on a bank's profitability. They analyzed the relationship between the capitals structure of the public and private sector banks and their profitability. The study found that in private sector banks capital structure decision influences earnings per share. It is also observed that in public sector banks capital structure affects the earnings per share as per the results shown in regression analysis. Considering the components of capital structure and their relationship with profitability the following conceptual framework is taken to test in the banking sector of Nepal **[13].**

Independent Variable **Dependent Variable**

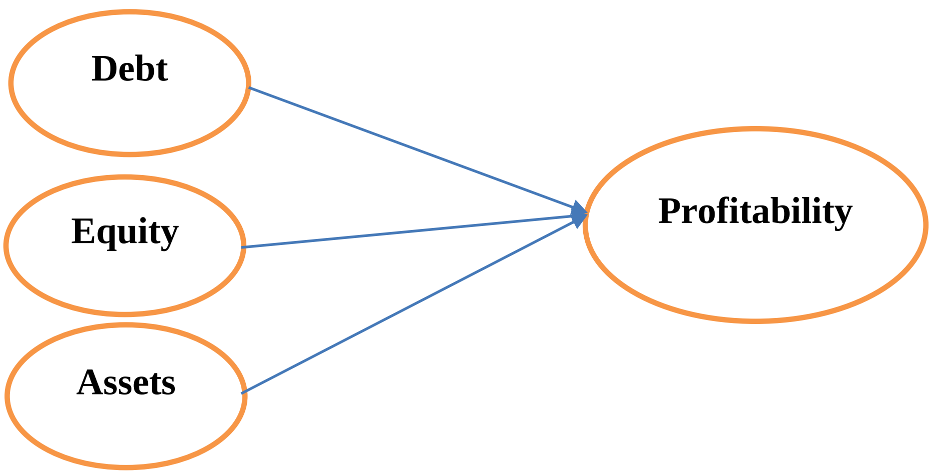

Figure 1: Conceptual Framework of the St

With respect to the conceptual framework of the study based on above discussion, this research has set the following hypothesis.

H1: Return on Assets tends to decrease insignificantly with increase profitability in total debt to total equity.

H2: Return on Equity tends to decrease profitability insignificantly with increase in total debt to total equity ratio.

H3: Return on Capital Employed tends to increase insignificantly with increase in total debt to total asset

Method

In this research descriptive and analytical quantitative research was utilized. This study was conducted in Kathmandu. Data published by sampled banks in their respective financial statement are taken to analyze the required result. In total there are 27 commercial banks in Nepal, registered in Nepalese Stock Exchange (NEPSE) and among them two commercial banks are be chosen as sample of the study. **Nabil bank limited [25]** and Investment Bank limited are publicly owned good performing bank of Nepal. These banks are chosen purposively that Nepal Investment bank has received 'Bank of the year award in 2003, 2005, 2008, 2010 and 2015.and was honored with ICRN Nepal Standard while Nabil Bank has been honored with 'Bank of the year award in 2004. Nabil Bank has been conferred "Best Managed Commercial Bank Award in 2016 and 2017 respectively. The major construct to measure organizational performance found financial performance and shareholder return (**Chalise, 2021) [9].** Secondary data were used for the study collected from sampled banks' statements, Nepal stock Exchange Ltd (NEPSE) office, and Security Exchange Board (SEBON) office and also through the websites of the concern institutions. SPSS 25 version was utilized to analyze the data. The data has been presented table and figures. Appropriate statistical tools like descriptive such as frequency, percentage, minimum, maximum and inferential statistics such as co-relation, multiple regressions were used for data analysis. Financial performance can be measured with the help of financial analysis. The financial tools employed for the analysis of the data were the ratio analysis, which establishes the numerical relationship between the two variables of the financial statement **[15-16].**

Multiple Regression analysis is done to investigate how the value of dependent variable is affected jointly by independent variables under study. Multiple Regression Equation Model is developed as:

Y = a + b1 TD_TA + b2 TD_E + e

Y = Profitability variables (ROA, ROE, ROCE, EPS &DPS), TD_TA = Total Debt to Total Asset, TD_E= Total Debt to Equity, a= Intercept, b1 & b2 = Estimated Coefficient, and e = Residual Error.

