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CONTRIBUTIONS TO BOOKS
- Sharma T., Kwatra, G. (2008) Effectiveness of Social Advertising: A Study of Selected Campaigns, Corporate Social Responsibility, Edited by David Crowther & Nicholas Capaldi, Ashgate Research Companion to Corporate Social Responsibility, Chapter 15, pp 287-303.

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- Schemenner, R.W., Huber, J.C. and Cook, R.L. (1987), "Geographic Differences and the Location of New Manufacturing Facilities," Journal of Urban Economics, Vol. 21, No. 1, pp. 83-104.

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CORPORATE SOCIAL RESPONSIBILITY AND GOVERNMENT REGULATION: EVIDENCES FROM BANKING INDUSTRY

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ABSTRACT

Corporate social responsibility (CSR) is emerging as a new field in the social science research. CSR aims to better integrate social and environmental concerns into business routines on a voluntary basis. In India, many firms have taken the initiatives of CSR practices which have met with varying needs of the society. The present study has made an attempt to understand the status and progress and initiatives made by Banking Institutions of India in context to CSR policy framing and implementation. In this Research paper, we have made an effort to provide an analysis of the current trends in CSR in India, particularly how Banks are managing CSR, their focus areas and how they are disclosing their CSR activities to the public. Our findings are based on research conducted using secondary literature review on information available in the annual reports and the Bank's websites. For this study 20 banks has been selected for the study out of top 100 companies on the basis of net sales for the financial year 2012-13. Results of the study depicts that although India has entered or taken a transformational change by involving into new CSR initiatives, but still a lot has to be done in this area. Indian banks are doing well in the Area of CSR but most of the banks are engaged in the non financial activities. Only one bank ICICI out of selected bank is investing amount more than 1% of PAT on CSR activities. All other banks are lacking with a huge GAP. In terms of transparency Most of the public sector banks are lacking behind. It is also noted that there are very few banks who have disclosed; amount contributed towards CSR in their annual reports. Hence Banking Institutions will have needed to revisit their CSR policies, strategies and activities in order to align with new companies Bill and CSR regulations as per the Clause 135.

KEYWORDS

Corporate Social Responsibility (CSR), Transparency score card, sustainable development (SD), Indian Banking, financial literacy.

ABBREVIATIONS USED

ALB: Allahabad Bank
BOB: Bank of Baroda
BOI: Bank of India
CB: Canara Bank
CBI: Central Bank of India
IDBI: Industrial Development Bank of India
PNB: Punjab National Bank
UBOI: United Bank of India
SBI: State Bank of India
IOB: Indian Overseas Bank
OBC: Oriental Bank of Commerce
SB: Syndicate Bank
CO.B: Corporation Bank
IB: Indian Bank
UCO: UCO Bank
AXIS: Axis Bank
JKB: Jammu Kashmir Bank
KMB: Kotak Mahindra Bank
KB: Karnataka Bank
ICICI: Industrial Credit & Investment Corporation of India

HDFC: Housing Development Finance Corporation Bank
YES: YES Bank
FB: Federal Bank
SIB: South Indian Bank
ING: ING Vysya Bank

1. INTRODUCTION

The concept of corporate Social responsibility may be centuries old in India, but the same has assured new heights only in 21st century corporate culture. Eloving from a predouninantly philanthropic activity. Corporate Social responsibility today reaches out to the Societies addresses larger environmental concerns and enjoys equity- equity with regards to living standard of Internal and External stakeholder, emotional Security and happiness. CSR today is a synonymous with responsible business behaviour.

The phrase corporate social responsibility has been used in so many different contexts that it has lost all meaning." (Sethi 1975, p. 58;) Even though this statement is now over 30 years old, it is as current as ever. The discussion about Corporate Social responsibility (CSR) has a history of more than 50 years. Within the past years, it has gained in quality and intensity considerably.

In an immensely competitive business scenario, Indian businesses have realised the potential of corporate Social responsibility beyond, Just a shield against a range of business risks. CSR is now a viable means of creating intangible assets like credibility, reputation and confidence among both stake holders and share holders. CSR is not new to India; companies like TATA and BIRLA have been imbibing the case for social good in their operations for decades long before CSR become a popular cause. Inspite of having such life size successful examples, CSR in India is in a very nascent stage.

Regarding the banking sector Bhatt (2008) stated that banks do not exist in a vacuum. They make a large contribution to the country's GDP growth, meet the demand of the growing middle class, contribute to infrastructure spending, and reach out to the semiurban and rural areas. The Reserve Bank of India (RBI) (2011) on stressing the need for CSR, suggested the banks to pay special attention towards integration of social and environmental concerns in their business operations to achieve sustainable development. RBI also pointed out to start non financial reporting (NFR) by the banks which will cover the work done by the banks towards the social, economic and environmental betterment of society. The CSR in Indian Banking Sector is aimed towards addressing the financial inclusion, providing financial services to the unbanked or untapped areas of the country, the socio-economic development of the country by focusing on the activities like, poverty eradication, health and medical care, rural area development, self employment training and financial literacy trainings, infrastructure development, education, and environmental protection etc.

Against this backdrop it can be understood that CSR is now an integral part of functioning of an organisation. The performance of an organisation should be judged beyond the financial parameters. The authorities need not only focus on the financial performance but to examine into the CSR performance of the organisation. Keeping in view the importance of banking sector in India, this study is focused on the corporate social responsibility activities carried out by Indian commercial banks.

In 1970, the Nobel laureate and late economist, Milton Friedman of New York Times righty wrote: "the Social Responsibility of business is to increase profits". World business council for sustainable development defines corporate Social Responsibility (CSR) as "The Continuing Commitment by business to behave ethically and contribute to economic development while improving the quality of life of the work force and their families as well as of the local community and society at large". Corporate social responsibility (CSR, also called corporate conscience, corporate citizenship, social performance, or sustainable responsible business) is a form of corporate self- regulation integrated into a business model.

1.1 NEED FOR CORPORATE SOCIAL RESPONSIBILITY

The current trend of globalization has made the firms realize that in order to compete effectively in a competitive environment they need clearly defined business practises with a sound focus on the public interest in the markets **(Gray, 2001)**. Firstly, the increase in competition among the multinational companies to gain first mover advantage in various developing countries by establishing goodwill relationships with both the state and the civil society is ample testimony to this transformation. Secondly, in most of the emerging markets, the state has a duty of protecting the interests of the general public and thus gives preference to companies which take care of the interests of all the stakeholders. Thirdly, emerging markets have been identified as a source of immense talent with the rising levels of education. For example, the expertise of India in churning out software professionals and China in manufacturing has now become internationally renowned.

1.2 WHY GOVERNMENTS SHOW INTEREST IN CSR

Governments are interested in CSR because the respective business efforts can help to meet policy objectives on a voluntary basis. This motivation touches not only on policy objectives related to sustainable development and environmental protection, but also to foreign policy goals such as human development and development assistance (Haufler 2001). Liston-Heyes and Ceton (2007) state that CSR is concerned with redistributing corporate resources to public causes. As the CSR critic Henderson (2001) puts it provocatively, CSR is now "a common body of doctrine" that requires businesses to "play a leading part in achieving the shared objectives of public policy and making the world a better place". CSR is concerned with managing business relations with a broad variety of stakeholders, the concept obviously reshapes not only management routines but also the roles of, and relations between, businesses, governments, and civil society. In this respect, CSR leads to "shifting involvements of the public and the private" sectors (Hirschman, quoted in Moon 2002).

The government can play a crucial role in establishing CSR value and knowledge among the business and the general public through recognition for CSR achievement and spreading CSR information to attain a better understanding of CSR among the public. Initiative can come in the form of publicity, awarding success, campaigning for awareness, networking opportunities, and funding.

1.3 CSR AND SUSTAINABLE DEVELOPMENT

It is now well recognised that corporate need to behave as responsible corporate citizens and demonstrate it through their action and activities. Today the Society is critically looking at corporate and gives preferences to product and services of socially responsible companies. Civil society activities continuously analyze the functioning of companies and highlight where they find in ethical behaviour. That tends to gives a bad image to those companies which are involved in any unethical practice.

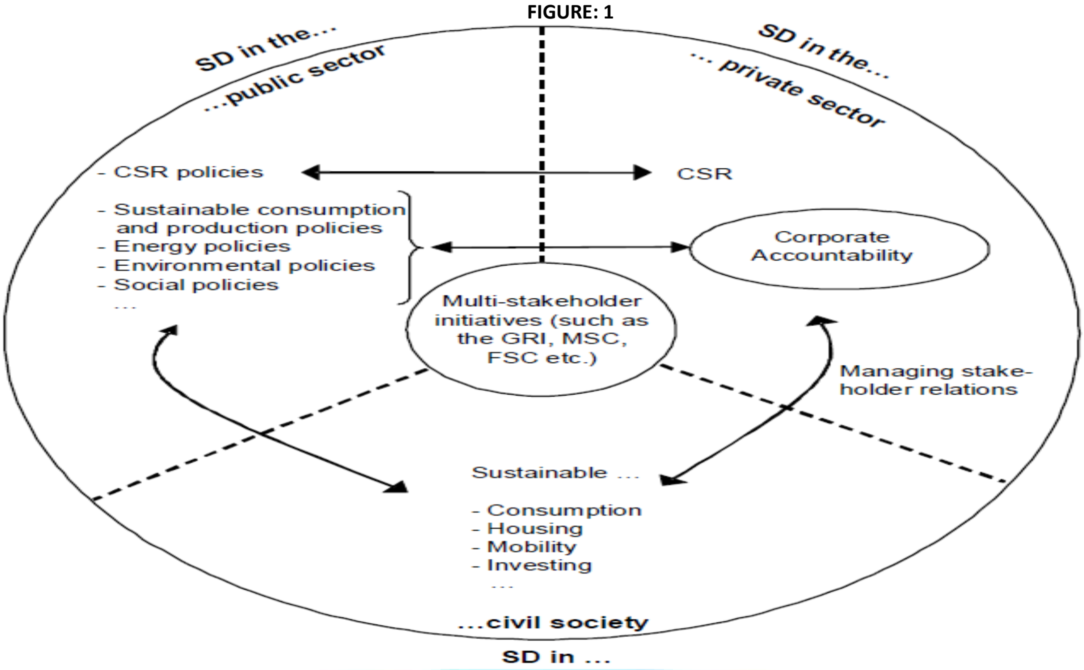
If we leave the management side of CSR behind and turn to its socio-political salience, a close linkage with the widely accepted societal guiding model, known as sustainable development, emerges. Similar to CSR, the mainstream understandings of sustainable development emphasise the need to better integrate the social, environmental, and economic aspects of development and to involve civil society organisations and businesses in doing so (European Council 2006). What-ever this means for various sectors is defined in government strategies for sustainable development. These tools are supposed to organize different policy instruments across sectors (Steurer & Martinuzzi 2007).

The National voluntary Guideline on Social. Environmental and economic responsibility at business recently issued by the ministry of corporate affairs have ethical behaviours by corporate as one of the important principles.

Today the concept of CSR has undergone a sea change. Earlier, many companies considered CSR in terms of philanthropy. However, the concept has now transformed to conducting business in a responsible manner which is essential for long term sustainability. Corporate may get away with simple profit make commercial activities in the short run. But it is behaviour and image of socially and ethically responsible organisation which will sustain them in the long run. Therefore today we talk of corporate citizen ship, responsible business or corporate responsibility or sustainability rather than just corporate social responsibility.

In delivering CSR, many companies make use of a variety of management tools (including sustainability reporting), and they reach out to the societal and political contexts of the firm with stakeholder management and political lobbying. Thus, managing stakeholder relations is for companies what public policies on CSR are for governments: among other things, they are both attempts to better link CSR with sustainable development, and often this is done through new ways of (corporate and public) governance.

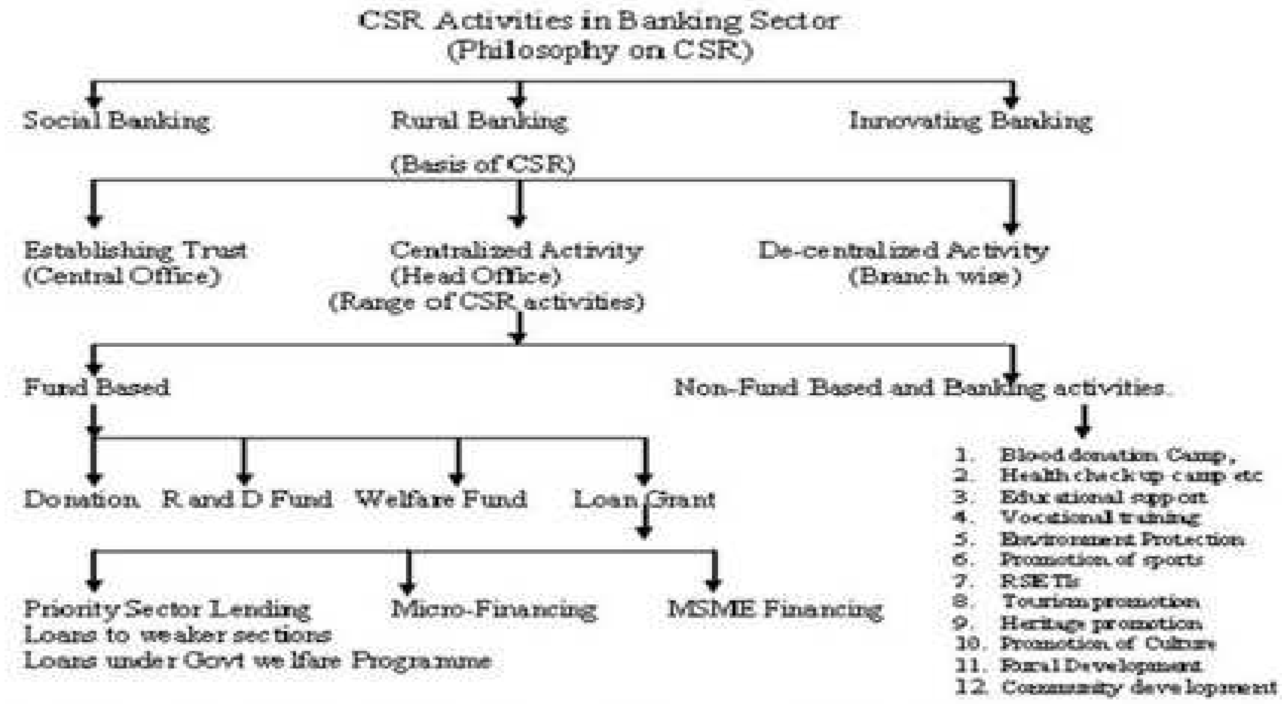
FIGURE: 1



Source: Reinhard Steurer, Discussion Paper 2-2010; The Role of Governments in Corporate Social Responsibility: Characterising Public Policies on CSR in Europe

1.4 CLASSIFICATION OF CSR ACTIVITIES IN BANKING SECTOR

FIGURE: 2



Source: Corporate Social Responsibility Initiatives of NSE Nifty Companies, (2008)

2. CSR IN INDIAN BANKING

Taking deposits, granting loans and providing complementary services are the core business of banks. No matter what kinds of countries, what kinds of culture, and what kinds of banking products and investors, banks need to be responsible for their customers in a social responsible way.

CSR in India has been slowly developing over the last forty years, but has taken a great leap forward in the last five, and again has been increased with the mandatory stipulations in the Companies Bill 2013.

The study conducted by Chahoud et al., 2007 revealed that corporate social responsibility in India, is still characterized mainly by philanthropic and community development activities and Indian companies and stakeholders have begun to adopt some aspects of the mainstream agenda, such as the integration of CSR into their business processes and engagement in multistakeholder dialogues. To describe the current state and future prospects of CSR in India, Sundar (2000) divided the development of CSR into four phases based on the country'spolitical and economic background.

Study conducted by Suman Kalyan CHAUDHURY and other (2011) stated that "To highlight the role of banks in corporate social responsibility the RBI circulated a notice on December 20, 2007 for all the scheduled commercial banks, with title "Corporate Social Responsibility, Sustainable Development and NonFinancial Reporting – Role of Banks". Major issues discussed in the notice were regarding Corporate Social Responsibility, Sustainable Development, and NonFinancial Reporting. Briefing about the corporate social

responsibility program to other member commercial banks RBI followed many international initiatives to highlight the importance of this notice like United Nations Environment Program Finance Initiative (UNEPFI), Global Reporting Initiative (GRI), International Finance Corporation, The Equator Principles, and Declaration on Financial Institutions. Apart from these international initiatives, RBI report also talked about other important and urgent issues regarding global

warming & extent of problem, the economics of climate change, the Happy Planet Index, the Kyoto Protocol etc and requested to implement the same earnestly and sincerely. In the context of Indian banking sector very little systematic documentation of CSR initiatives is available so far."
Hence, an effort is made in this paper to present detailed CSR initiatives of Indian banking sector.

3. GUIDELINES ON CSR FOR PUBLIC ENTERPRISES
The Department of Public Enterprises had issued Guidelines on Corporate Social Responsibility (CSR) for CPSEs in April, 2010 which have been issued formally to the Ministries/Departments for compliance in the Central Public Sector Enterprises (CPSEs) under their administrative control. Following are the salient features of guidelines on CSR & Sustainability:
(i) Corporate Social Responsibility and Sustainability is a company's commitment to its stakeholders to conduct business in an economically, socially and environmentally sustainable manner that is transparent and ethical.
(ii) In the revised guidelines, CSR and Sustainability agenda is perceived to be equally applicable to external and internal stakeholders, including the employees of a company, and a company's corporate social responsibility is expected to cover even its routine business operations and activities. CPSEs are expected to formulate their policies with a balanced emphasis on all aspects of CSR and Sustainability – equally with regard to their internal operations, activities and processes, as well as in their response to externalities.
(iii) In the revised guidelines CSR and Sustainable Development have been clubbed together in one set of guidelines for CSR and Sustainability because of close linkage between the two concepts.
(iv) Public Sector enterprises are required to have a CSR and Sustainability policy approved by their respective Boards of Directors. The CSR and Sustainability activities undertaken by them under such a policy should also have the approval/ratification of their Boards. Within the ambit of these guidelines, it is the discretion of the Board of Directors of CPSEs to decide on the CSR and Sustainability activities to be undertaken.
(v) The financial component/budgetary spend on CSR and Sustainability will be based on the profitability of the company and shall be determined by the Profit After Tax (PAT) on the company in the previous year.

TABLE 1

PAT of CPSES in the Previous year	Range of the Budgetary allocation for CSR and Sustainability activities (as % of PAT in previous year)
(i) Less than Rs. 100 crore	3%-5%
(ii) Rs. 100 crore to Rs. 500 crore	2%-3%
(iii) Rs. 500 crore and above	1%-2%

Source: companies Bill 2013

4. OBJECTIVES OF THE STUDY
The objective of this research paper is to focus the CSR practices of different private and public sector commercial banks in India. The researchers have identified some specific objectives to achieve these fundamental objectives which are given as follows:
1. To acquire subjective perceptions about various CSR Activity of private and public sector commercial banks in India.
2. To find out the major areas where CSR activities are performing by private and public sector commercial banks in India.
3. To compare and analyze the contribution of CSR activities of private and public sector commercial banks in India.

5. RESEARCH METHODOLOGY
The study is based on the secondary data collected from the annual reports of the selected banks. For the study 20 banks has been selected for the study out of top 100 companies on the basis of net sales for the financial year 2012-13. From the literature review the following 10 variables or major areas have been identified to assess and compare the corporate social responsibility intervention of the banks.

TABLE 2

S.No	Variable	Variable Code
1	Education/training	E&T
2	Health care/blood donation	H&B
3	Skill enhancement	SE
4	Livelihood and financial inclusion	LFI
5	Environment Protection	EP
6	Child welfare / Women Empowerment	C&WE
7	Disaster management	DM
8	Sports	SP
9	Community welfare	CW
10	Others	OTH

Source- India CSR report – published by SRRF NGO August-2013

6. DATA INTERPRETATION
6 COMPARISON OF SELECTED PRIVATE AND PUBLIC SECTOR COMMERCIAL BANKS OF INDIA AS PER THEIR PARTICIPATION IN VARIOUS CSR ACTIVITIES
The banking sector of INDIA has a long history of involvement in benevolent activities like donations to Different charitable organizations, to poor people and religious institutions, city beautification and patronizing art & culture, etc. Recent trends of these engagements indicate that banks are gradually organizing these involvements in more structured CSR initiative. The researchers have selected ten special areas of CSR practices and made a comparison between the banks. For such comparison, the researchers assumed the selected areas of CSR to be 100% and it is shown following table-2.

TABLE 3

S.N	Bank name	E&T	H&B	SE	LFI	EP	C&WE	DM	SP	CW	OTH	100%
1	SBI	1	1	0	0	1	0	0	0	1	1	50
2	ICICI	1	1	0	1	0	0	0	0	0	1	40
3	HDFC	1	1	1	1	0	0	0	0	0	1	50
4	AXIS	1	1	0	1	0	0	0	0	0	1	40
5	CANARA	1	1	1	0	1	1	1	0	1	1	80
6	BOB	1	1	1	1	1	0	0	0	0	1	60
7	CBI	0	1	1	1	0	1	0	0	0	1	50
8	KOTAK MAHINDRA	1	1	1	1	0	0	0	1	0	1	60
9	OBC	1	1	0	0	0	0	0	0	0	1	30
10	PNB	1	1	1	1	1	0	0	0	1	1	70
11	IOB	1	1	0	1	0	1	0	0	0	0	40
12	BOI	1	1	1	1	0	0	0	1	0	1	60
13	UBI	1	1	1	1	0	0	0	0	0	1	50
14	UCO	1	1	0	0	1	0	0	0	0	1	40
15	INDIAN BANK	1	1	0	0	1	0	0	0	0	0	30
16	ALLAHABAD BANK	1	1	0	0	0	0	0	0	0	1	30
17	ANDHRA BANK	1	1	0	0	0	0	0	0	0	0	20
18	CORPORATION BANK	1	1	1	1	0	0	0	0	0	1	50
19	IDBI	0	0	1	1	1	0	0	0	0	0	30
20	SYNDICATE	1	0	1	0	0	0	0	0	0	1	30
Total score activity wise (100%)		90	90	55	60	35	15	5	10	15	80	

(Here, 1=yes=10% and 0=No=0%.)

Source: India CSR report –published by SRRF NGO August-2013

From the above table, it is clear that CANARA BANK covers the more areas than the other commercial banks and its percentage is 80% out of 100%. It also indicates, CANARA BANK practices CSR in diversified areas of the society. PNB bank has also a good contribution to CSR and deal with different areas of CSR. The rest of the private and public sector commercial banks have also contribution to CSR which is less than 70%. This makes a clear picture that the banks are not concerned with all the areas of CSR including Health care/blood donation, Skill enhancement, Livelihood and financial inclusion, Environment Protection, Child welfare / Women Empowerment, Disaster management, Sports, Community welfare. They are very much concerned only about three or four areas. Although, most of the banks are giving more priority on education, Blood donation and skill enhancement, there are many important areas which should also be considered.

FIGURE-3

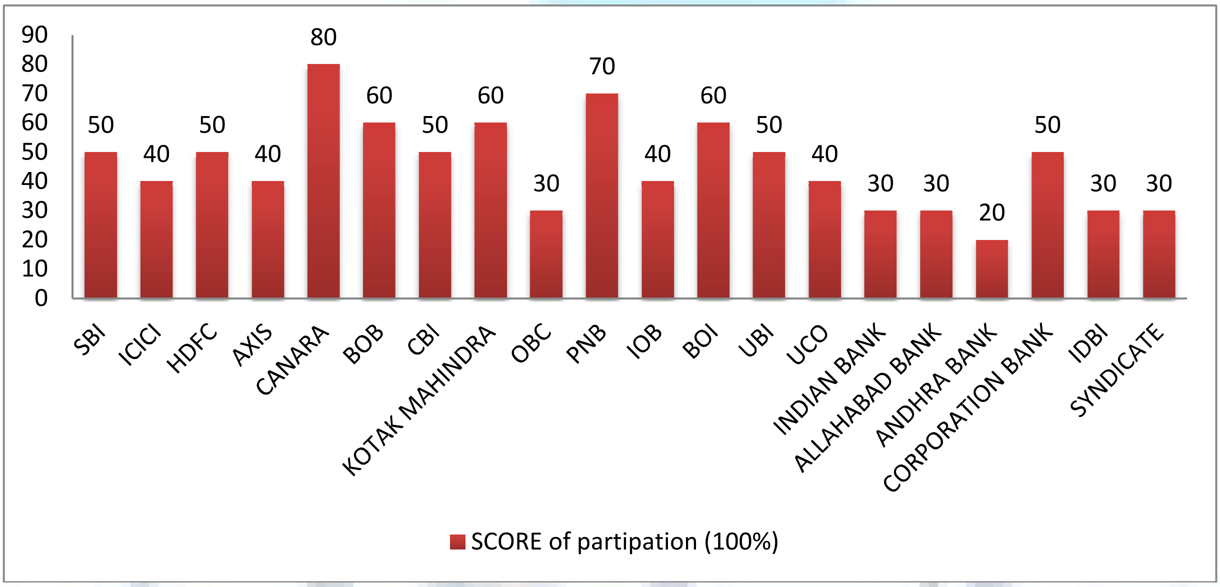
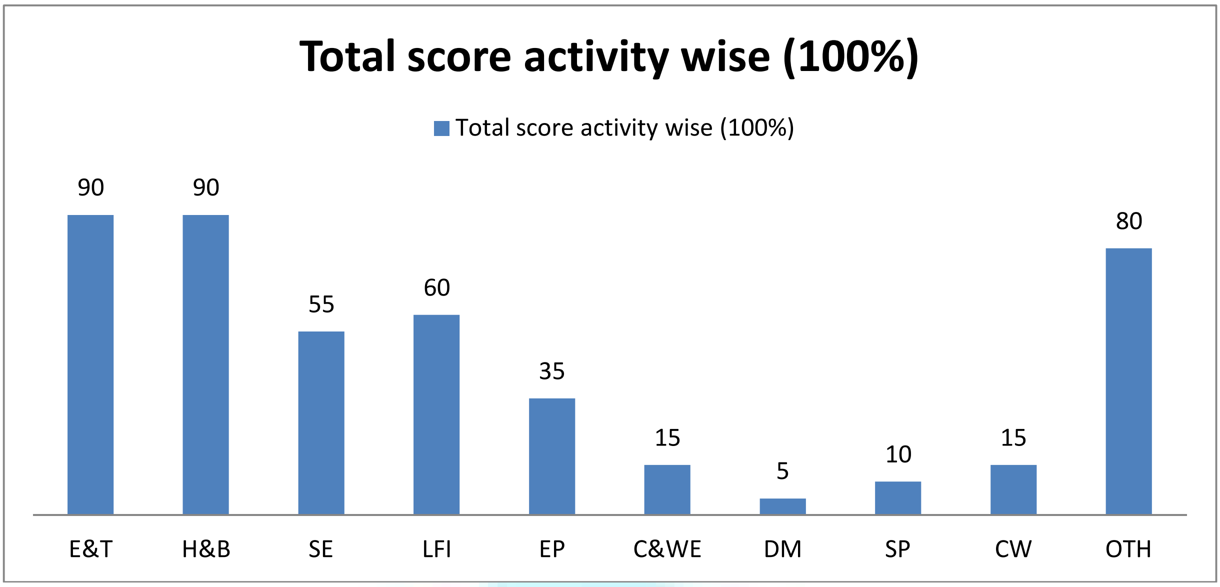


FIGURE -4



Interpretation: Above Graph gives the total score of each CSR activity for the year 2012-13 for selected public and private sector banks. It can be seen from the graph that in the year 2012-13, the highest score i.e. 90%, was obtained by Education and training (E&T) activity, while the lowest score i.e. 5, was obtained by Disaster management (DM) activities by the banks. It shows that from the above selected banks 90% banks are involving in Education and Health area for the society welfare.

6.1 TRANSPARENCY

SCORE CARD (FINANCIAL YEAR 2012-13)

One of the major problems faced while undertaking this study is the lack of due disclosure by the Banks either in the published accounts or on their websites of the amount being spent on CSR. This fact has also been stated categorically by a CSR data compilation report by Forbes India magazine and NGO SRRF Reports.

TABLE 4

S.N	Bank name	CSR strategy disclosed	CSR Amount /% disclosed	CSR Information available on website	Activities for the year disclosed	BRR released	Total score
1	SBI	YES	YES	YES	YES	YES	10
2	ICICI	YES	YES	YES	YES	YES	10
3	HDFC	YES	YES	YES	NO	YES	8
4	AXIS	YES	YES	YES	NO	YES	8
5	CANARA	YES	YES	YES	YES	YES	10
6	BOB	YES	YES	YES	YES	YES	10
7	CBI	YES	YES	YES	YES	NO	8
8	KOTAK MAHINDRA	YES	YES	YES	YES	YES	10
9	OBC	NO	YES	YES	YES	NO	6
10	PNB	YES	YES	YES	YES	YES	10
11	IOB	NO	NO	YES	NO	NO	2
12	BOI	YES	YES	YES	YES	YES	10
13	UBI	YES	YES	YES	YES	YES	10
14	UCO	NO	YES	YES	YES	NO	6
15	INDIAN BANK	NO	YES	YES	NO	NO	4
16	ALLAHABAD BANK	NO	NO	YES	YES	NO	4
17	ANDHRA BANK	YES	NO	NO	NO	NO	2
18	CORPORATION BANK	NO	NO	YES	YES	NO	4
19	IDBI	YES	NO	YES	YES	NO	6
20	SYNDICATE	YES	NO	YES	YES	NO	6

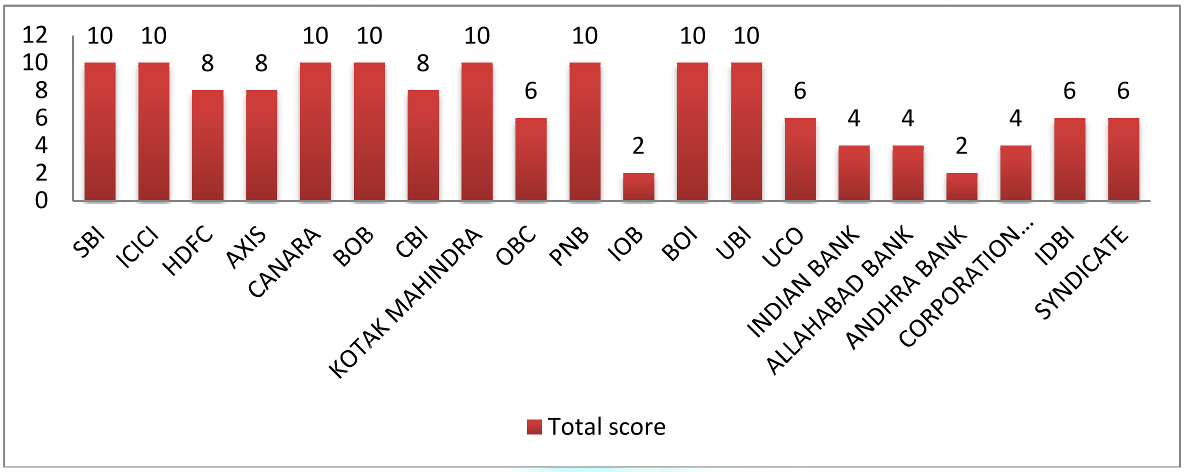
(Here, yes=2 marks and No=0 marks.)

