

The Changing Environment of Human Resource Management

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Changes in the environment of human resource management are very wide and it plays a crucial role in organizations. These changes include work force diversity, technological changes, globalization, and changes in the nature of jobs and work (External Factors). The internal factors are unions, Organizational culture, conflicts and professional bodies. An organization seeks to create its own environment out of the external environment. The environment, which the organization creates, is called enactment. Enactment implies that the organization creates a relevant environment for itself by aggressively scooping, narrowing and scanning the external environment. In effect the organization creates the environment to which it reacts. It does not react to the entire environment. There is a danger in the enacted environment. An organization may define its environment so narrowly that is likely to ignore significant forces that may affect its fortunes. The positive benefit of an enacted environment is that it makes an organization to become proactive in its approach in dealing with its environment. The organization takes an active and aggressive role in actually defining its environment. On the other hand a reactive approach implies that the organization is not aggressive, but merely reacts to its environment. The paper also focused on strategic management

because it emphasizes monitoring and evaluating environmental opportunities and threats in the light of a corporation's strength and weakness. Finally Organization development is a part of overall development in general. It cannot remain unaffected by the development process. The organization has to change the beliefs, values, and its structure to accommodate the new ideas, beliefs and new technologies for progress.

Introduction:

The management process includes many important functions such as, planning, organizing, staffing leading and controlling. The staffing function is called today (HR) Human Resource Management function.

Human Resource Management (HRM) refers to the practices and policies needed to carry out the people or personnel aspects of management job (Gary Dessler, 2000) which include recruiting, screening, training, rewarding, and appraising.

The successful manager is not always the one who laid brilliant plans, draw clear organization charts, setup modern assembly lines and use sophisticated accounting controls most managers whether presidents, generals, governors, or supervisors, have been successful even with inadequate plans, organization or controls. They were successful because they had the knack for hiring the right people for the right jobs and motivating, appraising and developing them. In other words, the work force and the company's inability to recruit and maintain a good work force that does constitute the bottleneck for production, and if the company is in shortage of cash, this will not stop good ideas, vigor, and enthusiasm of a good selected, trained labor force.

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The External Forces

(i) Work Force Diversity:

A change in the work force is a continuous process, since the last two decades we are noticing such changes. For example the structure of the women working force is widely increasing in

organizations. In USA (Robert Saltonstall, 1995) women working force increased from 42.1% in 1979 to 47.7% in 2003. A change in the age of the working force is also a part of this environment. The labor force is getting older. The median age of the labor force in 1979 was 34.7 years. This has risen continuously since then to 37.8 years in 1995 and projected to 40.5 years in 2005 (Robert Saltonstall, 1995).

Increased diversity will place tremendous demand on HRM function. As the work force ages, employers will have to invest more in the health care and the pension contributions. With more females in the work force the employers will have to establish more child care facilities on or near company premises and to accommodate the travel, scheduling, and moving needs of dual career employees.

(ii) Technological Trends:

Technological change will continue to shift employment from some occupations to others while contributing to a rise in productivity. For example changes are taking place in office automation, where personal computers, word processing, and management information systems continue to change the nature of office work. Also telecommunications already makes it relatively easy for many to work at home. Robots are also taking man place especially in the heavy industries.

(iii) Globalization:

Globalization refers to the tendency of firms to extend their sales or manufacturing to new markets abroad, and to spread the business everywhere.

Production is becoming globalized; manufacturers around the world are putting their manufacturing facilities where they feel it is more advantageous. Thus, the Sony TV is now manufactured and produced in India as other products, which are originally from Japan or other countries.

This globalization of markets and manufacturing has vastly increased international competition. Throughout the world firms that formerly, competed at the national level, now are competing internationally.

(iv) Changes in the nature of jobs and work:

Technological and globalization changes are in turn producing changes in the nature of jobs and work. Technological changes including fax machines, information technology and personal computers have allowed companies to relocate

operations to locations with lower wages. For example, Sony factory is working 12 hours a day if the management decided to increase the production it should hire a part time workers to fulfill the extra production needs. These part time workers are increasing the number of the work force in the country.

An enormous change from manufacturing jobs to service jobs is also taking place in India and the world. The percentage of work force in the field of producing and delivering services is increasing. The production is limited now to certain types of industries such as heavy industries and food industries and most of the industries will be in such service industries as fast food, retailing, consulting, teaching and legal work. These jobs, in turn, will demand new types of workers and new human resources management methods to manage them.

(B) Internal Forces:

(i) Unions:

All human resource activities (William B. Werther & Keith Davis, 1994) are carried out in consultation with union leaders. The role of unions becomes pronounced when a new wage agreement needs to be signed. Generally a wage agreement has a life of three years. After the expiry of one agreement, a new one has to be reached. It nearly always results in a civil war between the management and the union leaders before reaching a new agreement. Few organizations are lucky to have one union and the non-unionized organizations may appear to be the luckiest, but they too have problems. To retain the flexibility of a non-union status, Personnel departments should implement compensation policies, hours of work and working conditions similar to those found in unionized operations.

Presence of Trade Unions

	Number of Organizations	Percentage
No Trade Unions	06	8.6%
One Unions	34	48.6%
Two Unions	10	14.3%
Three Unions	10	14.3%
Four Unions	03	4.3%
More	07	10

Source: All India Management Association, Human Dimensions of liberalization. Survey Report, 1993.

Personnel policies are determined by the top management's directors where unionization is discouraged, so matter the cost is.

ii) **Organizational culture and conflict**

Every organization has its own culture (William B. Werther & Keith Davis, 1994). Organizational culture is the products of all the organization's feature; its people, its success and its failures. Organizational culture reflects the past and shapes the future. It is the job of human resources specialists to adjust proactively to the culture of the organization. For example objectives can be achieved in several acceptable ways. This idea is called equifinality, which means that there are usually multiple paths to objectives. The key to success is picking the path that best fits the organization's culture.

There is often conflict between organizational culture and employee's attitudes. Conflict arises because dualities between the personal goals and the organizational goals in general.

iii) **Professional Bodies**

The academic qualifications for human resources professional are still undetermined. The National Institute of Personnel Management (NIPM) on human resource (HR) is minimal. The body has not been able to prescribe its accreditation as a pre- requisite for HR practitioners. The role of NIPM in supplying academic inputs to HR professional is not to be ignored. Periodic training programs, seminars and conferences are organized by NIPM for the benefit of HR experts.

Knowing the Environment

The environment often provides a mass of ambiguous information. What to make out of the information? What to accept and what to reject? To answer these questions, three related concepts are relevant; the enacted environment. The domain and domain consensus, and the task environment. (William P. Anthony, 1991).

Enacted Environment

An organization seeks to create its own environment out of the external environment. The environment, which the organization creates, is called enactment. Enactment implies that the organization creates a relevant environment for itself by aggressively scooping, narrowing and scanning the external environment. In effect the organization creates the environment to which it reacts. It does not react to the entire environment.

There is a danger in the enacted environment. An organization may define its environment so narrowly that is likely to ignore significant forces that may affect its fortunes. The positive benefit of an enacted environment is that it makes an organization to become proactive in its approach in dealing with its environment. The organization takes an active and aggressive role in actually defining its environment. On the other hand a reactive approach implies that the organization is not aggressive, but merely reacts to its environment.

Domain and Domain Consensus

The domain is that part of the environment which the organization carves out for itself. The organization delineates its own territory out of the environment. The delineated territory comprises the range of products offered, population served and services rendered. The organization focuses its efforts on these three areas while paying less attention to other areas.

Domain consensus is formed when all the organization stakeholders agree upon the domain of the organization.

When domain consensus is not reached, conflicts can arise regarding parts of the environment, which should be monitored.

Task Environment

Task environment represents the third concept related to knowing the environment. This significant portion of the domain has the greatest impact on an organization's goals because it includes all groups that can influence the organization. Specifically, the task environment specifies the range of products to be offered, the technology to be employed, and the proactive strategies to be used to counter competition. When competitive firms such as, Sharp and Samsung entered the market the task environment of Sony Company, which market share decreased, Sony has to launch a new collection of electronics with a competitive prices and qualities.

Environment Scanning

Environment scanning involves general surveillance of the environment to determine trends and projections of factors that will affect the fortunes of the organization. The scan focuses on the firm's task environment. Elements outside the task environment

are not ignored, but are paid less attention.

Scanning is done to prevent information overload for decision makers. It should focus on providing relevant information for planning and decision-making. With regard to HRM, the relevant areas to be scanned for planning and decision making are the labor market, legal environment, constitutional provisions and technology. This does not mean that other elements, such as globalization, should be ignored. But it does mean that the four factors identified tend to have a major impact on HR decisions. If a company has overseas operations, these four factors need to be examined.

Strategic Human Resource Management

Strategic management (Donald F. Harvey, 1988) can be defined as the set of managerial decisions and actions that determine the long-term performance of a corporation. It includes environmental scanning, strategy formation, strategy implementation, evaluation and control. The study of strategic management, therefore, emphasizes monitoring and evaluating environmental opportunities and threats in the light of a corporation's strength and weakness.

Strategic Management, therefore, involves four steps:

1. Analyze the opportunities and threats or constraints that exist in the external environment.
2. Formulate strategies that will match the organization's strengths and weakness with the environment threats and opportunities.
3. Implement the strategies.
4. Evaluate and control the activities to ensure that the organizations objectives are achieved.

Strategy Formulation

Strategies are formulated at three levels:-

1. Corporate level strategy
2. Business unit level
3. Functional level strategy
- 1. Corporate level strategy**

This level is formulated by the top management of an organization made up of more than one line of business. The corporate level strategy of electronic companies such as Sharp,

Samsung, Sony are to continuously innovate in all its business with right technology, cut of costs and improving its markets. In formulating corporate- level strategies, the company should decide where it wants to be in the next 10 or 15 years.

2. Business strategy level

While the major question at the corporate- level is " In what industries or business should we be operating?" (Peter Wright, 1996) The appropriate question at the business unit level is " How should we compete in the chosen industry or business?" General Electric (GE) pioneered the concept of strategic business unit (SBU). At General Electric, there are over 200 strategic business units, each having its own strategies consistent with the organization's corporate level strategy.

A single company that operates within one industry is also considered a business unit. For instance an independent company that builds and sells swimming pools is considered a business unit. In such an organization the corporate level strategy and the business unit strategy are the same.

3. Functional level strategy

Each business unit will consist of several departments, such as manufacturing, sales, finance and Human resource development. Functional level strategies identify the basic courses of action that each of the department must pursue in order to help the business unit to attain its goals. In formulating function level strategies, managers must be aware that the different functions are interrelated. Each functional area, in pursuing its purpose, must match its activities with the activities of other departments. A change in one department will invariably affect the way other departments operate. Hence, the strategy of one functional area cannot be viewed in isolation. Rather, the extent to which all functional strategies are integrated determines the effectiveness of the unit's business strategy.

Strategy Implementation

Strategies formulated need to be implemented. Implementation of strategies is often more difficult than their formulation and it requires such actions as altering sales territories, adding new departments, closing facilities hiring new employees, changing on organization's pricing strategies, developing financial budgets, formulating new employee benefits, establishing cost control procedures, changing advertising strategies and building a better computer information system.

Strategy formulation concept and tools do not differ vastly for small, large or nonprofit organizations. However, strategy implementation varies substantially among different types and sizes of organizations.

Role of Human Resources Management in Strategic Management

The role of HRM in formulating and implementing strategies is crucial. It is the people who formulate and implement strategies and the people are supplied by HRM.

i) **Role-in strategy formulation**

HRM (Gary Dessler, 2000) is in a unique position to supply competitive intelligence that may be useful in strategy formulation. Details regarding advanced incentive plans being used by competitors, opinion- survey data from employees that elicit information about customer complaints and information about pending legislation like labor laws for mandatory health insurance are some examples.

The strengths and weakness (Gary Dessler, 2000) of a company's human resources can have a determining effect on the viability of a company's strategic options. Unique HR capabilities serve as a driving force in strategy formulation. A company may build its new strategy around a competitive, advantage stemming from its human resource. The well known accounting and consulting firm, Arthur Anderson, developed unique HR capabilities in training the firm's Illinois training facility is so sophisticated that it provides the firm with a competitive advantage enabling it to provide fast and uniform in house training.

ii) **Role in strategy Implementation**

Human resource today is heavily involved in the execution of the company's downsizing and restructuring strategies, through out placing employees, instituting performance-linked pay plans, reducing healthcare costs and retraining employees. And, in an increasingly competitive global market place, instituting HR practices that build employee commitment can help improve on organization's responsiveness. A well-designed strategy (Fred R. David, 1995) can fail if sufficient attention is not paid to the HR dimension. HR problems that arise when executing strategies may be traced to one of three causes.

1. Disruption of social and political structures.

2. Failure to match individuals' aptitudes with implementation tasks.
3. Inadequate top management supports for implementation activities.

Strategy implementation, poses a threat to many managers and employees in an organization, new power and status relationships are anticipated and realized. New formal and informal groups are formed whose values, beliefs and priorities may be unknown. Managers and employees may engage themselves in resistance behaviors as their roles, prerogatives and power in the organization change. Disruption of social and political structures, that a company strategy execution must be anticipated and considered during strategy formulation and managed during strategy implementation.

Guidelines which help ensure that human relationship facilitate but not disrupt strategy implementation include open communication, co- opting as many managers and employees in the strategic management process and matching managers with strategies through transfers, promotions, job enlargement and job enrichment.

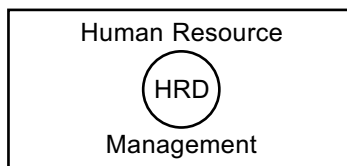
Human Resources Development (HRD)

Development is (Albert & Maria & Virginia, 1994) a continuous process and it accommodates in itself many changes that occur in science and technology, economy, market, political environment, education, knowledge, values, attitude and behavior of people, culture etc.

Human resources development is a part and parcel of human resource management. It is the main function of human resource management. Every organization and its management have the responsibility to develop its human resources if at all it wanted to remain in business, face the completion and go on towards prosperity and growth. In the modern times of growing awareness the human resource development is the task number one for any organization. The survival and growth of the organization depend on human resource development. Human resource development programs have become routine now in the organizations. The days when employees were treated as part of the machine are gone. Now new awakening has emerged. Organizations have now realized that employees are human beings and if they are treated well and their talent is development they can be of immense help to them in fostering organizational growth. This has given rise to

the emergence of new relationship between employees and management. Autocratic ways of supervising are gone. Employees are looked as having a tremendous potential. This potential needs to be developed and exploited for the organization's growth and prosperity by rewarding the employees suitably. Now all round efforts are devoted to employee development.

The organizations are making efforts to increase workers influence. Committees are set up to study their problems and are finding new approaches to solve their problems. An open door policy is being adopted to redress their grievance. Efforts are made for their career development. Human resource development



(Albert & Maria & Virginia, 1994) is the centre point of human resource management.

All activities of human resource management are aimed towards development of human resources. There are many ways of human resource development which include training and development of employees and executives, career planning and development and conducting workshops for that, development of technology, job enrichment, various job experiences, team building, leadership development, building up of better subordinate-supervisor relationship.

Human resources development programs (J. Conger, 1993) are set up by the organization to develop their employees and executives to carry on with the supervisory and managerial responsibilities. Growth of modern technology, new business and industrial dynamism, need for highly skilled and competent staff have made it necessary to have well trained and developed staff to meet the challenges of modern times. There is a feeling among the employees that the introduction of new technology will take away their job. It is the responsibility of the human resource manager to eliminate this feeling from their mind and reassure them that nothing of the sort will happen. Once this fear is removed they will readily accept the new technology and develop themselves to suit the requirements of changing times. Organizations need the

committed efforts from the employees. By giving the employees the change to make new automation this will build confidence in them. While providing training to the staff certain aspects must be taken into consideration they are:-

1. Encourage the persons who wanted to do something new, such action will motivate others.
2. Avoid paper work.
3. Don't conflict with egos rather protect them. To avoid clash of ego choose executives trainers for training executives, employee trainer for employee training, engineering trainer for engineers, and supervisory trainer for supervisor.
4. Training programs (J. Conger, 1993) must be designed by the top managers after going through the requirements and don't allow executives, supervisors, engineers or employees to design training for themselves. Determine the need for it and then design. The object of the training should be such that the employee should be able to use the knowledge in day today's work.

There is a wide scope for human resources development. Organizations provide training to newly employed, is known as orientation training. Everyone needs training for his development whether he is new or old.

There are many types of training such as, leadership training, development of interpersonal skills, training for trainer, team building listening, reading and writing skills, decision making and problem solving skills, training for operating computers other machines, training in respect of safety etc. The main purpose of various training is the development of the human resources of the organization to take on expanded responsibilities. Organizations are designing in house training and development programs for their employees and executives. If the need arise they take the help of external agencies. Training and development program must be integrated with the organization's strategy. For providing better customer services and building up of relationship with suppliers and other agencies the organization has to make efforts to train and develop such other people who are not its employees. This is because of the development of network organizations and joint ventures. It has to build up long-term relationship. Large organization spent quite substantial amount on training and development.

There is a close relationship between human resource planning and human resource development (Kenneth Nowack, 1994). Human resource planning helps in identifying the number of persons required and the jobs they have to do and the skills they required to do the jobs. Accordingly human resource development executive can design HRD programs. He can also assess the amount to be spent on training the personals. As a result of explosion in education and training available before employment, the organization can hire highly qualified and well, trained people to save the cost of training during initial stages.

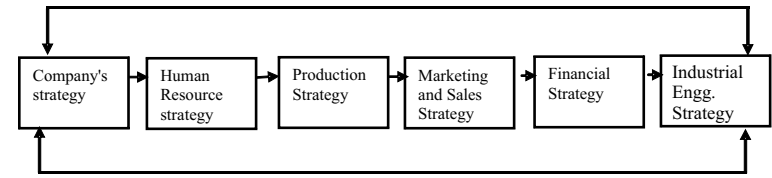
Human resource development is also closely associated with performance evaluation. It enables human resources executive to know whether the employees are performing according to the expected standards or not or they require further training. He can then design the training and development program. Human resource development is pivotal in human resource management and a vehicle for implementing change, adopting total quality management and carrying on with organization development.

Human resource development is regarded as the process of increasing knowledge, competence, capacities, intelligence, and talents of the members of the organization in particular and all of the people of the society in general. Human resource development if viewed from the economic, social and cultural points of view it help people to lead richer, satisfied and fuller life which is not bound by traditions. It opens the door to modernization. It can be said with firm contention that human resource management is not possible without human resource development. Human resource development, facilitate organization development. An effective human resource development program must also meet the needs of the organization.

Human resources development is the prime responsibility of the human resources department but other departments cannot escape from this function. They have to take initiative and inform the training requirements of their staff so that the human resources department can come into action and design a training and development program for their staff and executives. For effectiveness and smooth working of organization all the departments must work in unison. The strategies of all the departments along with human resource strategy should be integrated with that the corporate strategy.

Human resource development and management has

become very important in modern times. Its importance has been realized by the business and industrial corporations, and now giving recognition to it. More and more attention is being paid to human resource development as they see their development with human resource development. They are (Craig J. & Grant R., 1993) formulating human resource strategies and integrating them with those of other departments and of the corporate. All this is done because every corporate wants to be rated high in quality of management, quality of products, innovation, investment, financial



stability and in attracting the best human resources available in the country.

The strategies of all functional departments and of human resource department are fixed in unification with the corporate strategy. Every decision is taken in view of the corporate strategy.

Formulating human resource strategy is not an easy process. Formulation of strategy is very dynamic in nature. It has to change as per changes in external and internal environment. Once the corporate strategy stabilizes the human resource strategy is to be formulated in the light of corporate strategy. Strategy is made to fulfill the needs of future, which is uncertain; therefore it is necessary that the strategy should be flexible in order to accommodate the changes expected in the future. The formulation of human resource strategy should consider entire human resources of the organization.

Organization Development and Changes

Organization development (Craig J. & Grant R., 1993) is a part of overall development in general. It cannot remain unaffected by the development process. The organization has to change the beliefs, values, and its structure to accommodate the new ideas, beliefs and new technologies for progress. This is very essential. The organization must respond to changes. So that it can face the challenges ahead. The management of human resources depends upon organizational effectiveness.

Human resources form the main plank of any organization. Humans are affected by change. Organization development

accommodates and incorporates variety of planned changes based on humanistic democratic values, technology that are sought to improve the effectiveness of organization and wealth through planned interventions by a consultant using theory and techniques of applied behavioral service.

Organization Development values

Organization development constitutes various people, professionals, technocrats, researchers, managers and a host of other employees working in the organization contributing to the accomplishment of organizational objectives. They behave differently. Authority and power, conflicts, control takes backseat during OD process. The following are the values in OD efforts.

1. **Respect people:-** People are the main elements of organization and they are responsible for creating opportunities for growth. They must, therefore, be treated with respect and dignified manners.
2. **Confidence and support:-** Organizations are made up of people and they are to be believed and supported in order to have effective organization. The healthy environment prevails when people are trusted and taken into confidence and a necessary support is extended to them as and when needed.
3. **Confrontation:-** Any conflict on any issue should not be suppressed. It should be dealt with openness. Suppression leads to dampening of morale, identifying the problem and its causes, discussing it openly and finding out feasible solution leads to boosting up morale of the employees and creating good environment.
4. **Employee participation:-** The participation of employees who will be affected by the OD should be sought in decision-making
5. **Expression:-** Human beings differ in experience, maturity, ideas, opinions outlook. The organization is at the receiving end. It gains from the differences in quality, ideas, opinions and experiences of its people. Human beings are social animals; they have feelings emotions, anger and sentiments etc. They should be allowed to express their feelings and s

entiments. This will result in building up high morale and the people will be motivated towards hard work ultimately resulting in increased efficiency.

6. **Seeking cooperation:-** Managers (Fletcher, 1992) should learn to seek cooperation from each of the employees working under him in his department. This will develop in creating the atmosphere of cooperation leading to organizational effectiveness and willingness to accept change in the event of organization development process.

Methods of Organization Development

Organization development is a process hence it is a continuous activity. There are certain methods or techniques of organization development, which help in developing the people and increase the organizational efficiency. The following are the techniques of organizational development. These methods are also known as OD intervention techniques.