The dependent variables, Return on Assets (ROA), Return on Equity (ROE), Return on Capital Employed (ROCE), Earning per Share (EPS) and Dividend per Share (DPS) are considered as profitability variables (business revenue) for the study. The independent variables, Total Debt to Total Asset (TD_TA), Debt to Equity Ratio (TD_E) have been used as proxy for capital structure.

Result and Discussion

The data were analyzed in terms of leverage ratios and profitability. The leverage ratios used include: short-term debt to the total capital; long-term debt to total capital; and. total debt to total capital. Profitability is operationalized using commonly used accounting-based measures: Return of Equity (ROE), Return on Assets (ROA), Return on Capital Employed (ROCEM), Dividend per share (DPS), and Earning per share. Furthermore, the correlation between the capital structure ratios (independent variables) and Profitability ratios (dependent variables) were tested with Pearson Correlation and Multiple regression analysis.

Table 1 Descriptive Analysis of Debt to Asset Ratios of Sample Banks

	Nabil Bank			**Investment Bank**		
	SDAR	LDAR	TDAR	SDAR	LDAR	TDAR
Mean	.87	.03	.90	.85	.03	.88
Std. D.	.01	.01	.02	.03	.01	.02
Variance	.00	.00	.00	.00	.00	.00
Range	.03	.02	.04	.07	.02	.05

Minimum	.85	.02	.88	.82	.02	.86
Maximum	.88	.04	.92	.89	.04	.91

The table 1 shows the description of debt to asset ratio of the sample banks. The ratio of total short term debt to total assets (SDAR) stands on average at 0.87 of Nabil bank and at 0.85 of Investment banks .It means that Nabil banks has87% of a company assets that are financed with loan and other financial obligations in short term and Investment bank has 85% which shows lower obligations than that of Nabil bank. The standard deviation of the Nabil bank was 0.01 and Investment bank was 0.03 on short term debt to assets ratio. The variances for both sample banks were0.0 in the study period. The ratio of total long term debt to total assets (LDAR) stands on average of 0.03 of Nabil bank and at 0.03 of Investment bank .this shows that both have same percent of company assets that are financed with loan and other obligations in long term. Similarly the ratio of total debt to assets ratio (TDAR) stands on average of 0.90of Nabil bank and at 0.88 of Investment bank. This means Nabil bank has 90% of company assets in total and Investment Bank has 88% of company assets in total.

Table 2Descriptive Analysis of Profitability Ratios of Sample Banks

	Nabil Bank				Investment Bank			
	ROA	ROE	ROCE	PER	ROA	ROE	ROCE	PER
Mean	2.44	21.99	.30	26.16	1.97	16.00	.24	24.32
Std. Deviation	.25	2.69	.04	10.49	.14	2.61	.03	7.08
Variance	.06	7.21	.00	110.06	.02	6.80	.00	50.16
Range	.63	7.35	.12	25.69	.34	7.00	.07	18.08
Minimum	2.06	18.26	.24	13.86	1.79	13.00	.21	17.41
Maximum	2.69	25.61	.36	39.55	2.13	20.00	.28	35.49

The table 2 presents the mean, std deviation, variance, range, minimum and maximum of return on assets (ROA), return on equity (ROE), return on capital employed(ROCE), price earnings ratio(PER) of sample banks. On average, the return on total asset of Nabil bank and Investment bank was 2.44 and 1.97 percent which shows stronger position of Nabil bank. This ratio shows how efficiently the asset is used to earn, the profit generated per the rupee of the total asset. So, Nabil bank has used assets more efficiently than Investment bank and earned Rs. 2.44 per rupee of asset.

TABLE 3 DESCRIPTIVE ANALYSIS OF EARNING PER SHARE AND DIVIDEND PER SHARE OF SAMPLE BANK

	Earning Per Share Rs		Dividend Per Share (%)	
	Nabil	Investment	Nabil	Investment
Mean	55.29	30.32	39.57	34.94
Maximum	59.86	35.66	48.00	41.00
Minimum	49.51	26.43	34.00	19.00
St. D.	4.90	3.39	6.52	9.25
Range	10.35	9.23	14.00	22.00

The Table 3 revealed the descriptive analysis of Earning per Share (EPS) and Dividend Per share (DPS) of sample banks. The average EPS of Nabil bank was 55.29 and Investment bank was 30.32which shows Nabil bank has higher EPS. The average DPS of Nabil bank was 39.57 and Investment bank was 34.9. In comparison Nabil bank has slightly higher DPS than Investment bank which shows Nabil bank has efficiently used its income than that of Investment bank. The standard deviations of EPS for both banks were close but differences observed in case of DPS. Investment bank has higher standard deviation of DPS than that of Nabil bank.