Source: India CSR report –published by SRRF NGO August-2013

INTERPRETATION

- Based on above criteria, It was observed that out of top 100 corporate there are only 20 banks who got a transparency score. In the above table is much cleared that mostly are the public sector banks in to 100 corporate. SBI ,Canara, BOB, BOI, UBI and PNB have scored 10 out of 10, and others scores indicating a large number where transparency is weak.
- It is pertinent to note that there are very few banks who have disclosed; amount contributed towards CSR. In some annual reports even amount is not mentioned, but only percentage has been mentioned. There appears to be huge variation in this disclosure among the Public and private sector banks, who have disclosed this information. Generally banks are more specific but in the field of CSR most of the Banks are doing window-dressing.

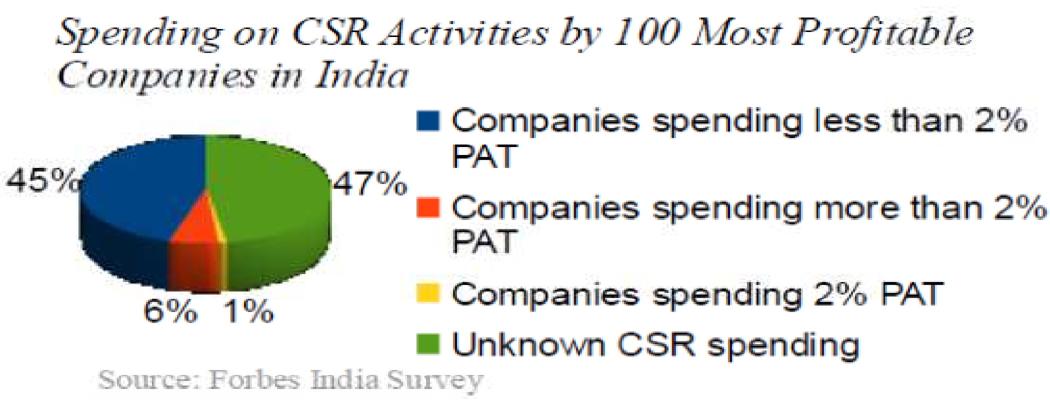
FIGURE 5



6.2 THE PROFIT-AFTER-TAX (PAT) AND CSR SPEND AMOUNTS ARE IN INR (Cr.) (FINANCIAL YEAR 2011-12)

"The proposed Companies Bill, 2013 has been passed by the Lower House of the Indian Parliament and is pending with the Upper House. Once enacted, it is expected to cover more than 2,500 companies in India. Rough calculations indicate that there could be an annual CSR budget of INR 12,500 to INR 15,000 crores for CSR once the Bill is enacted. It is imperative that the Companies Bill will be a game changer and infuse new investments, strategic efforts and accountability in the way CSR is being conceived and managed in India. (Source- Report of global CSR summit by PHD chamber 2013)

FIGURE-6



Source: Report global CSR summit 2013 pub. By PHD chamber

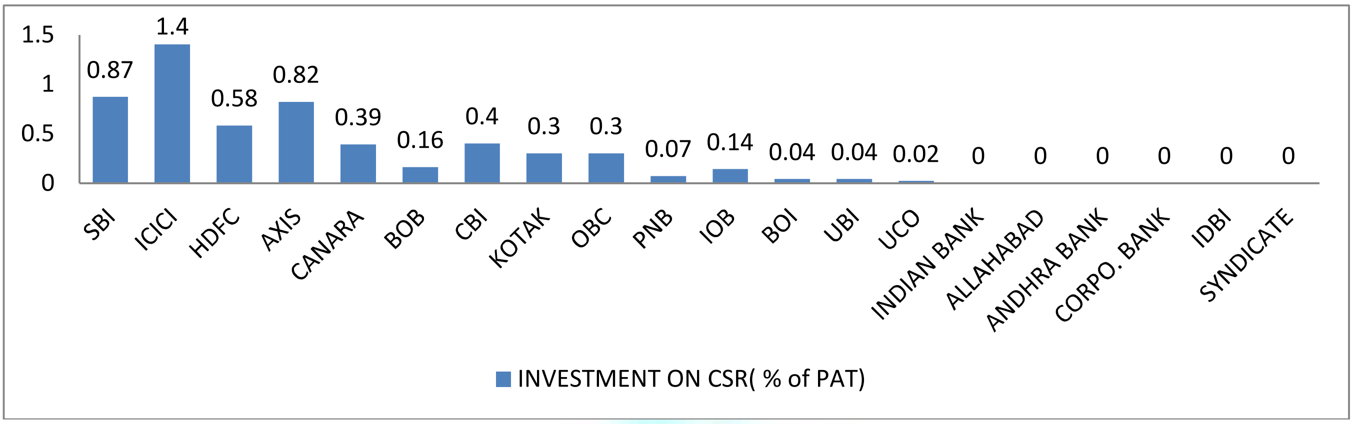
The Companies Bill have opened a new opportunity for all the stakeholders including the corporate sector, government, not for- profit organizations and the community at large to evolve innovative ways to synergize efforts and contribute toward equitable social and economical development".

TABLE 5

S.n	Name of the bank	Financial Year 2011-12			Financial Year 2012-13			% Change in PAT	Variance % CSR (2012-13)	CSR variance rank (lower to Higher)
		PAT	CSR Spend	2% of PAT	PAT	CSR Spend	2% of PAT			
1	SBI	13056	71	261.1	14105	123.3	282.10	+8.03	-56.3	2
2	ICICI	6366	24	127.3	8325	116.5	166.50	+30.77	-30.0	1
3	HDFC	4108	NA	82.16	15491	89.8	309.82	+277.1	-71.0	4
4	AXIS	3347	19	66.94	5179	42.4	103.58	+54.74	-59.1	3
5	CANARA	3313	NA	66.26	2872	11.30	57.44	-13.31	-80.3	6
6	BOB	4262	NA	85.24	4481	6.99	89.62	+5.14	-92.2	9
7	CBI	860	NA	17.2	1260	5.0	25.20	+46.51	-80.2	5
8	KOTAK	0	NA	0	1361	4.09	27.22	NA	-85.0	7
9	OBC	1260	NA	25.2	1328	3.92	26.56	+5.40	-85.2	8
10	PNB	4460	NA	89.2	4748	3.24	94.96	+6.46	-96.6	11
11	IOB	943	5	18.86	1050	1.50	21.00	+11.35	-92.9	10
12	BOI	2301	NA	46.02	2749	1.10	54.98	+19.47	-98.0	12
13	UBI	0		0	2132	.76	42.64	NA	-98.2	13
14	UCO	1009	NA	20.18	2829	.62	56.58	+180.4	-98.9	14
15	INDIAN BANK	1678	NA	33.56	1749	NA	34.98	+4.23	NA	NA
16	ALLAHABAD	1486	NA	29.72	1521	NA	30.42	+2.36	NA	NA
17	ANDHRA BANK	1207	NA	24.14	1388	NA	27.76	+15.00	NA	NA
18	CORPO. BANK	1373	NA	27.46	1443	NA	28.86	+5.10	NA	NA
19	IDBI	1532	NA	30.64	2309	NA	46.18	+50.72	NA	NA
20	SYNDICATE	1059	NA	21.18	2206	NA	44.12	+108.3	NA	NA

Source: India CSR report –published by SRRF NGO August-2013

FIGURE 7



INTERPRETATION

1. Figure 6 suggest that in India there are more than 90% companies out of to 100 companies including banks who are not disclosing investment on CSR and investing less than 2% of PAT.
2. Figure 7 shows the position of banking institutions in terms of CSR spending for the financial year 2012-13. Only four banks are allocating more than 0.5% on CSR. Out of these four banks**, three banks are from private sector commercial banks**. This is indication of poor involvement of public sector banks in CSR in terms of monetary fund.
3. **Table no 4 suggested, % change in PAT for last two financial years. Data shows that PAT has been increased drastically in last two financial years of Top public and private sector banks. But there is a negative variance in CSR involvement for every bank. This is clear indication of involvement of banks in non-fund based activities in the area of CSR.**
4. To meet the new CSR bill requirement, Banks has to make new plan and policies for sustainable development.

7 FINDINGS AND CONCLUSION

The analysis shows that though the Indian banks are making efforts in the CSR areas but still there is a requirement of more emphasis on CSR. There are some banks which are not even meeting the regulatory requirement. Even after the RBI's guidelines for financial literacy programs the banks have not taken substantial steps in this direction. Moreover, the public sector banks have overall highest contribution in CSR activities. Private sector banks are still lagging in this area.

Banks are usually judged from the point of view of their financial performance but this Study has explored a new dimension for analysing the performance of banks. It could be inferred from the study that certain banks **like ICICI bank, HDFC bank and State Bank of India which are top performers in terms of profitability and growth are at the t**op in CSR activities but **not meeting 2% criteria of new CSR bill regulations. Most of the banks are not disclosing their CSR investment for the financial year in annual reports.**

This study might valuable for commercial banks to understand their own position among the overall banking sector and also it is important for policymakers to judge the banking performance from the angle of corporate social responsibility.

It should be made compulsory for the corporate operating in India further appropriate authority should ensure mandatory requirement of a certain specific percentage of net profit for pursuing CSR activity every year and also needs to be instructed to publish CSR report annually as per specific format designs by regulator.

Thus it can be suggested that for effective use of CSR amount there should be a regulatory mechanism or authority governed by RBI which not only monitor the allocation but also see the amount required to be transfer for the CSR purpose.

However, a number of limitations of this study could be identified. First, the study is limited to a sample of 20 Indian banks hence more evidence is needed on the CSR activities before any generalization of the results can be made. Second, the data was collected only for the year 2012-13 and hence the results of the study cannot be assumed to extend to different study periods. The study has a scope of further research where the CSR performance of banks can be related to financial performance of the banks.

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THE IMPACT OF CURRENCY DEPRECIATION ON LOGISTIC SECTOR IN INDIA

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ABSTRACT

The most concerning chapter for India during last two years is the Weakening of rupee against dollar. It is not only that rupee has lost its value in the Global context but also dollar has improved its performance in the global trading markets. Though weakening of rupee is beneficial to some sectors it is a real threat for the country's overall fiscal health and increases the Current Account Deficit heavily. Depreciation leads to imports more costly, and prices of various imported commodities like gold, oil etc rising thereby increasing overall inflation higher. The Logistic sector in India plays an important role in the economic growth of the country. Rupee depreciation has a great impact on Indian logistic sector. The paper makes an attempt on factors contributing currency depreciation and its impact on Indian logistic sector.

JEL CODE
G010

KEYWORDS
CAD, Currency depreciation, Inflation, logistic sector, LSPs.

INTRODUCTION

Indian economy has been going through a rough phase for the past few years. Declining exports, increasing inflation, falling GDP, poor manufacturing outlook, increasing NPA's of banks are some of the major problems that India is facing. Together with these problems, the depreciating currency made the matter worse. On Aug 28, 2013 rupee touched a record low of 68.79/ dollar. Currency depreciation means a fall in value one currency with respect to another. That is one US dollar can buy 45 INR today, can be 60 INR tomorrow. INR would have depreciated by 33%.The value of rupee had weakened 16% this financial year .Persistent rupee depreciation has adversely impacted the profitability of various industries, widened the current account deficit and has also fuelled inflation that has adversely impacted the common man. Rupee dollar exchange rate is standing 61.85 as on February 12, 2014.

CURRENCY FLUCTUATION

The record low rate of Rupee which reached 68.79 against Dollar on Aug 28 2014 was brought back to a steady level around 62 by strong measures taken by the government and RBI. Euro reached a record rate of 91.78 on Aug 28 2014 which is now moving in a steady rate of around 85.

GRAPH 1

The graph below shows historical exchange rates between the Indian Rupee (INR) and the US Dollar (USD) between 7/12/2013 and 1/8/2014

The graph above displays historical exchange rates between the Indian Rupee and the US Dollar.

GRAPH 2

The graph below shows historical exchange rates between the Indian Rupee (INR) and the Euro (EUR) between 7/14/2013 and 1/8/2014

The graph above displays historical exchange rates between the Indian Rupee and the Euro.

The rupee depreciation against US dollar has created a challenging environment for Indian logistic sector. This is because of the increased cost of operation for both international shipping companies and the domestic transportation companies, and this increased the cost of end users (manufacturing and shipping companies) within the country.

RBI and government of India is taking various measures to bring back the economic prospects of the country. If proper measures are not taken, currency depreciation will have some serious impact on the long term prospects of the country.

CAUSES OF INDIAN RUPEE DEPRECIATION

International investors describe one currency as strong or weak with respect to another currency. For example, the U.S. dollar may be weak against the Euro, but strong against the Indian Rupee. A stronger currency is said to appreciate, whereas a weaker currency depreciates. When currency depreciates, it loses value and purchasing power. Fluctuations in currency value are a common event. The minor daily increases and decreases in value are generally due to investor supply and demand. Changes in currency value become significant when the depreciation of currency is an ongoing trend. The reasons countries experience or cause a currency depreciation are numerous: In some instances, depreciation is intentional. In other cases, depreciation is an inevitable consequence of economic policy. Major causes for the depreciation of Indian Rupee can be listed as follows.

IMPROVING THE STRENGTH OF US ECONOMY

Improving the strength of the US economy or dollar gaining strength against other currencies is considered as one of the major reason for the crisis. That is Reserve Banks of Euro zone and Japan printing excessive money due to which their currency is being devalued. On the other hand, US Fed has shown signs to end their stimulus. (Stimulus is a plan by central bank to counter a weak economy, by taking various actions like lowering interest rates, increase govt. spending, and quantitative easing etc.) This side effect includes weakening currency. Hence helps to make US Dollar stronger against other currencies.

HIGH OIL PRICES

It is another factor that puts stress on the Indian Rupee. India is in the unhappy situation where it has to import a bulk of its oil requirements to satisfy local demand, which is rising year-on-year. The domestic demand for oil increases which causes the price of oil to increase in the international market. The demand for dollar also increases to pay our suppliers from whom we import oil. The effect is cumulative like an Avalanche breakdown. This increase in demand for dollar weakens the rupee further.55% of India's oil imports are used for transportation of goods and people. And 50% of that or 27% of the total is used for transporting the 1.8% Indians who own cars. Indian crude oil imports during October , 2013 is valued at US415217.6million which was 1.7 percent higher than oil imports valued at US$14957.7million in the corresponding period last year.

WIDENING CURRENT ACCOUNT DEFICIT

Wider current account deficit is one of the reasons for currency depreciation. A current account deficit occurs when a country is importing more goods and services than it is exporting. India’s current account deficit has exploded 1125%. Since 2007 going from $8billionto$90billion.In other words India is importing more than it is exporting.RBI Governor Raguram Rajan has the opinion that India’s large current account deficit which stood at $56 billion or less than 3% of India's GDP and USD32 billion in the current financial year 2013-2014.

LOWER GROWTH

Lower growth is another reason for currency depreciation. Indian GDP growth rate fell down to a decade low of 5% in 2012-2013. Foreign Institutional Investors are pulling out money from the Indian markets due to the slow growth.

VOLATILE STOCK MARKET

Great volatility of stock market is another reason for currency depreciation.. Equity is the investments in Indian companies made by Foreign Institutional Investors (FIIs). The FII’s are in a dilemma whether to invest in India or not because of the lack of overall confidence in the Indian economy. Even though they have brought in record inflows of dollar to the country this year, chances are they may be thinking of taking their money out of the equity market, which might again results in less inflow of dollars in India. Therefore, decrease in supply and increase in demand of dollars results in the weakening of the rupee against the dollar. As per report from Business today, international investors are pulled their money to the extent of 44162 cores during June 2013 and touched an all time high.

LOW FOREX RESERVE

Low forex reserve is another reason for currency depreciation. India's forex reserves have declined in recent months. In the year 2007 India had $300 billion in foreign exchange reserves. It could cover its current account deficit 37.5 times over. Currently India's foreign exchange reserves have gone down to $275 billion; it can cover only its current account deficit 3 times. India's forex reserves are sufficient only to cover imports of 7 months. India's forex reserve down by $ 17.23 billion y-o-y and as on Sept 6 it stood at $274.81 billion. On a week on week basis the reserves show a dip of just $685 million. Now the reserves had fallen by a massive $2.2billion. The main reason for this fall is due to heavy dollar sales by RBI to protect the rupee. On Nov 9th the forex reserve again dipped to$ 1.65 billion due to the dip in value of gold in reserves.

HIGH DEMAND FOR GOLD

Increased demand for Gold or increased import of gold is considered as another reason for the crisis. In India there is more requirements for gold as the tradition exists to wear gold and diamond ornaments for the auspicious occasions. Since gold is not abundantly available in India, it has to import these at huge price. When the rupee value gets depreciating, the percentage for each dollar increases making the demand increase. In India, Gold import rose to 23.5 tons in October from 11.64 tons in September. Gold import in July and August stood at 47.75 tons and 3.38 tons respectively. In 2012-2013 fiscal, gold import stood at 845 tones.

HIGH FISCAL DEFICIT

High fiscal deficit can be regarded as another reason for the rupee devaluation. It is the difference between Govt. receipt and Govt. spending, touched to 4.12 lack cores in April-Sept 2013. The Government fiscal deficit in the first six month of the current fiscal reached 76% of the budget estimate of Rs. 5.42 lack crore. During the first seven months of this fiscal year, the deficit reached 84.4%of the full-year budgeted target compared with 71.6 last year. In the past five years the average was 67.5%. The higher fiscal deficit could lead to speculative attacks on currency. In case of high deficit Govt. may use foreign currency reserve to finance the deficit. This lead to lowering of reserves and if there is speculation of currency, the govt. may not have adequate reserve to protect the fixed value of currency. This prompts the govt. to devalue the currency.

CAPITAL ACCOUNT FLOWS

Deficit countries need capital flows and surplus countries generate capital outflows. India needs dollars to finance its current account deficit. Institutional investors investing in India are directly impacted by the global market uncertainty. In 2008 India had a net outflow of $14billion of FIIs and INR depreciated from 39 level to 52 against dollar. A volatile currency is never good for a foreign investor as it increases the transaction risk. Thus the relation becomes a vicious cycle, thereby further magnifying the volatility. Though RBI has intervened through open market operations to arrest the downfall of INR (managed float) but the reserves of $290billion don't provide enough room to make a significant impact.

DOLLAR GAINING STRENGTH AGAINST OTHER CURRENCIES

Dollar gaining strength against other currencies is considered as another reason. The US Federal Bank's Chairman Mr. Ben Bernanke introduced the unwinding bond purchase program in the US. The US had been printing money to bolster the economy. Now with the revival of the economy the Chairman plans to unwind the program. This statement led to unrest in the US economy and US investors started withdrawing money from the overseas markets. With the increase in demand for dollar, the prices of dollar in the global market rose and price of all currencies weakened against dollar, among which rupee also affected.

WITHDRAWAL BY INVESTORS

Withdrawal by investors affects the rupee to decline in value .The economic slowdown of many industries, in the Indian environment, the market's weakness for the government to implement public policies are increasingly disappointed. Global giants like Arcelor Mithal and Posco decided to withdraw their investments and Posco planned for a steel plant in Karnataka with an estimated investment of Rs. 30000 cores and Arcelor mithal intended a steel plant in Odisha worth around Rs. 52000crores.The withdrawal by foreign investors in different sectors shows that policy changes made by India is too small and too late.

LACK OF CLARITY IN POLICY REFORMS

Lack of clarity in policy reforms is another reason for depreciation of currency. Perception of lack of clarity on the policy front is also fanning speculative demand wherein RBI on one day said it will tighten liquidity and on yet another said it will inject $1billion in the market. Then Key reforms like Direct Tax Code (DTC) and Goods and Service Tax (GST) have been in the pipeline for years. The government announced FDI in Retail, but had to hold back amidst huge furor from both opposition and allies.

INTEREST RATE DIFFERENCE

Interest rate difference is another factor, that is higher interest rate generally attract foreign investment but due to slowdown in growth there is increasing pressure on RBI to decrease policy rates. Under such conditions investors stay away from Indian market. This effects capital account flows to India and put a decreasing pressure on rupee.

HIGHER INFLATION

We are experiencing higher inflation which will decrease purchasing power of rupee against other currencies. This will lead to rupee depreciation. Over the last 24 calendar months India's money supply grew at around 29% while its GDP grew at a much lower pace. This essentially means that more rupees were printed than required which causes a rise in inflation. India is experiencing high inflation above 8% for all most years. If inflation becomes higher it leads to overall worsening of economic prospects and capital outflows and eventual depreciation of currency. The inflation rate is based on consumer price index(CPI) The index is a measure of the average price which consumers spend on a market-based basket of goods and the services. The inflation rate in India was recorded at 7 percent in October of 2013.

IMPORTANCE OF LOGISTIC INDUSTRY IN INDIA

It is now experienced by many countries that, lack of logistics slows down their development process. Every country is now trying hard to develop their logistics infrastructure; otherwise its inadequacy may create bottlenecks in their economic growth. Lately, the logistics industry in India too has received lot of attention from both industry and government. Logistics cost in India is higher than that in developed nations. So, the country is trying to bring down its logistics cost from the present 14 percent to 9 percent of the GDP. In the light of the above facts, impact of currency depreciation on Indian logistic sector is looked with high importance

Logistics costs vary from company to company and from industry to industry. However across the economy as a whole, the total cost of logistics is expressed as a percentage of gross domestic product (GDP). The annual logistics cost in India is estimated to be 14 percent of the GDP, which translates into USD 140 billion while the GDP of India is estimated to be USD 1.78 trillion. However, the industry is growing at a fast pace and if India can bring down its logistics cost from 14 percent to 9 percent of the GDP, savings to the tune of USD 50 billion will be realized at the current GDP level, making Indian goods more competitive in the global market. Moreover, growth in the logistics sector would imply improved service delivery and customer satisfaction. It would lead to growth of export of Indian goods and potential for creation of job opportunities. As per the some of the leading rating agency's report the logistics industry is expected to grow at

15-20% a year to reach around USD 3.5 trillion by 2015 from its current size. Industry experts and the statistics shows the need for a strong logistics industry in India, considering the expected upsurge in trade and commerce which is evident from the following industrial highlights. India's nominal GDP could grow from USD 1.8 trillion currently to USD 3.6 trillion by 2020 at an annual growth rate of 9 percent. By 2030, India's crude steel production is expected to increase by a factor of 4. The demand for cement in the country is expected to double by 2030. Agricultural output, although reduced in size as a percentage of the economy, is expected to increase from 207 million metric tonnes (MMT) to 295 MMT by 2020. The Indian textiles industry is expected to triple from USD 78 billion currently to US$220 billion by 2020. The share of organized retail is expected to increase from 5 percent currently to 24 percent by 2020. India's industrial energy consumption is expected to double by 2020. In this scenario, the country will need to mine 2 billion tonnes of coal by 2030 and transport 75 percent of mined coal. Further, around 30 percent of total transported coal will have to be imported through ports. Overall export-import (EXIM) cargo at Indian ports is projected to increase to around 2,800 MMT by 2020 from approximately 890 MMT currently. Finished consumer goods, both imported and those produced in India, will have to be transported to the country's middle-class consumers, which, by 2030, are expected to increase fourfold from the current middle class population of 160 million. So it is inevitable to have a strong and stable logistic sector which can support the expected industrial and economical advancement of the country. India's logistic market is estimated at USD 92 billion. Over last 5 years increasing private sector participation, growing propensity to outsource transport and logistics services and overall mobilization have driven the growth of logistics sector in India at CAGR 9.5%.

CURRENCY DEPRECIATION AND ITS IMPACT ON INDIAN LOGISTIC SECTOR

The logistics sector in India has today become an area of priority. One prime reason for the same stems from the reason that years of high growth in the Indian economy have resulted in a significant rise in the volume of freight traffic moved. This large volume of traffic has provided for growth opportunities in all facets of logistics including transportation, warehousing, freight forwarding, express cargo delivery, container services, shipping services etc. The growth path has also meant that increased demand is being placed on the sector to provide the solutions required for supporting future growth. Going forward it will not be wrong to say that the strength of the logistics sector is likely to be one of the key determinants of the pace of future growth of the economy.

Various estimates put the market size of the logistics sector in India to be between USD 90-125 billion With regards to cost of spends on logistics, India's logistics sector accounts for 13% of the GDP of India. This is much higher than that in the US (9%), Europe (10%) and Japan (11%) but lower than in China (18%)). Major elements of logistics costs typically include transportation, warehousing, inventory management and other value added services such as packaging. The various challenges faced by the logistic industry lead to high logistic cost incurred by the Indian economy.

Depreciation of Indian rupee against the US dollar has both the direct and indirect effect on the Indian logistic sector. Due to the cascading effects, it has an impact, not only on logistic service providers and end users, but also to the end consumers of goods. The direct impact is in the form of higher costs incurred for international shipments for which payments have to be made in US dollars, in case of imports, this depreciation leads to higher landing costs of consignments, which importers may bear as own costs and pass it on to end consumers by raising prices. The rupee depreciation against US dollar has created a challenging environment, owing to the increased costs of production for both international shipping companies and increased costs of services for end users (Manufacturing and Distribution companies) within the country. The international shipment creates a challenging environment for the logistic end users because importers and exporters need to pay shipping charges in US Dollars and hence, additional amount has to be paid for the shipments, making international trade less profitable for the companies.

In case of exports, the rupee depreciation results in increased shipping charges for exporters, which results in lower profit margins. Since there is a risk of losing orders to competing exporters from other countries exporters may not be in a position to increase prices of their export goods in the targeted markets. Due to the risk of losing international customers to competing exporters from other international markets, the Indian exporters may be forced to absorb the increase in freight charges, and work with lower margins. In the event of failure to absorb such additional freight costs , the exporters and importers may abstain from international trade. This could lead to an over all decrease in international trade volumes from India that would prove to be challenging for the shipping and freight forwarding companies. In the case of shipping companies in Indian industries, a decline in international trade volumes from the country would result in idle capacity or shipments with not fully loaded ships resulting in lower revenues as well as higher operational costs per consumer consignment.

On the domestic front, rupee depreciation against US dollar would lead to increase in fuel costs which may result in higher operational costs for cargo transporters, which would always be passed by them to the end users. The end users are on the losing side due to the impact of depreciation. The logistic service providers (LSPs) and end users are bound in long term contracts with charge revisions permitted only once in a year or a half year. The service providers have to bear the increased costs of operations and hence are likely to incur erosion in profits or even losses in some cases. Fuel cost accounts for about half of operational costs for transportation companies in India. A 5% rise in fuel cost results in about 10% increase in transportation charges for logistic users. The effect of rise in fuel price is high in markets such as India where more than 60% of domestic cargo transportation is still via- road. The impact of rise in fuel costs is low in markets where rail has a significant – dominant share of domestic cargo transportation volumes. As the shipping and port related services are charged in US dollars, the LSPs in port terminals are benefited to some extend , but that gains could also be negated by the decreased trade volumes. The increase in price of aviation logistic turbine has already resulted in a proportional rise in airfare. Air freight services are premium logistic services and will now be even costlier owing to increased fuel cost. The impact is not only on LSPs and end users , but also on the end consumers due to the cascading effect. In majority of cases, however, the depreciating rupee largely affects end consumers of imported goods.

LOGISTICS IN INDIA: MODE OF TRANSPORT AND ITS SHARE

TABLE 1

Mode of transport	Percentage (%)
Road	60
Rail	31
Water	8
Air	1

Source: *www.kpmg.com*

The Indian transportation and logistics industry is poised at a crossroads along its growth trajectory. This is particularly important at this juncture in light of the ongoing global economic uncertainty that has been impacting the Indian market to an extent. However, driven by strong fundamentals and consistent demand, the resilient Indian economy in general and, the logistics sector in particular, are seemingly well-positioned to sail through turbulent global waters.

Indian Railways have carried 1,009.73 million tonnes (mt) of revenue earning freight traffic during 2012-13, which is 15 mt less than the budget estimates.

The freight carried, however, shows an increase of 39.95 mt over the freight traffic of 969.78 mt carried during the corresponding period last year, an increase of 4%.

During March 2013, the revenue earning freight traffic carried by Indian Railways was 98.20 mt. Railways carried 93.85 mt during the same period last year, showing an increase of 4.64%.

TABLE 2: INDICATIVE BREAK UP OF FREIGHT HANDLED IN INDIA

Mn tones	FY06	FY07	FY08	FY09	FY10	FY11
Rail freight	667	728	794	850	910	969.78
Road freight	1353	1478	1612	1726	1875	2046
Water freight	424	464	519	530	561	570
Air freight	1.4	1.55	1.71	1.7	1.9	2.1

Source: http://www.Indiabiznews.com/?q=node/2283

Freight handled through railway during fy2012 was 1009.73 mt. which was 15mt less than the estimated.

Freight handled through air during fy2012 was 2.19 mt.