1. Survey Feedback: Information is collected through survey method. This is the most popular and widely used method of data collection. The managers use this information collected through survey for making decisions. The wide range of data is collected regarding working conditions, quality of work, working hours, wages and salaries attitude of employees relating to above. The team of managers then analyzes these data. They find out the problem, evaluate the results and find out solutions. Information is collected from all the members of the organization. Managers conduct meetings with their subordinates and discuss the information, allow subordinates to interpret the data. After this plans are prepared for making necessary changes. This procedure is followed at the levels of management involving all the employees of the organization.

2. Team building: Team Building is another method of organization development. This method is specifically designed to make improvement in the ability of employees and motivating them to work together. It is the organization development technique, which emphasizes on team building or forming work groups in order to improve organizational effectiveness. These teams consist of employees of the same rank and a supervisor. This technique is an application of sensitivity training to the teams of different departments. The teams of working groups are pretty small consisting of 10 to 15 persons. They undergo group discussion under the supervision of an expert trainer usually a supervisor. The trainer only guides but does not participate in the group discussion.

This method of team building is used because people in general do not open up their mind and not honest to their fellows. As they do not mix up openly and fail to express their views to the peers

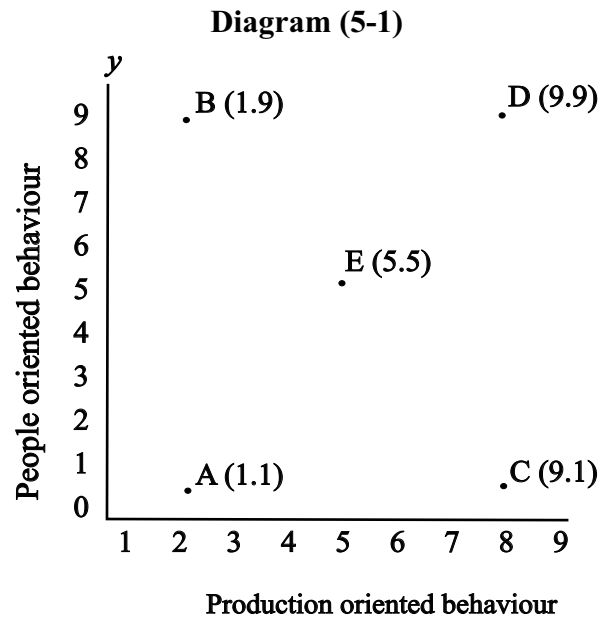
and superiors. This technique helps them express their views and see how other interprets their views. It increases the sensitivity to others' behavior. They become aware of group functioning. They get exposed to the creative thinking of others and socio-psychological behavior at the workplace. They learn many aspects of interpersonal behavior and interactions.

3. Sensitivity training: It is quite popular OD intervention. It is also known as laboratory training. Under this technique the employees in groups are asked to interact. The aim of sensitivity training is to help people understand each other and gain insight so that they feel free and become fearless. Abraham Korman, has rightly observed that, "the assumptions of sensitivity training procedure are that, if these goals are achieved, one will become defensive about himself, less fearful of the intentions of others, more responsive to others and their needs, and less likely to misinterpret others' behaviors in a negative fashions" (Allen kraut, 1999). Under this technique the different groups of employees are allowed to mix up with each other and communicate freely and build up interpersonal relationship. They learn the reflection of their behavior and try to improve it. In the words of Chris Argyris, "sensitivity training is group experience designed to provide maximum possible opportunity for the individuals to exposes their behavior, give and receive feedback, experiment with new behavior and develop awareness of self and others" (Addison Westey, 1996). The employees through this technique know other feelings and behavior and the impact of their behavior on others. It builds up openness, improves listening skills, tolerate individual differences and the art of resolving conflict. It helps in reducing interpersonal conflict in the organization. It is up to executives at the top level of management in the organization to take decision regarding appropriateness of this technique but they must see that the objectives of organizational development are achieved with the help of this method. However there is likelihood that some culprits will exploit the opportunity to fulfill their vested goals at the cost of organization's interests. There is one more serious drawback of the method that it may give rise to groups in the organization, which will defeat the purpose of OD.

To make this technique effective and fulfill the purpose of OD, the selection of trainer must be cautiously made. He must be a man of integrity and responsibility and must command respect

from the participating groups. He plays a crucial role in making the OD programmed successful. He should maintain cordial atmosphere throughout the training program. He must see that each member of the groups learns the behavior of others and to be creative and get more exposure to group life.

4. Managerial grid: The concept of managerial grid (Robert Blake and Jane Mouton, 1996) identifies two major dimensions of management behavior. They are people oriented and production oriented behaviors. Attempts are made to pay increased attention to both the variables. In the diagram (5-1) given below, production oriented behavior is shown on X axis and people oriented behavior is shown on Y-axis. The point A having coordinates 1.1 managerial style shows low people oriented and low production oriented behavior. It is impoverished management. There are many managers come under this category. Such managers do not face any trouble and they do not carry any risk too. The point B having coordinates 1.9 represents a managerial style, which are highly people oriented and low production oriented. This is a Country Club pattern of management. This type of management style keeps the employees happy without much concern for production. The point C or 9.1 in diagram (5-1) represents a managerial style, which shows high concern for production and low in people orientation. The managers who come under this category and who is usually has fix high targets of production for their subordinates and employees and do not pay any attention to the needs and wants of their people. The point D having coordinates 9.9 represent a managerial style, which is highly production oriented and highly people oriented. Robert Blake and Jane Mouton say that this is the most effective managerial style. Under this category of management style managers put their best efforts and have commitment to the people and organization. This is the most favored style and efforts must be made to develop the style accordingly. There is however a middle way which is represented by the point E 5.5 a management style having moderate production orientation and moderate people orientation. This is known as middle of the road managerial style. But the style represented by the point D or 9.9 is the most effective and most favored one for accomplishment of organizational objectives.



Phases of Managerial Grid

- a) Phase or step one consists of seminar training. The seminars usually conducted up to a week. Through seminars the participants learn about their own grid concept and style. It helps them to improve their skill within their group. They develop problem-solving techniques and develop their own grid program.
- b) The second phase gives more stress on team development. The teams consisting of managers to make necessary efforts to prepare plans to attain D or 9.9 managerial styles. Through this they learn how to develop smooth relationship with their subordinates and to develop communication skill with other members of the organization.
- c) The third phase is interring group development for improving coordination between different departments of the organization. Participants learn to develop problem, solving methods.
- d) The fourth phase deals with the creation of ideal models organization. Managers and their immediate subordinates sit together, set the goals, test and evaluate them. Superiors

acquired knowledge through reading of books. They prepare ideal strategy for the organization.

- e) The fifth phase deals with goal accomplishment. The teams of various departments make survey of the resources available in the departments or which can be procured to accomplish the goals of the organization.
- f) The sixth deals with evaluation of the programs and to see if necessary alteration or adjustment can be made for execution (Robert Blake and Jane Mouton, 1996).

The managerial grid technique is quite complicated and its benefits cannot be visualized immediately, hence its evaluation can be done after pretty long time.

5. **Management by objectives (MBO):** MBO (Donald White & David Bendar, 1986) is a technique of management development which was put forward for the first time by Peter F. Drucker in 1954. It is a method of achieving organizational objectives and a technique of evaluation and review of performance. Under this method objectives of the organization are fixed and responsibility to achieve them lie on the managers and results are expected from them. Achievement of organizational objectives is considered as the joint and individual responsibility of all managers. It also provides a perfect appraisal system. Performance of the managers is measured against the specific objectives. It is result-oriented technique. George Odiorne observed that MBO is, "a system wherein superior and subordinate managers of an organization jointly identify its common aims, define each individual's major areas of responsibility in terms of the results expected of him and use these measures as guides for operating the unit, assessing the contribution benefits of its members." According to (Donald White & David Bendar, 1986), "MBO is a technique designed to (1) increase the precision of the planning process at the organizational level and (2) reduce the gap between employee and organizational goals.

MBO process:

MBO process involves four major steps:-

- (i) Goal setting by top management: - For effective planning the organizational goals are set by the top management. These goals provide an outline or base for different departments to

set their goals after making certain modifications etc if at all necessary.

- (ii) Individual goals: - A single individual cannot fulfill Organizational goals but all the members' cooperation and active participation is necessary. It is therefore pertinent to assign a target to every individual and he must attain it.
- (iii) Freedom for selection of means: - A considerable amount of freedom or autonomy is given for the accomplishment of goals to the managers and subordinates.
- (iv) Making appraisal: - The performance is to be reviewed and appraised in relation to the goals. This will help the subordinates and employees to make the corrections if any and make further improvements.

MBO is an effective technique of organizational development and improving performance. It promotes coordination among superiors and subordinates at all levels and is an effective tool of planning and control. It helps to learn problem-solving techniques.

6. **Brain storming (Creativity):** - It is a technique where a group of five to eight managers come together and to find a solution to a problem. As the name suggests it involves storming of the brain to develop creativity in thinking. It gives rise to new ideas. The principle involved in it is that any idea, thought or plan put forward in a meeting must be critically evaluated. The participants are asked to come forward with novel ideas generated in their mind. It works on a premise that everyone has a creative mind and capability to generate new ideas. Participants are closely observed at the discussion and no expert is provided to conduct the meeting. The participants sit across the table for close communication. The brainstorming technique can generate an atmosphere where people can express freely. This encourages group interaction and creative thinking. Actually creativity is considered to be the source of new and competitive ideas through which an organization positions itself in its environment (C.M.J. Woerkum & M.N.C. Aarts, 2007). Nonaka Also added that, "successful companies are those that consistently create new knowledge, disseminate it widely through the organization, and quickly flesh out the knowledge with new technologies and products. These activities characterize the knowledge-creating company

whose sole business is continuous innovation (Nonaka, 1996).

7. **Process consultation:** - The technique of process consultation is an improvement over the method of sensitivity training or T Group in the sense that both are based on the similar premise of improving organizational effectiveness through dealing with interpersonal problems but process consultation is more task-oriented than sensitivity training. In process consultation the consultant or expert provides the trainee feedback and tell him what is going around him as pointed out by EH Schein that the consultant, "gives the client 'insight' into what is going on around him, within him, and between him and other people. Under this technique the consultant or expert provides necessary guidance or advice as to how the participant can solve his own problem. Here the consultant makes correct diagnosis of the problem and then guides the participants. The consultant according to EH Schein "helping the client to perceive, understand and act upon process events which occur in the client' environment," Process consultation technique is developed to find solutions to the important problems faced by the organization such as decision making and problem solving communication, functional role of group members, leadership qualities. Consultant is an expert outside the organization. EH Schein, has suggested the following steps for consultant to follow in process consultation.
- (i) Initiate contact: - This is where the client contacts the consultant with a problem that cannot be solved by normal organization procedures or resources.
 - (ii) Define the relationship:-In this step the consultant and client enter into both a formal contract spelling out services, time, and fees and a psychological contract. The latter spells out the expectations and hoped for results of both the client and the consultant.
 - (iii) Select a setting and a method:- This step involves an understanding of where and how the consultant will do the job that needs to be done.
 - (iv) Gather data and make a diagnosis:- Through a survey using questionnaires, observation and interviews, the consultant makes a preliminary diagnosis. This data gathering occurs

simultaneously with the entire consultative process.

- (v) **Intervene:** Agenda setting, feedback, coaching, and/or structural interventions can be made in the process consultation approach.
- (vi) **Reduce involvement and terminate:** The consultant disengages from the client organization by mutual agreement but leaves the door open for future involvement (EH Schein, 1982). The organization benefits from the process consultation to ease out interpersonal and inter group problems. To use the technique of process consultation effectively the participants should take interest in it.
- 8. **Quality circles:** Under this system a group of 5 to 12 come together at their own free will during working hours once in a week and discuss out the problems and suggests solution to the management for implementation. The supervisors remain present during the meeting. Quality circles have their origin in Japan in nineteen sixties which improved the quality, reduced cost and heightened the morale of the workers. The success was due to workers' participation.

Recommendations

1. We have to choose the changing environment which suites the required changes and have the ability of full evaluation and monitoring process.
2. We have to choose the management strategies which enables periodical appraisal and monitoring of environmental threats in light of weakness and strength points of the organization.
3. HRD should be carried out continuously through training programs, and through the one team efforts.
4. Encouraging creativity of HR, as creativity is the source of competitive new ideas which strengthen the organization's rank among its environment.
5. Finally, we should encourage the concept of management by objectives to enhance the main idea of changing management.

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Intangible Assets with Globally Harmonised Accounting Standard

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Abstract

This paper examines the effect of Global Harmonisation of international accounting standards over the treatment of Intangible Assets. Indian companies are in the stage where they have to adopt IAS and IFRS. ICAI (The Institute of Chartered Accountants of India) has announced that IFRS will be mandatory in India for financial statements for the period beginning on or after 1 April, 2011. All the existing accounting standards will be revised to make them compatible with IFRS and the policies regarding the disclosure will be changed like, financial Policies, Tax Administration, political system (RBI), legal requirements relating to accounting reporting and general business laws, and educational system etc. The processes related to accounting practices are transparency, accountability and disclosure requirements are still be most dominant. Two major issues covered are : Historical prospective of IAS and IFRS and Changes in the valuation Method, policy and treatment of intangible assets.

As a key outcome the paper presents the policy used for Accounting and disclosure of Intangible assets in the light of IAS-38 and IFRS-3 with a live example of Nokia Corporation ltd.

Introduction:

Convergence with International Accounting standard (IAS) and International financial Reporting Standards (IFRS) has gained momentum in the recent years. All the countries are going in the direction of adopting IAS and IFRS to make themselves comparable in the global economic environment. It is also essential for a company to prepare the financial reports as per Generally Accepted Accounting Principle (GAPP) of the country. But since the business of the companies are not limited up to home country it is essential to make the financial accounts as per the GAAP of operational country and then it is required to reconcile all such reports for the purpose of consolidation as per GAPP of the country to which the parent belongs. This increase the cost of preparing the financial report and also it is difficult to make the segment of the report in as per the GAPP of all countries. In current era with more and more countries accepting the capital account convertibility, it has become important issue to accept the uniform GAAP. It will help the companies to raise the Cross Border capital. This cannot be possible till the country from which the capital is proposed to be raised, knows about the financial position of the company as per their own accepted GAAP. So they can effectively evaluate the position of the company. If the Accounting standards followed by both the countries are same than raising finance will became easy. For this purpose the International Accounting Standards were issued by the International Accounting Standard Committee. (IASC)

IASC was the body which issued International Accounting Standards From 1973 to 2000. In 2001 IASC was replaced by International Accounting Standards Board (IASB). IASB is independent body and consists of members from nine different countries around the globe having variety of functional backgrounds.

IFRS, the new version of IAS are issued by IASB. The International Accounting Standards Committee (IASC) Foundation, based in London, is the oversight body of the IASB and is governed by 22 trustees, chaired by former US Federal Reserve chairman Paul A Volcker. The IASC Foundation is funded by contributions from the major accounting firms, private financial Institutions and industrial companies throughout the world, central and development banks, and other International and professional organisations.

IASB adopted all the existing IAS (numbered 1 to 41) issued by IASC (before 2001) and decided that it will make amendments

in the present IAS and all future standards issued will be called IRFS. IASB is reviewing the IAS and has amended as well as replaced some of them with new IFRS. Several interpretations of Standards have also been issued. Broadly, IFRSs refers to the entire body of IASB and IASC pronouncement.

Over 150 Countries have either approved or mandated application of IFRS for their domestic listed companies including Austria, Finland, France, Russia, Sweden, Germany, UK, Australia, Singapore, Taiwan, and Mauritius etc. till July 2010. With the emergence of global financial markets, IFRS is increasingly becoming relevant and overshadowing regional accounting standards. Globalisation of IFRS is also necessitated as global financial markets are integrating and investors are looking for more consistency in the financial reporting of multinational corporations.

The purpose of this IFRS is to ensure that the financial statements under IFRS an entity, as well as their interim financial reports concerning a portion of the exercise covered by such financial statements, contain high quality information and provides benefit to users.

In India, The Institute of Chartered Accountants of India (ICAI) has announced that IFRS will be mandatory in India for financial statements for the periods beginning on or after 1 April, 2011. The existing accounting standards will be revised to make them compatible with IFRS. The banks are also not so far in accepting the new IFRS. The Reserve Bank of India has stated that for preparing financial statements all the banks have to adopt IFRS and make their records as per it from the periods beginning on or after 1 April, 2011.

Historical Perspective and Conceptual framework of adoption

The very first steps towards international accounting standards date back to 1959, when a founding partner of a major European firm of independent accountants urged that work begin on this subject (Choi, Frost, & Meek, 1999). Since then, the work of accounting and non-accounting organizations culminated in the setting up of the International Accounting Standards Committee (IASC) in 1973. In 1997 the IASC changed its structure to "bring about convergence between national accounting standards and practices and high quality global accounting standards." In July 2000 the IASC was renamed the IASB, and in April of the following year, the IASB assumed the responsibility for promulgating international accounting standards.

The Asian crises of 1997-1998 marked an impetus for supporting international accounting standards, where many countries either adopted international accounting standards in their entirety, or with minor changes. Several companies in various countries adopted international accounting standards nonetheless for their own financial statements in order to be able to compete in international markets (Hansen, 2003). Similar accounting adoption steps have been taken by other countries of the world.

Adhikari and Tondkar (1992) reported that financial "accounting reporting and disclosure standards and practices do not develop in a vacuum but reflect the particular environment in which they are developed"(P-76). Accounting principles and practices are generally influenced not only by environmental factors such as history, values and culture, but also by the stage of that society's economic development and accounting system. If accounting is the language of business, then this language becomes relevant when it is easily understood and satisfies users and decision makers.

Several studies have been conducted to identify the reasons explaining accounting diversity (Gray, 1988; Cooke & Wallace, 1990; Doupnik & Salter, 1995). Meek and Saudagaran (1990) and Iqbal (2002) identified five key major environmental influences relating to the economic system, the political system, the legal system, the educational system, and religion. Meek & Saudagaran, 1990; Gernon & Meek, 2001 observed that in particular, the level of inflation, sources of finance, the stage of economic development, financial markets, and managerial development or sophistication, accounting education and culture affect accounting practices. Iqbal (2002) argues that the "degree of economic risk exposure to the investors and creditors in a country is directly related to the degree of economic instability of the country." In countries characterized by an unstable economy, economic forecasts are very difficult and require constant, if not drastic, changes leading to questionable accounting practices. Therefore, a stable economy facilitates the development of a conceptually sound accounting system.

A country's level of inflation is another determinant that shapes accounting systems and causes accounting diversity, in most countries, the historical cost concept is used for initially recording transactions. In times of generally rising prices, inflation exerts an enormous pressure on historical cost accounting and attracts a great deal of attention in reporting the effects of changing prices as it happened in the late 1970s and early 1980s in the U.S. and the U.K. (Iqbal, 2002; Saudagaran, 2004).

A country's stage of economic development is a reflection of the business transactions that are prevalent in that country. As Choi, Frost and Meek (1999) suggests, types of economic transactions determine the accounting issues that have to be addressed. The greater the complexity of business transactions, the more difficult the accounting issues.

Business ownership determines the extent to which financial disclosures are to be made. Thus, if business ownership is held by several investors, then a myriad of disclosures will be necessary to address the needs of such a diverse group of investors. If equity financing is the main source of an economy's source of capital, such as in the U.S. and the U.K., then financial reporting will be geared to equity holders. Conversely, in countries where debt financing is the major source of capital, such as Germany, Japan, and Switzerland, accounting reporting focuses on creditor protection that is achieved through conservative accounting measurements. Consequently, since financial institutions have direct and immediate access to information, detailed and transparent public disclosure is limited. Apart from the idiosyncratic sources of finance in a country, tax legislation has an impact on accounting. In many countries (e.g., Germany, Japan, France, and Sweden) tax law effectively determines accounting standards because firms are required to record revenues and expenses for tax purposes. In other instances such as the U.S., the U.K., and the Netherlands, financial and tax accounting are two separate and distinct disciplines. Taxable income is simply financial accounting income adjusted for the effects of tax laws.

Inextricably bound to a country's economic system is a country's political system and philosophy. Political and economic stability go hand in hand. If economic stability were a prerequisite for the development of an accounting system, then that development would be facilitated by a country's political stability. An Ernst & Young survey of the Global 1000 companies (Iqbal, 2002), identified that apart from financial risk, legal infrastructure, bureaucracy, exchange controls, and commercial infrastructure, political instability was the major barrier to investment in a country. Iqbal (2002) posits "the political instability of a country is often a result of the deterioration of economic conditions. The development of a comprehensive and sophisticated accounting system is difficult under such a set of circumstances."

Perhaps no other factor causes more diversity in accounting than the legal system that typically prescribes accounting rules and regulations. In certain countries, the private sector is entrusted with setting accounting standards and policies. Gernon and Meek (2001) discussed the dichotomization of the accounting world into those countries with a legalistic (code-law countries) orientation incorporating most of continental Europe and South America, and those countries with a non-legalistic (common-law countries) orientation such as the U.K. and the U.S. Prior studies have shown that whereas "common law" countries tend to be innovative and open to new business ideas, "code law" countries are likely to adhere to prescribed procedures. Douppnik and Salter (1995) found that the type of legal system (i.e., code versus common law) was the dominant explanatory variable and that the basic starting point lied in classifying accounting practices internationally.

Summary of IAS-38- INTANGIBLE ASSETS

The IAS provides the basic framework of Accounting for Intangible assets. Indian companies have to convert their practices from Indian GAAP to IAS from 1st April, 2011 and to follow the given rules of IAS which is as under:

Internally generated intangible assets

Internally generated goodwill shall not be recognised as an asset.

No intangible asset arising from research (or from the research phase of an internal project) shall be recognised. Expenditure on research (or on the research phase of an internal project) shall be recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) shall be recognised if, and only if, an entity can demonstrate all of the following:

- (a) The technical feasibility of completing the intangible asset so that it will be available for use or sale.
- (b) Its intention to complete the intangible asset and use or sell it.
- (c) Its ability to use or sell the intangible asset.
- (d) How the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset.

- (e) The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
- (f) Its ability to measure reliably the expenditure attributed to the intangible asset during its development.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance shall not be recognised as intangible assets.