Correlation analysis is carried out to find the existence of multi-colinearity among independent variables in order to decide what variables can be used in regression model, or how the regression model with all independent variables can be used.

TABLE 4. OVERALL CORRELATION MATRIX FOR LEVERAGE AND PROFITABILITY VARIABLES OF SAMPLE BANKS

		TD_TA	TD_E	ROA	ROE	ROCE	EPS
TD_TA	R	1					
	p-value						
TD_E	R	.861**	1				
	p-value	.001					
ROA	R	.163	-.014	1			
	p-value	.653	.969				

ROE	R	.875**	.640*	.532	1		
	p-value	.001	.046	.113			
ROCE	R	.332	.161	.739*	.506	1	
	p-value	.349	.656	.015	.136		
EPS	R	.621	.498	.759*	.848**	.578	1
	p-value	.055	.143	.011	.002	.080	

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

It was found that overall Total debt to total asset of banks was highly positively correlated with total debt to total equity of banks, r= 0.861, p < 0.05, and the relation was significant. On the same vein, for TD_TA and ROE, r = 0.875, p < 0.05; for TD_E and ROE, r = 0.640, p < 0.05; for ROA and ROCE, r = 0.739, p < 0.05; for ROA and EPS, r= 0.759, p < 0.05 and for EPS and ROE, r = 0.848, p < 0.05 were found to be strong and positively related to each other. It was found significant increase or decrease between the mentioned variables taken for this study. In addition, TD_TA and ROA, TD_TA and ROCE, TD_TA and EPS, TD_TA and ROCE, TD_TA and EPS, ROA and ROE, ROCE and ROE, and ROCE and EPS are insignificantly poorly positively related. Only TD_E and ROA (r= -0.014, p = 0.939 > 0.05) are found to be insignificantly negatively related to each other. A negative relationship between capital structure and profitability suggests that banks issues may lead to use of a higher than appropriate level of debt in the capital structure, thereby leading to a lower performance.

MULTIPLE REGRESSION ANALYSIS

Return on Asset of Selected Banks

The association of dependent variable, return on return on asset to the independent leverage ratios, total debt to total asset and total debt to equity ratio of selected banks together was studied using multiple regression analysis in level of confidence of 95 percent and the result is presented in the table 5.

TABLE 5 MULTIPLE REGRESSION MATRIX FOR OVERALL RETURN ON ASSET OF SELECTED BANKS

	R	R^2	F Statistic	P value (F statistic	B	P value
Constant	0.345	.119	2.74	0.012	-5.825	
TD_TA					9.840	.363

TD_E	-0.094	.419

Table 27 highlights the result of regression for ROA with selected TD_TA and TD_E for sampled banks (R^2 = 0.119, F = 2.74, $p < 0.05$) is significant. R^2 = 0.119, suggest that about 12% of the total variance in the return of asset ratio (profitability ratio) can be predicted from the total debt to asset ratio and total debt to equity ratio of capital structure of Investment bank. β = 9.840, $p > 0.05$ indicates that 1 unit rise in TD_TA increases ROA by 9.84 unit. Data reveals that the ROA tends to increase insignificantly with increase in total debt to total asset. Similarly, β = -0.094, $p > 0.05$ indicates that 1 unit rise in TD_E decreases ROA by 0.094 unit. Data suggest that the ROA tends to decrease insignificantly with increase in total debt to total equity.

Return on Equity of Selected Banks

The association of dependent variable, return on equity to the independent leverage ratios, total debt to total asset and total debt to equity ratio of selected banks together was studied using multiple regression analysis in level of confidence of 95 percent and the result is presented in the table.