The upward trend in freight suggests an increase in freight handled in future. But the weakening rupee may not support this trend. The LSPs and end-users can choose to work on less margins for keeping their existing customers; however, this will not be sustainable in the long term. Eventually, the increase cost of logistics services will be passed down to the end consumer. On the whole, the depreciation of the Indian Rupee against the US Dollar will impact all the key stakeholders of the logistics sector in India. The primary impact of this will be borne by the LSPs, particularly the transporters and the freight forwarders, and the end-users.

CONCLUSION

The rupee has depreciated about 50% in the past 3 years and 15% this year. The situation is extremely worrying us because of the devastating impact it will have on the India's fundamentals that have been pushed to the brink by global factors. In India, there is a sense of dejection in the wake of policy announcements that haven't really been executed. There is a sense of loss of credibility. The fall in rupee is a mere manifestation of the deeper malaise - higher inflation, low interest rates combined with low growth. Logistics system in India plays a vital role in economic systems and everyday life. Logistics and warehousing industry continued to witness growth during the first half of 2013 despite weak economic scenario. The demand for logistics and warehousing services is expected to increase on the back of relaxation in the FDI regulation in the retail sector."Despite weak economic sentiments, the logistics and warehousing industry continued to witness growth largely due to growth in retail, ecommerce and manufacturing sectors. The recent relaxation of FDI regulations in the retail sector is also expected to create substantial demand for logistics and warehousing services across the country. Currency depreciation of Indian Rupee against US dollar has created a challenging environment for the Indian logistic sector, owing to the increased cost of operation for both international shipping companies and the domestic transportation companies and increased cost of services for end users within the country. On the whole, depreciation of Indian rupee against US dollar negatively affects LSPs to a considerable extend, also severely affects logistics end users and end consumers of goods. Currency depreciation creates challenging environment not only for logistics sectors but also to various other linked or dependent sectors. So Government and RBI should make a timely intervention to tackle the crisis. They should contribute to the most to make the Indian economy capable to achieve highest growth prospects in the world in the coming decades.

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IFRS CONVERGENCE AND ITS APPLICABILITY ON INDIAN CORPORATE SECTOR

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ABSTRACT

Financial reporting system, providing indispensable financial information about the company to its shareholders and other stakeholders, needs to be reliable, free from bias and should enable comparison on the basis of common benchmarks. In India, accounting standards are issued by the Institute of Chartered Accountants of India (ICAI). So far, ICAI has issued 32 accounting standards. Every country has its own accounting standards. This worked well, till trade was confined to domestic country. Liberalization made economies open to globe. This created the need to have uniform accounting standards for comparison of financial statements. International Accounting Standards Committee (IASC) initially issued International Standards which worked well for twenty-seven years. IASC was replaced by International Accounting Standards Board (IASB). IASB issued International Financial Reporting Standards (IFRS) from time to time. So far, IASB issued 14 IFRS Standards. This study is analytical in nature. Study is based on secondary data. Secondary data on selected variables sourced from the published annual reports of Wipro ltd. for the year 2011-12. Other sources are annual general reports, journals, interview with auditors, newspapers, e-IFRS and concerned websites. Article examines the impact and consequences on financial statements due to changes in the adoption of uniform standard maintained by Wipro Company limited. The result concluded with a strong desire in the IFRS implementation with a fair valuation of financial statements and its comfortableness in using unique standard.

KEYWORDS
Indian generally accepted accounting principles (IGAAP), international accounting standards board (IASB), international financial reporting standards (IFRS).

JEL CODE
M41

PROLOGUE

International standards were issued by the IASB's predecessor organization between 1973 and 2000, the international accounting standard committee (IASC), a body established in 1973 by the professional accountancy bodies (***Dr.U.V.Panchal 2012)*** in Australia, Canada, France, Germany, Japan, Mexico, Netherlands, United Kingdom and Ireland and the United States. During the period, the IASC's rules were described as 'international accounting standards' (IAS). Since April 2001, this rule-making function has been taken over by a newly-reconstituted IASB. The IASB describes its rules under the new label "international financial reporting standards" (IFRS), though it continues to recognize the prior rules (IAS) issued by the old standard setter International Accounting Standard Committee ***(Annexure 1)***. The IASB is better-founded, better-staffed and more independent than its predecessor, the IASC. Nevertheless, there has been substantial continuity across time in its viewpoint and in its accounting standards. International Financial Reporting Standards (IFRS) is fast becoming the global accounting language. Over 125 countries have now adopted IFRS (**Prof. Jyoti H. Pohane)** and many more have committed to make the transition in the next few years.

IFRS are accounting rules (standards) issued by the international accounting standards board (IASB), an independent organization based in London, UK. They purport to be a set of rules that ideally would apply equally to financial reporting by public companies worldwide. Adopting a single global accounting language will ensure relevance, completeness, understandability, reliability, timeliness, neutrality, verifiability, consistency, comparability and transparency of financial statements and these bring about a qualitative change in the accounting information reports (***Dr. Naseem Ahmad)*** which will strengthen the confidence and empower investors and other users of accounting information around the world. It will also help acquirers to assess the actual worth of the target companies in cross border deals and thereby furthering the economic growth and business expansion globally.

NEED FOR CONVERGENCE WITH IFRS

1. To prevent material manipulation or errors in financial statements
2. To ensure reliable and high quality financial reporting, in certain cases, it can prove to be crucial to the economic and financial development of a country.
3. To enables a systematic review and evaluation of the company performance of a MNC's having subsidiaries and associates in various countries.
4. To make the comparison of the performance of a company against its domestic and international peers easier and more meaningful.
5. To provide a level playing field where no country is advantaged or disadvantaged by its GAAP and disclosures.
6. To help in global harmonization.

IFRS IN INDIA

As India converges with international financial reporting standards, there are certain basic things that the users should be aware of. First and foremost, India is converging with IFRS and not adopting IFRS. The Indian IFRS will be called Ind-AS, which would diverge from IFRS on some matters ***(Annexure 2)***. The level of acceptability of Ind-AS financial statements outside India will be somewhat discounted as those will not be in compliance with IFRS as issued by the International accounting standard board (IASB). This aspect could be somewhat mitigated by a reconciliation statement between IFRS and Ind-AS in the Ind-AS financial statements.

A lot of remarkable developments have been witnessed by Indian economy in the post-globalization era like increasing participation of the FIIs in capital market, launching of derivative instruments, spiraling growth in FDI, introduction of GDR and ADR enabling the Indian companies to raise capital from international markets **(Nikhil Chandra Shil,2009)**, overseas acquisition by the Indian companies as soon. In order to reap the benefits of convergence; ICAI has already taken a great stride to revise the existing AS to make them compatible with the IFRS. The institute has already declared a roadmap for applicability of the converged accounting standards in different phases ***(Annexure 3)***.

At the same time there are few risks involved in introducing IFRS in India that the researchers feel that the biggest risk in converging Indian GAAP with IFRS is the fact that the accounting entities underestimate the complexity involved in the process. Instead it should be recognized well in advance that teething problems would definitely creep in. converting to IFRS will increase the complexity with the introduction of concepts such as present value and fair value. Similarly there are some recognition and measurement issues that would create quite a lot of controversy.
Implementing IFRS has increased financial reporting risk due to technical complexities, manual workarounds and management time taken up with implementation. Another risk involved is that the IFRS do not recognize the adjustments that are prescribed through court schemes and consequently all such items will be recorded through income statement.
In IFRS framework, treatment of expenses like premium payable on redemption of debentures, discount allowed on issue of debentures, underwriting commission paid on issue of debentures etc., is different than the present method used. This would bring about a change in income statement leading to enormous confusion and complexities.

REVIEW OF LITERATURE
The study investigates empirically by **Sarbapriya Ray (2012)** the effect of voluntary adoption and convergence of IGAAP with IFRS. It has been found from the study that there is not much deviations and fluctuations in the net income position as disclosed by financial statement under IFRS reporting and Indian GAAP. But deviation is rather prominent when observing the total liability and equity position which is mainly because of reclassification between equity and total liability. The provision under IFRS is reduced mainly because dividend provision is not recognized in IFRS. The impact of mandatory change in financial reporting standards in European Union **(Capkun et al. 2008)** analyzed and found that the transition from local GAAP to IFRS had a small but statistically significant impact on total assets, equity, total liabilities and among assets the most pronounced impact on intangible assets and property plant and equipment.
Review related the issues of convergence between US Generally Accepted Accounting Principles (GAAP) and IFRS **(Elena et al 2009)** were of the opinion that the adoption of IFRS in the USA undoubtedly would mark a significant change for many US companies. It would require a shift to a more principles-based approach, place for greater reliance on management (and auditor) judgment, and spur major changes in company processes and systems. There are so many aspects relating to IFRS convergence which still need to be clarified, **(Dr. Kishore J. Bhagat. 2012)** such as IFRS first time adoption standard, compliance of comparative previous period figures with IFRS, changes required to the Companies Act to comply with IFRS, changes to the Income-Tax Act, the Reserve Bank of India's requirements for banks, etc.
The study conducted by **(Sunitha Ajaykumar Rai 2012)** says in IFRS – problems challenges in first time adoption that corporate needs to gear themselves for constant updating in all the uniform standards to have a systematic approach in the financial statements. One of the major recommendation given by **B. Kapoor and jyoti ruhela (2013)** under her paper titled IFRS implementation – issues and challenges for India that Proper education and training of employees about IFRS and format of separate committee for IFRS process leads to overcome the challenges faced by India.
The study conducted (**Armstrong et al 2010)** on 1084 European Union firms during the period of 1995-2006 and result showed a positive reaction to IFRS adoption events for firms with high quality pre adoption information, consistent with investors expecting net convergence benefits from IFRS adoption It is increasingly felt that IFRSs would be the right choice for a single global standard, since it has been prepared with much considerations and consultations (**Pinky Dholakia)**. Bearing in mind the pace of the current global development on convergence, substantial convergence is targeted for 2011 across global capital markets and it gives a true and fair view of international accounting system**.**
From the literature review it is found not many studies are of IFRS convergence in Indian corporate sector. The present study identified Wipro Limited to find the effect financial statements from 4 years of financial data.

STATEMENT OF THE PROBLEM
Different countries adopt different accounting treatments and disclosure patterns with respect to the same economic event. This may create confusion among the users while interpreting the financial statements. Financial statements that are based on a single, universally accepted and used GAAP will enable the world to exchange financial information in a meaningful and trustworthy manner. This will accelerate the globalization of finance. Therefore, there is need to the study shows the attitude towards IFRS Convergence by India and its effectiveness in Indian corporate sector.

OBJECTIVES OF THE STUDY
1. To examine the effects of voluntary convergence of IFRS on financial statements – a case study on WIPRO (2011-12)
2. To study the challenges and risks specific to India in adoption of IFRS.
3. To know about the likely beneficiaries of convergence.

METHODOLOGY
It is an analytical study. Wipro limited is taken for case study. There are only 11 companies around India are showing their financial statements under IGAAP and IFRS like Wipro, Infosys Technologies, NIIT, Mahindra & Mahindra, Dabber, Tata Motors, Bombay Dyeing, Dr Reddy's Laboratories, etc., Wipro limited was chosen for study because it gives the financial statements under IGAAP and IFRS. The items chosen from balance sheet for study is seen in all 4 years financial statements. Other sources are annual general reports, journals, interview with auditors, newspapers, e-IFRS and concerned websites.

SUMMARY OF FINDINGS AND DISCUSSIONS
Effect on Indian Corporate Sector: Adopting IFRS by Indian Corporates is going to be challenging but at the same time could also be rewarding. Indian corporates are likely to reap significant benefits from adopting IFRS. The European Union's experience highlights many perceived benefits as a result of adopting IFRS. Overall, most investors, financial statements preparers and auditors were in agreement that IFRS improved the quality of financial statements and that IFRS implementation was a positive development for EU financial reporting. With Indian GAAP converging with the International Financial Reporting Standards (IFRS), most accounting areas will undergo a significant change. The impact on financial statements of some of the changes are outlined below:
- Business combinations,
- Consolidation of special purpose entities
- Employee stock ownership plans,
- Financial instruments
- Derivatives,
- Revenue recognition
- Presentation and disclosures

TABLE-1: FINANCIAL STATEMENT COMPARISON BETWEEN IGAAP AND IFRS OF WIPRO (2011-12) (Rs. In Millions)

Particulars	Amount as per IGAAP	Amount as per IFRS	Effect of transition to IFRS	% of change
Goodwill	67,961	67,937	24	0.04
PPE and intangibles	59,860	63,217	-3,357	-5.61
Available for sale investment	41,483	41,961	-478	-1.15
Investment in equity accounted	3,232	3,232	0	0
Inventories	10,662	10,662	0	0
Trade receivables	80,387	80,328	59	0.07
Cash and cash equivalents	77,666	77,666	0	0
Other non-current assets	9,168	11,781	-2613	-28.5
Other current assets	35,566	25,743	9823	27.62
Other assets	46,596	53,474	-6878	-14.76
Total assets	**4,32,581**	**4,36,001**	**-3420**	**-0.8**
Share capital	4,915	4,917	-2	-0.04
Retained earnings	2,65,258	2,80,397	-15,139	-5.71
Minority interest	849	849	0	0
Loans and borrowings	22,510	22,510	0	0
Other non-current liabilities	4,160	9,643	-5,483	-131.80
Short term borrowings	35,480	36,448	-968	-2.73
Trade payables	47,736	47,258	478	1.00
Other liabilities	51,673	33,979	17,694	34.24
Total liabilities	**4,32,581**	**4,36,001**	**-3420**	**-0.8**

The above table reveals that the financial statement of Wipro for the year 2011-12 it is observed there is 0.8% increase in the total assets value as per IFRS when computed with the total assets as per Indian GAAP.

Under IFRS, the company has recognized Rs. 24 of contingent consideration as additional goodwill and liability. This adjustment has no impact on equity. The amortization charge in respect of finite life intangibles assets is recorded in proportion of economic benefits. Under GAAP, finite life intangible assets are amortized usually on a straight line basis over their useful life.

Under IFRS, the available for sale of investments are measured at fair value at each reporting date. Under GAAP, short term investments are measured at lower of cost or fair value. Under GAAP, a liability is recognized in respect of proposed dividend on company's equity shares, even though the dividend is expected to be approved by the shareholders. Under IFRS, liability for dividend is recognized only when it is approved by shareholders.

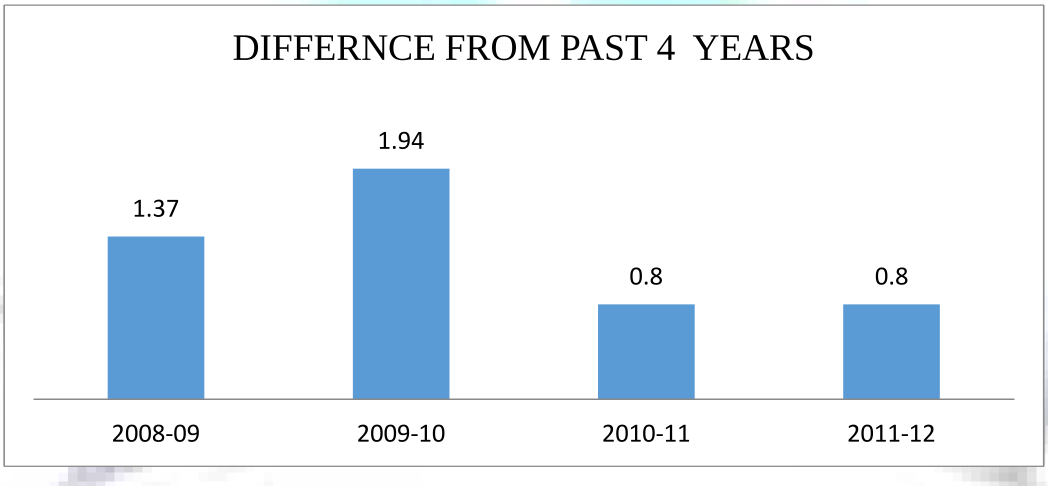
Under IFRS, minority interest is reported as a separate item within equity, whereas previous GAAP requires minority interest to be presented separately from equity. This presentation shows no difference between IFRS and IGAAP.

There is a high increase in the value of net tax assets including deferred taxes in IFRS reporting compared to Indian AS. The reason being as per IAS 12, a deferred tax assets should be recognized for deductible temporary differences, unused tax losses and unused tax credits to the extent that is probable that taxable profit will be available in the future to realize the tax benefits and balance sheet approach is followed in recognizing high deferred taxes.

TABLE-2: A COMPARISON BETWEEN IGAAP AND IFRS IN THE CONSOLIDATED FINANCIAL STATEMENTS FROM PAST 4 YEARS (Rs. In Millions)

YEAR	IGAAP	IFRS	Difference	%
2008-09	2,12,327	2,15,235	2908	1.37
2009-10	2,72,018	2,77,290	5272	1.94
2010-11	3,68,341	3,71,443	3102	0.8
2011-12	4,32,581	4,36,001	3420	0.8

CHART 1: A COMPARISON BETWEEN IGAAP AND IFRS IN THE CONSOLIDATED FINANCIAL STATEMENTS FROM PAST 4 YEARS



CHALLENGES FACED BY INDIA FROM THE ADOPTION OF IFRS

1. Indian GAAP is different from us GAAP. Due to this it's become difficult to synchronizing the financial statement of two.
2. IFRS implementation brings change in new standard, due to this it's become complex for users to how to finalize the old and new accounting data.
3. When preparing financial statement by the use of IFRS old and new standard seems confusing.
4. In India there is no separate committee for implementation, follow up and feedback process of IFRS.
5. Lack of proper training and guidance program in India, postponed the process of IFRS implementation.
6. A new system always considers value of money, so that it becomes mandatory for companies to find out cost-benefit analysis.
7. Taxation system also impact after implementation process of IFRS in India.
8. As we know GAAP and regulatory body of each country has different set of rules so that it is a biggest hurdle of companies to adopt uniform accounting standard for whole world.
9. IFRS simply a principal set by IASC but it not provide detailed rules to follow up.

10. IFRS mainly focuses on presenting its financial statement and focus is very less on the users of accounting standard.
11. One of the biggest threats of adopting IFRS is mandatory adaptation of uniform standard for each country business but it reduce the competition from the market and without competition there is threat of monopoly.
12. Lack of awareness between users about the international financial reporting practices.
13. IFRS uses fair value and market value as measurement base before it asset valued as per book value due to this financial statement of any company impact significantly.
14. Lack of proper data (primarily and secondary) impact the effective implementation of IFRS process.
15. For comparison purpose IFRS need to covert historical data into market value due to this IFRS become more subjective.
16. Coordination with different countries for IFRS implementation is a challenging.
17. Stick rules effect hedge accounting process in all over the world.
18. Lack of proper resources also effects the IFRS implementation successfully.

BENEFICIARIES FROM THE CONVERGENCE

1. IFRS provides better financial information for the shareholders and regulatory system.
2. IFRS enhance global ability and improve transparency of results.
3. With the use of IFRS users can increase ability to secure cross boarder listing.
4. With the help of IFRS one can improve management of global operations and better access the capital market.
5. IFRS eliminates of multiple reporting, likewise Tata, Birla and Ambani firstly register in India and then outside India before implementing IFRS system.
6. IFRS facilitate global investment opportunities inbound and outbound and also reduced cost of capital.
7. Reduce barriers to enter global market and lowered the risk associated with dual filings of accounts.
8. IFRS provides new and enhanced services especially in the field of business process outsourcing (BPO) and professional services firms.
9. With the help of IFRS one can conduct once-only review of financial reporting and information system for control.
10. Uniform accounting standard enabled investors to understand investment opportunity as against two different set of national accounting standard.
11. With the help of IFRS corporate and investors would know it's true worth because fair valuation is mandated for many balance sheet items.

SIGNIFICANCE FINDINGS

The total assets under IFRS are more than the Indian accounting standards by 0.8% which shows that Indian accounting is more conservative. The most probable reasons are its fair value measurement, difference in the basis of interest capitalization, deferred tax asset recognition and difference in accounting for foreign currency forward contracts. It shows than the Indian accounting standards are conservative. The equity under IFRS has increased by 6% (approx.) when compared to Indian accounting standard. Minority interest are treated as part of equity and under IFRS 1 first time adoption, adjustments required to move from previous GAAP to IFRS should be recognized directly in retained or if appropriate another category of equity at the date of transition to IFRS.

From the above table and the graphical representation shows a drastic change in the past 2 years difference between the IGAAP and IFRS. Because, the data shows there is a high difference between IGAAP and IFRS in the years 2008-09 and 2009-10. But the last 2 years data shows less as well as similarity in the changes i.e., 0.8%. The reason because, the national standards are revising more similar with IFRS and also a new Schedule VI to the Companies Act has also been announced. The new Schedule takes into account all requirements of IFRS, particularly the distinction between current and non-current assets. This may be the reason why, the Wipro company's financial statement are more similar each other.

SCOPE FOR FURTHER RESEARCH

Further research shall be looked into measuring the country's growth, stakeholder's perspective and its outcome from the convergence of IFRS by using primary data. The study can be extended to know the effect of convergence on Insurance and Banking Sector

CONCLUSION

The overall result shows the return on equity, return on asset, total asset turnover and net profit ratio are not significantly affected by converging to IFRS but the leverage ratio shows significant change on converging with IFRS. There is an also significant change in the total equity and total liability position on convergence to IFRS, but not prominent changes in the total asset position. All these observations make us conclude that IFRS is fair value oriented and balance sheet oriented accounting where there are more transparent disclosures and Indian GAAP is conservative approach. The changes or transition helps in uniformity in the standards in all levels of sector worldwide.

The companies will find comfort in using accounting standards converged with IFRS if their accountants, auditors, shareholders and other stake holders along with the rating agencies and investment analysts are conversant with such new standards. It is true that during the transition period some problems may have to be faced by any of the aforesaid persons due to lack of adequate knowledge and experience. But such problems can be mitigated if the professional institutes and industry groups take initiative for imparting intensive training to the accounting and auditing professionals on the practical implications and applications.

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ANNEXURE

ANNEXURE 1: INTERNATIONAL FINANCIAL REPORTING STANDARDS IN ISSUE AT 30 JUNE 2012

IFRS1 (2008): First-time Adoption of International Financial Reporting Standards	IFRS 8: Operating Segments
IFRS 2: Share-based Payment	IFRS 9 (2010): Financial Instruments (as of now only partially completed)
IFRS 3 (2008): Business Combinations	IFRS 10: Consolidated Financial Statements
IFRS 4: Insurance Contracts	IFRS 11: Joint Arrangements
IFRS 5: Non-current Assets Held for Sale and Discontinued Operations	IFRS 12: Disclosure of Interests in Other Entities
IFRS 6: Explorations for and Evaluation of Mineral Resources	IFRS 13: Fair Value Measurement
IFRS 7: Financial Instruments: Disclosures	IFRS 14: Regulatory Deferral Accounts

ANNEXURE 2: THE INDIAN ACCOUNTING STANDARDS (INDAS) CONVERGED WITH IFRS

Ind-AS1 Presentation of Financial Statements	Ind-AS31 Interest in Joint Ventures
Ind-AS2 Inventories	Ind-AS32 Financial instruments – presentation
Ind-AS7 Statement of Cash Flows	Ind-AS33 Earning Per Share
Ind-AS8 Accounting Policies	Ind-AS34 Interim Financial Reporting
Ind-AS10 Events after the reporting period	Ind-AS36 Impairments of Assets
Ind-AS11 Construction Contracts	Ind-AS37 Provisions, contingent liabilities
Ind-AS12 Income taxes	Ind-AS38 Intangible Assets.
Ind-AS16 Property, plant and equipment	Ind-AS39 Financial Instruments - recognition and measurements.
Ind-AS17 Leases	Ind-AS40 Investment Property
Ind-AS18 Revenues	Ind-AS101 First time adoption of Indian AS.
Ind-AS19 Employee Benefits	Ind-AS102 Share Based Payment
Ind-AS20 Government Grants.	Ind-AS103 Business Combinations.
Ind-AS21 Effects of Changes in Forex	Ind-AS104 Insurance Contracts
Ind-AS23 Borrowing Costs	Ind-AS105 Non-current assets held for sale and discontinued operations
Ind-AS24 Related Party Disclosures	Ind-AS106 Exploration of mineral
Ind-AS27 Consolidated Financial Statements	Ind-AS107 Financial Instruments – Disclosures
Ind-AS28 Investment in Associates.	Ind-AS108 Operating Segments
Ind-AS29 Financial reporting on Hyperinflationary Economies.	

ANNEXURE 3: ROADMAP FOR COMPANIES OTHER THAN BANKING, INSURANCE COMPANIES

Phase	Companies covered	Opening balance sheet
Phase I	Companies that are part of NSE - Nifty 50 Index Companies that are part of BSE Sensex 30 Index Companies that have shares or other securities listed in overseas stock exchanges ; and Listed and Unlisted Companies with net worth in excess of Rs 1000 Crores	1 April; 2011, (First financial statements on 31st march 2012)
Phase II	Listed & Unlisted Companies with net worth in excess of Rs 500 Crores but not exceeding Rs. 1000 Crores.	1 April; 2013 (First financial statements on 31st mar 2014)
Phase III	Listed entities with net worth of Rs 500 Crores or less	1 April; 2014, (First financial statements on 31st March 2015)

ANNEXURE 4: OUTLINE FOR THE PREPARATION OF FINANCIAL STATEMENTS

IFRS financial statements consist of following:

1. Statement of financial position
2. Comprehensive income statement
3. Statement of changes in equity (SOCE) or a statement of recognized income or expense (SORIE)
4. Cash flow statement or statement of cash flows.
5. Notes (including summary of the significant accounting policies)

ANNEXURE 5: IFRS & INDIAN ACCOUNTING STANDARDS: A COMPARATIVE ANALYSIS*

Area	**IFRS**	**IGAAP**
First time adoption	Full retrospective application of IFRS to P&L and BS. Reconciliation of PL and BS in Respect of last year reported Numbers under previous GAAP.	No needs to prepare reconciliation on first time adoption
Components of Financial Statements	Comprises of Balance sheet, Profit and Loss A/c. Cash flow Statement, changes in Equity and accounting policy and notes to Accounts	Comprises of Balance sheet, P and L A/c. CFS (if applicable), and Notes to Accounts
Balance Sheet	No particular format, a current/ non-current presentation of Assets and liabilities is used.	As per Format Prescribed in Schedule VI for Companies, Adherence to Banking Regulation.
Income Statement	No particular format Prescribed (IAS-1)	As per Format Prescribed in Schedule VI (AS-1)
Cash Flow Statement	Mandatory for all entities (IAS-7)	Level 3 entities are exempted (AS-3)
Depreciation	Over the useful life of the asset. (IAS-16)	Over the useful life of the asset, or schedule xiv rates, whichever is higher (AS-10)
Dividends	Liability to be recognized in the Period when dividend is Declared. (IAS-10)	Recognized as an appropriation against the Profit, and recorded as liability at B/S date even if declared Subsequent to reporting period But before the approval of Financial statements (AS4)
Revaluation	Revaluation (if done) to be updated periodically so that carrying amount does not differ from fair value at the end period. Revaluation to be done for entire class of assets (IAS-16)	No specific requirement for Revaluation. Revaluation can be done on systematic basis like for one location leaving aside the assets of other location. (AS-10)
Change in the method of depreciation	Considered as a change in Accounting estimate. To Be Applied prospectively. (IAS-16 and IAS 8)	Change in Accounting policy, retrospective Computation and excess or deficit is adjusted in same Period. Required to be Disclosed (AS-6)
Earnings per share	Disclosure to be made in only consolidated financials of the Parent Co. (IAS-33)	Disclosure of EPS in both Consolidated and separate Financials. (AS-20)
Intangible assets	Intangible assets can have indefinite useful life and hence Such assets are tested for impairment and not amortized.	There is no concept of indefinite useful life. Assets have definite life.(usually 10 years)
Reporting currency	Profit using the functional Currency. Entities may, however, Present financial statements in a different currency. (IAS-21)	Schedule VI to the Companies Act, 1956 specifies Indian rupees as the reporting currency. (AS-11)
Uniform accounting policies	Prepared using uniform Accounting policies across all entities in a group. (IAS-27)	Policies may differ due to impracticability. (AS-21)
Disclosure of extra ordinary items	Prohibits such disclosure (IAS-1). No such term in IFRS	Disclosure to be made in Notes (AS-5)

Source: Tripati & Gupta (2011) adapted.

* Only financial statements related analysis has been made.

THE NEW LARR BILL, 2011 AND ITS CHALLENGES

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ABSTRACT

The draft Land Acquisition and Rehabilitation and Resettlement Bill, which was introduced in the LokSabha on September 7, 2011 is one of the most important legislations waiting for Parliamentary approval. In its present form, the bill is a major improvement over the extremely old Land Acquisition Act, 1894 that has created lots of difficulties over land acquisitions across the country. This new bill makes a genuine effort for a better land acquisition regime in the country by doing three things: combining both compensations, resettlement and rehabilitation (R&R) into a single bill; raising the prospects of better compensation and R&R for millions of land owners and other project stakeholders; and reposing some faith in participatory grassroots institutions such as Gram Sabha in the acquisition process. However, a number of loopholes in the bill need to be addressed. Otherwise, it will not respond adequately to the sensitive nature of India's land situation and instead, make the conflict more intractable by covering unchanged practices under a new law. This paper provides a brief comparison of the new bill with the present Land Acquisition Act, 1894, introducing the key features of the bill. It evaluates the monetary and non-monetary entitlements under the bill in this context. The study is presented in two parts. In the first part all the key features of the bill has been presented while in the second part a comparative study with Land Acquisition Act, 1894, has been made to find out the positive & negative aspects, benefits & effects and criticisms of the new bill.

KEYWORDS
Acquisition, Compensation, Displacement, Gram Sabha, Industrilisation, Landowners, Rehabilitation, Resettlement, SIA.

INTRODUCTION
Land Acquisition in India refers to the process of land acquisition by the central or state government of India for various infrastructure and economic growth initiatives. Land acquisition in India is currently practiced under the Land Acquisition Act, 1894. This policy sets down for land acquisition only for a 'public purpose'. In spite of the fact that some amendments were made in the policy in subsequent years, it has not been effective in feeding into the reality of the present. Though the SEZ Act 2005 has made some reference to acquisition of private land for industrial purposes, it is not capable of addressing the agony of the land losers. The expansion of the manufacturing sector and the stretching of the existing urban agglomerations including the growth of new urban centres has fuelled into the process of acquisition of land. In view of this, land is required not for a 'public purpose' but for multiplicity of public purposes.