The cost of an internally generated intangible asset for the purpose of paragraph 24 is the sum of expenditure incurred from the date when the intangible asset first meets the recognition criteria in paragraphs 21, 22 and 57. Paragraph 71 prohibits reinstatement of expenditure previously recognised as an expense.

Expenditure on an intangible item shall be recognised as an expense when it is incurred unless:

- (a) It forms part of the cost of an intangible asset that meets the recognition criteria; or
- (b) The item is acquired in a business combination and cannot be recognised as an intangible asset. If this is the case, it forms part of the amount recognised as goodwill at the acquisition date (see IFRS 3).

Measurement after recognition

An entity shall choose either the cost model or the revaluation model as its accounting policy. If an intangible asset is accounted for using the revaluation model, all the other assets in its class shall also be accounted for using the same model, unless there is no active market for those assets.

Cost model: After initial recognition, an intangible asset shall be carried at its cost less any accumulated amortisation and any accumulated impairment losses.

Revaluation model: After initial recognition, an intangible asset shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated amortisation and any subsequent accumulated impairment losses. For the purpose of revaluations under this Standard, fair value shall be determined by reference to an active market. Revaluations shall be made with such regularity that at the end of the reporting period the carrying amount of the asset does not differ materially from its fair value.

An active market is a market in which all the following conditions exist:

- (a) The items traded in the market are homogeneous;
- (b) Willing buyers and sellers can normally be found at any time; and
- (c) Prices are available to the public.

If an intangible asset's carrying amount is increased as a result of a revaluation, the increase shall be recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus. However, the increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss. If an intangible asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognised in profit or loss. However, the decrease shall be recognised in other comprehensive income to the extent of any credit balance in the revaluation surplus in respect of that asset.

Useful life

An entity shall assess whether the useful life of an intangible asset is finite or indefinite and, if finite, the length of, or number of production or similar units constituting, that useful life. An intangible asset shall be regarded by the entity as having an indefinite useful life when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity.

Useful life is:

- (a) The period over which an asset is expected to be available for use by an entity; or
- (b) The number of production or similar units expected to be obtained from the asset by an entity.

The useful life of an intangible asset that arises from contractual or other legal rights shall not exceed the period of the contractual or other legal rights, but may be shorter depending on the period over which the entity expects to use the asset. If the contractual or other legal rights are conveyed for a limited term that can be renewed, the useful life of the intangible asset shall include the renewal period(s) only if there is evidence to support renewal by the entity without significant cost.

To determine whether an intangible asset is impaired, an entity applies IAS 36 *Impairment of Assets*.

Intangible assets with finite useful lives

The depreciable amount of an intangible asset with a finite useful life shall be allocated on a systematic basis over its useful life. Depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value. Amortisation shall begin when the asset is available for use, ie when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Amortisation shall cease at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations and the date that the asset is Derecognised. The Amortisation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity. If that pattern cannot be determined reliably, the straight-line method shall be used. The Amortisation charge for each period shall be recognised in profit or loss unless this or another Standard permits or requires it to be included in the carrying amount of another asset.

The residual value of an intangible asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

The residual value of an intangible asset with a finite useful life shall be assumed to be zero unless:

- (a) There is a commitment by a third party to purchase the asset at the end of its useful life; or
- (b) There is an active market for the asset and:
 - (i) Residual value can be determined by reference to that market; and
 - (ii) It is probable that such a market will exist at the end of the asset's useful life.

The amortisation period and the amortisation method for an intangible asset with a finite useful life shall be reviewed at least at each financial year-end. If the expected useful life of the asset is different from previous estimates, the amortisation period shall be changed accordingly. If there has been a change in the expected

pattern of consumption of the future economic benefits embodied in the asset, the amortisation method shall be changed to reflect the changed pattern. Such changes shall be accounted for as changes in accounting estimates in accordance with IAS 8.

Intangible assets with indefinite useful lives

An intangible asset with an indefinite useful life shall not be amortised.

In accordance with IAS 36 Impairment of Assets, an entity is required to test an intangible asset with an indefinite useful life for impairment by comparing its recoverable amount with its carrying amount

- (a) Annually, and
- (b) Whenever there is an indication that the intangible asset may be impaired.

The useful life of an intangible asset that is not being amortised shall be reviewed each period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite shall be accounted for as a change in an accounting estimate in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

Table 1: Comparison between Indian GAPP, IAS and IFRS

Particular	IFRS	INDIAN GAAP
Purchase method – intangible assets with indefinite useful lives and goodwill	Capitalised but not amortised. Goodwill and indefinite-lived intangible assets are tested for impairment at least annually at either the cash-generating unit (CGU) level or groups of CGUs, as applicable.	Goodwill on consolidation and business acquisitions: no specific guidance – practice varies, between no amortisation versus amortisation over a period not exceeding 10 years; Goodwill on amalgamation is amortised over a period not exceeding 5 years, unless a longer period is justified; Goodwill is reviewed for impairment whenever an indication of impairment exists at the CGU level. Intangible assets can not be classified into indefinite useful lives category. All intangible assets are amortised over a period not exceeding 10 years (rebuttable presumption).
Purchase method – negative goodwill	The identification and measurement of acquiree's identifiable assets, liabilities and contingent liabilities are reassessed. Any excess remaining after reassessment is recognised in income statement immediately.	Recorded in equity as capital reserve, which is not amortised to income. However, in case of an amalgamation, the fair value of intangible assets with no active market is reduced to the extent of capital reserve, if any, arising on the amalgamation.

Case Study: NOKIA CORPORATION

Nokia Corporation is one of the leading brands in the whole world. The company is Finland based European Company. According to the compliance rules the company is preparing its annual accounts with the help of IAS and also following the rules of IFRS for preparing its annual report. The summary of its annual report shows the description of the intangible assets of the company. The company is acquiring the foreign companies one by one and have made the changes in the accounting policies accordingly. The summary of it is as follows;

Table 2: Summary of Balance sheet of NOKIA Corporation

	EURm	EURm
ASSETS	2009	2008
Non-current assets		
Capitalized development costs	143	244
Goodwill	5171	6 257
Other intangible assets	2762	3 913
Total intangibles	8,076	10,414
Total Assets	35738	39582
PERCENTAGE OF TOTAL ASSETS	22.6	26.31

From the above table 2, it is clear that the percentage of intangibles' of total assets is going down which depends upon company's policy to evaluate its intangible correctly.

The given description shows the level of depth of reporting for intangible assets. The description of intangibles are shown in notes of accounts of Nokia corporations Ltd is as under-

Table 3: Summary of Notes of accounts (No.12) 2008

	EURm	EURm
Intangible assets	2009	2008
Capitalized development costs		
Acquisition cost January 1	1817	1 817
Additions during the period	27	131
Acquisitions		
Impairment losses		—
Retirements	---	– 124
Disposals during the period	-8	– 13

Accumulated acquisition cost December 31	1830	1811
Accumulated amortization January 1	-1567	- 1439
Retirements during the period	-	14
Disposals during the period	-8	11
Amortization for the period	-128	- 153
Accumulated amortization December 31	-1687	-1567
Net book value January 1	244	378
Net book value December 31	143	244
Goodwill		
Acquisition cost January 1	6257	1 384
Translation differences	-207	431
Acquisitions	32	4 482
Disposals during the period	-3	- 35
Impairment during the period	-908	
Other changes	-	- 5
Accumulated acquisition cost December 31	5171	6 257
Net book value January 1	6257	1384
Net book value December 31	5171	6257
Other intangible assets		
Acquisition cost January 1	5498	3 218
Translation differences	-142	265
Additions during the period	50	95
Acquisitions	3	2 189
Retirements during the period	-26	- 55
Impairment during the period	-94	
Disposals during the period	-2	- 214
Accumulated acquisition cost December 31	5287	5498
Accumulated amortization January 1	-1587	- 860
Translation differences	56	- 32
Retirements during the period	17	
Impairment during the period	38	
Disposals during the period	2	48
Amortization for the period	-1053	- 741
Accumulated amortization December 31	-2525	- 1 585
Net book value January 1	3913	2358
Net book value December 31	2762	3913

CONCLUSION:

With the analysis of the theoretical background of IAS and IFRS it is clear that the policies regarding the Intangible assets is going to be changed with the adoption of IAS and IFRS which is compulsory to adopt as per the guidelines provided by the ICAI on or after the period starts 1st April, 2011, which is not far. The Indian companies have to follow the IFRS which make major changes in

the accounting and reporting they were following. First their financial report format will be changed and in place of schedules brief notes will be required. Then the change like goodwill can not be either self generated and cannot be amortised. The gain due to fair value of intangible assets and its acquired cost will not be treated as capital reserve but it will be part of the income statement of the company (short term gain).

The Adoption of IAS and IFRS will change the accounting policies in India, which look like a big task but it will be a benefit to Indian companies now their financial records can be comparing with anyone in the world. The Multinational Corporation can also free from making different-different annual records as per the Local GAPP of their working country.

It will also give our professional a chance to be global. They also get the new countries for work and new job opportunities.

The biggest Question now is- that are we prepared to accept the new accounting polices? It is the biggest problem, and only future will provide the solution.

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Role of Regional Rural Banks in Rural Finance in India

Dr. Ram Singh Meena

Abstract

Regional Rural Banks (RRBs) were established on 2nd October, 1975 with the objective to augment the outreach of the institutional channel of credit in the remotest corner of rural India. Today they face a number of impediments in their growth. Tangible reforms are necessary to make them work in today's competitive world. RRB's have some features co-operatives and some features of commercial Banks. Like co-operatives they are rural oriented and they are familiar with rural problems. The cost of management is also low since local people are recruited at a lower salary. Side by side, like commercial banks, they operate as business organizations. They are empowered to mobilise deposits and they have access to central money market. Each RRB is a sponsored organization. It is mainly sponsored by a nationalized commercial bank. The sponsored commercial bank provides financial assistance to the RRB, in several ways. Besides providing share capital to RRB, the sponsored bank also provides managerial and other staff assistance. Lack of managerial efficiency is a weakness of village level cooperative societies. RRBs have to establish their own credibility among the rural client and poor ones. This can be done by understanding their problems thoroughly and solving them properly through timely supply of credit and related services to them for their

economic upliftment. The basic objective of this study is to evaluate the performance of the Regional Rural Banks and to review the challenges before RRBs in order to develop and manage a successful strategy for better rural financial management leading to make the RRBs economically viable and efficient enough.

Keywords: Rural Credit, Poverty Eradication, Funds Mobilization.

Introduction

The small and marginal farmers, rural artisans and agricultural labourers are deprived of the crucial inputs of timely and adequate credit from the institutional sources. RRBs were established on 2nd October, 1975 with the notion of augmenting the outreach of the institutional channel of credit in the remotest corner of rural India. Today they face a number of impediments in their growth. Tangible reforms are necessary to make them work in today's competitive world.

Agriculture in India provides livelihood to more than two thirds of the country's population. First Five Years Plan to the Eleventh Plan, the agricultural development has been given due importance. During the above period inspite of the impressive stride made by the institutional channel in rural areas, the government felt that the small and marginal farmers, rural artisans and agricultural labourers, are deprived of the crucial inputs of timely and adequate credit from the institutional sources. The Government has been taking elaborate and extensive initiatives (both policy and administrative) augment to outreach of formal channel or rural masses.

RRBs were established in 1975. RRBs were conceived with the notion of augmenting the outreach of the institutional channel of credit in the remotest corner of rural India. Five RRBs were established in the first place in 1975. Today, the country has 104 RRBs, sponsored by 29 banks operating in 484 districts with more than 14400 branches and employing about 70,200 persons.

Review of Literature

The literature available in the working and performance of RRBs in India is a little limited. Patel and Shete (1980) of the National Institute of Banking Management made a valuable analysis of performance and prospects of RRBs. They also gave a comparative picture of performance in deposits, branch expansion and credit deployment of the co-operative banks, commercial banks and RRBs in a specified area.

NABARD (1986) published "A study on RRBs viability", which was conducted by Agriculture Finance Corporation in 1986 on behalf of NABARD. The study revealed that viability of RRBs was essentially dependent upon the fund management strategy, margin between resources mobility and their deployment and on the control exercised on current and future costs with advances. The proportion of the establishment costs to total cost and expansion of branches were the critical factors, which affected their viability. The main suggestions of the study included improvement in the infrastructure facilities and opening of branches by commercial banks in such areas where RRBs were already in function.

Kalkundrickars (1990) in his study on "Performance and Growth of regional Rural Banks in Karnataka" found that these banks had benefited the beneficiaries in raising their income, productivity, employment and use of modern practices and rehabilitate rural artisans.

Kumar Raj (1993) carried out a study on the topic "Growth and Performance of RRBs in Haryana". On the basis of the study of RRBs of Haryana, it is found that there was an enormous increase in deposits and outstanding advances. The researcher felt the need to increase the share capital and to ensure efficient use of distribution channels of finance to beneficiaries.

A. K. Jai Prakash (1996) conducted a study with the objective of analyzing the role of RRBs in Economic Development and revealed that RRBs have been playing a vital role in the field of rural development.

L.K Naidu (1998) conducted a study on RRBs taking beneficiaries of rural artisans in Cuddapah district of Andhra Pradesh state under Rayale Seen Gramin Bank. In this study, it was concluded that the beneficiaries were able to find an increase in their income because of the finance provided by the bank.

According to Nathan, Swami (2002), policies of current phase of financial liberalization have had an immediate, direct and dramatic effect on rural credit. There has been a contraction in rural banking in general and in priority sector ending and preferential lending to the poor in particular.

Chavan and Pallavi (2004) have examined the growth and regional distribution of rural banking over the period 1975-2002. Chavan's paper documents the gains made by historical underprivileged region of east, northeast and central part of India

during the period of social and development banking. These gains were reversed in the 1990s: cutbacks in rural branches in rural credit deposits ratios were the steepest in the eastern and northeastern states of India. Policies of financial liberalization have unmistakably worsened regional inequalities in rural banking in India.

Dilip Khankhoje and Milind Sathye (2008) have analysed to measure the variation in the performance in terms of productive efficiency of RRBs in India and to assess if the efficiency of these institutions has increased post-restructuring in 1993-94.

M.Syed Ibrahim (2010) examined the operational performance of the Regional Rural Banks in India and concluded that its performance in India has significantly improved after amalgamation process which has been initiated by the Government of India.

Objectives of the Study

The basic objective of this study is to evaluate the working of Regional Rural Banks so as to find out ways and means to make the RRBs economically viable and efficient enough. The focus is to build the strategic inputs to design the successful strategy for developing better rural finance. The following are the objectives of the study:

- To review the background for setting up of Regional Rural Banks.
- To evaluate the business performance of economic viability and profitability of RRBs.
- To find out various problems and causes for poor recovery and their solution.
- To make some concrete suggestions for making RRBs economically viable, profitable and efficient enough.

Research Methodology

The present study is diagnostic and exploratory in nature and makes use of secondary data. The relevant secondary data have been collected mainly through the data bases of Reserve Bank of India (RBI), National Bank for Agricultural and Rural Development (NABARD) and Regional Rural Banks (RRB). The journals like the Banker and the Journal of Indian Institute of Bankers have also been referred. The books, journals and magazines were scanned to form the detail framework of the literature review. The study is

confined in the areas like number of RRBs, number of branches, deposits mobilized, credits and investments made by the Indian Regional Rural Banks (RRBs) for the fifteen years period starting from 1994-95 to the year 2009-10.

Historical Background

Rural credit system was given priority during the first five year plan .All India Rural Credit Survey Committee had given recommendations in 1954 emphasizing the urgent need to provide credit facility in rural areas. The rural credit was mainly based on moneylenders. With the adoption of new credit policy relating to agriculture in 1968, it was realized that the SBI and cooperative banks are not meeting the requirements of the rural areas. The commercial banks were nationalized in 1969 with the objective that these Banks will play an important role in rural credit system of the country. Commercial banks did not take interest in providing rural credit the branch expansion was of high cost and not profitable. Banking commission was appointed in 1972 to give recommendations for the banking sector reforms in which a single banking institution was recommended for rural areas.

A working group was appointed on the establishment of rural banks in 1975 under the chairmanship of Shri Narsimhan. The committee recommended the setting up of Regional Rural Banks in July, 1975. Government of India issued an ordinance for the establishment of Regional Rural Banks to implement the suggestions of the committee on 26th September, 1975 and five RRBs were set up on 2nd October, 1975. This ordinance was converted into an Act in 1976 and RRBs Act, 1976 was passed. These five RRBs were set up in Bhiwani in Haryana, Moradabad and Gorakhpur in U.P., Jaipur in Rajasthan and Malda in West Bengal on 2nd October, 1975. These banks were sponsored by Syndicate Bank, State Bank of India, Punjab National Bank, United Commercial Bank and United Bank of India. The equities of rural banks were divided in a proportion of 50:35:15 among the Central Government, the Sponsor bank and the concerned State Government. The total authorized capital was fixed at 1 Crore which has since been raised to 5 Crores. Till date in rural banking in India, there are 15,475 rural banks in the country of which 14082(91%) are located in remote rural areas. These banks provide credit to the weaker sections of the rural areas, particularly the small and marginal farmers, agricultural labourers, artisans and small entrepreneurs.

TABLE 1
THE FIRST FIVE RRBs IN INDIA

S. No.	NAMES OF RRBs	SPONSORED BANKS	STATES	LOCATION OF HEAD OFFICE	JURISDICTION
1	Prathama Bank, Moradabad	Syndicate Bank	Uttar Pradesh	Moradabad	Moradabad District
2	Gorakhpur Kshetriya Gramin Bank, Gorakhpur	State Bank of India	Uttar Pradesh	Gorakhpur	Gorakhpur and Deoria Districts
3	Haryana Kshetriya Bank, Bhiwani	Punjab National Bank	Haryana	Bhiwani	Bhiwani District
4	Jaipur-Nagpur Aanchalik Gramin Bank, Jaipur	United Commercial Bank	Rajasthan	Jaipur	Jaipur and Nagpur Districts
5	Gaur Gramin Bank, Malda	United Bank of India	West Bengal	Malda	Malda, West Dinajpur and Murshidabad Districts

Source: Reserve Bank of India Bulletin, January 1976, p 63

The number of RRBs increased from 5 in October 2, 1975 to 19 by June, 1976. This number increased to 40 at the end of 1976 and then to 51 by the end of 1978, the expansion of such banks was slow because of some sort of reservations and reconsiderations about the speed with which new RRBs should be opened. However, after 1978 the groups of RRBs and their branches have increased substantially on account of the strong support and favourable recommendations made the Revised Committee (Dantawala Committee). By March, 2010, the RRBs increased to 82(post-merger) and have 15475 branches all over the country. The deposits and advances were Rs. 145035 and Rs. 79157 Crores respectively at the end of March 2010 and the advances granted to small and marginal farmers, landless labourers and rural artisans constituted more than 90% of the total loan. The performance of RRBs, both in the terms of deposits and advances is quite impressive. So far these banks have shown a commendable progress in respect of their coverage, deposit mobilization and deployment of credit in the rural sector of the economy.

Objectives of Regional Rural Banks

The main objectives of RRBs area given as under:

- The original objective of the RRBs was to bring progress with social justice to the rural poor who were generally denied access to financial services from commercial banks.

- To make available the loan and other banking services to the marginal farmers, agricultural labourers, artisans and small scale entrepreneurs so that the development activities increase in agriculture, trade, industry and other related services even in the remotest rural areas.
- To bridge the gap between the banking facilities available in urban and rural areas.
- To free the rural poors, small and marginal farmers from the clutches of moneylenders.
- To provide institutional credit at concessional rate of interest for the upliftment of weaker sections of the society.

Special Features of Regional Rural Banks

The RRBs have some distinct features, which are different from both the commercial banks and the Co-operative Banks. The features are as following:

- RRBs are mainly set up in underbanked and unbanked regions of the country. This means that RRBs are to function in remote rural areas which lack basic amenities like education, medical help, transport and communications.
- The RRBs would function as low cost institutions with staff drawn from the districts or the states in which the banks are located.
- The RRBs are expected to operate on low spreads or margins because they are to lend to weaker sections at low rates of interest on the deposits mobilized by them.
- The area of RRBs is limited to a specific region comprising one or more districts of a State. The branches of a RRB are established in those areas of the region, where commercial and cooperative bank credit supply is inadequate, where the weaker section rural population is large and where there is sufficient potential for agriculture development.
- RRBs provide credit both directly and indirectly. The RRBs grant direct loans and advances only to small and marginal farmers, rural artisans and agricultural labourers and others of small means for productive purposes. Indirect loans are given through co-operative societies operating within RRBs area.
- Like Co-operative banks they provide credit at cheaper rate of interest. The lending rates of RRBs should not be higher

than the prevailing lending rates of co-operative societies in any particular State.

- RRBs enjoy some concession in regard to requirement of cash reserves, liquidity, interest rates on deposits. The RRBs are allowed to offer one and a half percent additional rate of interest on its deposits over the rate offered by scheduled commercial banks. Thus, the sponsoring banks and the RBI provide many subsidies and concessions to RRBs to enable the latter to function effectively. The financial resources of the RRBs are utilized in the district where they operate.

Thus, RRBs have some features of co-operatives and some features of commercial Banks. Like co-operatives they are rural oriented and they are familiar with rural problems. The cost of management is also low since local people are recruited at a lower salary. Side by side, like commercial banks, they operate as business organizations. They are empowered to mobilise deposits and they have access to central money market. Their outlook is also more modernized in comparison to co-operative part of the organization. In other words, RRBs work as a hybrid of co-operatives and commercial banks in rural sector of our economy.

Performance of Regional Rural Banks

The RRBs, over the years have made impressive strides on various business indicators. For instance the table clearly reveals that RRBs have made significant progress in terms of their deposits, loans and advances, branch expansion, etc.

Till the birth of RRBs in India, Commercial Banks and Co-operative Banks were rendered services to the rural public. But despite such large net work of bank branches, the credit needs of the rural population in India were quite inadequate. Regional Rural Banks in India have achieved tremendous growth in terms of number of banks and its wide braches which is shown in the Table-2.

RRBs are expected to mobilize resources from rural areas and play a significant role in developing agriculture and rural economy by deploying mobilized resources in rural sectors for the needy not conversed by the formal credit institutions. The business performance of RRBs in terms of deposit mobilization and credit extension is presented in Table 2.