TABLE 6

MULTIPLE REGRESSION MATRIX FOR OVER ALL RETURN ON EQUITY OF SAMPLED BANK

	R	R^2	F Statistic	P value (F statistic)	B	P value
Constant	0.903	0.816	15.472	0.003	181.148	
TD_TA					233.091	0.006
TD_E					-0.884	0.211

Table 6 showed that the result of regression for overall ROE with selected TD_TA and TD_E for sampled banks (R^2 = 0.816, F = 15.47, $p < 0.05$) is significant. R^2 = 0.816 clarify that about 82% of the total variance in the return of equity ratio (profitability ratio) can be predicted from the total debt to asset ratio and total debt to equity ratio of capital structure of sampled banks. β = 233.09, $p < 0.05$ indicates that 1 unit increase in TD_TA increases ROE by 233.09 unit. Data reveals that the ROE tends to increase significantly with increase in Total Debt to Total Asset. Similarly, β = -0.884, $p > 0.05$ indicates that 1 unit rise in TD_E decrease ROE by 0.88 unit. Data suggest that the ROE tends to decrease insignificantly with increase in total debt to total equity ratio.

Return on Capital Employed of Selected Banks

The association of dependent variable, return on capital employed to the independent leverage ratios, total debt to total asset and total debt to equity ratio of selected banks together was studied using multiple regression analysis in level of confidence of 95 percent. The result of analysis is presented in the table.

TABLE 7. MULTIPLE REGRESSION MATRIX FOR OVERALL RETURN ON CAPITAL EMPLOYED OF SAMPLED BANKS

	R	R^2	F Statistic	P value (F statistic	B	P value
Constant	0.413	0.170	0.718	0.520	-1.068	0.399
TD_TA					1.603	.306
TD_E					-0.011	.500

Table 7 shows the result of regression for overall ROCE with selected TD_TA and TD_E for selected banks ($R^2 = 0.741$, $F = 0.718$, $p < 0.05$) is significant. $R^2 = 0.17$ signifies that about 17% of the total variance in the overall return on capital employed ratio (profitability ratio) can be predicted from the total debt to asset ratio and total debt to equity ratio of capital structure of selected banks. $\beta = 1.603$, $p > 0.05$ indicates that 1 unit increase in TD_TA increases ROCE by 1.60 unit. Data reveals that the ROCE tends to increase insignificantly with increase in total debt to total asset. Similarly, $\beta = -0.011$, $p > 0.05$ indicates that 1 unit rise in TD_E decreases the ROCE insignificantly by 0.011 unit in case of selected banks.

The statistical calculation shows that the total debt equity ratio of Nabil bank was consistent than of investment bank. And hence, But both banks found to be highly leveraged. However, total long term debt to total assets shows that both have same percent of company assets that are financed with loan and other obligations in long term. In overall Investment bank has high degree of leverage and hence, has higher financial risk, unstable earning per share and more sensitive to the change in operating income as compared to Nabil bank during study period.

On average measuring the profitability ratios, the return on total asset of Nabil bank and Investment bank was 2.44 and 1.97 percent which shows stronger position of Nabil bank. This ratio shows how efficiently the asset is used to earn, the profit generated per the rupee of the total asset. So, Nabil bank has used assets more efficiently than Investment bank and earned Rs. 2.44 per rupee of asset. In comparison, Nabil bank has slightly higher DPS than Investment bank which shows Nabil bank has efficiently used its income than that of Investment bank. The standard deviations of EPS for both banks were close but differences observed in case of DPS. Investment bank has higher standard deviation of DPS than that of Nabil

It was found that overall Total debt to total asset of banks was highly positively correlated with total debt to total equity of banks and on the same vein total debt to total assets and return on equity, total debt to equity and return on equity, return on assets and return on capital employed , return on assets and earning per share, earning per share and return on equity were found to be strong and positively related to each other. It was found significant increase or decrease between the mentioned variables taken for this study. The correlation between TD_TA and TD_E is positive and statistically insignificant. Moderate level of debt is good for the company as it can maintain a level of risk as compared to very high or very low debt. The positive assets structure on leverage might show the various behaviors of the firms and we can also analyze that firms having higher collateral assets tend to have higher leverage. The correlation between TD_E and ROA is negative and statistically significant. It might be conclude that firms with high debt assets may have obligations to pay more interest and principal and hence have low return on assets and equity.