Land acquisition causes involuntary displacement. The process of Land Acquisition in India has proved out to be poor in regard to growth of the country. The amount reimbursed is fairly low with regard to the current index of prices prevailing in the economy. Furthermore, due to the poor Human Capital of the displaced people they fail to get jobs and are a victim of several problems. Land acquisition by the government is beset with several issues. There issues include resettlement and rehabilitation, compensation for the loss of livelihood particularly of the weaker sections including that of schedules cast and scheduled tribes, thrashing of habitat, environment and rehabilitation and compensation for the loss of livelihood are to be addressed on a priority basis. Having felt the need for a comprehensive land acquisition policy, the Ministry of rural Development, Government of India has introduced the Draft land acquisition and rehabilitation & Resettlement Bill 2011. This Bill is a policy framework of the government to balance between land acquisitions for industrialisation with the concerns of those who depend on land for earning their livelihood. LARR 2011 seeks to repeal and replace India's Land Acquisition Act, 1894. LARR Bill 2011 aims to establish the law on land acquisition, as well as the rehabilitation and resettlement of those directly affected by the land acquisition in India.

The objective of this study is to bring out the true implications of the bill. In order to find out its effectiveness in comparison with the Land Acquisition Act 1894, a detail study of the new bill has been exercised. The study is presented in two parts. In the first part all the key features of the bill has been presented while in the second part a comparative study with Land Acquisition Act, 1894 has been made to find out the positive & negative aspects, benefits & effects and criticisms of the new bill.

REVIEW OF LITERATURE
Jojan et. al. (2012) explored that with its explicit linkage of acquisition and rehabilitation, incorporation of Social Impact Assessment (SIA), enhanced compensation and partial recognition of the importance of consent of the affected, the LARR Bill 2011 incorporates the lessons of subaltern experience with the LAA led-regime and promises to usher a new paradigm of land acquisition in India. It is undoubtedly a long overdue attempt to address the inadequacies of the Land Acquisition Act 1894. The Bill does concretely draw upon the subaltern experience of affected communities with the working of the existing LAA regime.

A study by Ghatak, M. and Ghosh, P. (2011) found the principal defect of the LARR Bill, 2011 is that it attaches an arbitrary mark-up to the historical market price to determine compensation amounts. This will guarantee neither social justice nor the efficient use of resources. The Bill also places unnecessary and severe conditions on land acquisition, such as restrictions on the use of multi-cropped land and insistence on public purpose, all of which are going to stifle the pace of development without promoting the interests of farmers. They have presented an alternative approach that will allow farmers to choose compensation in either land or cash, determine their own price instead of leaving it to the government's discretion, and also reallocate the remaining farmland in the most efficient manner.

According to Sahoo, N. (2011) the LARR Bill, 2011 in its current form is a major improvement over the 1894. By combining both compensation and rehabilitation, and resettlement into a single bill, the government has finally made some honest efforts to recognize the neglected aspects of land acquisition which are the key reasons for protests and opposition by farmers and other landowners across the country. Other additional features make the bill more holistic: equity participation; annuity; and most importantly, providing compensation and R&R benefits for other stakeholders who are dependent on land for their livelihood. Having reposed some faith in participatory grassroots institutions such as Gram Sabha and proposing a legal and institutional framework for dispute settlements, the bill provides for a better land acquisition regime in the country.

LAND ACQUISITION, REHABILITATION AND RESETTLEMENT BILL, 2011
The Land Acquisition, Rehabilitation and Resettlement Bill, 2011 was introduced in the LokSabha by the Minister for Rural Development on September 7, 2011. The bill will be central legislation in India for the Rehabilitation and Resettlement of families affected by land acquisitions. The Land Acquisition, Rehabilitation and Resettlement, 2011 Bill is also known as LARR Bill 2011. The Bill has 107 clauses. It is currently in public domain and India's parliament for review, as Bill number 77 of 2011.

NEED FOR THE BILL
The Government of India claims there is heightened public concern on land acquisition issues in India. Of particular concern is that despite many amendments, over the years, to India's Land Acquisition Act of 1894, there is an absence of a cohesive national law that addresses:
• Fair compensation when private land is acquired for public use, and

• Fair rehabilitation of land owners and those directly affected from loss of livelihoods.

The Government of India believes that a combined law is necessary, one that legally requires rehabilitation and resettlement necessarily and simultaneously follow government acquisition of land for public purposes.

POLICY OVERVIEW

Currently, there are 18 other laws of the Central Government for land acquisition (like for highways, SEZs, defence, railways etc.). The Draft Bill will enjoy primacy over other such specialised legislations that are now in force. The provisions of the Draft Bill will be in addition to and not in derogation of the existing safeguards being provided for in these laws. The draft Bill is fully compliant with the provisions of (i) PESA, 1996, (ii) Forest Rights Act, 2006 and (iii) Land Transfer Regulations in Schedule V (i.e., tribal) areas. The bill promises higher compensation to land owners and incorporates comprehensive rehabilitation package for even the landless people affected by takeovers. The draft has also introduced certain safeguards against forcible land acquisition for private companies. The draft bill proposes compensation six times the circle rates for rural land owners and twice the circle rate for urban land owners. The compensation package introduces a subsistence allowance of Rs 3,000 per month for a year and an inflation-indexed annuity of Rs 2,000 for 20 years for both land owners and those losing livelihood. The provisions of this Bill shall not apply to acquisitions under 16 existing legislations including the Special Economic Zones Act, 2005, the Atomic Energy Act, 1962, the Railways Act, 1989, etc. The Bill specifies provisions for land acquisition as well as R&R. Some of the major changes from the current provisions are related to (a) the process of land acquisition; (b) rights of the people displaced by the acquisition; (c) method of calculating compensation; and (d) requirement of R&R for all acquisitions.

PUBLIC PURPOSE

- Land may be acquired only for public purpose. The Bill defines public purpose to include: defence and national security; roads, railways, highways, and ports built by government and public sector enterprises; land for the project affected people; planned development; and improvement of village or urban sites and residential purposes for the poor and landless, government administered schemes or institutions, etc. This is broadly similar to the provisions of the 1894 Act.
- In certain cases consent of 80 per cent of the project affected people is required to be obtained. These include acquisition of land for (i) use by the government for purposes other than those mentioned above, and (ii) use by public-private partnerships, and (iii) use by private companies.

PROCESS OF LAND ACQUISITION

- The government shall conduct a Social Impact Assessment (SIA) study, in consultation with the Gram Sabha in rural areas (and with equivalent bodies in case of urban areas). After this, the SIA report shall be evaluated by an expert group. The expert group shall comprise two non-official social scientists, two experts on rehabilitation, and a technical expert on the subject relating to the project. The SIA report will be examined further by a committee to ensure that the proposal for land acquisition meets certain specified conditions.
- A preliminary notification indicating the intent to acquire land must be issued within 12 months from the date of evaluation of the SIA Report. Subsequently, the government shall conduct a survey to determine the extent of land to be acquired. Any objections to this process shall be heard by the Collector. Following this, if the government is satisfied that a particular piece of land must be acquired for public purpose, a declaration to acquire the land is made. Once this declaration is published, the government shall acquire the land. No transactions shall be permitted for the specified land from the date of the preliminary notification until the process of acquisition is completed.
- In case of urgency, the above provisions are not mandatory. The urgency clause may be used only for defence, national security, and in the event of a natural calamity. Before taking possession of land in such cases, 80 per cent of the compensation must be paid.

PROCESS OF REHABILITATION AND RESETTLEMENT

- The Bill requires R&R to be undertaken in case of every acquisition. Once the preliminary notification for acquisition is published, an Administrator shall be appointed. The Administrator shall conduct a survey and prepare the R&R scheme. This scheme shall then be discussed in the Gram Sabha in rural areas (equivalent bodies in case of urban areas). Any objections to the R&R scheme shall be heard by the Administrator. Subsequently, the Administrator shall prepare a report and submit it to the Collector. The Collector shall review the scheme and submit it to the Commissioner appointed for R&R. Once the Commissioner approves the R&R scheme, the government shall issue a declaration identifying the areas required for the purpose of R&R. The Administrator shall then be responsible for the execution of the scheme. The Commissioner shall supervise the implementation of the scheme.
- In case of acquisition of more than 100 acres, an R&R Committee shall be established to monitor the implementation of the scheme at the project level. In addition, a National Monitoring Committee is appointed at the central level to oversee the implementation of the R&R scheme for all projects.
- In case the land is being privately purchased (100 acres in rural areas and 50 acres in urban areas), an application must be filed with the Collector who shall forward this to the Commissioner for approval. After the application has been approved, the Collector shall issue awards as per the R&R scheme.

COMPENSATION FOR LAND

Clause 26 of LARR 2011 defines the method by which market value of the land shall be computed under the proposed law. Schedule I outlines the proposed minimum compensation based on a multiple of market value. Schedule II through VI outline the resettlement and rehabilitation entitlements to land owners and livelihood losers, which shall be in addition to the minimum compensation per Schedule I. Compensation for land is given in Schedule I, will be calculated by the following processes:

MARKET VALUE OF THE LAND

- the minimum land value, if any, specified in the Indian Stamp Act, 1899 for the registration of sale deeds in the area, where the land is situated; or
- the average of the sale price for similar type of land situated in the village or vicinity, ascertained from 50% of the sale deeds registered during the preceding three years, where higher price has been paid; or whichever is higher, provided that the market value so calculated shall be multiplied by three in rural areas.

VALUE OF THE ASSETS ATTACHED TO LAND

- Building/Trees/Wells/Crop etc. as valued by relevant government authority;

Total compensation = Market Value of the Land + Value of the Assets Attached to Land

REHABILITATION AND RESETTLEMENT ENTITLEMENTS

The R & R entitlements are given in Schedule II. These are discussed below.

FOR LAND OWNERS

- Subsistence allowance: Rs 3,000/month/family for 12 months.
- Annuity: Rs 2,000/month/family for 20 years, with appropriate index for inflation.
- Constructed house of plinth area: 150 sq.mt. of house site in rural areas or 50 sq.mt. plinth area in urban areas.
- 1 acre of land to each family in the command area, if land is acquired for an irrigation project.

- Rs 50,000 for transportation.
- Land acquired for urbanisation: 20% of the developed land will be reserved and offered to land owners, in proportion to their land acquired.
- Upon every transfer of land within 10 years of the date of acquisition, 20% of the appreciated value shall be shared with the original owner whose land has been acquired.
- Mandatory employment for one member per affected family or Rs 2 lakh if employment is not offered.
- Offer of shares up to 25% of the compensation amount.

FOR LIVELIHOOD LOSERS (INCLUDING LANDLESS)

- Subsistence allowance at Rs 3,000 per month per family for 12 months.
- Rs 2,000 per month per family as annuity for 20 years, with appropriate index for inflation.
- If homeless, a constructed house (plinth area) on 150 sq.mt. of house site in rural areas or 50 sq. mt. in urban area, provided free of cost.
- A one-time 'Resettlement Allowance' of Rs 50,000.
- Rs 50,000 for transportation.
- Mandatory employment for one member per affected family or Rs 2 lakh.

SPECIAL PROVISIONS FOR STs

- One acre of land to each ST family in every project.
- One-time financial assistance of `50,000 for ST families.
- ST families settled outside the district shall be entitled to an additional 25% R&R benefits (and a one-time payment of`50,000).
- Payment of 1/3 of the compensation amount at very outset to ST families.
- Preference in relocation and resettlement in area in same compact block.
- Free land for community and social gatherings.
- In case of displacement of 100 or more ST families, a Tribal Displacement Plan is to be prepared.

INFRASTRUCTURAL AMENITIES

Schedule III of LARR 2011 proposes additional amenities over and beyond those outlined above. Schedule III proposes that the land acquirer shall provide 25 additional services to families affected by the land acquisition. Some examples of the 25 additional services include schools, health centers, roads, safe drinking water, child support services, places of worship, burial and cremation grounds, post offices, fair price shops, and storage facilities.

RETURN OF UNUSED LAND

The draft has introduced an important provision of land to be returned to original owner if not used in five years for the purpose for which it is acquired, 1/4th of the award amount for the land acquired provided government can use land acquired for a department to some other department.

TRANSPARENCY PROVISIONS

- During Social Impact Assessment, Gram Sabha has to be consulted and Summary of SIA notified along with Draft Notification and the SIA document made available for public scrutiny.
- R&R Scheme summary notified along with draft declaration to be made available for public scrutiny.
- Individual Awards passed and public disclosure of all documents mandatorily to be made available in the public domain and on the website.

OTHER PROVISIONS

- A Land Acquisition and Rehabilitation and Resettlement Authority shall be established for settling any disputes relating to the process of acquisition, compensation, and R&R.
- There shall be no change of ownership of acquired land without prior permission from the government. Land may not be used for any purpose other than for which it is acquired.
- The government may temporarily occupy and use any piece of waste or arable land for a public purpose. This occupation may be for a period of not more than three years. The compensation of such land may be decided mutually by the owner of the land and the Collector. Any disagreement on matters relating to compensation or the condition of the land on being returned shall be referred to the Land Acquisition and R&R Authority.
- In any district, land acquisition will be restricted to a maximum of five per cent of irrigated multi-crop land.

COMPARISON BETWEEN THE 1894 ACT AND THE LARR BILL 2011

Issue	1894 Act	2011 Bill
Public Purpose	Includes several uses such as infrastructure, development and housing projects. Also includes use by companies under certain conditions.	No significant change.
Consent from affected people	No requirement.	Consent of 80 % of displaced people required in case of acquisition for private companies and public-private partnerships.
SIA	No provision.	SIA has to be undertaken in case of every acquisition
Compensation	Based on the market value.	Market value doubled in rural areas and not in urban area.
Market Value	Based on the current use of land. Explicitly prohibits using the intended use of land while computing market value.	Higher of: (a) value specified for stamp duty, and (b) average of the top 50% by recorded price of sale of land in the vicinity.
Solarium	30 %	100 %
Resale of land	No provision.	Prior permission of the government required.
Sharing of profit	No provision.	If the acquired land is unused and is transferred, 20% of the profits shall be shared with the original land owners.
R&R	No provision for R&R.	R&R necessary for all affected families. Minimum R&R entitlements to be provided to each affected family specified.

POSITIVE ASPECTS OF THE BILL

- For the first time, the government has brought together in law the related issues of land acquisition on the one hand and the rehabilitation and resettlement (R&R) of affected persons on the other. Until now, these two have been seen as separate.
- R&R to be mandatory when land is acquired. In fact, for areas of 100 acres or more, the Bill also mandates R&R when a private company secures land by direct purchase with the consent of sellers.

- To acquire land for private companies it requires that at least 80 per cent of the affected families give their consent to the acquisition, before the rest can be forced to part with their holdings.
- It Drive towards a national law to provide for the resettlement, rehabilitation and compensation towards loss of livelihoods. LA & RR Dispute settlement authority will be formed in the National and state level.
- Offer of various resettlement and rehabilitation benefits and monetary compensation for the land lost. Thus there are fair and adequate compensations for land losers.
- The policy providing 25 infrastructural amenities in the resettlement area which include Schools and playgrounds, Health Centres, Roads, electric connections and drainage, Irrigation and transportation facilities, Sanitation facilities, Assured sources of safe drinking water for each family and cattle, Anganwady, Places of worship and burial and/or cremation ground, Fair price shops and seed-cum-fertilizer storage facilities, Grazing land, One community centre for every 100 families etc.
- It compliance with laws like The Panchayats (Extension to the Scheduled Areas) Act, 1996, The Scheduled Tribes and Other Traditional Forest Dwellers (Recognition of Forest Rights) Act, 2006, Land Transfer Regulations in Schedule V Areas which ensure that the local Panchayat and the Tribal population have their say in matters regarding land acquisition.
- Return of land to original owner if not used in 5 years for the purpose for which it is acquired with one-fourth of the award amount for the land acquired.
- Multidisciplinary expert group to assess the SIA and public purpose, consisting of two non-official social scientists, two experts on rehabilitation and a technical expert related to the project.
- Collector of the district, where the acquisition of land is proposed, should explore the possibilities of utilising waste, degraded, barren lands and that the agricultural land, especially land under assured irrigation is being acquired only as a last resort.
- If a Notification is not issued within six months from the date of appraisal of the Social Impact Assessment report by the Expert Committee then the same shall be deemed to have lapsed and a fresh Social Impact Assessment will have to be undertaken.
- Whenever the Government intends to acquire land equal to or more than 100 acres for a public purpose, a Social Impact Assessment study shall be carried out in the affected area in consultation with the Gram Sabha at habitation level or equivalent body in urban areas. The important aspects of this provision are that Social Impact Assessment (SIA) is made mandatory where area to be acquired is equal to or greater than 100 acres; and the Chief Secretary of the Committee is to approve 'public purpose' and the SIA report.
- No notification shall be issued unless the concerned Gram Sabha at the village level and equivalent forum in Urban Local Bodies, as the case may be, or Autonomous Councils in the Sixth Schedule Areas have been consulted in all cases of land acquisition.
- In an attempt to offset the grievances of vast majority of public, the LARR Bill offered higher rate of compensation and a limited RR scheme. Instead of present rate of 130% of market value (1894 Act), it recommended for 400% and 200% of market value in rural and urban areas respectively. If a company develops project in piecemeal manner, each involving less than the specified limit of 100/ 50 acres of land, it will not require taking responsibility of RR package.

NEGATIVE ASPECTS OF THE BILL

- The logic that consent of 80 per cent of the affected families is required only in the case of acquisition carried out for private companies is difficult to follow. But the same principle will not be followed for acquisition by the Government.
- The whole thrust of resettlement is on payment of cash. Land-for-land provision is made only in case of land acquisition for irrigation projects, and here also the minimum allotment is of only one acre.
- A private company that acquires or purchases more than 50 acres of land in urban areas or 100 acres in rural areas is required to rehabilitate and resettle affected families. This threshold can be circumvented by a private company by purchasing multiple parcels of land, each under the prescribed limit, through other entities.
- The idea of keeping high price for as compensation is to discourage builders and industry coming to government for small pieces of land. Whilst it might be fair to the person who loses the land, it will add to cost of/in the extra cost may be reasonably absorbable because earlier, land cost use to be around 3-5% of a project cost. Now it may go up to 10-15% of a project cost.
- There can be only smaller developments, which means that you will have may be less than 50 acres or less than 100 acres development, which will defeat the purpose of planned urbanisation.
- There is no minimum threshold for the land to be acquired. This could lead to delays in the implementation of various government welfare schemes which may be small in nature.
- In the case of acquisition of land for the purpose of railways, highways, ports, power, irrigation projects, etc., requirement of consent from project affected people is applicable only to private companies and not to PSUs. This may lead to a situation where two companies wanting to make an acquisition for the same project will have to fulfill different conditions on the basis of the nature of their ownership.
- Compensation shall be calculated on the basis of the market value of land and the value of assets attached to the land. The market value of land is determined by taking into account the higher of: (i) the minimum land value in the Indian Stamp Act, 1899 or (ii) the average of the top 50 per cent of the reported sale price during the preceding three years for similar type of land in vicinity. In the case of land in rural areas, the value of land determined by this method is further doubled. However, this may not provide an accurate estimation of the value of the land.
- Under the Bill, the government may temporarily acquire waste and arable land for a maximum period of three years. But there are no R & R provisions for temporary acquisition of land and it does not provide any guidelines for computing the compensation in such cases.
- The effects of LARR Bill 2011, in certain cases, will apply retroactively to pending and incomplete projects. The Bill exempts land acquisition for all linear projects such as highways, irrigation canals, railways, ports and others.

BENEFITS AND EFFECTS OF THE BILL

- The 2011 LARR Bill, if enacted into law, is expected to affect rural families in India whose primary livelihood is derived from farms. The Bill will also affect urban households in India whose land or property is acquired.
- According to Government of India, the contribution of agriculture to Indian economy's gross domestic product has been steadily dropping with every decade since its independence. As of 2009, about 15.7% of India's GDP is derived from agriculture. LARR Bill 2011 will mandate higher payments for land as well as guaranteed entitlements from India's non-agriculture-derived GDP to the people supported by agriculture-derived GDP. It is expected that the Bill will directly affect 132 million hectares (326 million acres) of rural land in India, over 100 million land owners, with an average land holding of about 3 acres per land owner.
- LARR Bill 2011 proposes to compensate rural households - both land owners and livelihood losers. The Bill goes beyond compensation; it mandates guaranteed series of entitlements to rural households affected. According to a July 2011 report from the Government of India, the average rural household per capita income in 2010 was Rs. 928 per month. For a typical rural household that owns the average of 3 acres of land, the LARR 2011 Bill will replace the loss of annual average per capita income of Rs. 11,136 for the rural household.

CRITICISMS OF THE BILL

The proposed Bill, LARR 2011, is being criticised on a number of fronts:

- It is heavily loaded in favour of land owners and ignores the needs of poor Indians who need affordable housing, impoverished families who need affordable hospitals, schools, employment opportunities and infrastructure. For example, ASSOCHAM, the Indian organization that represents the interests of trade and commerce in India, with over 200,000 small business and large corporate members, claims that LARR 2011 in its current version prevents a conducive environment for economic growth.
- LARR 2011 as proposed severely curtails free market transactions between willing sellers and willing buyers. For example, DLF Limited - India's largest real estate developer - claims that the current bill may limit private companies such as DLF from developing affordable housing for millions of Indians. DLF suggests that direct land transactions with owners on a willing voluntary basis, at market-determined rate, should be kept out of the purview of the bill. There should be no conditions imposed on free market transactions between willing sellers and willing buyers.
- An article in The Wall Street Journal claims that the proposed LARR 2011 rules will apply even when any private company acquires 100 acres of land or more. For context, POSCO India seeks about 4000 acres for its US$ 12 billion proposed steel manufacturing plant in the Indian state of Odisha. In most cases, even small companies planning US$10-US$300 million investment, seeking 100 or more acres will be affected by the compensation plus rehabilitation effort and expenses of LARR 2011. The WSJ article further claims that the proposed LARR 2011 bill doesn't actually define the word "acquisition," and leaves open a loophole that could allow government agencies to continue banking land indefinitely.
- The Observer Research Foundation's N. Sahoo argues that the bill fails to adequately define "public purpose". The current definition, he claims, can be interpreted vaguely. In leaving public purpose too vague and porous, it would ensure that land acquisition will remain hostage to politics and all kinds of disputes. More clarity is needed, perhaps with the option that each state have the right to hold a referendum, whereby the voters in the state can vote to approve or disapprove proposed public purpose land acquisitions through the referendum, as is done through local elections in the United States for certain public acquisition of private or agricultural land.
- The Confederation of Real Estate Developers Association of India claims that the proposed LARR 2011 bill is kind of one-sided, its ill-thought-out entitlements may sound very altruistic and pro-poor, but these are unsustainable and will kill the goose that lays the golden egg. This group further claims that if the bill passed, will increase the cost of acquisition of land to unrealistic level. It will be almost impossible to acquire 50-acre or 100-acre land at one place for planned development. .
- Two, a large section of policymakers, economists and NGOs have argued for adequate, just and fair compensation for a long time. They propose that there should be an elaborate set of calculations to make compensation fair both in terms of the amount of compensation to be provided and the recognition of a wide range of claimants, e g, to compensate monetarily, to provide alternative assets (e g, land for land), or equity in the company, not only to the landowners, but all other people directly dependent on the land in question –landless labourers, sharecroppers, shepherds, and so on. In other words, an expanded social costing is proposed to be conducted. The Bill argues for such an exercise of expanded social costing and scientific method for calculation of the market.

RECOMMENDATIONS

- There must be less and less acquisition of agricultural and cultivated land.
- In cases of land use change for private companies, the onus for establishing public purpose should be on them.
- The loss of common property resources should also be compensated. In urban areas, there should be explicit provisions barring any insistence on cutoff dates and legality of residence and use of land.
- Compensation and price for takeover of individual lands should be based on the future and not on present land use. It should be calculated based on the highest sale for similar lands in adjacent areas, multiplied by a factor of ten in rural areas and six in urban areas.
- Alternate land of equivalent quality in the close vicinity must be granted to all persons who are affected by such acquisition.

CONCLUSION

Despite drawbacks and criticisms the Land Acquisition, Rehabilitation and Resettlement Bill, 2011 is undoubtedly more equitable and it is a good attempt to overdue the inadequacies of the Land Acquisition Act 1894. With special emphasis made on partial recognition of the affected people, role of Gram Sabha, incorporation of SIA, enhanced compensation, and most importantly its attempted linkage between acquisition and rehabilitation and resettlement promises enacted in this bill would prove to be more effective and its applicability would help not only the landowners but also all the tenants and agricultural labourers dependent on the land.

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HUMAN RESOURCE ACCOUNTING: RECOGNITION AND DISCLOSURE OF ACCOUNTING METHODS & TECHNIQUES

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ABSTRACT

Human Resource Accounting (HRA) is a new approach in evaluating human resources that represents the current status of human resources valuation concept and recognition. Human resources accounting strives to quantify the intangible qualities that individuals bring to a business. It is an attempt to identify, quantify and report investment made in Human resources of an organization. While recognized human as a business asset or a capital has proven problematic for accountants and economists to evaluate. A clearer understanding of this area of accounting is essential for businesses become increasingly dependent on the knowledge and capabilities of employees in their foot step. This paper attempts to place a broad view on the problems of HRA implementation, a conceptual framework and their pros and cons. Such is the implementation of HRA for problems as disparate as economic efficiency, organizational effectiveness, and social effectiveness measurements.

KEYWORDS
human resources, management, accounting treatments, human resources capital.

I. INTRODUCTION

Human Resource Accounting (HRA) is a new branch of accounting. It follows the traditional concept that all expenditure on human capital formation is taken as a charge against the revenue of the period as it does not create any physical asset. Modern view is that cost incurred on any asset as human resources need to be capitalized as it provides benefits measureable in monetary terms. Measurement of cost and value of the people to organizations is highly important, costs incurred in recruitment, selection, hiring, training and development of employees along with there economic values are very much relevant for Human Resource Accounting. American Accounting society on HRA defines HRA as follows:

- It is the process of identifying, measuring data about human resources and communicating this information to interested parties.
- That HRA is the measurement and quantification of human organizational inputs like recruiting, training, experience and communications.
- It is the art of valuing, recording and presenting the work of all human resources in accounts of an Organization.
- It is an information system towards the changes in human resources of an organization.

II. OBJECTIVES OF HRA

The major objectives of HRA are as follows:

a) Identification of human resource value.
b) Measurement of the cost and value of people to organizations.
c) Investigation of the cognitive and behavioral impact of such information.

III. OBJECTIVES OF THE STUDY

I. To review the available models of HRA and focus their appropriateness.
II. To highlight the major characteristics of HRA along with the practical difficulties in implementations.
III. To understand the needs and significance of HRA in the context of business performance measurement.
IV. To provide suggestions for developing such accounting practices in our business enterprises.

V. REVIEW OF LITERATURE

"Is it time to disclose information about human capital investments?" Firms' investments in training their employees constitute a substantial part of the overall investments for an average firm. Despite difficulties in accessing companybased data on training, recent research has shown that these investments generate considerable gains for firms in terms of increased productivity and profitability. The absence of reliable, standardized information on training appears to hamper the ability of investors to stay informed about these investments. It is therefore argued from the current state of research that it might be time for mandatory disclosure of employee training in order to achieve a better allocation of resources in the capital market. Reliable information on company training might
not only benefit investors but also lead to a labor market that functions better. Training investments comprise a considerable amount of the overall investments for an average firm. Research in labor economics has shown that firms invest in training whether the training is useful to other (competing) firms or not. From the labor economic literature, we also know that part of the returns to training investments is captured by the employees. Despite difficulties in linking training with company performance measures, several recent studies have shown that these investments produce significant future gains for firms. The current state of sporadic and unregulated reporting of training investments makes it almost impossible for investors to stay informed about these investments. This deficiency is illustrated by the study of Bassi et al. (2004) in which training investments predict future stock returns. The mispricing of stocks reported in this study suggests that, because of lack of
standards, investors are not able to penetrate information about training investments. This result further suggests that capital needed for training investments with above average returns is incorrectly allocated by the market. The allocation problem might not only be confined to capital markets; but maybe more importantly, the lack of information about training might also distort the allocation of human capital in the labor market. Individuals interested in continuously upgrading their human capital stock are not assisted to make an informed employment decision by the lack of information about these investments. The lack of reliable standardized information on training investments calls for accounting regulations supervising the disclosure of these investments. Reliable information

on training investments can be achieved within the boundaries of the traditional accounting system, but does not necessary need to be a part of assets on the balance sheet. The main point is that reliable and standardized information on training needs to be provided to investors in order to facilitate their investment decisions. Basically, this could be achieved within boundaries of a firm's income statement. In conclusion, the question posed in this study is whether it is time to disclose accounting information on human capital investments. From the perspective of classifying training as an investment and achieving a more efficient allocation of resources, the answer is in the affirmative.

Ravindra Tiwari4 authored an article on "Human Resource Accounting-A New Dimension". Human resource accounting (HRA) is an attempt to identify, quantify and report investment made in Human resources of an organization that are not presently accounted for under conventional accounting practice.

Businesses which require a considerable creativity or are science-based show a significant difference between market value and net book value. This difference is for intangible assets (including human skills). However the Human Resources are yet to get recognition in Balance Sheet. Businesses are not properly accounting for it in Books of Accounts .Auditor certifies in his report that balance sheet shows true position of business in spite of the fact that it is not showing the value of human resources .

Researches in this field have been slow and researchers are not able to develop a model which is free from major limitations. Major limitation of existing models is that they are not able to identify two effects on Human Capital creation which is back bone of accounting. In this article researchers proposed a model for valuation and accounting of Human resources. This proposed model is not altogether new model but it is an extension of Lev and Schwartz Model (L&S) because at one point it uses Lev & Schwartz Valuation principles, it also removes major weakness of L&S model such as it is able to account for Human Resource in balance-sheet.

The central problem in HRA is recognition time and procedure of recognizing human resources. In this aspect proposed model provides some reasonable basis for recognition time and methodology to recognize it in books of account. Apart from that there is performance evaluation part which boosts morale of employee to show extra performance than normal one.