**TABLE 2
EXPANSION OF RRBs DURING 1975-2010**

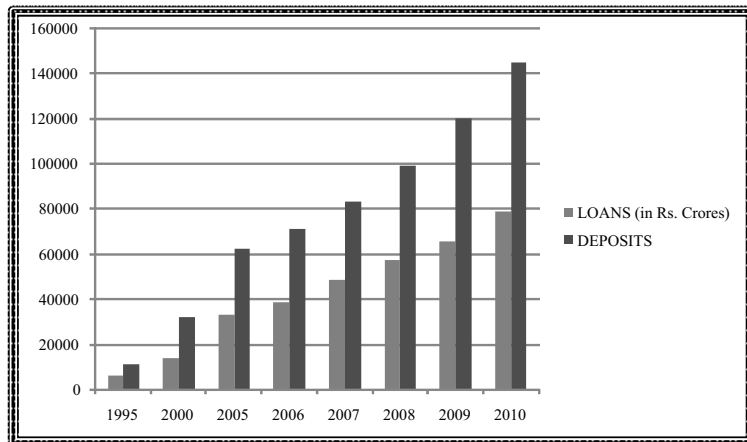
PERIOD ENDING	BANKS	BRANCHES	LOANS (in Rs. Crores)	DEPOSITS
Dec 1975	6	17	0.10	0.20
Dec 1980	85	3279	243	200
Dec 1985	188	12606	1408	1287
Mar 1990	196	14443	3554	4151
Mar 1995	196	14509	6291	11150
Mar 1997	196	14508	78523	15423
Mar 1998	196	14508	8487	19326
Mar 1999	196	14508	9367	23598
Mar 2000	196	14311	13815	32204
Mar 2001	196	14311	15816	38272
Mar 2002	196	14390	18629	44539
Mar 2003	196	14433	21773	48346
Mar 2004	196	14446	25481	57010
Mar 2005	133	14484	32870	62143
Mar 2006	94	14494	38520	71329
Mar 2007	90	14520	48493	83144
Mar 2008	90	14761	57568	99093
Mar 2009	86	15235	65609	120189
Mar 2010	82	15475	79157	145035

Source: 1. Annual reports NABARD (2001-02 to 2009-10)

2. Report on Trend and Progress of Banking in India, RBI (1995-96 to 2009-10).

RRBs are showing considerable improvement in their credit and deposits performance. The deposit mobilized by the banks has been increased from Rs. 38,272 Crores in the year 2000-2001 to Rs.1, 45,035 Crores in 2009-10. The increase over the period was 3.8 times. The loans outstanding of the RRBs also highlighted the significant improvement as it has been increased from 15,816 Crores in the year 2000-2001 to Rs. 79,157 Crores in 2009-10. The increase over the period of the decade was 5 times. The table-2 clearly reveals that the performance of the RRBs is satisfactory.

FIGURE 1
EXPANSION OF RRBs DURING 1975-2010



In the present study, an attempt has been made to analyze the performance in terms of certain defined parameters like number of branches, and mobilization of deposits, loans and investments made by these banks. The performance of RRBs in India improved in the post-merger period. Even though number of RRBs decreased, the branch net work has been increased. With a view to facilitate the seamless integration of RRBs with the main payment system, there is a need to provide computerization support to them. RRBs should extend their services in to un-banked areas and increase their credit-deposit ratio. The process of merger should not proceed beyond the level of sponsor bank in each state.

The policy measures undertaken in respect of RRBs, viz., the permission to relocate loss-making branches to better business centers and conversions of loss-making branches into satellite/mobile offices without impairing their performance in service areas, has had a salutary effect on their performance, especially in relation to profits and recovery and decline in their NPAs.

Reform Process and Regional Rural Banks

Regional Rural Banks (RRBs) form an integral part of the Indian banking system with focus on service to rural areas. The process of amalgamation of the RRBs was initiated by Government of India in September 2005 in a phased manner. Prior

to the process of amalgamation, 196 RRBs sponsored by 27 SCBs and one State Cooperative Bank were operating in the country with a network of 14,484 branches spread over 523 districts as on March 31, 2005. Consequent upon the amalgamation, the number of RRBs declined to 82 operating in 26 States and in one Union Territory covering 619 districts with a network of 15,475 branches as on March 31, 2010.

In 1994/95, a major recapitalization programme was initiated to strengthen the balance sheets of failing banks. Seventy weak RRBs were relieved of their service area obligations and permitted to either relocate their loss-making branches at specified locations, such as village markets and agricultural produce centers, or to merge them with other close-by branches. Also, all RRBs were permitted to invest surplus funds in more profitable avenues, such as the money market. Further, business plans for achieving financial viability in five years were formulated in the form of performance contracts between the RRBs and NABARD.

Simultaneously, a number of human resource development and Organisational Development Initiatives (ODI) were taken up by NABARD with funding support of the Swiss Development Corporation (SDC) and with the tools of training and exposure visits, ODI, technology support, computerization and use of IT, system development, etc. for business development and productivity improvement. By end March 2005, there was a remarkable improvement in the financial performance of RRBs as compared to the position prevailing in 1994-95. The number of banks reporting profits went up to 166 of the 196 RRBs. As on 31 March 2006, of the total 133 RRBs (post merger), 111 posted profits and 75 of these RRBs were sustainably viable organisations having no accumulated losses as also posting current profits. GoI initiated the process of structural consolidation of RRBs by amalgamating RRBs sponsored by the same bank within a State as per the recommendations of the Vyas Committee (2004). The amalgamated RRBs were expected to provide better customer service due to better infrastructure, computerization of branches, pooling of experienced work force, common publicity / marketing efforts, etc. and also derive the benefits of a large area of operation, enhanced credit exposure limits and more diverse banking activities.

The Government of India had constituted a Committee in September 2009 (Chairman: Dr. K. C. Chakrabarty) to study the

current level of Capital-to-Risk-Weighted Assets Ratio (CRAR) of RRBs and to suggest a roadmap for achieving a CRAR of 9 per cent by March 2012. The Committee was also required to suggest the required capital structure for RRBs given their business level, so that their CRAR is sustainable and provides for future growth and compliance with regulatory requirements. The Committee submitted its Report to the Government of India on April 30, 2010. Technology Up-gradation of RRBs In order to prepare RRBs to adopt appropriate technology and migrate to Core Banking Solutions (CBS), a Working Group was constituted by the Reserve Bank (Chairman: Shri G. Srinivasan) for technology up-gradation of RRBs. The report, inter alia, set September 2011 as the target date for all RRBs to move towards CBS. It was also stipulated that all branches of RRBs opened after September 2009 to be CBS compliant from day one. As per the status report received from sponsor banks, 22 RRBs have implemented CBS in full and for the remaining 60 RRBs, CBS is under implementation.

For RRBs, it has been decided to increase the provisioning requirement for advances to the commercial real estate sector classified as 'standard asset' to 1 per cent. As regards other standard assets, it has been decided that while the provisioning requirements for direct advances to agriculture and SME sectors would remain unchanged at 0.25 per cent, the same for all other loans and advances would be 0.40 per cent.

The Working Group set up under the Chairmanship of Shri Amaresh Kumar, ED, NABARD has given, inter alia, the following recommendations on capacity building requirements of RRBs.

- a) RRBs should have definite training policy and should treat it as investment on human capital;
- b) A definite budget should be approved by the Board for the purpose every year;
- c) A systematic TNA (Training Need Analysis) be conducted for all the staff;
- d) More on location programmes be organized by RRBs with the help of mobile job trainers;
- e) RRBs with more than 100 branches should have their own training centers.

Challenges of Regional Rural Banks

The RRBs continue to face a number of problems in course of their operation. These are as follows:

- It has been observed that extent and quality staff support provided by the sponsor banks is inadequate especially in the initial stages. The salary, allowance, promotion policy etc. were not cleared out and due to lack of clarity the satisfaction level of the employees is very low.
- Non availability of adequate infrastructure facilities, like pukka houses to locate branches, access roads to villages, police protection on the one hand and availability of staff to keep pace with needs, on the other hand, constitute the major handicaps of RRBs in making progress in branch expansion.
- Undue Branch expansion under pressure from state governments has created problems of control and management.
- Natural calamities in successive years leading to loss of assets.
- Price fluctuations for farm produces as well as in the cost of inputs.
- There exists a traditional anti-loan psychosis and people prefer to avoid credit as far as possible. Even when they do borrow, moneylenders have a traditional stronghold on the minds of the rural borrowers.
- Competition from other agencies.
- Wrong identifications of beneficiaries.
- Lack of coordination.
- Inadequately trained and technical staff.
- The availability of credit from banks is dependent on a number of formalities. Even literate rural customers prefer to avoid such complexities of documentation, restricted working hours, loan amount, proximity factors, and purpose of loan.
- The procedures involved in availing bank finance sometimes delay the actual receipt of funds. The money if received late may be of no use to the borrower. The next time finance is required he will approach a source that guarantees timely delivery of money usually local moneylenders.
- In such situations the cost of borrowing may be immaterial. This can be seen from the fact that rural customers borrow heavily from moneylenders despite their astronomical rates of interest.

- Repayment period of loans fixed by banks are shorter than required for the type of activity financed.
- Gestation period is not considered while fixing the due dates.
- Due dates of repayment of loan installments were not fixed according to income generation.
- Working capital was not given on a need based approach or not released at the right time for want of compliance of various conditions of sanction.
- Besides there is also some amount of subsidized credit available to rural borrowers from the Government. This further reduces the efficiency and independence of the system, as it cannot generate enough to support operations let alone lower interest rates.
- Another problem is that banks generally do not give loans for consumption. In cases where day-to-day living itself is at question, banks, their strict conditions on the use of money borrowed and the numerous delays are avoided.
- The loan policy throughout the country is not uniform and identical. It is limited to the sponsored schemes of the Government. These banks do not give proper importance at their own level while providing loans to agriculture, rural industries, new entrepreneurs, artisans and self-employed persons.
- The RRBs are making loans and advances to poor and weaker sections, high operating cost and low rate of interest and recovery which has resulted in the continuous losses. Their profitability has been declining.
- RRBs have been incurring losses over the years. The factors like widespread dispersal of clientele, small size of operations, and large number of accounts, costlier than supervision, difficulty and higher costs in movement of cash, inadequate opportunities for investment of surplus funds affect the viability of RRBs.
- The RRBs were set up in rural scenario and the modern infrastructure was not provided. The problems like poor infrastructure, lack of customer services, etc. adversely affects the collection of deposits.
- Regional Rural Banks have been established in rural, neglected and remote areas for upliftment of weaker section.

These people live below poverty line and do not have many assets to contribute to deposits. The richer section of society is also not the customer of these banks.

SUGGESTIONS

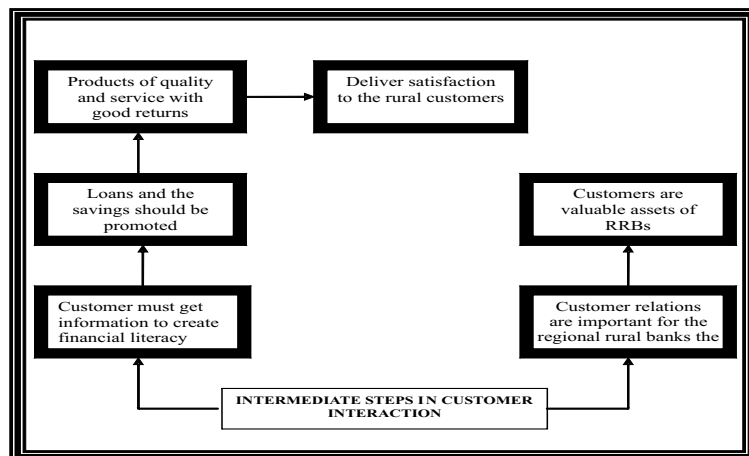
The following suggestions can be given to remove the problems of the RRBs:

- The branch expansion programme should be undertaken quickly, taking into account to potentiality and the ability of the financial institutions already operating in a particular locality.
- For the identification of borrowers, the village committees are to be consulted and no dues certificates are to be demanded.
- Good premises for the bank and better amenities for the staff are to be provided. Further, appointment of adequate staff with rural background should be undertaken.
- In order to strengthen RRBs, proper coordination is to be ensured among the credit and non-credit institution.
- The RRBs should make earnest efforts to utilise the maximum possible extent of refinancing and borrowing facilities for raising their earning assets and at the same time the importance of deposits cannot be belittled.
- Timely supply of credit should be made and unnecessary delay in processing and granting loans should be avoided.
- Daily deposit schemes and seasonal deposit schemes are to be encouraged in the rural areas. This will increase the saving capacity of the poor people.
- The involvement of middlemen in the sanction and repayment of RRB loans should be discouraged.
- RRBs may consider the question of consumption loans to be granted to trustworthy borrowers with proven records.
- Bank officials should develop close intimacy with the rural peoples.
- In order to increase the deposits of the RRBs the local bodies, Panchayat samities etc. should be allowed to deposit their amount in these banks.
- The sponsored bank should carry out the proper supervision of the RRBs so that the daily routine problems can be solved.

- RRBs should change their loan policy so that the recovery of loans can be made effective and strict action should be taken against the defaulters who are not repaying intentionally.
- RRBs should prepare programme at their own level to develop the banking habits in the rural areas.
- New RRBs or their branches should be set up only after carrying the survey of the area. The tribal area should be given priority.
- Efforts for poverty eradication must comprise a package of appropriate technologies, development of skill, services and asset creation. The responsibilities of banks will be to provide financial support to the beneficiaries for creation of productive assets by involving themselves whole heartedly in borrowers or organization of a system for supply of inputs or marketing of produce.
- With the shift in the lending policy from the credit worthiness of the borrower to the credit worthiness of the purpose, RBI directives that collateral security/third party guarantee need not be insisted upon in respect of small loans, should be effectively implemented to facilitate flow of credit to the poor.
- For proper understanding of the concept of Rural Development and poverty eradication plan, workshops/ seminars should be conducted at block level every year.

MODEL - 1

CUSTOMER SATISFACTION PROCESS TO BUILD RELATION



The above model shows the importance of customers for the banks. It is important to create awareness and knowledge for the growth of the business of banks. Sharing of the information about various promotional schemes is very important to build the trust and faith in the minds of the customers. The financial awareness though imparting of information can create financial literacy, helping the customers associated with the banks and, greater commitment and loyalty. It is important to develop the strategic input infused with quality services in order to yield high returns to develop the sustainable business models.

CONCLUSION

Regional Rural Banks are back bones of the banking system and are making concerted efforts for the upliftment of the weaker sections of the rural financial sector. They are gradually becoming important institutions to meet the credit requirements of the rural inhabitants. Despite the massive branch expansion programme and huge deployment of credit, the commercial banks have not yet fully established themselves in the rural sector. In this context, the James Raj Committee appointed by the RBI in 1977 pointed out that commercial banks lack motivation, supervision and management control. So RRBs having rural base and local flavor can serve in a better manner to the rural clients. Yet, RRBs have to go a long way to establish their own creditability among the rural clients. This can be done only by understanding their problems thoroughly and making concerted efforts towards solving them properly through smooth and timely supply of credit and related services for their economic upliftment.

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VAT : AN ATTEMPT TOWARDS RESTRUCTURING THE INDIAN INDIRECT TAXATION

Dr. K.K. Vyas

The concept of tax is old originated and not a new concept. For the well being of any state to provide all infrastructures necessary to support to its citizens need funds, Taxes are the essential source to generate funds to provide all the basic and essential services. The authorities of indirect tax may borrow some ideas to strengthen the tax structure of our country.

An integrated and comprehensive indirect tax system could be developed to protect the economic interest of our country and the essence of a good tax system is that it should place the minimum economic burden on the taxpayer, that it should not restrict legitimate trade and that it should raise the maximum amount of revenue. Hence, it should be simple to understand, fair and transparent to tax payers, efficiently administered and cheap to collect.

Introduction to VAT:

Value Added Tax (VAT) is a simplified and transparent system of tax in which tax is levied on the value additions, at each stage in the production-distribution with provision of set-off of tax paid on earlier stage.

Value Added Tax is a general indirect tax assessed and collected on the value added to goods in business transaction. Value added Tax basically means the tax likely to be on the value added by an organization at each stage of its rendering services or producing goods. It is a simple transaction tax collected sale/transfer of goods and has the unflinching capacity to increase the economic development of a society through better tax mobilization. The theme of Value Added Tax is that it is a tax on the final consumption of goods/services and is ultimately borne by the customer although it is collected at every stage of production/distribution and a tax credit is granted at each stage for tax paid earlier in chain of transfer/sale of goods and services till it reaches the ultimate customer.

VAT is charged at a uniform rate as a percentage of prices at which the goods are transacted and it is imposed at each stage of production and distribution chain. It is charged as a percentage of prices, which means the actual tax burden is visible at each stage in the production & distribution chain. It is a general indirect tax that applies in principle to all commercial activities involving the production and distribution of goods and the provision of services. It is collected fractionally through a system of deductions whereby a dealer can deduct from their VAT liability the amount of tax they have paid on purchases. So it is anti inflationary and is armored against price rising.

VAT is multi point tax without any troubles of double taxation effect. The mechanism of VAT is, quite simple and easy to understand. It has no cascading effect on the multiplicity of taxpayers liability to pay tax on the same aspect again and thus it effectively surpasses the pyramiding of tax incidence as is inherent in the conventional sales tax procedures and therefore it is often called as improved sales tax. Under VAT there is no tax on tax since only value added at any stage of production or distribution of goods is made subject matter of tax and an allowance is offered for the previously tax material cost and other overhead charges so incurred.

With offsetting of tax on inputs against tax on output, VAT does away with tax on tax. Claiming input tax credit under VAT ensures proper invoicing. These features of VAT encourage voluntary disclosure of complete information on business turnover. Every business transaction carried on by individuals, partnership companies etc. will come within the preview of VAT. It will not cover

small business with a turnover below a certain limit that will be decided by each stage.

VAT in India and Its Necessity

The concept of VAT is not totally new to India as the centre had introduced a VAT system for about ten years in respect of Central Excise duties. The first preliminary discussion on state level VAT was held in meeting of chief ministers convened by Dr. Manmohan Singh, then union finance minister in 1995. In this meeting the basic issues on VAT were discussed in general terms and this was followed up by the periodic interactions of State Finance Ministers.

In November 16, 1999 a meeting of chief ministers was conducted by then Union Finance Minister Shri Yashwant Sinha and subsequently three important decisions were taken in that meeting.

- (A) There will not be any sales tax rate war among the states & uniformity of sales tax rates should be made for different categories from Jan. 1, 2000.
- (B) In the interest again of harmonization of incidence of sales tax the sales tax relative industrial incentive schemes would also have to be discontinued with effect from Jan 1,2000
- (C) On the basis of the achievements of the first two objectives, step would be taken by the States for introduction of state level VAT.

An Empowered Committee of state finance ministers was set up in implementing these decisions and for the purpose of arriving at a consensus and implementing a nation wide state level VAT. The Empowered Committee endorsed the suggestion that every state law on VAT should have a minimum set of common features. At the conference of state finance ministers held on Jan 23. 2002, it was agreed that all the 28 states as well as the union territories would introduce VAT with effect from April 1, 2003. At this stage, there were certain developments that delayed the introduction of VAT. Despite that one state, namely Haryana has already introduced VAT on its own with good results on revenue growth. When VAT was introduced in Haryana, there were 28000 tax payers. This figure shot up to 1, 20000 in less than two Year by 2005 & revenue from tax collection also increases by 27.50% between 2003-05.

The meeting of the Empowered Committee was once again held on June 18, 2004 when Mr. P. Chidambaram, the Union Finance minister was invited all the states once again categorically renewed their commitment to the introduction of VAT from April 2005. Ultimately Mr. P. Chidambaram unveiled In Jan 2005 a white paper on VAT, documenting a roadmap to levy uniform state level tax on over 550 items and exempt 46 local items.

Necessity of VAT in India

India, particularly the trading community, has believed in accepting and adopting loopholes in any system administered by the state or the Center. If a well- administered system comes in, it will close avenues for traders and businessmen to evade paying taxes. They will also be compelled to keep proper records of their sales and purchases.

Many sections hold the view that the trading community has been amongst the biggest offenders when it comes to evading taxes.

Under the VAT system, no exemptions will be given and a tax will be levied at each stage of manufacture of a product. At each stage of value- addition, the tax levied on the inputs can be claimed back from the tax authorities.

At a macro level, there are two issues, which make the introduction of VAT critical for India.

Industry watchers say that the VAT system, if enforced properly, forms part of the fiscal consolidation strategy for the country. It could, in fact, help address the fiscal deficit problem and the revenues estimated to be collected could actually mean lowering of the fiscal deficit burden for the government.

The International Monetary Fund (IMF), in its semiannual World Economic Outlook released on April 9, expressed its concern over India's large fiscal deficit- at 10 percent of the GDP. Further any globally accepted tax administrative system, will only help India integrate better in the World Trade Organization regime. In view of the necessity to overcome the short comings felt in existing the direct tax system, Government through finance bill 2003 one of the major initiator was taken by the regarding implementation of VAT.

VAT is the step towards the restructuring of Indian Indirect taxation system of the country at macro level. It will avoid unfair double taxation Effect on commodities and multiplicity of taxes,

resulting in a cascading tax burden. It is a gate way for abolish different types of taxes for one transaction prevailing at present sales tax structure like turnover tax, Surcharge on sales, additional surcharge, Entry tax, etc. In addition, Central sales Tax is also going to be phased out. As a result, overall tax burden will be rationalized, and prices in general will also fall. VAT is the way to eliminate the anomaly like evasion of tax.

How VAT Operates

VAT works on the principle that when raw material passes through various manufacturing stages and manufactured' product passes through various distribution stages, tax should be levied on the value added at each stage and not on the gross sales price. This ensures that same commodity does not get taxed again and again and there is no cascading effect.

In simple the term "Value added" means difference between selling price and purchase price. VAT avoids cascading effect of a tax. As stages of production and or sales continue, each subsequent purchaser has to pay tax again and again on the material, which has already suffered tax. Tax is also paid on tax. This is called cascading effect. Removals of cascading tax effect make the State become the product at a price less than present system. The following example gives the position VAT and how it will be beneficial to consumer. Mr. Y is purchasing goods from Mr. X. In Second Case, his purchase price is Rs.2000 as he is entitled to VAT credit of Rs 200 i.e., Tax paid on purchases. His invoice shows tax paid as Rs. 280. However, since he has got credit of Rs. 200 effectively he is paying only Rs.80 as tax, which is 10 per cent of Rs. 800 i.e., 10 per cent of value added by him.