5.2. CONCLUSION AND IMPLICATION

The Capital Structure decision is crucial because of the need to maximize returns to various organizational constituencies, and also because of the impact such a decision has on an organization's ability to deal with its competitive environment. It can be concluded that Nepalese firms are highly levered and rely more on short-term debt. The trend of debt ratio (total and short-term) is increasing over the period. It might be the consequences of the regressive (recession) economic scenario, which results in to lower profitability and higher leverage **(Booth et al., 2001) [8]**. Management consulting firms with a lower degree of leverage generally have higher profitability. A study by **Howatt et al. (2009) [14]** also concluded that positive changes in dividends are associated with positive future changes in mean real earnings per share.

The results from this study could imply that managers actively lower the degree of leverage to increase profitability, but this could also vary from firm to firm. Thus, investigation of managers' perception of capital structure and its relevance could increase the explanatory power of the models and provide a different theoretical perspective on the capital structure relevance.This means that increase debt increase production and production leads to significantly increased revenues, increased revenues means increase in return on asset. Similarly, return on assets (ROA) tends to decrease insignificantly with increase in total debt to total equity. If revenues rise as a result of debt financing of production, but net income falls due to increased expense, return on assets decline. It is concluded that ROE tends to increase significantly with increase in Total Debt to Total Asset. ROE tends to decrease insignificantly with increase in total debt to total equity ratio. In future research, it is recommended to include a larger sample of banks, as well as include the longer time period to further examine the different results with this present study. In addition, several factors influence a company's operations and profitability. Therefore, more determinants in various aspects should be explored in future. The metrics of capital structure and profitability selected for this study are debt, equity and assets. One can increase the sample size to obtain more reliable and valid conclusions. Also, a study extending the survey regarding optimal capital structure is anticipated. The pecking order theory is easier to explain than optimal capital structure because it is more concerned with behavioral aspect of management hence one can extend research from pecking order theory perspective too. A rigorous study of capital structure from macroeconomic perspective is also expected in future research.

REFERENCES

1. Abosede AJ. Pecking order theory of capital structure: Another way to look at it. Journal of Business Management and Applied Economics, 2012;1(5):29-38.
2. Acharya K. A comparative study of capital structure management between Kumari bank ltd. and Siddhartha bank ltd. Masters' Degree Dissertation Submitted to Tribhuvan University. 2014
3. Baker HK, Martin GS. Gerald S. Martin. Capital structure and corporate financing decisions: Theory, evidence and practice. New Jersey: John Wiley & Sons, Inc. 2011.
4. Baker M, Wurgler J. Market timing and capital structure. Journal of Finance, 2007;57(1):1-32.
5. Baral KJ. Determinants of capital structure: A case study of listed companies of Nepal. The Journal of Nepalese Business Studies, 2004;1 (1), 1-13. https://doi.org/10.3126/jnbs.v1i1.34
6. Basnet S. Analysis of capital structure in selected joint banks of Nepal. Masters' Degree Dissertation Submitted to Tribhuvan University. 2015.
7. Bhattarai B. A study on capital structure and its impact on profitability in Nepalese commercial banks (With Reference to Nepal SBI Bank Ltd. and Everest Bank Ltd.). Masters' Degree Dissertation Submitted to Tribhuvan University. 2017.
8. Booth L, Aivazian V, Demirguc-Kunt A, Maksimovic V. Capital structures in developing countries. The journal of finance, 2001;56(1):87-130.
9. Chalise DR. Factors Influencing Organizational Performance in Hotel Sector of Nepal. Journal of Nepalese Business Studies, 2021;14(1):96-107.
10. Dittmar AK, Thakor AV. Why do firms issue equity? Journal of Finance, 2007;62(1):1-54.
11. El-Chaarani H, El-Abiad Z. Analysis of capital structure and performance of banking sector in Middle East Countries. International Journal of Economics and Financial Issues, 2019;9 (2):;1-11. DOI: https://doi.org/10.32479/ijefi.7454

12. Gajurel D. Gajurel, Dinesh Prasad (2005), "Capital Structure Management in Nepalese Enterprises", Master's Degree Thesis, Kathmandu: Faculty of Management, Tribhuvan University. 2005. https://ssrn.com/abstract=778106 or http://dx.doi.org/10.2139/ssrn.778106

13. Hesse-Biber SN, Leavy P. The practice of qualitative research (2nd ed.). Los Angeles: Sage Publications, Inc. 2011.

14. Howatt B, Zuber RA, Gandar JM, Lamb RP. Dividends, earnings volatility and information. Applied Financial Economics, 2009;19(7):551-562.