This model also provides from Profit for unforeseen contingencies which protect company from unforeseen contingencies. This model does not discard Lev & Schwartz model but as a further step it provides The information concerning human assets is more entry for accounting for valuation of that model in books. In this model capital cost related to employees has been written over expected service life of employee which is one of the basic concepts of accounting. In this model whole of salary paid to employee has been charged in profit and loss A/C(Some part of it has been charged as depreciation/amortization of Human Asset, but this model is also having some limitations such as procedure for calculation can be cumbersome for each employee. While valuing human assets one should not lose sight of the fact that human beings are highly sensitive to external forces and human skills in an organization do not remain static. Skill formation, skill obsolescence or utilization may take a continuous process.

Human Resource Accounting Information of an organization is very important factor to decision makers in the era of knowledge based economy. As a result, each organization takes serious attempt to disclose its HRA information to insiders and outsider decision makers. In fact, it is becoming an integral part of management report. This study initiates to reveal the relationship between corporate attributes and HRAD of listed companies in Bangladesh. Its results shows that company size significantly associated with HRAI, which leads the conclusion that larger companies with higher market value discloses more HRA information than smaller companies. The possible reason for the result could be that large companies in DSE are motivated to disclose more HRA information in their annual report to uphold their market value. In addition, the results also find the financial companies are disclosing HRA information than non financial companies and company's profitability positively influences companies to report the information in their annual report. It indicates highly regulated financial companies are disclosing more HRA information than non-financial companies.

Human Resource Accounting (HRA) in recent years, has been receiving attention for two major reasons.

Firstly, developments in modern organization theory have made it clear that there is a genuine need for reliable and complete information which can be used in improving and evaluating the management of human resources.

Secondly, the traditional framework of accounting is in the process of being expanded to include a much broader set of measurements than was thought possible in the past. It is becoming increasingly recognized that survival and success of an organization in the present complex society depend largely upon the quality of the "human asset". Substantial differences exist in education, knowledge, ability and motivation among the individuals within the same organization and from organization to organization. Further the nature and extent of such relationships as cooperation, communication and conflict differ widely. As such, individual and group characteristics can strongly influence the efficiency and effectiveness of organizational performance. Evaluation of various human resource accounting methods and approaches is done through the following techniques;

- Approaches Based on Historical Costs;
- Economic and Current Value Approaches;
- Replacement Costs;
- Opportunity Costs;
- Efficiency Ratios and
- Expected Realizable Value

METHODS AND PROCEDURES FOLLOWED

The study is exploratory in nature based on extensive review of relevant studies done earlier and comparative pictures of the various aspects of HRA have been discussed to arrive at concluding remarks.

FINDINGS AND OBSERVATIONS

a) BENEFITS OF HRA

Labor is the father of wealth and it should be taken in to consideration in estimating wealth. Cost incurred on any human resources need to be capitalized as it gives benefits measurable in monetary terms. The major benefits of HRA are as follows

1. It develops effective managerial decision making.
2. It enhances the quality of management.
3. It prevents misuse of human resources.
4. It helps the efficient allocation of resources.
5. It increases human asset productivity.
6. It improves their morale, cooperation, job satisfaction and creativity.
7. It develops human efficiency.
8. It influences the individual behavior, attitude and thinking in desired direction.

B) CONSTRAINTS OF HRA

1. There is no specific guideline for measuring the cost and value of human resources.
2. Uncertainty of human resources creates uncertainty in its valuation in a realistic approach.
3. Sometimes discouraging attitude of human resources may frustrate them leading to low productivity.
4. While valuing the human assets, demand for rewards and compensation might be higher.
5. The nature of amortization to be followed is yet to be fixed up.
6. Tax laws do not recognize human assets and in that sense it might be theoretical only.
7. Several methods are available in valuing human resources but there is lack of their wide acceptance.

8. There is need for developing suitable methods for its valuation.

C) HR TREATMENT IN FINANCIAL ACCOUNTING PERSPECTIVE

1. Identify the asset's cost and estimate the period of amortization.
2. There is difference in opinion in calculating intangible assets, deferred charges in international accounting literature.

d) Managerial Accounting Perspective: There are good uses of acquisition costs and learning costs, substitution costs, opportunity costs and replacement costs, economic value models, standard cost method, competitive bidding method, non monetary measures etc.

e) Measurement of HRA: The approaches used for measuring HR are mainly cost approach and the economic value approach. The cost approach may be historical cost and replacement cost basis. The historical cost of human resources is the sacrifice that is made to acquire and develop the resource. Cost of recruiting, selection, hiring, placement and orientation etc. are included here. Salaries, time spent by the supervisors for induction and training are also included.

f) Human Resource Value Concepts: Practically two models of human resource value are prescribed one by flamholtz and other by likert and Bowers.

g) Flamhotz's Model : This model provides that a measure of individual value is created from the interaction of two variables like

1. The individual's expected conditional value
2. The probability that the individuals maintain membership in the organization. Conditional value is realized from the person's services. It comprises mainly three factors like productivity, transferability and promo ability. Person's skills, activation level are the major determinants, organization determinants are role of the individual and rewards, people expect from the firm.

h) Recording of Costs Related to Human Resources: It has already been pointed out earlier that (1) social cost (2) acquisition cost including costs of recruitment, hiring, selection and placement of employees,(3) orientation and on-the-job training costs, including salaries paid to the employees during their probationary period, (4) formal training development costs of employees, (5) separation costs of employees, (6) costs incurred for gravid female employees, (7) rewards for extra –ordinary performances and academic attainments and (8) extra –ordinary health costs needed to be “assetized” since the benefits from them are expected to be derived for more than one year.

CONCLUSIONS

Human resources are the energies, skills and knowledge of people which are applied to the production of goods or rendering useful services. It is the method of identifying and measuring data about human resources and communicating the information to interested persons. While valuing human resources, emphasis can be given on acquisition costs, substitution costs, opportunity costs, replacement costs, economic value models standard cost method, non monetary measures etc. As per accounting standards disclosure of human resource accounting information follows historical cost approach to human asset valuation but this fails to show current cost. This is why economic value approach is more relevant. Still true cost of capital for discounting the net cash flows related to human assets is also difficult to find out. As a result replacement cost valuation method and non monetary behavioral approach might be suitable for hair valuation of human resources of an organization. Our Companies Act 1994 does not provide for valuation of human resources. As result disclosure of such information has become voluntary to our business management. There is need to prescribe the specific provisions for valuing human resources and disclosing the details of investment in human assets in the form of training and development expenses, salaries and other allowances etc through annual reports.

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CORPORATE SOCIAL RESPONSIBILITY - A STEP TOWARDS VALUE CREATION: EVIDENCE FROM INDIAN COMPANIES

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ABSTRACT

Corporate Social Responsibility refers to the set of actions by the company towards various stakeholders such as employees, customers, suppliers and society at large. The very nature of Corporate Social Responsibility being voluntary raises an alarm as to does it has any role in value creation of the firm which provides motivation for the current paper. The objective of the current paper is to explain theoretically the benefits that the companies derive from adopting Corporate Social Responsibility and what challenges a company has to face in implementing Corporate Social Responsibility.

KEYWORDS

Corporate social responsibility, ESG (Environment Social Governance) India index, Value

JEL CLASSIFICATION CODE

M140

INTRODUCTION

Over the past few years, there has been a shift in the perception of role of the companies in the societal context in which it operates. Traditionally, corporates were meant to focus purely on economic considerations for success but over the years, there has been a revamping of the role of corporate by acknowledging their wider responsibility beyond economic considerations and encompassing their responsibility towards society and environment. As a result of this shift (from purely economic to 'economic with social dimension'), corporates are endorsing the term Corporate Social Responsibility (CSR) and making it an integral part of the corporate strategy.

Today, Corporate Social Responsibility has become a global concern where organisations are conscious of their activities and its impact on various stakeholders such as customers, employees, shareholders, communities and the environment in all aspects of their operations. It is one of the most important global issues with serious challenges and implications on almost all the sectors. Emerging economies, including India, are concerned with issues related to education, human rights, community welfare, women empowerment etc. and there is a need for a strategic initiative by corporates through CSR.

Corporate social responsibility (CSR) thus provides an intelligent way to combine economically viable development and social responsibility. Undertaking CSR initiatives is beyond any legal or contractual obligation and is purely voluntary in nature. Despite the fact that CSR is voluntary, companies are adopting it at an increasing rate. This endeavour of companies towards CSR raises inquisitiveness as incorporating CSR is helpful in value creation of the firm. Realizing the importance of undertaking socially challenged activities and at the same being economically viable, the rising concern of organizations is to find whether their enhanced social performances also enhances the value of the firm.

Different stakeholders have differing opinions on what it means to be 'socially responsible'. According to Friedman,(1970), the corporation is an economic institution and thus should specialise in the economic sphere. In his view business has only one social responsibility that is to maximise the profits of its owners (to protect their property rights). Organisations are seen purely as legal entities incapable of value decisions. A manager who uses a firm's resources for non-profit social purposes is thought to be diverting economic efficiency. He argues that ethical and discretionary considerations are irrelevant and decisions that include these factors may harm a firm's financial performance. On the other hand, amongst others, Davis (1973) opinies that , "the firm's consideration of, and response to, issues beyond the narrow economic, technical, and legal requirements of the firm is to accomplish social benefits along with the traditional economic gains which the firm seeks". Donaldson,1983 sees social responsibility as a contractual obligation firms have towards society as it is society that has permitted firms to use both natural and human resources and has given them the right to perform their productive functions and to attain their power status."As a result, society has a claim on the firm and the right to control it. According to Epstein, (1987), CSR may be considered as the "discernment of issues, expectations and claims on business organisations regarding the consequences of policies and behaviour on internal and external stakeholders. Levy, (1999) opinesthat corporate philanthropy and social initiatives are the heart and soul of business. He stresses that social endeavors must be consistent with business objectives for earning profit (heart) and must express the values of serving society (soul). McWilliams and Siegel, (2001) observes, CSR to be a set of actions that appear to further some social good, beyond the interests of the firm and that which is required by law.

Thus, there need not be a specific definition of CSR, but in whatever way it is defined, it definitely is beneficial for the company. In this respect, the current paper aims at highlighting how CSR activities move towards creating value for the firm. It is important to understand here is what value are we talking about?

Total value is a term that includes all forms of value that determine the health and well being of firm in the long run. Total value expands the concept of value of firm beyond economic value to include other forms of value such as employee value, customer value, supplier value, channel partner value, alliance partner value, managerial value and societal value.

The remainder of the paper is organised as follows. Section I and II focuses on stating the problem under consideration and significance of the study. Section III gives a brief review of literature related to the topic. Section IV details out various Indian Experiences with respect to CSR initiatives. Section V enumerates the benefits of CSR and Section VI highlights the challenges of incorporating CSR. Section VII minutiae information on ESG India Index and Section VIII concludes the paper.

STATEMENT OF PROBLEM

This paper will help to understand the meaning and significance of corporate social responsibility. What are the attractions for taking up CSR? Also highlighted in the paper is what are the initiatives taken up by Indian companies to understand what percentage of their earnings are spent on the CSR activities. The paper also talks about the criticism for CSR activities. And lastly, paper elaborates about the newly developed ESG index in 2008.

SIGNIFICANCE OF THE STUDY

The current paper by signaling that CSR is an important ingredient in value creation, is of utmost significance for diverse segments. First of all companies can be benefitted by this paper as they can use CSR strategically to enhance value. Second, it is of importance to the policy makers who can device a pro CSR policy which will not be anti shareholders and company as this paper stresses upon. Finally, paper is of help for other researchers and academicians.

REVIEW OF LITERATURE

Several studies have been conducted to find the relationship between corporate social responsibility and business performance both within India and overseas. Regarding the link between social responsibility and business performance, existing literature expresses varying, and at times contradictory findings on the subject.

Balbanis, 1998 investigated the relationship between CSR and economic performance of firms in terms of their:

- contemporaneous or subsequent economic performance; and
- past economic performance

This study focused on corporations that operated in the UK environment. In total 56 firms were included in the study. The main criteria for their selection was quotation on the London Stock Exchange and the availability of CSR ratings by the New Consumer Group (NCG) - a UK public-interest research organisation. The study covered more than 20 industry sectors. Each company was rated on 13 different aspects related to CSR. Measurement of economic performance included: financial (return on capital employed, return on equity and gross profit to sales ratios); and capital market performance (systematic risk and excess market valuation). The set of corporate social responsibility measures related to the period 1988-1989. Based on this period of time, economic performance data was divided into three periods: 1984-1987 (pre-assessment period); 1988-1989 (concurrent period); and 1990-1994 (post-assessment period). Findings of the study were a mixed bag. Regression analysis showed a quite strong relationship between disclosure and CSR performance. A chi square test showed that contributions to the Conservative Party were not statistically related to Economic League membership. T-test analysis failed to uncover any statistically significant ($p \leq 0.05$) differences between Conservative Party donors and non-donors, in terms of CSR disclosure or any of the CSR performance variables. One important point was the impact of CSR activities with a significant cost element. In particular environment care related activities assumed to have a higher cost - were found to be negatively related to subsequent financial performance (ROCE). On the other hand less costly CSR activities, like the enhancement of women's corporate position were found to have a positive but not instantly realisable effect on capital markets.

Verschoor, 1998 aimed at demonstrating a link between overall financial performance and code of ethics as an aspect of corporate governance. The objective of the analysis was to answer the question whether a mainstream emphasis on corporate social and ethical accountability is consistent with superior financial performance. The companies chosen for analysis were the largest 500 publicly held U.S. corporations in terms of sales or revenue as reported in the 1996 Business Week. The measure used to assess financial performance was a new ranking of large company performance, prepared by business week. BW ranked each company using eight financial measures: Total Return for 1 and 3 Years, Sales Growth for 1 and 3 years, Profit Growth for 1 and 3 Years, Net Margin, and Return on Equity. Companies were divided into two groups by differentiating those who make a public commitment to the use of ethical practices in dealing with their stakeholders as a corporate-wide strategy and those who did not. Statistical analysis showed that the mean financial performance rank of companies with a stated commitment to ethical behavior is higher by a statistically significant amount when compared with the mean rank of companies that either published no management report or did not make any reference to ethics. The study showed a statistically significant linkage between a management commitment to strong controls that emphasize ethical and socially responsible behavior on one hand and favorable corporate financial performance on the other.

McWilliams,.A, 2000 has discussed the correlation between CSR and R&D, and how to appropriately estimate the impact of CSR on financial performance. Investment in R&D, has been shown to be an important determinant of firm performance. Sample size constituted a total of 524 firms for which the data was used for the years 1991-1996.They hypothesized that R&D and CSP are positively correlated, since many aspects of CSR create a product innovation, a process innovation, or both. The firm constructed the Domini 400 Social Index (DSI 400), the functional equivalent of the Standard and Poor's 500 Index for socially responsible firms. Measure of CSP was taken as a dummy variable, with a value of 1 if a firm is included in the DSI 400 in a given year (for having passed the "social screen"); 0 otherwise.

The results confirmed the hypothesis regarding the importance of including R&D and industry factors in a model that attempts to "explain" corporate performance. When R&D and industry factors are excluded from the model, the coefficient on CSP is positive and statistically significant. However, when R&D and industry factors are added to the model, the magnitude of the coefficient diminishes dramatically and is no longer significant.

Van de Velde,2005 aimed at investigating the interaction between corporate social responsibility and financial performance. Can socially responsible investors, integrating environmental, social and ethical issues in their investment policy, expect the same return as traditional investors, was the research question to be answered. The period of investigation was from 1 January 2000 to the end of November 2003. To measure the sustainability of a company, Vigeo corporate social responsibility scores were used. Vigeo is an independent corporate social responsibility agency that screens European quoted companies on CSR. To measure the impact of corporate social responsibility on performance, four different portfolios were constructed based on the companies' total sustainability rating. Based on the sustainability ratings by the rating agency Vigeo, Fama and French approach was performed to adapt for style biases in the performances. The results indicated that, on a style-adjusted basis, high sustainability-rated portfolios have performed better than low-rated portfolios, but, probably due to the short horizon, not to a significant extent. The same results were found for four out of the five sub-ratings of which the sustainability rating is composed, suggesting that sustainability is a broad and multidimensional concept that cannot be attributed to one specific theme or topic. The results also indicated that investors are ready to pay a premium for companies with good management of their relations with shareholders, clients and suppliers.

Iamandi.I.E,(2007) emphasized on bringing a theoretical and practical evidence proving that CSR improves the business commercial and financial performance. As a case study, an international company – BRD (Romanian Development bank) was analyzed in the Romanian market that has increased its business performance by adopting different CSR measures. In order to analyze and quantify the social accountability of BRD, four main types of criteria i.e. community, diversity, employee relations and reporting was considered and them different weights were assigned according to the national and corporate culture considered. The data was gathered from Reuters and covers the 2001 – 2007 financial years. The financial performance was assessed both by accounting and market based measures. Besides accounting ratios, common stock returns was also considered as the performance measure.

In order to detect and examine causal relation between social and financial performance Granger causality tests were applied. The test addresses the issue of whether the current value of a variable y can be explained by past values of the same variable and then whether adding lagged values of another variable x improves the explanation of yt. As such, the variable y is said to be Granger-caused by x if the coefficients on the lagged values of x are found to be statistically significant. The results with respect to Granger tests showed that the results are statistically significant and a relationship could be established between social activities and financial performance.

Mittal, 2008 aimed at exploring some indicative measures of ethical commitment/corporate responsibility and then compare them against financial performance measures over a period of four years. In this way, the research was set out to investigate whether it can be shown that a commitment to business ethics does pay. For the research, three indicators were chosen - two of corporate financial performance (market value added, economic value added), and one of corporate social responsibility (having a code of ethics). The sample consisted of 50 companies taken from the S&P CNX Nifty for which full and comparable company data was available for the years 2001-2005. It was divided into two cohorts: those who had codes of ethics/conduct/principles listed in their annual reports and those who did not. . The study investigated the relationship between ethical commitment and financial performance, through statistical regression and correlation analysis. The results indicated, correlation of CSR with EVA over the five-year period had negative correlation in three out of five years and in two years when it showed positive correlation the figure was very low indicating insignificant correlation. Correlation of CSR with MVA indicated positive correlation but again the figure was very low to indicate any significant relationship.

Lin,C.H.(2009), aimed at examining companies in Taiwan to find out the relationship between CSR and firm performance. To measure the impact of CSR on financial performance, a sample of 33 companies was extracted from the top 1000 (by sales revenue) Taiwan-based companies as evaluated by Common Wealth Magazine. For each company, financial data was retrieved from the Taiwan Economic Journal Databank from January 2002 to December 2004. The study considered donations as an indicator of CSR concern in each business, and the donation ratio as a CSR proxy variable. Return on Assets (ROA) was taken as the short-term variable of corporate financial performance (CFP). For short term period i.e. a one year period, regression analyses were undertaken and for long term period, five financial indicators were measured : the Jensen measure, the amended Jensen measure, the Treynor measure, the Sharpe measure, and the MCV measure. Results showed that in the short run, it is not a case of ''the better a firm's CSR investments, the better its CFP.'' i.e. there was no significant relationship between CSR and financial performance. Findings suggested that even if positive CSR activities do not increase immediate profitability, they may be instrumental in reducing the risk of damage to brand evaluations in the long run.

Samy, M. 2010. The objective of this research was to see if business can be sustainable through the use of corporate social responsibility as a strategic tool for business sustainability and profitability. The study adopted a quantitative analysis and exploratory approach. It studied the CSR practices of 20 selected UK companies and its relationship with financial performance. The data was collected for a period of five years starting from 2002 to 2006. The analysis of CSR policies was based on the global reporting initiative (GRI) guidelines. The GRI reporting guidelines were measured according to the reports on the following headings that companies were required to disclose: economic; environmental; social; human rights; society; and product responsibility. The dependent variable i.e. financial performance was measured by taking five years earning per share ratio (EPS). In analyzing if there is a causal relationship between financial performance, i.e. average earnings per share and the corporate social responsibility (CSR) policies of 20 selected UK companies, a statistical calculation known as product moment correlation coefficient was undertaken. The findings indicated that there is a causal relationship between the EPS and CSR reporting. However, in analyzing the strength of the relationship, the findings indicated that it is weak. Thus, the findings in the study indicated that EPS which is influenced by stakeholders perception of corporations had an association with CSR reporting through the measure of GRI which further influences the perceptions of stakeholders.

Moneva, J.M. 2010 conducted a study to find the relationship between the degree of corporate environmental performance (CEP) and that of corporate financial performance (CFP). Environmental and financial performance of a sample of 230 European companies across 18 countries was studied. Data for the CEP indicators were collected from the year 2004, while those for CFP were collected from the 2005 to 2007 period. The multivariate approach was proposed for measuring CEP and CFP latent constructs which will minimize the bias of the incorrect exclusion of some variables for both the dimensions. Four CEP dimensions were identified, i.e. Environment dimension (ED), environmental management system (EMS), programs to reduce environmental impacts(PREI) and energy consumption (EC). Regarding indicators for measuring CFP, the most common reflective indicators were chosen for measuring the CFP factor: return on assets (ROA), profit margin, return on equity (ROE), as relative magnitudes, and cash-flow and operating profits as absolute magnitudes. A multidimensional perspective of the CEP and CFP dimensions was used by means of a partial least squares model (PLS). The findings suggested, companies that obtained better levels of CEP improved their internal efficiency and their CFP in the next periods. Furthermore, the link between CEP and CFP was significant in all the periods analysed, showing that it was a persistent effect and not based on short-term issues.

Mishra.S (2010) examined whether corporate social responsibility (CSR) towards primary stakeholders i.e. employees, customers, investors, environment, community and suppliers influences the financial and the non-financial performance (NFP) of Indian firms. Data on CSR and NFP was collected from 150 senior-level Indian managers including CEOs through questionnaire survey. Hard data on financial performance (FP) of the companies was obtained from secondary source i.e. Prowess database of CMIE. Data for each of 150 firms and each of 18 categories of industries was collected from theCMIE-Prowess database for 3 years from 2003– 2004 to 2005–2006. Listing in stock exchanges, type of ownership, and firm size were the control variables. Data on stocklisting status, ownership type, and annual sales were obtained from the CMIE-Prowess database. Data on number of employees was obtained from the respondents. Karl Pearson correlation and hierarchical regression analysis was used to test the hypotheses. Findings suggested that first, listed firms had better CSR and FP than non-listed ones. Second, controlling the confounding effects, both the aggregate and segregate measures of CSR predicted FP and NFP of firms but CSR influenced the NFP of firms more potently compared to FP of firms.

Thus, on one hand there are studies (Moscowitz(1972),Verschoor,(1998), McWilliams,.A(2000),Iamandi.I.E,(2007), Lin,C.H.(2009)) which saythat socially responsible corporations obtain internal benefits that influence business performance i.e. confirming a positive correlation between corporate social responsibility and business performance. On the other hand, certain researches (Friedman,(1970) , Ullmann,(1985), McGuire.,(1988)), concluded that there is an adverse relationship between CSR and business performance due to the additional costs associated with high investments in social responsibility. Some of the studies (Aupperle., (1985)) havenegated the presence of any correlation between the Corporate social responsibility and business performance. Findings of the previous studies have been inconclusive about the relationship between the two variables i.e. corporate social responsibility and business performance, whether it remains negative, positive or unrelated.

THE INDIAN EXPERIENCE

The Indian business has traditionally been socially responsible, but the subject of corporate social responsibility has evolved during last about seven decades from simple philanthropic activities to integrating the interest of the business with that of the communities in which business operates. (Ministry of Corporate Affairs, Government of India, 2009).Corporate social responsibility as represented by the contributions undertaken by companies to society through its core business activities, its social investment and philanthropy programmes and its engagement in public policy, in recent years it has become a fundamental business practice and has gained much attention from chief executives, chairmen, boards of directors and executive management teams.

They understand that a strong CSR program is an essential element in achieving good business practices and effective leadership. Companies have determined that their impact on the economic, social and environmental landscape directly affects their relationships with stakeholders, in particular investors, employees, customers, business partners, governments and communities. The concept of corporate social responsibility in large industrial groups has occupied a prominent place in their policy making and strategic decision making. Corporates like Tata Group, ITC, Indian Oil Corporation, to name a few, have been involved in serving the community ever since their inception. Today, CSR in India has gone beyond merely charity and donations, rather it is considered as an integral part of corporate decision making. In today's corporate era companies have CSR teams that device specific policies, strategies, goals and budgets for their round the year CSR programs.

Practices followed by Indian Companies related to CSR are as follows:

1. ONGC and Indian Oil Corporation has been spending 0.75-1 % of their net profits on CSR activities. In 2007-08 Rs. 246.70 crores was spent by oil PSUs on CSR activities. ONGC‟s CSR projects focus on higher education, grant of scholarship and aid to deserving young pupils of less privileged sections of society, facilities for constructing schools etc.
2. SAIL has taken successful actions in environment conservation, health and medical care, education, women upliftment.
3. BHEL & Indian Airlines have been acclaimed for disaster management efforts. BHEL has also adopted 56 villages having nearly 80,000 inhabitants.
4. ITC is the only company in the world of its size to be `Carbon positive' (sequestering nearly twice as much carbon dioxide than it emits, through extensive forestry programmes covering over 77,000 hectares), `water positive' (harvesting four times more rainwater than its net consumption, in the process irrigating 30,000 hectares) and close to zero solid waste discharge. Its businesses generate livelihoods for 5 million people.
5. Reliance Industries initiated a project named as " Project- Drishti" to bring back the eyesight of visually challenged Indians from the economically weaker sections of the society. This project has brightened up the lives of over 5000 people so far.
6. Mahindra & Mahindra launched a unique kind of ESOPs- Employee Social Option in order to enable Mahindra employees to involve themselves in socially responsible activities of their choice.

7. GlaxoSmithKline Pharmaceutical's CSR programs primarily focus on health and healthy living. They work in tribal villages where they provide medical check-up and treatment, health camps and health awareness programs. They also provide money, medicines and equipment to non-profit organizations that work towards improving health and education in under-served communities.
8. Bajaj Electricals Ltd corporate social responsibility activities include providing education, Rural Development & Environment.

BENEFITS FROM SOCIETAL CONCERN

Organizations irrespective of size are rapidly discovering that Corporate Social responsibility (CSR) and sustainable business practices can foster improved green programs and overall environmental stewardship. Increasing awareness and active participation by the business professionals in the development and implementation of CSR policies has proven to yield a positive return on investment (ROI).

Following are the directions in which CSR benefits the company and community:

1. CUSTOMER PERSPECTIVE: BRAND IMAGE AND CUSTOMER LOYALTY

The most significant business benefit of CSR is the positive effect it can have on brand image and customer loyalty of an enterprise.. If a company is known to be socially responsible and ethical, and if it markets itself as such, then it will be well positioned in a competitive market. Consumers being a part of the society and one of the major stakeholders of the company are becoming more and more interested in supporting companies who are seen to be 'doing the right thing'.

2. INVESTOR PERSPECTIVE: ACCESS TO CAPITAL; SOCIALLY RESPONSIBLE INVESTING

Increasingly, investors are becoming more and more interested in the CSR policies of the companies they invest in, particularly in issues relating to the environment and human rights. A good CSR policy will attract investors who will on principle no longer invest in companies who do not have a good reputation for CSR. This means that socially responsible companies will have access to a larger capital base.

3. COMMUNITY PERSPECTIVE: GOODWILL AND REPUTATION BUILDING

Another important business benefit attached to CSRis based on public perception. A socially responsible company monitors and takes responsibility for its own actions. It strives to minimize its impact on the environment. It deals with all of its stakeholders fairly. It contributes to the greater good of society through giving and volunteering programs. If the public, the media, the governments and the regulators see that all these things are genuinely happening, then the company will be building itself a reputation that will be enough to carry it through any potential turmoil.

CSR IN INDIA - CHALLENGES

CSR has come a long way in India. From responsive activities to sustainable initiatives, companies have clearly exhibited their ability to make a significant difference in the society and improve the overall quality of life. Today, CSR in India has gone beyond merely charity and donations, rather it is considered as an integral part of corporate decision making. In today's corporate era companies have CSR teams that device specific policies, strategies, goals and budgets for their round the year CSR programs. Nearly all leading corporate in India are involved in corporate social responsibility (CSR) programs in areas like education, health, livelihood creation, skill development, and empowerment of weaker sections of the society. Notable efforts have come from the Tata Group, Infosys, Bharti Enterprises, ITC Welcome group, Indian Oil Corporation among others. Despite these rapid advances, implementation of Corporate Social Responsibility in India has been facing numerous problems like lack of transparency, absence of well-defined CSR norms, narrow perception of government towards CSR, lack of community participation in CSR activities, low awareness level, lack of consensus for implementing CSR issues etc. In short, the challenges before CSR in India have been many-fold. Few of these challenges are listed below:

1. Non-availability of clear CSR guidelines: There are no clear cut statutory guidelines or policy directives to give a definitive direction to CSR initiatives of companies. It is found that the scale of CSR initiatives of companies should depend upon their business size and profile. In other words, the bigger the company, the larger should be its CSR programme.
2. Lack of consensus on implementing CSR issues: There is a lack of consensus amongst local agencies regarding CSR projects. This lack of consensus often results in duplication of activities by corporate houses in areas of their intervention. This results in a competitive spirit between local implementing agencies rather than building collaborative approaches on issues. This factor limits company's abilities to undertake impact assessment of their initiatives from time to time.
3. Lack of motivation: The biggest challenge for companies to undertake CSR activities is to justify their socially responsible behavior viz a viz their role as a shareholder's value creator. CSR in its true sense does not provide any explicit motivation for the companies to undertake it with great interest.
4. CSR as a means and not an end: The biggest challenge for effectiveness of CSR is the lack of its entirety. It is often used by the companies to achieve some hidden agenda. It is observed that CSR is generally used to score better on firms' reputation and enhance brand value. Very few firms really use their core competence to benefit the community in real sense. (Karmayog, 2007).
5. Lack of transparency: Lack of transparency is one of the key issues in effective implementation of CSR. There is an expression by the companies that there exists lack of transparency on the part of the local implementing agencies as they do not make adequate efforts to disclose information on their programmes, audit issues, impact assessment and utilisation of funds. This negatively impacts the process of trust building between companies and local communities, which is key to the success of any CSR initiative at the local level.
6. Narrow perception towards CSR initiatives: Non-governmental organisations and Government agencies usually possess a narrow outlook towards the CSR initiatives of companies, often defining CSR initiatives more as donor-driven. The companies lack in terms of integrating CSR with their strategic goals.