Tax Rates Under VAT

Ideally, VAT should have only one rate. Though this is not possible, it is certain that there should be minimum varieties of rates. Broadly, following VAT rates are proposed:

- 0 per-cent on natural and un-processed produces in unorganized sector, goods having. social implications and items, which are legally barred from taxation (e.g., newspapers, national flag). This will contain 46 commodities, out of which 10 will be chosen by individual states, which are of local social importance. Other commodities will be common for all states.

- No VAT on AED items (textile, sugar and tobacco) in first year. Position will be reviewed later.
- 1 per cent floor rate for gold and silver ornaments, precious and semi precious stones.
- 4 per cent for goods of basic necessities (including medicines and drugs), all industrial and agricultural inputs, declared goods and capital goods. This will consist of about 270 commodities.
- 12.5 percent RNR on other goods.
- Aviation Turbine Fuel (ATF) and petroleum products (Petrol, diesel and motor spirit) will be out of VAT regime, Liquor, cigarettes, lottery tickets, will also be taxed at a higher rate. These will have uniform floor rates for all States. Tax paid on these will not be eligible for input tax credit.

How Shortcomings of CST and State Tax are overcome by VAT

The new system sought to be adopted i.e. Value Added Tax is certainly a superior system. The system seeks to do away with many drawbacks as noticed in relation to earlier system.

- (1) It will bring uniformity in tax rates.
- (2) It does away with turnover tax, surcharge additional tax etc, which are essentially sales tax but collected in different names.
- (3) The most crucial issue the VAT System seeks to tackle, is about cascading effect is due to fact that tax upon tax is attracted. Under VAT the ideology is to allow full credit of input tax credit i.e. set off of taxes paid on purchases so the manufacturer should not consider any of tax paid on his purchases as a part of his purchase price & accordingly while fixing his sale price no component of tax will get included in sale. This will avoid tax upon tax.

These are the main objectives in diverting from the erstwhile sales tax system to VAT. VAT is the most diversified and simple as well as transparent: indirect tax system with inbuilt capacity to raise more tax revenues without distorting the existing tax structure is yet able to widen the tax base. VAT is more tax-payer friendly than the existing sales tax system. For socio-economic growth and prosperity of an economy, introduction of VAT is a boon and not a benefit act.

CONCLUSION:

The above in all improve tax compliance and also augment revenue growth but it requires lot of homework to make the VAT system successful. To achieve all the objectives and advantages of VAT, a higher administrative cost would have to bear and the implementing authority must be very cautious, careful and proactive. Flawed arguments from some group of people that the VAT will make negative effect in the business of small traders is not true and against the concept of VAT. VAT provides transparency, avoids evasion of tax and irregularity in meeting the legal obligations.

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Limited Liability Partnership: Concept And Tax Implications

Dr. M.C. Tater

India is witnessing a very significant growth in its Service Sector and the quality of its entrepreneurs as well as technical and professional manpower is being appreciated globally. In order to provide a further impetus to the economic growth it was expected that entrepreneurship, knowledge and risk capital be combined in an efficient manner. A new corporate form that would provide an alternative to the traditional partnership, with limited liability on one hand and the statue-based governance structure of the limited liability on the other, had been in the contemplation of law makers for a long time.

With opportunities galore, Indian entrepreneurs and professionals earlier had the option to explore setting up a proprietary concern, partnership firm or a corporate entity. Amateur venture capitalists or professionals were forced to form proprietary or partnership firm on a small scale in absence of capital required commencing a large scale corporate organisation. Partnership firms were, however, not the first choice in view of the mutual agency, unlimited liability and lack of perpetual succession clauses attached with them. In the same manner enormous compliance and administrative requirements coupled with high capital requirement, managerial difficulties and difficult winding-up procedure etc. prove to be a difficult task in forming a corporate entity.

As such, the need for a hybrid entity having trait of partnership firm and corporate entity was being felt to help the emerging entrepreneurs prosper and to bring them at par with global competitors. This need gave birth to the concept of 'Limited Liability Partnership Act, 2008 (LLP Act)'. The LLP Act got Ascent of the President on 7th Jan., 2009 and was notified on 9th Jan. 2009. The provisions of the Act came into force on 31st March 2009. The LLP Rules, 2009 have also been notified by the Central Govt. in phases since 1st April, 2009 and around 58 LLPs have been registered till 6th July, 2009. It may be noted that such a legal entity is popular in countries like UK, USA, Australia, Singapore etc. In fact, the LLP Act in India is combination of the LLP Structure in UK and Singapore. The present article provides an overview of LLP in India with special emphasis on the concept and taxation issues.

Limited Liability Partnership: Concept

LLP, like a private limited company, is a body corporate having a distinct legal entity separate from its partners. It has perpetual succession and a common seal unlike a traditional partnership firm. LLP adopts a corporate form which offers the dual advantage of combining the organisational flexibility of partnership with features of limited liability for its partners.

In other words, LLP is a hybrid entity between partnership simpliciter (General Partnership) and a private limited company. In an LLP one partners is not responsible or liable for another partner's misconduct or negligence. This is an important difference from that of a limited partnership. In an LLP, some partners have a form of limited liability to that of the share-holders of a corporation. In some countries, an LLP must also have at least one 'general partner' with unlimited liability. Unlike corporate shareholders, the partners have the right to manage the business directly. It is based on the three broad principles :

- Limited Liability
- Corporate Personality
- Partnership Flexibility

The concept of Limited Liability partnership is thus a combination of the organisation flexibility and tax status inherent in partnership form of business along with the advantage of limited liability for its partners.

In essence, LLP strikes to merge the advantages of a partnership firm with those of a company, while trying to mitigate

their demerits to the maximum extent possible. Any two or more persons associating for carrying on a lawful business with a view to profit may set up an LLP.

Tax Implications

The LLP Act has skipped the question of taxation of LLPs. The issue of whether LLPs will be taxed like companies or like partnership or in some other way was left open to be clarified in the Income Tax Act. The Finance Bill 2009 has clarified on taxation of LLP as under :

- Tax Structure: LLPs would be taxed at par with general partnership, i.e. the LLP would be taxed on its profit earned during the relevant financial year where as the share of profit would be exempted in the hands of partners. For this purpose, definition of 'firm' and 'partner' has been amended to include LLP and a partner in an LLP, respectively. LLP will be taxed at a flat rate of 30 percent plus education cess at 3 percent. There is a bit of relief given to LLPs, unlike the companies they will not be subject to minimum Alternate Tax and Divided Distribution Tax. In the same manner, provisions regarding Deemed Dividend and carry forwarding/set off costs would be applicable only for companies and not for LLPs.

Agreement of LLP

- As per section 184 of Income Tax Act 1961, for an LLP to be assessed as firm under Income Tax Act, LLP should be evidenced by an instrument in writing where in individual shares of the partners should be specified. A certified copy of LLP agreement must be attached with the return of income of the LLP of the previous year in which LLP was formed. If during the previous year a change into the constitution of the LLP or in the profit sharing ratio of the partner, a certified copy of the revised LLP Agreement has to be submitted along with the return of the previous year with reference to relevant assessment year.

Interest and Remuneration

Like in partnership firm, even LLP while calculating its income can claim interest paid to partners, provided such interest is authorised by the LLP Agreement, however, only 12% per annum interest is allowable as deduction from Income from business and profession. It can also claim remuneration in form of

salary, bonus, commission etc. paid to a working partner. As per section 40(b) of Income Tax Act, maximum amount deductible in respect of remuneration to partner of LLP is as under :

- (i) On first Rs. 3,00,000 of book-print or in case of loss Rs. 1,50,000 or at the rate of 90% of the book-profit whichever is more.
- (ii) On balance of book-profit at the rate of 60%.

The amount deductible from income of LLP on account of remuneration will be the amount given above as per see 40(b) or actual amount given to working partner or debited to profit and loss account, whichever is less. Remuneration paid to partner will be allowed as deduction to LLP and it will be taxable in the hands of partner.

As per section 185 of Income-Tax Act, if the requirement of Section 184 as mentioned above are not satisfied, LLP will be assessed as firm but shall not be eligible for deduction for interest and remuneration to partners.

Signing of Return of Income

The Designated partner of LLP would be authorised to sign the return of income under section 140 of the Income-Tax Act. However, in his absence any other partner is authorised to sign the return of Income.

Tax liability of partners at the time of liquidation of LLP

The liability of the partners in respect of recovery of tax, at the time of liquidation of LLP, would be joint and several, except where the partner is able to prove that non-recovery of tax cannot be attributed due to gross neglect or misconduct on the part of their partner.

Capital gain on conversion of Partnership into LLP

In relation to conversion of Firm into LLP, and general partnership is being treated as equivalent (except for recovery purpose) in the Income Tax Act, the conversion from a general partnership firm to an LLP will have no tax implication, if the rights and obligation of the partners remain the same even after conversion and if there is no transfer of any asset or liability after conversion. If there is a violation of these conditions, the provision of capital gain will apply.

There came an amendment in Finance Bill 2010-11, vide the amendment a new clause (xiib) under Section 47 of the Income

Tax Act, 1961 is inserted wherein any transaction concerning transfer of a capital asset or intangible asset by a Private Company or unlisted Public Company to a Limited Liability Partnership as a result of conversion of the company into a Limited Liability Partnership in accordance with the provisions of section 56 or section 57 of the Limited Liability Partnership Act, 2008 would be exempted from the provision of Capital Gain Tax only if the following conditions are satisfied.

- a) All the assets and liabilities of the Company immediately before the conversion shall become the assets and liabilities of the limited liability partnership;
- b) All the shareholders of the Company immediately before the conversion shall become the partners of the limited liability partnership and their capital contribution and profit sharing ratio in LLP should remain in the same proportion as their shareholding in the company on the date of conversion;
- c) The shareholders of the company do not receive any consideration or benefit, directly or indirectly, in any form or manner, other than by way of share in profit and capital contribution in the limited liability partnership;
- d) The aggregate of the profit sharing ratio of the shareholders of the company in the LLP shall not be less than fifty percent at any time during the period of five years from the date of conversion;
- e) The total sales, turnover or gross receipts in business of company in any of three previous years preceding the previous year in which the conversion takes place does not exceed sixty lakh rupees :
The remuneration paid to such working partner must be authorized by the LLP Agreement and the amount of remuneration must not exceed the limits specified in the agreement. However, the remuneration paid to the partners is deductible while calculating the taxable income of the LLP only to the extent of limits prescribed under section 40(b) of Income Tax Act.
- f) No amount is paid, either directly or indirectly to any partner out of balance of accumulated profit standing in the accounts of the company on the date of conversion for a period of three years from the date of conversion.

If there is a violation of these conditions, the provision of capital gain will apply. There is no mention about the treatment of carry forward and set-off of losses and expenditure on voluntary retirement scheme to be amortized in the Income Tax Act. but as LLP and general partnership is being treated as equivalent, we can say that the treatment of these items on conversion of firm into LLP will be the same, as if no reorganization has taken place.

The treatment of carry forward and set-off of losses on conversion, the expenditure incurred on voluntary retirement scheme to be amortized or not and tax credit in respect of Minimum Alternate Tax (MAT) paid by the company, in case of Conversion of a Private Company or unlisted Public Company to LLP in accordance with the conditions laid in proviso to clause (xiib) of Section 47 of the Income Tax Act 1961, are as follows (w.e.f.: 1.4.2011)

Carry forward and set off of accumulated loss and unabsorbed depreciation allowed, on conversion into LLP:

The accumulated loss and the unabsorbed depreciation of the predecessor company, shall be deemed to be the loss or allowance for depreciation of the successor limited liability partnership for the purpose of the previous year in which business reorganization was effected and other provisions of this Act relating to set off and carry forward of loss and allowance for depreciation shall apply accordingly.

However in case of non compliance of the conditions provided under section 47(xiib). The set off of loss or allowance of depreciation made in any previous year in the hands of the successor limited liability partnership, shall be deemed to be the income of the limited liability partnership chargeable to tax in the year in which such conditions are not complied.

In conclusion, it can be submitted that the Limited Liability Partnership Act, 2008 has opened up new vistas for professionals, specifically Chartered Accountants. As the LLP as a firm of organisation, is a new concept different from tried and tested form of organisation. As per Union Budget 2009-10, by where the profit or loss of the LLP would be assessable in the hands of the LLP. The new provision do not treat the LLP as a transparent entity but treat the same at par with the partnership firm under the Indian Partnership Act, 1932. Changes proposed in Budget 2010-11 in LLP taxation have some merits, however, a lot of short-comings remain.

However, introduction of this long awaited tax regime shall surely provide a road of certainly in relation to tax costs associated with carrying the business via LLP mode.

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AN OVERVIEW OF SUPPLY CHAIN MANAGEMENT

Dr.Girraj Kishore Varshney

Introduction

Supply Chain Management (SCM) is the systemic, strategic coordination of the traditional business functions within a particular company and across businesses within the supply chain for the purpose of improving the long-term performance of the individual companies and the supply chain as a whole. A supply chain consists of all parties involved, directly or indirectly in fulfilling a customer request. The supply chain not only includes the manufacturer and the supplier but also transporters, warehouses, retailers, and customers themselves. Within each organization, such as a manufacturer, the supply chain includes all the functions involved in receiving and filling a customer request. A typical supply chain may involve a variety of stages.

These supply chain stages includes,

- (i) Customers
- (ii) Retailers
- (iii) Whole sellers/Distributors
- (iv) Manufacturers
- (v) Component / Raw-material suppliers

Need For Supply Chain Management

Corporations have turned increasingly to global sources for their supplies. This globalization of supply management has forced companies to look for more effective ways to coordinate the flow of materials into and out of the company.

Companies and distribution channels compete more today on the basis of time and quality. Having a defect-free product to the customer faster and more reliably than the competition is no longer seen as competitive advantage but simply a requirement to be in the market. Customers demand products consistently delivered faster, exactly on time, and with no damage. Each of these necessitates closer coordination with supplier and distributors.

The global orientation and increased performance based competition combined with rapidly changing technology and economic conditions all contribute to market place uncertainty. This uncertainty requires great flexibility on the part of individual companies and distribution channels, which in turn demand more flexibility in channel relationship.

All these factors have made the concept of Supply Chain Management more important to companies.

Objective of Supply Chain

The objective of every supply chain is to maximize the overall value generated. The value a supply chain generates is the difference between what the final product is worth to the customer and the cost of supply chain incurs in filling the customer's request. For most commercial supply chains, value will be strongly correlated with supply chain profitability i.e. the difference between the revenue generated from the customer and the overall cost across the supply chain.

Process View of a Supply Chain

The supply chain process occurs in two ways, Cycle View and Push/Pull view.

1. Cycle View

The processes in a supply chain are divided into a series of cycle, each performed at the interface between two successive stages of a supply chain. Cycle view of Supply chain process includes,

- Customer order cycle
- Replenishment cycle

- Manufacturing cycle
- Procurement cycle

2. Push/ Pull view

The processes in a supply chain are dividing into two categories depending on whether they are executed in response to a customer order or in anticipation of customer orders. Pull process are initiated by a customer order, whereas push process are initiated and performed in anticipation of customer orders.

Supply Chain Management in Global Environment

The globalization of business has received a great deal of press in recent years. The pressure of global competition is frequently cited as primary drivers for greater customer demands for improved products and services. These increased demands have caused businesses to pursue improvement initiatives, such as implementation of Just-in-Time (JIT) and Quick Responses (QR) inventory management policies, business reengineering, and supply chain management as tools to enhance their competitiveness. At the same time, firms increasingly look to foreign markets for growth opportunities, or to foreign suppliers for improved sourcing opportunities. This increased interest in foreign business has been reflected in several trends.

As firms increase their participation in a global economy developing an understanding of supply chain management issues and opportunities in a global context becomes increasingly important.

A Driver for Economic Globalization

Over the past several decades, a number of factors have led to the increasing globalization of the world economy, and as a result, the competitive environment faced by firms has changed dramatically. These drivers for globalization are decreasing tariffs, improving transportation communications and information technology, globalization of products, services and markets, global competition, economic regionalism.

Supply chain management tools and techniques are seen as mechanisms that will allow a firm to respond to the environmental changes. By working more collaboratively with supply chain partners, a firm can better understand changes in customer requirements and respond more quickly to the changes. As firms have searched for ways to enhance their competitive position, supply chain management concepts have emerged as increasingly important. By sharing risks across supply chain partners, firms may

be able to improve their own performance in increasingly volatile and competitive global markets.

Dynamic Role of Sales Function in SCM

The role of the contemporary sales person in changing dramatically, and in many situations, the old models of selling are simply outdated, ineffective and counter productive to SCM goals and objectives. Although most sales organizations focus on pre purchase activities, supply chain partners focus on managing relationships and conducting post purchase activities to enhance supply chain performance. As companies adopt supply chain management, functional areas need to change their traditional ways of conducting business and better align their current management practices to support and enhance supply chain management.

Personal Selling in SCM

The sales function plays a critical role in implementing many supply chain management activities and behaviours. For the sales force to add value in the supply chain, the contemporary sales force must adopt a new orientation to personal selling, interface more effectively with logistics, and gain new supply chain management skills and expertise.

New Roles For Sales Management

To support the sales force in its new supply chain management roles, sales managers need to train, support and encourage supply chain activities and logistics expertise. To achieve this goal, sales managers must also adopt a new orientation and embrace new management technique to enhance supply chain performance. Specifically sales managers must become "Change Agents" in the sales organization and lead the sales force in a new direction. Training programs, performance objectives, and compensation package need to be adapted and better aligned with a supply chain management. The leading edge firms are redesigning the sales function to create value in a supply chain management environment. As more and more firms compete through supply chain management, the role of sales force will continue to evolve.

Role of Transportation in a Supply Chain Management

Transportation refers to the movement of product from one location to another as it makes it way form the beginning of a supply chain driver because products are rarely produced and consumed in the same location. Transportation is a significant

component of the costs incurred by most supply chains. The role of transportation is even more significant in global supply chains.

International trade is becoming a bigger part of the world's economic activity. Any supply chains success is closely linked to the appropriate use of transportation. Supply chain also use responsive transportation to centralize inventories and operate with fewer facilities. To understand the transportation in a supply chain it is important to consider the perspective of all four parties. A carrier makes investment decisions regarding the transportation equipment (locomotives, trucks, airplanes, etc) and in some cases infrastructure (rail) and then makes operating decisions to try to maximize the return from these assets. A shipper, in contrast uses transportation to minimize the total cost (transportation, inventory, information, sourcing and facility) while providing an appropriate level of responsiveness to the customer.

Supply chain use a combination of various modes like air, package carriers, trucks, rails, water, pipelines and Intermodal for the transportation purpose.

Information Technology in Supply Chain Management

A key aspect of supply chain management is the ability to make strategic decisions quickly based on accurate data, and this requires an efficient and effective information system. Information is vital for a supply chain to function. Without information relayed at right time to the right place, there are no purchase orders, no shipment managers and no payments and the supply chain shuts down. Supply chain management is based on the exchange of substantial quantities of information among the buyer, supplier and carrier to increase the efficiency and effectiveness of supply chain.

The Business Environment

Information is at the center of virtually every aspect of business especially in today's dynamic uncertain and highly cooperative environment. E-commerce applications and e-enabled capabilities that rely on efficient information transfer have the potential to completely revolutionize the existing business environment. Functional Integration, Time & Quality Based Competition and Increasing Computing Power are the major trends of business environment.

The first major trend is functional integration; it directly influenced the information systems that were developed to facilitate Supply Chain Management. Supply Chain activities

sourcing, vendor selection and purchasing, as well as manufacturing related activities such as production planning, scheduling and packing must be part of the integration effort. Key enablers of the integration of functions in information technology. The major benefit of integrating functional activities through information technology is reducing the associated costs.

The second major trend in the business environment influencing the development of information system is emphasis on speed to market with high quality product. Time & Quality based competition can be defined as the elimination of waste in the form of time, effort, defective units, and inventory in manufacturing distribution systems. Two capabilities that are useful in a time and quality based competitive environment are agility and flexibility. With faster product innovations, decrease product life cycles, and rapid imitative competition, only firms that are agile and flexible will survive. Agility is the ability to respond quickly to changes in the marketing environment. Agile firms are able to successfully market low-cost, high-quality products with short lead times in varying volumes that provide enhance value to customers through customize. Flexibility is defined as the capability of changing from one task to another rapidly when changing conditions are defined ahead of time.

The third major trend in the business environment that has helped increase the growth of information systems in the tremendous increase in computing power at very low costs. The evolution of information technology and diminishing transaction costs will lead to fundamental restructuring of industry practices for distributing and supporting products. Advances in information system will likely causes four changes more transparent organizational structures, more strategic alliance, increased emphasis on performance measurement and great reliance on time-based strategies.

Supply Chain Information Systems

Information systems are essential to managing a supply chain. The supply chain information systems rely on either EDI (Electronic Data Interchange) or the Internet to transmit information within the supply chain. A valuable initial element in managing a supply chain is developing supply chain information systems. The concept of supply chain management is built on functional integration, which is supported and often catalyzed by information technology.

One of the components of the implementation of supply chain management is information sharing through two-way communication between partners within a supply chain. The activities of information generation, storage, and utilization in individual firms in a supply chain are essential to implement supply chain management. Member of a supply chain need real-time visibility of performance data across the entire supply chain.

In Dell computer's direct relationship with its customer create valuable information that, in turn, allows the company to coordinate its entire supply chain back through manufacturing to product design with other firms.

CONCLUSION

World is shrinking day-by-day with advancement of technology. The expectations of customers are rising and the companies are prone to more and more uncertain environment. Under this uncertain volatile environment, companies will find that their conventional supply chain integration will have to be expanded beyond the boundaries of their own organization. In the 21st century companies will have to start using IT for their strategy development in contrast to the earlier situation when IT was aligned with existing business strategies to gain competitive advantage. New developments such as the proliferation of Internet Technology, World Wide Web, Electronic Commerce, etc., will change the way a company is required to do business. The companies must also realize that they must harness the power of technology to collaborate with their business partners as never before. It can be concluded that a proper IT strategy integrated with a supply chain strategy can turn around a company's fortune.