15. Kerlinger FN. Foundations of behavioral research (3rd ed.). Holt Rinehart & Winston. 1986.

16. Kothari CR. Research methodology: Methods and techniques (2nded.). India: New Age International (P) Limited, Publishers. 2004.

17. Lemmon ML, Zender JF. Debt capacity and tests of capital structure theories. Journal of Financial and Quantitative Analysis, 2020;45(5):1161-1187.

18. Mehar MR. Analysis of the capital structure and banks performance: Evidence from Pakistan. Journal of Business & Financial Affairs, 2018;7(2):1-5. DOI: 10.4172/2167-0234.1000343

19. Meier I, Tarhan V. What Can We Learn From Empirical Tests of the Pecking Order Theory. Northern Finance Association, Toronto. 2007.

20. Miglo A. Capital structure in the modern world. Switzerland: Palgrave Macmillan. 2016.

21. Modigliani F, Miller MH. The cost of capital, corporation finance and the theory of investment. The American economic review, 1958;48(3):261-297.

22. Modigliani F, Miller MH. Corporate income taxes and the cost of capital: a correction. The American economic review, 1963;53(3):433-443.

23. Modugu & Kennedy. Capital structure decision: An overview. Journal of Finance and Bank Management, 2013;1(1):14-27.

24. Myers S, Majluf. Corporate financing and investment decision when firms have information that investors do not have, Journal of Financial Economics, 1984;13(2):187-221.

25. Nabil Bank Limited (n.d.) About Nabil bank. Retrieved from: https://www.nabilbank.com/index.php/intro/about-nabil-bank

26. Pandey IM. Capital structure, profitability and market structure: Evidence from Malaysia. The Asia Pacific Journal of Economics & Business, 2004;8(2):78.

27. Phuyal D. A Comparative case study between Nepal Bangladesh bank and Himalayan bank ltd. Masters' Degree Dissertation Submitted to Tribhuvan University. 2016.

28. Saeed, M.M., Gull, A.A., Rasheed, M.Y. (2013), Impact of capital structure on banking profitability (a case study of Pakistan). Interdisciplinary Journal of Contemporary Research in Business, 4(10), 393-403.

29. Sailaja V, Madhavi NB. Comparison of capital structure of public sector banks and private sector banks and its effect on bank's profitability. International Journal of Management and Social Science Research, 2015;1(11):176-183.

30. Sedeaq N. The impact of capital structure of financial performance of the firms: Evidence from Borsa Istanbul. Journal of Business & Financial Affairs, 2016;5(2):1-4. Retrieved from https://ssrn.com/abstract=3198477

31. Shumway T. Forecasting bankruptcy more accurately: A simple hazard model. The journal of business, 2001;74(1):101-124.

32. Simerly RL, Li M. Translating research into practical solutions. Unpublished paper. 2002.

33. Singh AB, Tandon P. Comparative analysis of capital structure of banking companies with special preference to State Bank of India and ICICI Bank. International Journal of Research in Commerce and Management, 2012;3(10).

A STUDY ON THE OPINION OF INTERNAL AND EXTERNAL STAKEHOLDERS ON GROWTH OF INSURANCE SECTOR AFTER INCREASE IN FDI

Mrs. T. Anuradha*

*Associate Professor,
Research Scholar,
Department of Commerce,
St. Ann`s College for Women,
Mehdipatnam, Hyderabad, INDIA
Email id: sekuanu@gmail.com

DOI: 10.5958/2279-0667.2021.00045.6

ABSTRACT

Insurance companies collaborate with a diverse range of market actors, including the insurance companies' owners, managers, and employees, as well as their exclusive agents and independent brokers, private and institutional clients, banks and reinsurers, outsourcing companies, and other insurance organizations and community members. Insurance companies must address the unique needs of each stakeholder group. Owners, managers, staff, and exclusive agents all contribute to the internal environment of an insurance company. The surrounding environment of an insurance company is composed of the following. An insurance firm is made up of individual and institutional clients, brokers and other insurers, research and development groups, and community members.