S&P ESG (ENVIRONMENT, SOCIAL &GOVERNANCE) INDIA INDEX

The integration of ESG issues into the financial markets in India is picking up and efforts are being done to distinguish the organizations which are depicting high level of commitment towards Socially responsible initiatives. The stock exchanges, regulators and other enablers have taken some crucial steps but the enabling environment continues to remain weak. The country had its first sustainability indicator in 2008 - the IFC-sponsored S&P ESG India Index

The ESG India Index launched in 1998 by Standard and Poor, CRISIL and KLD Research & Analytics comprising 50 companies, is the first investible index of companies whose business strategies and performance demonstrate a high level of commitment to meeting environmental, social and governance standards. The index is a pioneering initiative to measure environmental, social, and corporate governance practices based on quantitative as opposed to subjective factors. The index provides investors with exposure to a liquid and tradable index of 50 of the best performing stocks in the Indian market as measured by environmental, social, and governance parameters.

These 50 companies are drawn from the largest 500 companies listed on the National Stock Exchange of India through a two-stage screening process viz. qualitative and quantitative criteria. The performance on ESG parameters assures investors that their portfolio is consciously balancing the interests of all stakeholders and, thereby, creating a platform for strong long-term performance.

METHODOLOGY

The index employs a unique and innovative methodology that quantifies a company's ESG practices and translates them into a scoring system which is then used to rank each company against their peers in the Indian market.

The creation of the index involves a two step process, the first of which uses a multi-layered approach to determine an 'ESG' score for each company. The second step determines the weighting of the index by score. Index constituents are derived from the top 500 Indian companies by total market capitalization that are listed on National Stock Exchange of India Ltd. (NSE).This universe of stocks is then subjected to a screening process which yields a score based on a company's ESG disclosure practices in the public domain. Following table shows the top 10 sustainable companies prioritised according to the index weight.

TOP 10 COMPANIES ACCORDING TO WEIGHT

COMPANY	INDEX WEIGHT	MARKETCAPITALISATION(INRBILLION)
Mahindra& Mahindra ltd.	2.70%	14827.91
Wipro ltd.	2.67%	14664.40
Infosys ltd.	2.51	13752.58
Hcl Technologies ltd.	2.44	13390.04
ITC ltd.	2.44	13375.40
TCS Ltd.	2.40	13190.80
Tata chemicals ltd.	2.27	12440.46
Dr. Reddy's Lab ltd.	2.26	12427.22
Larsen and Toubro ltd	2.25	12355.94
ACCltd	2.15	11916.72

Source: www.nseindia.com

CONCLUSION

Traditionalists see CSR as a potential distraction and loss of focus from fiduciary duty to the company and its shareholders. Yet, companies now in this camp advocated the needto focus on its broader social role and engage in philanthropic activities. The concept of corporate social responsibility is now universally acknowledged as the need of an hour. Across the globe, measures are taken by the organisations to add their contribution to the society. In India, though CSR is nothing new but to convert theoretical intention into concrete action, still many obstacles need to be overcome. The companies though are taking it up voluntarily but known to them is the fact that their interest lies in building up value of the business. Corporate Social Responsibility initiatives by the company brings a lot of benefits to the company which may not be realised in tangible terms but can be appreciated in terms of having an impact on value enhancement of the company. Looking at the benefit of CSR to the society or other stakeholder as the case may be is only one side of the coin. in this social benefit endevaour companies are also benefitted in terms of customer loyality, brand buliding, and giving company a competative edge. However, lack of transperancy and no set of guidelines is a major issue.

The spent by the companies on CSR activities have increased many fold over the years companies strategic initiative towards society through CSR activities is one of the ways to increase value of the firm. There is a need therefore to have a set of guidelines for the CSR activities.

The newly developed ESG Index helps highly socially active companies to increase its value. A study conducted revealed that companies with ESG Score more than 55 were more stable and the firm's value and ESG Score were positively related. There is a threshold beyond which firm's value increases with increase in CG score and investors assign a premium on the firm value when the CG score crosses this threshold.

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ECONOMIC GROWTH AND CONVERGENCE ACROSS THE OIC COUNTRIES

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ABSTRACT
The main purpose of this study is to analyze whether the Organization of Islamic Cooperation (OIC) countries show a regional economic convergence during the last three decade. Following the other leading studies in the literature, income convergence in the OIC countries is estimated by using the following two methods: (i) absolute income convergence; (ii) conditional income convergence. As an extension, the determinants of growth across the countries are also examined. For a given starting level of real per capita GDP, the growth rate is enhanced by higher schooling and investment rate, better maintenance of the rule of law, lower fertility and improvements in the terms of trade. For given values of these and other variables, growth is adversely related to the initial level of real per capita GDP.

KEYWORDS
Convergence, economic growth, human capital.

JEL CLASSIFICATION
O47, R11

1. INTRODUCTION
There has been considerable empirical work on cross-country growth for the last two decades. On the one hand, there were studies done on the basis of pre-existing models of growth in the tradition of Solow (1956), Cass (1965), and Koopmans (1965)and, on the other hand,some others were done along with the emergence of endogenous growth theories, including but not limited to, Uzawa (1965), Romer (1986) and Lucas (1988).

The first group of economists claims that without conditioning on any other characteristics of economies, the lower the initial level of real per capita gross domestic product (GDP) the higher is the predicted growth rate. This is referred to as *absolute convergence*. The main idea is that poor countries tend to grow faster per capita than rich ones. However, if the heterogeneity is allowed across the economies, or to put it differently, if countriesdiffer in various respects - propensities to save, willingness to work, higher access to foreign markets- and if these respectsare controlled for, then the convergence applies only in a conditional sense. This concept is called*conditional convergence* meaning convergence after differences in the steady states across countries are controlled for. The main idea is that an economy grows faster, the further it is away from its own steady-state (long-run) value[1]and, hence, in looking for convergence in a cross-country framework, it is necessary to control for the differences in steady-states of different countries (Islam, 1995).

A more explicit formulation of the concept of conditional convergence is found in Mankiw, Romer and Weil (1992), henceforth MRW, and this paper is based on that study, which is accepted as a milestone for the empirical cross-country growth literature.In brief, MRW performed an empirical evaluation of a Solow (1956) growth model using a multi-country dataset for the period 1960-1985. They found support for the Solow model's predictions by the inclusion of saving and population growth rate variables in the regression. Furthermore, they considered an augmented version of the Solow model by adding human capital as a factor of production, and ended up with strong evidence for conditional convergence.

The main purpose of this paper is to investigate whether there is a tendency for regional convergence among OIC countries. The determinants of growth are also examined in this manner. Such an analysis requires econometric framework for two reasons. First, econometric framework will allow us to estimate to which extent the various explanatory variables (such as population, investment, human capital, inflation and etc.) can affect the growth.Second, in order to analyze the determinants of growth, graphical representation, alone,may bemisleading. The relation can easily be driven by a few outliers on the graph. It is, therefore, crucial to support graphical representation of the data by econometric framework.

2. DATA
Our sample comprises 31 OIC countries covering the period 1980-2009. Following the leading studies in the literature, including but not limited to MRW, Bernanke and Gurkaynak (2001), the oil producing OIC countries are excluded from the study, as the bulk of recorded GDP for these countries represent extraction of existing resources (oil and gas). It is, therefore, not rational to expect standard growth models to account for measured GDP in these countries[2].

TABLE 1: DESCRIPTIVE STATISTICS

Variable	Obs	Mean	Std. Err.	Min	Max
Growth Rate	31	0.011067	0.013839	-0.01978	0.036067
GDP per cap (1980 level)	31	1745.453	5383.511	137.2419	30504.46
Enrolment Rate (%)	31	37.63256	24.16287	4.978477	80.54262
Investment Ratio (%)	31	20.81657	5.796181	8.856533	31.99317
Population Growth (%)	31	2.330043	0.850897	-0.02924	3.738061
Rule of Law Index	31	-0.56422	0.541087	-1.43362	0.549663
Inflation	31	14.08143	13.85907	1.446667	50.5451
Terms of Trade	31	30.25817	18.89276	2.368	80.68433

The per capita income and population data are taken from World Bank World Development Indicators (WDI) dataset. The share of investment in GDP (investment ratio) and the inflation rate are obtained from the International Monetary Fund (IMF) World Economic Outlook dataset. Secondary enrolment rates including the female and male secondary schooling rates are obtained from United Nations Educational, Scientific and Cultural Organization (UNESCO) dataset. Rule of law index is obtained from World Bank Worldwide Governance Indicators. Finally, the share of intra-OIC exports in total exports of countries is taken from Basic Social and Economic Indicators (BASEIND) database of SESRIC.

[1] Barro and Sala-i Martin (2004) defines steady-state as a situation in which the various quantities grow at constant (perhaps zero) rates.
[2] Bahrain, Gabon, Iran, Iraq, Kuwait, Oman, Saudi Arabia and United Arab Emirates are excluded on this basis.

3. METHODOLOGY

Following MRW and the other leading studies in the literature, income convergence in the OIC countries is estimated by using ordinary least squares (OLS) method. For this purpose, two income convergence models are employed: (i) Absolute Income Convergence; (ii) Conditional Income Convergence.

A univariate β-convergence model is estimated to determine if there is absolute convergence over the sample period with the following equation:

$$ln\left(\frac{y_{i,t}}{y_{i,t-1}}\right) = \alpha + \beta_0(lny_{i,t-1}) + \varepsilon \quad (1)$$

where α is a constant, β_0 is a coefficient vector, y_t denotes the average per capita income of country i in year t, ln is the natural logarithm, $t-1$ is the initial year and ε is the error term.

The conditional income convergence model is estimated as follows:

$$ln\left(\frac{y_{i,t}}{y_{i,t-1}}\right) = \alpha + \beta_0(lny_{i,t-1}) + \mu_i(X_{i,t}) + \varepsilon (2)$$

where α is a constant, β_0 is a coefficient vector, y_t denotes the average per capita income of country i in year t, ln is the natural logarithm, $t-1$ is the initial year, $X_{i,t}$ indicates the explanatory variables, μ_i is a vector of μ_i parameters, and ε is the error term.

4. ABSOLUTE CONVERGENCE

The regression in the first column of Table 2 represents the results of the absolute convergence model to determine if there has been absolute income convergence over the period under consideration. Even though the convergence coefficient is negative (-0.002) and indicating convergence of per capita incomes across the countries, it is statistically insignificant. The model is also insignificant (Prob>F) and able to explain only 3 per cent of the total variation, which indicates that growth may be conditional and convergence can be explained by incorporating other factors that control for the differences in the long-run values. Indeed, this is not an unexpected outcome. As Barro (1991) concludes the hypothesis that poor countries tend to grow faster than rich countries seems to be inconsistent with cross-country evidence, which indicates that per capita growth rates have little correlation with the starting level of per capita product.

TABLE 2: REGRESSION RESULTS FOR ABSOLUTE AND CONDITIONAL CONVERGENCE

Independent Variables		
Log(GDP)-1980	-0.002 (0.94)	-0.005** (2.58)
Log (Investment Ratio)		0.027*** (3.66)
Log (Population)		-0.010* (2.02)
Constant	0.025* (1.68)	-0.029 (1.29)
Observations	31	30
R-squared	0.03	0.41
Absolute value of t-statistics in parentheses ***significant at 15% level; ** significant at 5% level; *** significant at 1% level**		

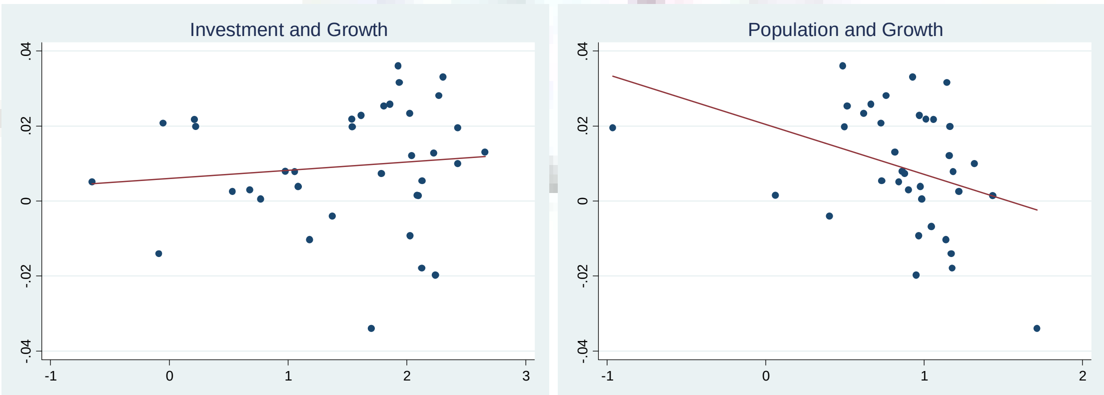
5. CONDITIONAL CONVERGENCE UNDER MRW FRAMEWORK

As pointed out above, an alternative formulation of the standard β-convergence model has been to allow different economies to converge not to a common steady-state but to their own long-run income relativities. Such a concept is called conditional convergence since the convergence is conditional on the different structural characteristics of each economy such as propensities to save, willingness to work, higher access to foreign markets, and etc. Different structural characteristics imply that different countries will have different steady-state relative incomes.

The regression in the second column of Table 2, therefore, includes explanatory variables that are also used in MRW's paper. The explanatory variables added to the right hand-side of the regression are the rates of investment and population growth. The coefficient on the initial level of income is now significantly negative; that is, there is strong evidence of convergence. In addition, the inclusion of the rate of investment and population growth improves substantially the fit of the regression. The model now explains 41 per cent of the total variation.

The regression in the second column of Table 2 is also supported by the graphical representation. The left panel of Figure 1 shows the relationship between investment rate and growth. It is clear from the figure that an increase in average investment rate is positively associated with average growth in per capita income. On the other hand, the right panel of Figure 1 indicates that population growth deters the economic growth across the OIC countries during the period under consideration.

FIGURE 1: THE RELATIONSHIP BETWEEN INVESTMENT RATE, POPULATION AND PER CAPITA INCOME GROWTH



For given values of investment and population growth rates, the neo-classical model predicts a negative coefficient on initial GDP that enters in the system in logarithmic form. The coefficient on the logarithm of initial GDP is interpreted as conditional rate of convergence. If investment and population growth rates are held constant, or to put it differently, if countries did not vary in their investment and population growth rates, then the economies tend to approach their long-run position indicated by the magnitude of the coefficient (Barro, 1996). The estimated coefficient of -0.005 is highly significant and implies a conditional rate of convergence of 0.5 per cent per year. The rate of convergence is very slow in the sense that it would take the economies more than 100 years to get half way toward the long-run level of output. However, it should be noted that the inclusion of other explanatory variables, in addition to investment and population growth rates, in the next section will strengthen the tendency toward convergence.

6. CONDITIONAL CONVERGENCE AND DETERMINANTS OF GROWTH

Investment: Investment is a key element to economic growth. According to Blomstrom et al. (1993) fast economic growth does not take place without large investments in fixed capital. Levine and Renelt (1992) conclude that investment as a share of gross domestic product is the most robust explanatory variable of a country's growth. All in all, the empirical studies on growth indicate that the rate of capital formation determines the rate of a country's growth.

The estimated coefficient for the ratio of total investment to GDP is positive and statistically significant, 0.024. It is clear from Table 3 that investment is the most important element in promoting growth in OIC countries given the statistically significant and high coefficient value. OIC countries, therefore, are urged to invest a substantial portion of their GDP to grow faster.

TABLE 3: REGRESSION RESULTS FOR CONDITIONAL CONVERGENCE AND GROWTH UNDER MRW FRAMEWORK

Independent Variables				
Log(GDP)-1980	-0.008*** (3.53)	-0.009*** (3.40)	-0.011*** (3.78)	-0.010*** (3.78)
Log (Investment Ratio)	0.024*** (3.39)	0.024*** (3.44)	0.022*** (3.16)	0.021*** (2.94)
Log (Population)	-0.007 (1.36)	-0.006 (1.30)	-0.005 (0.95)	
Log (Enrolment Rate)	0.008** (2.20)			
Log (Male-Enrolment Rate)		0.011** (2.09)		
Log (Female Enrolment Rate)			0.010** (2.57)	0.010*** (2.91)
Constant	-0.026 (1.26)	-0.036* (1.67)	-0.014 (0.68)	-0.017 (0.79)
Observations	30	30	30	31
R-Squared	0.51	0.50	0.54	0.48
Absolute value of t-statistics in parentheses *significant at 15% level; ** significant at 5% level; *** significant at 1% level				

Human Capital: Education is considered as a major contributing factor to sustainable growth and poverty alleviation. For this purpose, the measure of human capital will be added to the right hand-side of the regression. Following the leading studies in the literature, human capital is proxied by the log of the secondary school enrolment rate. The estimated equation is essentially same as that estimated in MRW. A higher school enrolment indicates a higher accumulation of human capital. Therefore, a higher enrolment rate may lead to higher economic growth, if higher human capital means higher economic growth. First column of Table 4 reports the regression results. Inclusion of a proxy for human capital further improved the fit of the model, particularly the significance level of the negative coefficient of initial GDP compared to Table 4.

Notably, the results show a significantly positive effect of enrolment rate on growth. On average, 1 per cent increase in secondary school enrolment rate is estimated to raise the growth rate by almost 1 per cent per year.

Furthermore, in order to analyze to which extent gender inequality in education may affect growth, secondary school enrolment rate will be replaced by male secondary schooling and female secondary schooling, respectively. As shown in the second column of Table 3, male secondary schooling has a significant effect; the estimated coefficient is 0.011 which indicates that, on average, 1 per cent increase in male secondary schooling is estimated to raise the growth rate by 1.1 per cent per year. Similarly, if the same approach is being employed for female schooling, then the estimated coefficient of this variable is 0.01 representing that, 1 per cent increase in female secondary schooling is estimated to raise the growth rate by 1 per cent per year.

However, before concluding that female education is also a key factor to economic growth, it should be noted that female education not only enables women to engage in healthier habits and growing their children up in health ways but is also crucial to the reduction of fertility rates and, thus, population growth (Dauda, 2013). It is, therefore, not surprising to expect that female education would spur per capita income growth by lowering fertility, and this effect is not captured in regressions showed in Table 3 as the fertility rate is already held constant. Thus, if the fertility rate, which is proxied as the rate of population growth in this study, is omitted from the regression as shown in the fourth column of Table 3, then the estimated coefficient on female schooling (the level of female schooling that affects population growth inversely) is, again, 0.01 which implies strong evidence that female education enhances economic growth through only the indirect channel of lowering fertility, which is in parallel to the findings of Barro (1996).

7. INCLUSION OF OTHER EXPLANATORY VARIABLES AND RE-EVALUATION OF CONVERGENCE COEFFICIENT

Before proceeding to interpreting the effects of other variables on growth, the estimated coefficient of rate of convergence will be re-evaluated since the regression includes more explanatory variables. If countries in the sample did not vary in all these explanatory variables, the estimated coefficient on the log of initial GDP is -0.013 that is highly significant (Table 4). It also implies a conditional rate of convergence of 1.3 per cent per year. Despite the strength on tendency toward convergence by the inclusion of more explanatory variables, it would still take economies almost 55 years to get half way toward steady-state level of output. Inclusion of all other variables increased R-square; 72 per cent of the cross-country variation is explained.

Rule of Law: World Bank defines rule of law as a parameter that captures perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement -implying the institutional quality-, property rights, the police, and the courts, as well as the likelihood of crime and violence. The rule of law index ranges from approximately -2.5 (weak) to 2.5 (strong) governance performance. It has been stressed in the literature that countries hold better governance performance will invest more which, in turn, lead to higher growth rates. The rule of law variable, included in the regression reported in the first column of Table 4, has a significantly positive coefficient, 0.007. It is evident that greater maintenance of the rule of law is favorable to growth.

TABLE 4: REGRESSION RESULTS WITH THE OTHER EXPLANATORY VARIABLES

Independent Variables	
Log(GDP)-1980	-0.013*** (5.38)
Log (Enrolment Rate)	0.003 (1.05)
Log (Investment Ratio)	0.017*** (2.77)
Log (Population)	-0.035*** (3.53)
Rule of Law Index	0.007* (1.53)
Inflation	0.0001 (1.08)
Terms of trade	0.006** (2.18)
Constant	0.074* (1.99)
Observations	31
R-Squared	0.72
Absolute value of t-statistics in parentheses *significant at 15% level; ** significant at 5% level; *** significant at 1% level	

Intra-OIC Trade: The connection between trade and growth is still an open-ended question. While some studies in the literature found a positive relationship between trade and growth, others doubt the robustness of this impact. However, especially for the developing countries, trade is found to be significantly and positively correlated with growth. More generally, trade volumes provide substantial support for the hypothesis that trade promotes growth through a number of channels.

Trade variable in our study is measured by the ratio of intra-OIC exports plus intra-OIC imports to GDP of each country in order to be able to analyze whether a higher increase in the intra-OIC trade compared to overall trade level of the countries will lead to higher growth rates. The results in Table 4 show a significantly positive coefficient on the terms of trade: 0.005 which implies that an improvement in the terms of trade does stimulate an expansion of domestic output.

Inflation: Macroeconomic instability can cause damaging impacts on living standards. High inflation, unsustainable debt levels, large swings in economic activity, and volatility in exchange rates and financial markets can all contribute to job losses and increasing poverty and therefore lead to a contraction in a country's growth. Maintaining macroeconomic stability therefore is required for sustained and inclusive development (UN, 2012). Inflation rate is the most common variable used as an indicator of macroeconomic stability and it is usually found that inflation harms economic growth.

The inflation variable in our equation is the average rate of consumer prices during the period under consideration. The estimated coefficient is not significantly different from zero. Thus, there is only slight evidence that growth is negatively related with inflation in our sample.

8. CONCLUSION

This study investigated whether the OIC countries show a tendency for regional convergence during the last three decade. The determinants of growth were also examined in this manner. Considered together the results have several implications.

First, the empirical findings of this study documents the existence of conditional convergence which means that an economy grows faster; the further it is away from its own steady-state (long-run) value. This phenomenon shows up clearly for the OIC countries from 1980 to 2009. Initially, the convergence framework is examined under MRW framework. In this case, human capital is included in the model and 50 per cent of the cross-country variation in income per capita is explained. The rate of convergence is 0.5 per cent per year. Thereafter, more explanatory variables are included. Employing new variables improved substantially the fit of the regression and 71 per cent of the total variation was explained. In addition, it further lowered the coefficient on initial GDP and the rate of conditional convergence was calculated as 1.3 per cent per year indicating that it would take OIC economies almost 55 years to get half way toward steady-state (long-run) level of output. Such a period is very long compared to the textbook Solow growth model[3].

Second, in parallel with the findings of the previous empirical studies in the literature, investment and human capital are the important determinants of growth for OIC countries as well. Our results suggest that highinvestment rates and high levels of enrolment rate are directly growth enhancing. However, female education enhances economic growth through only the indirect channel of lowering fertility.

Third, the results conclude that a higher increase in the intra-OIC trade compared to overall trade level of the countries appears to be growth-inducing. It is, therefore, important for member countries to not only strive for higher trade but also push for strengthening trade relations among them. In this context, the system of most-favored nation status can be adopted.

Fourth, the results indicate that the rate of growth of population is unfavorable to growth if an equivalent portion of the economies' investment is not used to provide capital for the new workers. According to Becker and Barro (1988) another approach is that a higher rate of growth of population will require the resources to be devoted to childrearing rather than producing of goods.

Last but not least, institutional quality is also an important element of economic growth. Our results indicate that countries with better institutions and property rights grow faster. Therefore, OIC countries are urged to give priority to improve the quality of their institutions which, in turn, will enable them to invest more in physical and human capital and stimulate growth.

NOTE

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[3] Such an outcome is not surprising and is in line with the previous empirical studies in the literature.

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THE IMPACT OF TRADE LIBERALIZATION ON BALANCE OF PAYMENTS OF ETHIOPIA

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ABSTRACT
This study examines the impact of trade liberalization on the Ethiopia's balance of Payment using the data over the period from 1981to 2012.In order to capture the partial effects of trade liberalization on the balance of payments different variables were included into the model and long run and short run relationships were analyzed with the use of ordinary least square (OLS) method and Error Correction Method (ECM) respectively. The results of the study show that the trade liberalization dummy variable and terms of trade variable is statistically significant and negative, implying that the trade liberalization deteriorates the balance of payments. Therefore in order to mitigate this negative impact and to ensure that trade liberalization will increase both the growth of exports and imports and consequently improve welfare, the government should complement the trade liberalization with a well designed macroeconomic reforms along with specific conditionalities.

KEYWORDS
Balance of Payments, Ethiopia, Trade Balance, Trade Liberalisation.

JEL CLASSIFICATIONS
C22, C51, E20, F13, F43.

BACKGROUND
Trade liberalization since 1980s has become an increasingly common feature of economic policy in developing countries and most countries in Sub Saharan Africa have moved away from inward looking development strategies as a reaction to the failure of previous import substitution policies. The reforms were generally undertaken within the framework of structural adjustments programs under the auspices of International Financial Institutions.However, they intensively continue with the reform process in the 1990s without being necessarily under the pressure of the institutions. They have liberalized their trading regime with hope of gaining static and dynamic gains from trade, and that the liberalization will increase both the growth of exports and importsand consequently improve welfare, however, its final effect on the balance of payment depends on which one outweigh and the level of prices of traded goods (Santos-Paulino, Thirlwall 2004).

Ostry (1991) developed a theoretical framework that took into account different economic circumstance under which trade liberalization policies could be imposed and concluded that trade liberalization policies do not necessarily lead to deterioration of the current account and, hence, the balance of payments. Khan (1985) used a Dynamic Computable General Equilibrium model to examine the transitional macroeconomic effects of change in the balance of trade and capital flow. He concluded that the final outcome depends on the structure of the economy and added that for trade liberalization to help improve the balance of payment it must be accompanied by active domestic macroeconomic management. Parikh (2006) concluded that trade liberalization affects output growth in most cases but the growth itself has a negative impact on the trade balance and adverse terms of trade.Rodrik (2006) recommended trade liberalization as the most common policy reform to developing countries but emphasized that it must be accompanied by complementary adjustment policies, particularly macroeconomic reforms along with various conditions in order to be effective and to be ensured to enhance growth.

After nearly two decades of centralized economic policy a new government took over in 1991, and it has since then started extensive policy reforms to transform the economy into market oriented one. The government adopted a Structural Adjustment Program in 1992/93 and this reform package was formulated with regard to the complementarity between trade liberalization and macroeconomic management in shaping the reform outcomes. Finally in 1996 Ethiopia fully adopted trade liberalization based on the extended Sachs and Warner (1995) liberalization dates. The condition for a country to be considered to have liberalized trade is to continue all tariff rates below 40%, non Tarff barriers covering less that 40% of trade, a black marker rate that is less than 20% below the official rate, no state monopoly on major exports and a non- socialist country (Wacziarg, 2008).

TRADE LIBERALIZATION AND BALANCE OF PAYMENT
The theory of trade liberalization includes two alternative arguments namely neo liberal and neo structuralist arguments regarding the effectiveness of trade liberalization policies. The economists in support of the neo – liberal view towards trade liberalization argue that trade liberalization is the right policy to solve the problem that had resulted from the inward looking policies adopted by most of the developing countries in the 1950's.According to Milner (1990) trade reforms raise the attractiveness of exports to producers and stimulate their competitiveness in the international trade by removing anti-export bias.Nishimizu and Robinson (1984), and Dornbusch(1992) argue that greater competition leads to better utilization of resourceswhichresults in higher growth of productivity due to the easier access to imported inputs that lead to a more complete utilization of productive capacity. In addition, Jenkins (1997) argues that trade liberalization reduces the unproductive rent –seeking activities that are associated with the intervention of government and improves the distribution of income by increasing labor intensive activities that would in turn increase employment.

On the other hand the neo-structuralisteconomists argue that developing countries must adopt policies that protect strategic industries in a way that achieves that dynamic comparative advantage rather than the wholesale policies advocated by the World Bank and the International Monetary Fund which promotes low and uniform tariff rates. Pack (1991), argument for infant industry protection is strengthened by the gains of productivity obtained throughlearningwhich is normally reflected through dynamic analysis than static. Similarly, Devarajan and Rodrik (1989) argue that even though the theoretical argument for the static case of trade liberalization is convincing, it tends to have a weaker theoretical groundwork when its dynamic aspects are taken intoconsideration. The inclusion of increasing returns to scale or imperfect competition may lead to a result where trade liberalization causes losses instead of gains depending on which sector expands and which sector contracts. In addition, Ostry and Rose(1992) and Rodrik (2006) argue that an equilibrium real appreciation or depreciation may result from deterioration in the terms of trade depending on the values of a variety of elasticities and thus trade liberalization must be accompaniedby well designed macroeconomic policies along with different specific conditionalities.

EMPIRICAL EVIDENCE
Santos-Paulino and Thirlwall (2004) by using least squares and the general method of moments examined the the impact of trade liberalization between period 1972-1997 on the trade balance and the current account of the balance of paymentsof differentcountries of Africa, Latin American and Asia and found that the impact of liberalization is same across all of the regions which is a deterioration of the trade balance and the current account of the balance of payment. However, the extent of the impact of trade liberalization on the trade balance and on the current account was found to depend on the level of protection the country had initially. Lopez (2005) after conducting the study on Mexico using an Autoregressive Distributed Lag model based the theoretical ground work on

Thirlwall's balance of payment Constrained Modelemphasizes the importance of the balance between the exports and imports and the position of the current account of the balance of payment for the effectiveness of trade liberalization polices in bringing about growth. Whereas, Parikh (2006) concluded that trade liberalization promotes growth but it has a negative impact on trade balance and adverse terms of trade. Similarly, studies done by Melo and Vogt(1984),Bertola and Faini(1991),Thomas and Nash(1991),Greenaway and Sapsford(1994),Jenkin(1996), Joshi and Little(1996),Ahmed(2000),Svedberg(2000),Thomas et al(1991),Helleiner(19994),Bleany(1999) as well as by UNCTAD(1999),they all found quite a mix results of the impact of trade liberalization on exports and imports. The reasons of the conflicting results might be based on the degree and importance of complementary reforms, pre trade liberalization developmental stage, sequence and degree of liberalization of the country as well as the measurement and methodological issues.