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Safety Education and Training

Dr. M.S.Gupta

Abstract :

Effective safety management considers the type of safety problems, accidents, employees and technology in the organisational setting. Further, the systems approach to safety recognises the importance of human element in the safety.

Any comprehensive and systematic approach to safety begins with the organisational commitment. This effort should be co-ordinated from the top to involve all members of the organisation and be reflected in their actions and work. Once commitment is made to organisational safety, planning efforts must be co-ordinated, with duties assigned to supervisors, managers, safety specialists and personnel specialist. The focus of any systematic approach to safety is the continued diligence of workers, managers, and other personnel.

Safety Education :

“Every twenty seconds of every working minutes of every hour throughout the world, someone dies as a result of industrial accident.” This is how the seriousness of industrial accidents was described by the Director General of the British Council, in his message of good wishes to the seventh national conference on industrial safety and health organized by the national safety council, India.

Safety education for all levels of management and for employees is a vital ingredient for any successful safety programme. Education in this context refers to the development of perspectives and attitudes toward safety. Training, on the other hand, is more concerned with immediate job knowledge, skills, and work methods. Safety training of employees, as it is often conducted, has apparently been more effective safety “consciousness” than in teaching safe job skills. Group training is helpful in employee awareness of safety but does not become effective until the employee knows the hazards of his job and the means of avoiding them.

Top and middle management require education in the fundamentals of safety and the need for an effective accident prevention programme. The supervisors must understand their key role in the safety effort, namely, that they are primarily responsible for preventing accidents. They must conduct safety training programmes for their employees who are directly under their supervision. In addition to safety training, periodical are to be organized. Among the topics that may be covered are the following: how to prevent accidents, importance of good house keeping, handling materials safety, first aid, machine hazards, fire prevention, and protecting the eyes.

Keeping people from being injured at work requires companies to have a comprehensive training effort. And the reasons for safety recognition programmes are clear : not only the company is legally and financially liable if employees are injured on the job, but it also loses business for every hour, and every day, that workers can't perform their jobs.

At Ford Motor Company safety is a corporate wide priority. It is the responsibility of the employee to perform his or her tasks in a safe manner and of supervisor to provide the necessary instruction and equipment. At the Ford there is an emphasis on items. So, that is how, the company trains and rewards employees for safe work practices at the team level. Every quarter, the company gives award to the team that has demonstrated the greatest improvement in safe work practices or the most innovative approach to getting employees to be safe on the job. At year end the company holds a safest conference , and rewards to some of its top performing teams. Ford managers emphasize continuous improvement in safe workplace practices. Unlike Ford, United Parcel Services (UPS), based in Atlanta, Georgia, primarily

rewards individuals rather than teams for safe work practices. UPS has been rewarding its drivers for safety since 1923. The company administers a safety reward programme for all drivers who reach benchmark safe driving records at five year increments.

Safety Whose Responsibility ?

Safety is primarily the responsibility of the management. This responsibility should rest on the shoulders of all cadres of management, such as a plant manager, production manager, chief engineer, personnel manager, maintenance engineer, individual foreman, safety officer or director.

Every organisation should formulate and implement a safety policy. The procedure to be adopted naturally depends upon the size of a company, the number of plants it operates, the nature of industry in which it is engaged, the production technology it uses, and the attitude of the top management. Further, to spell out its safety policy, a company should establish a safety programme, the primary goals of which should be to reduce the number of hazardous factors which are likely to cause accidents, and to develop safe working habits among its employees.

While management has the responsibility to provide safe working conditions for employees, supervisors must insist on safe work practices in the work place. Safety is every one's business. However, supervisor is in a better position to spot safety hazards and to make sure that the work is done in safe manner by each and every person on the job.

Training in Safety:

Systematic training of industrial employees is necessary if they are to do their jobs efficiently and safely. This is an inescapable requirement, regardless of how carefully employees are selected or how much aptitude and experience they may have for the jobs to which they are assigned. Training practices in the industry will be found to vary widely with respect to method, content, quality, and source of instruction. The differences are influenced, strongly by the size of the company, the types of job performed, and the awareness of the management regarding the importance of training.

It is not enough if workers are trained on the methods of avoiding accidents. They must be trained on the ways on minimizing damage, caused due to accidents. For example, high voltage line repairs must be given thorough indoctrination in

correct work methods before they are permitted to undertake more hazardous phases of their work. Additionally, the employees must be given instructions in first aid procedures, including specialised techniques for resuscitation, using prescribed methods that can be applied while the victim is still at the top of a high voltage line pole. A similar problem might occur in a chemical plant. Employees may be working with compounds that, if accidentally released or spilled in large volumes, would cause serious injury upon contact with the skin or body tissues. In such situations, a common safety device is the installation of emergency shower that provide a deluge of water to thoroughly flush the dangerous compound off the skin of victim. Training for such workers requires, therefore, not only what to do and what not to do in performing the job properly, but also thorough instructions on the use of special devices and procedures, in the event an emergency occurs.

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Contract Farming: New Approach for Rural Market Management

Divya Vyas

Abstract

Contract farming is fast emerging as a very prominent issue in agriculture especially in the context of globalization and liberalization. The advent of globalization and liberalization has intensified the role of the agribusiness firms who are entering into contract with primary producers and farmers for supplying raw materials. There are diverse views on the merits and demerits of contract farming. Many argue that since the primary producers or the farmers lack the bargaining capacity to negotiate the contract, they often end up on the losing side by entering into contracts that are detrimental to their interests. Most of the farm operators being small and marginal farmers in India, there were problems in getting quality raw materials for processing or fresh marketing, especially in perishable high value crops. The processing and marketing firms faced issues of high cost, lack of adequate availability, poor quality and timeliness. On the other hand, there were gluts in markets for such produce and farmers realized low or un-remunerative prices. After the opening up of the Indian economy and entry of many domestic and multinational players into agribusiness sector, contract farming which was restricted, largely, to seed production earlier, spread to perishable produce

and has now become the dominant and growing mode of raw material production and procurement co-ordination among the processors and fresh produce marketers and exporters. This paper examines the nature and performance of such contract farming arrangements across crops and companies in different regions of India and also in this paper; efforts are made to identify some factors underlying the success of contract farming. The paper will also provide a brief overview of the potential advantages and disadvantages associated with contract farming. The paper concludes by outlining some important managerial lessons for organizing supply chains in perishable produce.

Key Words: contract farming, India, management, supply chains, perishable produce

Introduction

Farming is an age-old means of livelihood for millions of Indians. However, there have been few systems/models in which farmers are assured of a market for their produce, leave alone a remunerative price. Farmers have on occasion had to throw their produce away for want of buyers. This is one side of the coin. On the other is the agro-based and food industry, which requires timely and adequate inputs of good quality agricultural produce. This underlying paradox of the Indian agricultural scenario has given birth to the concept of Contract Farming, which promises to provide a proper linkage between the 'farm and market.' Recognizing the need for and merits of such a linkage with the farming/producing community, several corporate involved in agro commodity trading, processing, exports, etc. have attempted to establish convenient systems/models that ensure timely and consistent supply of raw material of the desired quality and low cost. Contract farming is defined as a system for the production and supply of agricultural/horticultural produce under forward contracts between producers/suppliers and buyers. The essence of such an arrangement is the commitment of the producer/ seller to provide an agricultural commodity of a certain type, at a time and a price, and in the quantity required by a known and committed buyer. Contract farming usually involves the following basic elements - pre-agreed price, quality, quantity or acreage (minimum/maximum) and time. Contract farming is generally defined as farming under an agreement between farmers and a Sponsor (processor, exporter, and marketing firm) for the production and supply of agricultural products under Forward

Agreement often at pre-determined prices. The basis of the relationship between the parties is a commitment on the part of the farmer to provide a specific commodity in quantities and in quality standards determined by the purchaser and an undertaking of the sponsor to support farmer's the production and to purchase the commodity.

The contracts could be of three types:

- a.) Market Specification Contracts: Where future purchase agreements are made which determine quantity, timing and price of commodities to be sold.
- b.) Resource-Providing Contracts: Specify the crop to be cultivated, some production practices and the quality and standardization of the crop through the provision of technical packages and credits.
- c.) Production Management Contracts: Are associated with large out grower which directly shape and regulate the production and labor processes of the grower.

Status and Experience of CF in India

In India, food supermarket chain growth including FDI in retail, international trade and quality issues like SPS, organic trade, fair trade, and ethical trade, promotion by the central and the state agencies, banking and input industry push for Contract Farming, farming crisis and reverse tenancy, and failure of traditional cooperatives, are likely help spread of CF across crops and regions as they provide new space to this arrangement in the context of withdrawal of state from agricultural space. CF has various models/variants being practiced in India at present. There have been some studies of the CF system in India more recently. But, most of them look at the economics of the CF system in specific crops, compared with that of the non-contract situation and/or competing traditional crops of a given region, e.g. in gherkins (hybrid cucumber) in Andhra Pradesh (Haque, 2000; Dev and Rao, 2004), tomato in Punjab (Haque, 2000; Ranghi and Sidhu, 2000) and Haryana (Dileep et. al., 2002) and cotton in Tamilnadu (Agarwal et al, 2005). It is found that CF gave much higher (almost three times) gross returns compared with that from the traditional crops of wheat, paddy and potato in case of tomato (Ranghi and Sidhu, 2000), and in cotton (Agarwal et al, 2005) due to higher yield and assured price under CF. The studies of tomato CF in Punjab and Haryana (Haque, 2000; Dileep et. al., 2002), of

cucumber in Andhra Pradesh (Haque, 2000) and cotton in Tamilnadu (Agarwal et al, 2005) also found the net returns from these crops under CF being much higher than those under non-CF situations though production cost in tomato was higher under CF (Dileep et. al, 2002). A more recent study across crops, companies, and locations in Punjab also confirms this (Kumar, 2006). In case of cotton in Tamilnadu, the contract growers had lower input cost, lower interest loans, faster payment for produce, and the crop insurance facility (Agarwal et al, 2005). The studies in the states of Punjab and Haryana also reveal that contract growers faced many problems like undue quality cut on produce by firms, delayed deliveries at the factory, delayed payments, low price and pest attack on the crop (Ranghi and Sidhu, 2000; Singh, 2002; Dileep et. al., 2002; and Satish, 2003). DSCL run input supply and CF program (Haryali Kisan Bazaar) for potato in Haryana also showed higher net returns for growers compared with non-growers due to higher yields and higher prices, though the cost of cultivation was also higher (17-24%) (Tripathi et al, 2005). Many CF projects fail due to either poor design of the project or default by any of the contracting parties. In CF, both companies and growers try to improve their own positions, as a negotiation, which change over time (Vellema, 2004). Further, contract design is a complex task given that there is always a problem of incomplete contracts due to bounded rationality of the contracting parties (Lorenz, 1999; Tirole, 1999). It is the adverse selection and moral hazard problems in contracting which pose challenges and need to be managed in order to make the farmer deliver the contracted terms and conditions.

Advantages and Disadvantages of Contract Farming

Contract farming is a partnership between agribusiness/marketing firms and farmers, and has both advantages and disadvantages to both the parties. For agribusiness firms, contract farming is an important means to have an assured access to desired products or a quantitative and qualitative control over material supplies without actually engaging itself in farming. Firms may provide inputs, technology and services to farmers as a part of contract. If a firm were to produce its raw material requirements itself, using own or rented land and hired labor, the costs towards wages, social benefits, training and supervision could be very high. Through contract farming, the firm can shift and/or share some of these responsibilities with farmers, and secure supplies at a lower

cost. Contract farming thus enables agribusiness firms to optimally utilize their installed capacity, infrastructure and manpower, and respond to food safety and quality concerns of the consumers. The individual advantages and disadvantages to partners are:

Present Status :

- Pepsi Co. in CF of Tomato, Chillies, potato and Basmati specially in Punjab.
- HLL in CF of Tomato with 400 farmers in north India.
- Rallis India limited started Contract Farming in M.P., U.P., and Karnataka & Maharashtra in Wheat, Basmati, and Fruits & Vegetables.
- Appachi's Integrated Cotton Cultivation in various districts of Tamilnadu.
- Belgaum (Karnataka) based Ugar Sugar's with various Farmers of North Karnataka in Barley.
- A MoU was signed between Punjab Agro Food Grains Corporation (purchasing of output) and Mahindra Subhlabh (supply of inputs) for contract farming.
- Punjab Govt. is promoting production of Durum wheat via contract system to give push to second green revolution.
- New Delhi-based L.T Overseas, a leading Basmati exporter, entered into contracts with farmers to grow rice over 40,000 acres in Punjab.
- Satnam Overseas too plans to boost contract farming of Basmati rice from around 30,000 acres.
- Poplar cultivation by WIMCO.
- Production of certified seeds by various organizations.
- Sugar in Maharashtra, milk in Gujarat through Cooperatives.
- McDonald's in Gujarat for CF of Potato.
- Cadbury India Ltd. and the Tamil Nadu Horticulture Department have entered into an agreement to promote Cocoa farming in 50,000 acres as an intercrop through a contract farming and buyback arrangement with coconut farmers, providing an additional income of US\$ 19.77 million a year to farmers.
- The US\$ 4.5-billion Mahindra Group intends to tap Punjab's agriculture potential by taking up potato seed development in the state through contract farming. The company will provide

technical know-how and extension services to the farmers for producing high quality potato seeds.

- Himalaya Drugs plans to associate with small and marginal farmers across southern Indian states including Tamil Nadu, Andhra Pradesh and Karnataka for sourcing at least 70 per cent of its herbs (the core ingredients in herbal drugs) in the next three to four years. It has identified over 1,500 farmers in the south and currently, about 70 per cent is cultivated by the company and 30 per cent is through contract farming.

Major Issues/Challenges being faced by Private Firms in Contract Farming in India:

- Highly restrictive and regulated agricultural marketing system
- Monopoly of the State Governments to set up of markets
- Mandi revenues not deployed for infrastructure development
- Price setting not transparent - both producers and consumers are often cheated
- Processing industries cannot buy directly from the farmers, except through the notified markets;
 - The intermediaries collect a sizable share from the price of the produce
 - It adds cost & limited value
 - The "Arthiyas" replace the old village money lenders
- Lack of established 'Warehouse Receipt' system;
 - Farmers under pressure to sell produce immediately after harvest
- Lack of proper retail supply chain
- No linkages between spot & future markets
- Lack of modern transportation and packaging facilities
- Lack of agro processing industry and related infrastructure
- Inadequate R&D infrastructure and initiatives
- Inadequate facilities for grading, sorting and evaluation of the produce
- Inadequate facilities for soil analysis, crop analysis, quality analysis and water analysis
- Cascading effect of multiple taxes at various stages from harvesting to marketing

- Considerable variation in tax & fee structure across states
- Multiple laws, standards and enforcing agencies plague the Processed Food Sector. The myriad of rules, regulations and standards are often overlapping and contradictory
- Stringent controls on storage & movement of several agriculture commodities
- Non-existence of scientific and modern warehousing mechanism and infrastructure

Recommendations

Government Policy Support

- The Government should play the role of a facilitator and not that of a regulator in developing and promoting a healthy system of farmer-corporate relationship for mutual benefit.
- Implement the model Agriculture Produce Marketing Act (AMPC Act) in all the States.
- Amended Essential Commodity Act should be made effective
- Have an Integrated Food Law. The Integrated Food Law should be finalized and passed by the Parliament at the earliest.
- Encourage retailing including FDI in the food retail sector, to promote backward linkage with the farmers.
- Define Standards & Grades for agricultural commodities.
- Reform Phytosanitary Regulations and make it more user friendly.
- Shift in government support and investments in agriculture from subsidizing agri-input to provision of infrastructure and education (technological) to the farmers.
- Encourage Decentralized Procurement and involve private sector and banks in procurement.
- Build quality warehouses and expedite warehouse receipt system to become a negotiable instrument.
- Incentives creation of facilities for collection, sorting, grading and transportation of agri produce to Processors/Markets.
- Introduce electronic linkages of markets to make transparent pricing (post offices and railway stations may be instructed to carry agri produce prices, as they are access points for farmers.

- Development of Waste Lands.
- Development of Degraded Forest Land.
- Leverage the ICAR, University System to provide region specific crop solutions - make them part of public information domain.
- Research system synergy with both farmers & private sector.

CONCLUSION:

Finally, there is a need to look at contract farming alternative as it meets the needs of both corporate agribusinesses as well as small producers. The superiority of contract farming over corporate farming is evident in its more widespread and sustained practice as compared with corporate farming experiences (Winson, 1990) and in its positive impacts like producer link up with profitable markets, better farm incomes, skill up gradation due to transfer of technology, and sharing of market risk even in India (Glover and Kusterer, 1990; Benziger, 1996; Dileep et al, 2002; Diesinker et al, 2003; Dev and Rao, 2004). Further, there is sharing of benefits in contracting as against corporate farming. Of course, this requires regulation and monitoring of contracting agencies by third parties or farmer organizations like co-operatives and farmer groups or the state. In general, contract farming has positive impact on non-contract growers and rural development in general if properly leveraged with state policy and local institutions like group contracts, though it is not a development tool (Goldsmith, 1985). It has been in practice in India for quite some time now with mixed results and more recently, there has been policy thrust on this mechanism of vertical co-ordination. Therefore, there is a need to build partnership into contract farming (Eaton and Shepherd, 2001) where companies not only offer contractual terms for working with farmers but also share their business risk and profits with producers as equity shareholders. Co-ordination, Motivation, and Transaction costs are three pillars of a contract arrangement. Therefore, it is important to consider contract design as a multi-criterion decision problem. Some basic rules of contract design include: (Bogetoft and Olesen, 2002)

- (i) co-coordinating to minimize production costs which means using price signals or instructions or both,
- (ii) balancing decentralization and centralization in farm decisions which impacts problems like moral hazard and hold up,

- (iii) minimizing or sharing risk and uncertainty,
- (iv) reducing the costs of pre- and post contractual opportunism (adverse selection and moral hazard) by various mechanism of allocating contracts and monitoring them like other party bears part of the cost, social pressure, incentive structure, or group contract/incentives (moral hazard) and by rationing i.e. offer a contract suited only for some 'good' farmers; 'menu of contracts' for screening farmers so that they reveal their true type by choosing certain contracts; group contracts, and individual risk rating/information collection before contract is signed (adverse selection),
- (v) encouraging group or co-operative action among producers to lower costs and ensure better compliance,
- (vi) motivating long term contracts to reduce hold up problem,
- (vii) balancing pros and cons of renegotiation of contracts over time,
- (viii) reducing direct costs of contracting, and
- (ix) using transparent contracts

Contract Farming is not a panacea to solve all related problems of agricultural production and marketing systems. But contract farming could be evaluated as a way of providing easier access to credit, input, information and technology and product markets for the small scale farming structure. Contract farming might also be seen as a way or as a part of rural development and promoted to improve agricultural performance especially in Developing Countries. For successful implementation of contract farming, having co-ordination and collaboration consciousness and acting in an organized manner are advisable for both sides. On the Other hand, Government attitudes and incentives are also important aspects. Government should also play an enabling role by legal provisions and institutional mechanisms, like helping farmer co-operatives and groups, to facilitate smooth functioning of contract system. The NGOs can also play a role in information provision, and in monitoring and regulating the working of contracts. Better co-operation and co-ordination between companies and co-operatives for agricultural development also needs to be encouraged. Further, both companies and state should promote group contracts with the intermediation of local NGOs and other organizations and institutions so that contractual relationships are more durable, enforceable, and fair. An insurance

component in farming interventions is a must to protect the farmer interest and it is noted that some companies are already doing it. But, the most important thing is to ensure market for the farmer produce at better price under these agribusiness projects.

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SHARING RESPONSIBILITY FOR TOURISM AND MONUMENTS PRESERVATION

Dr. Irfan Mehar

India in general and Rajasthan in particular is immensely rich in archaeological, artistic and historical treasure, which belongs to our ancestors, therefore, neglected by the vast majority of our countrymen. The reasons for this attitude are primarily illiteracy, ignorance and unawareness of the value of this treasure. We are by temperament and need are more concerned about bread and butter than anything else, much less the art and culture of our country. Further, most of the ancient and medieval monuments are related to different religions and dwelling places of royalty and aristocracy for which common men do not feel any belongingness and attachment. However, we are at the most concerned to our temples and masks due to our devotional feelings and occasionally visit them. The protection, conservation and upkeep of these religious shrines and palaces of worship is generally left to wealthy and aristocratic people. This gave rise to a tendency amongst the majority of the people in India to feel that these monuments have no place whatsoever in their life. It goes without saying that right from ancient period to our own age, the country has underwent the stress of wars and infightings of various dimensions: both foreign invasion, internal conflicts and wars. This is because of the dominant feature of our history and tradition which has ultimately damaged our precious treasure of art and culture. There has been

occasional efforts to protect and conserve these monuments by sensitive people but it was so negligible that it could not produce desired results to the extent it would have done. But with the beginning of the 18th Century and subsequently in the 19th Century, there arose a strong feeling to preserve, conserve, study and exhibit these art objects and to save them for posterity, which has suffered, neglect and devastation for long.

The heavy tropical rain-fall particularly in the Eastern region and west coast of India (in case of Rajasthan the southern and eastern Rajasthan) induces luxuriant growth of vegetation. In India after the essential treatment a monument it further needs constant attention by way of annual repairs. It has been generally observed that thick growth of moss and lichen disfigures a monument. Similarly salt effect is particularly noticeable on monuments standing by or in the vicinity of sea because salt laden air penetrates into the surface of monuments and wears it out. Other natural calamities such as flood, earthquake, Tiphone and severe Drought etc. must have been responsible for damage and ultimate destruction of monuments. It has been observed in case of almost all the monuments that they have suffered heavy damage because of sheer neglect. They have been ultimately deserted by the people for a considerable time. They turned into ruins and finally mounds and thus the mother earth gave them shelter in its lap.