KEYWORDS: *Fdi, Insurance, Internal Stakeholders, External Stakeholders.*

INTRODUCTION

This inquiry makes use of both primary and secondary data. Internal stakeholders in the insurance sector are surveyed; external stakeholders in the insurance sector are polled for primary data. The dependent variables were analyzed using descriptive and tabular analysis, while the mean values of various elements were determined using averages. Additionally, t-tests were utilized to determine the results' statistical significance.

India's booming economy is luring global investors to invest there. Foreign direct investment (FDI) benefits the economy by increasing demand for foreign currency, capital creation, job creation, and GDP growth. In the insurance sector, the FDI cap was formerly set at approximately 26%, but was increased to 49 percent in 2018. Foreign insurers will be able to enter the Indian market, and current insurers will be able to expand their operations, thanks to a new 74 percent FDI cap included in the 2021 budget. Banking and insurance services currently make for over 7% of the country's gross domestic product. Insurance benefits economic growth and development by providing long-term finance for a country's infrastructure development.

LITERATURE REVIEW

Foreign direct investment (FDI) in the insurance sector is critical for increasing insurance penetration in India, according to an essay titled "Foreign Direct Investment in the Insurance Sector: A Key to Increased Insurance Penetration." Additionally, FDI assists India in meeting its long-term capital needs for infrastructure development. Deloitte (2021) projected an increase of 49 percent to 74 percent in the automatic route for foreign joint venture partners' equity ownership in Indian insurance enterprises in their study titled "Government of India Amends Foreign Direct Investment (FDI) Policy in the Insurance Sector."

Need for the Study

Insurance has existed in India for more than 150 years. It had a high number of private sector firms at one point; it was then nationalised and later reverted to private hands. The IRDA initiated insurance reforms by allowing private players to register to write insurance products subject to a 49 percent FDI cap (now it is 74 percent). This study evaluated FDI in the insurance business from the standpoint of stakeholders.

Objective of the study

To analyze the opinion of internal and external stakeholders on growth of insurance sector after increase in FDI

Null Hypothesis (H0)

There is no significant difference between Internal Environment Stakeholder and External Environment Stakeholder with regards to growth of insurance sector after increase in FDI

Alternate Hypothesis (H1)

There is a significant difference between Internal Environment Stakeholder and External Environment Stakeholder with regards to growth of insurance sector after increase in FDI

Research Methodology

The term "research" refers to a systematic and organised quest for meaningful data. The basic goals of research are to find previously undiscovered truths or to improve on existing study discoveries.

"Data Collection Techniques": Once the data has been gathered, the research into the underlying cause of the problem can begin. The majority of research is data-driven. The study gathered data from primary and secondary sources. Questionnaires were used to collect data. 525 answers were received from internal and external parties. We employed questionnaires with open-ended and closed-ended responses.

T-TEST

Null Hypothesis (Ho)

There is no significant difference between Internal Environment Stakeholder and External Environment Stakeholder with regards to growth and development of insurance sector.

Alternative Hypothesis (H1)

There is a significant difference between Internal Environment Stakeholder and External Environment Stakeholder with regards to growth and development of insurance sector.

TABLE-4.9 INTERNAL ENVIRONMENT STAKEHOLDER AND EXTERNAL ENVIRONMENT STAKEHOLDER WITH REGARDS TO GROWTH AND DEVELOPMENT OF INSURANCE SECTOR

Questionaire-1 and from Table-4.3.11			Questionaire-2 and from Table-4.6.11		
Internal Environment Stakeholder	**Mean**	**S.D.**	**External Environment Stakeholder**	**Mean**	**S.D.**
A higher FDI limit will help insurance companies' access foreign capital to meet their growth requirements.	3.5124	1.09402	A higher FDI limit will help insurance companies' access foreign capital to meet their growth requirements.	3.3657	1.30016
Foreign direct Investment is profitable both to the country receiving investment and the investor.	3.4876	1.24726	Foreign direct Investment is profitable both to the country receiving investment and the investor.	3.3829	1.37455
FDI offers an exclusive opportunity to enter into the international or global business	3.4800	1.17142	FDI offers an exclusive opportunity to enter into the international or global business	3.3867	1.31528
The host country receives foreign funds for development, transfer of new profitable technology	3.4914	1.26854	The host country receives foreign funds for development, transfer of new profitable technology	3.3295	1.43298
Increase in FDI brings better wealth of expertise and experience	3.4571	1.27235	Increase in FDI brings better wealth of expertise and experience	3.2533	1.45892
Hiking of FDI would be	3.504	1.3586	Hiking of FDI would be	3.443	1.4617