Given these ambiguities about the impact of trade liberalization on balance of payment and the caveat used by researchers to generalize the impact on balance of payment through current account and trade balance, it is important to investigate the performance of the balance of payment of Ethiopia before and after the year in which trade liberalization measures where fully implemented (1996) according to the extended Sachs and Warren (1995) trade liberalization dates by using complete data of balance of payments.

DATA AND MODEL SPECIFICATION

Time series data covering the period from 1981 to 2012 G.C. from various Institutions namely, UNCTAD, World Bank, Ministry of Finance and Economic Development (MoFED), and National Bank of Ethiopia (NBE) is obtained to analyze the relationship between trade liberalization and balance of payment.

The model used for the analysis of the impact of trade liberalization on balance of payment is an equation where balance of payment is a function of the growth of world income ,growth of domestic income ,terms of trade, ratio of foreign trade tax revenue to value of total international trade and a trade liberalization dummy.

$$BoP_t = \alpha_0 + \alpha_1 W_t + \alpha_2 Y_t + \alpha_3 DFTT_t + \alpha_4 TOT_t + \alpha_5 Lib + U_t$$

Where, BoP is the Balance of Payment, W is the Growth of World income, Y is the Growth of domestic income, DFTT is the ratio of foreign trade tax revenue to value of total international trade, TOT is the Terms of trade, Lib is the Liberalization dummy and U is the Error term, α's are parameters to be estimated and t is time period (1981-2012).

RESULTS AND DISCUSSION

Multivariate time series model enable one to estimate the dynamic effects of the explanatory variables on thedependent variable. However, to undertake estimation or testing procedures it is important to make sure that the variables are stationary. Accordingly, a stationarity test was conducted on the variables that are under study and found that all the said variables became stationary at first difference.After finding that variables are stationary the long run relationship i.e.,cointegration were tested by performing an Augmented Dicky Fuller test on the residual from the regression of the dependent variable on the independent variables. If one rejects the null hypothesis that there exists a unit root then the distribution of the error term is stationary which therefore, indicates that there exists long run equilibrium.

TABLE 1: RESULTS OF THE LONG RUN MODEL; DEPENDENT VARIABLE: LOGARITHM OF BALANCE OF PAYMENTS

Variable	Coefficient	t-value	P-value
Log (Growth of domestic income)t	-0.018	-0.13	0.89
Log (Growth of world income)	-0.241	-1.43	-0.19
Log (Terms of Trade)t	-1.945	-2.19**	0.06
Log (foreign trade taxes ratio)t	-0.556	-0.61	0.59
Liberalization Dummy	-0.723	-2.09**	0.07

** Significant at 5% significance level

Source: Own Computation

TABLE 2: AUGMENTED DICKY FULLER TEST STATISTICS FOR THE RESIDUAL ERROR TERM

	Test statistic	1%Critical Value	5%Critical Value	10%Critical Value
Z(t)	-6.546***	-3736	-2.994	-2628

***Significant at 1% significance level

Source: Own Computation

As can be observed from Table 2, the error term from the regression of the logarithm of balance of payment on the other explanatory variables is stationary indicating the existence of co integration, hence, a long run relationship between the variables. Table 1 shows that trade liberalization dummy has a significant and deteriorating effect on the balance of payment. Similarly, terms of trade found to be statistically significant but with negative sign indicating that terms of trade affects other components of the balance of payments negatively even if it improves the trade balance or the current account. However, the logarithm of foreign trade taxes ratio is statistically insignificant may be because of trade liberalization is applied more on non tariff barriers than on taxes on both imports and exports.

Now in order to capture how much of the disequilibrium is being corrected in every period error correction mechanism has been used. The Granger representation theorem (Verbeek 2004) states that there exists an error correction mechanism if a set of variables are found to be cointegrated. Accordingly the error correction model was examined and in order to ensure that model is correct and results are robust different tests such as Ramsey Regression Equation Specification Error Test(RESET) for misspecification, Breusch-Pagan/Cook-Weisberg test for hetroskedasticity, Lagrange Multiplier test for Autoregressive Conditional Hetroskedasticity (ARCH) effects ,Durbin's alternative test for autocorrelation and Bruesch-Godfrey Lagrange multiplier test for serial correlation were conducted. All of the tests for the existence of misspecification, heteroskedasticity and autocorrelation show that none of these problems significantly exist. Therefore, the error correction term of the model is areliable estimate and the result is robust.

As can be observed from the table below there is a statistically significant error correction term where the short term fluctuations adjust to the long run equilibrium at a 135% per annum. This indicates that the fluctuations take less than a year to go back to their initial level of equilibrium

TABLE3: ESTIMATION RESULTS OF THE ECM; DEPENDENT VARIABLE: Δ LOG (BALANCE OF PAYMENT)

Variable	Coefficient	t-value	p-value
Δ Log (Growth of domestic income)t	.033	0.27	0.81
Δ Log (Growth of world income)	-.129	-0.98	0.37
Δ Log (Terms of Trade) t	.997	0.89	0.41
Δ Log (foreign trade taxes ratio)t	.119	0.15	0.91
Liberalization Dummy	-165	0.65	0.55
e_{t-1}	-1.35	-5.83***	0.00
F (6, 20) = 7.39			0.00
Number of Observation			27

*** Significant at 1% significance level

Source: Own Computation

CONCLUSION AND POLICY IMPLICATION

Since almost all existing literatures argue that consequences of trade liberalization measures on balance of payments are ambiguous(Ostry 1991,Khan 1985,Santous-Paulino 2004),this research has put particular emphasis on the impact of trade liberalization on Ethiopia's balance of payment during the sample period 1981-2012,particularly since 1996 when trade liberalization were fully adopted by the country.

In this endeavor, time series econometrics was applied to examine the relationship between trade liberalization and the balance of payments of Ethiopia. OLS was used to obtain the long run relationship between the variables and ECM to know the adjustment of the short run fluctuations to the long run equilibrium. The existence of long run relationship was also tested by conducting an Augmented Dicky Fuller (ADF) test on the error term from the regression run to obtain the long run relationship. The error term was found to be stationary indicating the existence of a coitegration, i.e., long run relationship between the variables, whereas the adjustment of the short run fluctuations to the long run equilibrium was found to be in less than a year as the coefficient of the lagged error term was found to be statistically significant even at 1% significance level.

The result of the study showed that, the trade liberalization measures adopted by Ethiopia have adversely affected the balance of payment as demonstrated by the negative and statistically significant coefficient of the liberalization dummy variable used to capture the pure effects of trade liberalization on the balance of payment. Similarly, the terms of trade also found to be statistically significant and negative implying that imports growth outweigh the exports growth.However, the ratio of foreign trade tax revenue to value of total international trade was found to be statistically insignificant. Therefore, in order to reduce the negative impact of trade liberalization the government should select some industries that are strategic to the economy and protect these industries rather than allowing a full-fledged removal of all trade barriers. In nutshell, in order to change negativity into positivity and to have the desired outcome of the trade liberalization policy the government must complement it with well-designed and active macroeconomic reforms along with specific conditions.

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CAN ECONOMICS AFFORD NO AFFILIATION WITH ETHICS?

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ABSTRACT

Can economics be called an independent science, which has hardly anything to absorb from other disciplines, including ethics? What is the stand of economists today on this point? Can economics be value free? What are the ethical considerations pertinent to policy making in contemporary times? Would economics benefit from an innate engagement with ethics? What could be the rationale behind such an association? This paper raises and attempts to answer these questions. Takings cues from the available literature this paper is a study of the unavoidable association of economics with ethics, underlining the relevant ethical issues pertinent to economic decision making and hence, bringing out the rationale for such a dependence of economics as an evolved science on moral philosophy. This paper concludes that there are ethical issues in relation to both how and why economists undertake their work.

KEYWORDS

economics, ethics, policymaking, economic decision-making, moral philosophy.

JEL CLASSIFICATION

A13, B00, B41, I30.

1. INTRODUCTION

Ethics and economics share a distressed relationship. The trouble is that because ethicists have so many sensible complaints about economists they rarely take what economists do and how they think seriously. On the other hand, economists think ethicists are passionate with ascertaining mystical intrinsic values, at the expense of methodically thinking through their real world applicability. This blocks the scope for mutual learning.

Ethics at its best is all about perspective, about standing back from our first order intuitions about a situation or relationship in order to properly appreciate its intricacies and shades. Economics at its best is all about proportion, about looking closely at how important things really are when considered as part of a complex closed system.Good judgement needs both sense and sensibility, both proportion and perspective.

Much of the development of economics as an evolved science has been enabled due to its deliberate estrangement with ethics. This process involved making a convenient distinction between 'positive' and 'normative' economics and between 'economic welfare' and 'total welfare'. But such divisions are superficial and barely bear any foundations in reality. This is not to say that economics has been unserviceable; rather, it could have been richer and more fruitful by paying more attention to ethics. Arguably, the time has come to integrate economics and ethics, or at least bring them closer together.

Few would deny that hysteria has surrounded economics today. Some signs are obvious, other more debatable. It would be interesting pondering how economics reached into this state. One of the major causes is an ethical failure.What follows now is a brief discussion on the causes that rushed this failure.

First, economists claim to be scientists or technicians involved in the study of 'facts,' not values; they make 'scientific' studies and predictions. They claim that mathematical advancement, and the ability and willingness to use them (development of econometrics as an important branch in research), have allowed economics to far transcend all other disciplines in the social sciences (and the humanities). Yet, Global Financial Crisis was beyond prediction! It wouldn't be incorrect to say that the facts of the world have not supported the economists' models.

Second, most economists grapple with conceptualizing the ethical issues, conducting and reporting their work. It is not fairly simple to fit the historical data but to use it for future public policy formulation, can indeed prove to be fatal.

Third, the career advancement of academic economist encourages them to publish frequently. Some of this work is purely formal with little relevance to the practicalities of the theory. Other work, which seems relevant, might involve the use of questionable, highly simplified theoretical models. Further, it is never explained how normative conclusions arise out of positive analysis.

Fourth, the disappointment of students with economics is profound. They constantly complain about the poor quality of the teaching (promotion is based on research 'output') and the unrealistic assumptions that economists make.

The above-mentioned four observations fall into the category of obvious causes of failure of economics. With this discussion in mind, we now turn to the introduction of ethics in economics.

2. REVIEW OF LITERATURE: ENGAGEMENT OF ETHICS AND ECONOMICS

The relationship between ethics and self-interest in economic behavior was first studied in depth by Adam Smith, the father of economics, in his Theory of Moral Sentiments (Smith, 1759). He believed that self-interest of individuals can lead to the common good in a society, provided that there is sufficient competition and most individuals in society have internalized a general moral law as a guide for their behavior.Much earlier Aristotle advocated, "Every deliberate action or pursuit has for its object the attainment of some good". Thus knowledge of what is good is found necessary for us to conduct our lives. He considered ethics to be a part of politics as it is "the duty of a statesman to create for the citizen the best possible opportunity of living the good life".

According to Arthur C. Pigou (1952) "Economics is chiefly valuable neither as an intellectual gymnastic nor as a means of winning truth for its own sake, but as a handmaid of ethics and a servant of practice".

Present-day economists such as Hammond, Phelps and Sen have argued that human behavior cannot be analyzed solely in terms of individual self-interest. They regard important ethical motivations for action, such as altruism and the public interest, as distinct from and not simply products of self-interest.

Now, the pertinent question here is why should economists be interested in moral questions?

According to Hausman & McPherson (1993), economists should care about moral questions for at least the following four reasons:

Firstly, the morality of economic agents influences their behavior and hence influences economic outcomes. Moreover, economists' own moral views may influence the morality and the behavior of others in both intended and unintended ways. Hence, economists interested in the outcomes must be interested in morality.

Secondly, standard welfare economics rests on strong and contestable moral presuppositions. Assessing and developing welfare economics, thus, requires attention to morality.

Thirdly, the conclusions of economics must be linked to the moral commitments that drive public policy. To understand how economics bears on policy thus requires that one understands these moral commitments, which in turn requires attention to morality.

Fourthly, positive and normative economics are frequently intermingled. To understand the moral relevance of positive economics requires an understanding of the moral principles that determine this relevance.

In the famous book "Economic Analysis and Moral Philosophy' by Daniel M. Hausman and Michael S. McPherson (1996), Machlup clearly elicits that, "Economists need to understand some ethics to appreciate the objectives of policy makers." The core of the statement is that economics provides causal knowledge of the consequences of policies to enable policy makers to choose effective means toward their ends. Ethics determines the ends, and economics determines the means.

So there are a number of good reasons why economists need to think about morality. For only by thinking about morality can they understand why positive theory can be of so much moral importance, what values govern actual policymaking, what moral presuppositions govern welfare economics, and what moral factors influence economic outcomes.

For a striking example of the economic importance of moral norms, consider the work of Richard Titmuss (1971) concerning systems for acquiring and distributing blood for transfusions. Titmuss claims to show that voluntary blood donation systems, such as Great Britain's, are more efficient thanany other commercial systems, and he argues that they embody and cultivate altruistic communitarian values. In a thoughtful and lengthy review, Arrow endorses much of Titmuss' case.

C. S Devas in his 1897 work, 'The Restoration of Economics to Ethics', aptly states that, "Economics will seldom bear any fruit if there is no reference to the possible solution of the practical problems of life. This is the reason why eminent economists while scrupulously avoiding participation in the determination of policy have quite unconsciously been found to provide a means for the solution of important social problems with reference to ethical ideals".

Transition from utilitarianism to a distinct alternative can be attributed to Amartya Sen's work in philosophy and economics over many yearsHe has argued that the quality of life is best thought of in terms of the capability to lead a life which is valuable or which one has reason to value (Sen 1993 and 1999). The notion of 'capability' captures what people can do or be, and in this sense their opportunities, or 'positive freedoms' to lead flourishing lives. The immediate implication of this approach for development economics is that 'development' can be defined in terms of an expansion of capabilities, or freedoms (Sen 1984 and 1999). The approach also involves viewing poverty in terms of a failure to be able to be and do certain basic things, as well as thinking about egalitarian justice in terms of 'capability equality' (Sen 1992).

While the capability approach has made less headway outside development economics - in part because it poses a serious challenge to standard welfare economics – it is increasingly influential and has been one of the most successful varieties of re-engagement between ethics and economics.

Dasgupta's work is also exceptional in as much as it addresses important topics in ethics about population levels and future generations, whichparticularly raise problems for some forms of utilitarianism.But the literature in development economics is rarely connected directly to contractarian ethics, and more work is needed to fully appreciate the its value to development economics.

3. ETHICAL CONSIDERATIONS PERTINENT TO POLICY/ ECONOMIC DECISION-MAKING

In recent times with the upcoming problems associated with applied economics, the subject of economics is drawn increasingly under the influence of ethics. For instance, in India the population is growing rapidly and the supply of labourers is huge in comparison to their demand, thereby resulting in low wages. An economist considers whether lowering of wages below a certain level will be in the interest of workers.

Some of the concerns that bother economists today includeeradication and reduction of Poverty and unemployment, just distribution of wealth and income, minimizing consumerism, controlling inflation, controlling population etc.

In the words of Mahbub ul Haq, "No sustainable improvement in human well being is possible without growth. But, it is also wrong to suggest that high economic growth rates will automatically translate into higher level of human development."Per capita income may increase, and the GDP growth might be impressive, but many people may still remain poor, hungry, malnourished, and live without the minimum basic amenities of housing, sanitation and safe drinking water. Sometimes only the rich benefit, as the poor do not get to participate in income generating economic activities. Lack of education, skills and assets are the major handicaps of the poor. In addition, discrimination by class, race, caste, community and gender, widen the income differentials and perpetuate poverty and hunger.

However, there is no automatic built-in mechanism in the development process that reduces inequalities, and enables equitable sharing of the fruits of development. A close examination reveals that economic development in itself may not be the main force behind the reduction in income inequalities. A blend of economic development and methodical policy efforts for re-distribution of incomes and elimination of deprivation is needed.

A number of income transfers and social security measures, such as unemployment payments, free food, free housing, etc., which the governments commence on ethical grounds support the reduction of income inequalities, poverty and hunger. Similarly, substantial investments in conservation, and plantations of secondary forests, etc., are sought to tackle the problems of overexploitation of natural resources and environmental degradation.

Economic growth cannot be achieved with mere production and consumption. Taking care of the environment will help in retaining a livable environment for all. Thus, by itself, pure economic growth in terms of Gross Domestic Product (GDP) is incapable to take care of all the ethical dimensions of equity. Thus, in the light of this already existing subtle nexus between economics and ethics, a more pronounced argument for the need for viewing these disciplines in an interdisciplinary manner is what follows next.

4. NEED FOR INTEGRATING ECONOMICS AND ETHICS

Mark Blaug (1978), while reviewing New Welfare economics pleaded for extending the boundaries of economics in the following words, "… the long discussion on welfare criteria- from Pareto to Hicks, Kaldor, Scitovsky, and many others- have brought us no further in evaluating policy changes which benefit some people but harm others on purely positive grounds; efficiency cannot be separated from equity… true function of welfare economics is to invade the discipline of applied ethics rather than to avoid it".

Thus moral and social issues should assume an important place in economic discussion and policies as ethical considerations in turn lead us to the question of quality of life as an ultimate goal of economics.

4.1 INCORPORATING MORAL BEHAVIOR INTO ECONOMIC THEORY

Much has been written on whether there is a value-free economics,or a value-free social science for that matter. This paper does not add tothat literature. Here, we are interested in the examination of why moral philosophy of ethics has a legitimate, indeed necessary, niche in the working of economics.moral philosophy.

4.1.1 EFFECTS OF MORAL COMMITMENTS

Moral norms may have significant impacts on the provision of public goods, voting, and activities involving the production of externalities. But perhaps the most sustained and illuminating treatments of moral influences on economic behavior have been concerned with work motivation and the organization of the firm. Economists like Marx and Mill, have recognized that worker performance is closely related to workers' perception of the legitimacy of authority and the fairness of distribution.

4.1.2 EVALUATING ECONOMIC ARRANGEMENTS

Distinguishing better from worse economic policies and outcomes is a central purpose of normative economics, and one that undeniably relies on moral judgments. Moral evaluations of economic arrangements are built into welfare economics and into the terms of policy debate. Because they seep into economics, it is meaningful to make these moral reviews as sensible as possible.

4.1.3 ETHICS FOR SOCIAL PURPOSE

The Ethics for Social Purpose includes biomedical ethics, nursing ethics, banking ethics, legal ethics, accounting ethics, engineering ethics, marketing ethics, or the military ethics, to name but a few.

4.1.4 ETHICS FOR ORGANIZATIONAL LIFE OR SYSTEMS ETHICS

Ethics for organizational life or systems ethics is the domain of the ethics structures, compliance systems, practices, procedures, and protocols necessary for a body of people to achieve shared visions in accordance with its core values and organizational culture. The thrust of organizational ethics is to increase human energy, knowledge, and trust, and to drive out fear. Systems ethics applies to all organizational life, regardless of specific social purpose. It shapes the conditions of organizational life, the content of dialogue or conflict resolution, and the context for the ethical framing, choosing, and actions of the other circles. It is where ethical leadership may perhaps best be exercised, again at all levels.

4.1.5 ETHICS FOR ECOLOGICAL RELATIONSHIPS/ SUSTAINABILITY

Ethics for ecological relationships is the domain of the relationships between our species and world, of which we are an integral part. It is the most fundamental of all approaches to applied ethics. In general, sustainable development requires a good foundation of ethics and law, to ensure protection of the environment, macroeconomic stability, and safeguarding the welfare of vulnerable groups. The key word with regard to sustainable development is "responsibility" and this applies to environmental quality, political matters, use of economic resources, education, cultural, international affairs and most of all intergenerational concerns. Responsibility is of course embedded in ethics, leading to the conclusion that ethics are a fundamental dimension of sustainable development.

Given the striking increase in economic inequality over the last decade and the evident influence of wealth on election results, these questions are bound to become an increasingly important part of the normative agenda of economists. Few economists can avoid ever making appraisals of economic outcomes or institutions, and in making such appraisals they unavoidably rely on some moral philosophy. Economists concerned with evaluation have no option but to get their feet wet in the swamps of moral philosophy. Hausman and McPherson rightly suggest that the kinds of arguments that economists give are influential in society, and that therefore economists can help to make societies and individuals more moral if they incorporate moral arguments in their analyses.

Dr. Iwao Taka, a japanese scholar in his report "Business Ethics in Japan" points out that in Japanese, the word 'economy' is read as *Kei Zai*. This is a compound word consisting of *Kei* and *Zai*, originally stemming from the Chinese word, *Ching-Chi*.*Kei* means governing the world in harmony; *Zai* means bringing about the well-being of the people. Therefore, in this sense, the word economy does essentially include morality or ethics in its wide and fundamental meaning and scope.

5. CONCLUSION

The recent growth of research at the borderlines of ethics and economics has already had a significant impact on development economics. Amartya Sen must take the credit for much of the progress. The economics of well-being has been one area which has flourished and explicitly re-engages ethics and economics.

What Marshall said about economics-that it is "not a body of concrete truth, but an engine for the discovery of concrete truth" (1885)- may be said about moral reasoning as well. An economist who is engaged actively and self-critically with the moral aspects of economics' subject matter cannot help but be more interesting, more illuminating, and ultimately more useful to the society as well.

In recent years, it has become extremely difficult for any economist to remain a theoretician, for economics, isolated from practical problems and their respective humanitarian solutions, is considered useless and barren. No doubt, economists are becoming more aware of their duties towards society and society is paying increasing attention to what economists have to say on matters of economic policy. Thus it would be appropriate to state that Economics would become richer by extending its analysis to cover the uncovered portions of behaviour where ethics has a dominant role to play.

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EFFECTIVENESS OF MGNREGA IN ASSAM: A CASE STUDY

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ABSTRACT

The creation of adequate employment has been an important policy of the Government of India in the nation-building process since independence. Various employment generation programmes have been launched by the Government of India from time to time. Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) is one among the major programmes implemented by Govt. of India in their plan period who provide the 100 days job guarantee for the unemployed. This paper, drawing upon a primary research conducted in 2010-11 in one district of Assam, namely in Lakhimpur, access the success and failure of MGNREGA programme in the rural area of the state.

KEYWORDS

employment, investment, job market, poverty, unemployment.

INTRODUCTION

The creation of adequate employment has been an important policy of the Government of India in the nation-building process since independence. Various employment generation programmes have been launched by the Government of India from time to time. In spite of these programmes, the rate of unemployment remains high in the country. As per the National Sample Survey Report (2012), about seven crore people are unemployed. The Planning Commission of India has taken various programmes with a focus on three major objectives: the employment generation, poverty eradication and public assets creation. During the initial plan period, India had a low level of per capita income, investment and literacy. Gradually the situation has changed. Education has spread, per capita income has increased, the level of investment has grown up and the economy has also taken the track of speedy growth. But there are still many people without work and the situation is becoming serious day by day. Therefore, Indian Government has formulated programmes for augmenting employment opportunities especially in the rural areas. In 2005, the Govt. of India subsumed the ongoing programme Sampoorna Gramin Rojgar Yojana (SGRY) and National Food for Work programme (NFWP) under the newly launched wage employment programme, "National Rural employment Guarantee Act" (NREGA) which aimed at providing 100 days' guaranteed employment to the rural poor on various local public works. This is the first time that a government is guaranteeing work, failing which an unemployment allowance has to be given. In the absence of employment they would be paid unemployment allowance. The programme also meant to use labour for development of rural infrastructure. Since 2011 the NREGA has been renamed as Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA).

REVIEW OF LITERATURE

The wage rate plays a crucial role in the job market since the time of classical thinkers. The classical concept of unemployment is based on the real wage rate. It occurs when the real wage rate for a job is set above the market clearing level, which leads to the number of job seekers exceeding the number of vacancies. The cyclical or Keynesian unemployment broadly known as deficit demand unemployment occurs when there is not enough aggregate demand in the economy to provide jobs for everyone who wants to work. A low demand means that there is low level of production. Consequently fewer workers are required resulting in unemployment. The cyclical unemployment so common in recessions tends to get reduced with the recovery of the economy. The frictional unemployment can occur independent of the cyclical condition of the economy. In a market economy unemployment may occur due to the technological change. Karl Marx finds unemployment a normal condition in capitalist system. According to him unemployed labourers constitute "a reserve army" that creates downward pressure on wages (Mark, 1997).

Focusing on the rural employment opportunities, Mathur (1998) argues, based on his empirical findings, that in developing countries like India the lack of employment opportunity arises essentially from inadequate stock of physical capital and infrastructure, although inadequate aggregate demand could also coexist. The Government of India has taken adequate step through the MGNREGA programme for developing rural infrastructure by the rural worker. This is not only helpful for infrastructural development of the rural area, but also for the development of working skill and the economic condition of the rural people as well (NREGA act, 2005). MGNREGA is the first programme that compels the state to provide a social safety net for the poorest people of this country and seeks to address the urgent issues of hunger and rural distress that afflict large parts of India (Lakshman, 2007). But studying the impact of employment generation schemes Saikia (1985) observed that the success of such schemes depends much on selection of area, selection of employment generating schemes and the deserving beneficiaries. The schemes are meant to create durable community assets and provide employment to the weaker section of the society.

OBJECTIVE, HYPOTHESIS AND METHODOLOGICAL ISSUE

Since the status of providing employment opportunities is inversely related with the state of unemployment and poverty, the paper has been made an attempt to study the status of MGNREGA in Assam along with its pros and cons in real sense.

The main hypothesis of this study is formulated as "MGNREGA is successfully implemented everywhere of the state."

The present study is largely an empirical one. The universe of the study consists of all the rural households of Assam. One representative district, one with most of the characteristics of the state is selected. Since Assam economy is primarily agrarian and industrially backward, district Lakhimpur appears to be a good representative and it is selected. The district is composed of two subdivisions: North Lakhimpur and Dhakuakhana. Keeping the general characteristics of the state in mind 12 villages, five from Dhakuakhana subdivision and seven from North Lakhimpur subdivision are selected in such a way that all major communities of Assam are represented. From these villages 220 households from different communities are selected. The method used is stratified random sampling. The total numbers of people sampled are 1180. All social and religious groups are covered in the sample. The study is not based only on the primary data, whenever necessary the study also utilizes the secondary information.

STATEMENT OF THE PROBLEM

Assam is one of the eleven special category states in the country. Like other poor states, Assam has a low level of income, low rate of saving and investment, low rate of industrialisation and high unemployment rate. Moreover, the state suffers from social instability inflicted by a large number of insurgent groups. A land of diversity, Assam has different ethnic groups with their distinctive cultures. The state is home to 2.58 per cent people (as per 2011 population census) of the nation while it covers 2.40 per cent area of the country. There are 27 districts in the state which vary considerably in size and population. Most of the population lives in two valleys, the Brahmaputra and Barak. These two valleys are separated by two hilly districts – Karbi Anglong and Dima Hasao.

Most of the people in Assam (85.9 per cent) live in rural areas. In Baksa district about 89.2 per cent of the population live in villages. Except Kamrup (metro) all other districts have a majority of rural population. Most of the people in the state depend on traditional activities. Though diversified to some measure yet Assam's rural economy depends largely on agriculture. This has made agriculture the main source of employment in the rural areas. The cropping intensities and productivities in the state remain low, and the crop diversification is also low. The fragmentation of land holdings, low irrigation coverage and low rate of mechanization are still some constraining factors. Moreover the types and patterns of cultivation are traditional; the farmers of the plan area practise the settled cultivation while jhuming, the slash-and-burn method of cultivation, is still practised in the hilly areas. In spite of the traditional technology still being followed, the problem of rural unemployment has become serious day by day in the state. Therefore the employment generation programme can play an important role in the state in order to generate employment opportunities as well as the eradication of rural poverty.

STATUS OF MGNREGA IN ASSAM

As per the report of Employment and Unemployment survey 2009-10, Government of India, the rate of unemployment by broad usual activity was 4.1 per cent in rural Assam against 2.1 per cent in rural India. Similarly, the rate of unemployment in urban Assam was 5.8 per cent against 3.7 per cent at all-India level. There is a significant difference between unemployment status of males and females. In 2009-10, 3.6 per cent male and 6.8 per cent female workers in Assam were found unemployed against 1.9 per cent male and 2.4 per cent female workers in the country. Similarly, in urban areas, there were 4.4 per cent male and 14.3 per cent female workers unemployed in Assam against 3.0 per cent male and 7.0 per cent female workers in urban India (Government of India, 2011). The rate of unemployment in the state is not decreasing, rather it is increasing day by day. As per 66th round of NSSO report, the unemployment rate was 4.3 per cent in rural and 7.6 per cent in urban Assam, in the age group (15–59) according to the usual principal status.

The provision of wage employment is an attractive instrument for poverty eradication and employment generation in the rural areas. The poor people basically depend upon the wage employment for their income. In this regard Khan *et al.* (2007) observed that the provision of wage employment is an attractive instrument for poverty alleviation and employment generation. In fact, the wage employment programme sought to achieve multiple objectives. They not only provide employment in the lean agricultural season but also in the time of floods, droughts and other natural calamities. These programmes also put an upward pressure on the market wage rate in the rural areas by attracting people to public work programmes thereby reducing the unemployment. MGNREGA is also designed as a safety net to reduce migration by rural poor in the lean period through at least a hundred days' of guaranteed work provided on demand to each household on a sustained basis. In rural Assam 13.48 per cent households got employment under MGNREGA during 2011-12 (Government of India). Beneficiary households in Assam are proportionally high, being 2.70 per cent of all beneficiary households in the country. However in terms of person days of employment generated under MGNREGA, the position of Assam is lower than the national average. In 2011-12 the person days of employment generated under MGNREGA in Assam is 4.98 crore which is 1.67 per cent of 211.71 crore person days of employment generated in the country as a whole. It may be noted here that population of Assam constitutes 2.58 per cent of India as per 2011 census.