Although it can be said that one cannot have any control over natural calamities, which take its own course with the passage of time but in our country, particularly in Rajasthan, the monuments faced yet another very important cause of their destruction. This is human cruelty towards them. The havoc played by human beings against these deaf and dumb monuments is more serious than the earlier one. One cannot record a chronology of this important cause in the history of destruction of monuments. But the people who are more concerned about their bread and were not aware of their actions knowingly or unknowingly feel upon these monuments for temporary gains. It has been the tendency to build one's house from the bricks and stones of the monuments which were not in good shape and thus a process started for its total destruction. Once the process started it continued throughout the ages. There are recorded case of the bigotry of religious community injuring and disfiguring monuments of rival community. Quarrying for bricks and stones also contributed greatly towards the destruction of monuments. In the same way the attitude of the Government to

utilize Forts and other buildings its own and caused considerable damage to them. It would be interesting to mention here that in 1828 under the Governor Generalship of Lord William Bontinck, a Government sponsored proposal was set affect to demolish Taj Mahal for the value of its marble and was indeed seriously considered for the next seven years (Archaeology in India 1950, P. 156)

The utilizations of Mughal Forts for housing troops in the 18th and 19th Centuries led to the extensive alterations and some time demolition of monuments. There has also been the tendency of alteration in regard to ancient temples and mosque which had disfigured the original grandeur immensely.

After India's independence, the tourists started pouring in great numbers every years. Perhaps that has created immense interest specially in Western countries regarding the art treasure of India. But the name of antiques there started full-fledged trade of smuggling of antiques also. The monuments and antiques of Rajasthan which had already suffering from neglect became a vulnerable prey of the smuggling activities in India. We can mention such other similar reasons for the dilapidation and destruction of our antiques and now it needs no evidence to show that while we are preparing to enter into the 21st Century we are not doing justice in any way to our ancient treasure and which are still lying scattered throughout of our country and especially in Rajasthan.

With the coming in of British in India some serious efforts started regarding the protection, and conservation, exhibition and collection of monuments, sculptures, painting, epigraphs, coins, terracotta's etc. In the very beginning, the collection and preservation work started by affluent people so far as their collection, preservation and exhibition is concerned the first Museum was established by the Asiatic Society of Bengal in the year 18th in its own premises, although it was not till 1875 that a separate building came into existence for this purpose. The similarly, the Madras Literary Society established its Museum in 1854. These examples proved so encouraging that between 1850 and 1900 more than 25 museums sprang up in various parts of the country. Although a systematic survey of monuments was started by Sir Alexander Cunningham in 1861 it was not until 20 years later then any organized attempt was made to preserve the monuments from decay. The appointment of H. H. Cole as Curator

of Ancient Monuments was a notable event. It was felt that preservation of monuments was of permanent responsibility of the State. In 1862, Archaeological Survey of India was established and from that day to 1901 many important decisions were taken and were given effect to the concept of preservation and conservation of ancient monuments. This idea was further commented by the provisions of Indian Museum Act, passed in 1866. However, this function was primarily done by the Public Works Department of the Provincial Government. In 1874, Lord Lytton emphasized the importance of national antiquities and works of art and it was he who led to the creation of the post of a Curator of Ancient Monuments in 1881 and Cole was the first to be appointed on the post. He produced under the title preservation of National Monuments in India's, the ten folio volumes which were published in the years 1881 to 1884. Following the declaration by Lord Curzon in 1901, it became imperative on the state to collect, classify and preserve the monuments. In 1902, the Director General of Archaeology was appointed for this purpose and after two years in 1904. The Ancient Monuments Preservation Act was passed "to provide for the preservation of ancient monuments and for the protection, possession in certain cases of ancient monument and objects of archaeological, historical and artistic interest". Despite the moderate nature of the protection of the Act it gave a legal basis to the conservation activities. The rules governing such activities were formulated under the principle that "all our effort is not to review but to preserve."

Throughout the period from 1902 to 1947, the Archaeological Survey of India has been devoting itself, in to the task of preserving the national monuments of India and saving them from further decay. All categories of monuments have received due share of attention. It is not possible nor necessary to detail here the numerous measures of conservation carried out by the Archaeological Survey of India. Clearing jungles repairing the cracked wall of buildings, making good of the broken or missing components items of conservation like this, vital as they were for the preservation of monuments started in a big way.

1. F. N. J. Marshall, Conservation Manual, Calcutta (1923) P. 10
C. F. Indian Archaeological Policy ; (1915) Calcutta (1916)
Page 18.
2. For details vide Annual Report of Archaeological Survey of India 1902-03, to 1936-37, Annual Reports of Archaeological

Departments of different Indian States, Jodhpur (1928) onwards.

A note may be given here regarding the chemical preservation of antiques specially museum exhibits and other relevant antiquities. For this purpose the chemical branch of Archaeological Survey of India came into being in 1917 with the appointment of Archaeological Chemist whose principal duty was the chemical treatment of antiquities. But with the expansion of work of the survey the scopes of the activities of Archaeological Chemist have increased rapidly and now it has a full fledged department with multifarious activities. Chemical treatment of ancient monuments carried out by this branch in various parts of the country has yielded good results. Earlier the chemical treatment consisted of the application of wet paper and pulp to the effect sculptures in the elimination of injurious salts and subsequent preservation within solution of GELVA Polymerized Viny1 Acetate Resin. Now modern techniques are used for affecting chemical preservations. As for example zinc silicoflyoride has been used with success for the eradication of moss and weedicides for the eradication of tress, weeds and other vegetation. In the same way mural paintings were also given chemical treatment for preservation. Frescos were also elaborately treated by chemical device. With the growth of technology and the activities of Archaeological Survey of India, the Archaeology Department of different states, Universities, Institutions and Voluntary Organization some interest has been created in the preservation of art treasure. It appears that we are in a better position now to protect and conserve monuments and antiquities. Several voluntary organizations have also taken up this work and have started educating the people regarding the importance of antiquities and our ancient heritage. Similarly, local administration and police have been instructed to take care of the monuments and antiquities within the vicinity of their region.

The above brief remarks are enough indication to show that our ancient heritage of art and architecture had been subjected to destruction and dilapidation through centuries from natural calamities and human cruelties. Thus both nature and human beings have contributed for its neglect, destruction and almost disappearance. Perhaps as the saying goes that ignorance and poverty are twin sisters. Ignorance regarding real and unreal, true and false, valuable and ordinary etc. is fundamental for any value

judgment. In the same way when majority of our population is suffering from the bane of poverty and paucity, it is rather too much to presume that they should have some awareness regarding any other matter except their likelihood. This was precisely the reason that most of us are either ignorant about our ancient heritage or we have no leisure or opportunity to even think of it. During the Prime Minister ship of Mrs. Indira Gandhi, India's most renowned cultural and artistic institution. The Asiatic Society, Calcutta, observed its bicentenary celebrations and some eye opening facts came into light at that time. Important among them was sudden interest of Government functionaries and political leaders, journalists and affluements regarding the repository of our heritage. Everybody felt concerned for the conservation, preservation and better up-keep of antiquities. An institution of more than 200 years old, the society had preserved antiquities of art, literature, rare manuscript books, maps, coins, art objects paintings etc. which dates back to ancient period and preserved the documents of great historical value. But it is in the process of decay and theft due to gross neglect and mismanagement. For this, its large number of officials, related functionaries and honorary members may be held responsible. So much so that the facts finding committee was not in a position to spot it and suggests the future stoppage of the theft and decay of valuable collections. The society is still felling from the big shock of all : the disappearance of priceless and historically unique Copper Plate Inscription from the reign of Ashoc Mourya (3rd Century B. C.) known as 'Sohgaura Copper Plate'. It was vanished in 70s. Efforts of highest level could not produce any result. Last heard, it was said to have popped up at an auction in Swadan. When such is the state of affairs "of a institution of national importance" what would be the fate of the art treasure of a remote desert, denested 'Dhani' or village of Western Rajasthan situated in a remote and obscure corner of the country.

However, there is always a silver lining in every episode of disappointment, dejection and distress. Of recent, we have started thinking and atleast doing something for the preservation, conservation, collection and safety of the art treasure and antiquities of our country. We often hear appeals by political leaders, V.I.Ps. Administrators, Scholars, Teachers and last but not the least Journalists, for the safety and preservation of antiquities. Voluntary organizations have also sprang up for this purpose. Government both central and state, administrators and citizen committees have started evaluating the great loss which has been

incurred through the centuries of our antiquities and art treasure. They are doing commendable works in all directions and atleast they are creating awareness in the minds of people regarding the value and importance of this treasure.

In the process of this they are locating and pointing out monuments and art objects which are being subjected to natural and human exploitation and plunder. But there is yet another aspect of the story. The increasing interest in antiquities in affluent societies and in Western Countries, the theft and smuggling activities have also started in big way. This has become menace for our country and Government.

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THE CHANGING SCENARIO OF RURAL MARKETING ENVIRONMENT UNDER DIFFERENT PHASES-AN EMPIRICAL STUDY

Dr. Vijay Pareek

Introduction:

This research paper throws a light on the changing pattern of social rural marketing structure. Our father of nation Mahatma Gandhi quoted the lines in this regard that the soul of India lives in its village. This article etches the rural marketing environment through established facts and figures. Under it, we would bring out the factual general scenario of rural marketing relating to economic, Political & Social aspects of rural Economy.

Abstract:

Indian Rural Marketing in twenty first century offers great challenge and promise to all people in the rural marketing chain. The recent advancements in India there is not worthy increase in the agriproduction to meet the local requirements and surplus for export too with the help of agri-science, bi-technology, mechanization, cooperative movement and active involvement of central and state governments. Rural marketing in India is a complex mix of factors such as social, historical, cultural, technical, economical and business. The Following points have been discussed under this topic.

- (i) It traces the evolution of rural marketing in India to the present times and defines rural marketing in current context.

- (ii) It covers demographic, physical, economic, social, cultural political and technological aspects to provide a holistic view of the marketing environment.
- (iii) It studies the rural market through its trifurcation into the household, institutional and service sectors.
- (iv) It cites success stories in rural marketing and advocates the need for business-social partnership, through different rules, regulations and policies initiated by the govt.

Defining Rural India

It is ironic that the Census of India defines 'rural' in the context of all that is not urban considering that there were only villages before the development of cities and towns. In fact, a major part of the countryside still remains steeped in a lifestyle that is rural, largely dependent on agriculture and allied activities with almost three-fourths of the country living in 6,00,000 villages.

It is ironic indeed that despite having most of the natural resources of the country as well as a superiority in numbers, rural has been deprived of the benefits of progress and the products that go to making everyday life easier and more comfortable.

In 1951, the urban population comprised 17.2 per cent of the Indian population. Today, half a century later the number stands at 27.8 per cent, the result of 'creeping urbanization' at play.

Evolution of Rural Marketing:

Before the evolution of an urban market for marketing was undertaken, there seemed little need to differentiate between needs and wants. With the emergence of urban markets, the very context within which marketing had to work got redefined. Modern marketing has evolved around meeting demand in urban markets. The urban approach seems inadequate to understand and address the needs of rural India. There is a definite need for a separate set of marketing strategies to tap rural markets and a need to redefine strategy based on a whole new set of parameters. A totally different paradigm is required to satisfy a market that is more a mindset, rather than a geographical and demographic reality.

The term 'rural marketing', which was earlier used as an umbrella term to refer to all commercial transactions of rural people, acquired a separate meaning of great significance in the 1990s.

Phase I (Before the 1960s)

Rural marketing referred to marketing of rural products in rural and urban areas and agricultural inputs in rural markets. It was considered synonymous with 'agricultural marketing'.

Agricultural produces like food grains and industrial inputs like cotton, sugarcane, etc. were the primary products marketed during this period. The scope of farm mechanization equipment (tractors, pump sets, threshers) and agriculture inputs like fertilizers, seeds and pesticides was very limited, as the rural economy was in a primitive stage, with traditional farming methods being used in agriculture. Instead, the marketing of products like earthen and metallic utensils, ploughs, bamboo baskets, ropes and wooden products like bullock carts, window and door frames by skilled workers in rural areas (blacksmiths, carpenters, pot makers) was an important activity. This market was totally unorganized.

Phase II (1960s-1990s)

The Green Revolution changed the face of rural India, ushering in scientific farming practices with the advent of agricultural inputs and implements. Poverty-stricken villages turned into cash-rich centers. As a result, the demand for agricultural inputs soared. Better irrigation facilities, use of fertilizers, pesticides, high-yield variety seeds, coupled with application of implements like tractors, power tillers, harvesters, pump sets and sprinklers resulted in the exponential growth of agricultural production, changing the very content of rural markets.

During this phase, apart from conventional 'agricultural marketing', a new area- 'marketing of agricultural inputs' emerged. This period saw the emergence of companies such as Mahindra & Mahindra, Escorts, Eicher, Sriram Fertilizers and IFFCO.

During this period, the marketing of rural products received considerable attention through agencies like KVIC (Khadi and Village Industries Commission), Bunkar (weaver) societies, and handicrafts emporiums. The promotion of village industries, supported by the government through exhibitions and 'Gram Shree Melas' and 'shilpa melas', resulted in the inflow into urban markets on a large scale, of products like handicrafts, handloom textiles, leather products, etc.

Phase III (1990s to the Present)

During the first two phases, the marketing of consumables and durables to the rural markets was not considered seriously. The prime reasons for this were:

- The potential of rural markets was into visible. The existing rural markets for these products were not sizeable enough to attract the attention of urban marketers.
- Rural markets were not very accessible. The poor infrastructure of widely scattered villages made them unreachable and expensive in terms of logistics.
- The growth of urban markets during this period kept marketers busy.
- Consequently, rural markets were conveniently ignored, as they were seen as extensions of the urban markets.

However, from the 1980s India's industrial sector gained in strength and maturity. A new service sector emerged, signifying the transition of an agricultural society into an industrial one. Meanwhile, the increased Plan outlay of Central and State governments for rural development and strengthening of local governance witnessed socioeconomic progress. In addition, the economic reforms further accelerated the process by introducing competition into the markets. All these factors resulted in the growth of rural markets for household consumables and durables. Rural marketing represented the emergent distinct activity of attracting and servicing rural markets, to fulfil the needs and wants of persons, households and occupations of rural people.

Rural Market Structure:

Demographic Environment

Though the rural proportion in population has come down moderately over the years, there has been a considerable increase in absolute numbers of people living in rural areas.

At the same time, a growing population does not mean growing markets unless these markets have sufficient purchasing power. Nonetheless, companies that carefully analyze their markets can find the right opportunities. With the increased working population, the purchasing power of the rural populace has gone up from 40 per cent in 1991 to 42 per cent in 2001.

	1971	1981	1991	2001
Total populating (million)	548.2	683.3	848.3	1026.9
Rural population (million)		524.0	628.8	741.6
Rural proportion to total population (%)	80,1	76.7	74.3	72.2
Decadal variation	-	19.8	16.7	15.2

Source: Census 2001

For marketers, the largest age group shapes the marketing environment. In the case of rural, it is school-going children and young adults who define the consumption patterns of consumables and lifestyle products.

Young adults, that is, the group between 20 and 35 years of age, account for almost one-fourth of India's consumption base. The potential for marketers in the rural sector can be assessed by the fact that 48 per cent of the rural population is below the age of 20.

Distribution of Population by Age Groups (2001)		
Age groups	Rural	Urban
0-4	11.5	8.9
5-14	25.7	21.8
15-19	9.5	10.6
20-34	23.1	26.8
35-54	19.7	22.5
55+	10.5	9.4
Total	100	100

Source: Census of India, 2001

Rural literacy	1981	1991	2001
% of literates	36	45	59

Source: Census

Education and the Level of Demand:

Lower levels of education in the rural sector (approximately 60 per cent of the population lies below the middle education bracket) lead to little or low demand for a range of products such as literary books, magazines, notebooks, pens/pencils, drawing instruments, calculators, digital diaries, computers, etc.

But change is taking place because the literacy rate in the rural sector has risen 23 per cent over the last twenty years. This

has contributed significantly to an improvement in the socio-economic status of the people. With this growth, the demand for educational products has increased. Overall, products and brand awareness have increased and rural consumers have become more nature in purchase decisions.

Education in India		
Education level	Rural	Urban
Below Primary	31.7	18
Primary but below Middle	29.5	22.9
Middle but below Matriculation	16.9	16.3
Matriculation but below Graduate	18.4	29.6
Graduate and above	3.5	13.2

Source: Census of India, 2001

Rural Housing Pattern:

The types of houses in rural area are a very strong indicator of economic growth. Over the last twenty years, the trend in house types has changed dramatically, from less permanent semi-pucca or kuccha to more permanent pucca types. Today, 40 per cent of rural houses, i.e. 50 million, are pucca, which is growing at a rate of almost 5 per cent annually. Statistics indicate that the owners of such houses possess sufficient disposable income.

Most low-income groups live in kuccha houses. However, as incomes increase, the number of kuccha houses is coming down; the low-income groups are gradually moving towards semi-kuccha houses and then finally pucca houses.

Occupational Pattern:

The demographic profile of people in a segment naturally affects their buying behaviour. The wage earner and salary earner cannot be expected to behave in the same way. A daily wage earner has to account for variations in income, whereas a salary earner brings home an assured fixed amount and therefore can plan expenses in a better way. Three-fourths of rural household heads are either cultivators or wage earners, whereas three-fourths of urban household heads are salary earners, petty shopkeepers and wage earner. The cultivator's disposable income is highly seasonal, with more disposable income available immediately after the harvesting season. This is therefore the time when he is more inclined to make purchases, especially of

durables and high-involvement products. The purchases at such times are quite significant, as 40 per cent of the rural population, i.e. 50 million families, are farmers.

Distribution of Households by Occupation of the Head, 1999-2000			
Head's Occupation	Distribution of households (%)		
	Urban	Rural	All
Housewife	0.84	1.01	0.96
Cultivator	3.45	40.86	29.99
Wage earner	20.93	35.28	31.12
Salary earner	40.72	11.28	19.84
Professional	3.59	0.73	1.56
Artisan	6.90	3.41	4.42
Petty shopkeeper	16.05	4.97	8.19
Businessman	3.68	0.46	1.40
Others	3.85	1.98	2.52
Total	100.00	100.00	100.00

Source: NCAER 2002

Physical Environment

Rural and Urban Life: Distinguishing features

Settlements (scattered and clustered)

Villages comprise homestead land (abadi) and cultivated land. The settlement pattern of households is either in a cluster in the abadi or in individualized land-holdings, or a combination of the two. Farmers normally live in an abadi. Houses are owner-occupied and the structure is usually 'kuccha'. It is quite common in a village to find houses according to kinship, caste, or religious groups. Sometimes entire villages are classified on the basis of dominant caste groups, or some other predominant characteristic.

Population density (urban+rural) (per sq.km.)				
	1971	1981	1991	2001
Pop. Density (Total)	177	216	267	312
Rural		171	214	253
Distribution of towns and villages				
No. of towns	1991		2001	
No. of inhabited villages	3,697		5,161	
Total No. of villages	634,321*		638,588*	
*The total number of villages also include non-inhabited villages.				
Source: Census of India 2001				

Inhabited villages classified by population size 1991 and 2001				
	Villages in size group (1991)		Villages in size group (2001)	
	Number	Per cent	Number	Per cent
Less than 200	103,952	17.9	92,541	15.6
201-500	141,143	24.3	127,054	21.4
501-1,000	144,998	25.0	144,817	24.4
1,001-2,000	114,395	19.7	129,662	21.9
2,001-5,000	62,915	10.8	80,313	13.5
5,000+	13,376	2.3	18,758	3.2
Total	580,779	100.0	593,154	100.00

Source: Census 1991 and 2001

The table of inhabited villages provides very rich insights to a marketer:

- Villages of less than 500 population generally do not have any shop, but the number of such villages has decreased by 5 per cent over the last ten years. 25,000 villages in 'less than 500 pop'. Category have upgraded to the 500+ pop. Category.
- Villages in the 2,000+ pop. Strata are the most prosperous. The number of such villages is increasing very rapidly. Over the last ten years, almost 23,000 villages have been upgraded to the 2,000+ pop. Category. These village have around 16 shops.
- As per the 2001 Census, these 17 per cent villages in the 2,000+ pop. Categories account for 50 per cent of the rural population and 60 per cent of rural wealth. A marketer going rural should target this category first.

Rural India is inextricably linked to towns, especially in the periphery of villages. Many towns are actually overgrown villages and are classified as towns only because they have municipalities. Though they do not have panchayats, they still retain rural characteristics such as folk entertainment and weekly 1-mats and mandis. Social interaction here is a mix of rural and urban.

The economy of these small towns is connected to the rural area, though agriculture is not the primary occupation.

Economic Environment:

Changing Rural Consumers Expenditure Pattern:

Per capita consumption expenditure (Rs. Per month)			Composition of rural per capita consumption expenditure		
	Rural	Urban		Food	Non-food
1983	112	166	1983	66	34
1991	281	458	1991	63	37
2001	486	855	2001	59	41
<i>Source: NSSO</i>			<i>Source: NSSO</i>		

Per capita consumption expenditure in rural has increased four time over last twenty years.

Rural spending in non-food items is increasing; out of a total per capita spending of Rs. 486, approximately 40 per cent is spent on non-food items. This shows an encouraging trend for consumer durables and non-durables (nonfood items).

Social and Cultural Environment

The society and polity across the country varies between regions and sub-regions and also between different religious, caste and linguistic groups. Though there are not strict boundaries for identifying cultural differentials, common socio-cultural behaviour has been mapped as distinct socio-cultural regions (SCRs), which may be spread across political/administrative boundaries. While the urban environment across SCRs reflects degrees of homogeneity, rural is distinctly different. Marketers use SCRs as a yardstick for market segmentation and targeting.

Within each SCR, there is a spectrum of rural and urban communities on the continuum of socio-economic variables. As villages become important economic destinations, they grow and over a period of time become towns, which may grow into cities. Though the villages and towns complement each other for their existence, urban tends to dominate.

Village Community:

Historically, villages have been in many ways self-sufficient and autonomous. While agricultural surplus contributed to the sustenance of economic infrastructure, the caste-based occupations and trades collectively contributed to self-sufficiency.

Poor communication networks only reinforced these features. Villages had a council of elders (panchayat), which decided disputes between villagers and discussed matters of common interest.

Post independence, the village has undergone changes under the democratic system of governance. The close link of rural produce with the market and industry, gradual shift from subsistence farming to commercial and mixed farming, dependence on goods and services from outside and the increasing role of media has made the village dependent on external factors. Initially, members from influential village families migrated to towns for better education and employment opportunities. In recent years, there has been major migration of rural poor to cities and towns for regular employment in semiskilled and unskilled areas.