good for customer in terms of better product, good infrastructure and best service levels.	8	3	good for customer in terms of better product, good infrastructure and best service levels.	8	2
FDI is helpful in enhancing employees' lifestyle and standard of living.	3.293 3	1.2576 7	FDI is helpful in enhancing employees' lifestyle and standard of living.	3.146 7	1.4180 6
FDI improves the quality of the product and reduces the input cost.	3.613 3	1.2665 0	FDI improves the quality of the product and reduces the input cost.	3.508 6	1.4014 8
Foreign expertise management helps in retaining the customer.	3.542 9	1.2124 4	Foreign expertise management helps in retaining the customer.	3.449 5	1.3562 9
Policy holders will get a wide choice, access to more innovative products	3.436 2	1.2849 0	Policy holders will get a wide choice, access to more innovative products	3.274 3	1.4412 8

Source: compiled and calculated from earlier tables, output from SPSS

Paired Samples Statistics

		Mean	N	Std. Deviation	Std. Error Mean
Pair1	Internal Stakeholders	3.4819	10	.08222	.02600
	External Stakeholders	3.3541	10	.10708	.03386

Paired Sample Correlation

		N	Correlation	Sig.
Pair1	Internal Stakeholders & External Stakeholders	10	.930	.000

Paired Sample Test

		Paired Difference							
					Interval				
		Mean	Std. Deviation	Std. Error Mean	Lower	Upper	t	df	Sig. (2-tailed)
Pair1	Internal Stakeholders - External Stakeholders	.12780	.04310	.01363	.09697	.15863	9.378	9	.000

The researcher used the T test to see if there was a statistically significant difference between the mean values of Internal Environment Stakeholders and External Environment Stakeholders in terms of the growth and development of the insurance sector. The correlation (.930), T-value 9.378 and significant value (.000) were found in paired sample correlation. A p-value of less than 0.05 is considered significant. We've come to the conclusion that the growth and development of the insurance industry is influenced significantly by both internal and external environment stakeholders, and that the null hypothesis should be rejected.

REFERENCES

1. **Ansari, S.J., and Rehmani, A. (2016).** Economic reforms and its (sic) impact on the insurance industry in India. International Journal of Applied Research, 2(4), 121-124.
2. **Arena, M. (2008).** Does insurance market activity promote economic growth? A cross-country study for industrialized and developing countries. Journal of Risk and Insurance, 75(4), 921-946.
3. **Babu, G Ramesh (2008),** Research Methodology in Social Science. New Delhi: Concept Publishing Co., 2008.3-4
4. **Bhattacharyya, Dipak Kumar (2006),** Research Methodology. 2nd Ed. New Delhi: Excel Book, 2006.49-73
5. **L. Terina Grazy, G.Parimalarani, M. Rathi Meena (2019).** Foreign Direct Investment in Insurance Sector: International Journal of Recent Technology and Engineering (IJRTE) ISSN: 2277-3878, Volume-8, Issue-3S, October 2019
6. Deloitte (2021). Government of India Amends Foreign Direct Investment (FDI) Policy in the Insurance Sector. www.deloitte.com/about

Review Process

Each research paper/article submitted to the journal is subject to the following reviewing process:

1. Each research paper/article will be initially evaluated by the editor to check the quality of the research article for the journal. The editor may make use of ithenticate/Viper software to examine the originality of research articles received.
2. The articles passed through screening at this level will be forwarded to two referees for blind peer review.
3. At this stage, two referees will carefully review the research article, each of whom will make a recommendation to publish the article in its present form/modify/reject.
4. The review process may take one/two months.
5. In case of acceptance of the article, journal reserves the right of making amendments in the final draft of the research paper to suit the journal's standard and requirement.

ISSN: 2279-0667 Vol. 10, Issue 11-12, Nov- Dec, 2021 SJIF 2021 = 7.263
A peer reviewed journal