The panchayat structure has undergone reforms under the Constitution, in which members are elected, ensuing democratic structuring of the institution. There is reservation for the disadvantaged members, scheduled castes/scheduled tribes and women. All villagers above 18 years of age are eligible to vote.

The gram panchayats today have a statutory base with a range of regulatory and developmental functions, as in the Constitution of India. They are part of the state administration in a three tier panchayati raj structure- district, block and village level and are endowed with financial powers as well.

Political Environment:

Historically, the panchayat and village pradhan/sarpanch had been representing rural India. Dominant largely by the upper castes, they lorded it over the political scene until the panchayats became part of the administrative machinery of the Government of India. Under the Panchayati Raj system, all government departments such as education, health, agriculture, rural development, social justice, livelihoods, etc. form an integrated approach for the development of rural areas. The structure of the panchayat ensures the participation of the villagers in electing their representatives to the Panchayat and also its functioning, thereby making them politically aware and active.

Villages with 5,000 population or a cluster of smaller villages with 5,000 population form a panchayat. The villages are segmented to form wards, from where ward members are elected

to the panchayat. The ward members select their leader, who becomes the sarpanch. The sarpanch represents the village at the tehsil/taluka/block level.

Technological Environment:

There changes in the rural technological environment were triggered off by three major revolutions (a) the Green Revolution in the agricultural sector (b) the White Revolution in the dairy sector and (c) the introduction of non-government agencies in the development sector.

Green Revolution:

The period from 1967 to 1978 heralded a technological thrust into rural areas aimed at improving food grain production in the country and hence achieving food self-sufficiency.

The Green Revolution generated some notable economic results, such as:

- Crop areas under high-yield varieties required fertilizers, pesticides, fungicides and other inputs. Farm equipments like tractors with farm implements, diesel pump sets, etc., introduced mechanization into the farm sector for the first time.
- The increase in farm production also introduced mechanized processing, spurring growth of the local manufacturing stor.
- The modernization and mechanization of the farm sector boosted farm productivity, triggered industrial growth, created jobs and initiated a change in the quality of life in villages.

White Revolution:

While the Green Revolution increased agricultural productivity, the White Revolution was initiated by the government with the aim of achieving self-sufficiency in the area of milk production. The cornerstone of the government dairy development policy was producing milk in rural areas through producer cooperatives and moving processed milk to urban-demand centers. This policy imitative gave a boost to diary development and initiated the process of establishing the much-needed linkages between rural producers and urban consumers. The formation of producers' cooperatives has played a significant role in institutionalizing milk production and processing. Socioeconomic and demographic factors such as urbanization and changing food

habits and lifestyles have also reinforced the growth in demand for dairy products (ice cream, chocolate, yoghurt, butter, flavoured milk, etc.). Milk production has increased from 17 million tones in 1950-51 to 84.6 million tones in 2001-02.

The most successful story in dairy development has been in Gujarat, followed by the north Indian states of Punjab, Haryana and Western Uttar Pradesh. Lately, the Andhra Pradesh milk cooperative has also been a success story.

CONCLUSION:

A Healthy Rural Marketing gives a multiplier effect and act a booster to the economy. It is need1ess to emphasis that marketing strategies and good planning are as important for rural marketing - ins, i.e. inputs to agriculture as marketing outs, i.e. agricultural marketing and export. The rural market should be aware of both marketing ins and outs since both of them affect micro & macro economics.

The rural marketing process need to be evolutionary and not revolutionary. It has to be considered as an investment today for a better future tomorrow. Market companies should focus on nurturing the markets and have a long-term perspective rather concentrating on the achievement of short-term commercial gains.

The key learning, therefore; seems to be that the mantra for success in today's scenario is to create avenues and opportunities that are mutually beneficial to both the target population for whom the programme is intended.

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DECISION MAKING: FROM BOUNDED RATIONALITY TO EMANCIPATED RATIONALITY VIA FREE WILL

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The difference between man and man is his power of rationality. If we compare the lowest with the highest state of man, the only difference is of the degree of rationality i.e. the difference is of transition from bounded rationality to emancipated rationality. Having known that bounded rationality is a hindrance to perfect decision making in our life, the question arises, can the state of emancipated rationality be achieved? The answer is yes, we can reach the state of perfect or emancipated rationality.

Rationality, again, is inherent in man, no logic comes from outside, it is all within him. What we say a man gets to know, should in real sense be what he “discovers” or “unveils” as he conducts his life. What a man learns is what he discovers by taking off the cover from his own self, which is a mine of unfettered logic. Since all wisdom is lying concealed under the covering of ignorance, so, as the cover is taken off, the advance of discretion takes place and the bounded rationality relocates to boundless rationality.

The mind from which the covering is being lifted is the one who knows it more. The mind upon which it lies thick, is the ignorant mind and the mind from which it has entirely gone is the all knowing/ unshackled mind. Like fire in a piece of wood, wisdom exists in the mind, learning by making a conscious and voluntary choice/ free will is the friction which brings it out.

Now, what makes the free will significant or consequential for man is that neither nature nor society can invade his inner being or influence his free will without his permission. Even God acts with a peculiar delicacy in regard to man. God woos our consent but never compels. The Geeta lays stress on the individual's free will and the way in which he exercises it. Human individuals have distinctive personalities of their own, which limit God's interference, with their development. The world does not fulfill a pre-arranged plan in a mechanical way. The aim of creation is the production of selves who freely carry out their will. Man is asked to control his impulses, wanderings and confusions, rise above the current of nature and regulate his conduct by controlled references to the free will. Nature does not determine absolutely. Following are five factors involved in the accomplishment of any act:

- 1} adhisthana or the centre/ base from which we work.
- 2} karta or doer/ agent.
- 3} karana/ instruments of action.
- 4} chesta/ efforts
- 5} daivam/ providence; represents the non-human factor that interferes and disposes human effort.

Belief in daiva should not be an excuse for quiescence. Man is continuously poised to transition. He should be conscious of his aim to rise above bounded rationality to boundless one. The pressure of nature, heredity and environment can be overcome by his will.

It can be explained thus- life is a game of cards. Man did not invent the game or design the cards. He neither frames the rules nor does he control the dealings. The cards are dealt out to him whether good or bad. To that extent determinism or nature play. But he can play the game well or otherwise. A skillful player may have a poor card and yet win the game. A bad player may have a good card and yet make a mess of it.

Our life is a mixture of both chance and choice. By exercising our choice with discretion, we can steadily mitigate elements of determinism of nature. While the movements of matter, the growth of plants and the acts of animals are controlled more completely by nature; man has the luxury of choice/ free will. He can approve or disapprove, give or with-hold his consent to certain acts. If he does not exercise his free-will, he is acting in a way contrary to humanity. If he acts blindly according to his impulses and

passions, he acts more like an animal. Some of his acts are his only seemingly. The sense of spontaneity is only apparent if he carries out suggestions given to him in hypnotic/ compelling condition. If he repeats the latest given opinions and believes that they are the result of his own thinking then he is not exercising his free will. Spontaneous/ free activity is not compulsive activity to which the individual is driven by his own helplessness. It is in spontaneous/ free acting of the self that the individual becomes transparent and frees himself from bounded rationality.

In a nutshell, what we are?, seems to be the consequence of an exercise of our free will in terms of choices that we make and the road we take. By exercising our free will and reflecting upon the experiences of life, we develop discretion. This discretion helps us commute beyond the bounded rationality to boundless rationality.

Bhagwad Geeta is the most influential work in Indian thought. Its message of deliverance from bounded rationality is simple. Lord Krishna addresses Arjuna, the representative man typifying the struggling individual who feels the burden of the world, at a great crisis in his life. As the dialogue proceeds Krishna gives a comprehensive yoga-shastra. The different yogas are special application of the inner discipline/ free will which leads to the emancipated state of rationality. The approaches to access this discipline or the different yogas are Jyana yoga, Bhakti- yoga and Karma- yoga.

1] Jyana- yoga

Jyana as the intellectual pathway to perfection is for the strong man, who is neither mystical nor devotional. It lifts man from his narrow limits and takes him to the highest state of logic/ reason. The follower of this path must be prepared to throw away all old beliefs and superstitions and be determined to transcend the mind beyond bounded rationality. Ascent to higher level of rationality can be achieved through jyana/ disinterested passion for knowledge. The same word jyana is used for both the goal of perfection and the way to it, does not make the intellectual path superior to the other methods or approaches. The three grades of manifestation in living being are

- 1) Sub-conscious: mechanical, unerring
- 2) Conscious: knowing , erring
- 3) Super-conscious: intuitional , unerring

These are illustrated in an animal, man and god. The difference is that of rationality only.

2] karma- yoga

Karma yoga is purifying the mind by means of work. The Geeta opens with a problem. Arjuna refuses to fight and raises difficulties. He puts up a plea for abstention from activity. To shift him from inaction to action is the purpose of preaching the karma yoga in Geeta. The Geeta is therefore a mandate for action. Geeta explains that it is not possible to abstain from action. Inaction is not freedom. The binding quality of an action (attachment) does not lie in its mere performance but in the motive or desire that prompts it. If the karma is performed with a spirit of detachment from results, freedom is achieved. Karma yoga is an alternative approach to the goal which culminates in wisdom. So work and freedom are not inconsistent with each other. The Geeta believes in human freedom. Krishna, after describing the whole karma yoga, asks arjuna to “do as he chooses”. For the follower of this path his action should be free and for the welfare of society. Every karma is sacred and devotion to karma is the highest form of duty. It is of great help in emancipating the self from the state of delusion i.e. helps in transition from bounded to boundless rationality. Work is inevitable till we attain freedom, so we have to work for the sake of freedom.

3] Bhakti- yoga

Bhakti or devotion is a relationship of trust and love to a personal God. Bhakti is emotional attachment distinct from knowledge or action. It is open to all, the weak and the lowly, the illiterate and the ignorant, and is also the easiest. The bhakti yoga is not so difficult as the karma and the jyana yoga. It is quite as efficacious as any other method, and is sometimes said to be more so than others, since it is its own fructification, while others are just means to some other end. When the man surrenders himself to God, he takes upon his limitations and errors, and, transforms it all to the unfettered state. Faith is the basis of bhakti. So long as bhakti is done with devotion, it purifies the heart and prepares the mind for the higher consciousness. Bhakti leads to wisdom. For the follower the higher freedom is in surrender to God. Participation in God's work for the welfare of the world is the duty of all devotees. God insists on undivided devotion and assures man that he will liberate him from all the antitheses. The devotee reaches his goal, becomes free and satisfied within his self. Every force completes a

circuit. The force called man starts from the infinite and must return to him. Bhakti, in the Bhagavad Geeta has an utter self giving to the infinite; it is to believe in God, to love him, to be devoted to him, to reach him. Such a devotee has in him the content of the highest knowledge as well as the energy of the perfect man.

These paths take us from darkness to light, and from shackles to freedom. One who is free is released from undivided loyalties and actions. His conscious, sub-conscious and the super-conscious, work flawlessly together. He attains illumination of knowledge and perfect logic. The context in which Geeta is said to be delivered, points out its central purpose to solve the problems of life and stimulate right conduct. It shows the path for yoking all the forces of heart, mind and will. The message of Geeta is to unite man to his deeper principle.

In essence, we have the free will/ choice to change the whole poise of self into something absolute and uncompromising and develop the strength to go beyond the limitations. Bhagwad Geeta admits that the emancipation is not the isolation of the immortal spirit from the mortal human life but is the transfiguration of the whole man. It is attained not by destroying but by transfiguring the tensions of human life. His whole nature is broadened to the universal vision. His body, life and mind are not dissolved but are rendered pure and he becomes his own master. His personality is raised to its fullness, its maximum expression, pure and free, unburdened and unbounded.

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Cost of Inertia to Innovative Approaches An Empirical study in Jodhpur

Minal Bhandari

Today, when dynamism is in the air and competition at its zenith, innovation and novelty is what gives an edge to corporate endeavors. The relevance of creativity, novelty and innovation has unquestionably outlived in this globalised scenario. The innovation factor is indeed taking the driver seat and playing vital role in the corporate success. It won't be wrong to state that fading away are the beliefs that capital is the sole determiner of successful business ventures. Innovation and creativity is not merely restricted to sophisticated technology or creation of entirely new set of products rather are assumed to even embrace the execution of ordinary tasks in extraordinary manner. Where on one hand management principles have become indispensable to modern-day organizations, their innovative and creative application has further become inevitable.

Practicing novelty and accepting updations have become the necessity to survive today, unlike the supplements of prosperity in the past. In such a atmosphere, change has become the need of the hour. In deed an organization that is not open to change and upgradations departs itself from the desire of reaping magnificent profits.

Despite such established benefits of adopting innovating approach the S.S. Re-rolling Cluster seems to be highly resistant to change.

Introduction

In this backdrop, this paper is an expression of the outlook of the Stainless- Steel re-rolling sector towards dynamic updations and innovations. Where on one hand the study highlights that organization's thirst for huge profits can be quenched via the adoption of such innovative approaches on the other hand it exhibits the fatal loss of resources that arises out of inertia.

The cradle of Jodhpur is reasonably rich, comprising of a variety of small scale clusters like Guar-gum, Handicrafts, Textile, SS- Rerolling and that too in a good number. Jodhpur has a cluster of around 100 smallscale units engaged in the manufacture of stainless steel sheets which are used for utensil making.

Process

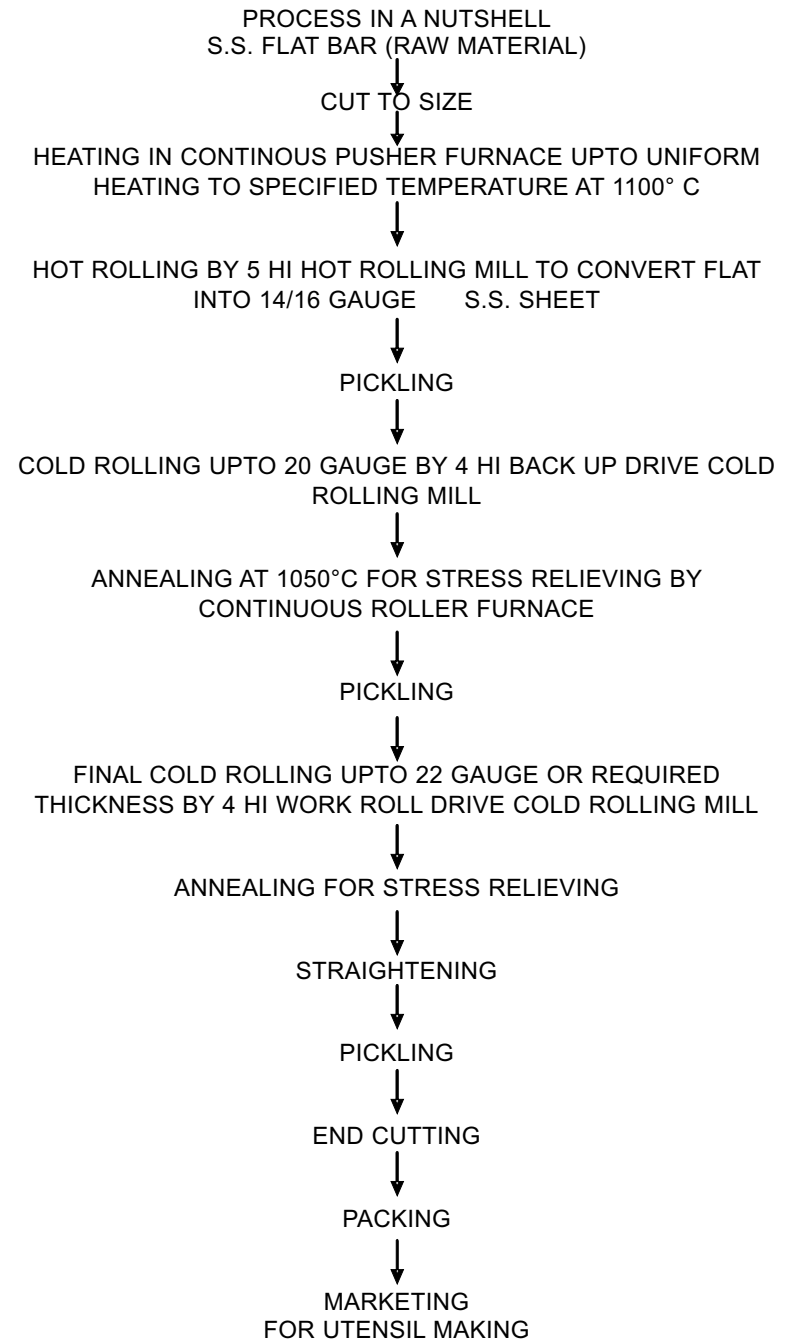
Just as a blacksmith who in order to give shape to metal first heats it to red hot condition and then beats it to desired shape, the industry too follows a well established process.

At the initial stage the raw material stainless steel bar is cut into smaller pieces keeping in mind the length of sheets required. These pieces are then heated in a furnace at a temperature of around 1100° C.

Once heated, the raw material is then hot rolled. This step involves major alteration in the size of the metal bar by deforming the metal between a set of work rolls revolving in opposite direction . During such heat treatments, a layer of carbon (called scale) is formed on the metal which is further adhered to the metal surface while rolling. This scale is detrimental to the quality of the metal and is hence removed by washing the metal sheets in baths of acid. This process is called pickling.

Once being cleaned, the metal sheets are cold rolled for further gauge reduction. Cold rolling of metal sheets generates stress in the metal and the sheets gets prone to fractures. To relieve the sheets from this, they are sent to the annealing segment where the sheets are subject to a temperature of around 800° C.

The course of cold rolling, annealing and pickling is repeated once more. The sheets are now straightened and packed for dispatch.



Innovative Approach “Acid and Fuel Management”

The entire cluster undertakes the same procedure and no trade secrets or process secrets exist. However the adoption of a small 'Acid-Fuel Management' Concept brings a big difference .

Burning Loss

A sizable quantity of acid and fuel is lost during the process, taking with it a significant quantity of the valuable metal. This loss of acid, fuel and metal does not lie in the interest of the industry and 'Acid-Fuel Management' (AFM) seems to be an answer to the problem.

The acid and fuel management controls all the possible reason of burning loss and hence saves the valuable acid, fuel and metal along with making work easy for the labor and maintaining quality and production.

The fuel that is used to heat the raw material (ss bar) in the furnace being residual fuel contains significant quantity of impurities having different ignition temperature. As a result of this, over burnt impurities get stuck as a layer on the metal and this bond is further strengthened during rolling . This Scale is the bases of burning loss and causes problem during pickling.

Fuel Conditioning

The concept of 'AFM' involves conditioning of the fuel with chemical additives to facilitate complete burning resulting in higher fuel efficiency. Also the fuel oil is modified such that the bond of adhesion of the burnt fuel with the metal sheet is weaken, so that the scale may be easily taken off while pickling. This prevents excessive use of acids during pickling.

Acid Conditioning

Likewise, the acids used during pickling to clean the scale formed on the metal sheets while heat treatment, does not differentiate between scale and metal. Hence the acid starts reacting with metal, leading to metal loss. Conditioned acids (i.e the acid inhibitors) can minimize this undesirable acid- metal reaction by forming a film on the metal i.e a barrier between acid and metal without affecting acids strength to remove scale. Rather this saves acid from being wasted in eating the valuable metal. Besides this acids inhibitors also reduces spots and saves metal from over pickling. In this way, a sizable quantity of acid and fuel is saved, further resulting into significant saving in the valuable metal loss. AFM also lowers the pollutions load and interestingly

minimizations of pollution lead is a mandatory requisite in pollution management.

Though this concept may sound little technical but what is amazing is that it requires simple adoption at the floor level as it is a 'one time corrective approach' not requiring continuous monitoring.

Truly, this innovative concept of acid and fuel management helps in recovering earnings wasted during the process.

Cost-Benefit Analysis

(Based on data of year 2009, and for per ton of metal processed)

In a nut-shell the costs incurred and saving generated by acid and fuel management may be studied as under

Consumption

Heads	Quantity (Kg)	Amount (Rs.)
Acid	95	500
Fuel	100	2000
Metal	35	2500

Cost of Acid and Fuel Management - Rs. 70

Savings

Heads	% of savings	Amount (Rs.)
Acid	10	50
Fuel	05	100
Metal	15	375
Total Savings		525

Net Savings 525 - 70 = 455

Cost Benefit Ratio 1 : 6

The total production by the cluster of Jodhpur is approximately 2,50,000 tons per year . This implies the savings of the cluster is

Rs. 11 crores per year.

Not only this, there are 3 more such S.S.Re-Rolling clusters at Ahemdabad, Bhiwari and Delhi.

Observations

Yet ! it is so ironical to accept the fact that the cluster has been ignorant to adopt such a innovative approach and indeed there is strong reluctance which has no valid reasons.

The stagnant process being carried out is still understandable, but the worst part is that even if novelty knocks their door it is not even given an ear.

The cluster seems to be highly characterized by inertia to change. Such attitude is hard to digest looking at the fact that the cluster is in a city (Jodhpur) that is well equipped with education, infrastructure facilities and rather comprising of a broad spectrum of professionals and educated entrepreneurs. It further adds to the irony to see that there is inertia , not for a risk bearing approach', rather for a well established approach running successfully in their neighbor industries for over a decade.

On interviewing a few industrialists a quite mysterious outcome was revealed . Despite being demonstrated on table as well as on the floor, the cluster could not believe the concept .

Where on one hand there were promoters who had the vision of at least evaluating the innovative concepts, astonishingly on the other hand there were promoters who were least interested in incorporating change even if they knew its significance.

Conclusion and suggestions

There are agencies both of the government and industries that are constituted for the very purpose of studying various industry related issues including waste minimization. At times, their findings are even made mandatory package of practices. Unfortunately, the efforts are yet to be seen. It is high time that this fatal inertia is checked as

*“It will be today
or tomorrow will be too late
and the rest would be history”*

The question here is not of the quantum of profits the industrialist can reap and add to their treasure rather the issue is of
CRIMINAL WASTAGE OF THE VITAL NATIONAL RESOURCES
to the tune of Crores of Rupees per annum per cluster.

Can we afford continuing it ?

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