TABLE 1: STATUS OF EMPLOYMENT UNDER MGNREGA IN 2011-12

Employment	India	Assam
No of households having demand (in lakh)	504	14
No of beneficiary households (in lakh)	499	13
Average person days	42.43	26.23
Households availing 100 days	3896589	17009

Source: Department of Rural Development, Govt. of India, 2013, (Accessed on 21st Feb. 2013).

The data published by the Government of India in 2013 show that in Lakhimpur, MGNREGA generated employment for 99.6 percent of deserving households which amounted to 11.97 lakh person days of employment. The average person days per deserving household are 26.85. Comparing different districts it is found that almost every district of Assam has provided employment to more than 95 per cent of poor households which wanted to work under MGNREGA. The outcomes of the programme in some selected districts of Assam are shown in Table 2. Among the districts, Kokrajhar has provided employment of 48.50 person days per deserving household and 100 days' employment guarantee for 5367 people. It is followed by Dhemaji District generating 33.23 person days per deserving household. In this district MGNREGA guaranteed 100 days' employment for 1010 people. It is lowest in North Cachar Hills (i.e. 13.48 person days per household) where 100 days' job guarantee was given only to seven people. Moreover, district Karimganj was totally unable to provide100 days' job guarantee in the reference period.

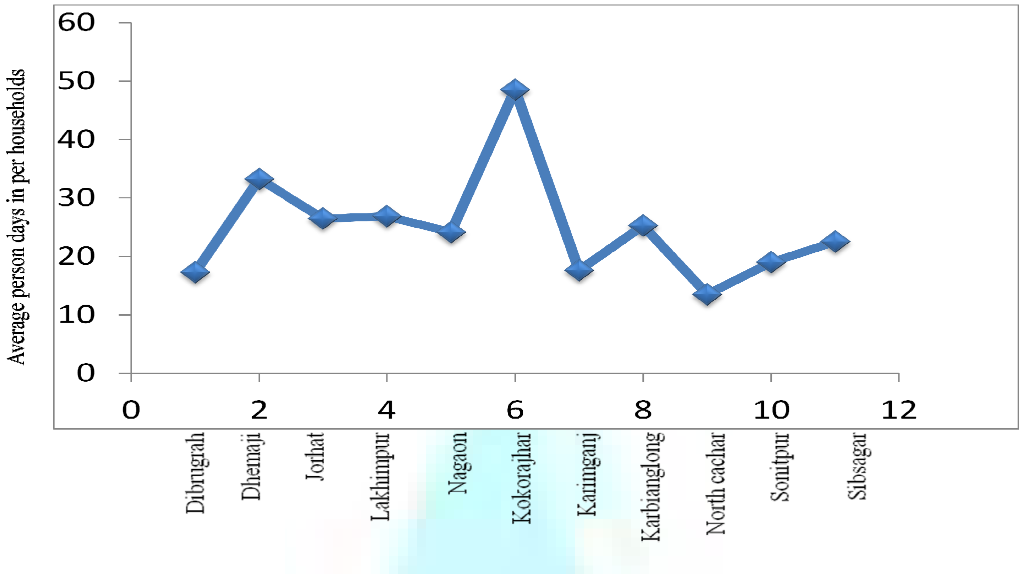
TABLE 2: OUTCOMES OF MGNREGA IN SELECTED DISTRICTS OF ASSAM (IN 2011-12)

District	Households Demanding employment	% of households receiving employment	Total Person days provided (in lakh)	Average person Days for per household	No of Households availing 100 days' employment
Dibrugrah	34308	98.9	5.85	17.25	70
Dhemaji	53411	99.0	17.57	33.23	1010
Jorhat	39928	99.9	10.56	26.45	286
Lakhimpur	44753	99.6	11.97	26.85	641
Nagaon	79143	99.9	19.07	24.13	331
Kokorajhar	68660	99.9	33.26	48.50	5367
Karimganj	27851	99.7	4.89	17.60	0
Kaarbi anglong	95330	99.5	23.94	25.25	2277
North Cachar	7739	95.8	1.00	13.48	7
Sonitpur	93511	98.9	17.55	18.98	99
Sivsagar	51131	99.6	11.47	22.52	471
Assam	1353548	99.6	353.44	26.23	17009

Source: Department of Rural Development, Govt. of India, 2013, (Accessed on 21st Feb. 2013).

The data reveal that MGNREGA is comparatively effective in some districts like Kokorajhar, Karbi Anglong, etc. which are suffering from instability due to social conflict and violence. Many people in these districts are provided employment through the scheme for rehabilitation and reestablishment. Moreover in the heavily flood effected districts such as Dhemaji, Lakhimpur, etc. the scheme has played a vital role in employment generation. But in industrially developed districts like Dibrugrah, Jorhat, Sivsagar, MGNREGA is not much effective. This may be due to the availability of industrial employment in those districts. The trends of employment provided by MGNREGA in some districts of Assam are shown in figure 1.

FIGURE 1: STATUS OF AVERAGE PERSON DAYS GENERATED BY MGNREGA



MGNREGA IN SURVEYED AREA

There are very few villages in the surveyed area where the scheme has been run successfully. During the field visits, it was observed that many job card holders had no idea about the work and the existing wage rate. They, in general, lacked awareness about MGNREGA. They even did not know that they were to apply for work. Some job card holders thought that once they got the job card, they would be called for work by their *panchayat*. Moreover, a few job card holders were able to get work under MGNREGA. There were only four villages – Kharkati, Brisnupur, Tiokia and Bharaluwa where MGNREGA was operationalised. As low as nine households out of 220 surveyed, got employment under the scheme. In this sense our hypothesis is partially accepted. As for the households' guaranteed employment is concerned, the average person days generated by MGNREGA in the surveyed villages are just 54 days. There is not a single case in any village where at least one worker had got 100 days' guaranteed work. Most of the beneficiaries worked for less than 50 days. The activities of MGNREGA in the surveyed villages are shown in Table 3.

TABLE 3: STATUS OF EMPLOYMENT UNDER MGNREGA IN THE SURVEYED VILLAGES

Villages	No of beneficiary households	Person days	Average person days	No. of Job card holders	Beneficiaries' as % of Job card holders	Wage rate
Kathabari	2	150	75	16	12.5	120
Brishnupur	2	150	75	10	20.0	115
Tiokia	2	90	45	15	13.3	120
Bharaluwa	3	100	33	15	20.0	115
Total	9	490	54	56	16.07	118

Source: Primary Survey, 2010-11.

It can be highlighted that only nine out of 56 job card holding households in the four villages got employment. There are many reasons behind the low incidence of MGNREGA in the surveyed villages. The wage rate for MGNREGA employment is less than that existing in the villages. The average daily wage rate provided by MGNREGA is ` 118 whereas the existing average wage rate for the unskilled workers in surveyed villages is ` 153 (as shown in appendix I). Moreover, the main reason behind low demand for MGNREGA in the surveyed villages is inordinate delay of wage payments. Apart from this, many contractors executing the public works prefer the more experienced labourers from other districts. In the process, the local labourers lose the opportunity to work, but when they put pressure, the contractors pay them a little amount and use their job cards for official purposes.

TABLE 4: STATUS OF BPL AND THE JOB CARD HOLDERS IN THE SURVEYED VILLAGES

Status	All villages		Beneficiary villages	
	Numbers	Percentage	Numbers	Percentage
Job card holders	159	72.27	9	16.07
BPL card holders	137	62.27	5	55.55
Illiterate BPL card holders	34	24.82	2	22.22
Total surveyed households	220	100	-	-

Source: Primary Survey, 2010-11.

MGNREGA aims at generating employment for rural unskilled labourers with a view to reducing their poverty. Table 4 shows the status of the programme. Amongst the 220 surveyed households there are 137 BPL card holders (62.27 per cent) and 159 job card holders (72.27 per cent) in the study villages. Many BPL people are not aware about the MGNREGA and many APL households have little interest in the type of employment provided by the programme. Out of all beneficiary households 44.4 per cent belong to APL while the remaining belong to BPL category. It also highlights that a high proportion (i.e. 75.2 per cent) of the job card holders are literate and only 24.8 per cent illiterate. Among the beneficiaries, the rate of illiteracy is 22.2 per cent. It is evident from the data that every job card holder does not belong to BPL category.

CONCLUSION

The Government has taken various programmes in order to create employment opportunities and eradicate poverty. Many of these are partially successful in achieving their goals. The MGNREGA programme is being implemented everywhere in the country including Assam yet it has not achieved its goal fully owing to the lack of adequate information. In the survey area the programme has not succeeded much, because the potential beneficiaries are not yet well-informed about the objectives of this programme. The effectiveness of this programme would improve if the poor could be made fully aware of this programme. Therefore, government should take step for providing adequate information of MGNREGA through the *panchayats* and the development blocks among the rural people in time to time through *Gramsava* or other such meeting so that the rural job seekers easily involved in the work. Otherwise the success story of MGNREGA implementation is limited only in the policy documents and the plan papers of the scheme.

APPENDIX I

AVERAGE WAGE RATE OF UNSKILLED LABOUR IN THE SURVEYED VILLAGES (WAGES IN ₹)

Villages	Average Wage rate
Bamchapori	155
Batchoramukh	144
Bharaluwa	155
Brisnupur	140
Choraimoria	140
Dhemagrah	142
Duliagaon	156
Jorigurі	150
Kathabari	150
Kharkati	200
Soriyah Bari	146
Tiokia	155
Average	153

Source: Primary Survey, 2010-11.

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PERCEPTIONS OF GUARDIANS ABOUT THE ADMISSIONS OF CHILD INTO ENGLISH MEDIUM SCHOOLS WITH SPECIAL REFERENCE TO SILIGURI REGION OF WEST BENGAL

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ABSTRACT
Of late, guardians are taking deliberate decisions in respect of admissions of their children into English Medium Schools or non-English medium schools. There are multifarious factors which take predominant roles to take rational decisions in respect of admissions of their children. In this present study we are very much interested to find out the probable factors which are responsible to take the concrete decision in this regard. Only the financial factor is not generally being considered as per admission is concerned. Therefore, in this present study, we have given concentration on the following parameters mainly financial aspect of guardians, their educational status, nature of employment and religion.

KEYWORDS
English Medium Schools, rational decisions, parameters, financial aspect, educational status, employment, religion.

INTRODUCTION
Of late, guardians are taking deliberate decisions in respect of admissions of their children into English Medium Schools or non-English medium schools. There are multifarious factors which take predominant roles to take rational decisions in respect of admissions of their children. In this present study we are very much interested to find out the probable factors which are responsible to take the concrete decision in this regard. Only the financial factor is not generally being considered as per admission is concerned. Therefore, in this present study, we have given concentration on the following parameters mainly financial aspect of guardians, their educational status, nature of employment and religion. Apart from these four parameters, we have also tried to explore different hidden areas of decision making in this respect.

OBJECTIVES OF THE STUDY
The main objectives of the study are:
1. To identify the main factors which are generally being considered by the guardians to admit their child into different medium schools
2. To determine the degree of association between financial strength and admissions of child into English Medium Schools.
3. To find out the degree of relationship between educational profile of guardian and admission of child into English Medium Schools.
4. To study the relationship between nature of employment of guardians and admission of child into English Medium Schools.
5. To also find out the degree of association between the religion and admission of child into English Medium Schools.
6. To determine other factors which are also significant in this regard.

RESEARCH METHODOLOGY
The study is mainly based on primary data. The primary data has been collected through a personal survey to examine the perceptions of guardians about the admissions of child into English Medium Schools with special reference to Siliguri region of West Bengal. The sample design adopted for the problem in hand is convenient sampling. The sample size for the study was 200 guardians selected randomly and the sample unit of the study includes those guardians having at least one child. The sample area for the study in hand was Siliguri city of West Bengal. The primary data for the study was collected directly from target respondents through structured questionnaire. This questionnaire includes the pertinent information in respect of four important parameters viz., financial aspect of guardians, their educational status, nature of employment and religion. The secondary data for the study was collected from different sources such as articles, news papers, magazines, internet, books and periodicals, etc. Statistical tools such as tables, percentages, Chi-Square Test were mainly used for analyzing the data which helps in arriving at sound conclusion.

DATA ANALYSIS AND FINDINGS
The data is analyzed to illuminate various aspects which ultimately influence the decision making process of guardians to admit their children in different medium schools

TABLE 1: LEVEL OF MONTHLY INCOME OF GUARDIANS

Number of admissions	Less than 10000	10000 – 20000	20000 – 30000	Greater than 30000	Total
English Medium School	2	34	42	88	166
Non-English Medium School	6	10	11	7	34
Total	8	44	53	95	200

Calculated Value of Chi Square = 26.87 at 3 df
Table Value of Chi Square at 1 % level = 11.34

TABLE 2: LEVEL OF EDUCATION OF GUARDIANS

Number of admissions	Primary	Higher Secondary	Graduate	Post Graduate	Professional	Total
English Medium School	1	42	84	22	12	161
Non-English Medium School	9	14	14	0	2	39
Total	10	56	98	22	14	200

Calculated Value of Chi Square = 40.01 at 4 df
Table Value of Chi Square at 1 % level = 13.27

TABLE 3: NATURE OF EMPLOYMENT OF GUARDIANS

Number of admissions	Government	Private	Self-employment	Total
English Medium School	76	26	60	162
Non-English Medium School	16	12	10	38
Total	92	38	70	200

Calculated Value of Chi Square = 5.07 at 2 df
Table Value of Chi Square at 1 % level = 9.21

TABLE 4: RELIGION OF GUARDIANS

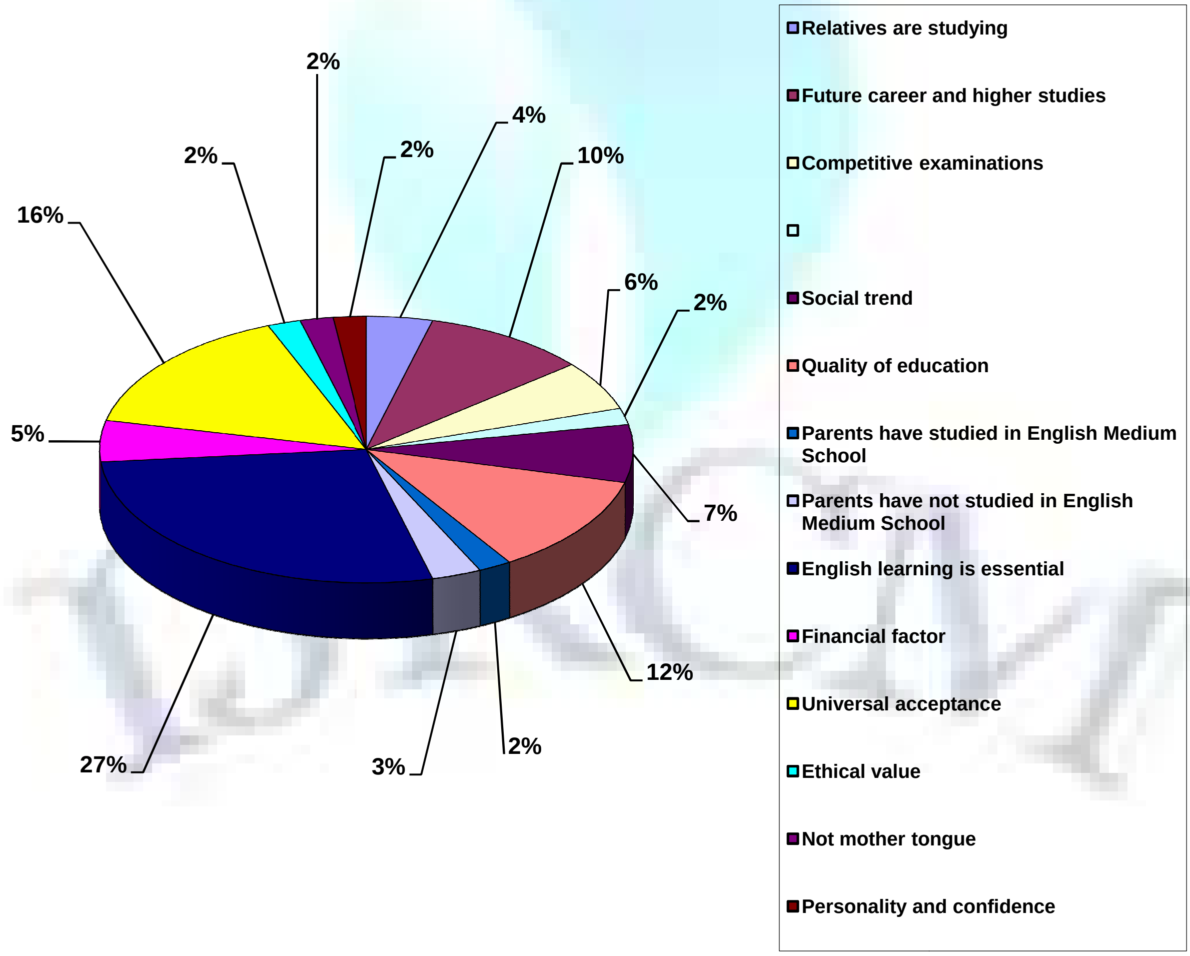
Number of admissions	Hindu	Christian	Nepali	Others	Total
English Medium School	130	10	18	0	158
Non-English Medium School	40	0	0	2	42
Total	170	10	18	2	200

Calculated Value of Chi Square = 15.62 at 3 df
Table Value of Chi Square at 1 % level = 11.34

TABLE 5: OTHER FACTORS INFLUENCING DECISION MAKING

Number of Guardians who admit their children into English Medium Schools	Causes of taking admission into English Medium Schools	Percentage (%)
8	Relatives are studying	4
20	Future career and higher studies	10
12	Competitive examinations	6
4	Closer to residence	2
14	Social trend	7
24	Quality of education	12
4	Parents have studied in English Medium School	2
6	Parents have not studied in English Medium School	3
55	English learning is essential	27.5
10	Financial factor	5
31	Universal acceptance	15.5
4	Ethical value	2
4	Not mother tongue	2
4	Personality and confidence	2

FIGURE 1: GRAPHICAL REPRESENTATION OF TABLE 5



INTERPRETATION

From the first table we observe that the calculated value of Chi Square = 26.87 at 3 df which is higher than the table value of Chi Square at 1 % level = 11.34.It implies that the level of monthly income of guardians and admission of children into English medium school is not dependent on each other.

From the second table we observe that the calculated value of Chi Square = 40.01 at 4 df which is higher than the table value of Chi Square at 1 % level = 13.27.It implies that the level of education of guardians and admission of children into English medium school is not dependent on each other.

From the third table we observe that the calculated value of Chi Square = 5.07 at 2 df which is lower than the table value of Chi Square at 1 % level = 9.21.It implies that the nature of employment of guardians and admission of children into English medium school is dependent on each other.

From the fourth table we observe that the calculated value of Chi Square = 15.62 at 3 df which is higher than the table value of Chi Square at 1 % level = 11.34.It implies that the religion of guardians and admission of children into English medium school is not dependent on each other.

From the fifth table we observe that out of 200 respondents 55 respondents say that they admit their students into English medium school as English learning is very essential, 31 guardians say that they admit their students into English medium school due to its universal acceptance, 24 guardians say that they admit their students into English medium school as quality education is provided in English medium school, 20 guardians say that they admit their students into English medium school due to future careers and higher studies , 14 guardians say that they admit their students into English medium school as it is a social trend.12 guardians opine that they prefer English medium school because students take preparation for competitive examination in the near future. Eight guardians say that they admit their children into English medium school as their relatives are studying into English medium school. Only 6 guardians say that they admit their children into English medium school as they had not studied into English medium school. Very few guardians opine that they admit their children into English medium school due to several reasons like ethical values, not mother tongue, enhancement of personality, confidence and closer to residence and parents have studied into English Medium School.

CONCLUSION
From the above result we can conclude that among many factors the nature of employment of guardians and admission of children into English medium school is associated with one another.Another conclusion is that there is no degree of association among the level of monthly income of guardians, the level of education of guardians and the religion of guardians with admission of children into English medium school.

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AN EMPIRICAL STUDY ON TEA EXPORT COMPETITIVENESS IN SRI LANKA: BASED ON PARTIAL LEAST SQUARES STRUCTURAL EQUATION MODEL (PLS-SEM)

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ABSTRACT
Export development plays an important role in promoting economic growth and development. Understanding of export competitiveness has primarily been pursued in terms of economic variables and market conditions. The study involved an investigation into the determinants of export competitiveness of tea industry in Sri Lanka and to develop a framework to enhance the competitiveness of tea industry. Quantitative research approach was used and Porter's diamond model with some adaptations was taken as proposed model of this study. E-mail survey compromised with the structured questionnaire was used to collect primary data from the sample. Key managers of tea exporting firms were considered as the respondents. Partial least squares structural equation model (PLS-SEM) was utilized to analyze the contribution of each factor on tea export competitiveness. The data obtained from the firm level survey were analyzed using Smart PLS version 2.0 statistical packages. Supported by the empirical evidences this study found out that factor conditions have the most significant influence of export competitiveness of tea industry and the second important is government support. Followed by government support, demand condition and brand loyalty have also made positive impact on export competitiveness of tea industry in Sri Lanka. While identifying important elements, results indicated that raw material, technology, physical infrastructure, information infrastructure, related industries, and firm characteristics have significant impact. Giving priority to those elements strategies should be developed to enhance competitiveness of Sri Lankan tea export. By creating favourable conditions, Sri Lanka can remain competitive position in the global tea industry for many years to come.

KEYWORDS
Tea industry, Competitiveness, Porter's diamond model, Partial least squares structural equation.

1. INTRODUCTION
1.1 BACKGROUND OF THE STUDY
The process of economic integration, globalization and technological advancement strengthen export development of nations. Export development plays an important role in promoting economic growth and development. It contributes significantly to enhance capital inflow, reduce trade balance deficits, make balance of payment (BOP) surplus, increase employment and expand the production base of a nation. As a result of increasing size of international trade, the concept of export competitiveness plays a vital role in international trading system. Export competitiveness has been paid more attention in order to develop export portfolio of nations. To promote economic development and survival in the global competitive market, export competitiveness is an essential component of a country.

The nation's long-term survival depends on how it compares with other countries which produce similar products. For small economies, export is substantial in sustaining growth and vitality (Saboniene, 2009, p.49). Considering the time period; in 1950, share of export of GDP was 28 percent in Sri Lanka, 1970 it was 20 percent, in 2000 it was 33 percent, 2005, 26 percent, 2007, 24 percent, 2009, 17 percent, 2010, 18 percent, 2011, 18 percent and last recorded in 2012 it was 16.67 percent (Central Bank Reports). There is no significant expansion of foreigners' demand for Sri Lanka's products. Since 2005, economic growth has recorded above 6 percent and last two years (2010 and 2011) it reached to 8 percent. Declining tendency of export share of GDP indicates that Sri Lanka was unable to raise its export at least at the same rate as GDP growth. Depending on domestic market is not a good development signal for a country like Sri Lanka because it does not have a strong domestic market compared to India and China. Sri Lanka being a tiny economy has an insignificant share of exports in the world exports. It is even less than 1%.Sri Lanka's share in the world total export has declined drastically from year 2000 to 2012. Based on the International Trade Center (ITC) statistical data, Sri Lanka's share in world export; 2000 – 0.08 percent, 2005 – 0.06 percent, 2009 – 0.05 percent, 2010 – 0.048 percent 2011 – 0.04 percent and 2012 – 0.055 percent. It depicts that when the world exports have been rising, Sri Lanka has failed to keep pace with the global growth trends. It demonstrates the existence of a serious structural problem relating to Sri Lanka's export sector and immediate measures must be applied to correct those structural issues. To sustain high economic growth, it has to sustain its export market share. Considering the above mentioned situation, it can be identified that Sri Lanka has to expand its export sector.

1.2 TEA INDUSTRY
Among the export composition, tea, as the highest net foreign earning sector, provides significant contribution to the country's economy. The study focused on Sri Lankan tea industry because of its long history and its position as one of the key player in the global market. It is the third largest agricultural industry and second largest exporter in Sri Lanka. Sri Lanka tea industry celebrates 146 years of commercial history in 2013. The tea industry initiated by the British played an important role in the economy during pre and post-independence Sri Lanka. Since independence in 1948, tea along with rubber and coconut contributed more than 92 percent of total export earnings of Sri Lanka. Since 1867, tea has become the key industry in economy of Sri Lanka. As the highest net foreign exchange generator, tea is considered to be the most important agri business in the country. It also accounts nearly 10 percent contribution to national output and generates more than 10 percent employment opportunities directly and indirectly (nearly 2 million employed) (SL Tea Board, 2013). Sri Lanka is one of the leading tea exporting country in the world. Since the global tea market is very competitive, the tea industry in Sri Lanka has not performed well in the global market, especially concerning about the global market share, compared to other tea exporting countries like; Kenya, China and India. During the last decade, the country's relative position in terms of export market share shows a considerable decline (Table: 1.1).

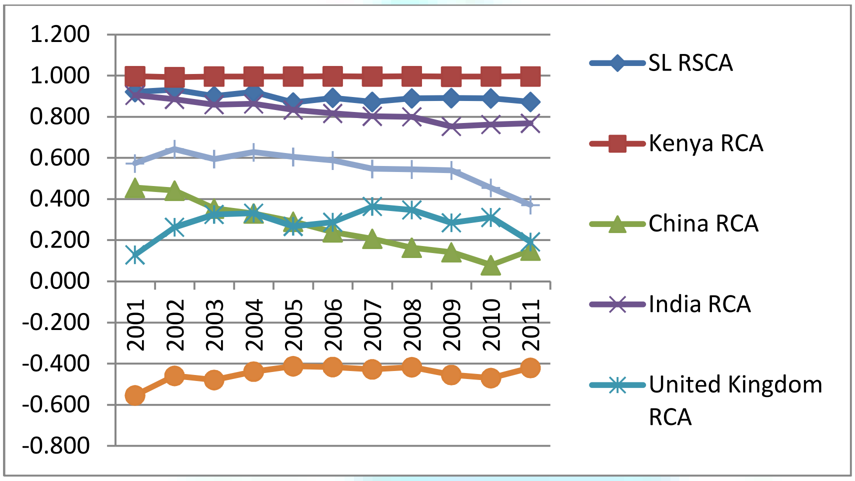
TABLE 1.1: MARKET SHARE OF THE MAJOR TEA EXPORTING COUNTRIES

Share of world export (tea) %	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Sri Lanka	**26.1**	25.7	22.5	21.6	22.1	20.9	22.6	22.9	21.6	20.4	20.3	**20.0**
Kenya	15.2	5.6	16.1	13.7	15.6	15.8	15.5	16.9	16.4	18.2	18.5	18.9
China	11.6	13.1	12.3	12.9	13.3	13.1	13.4	12.4	12.9	12.3	14.4	16.5
India	14.4	12.8	10.5	11.3	10.6	9.9	9.6	10.2	10.2	10.9	12.9	12.9

Source: International Trade Centre (2013)

The highest tea export share, nearly 18 percent, goes to Russia and nearly 12 percent goes to United Arab Emirates (UAE). Other countries like Iran, Syria, Iraq and Turkey share is less than 10 percent of total tea export. Analyzing major tea exporters, the amount of tea exported to Russia and UAE, it is clearly identified that export share of those countries fluctuated from time to time (from 2001 to 2012). For an example, considering Russia, export share reduced from 20 percent to 16 percent and in UAE it declined from 13 percent to 6 percent. While considering export destinations of Kenya, export share of UAE and Russia has increased significantly. An amount of tea that Russia imported from Kenya has increased from 5125 metric tons to 11821 metric tons during the time period from 2002 to 2011. The revealed comparative advantage of the competitors, especially Kenya, has significantly increased which adversely affects the tea industry of Sri Lanka (Figure: 1.1). This clearly highlights that Sri Lanka is losing its tea export competitiveness compared to other major tea exporters.

FIGURE 1.1: REVEAL COMPARATIVE ADVANTAGE OF TEA IN MAJOR TEA EXPORT COUNTRIES



Source: Compiled by authors based on International Trade Centre (ITC) statistics

1.3 PROBLEM STATEMENT OF THE STUDY

The main problem of this study is why Sri Lankan tea industry lost its export competitiveness? To address the main research problem, it is necessary to identify the factors which affect on export competitiveness in Sri Lankan tea industry. Therefore, the specific research question is; what are the determinants of export competitiveness as pursued by the firms in tea industry in Sri Lanka?

1.4 OBJECTIVES OF THE STUDY

The primary objective of this study is to identify the factors which affect export competitiveness of tea industry in Sri Lanka. It is required to develop a model in order to answer the question, what are the determinants of export competitiveness of tea industry in Sri Lanka.

1.4.1 SUB-OBJECTIVES:

To study the current status of tea industry in Sri Lanka

To suggest strategies to increase the strength of tea industry's international competitiveness

1.5 SIGNIFICANCE OF THE STUDY

The study attempted to develop a model in order to answer the question, what are the determinants of export competitiveness of tea industry in Sri Lanka by drawing attention on Porter's theory of the competitive advantage of nations. This study also introduced partial least square structural equation model (PLS-SEM) to quantitatively analyze the contribution of each determinant to tea export competitiveness. The framework, which developed in this study, should help policy makers and industry associations to assess their export competitiveness. It will also help to promote certain industries by directing scare resources to sectors where they may count the most. The findings of the study can also be useful to identify industries which have fast growing behavior.

1.6 STRUCTURE OF THE PAPER

The study has five major chapters. After the introduction, the second chapter provides a conceptual review of literature which assists the theoretical foundations for the development of the conceptual framework of competitiveness. Thereafter, chapter three provides the description and justification of the methodology of approach to the study. Data analysis and findings are illustrated in chapter four. Chapter five carries out the discussion of the findings.

2. LITERATURE REVIEW

2.1 COMPETITIVENESS

The global economies have five basic characteristics (Prokopenko, 2000); intensified global competition and emergence of new production, innovative technological environment, proliferation, spread and restructuring of transnational corporations, diversified global financial system and changes in the state's role in domestic and global economic affairs. Competitiveness can be applied to economies, countries, regions, industries, individual firms and individual product or service (Shafaei, 2009). At the level of individual firms, competitiveness is the ability of a firm to survive and prosper, given the competition of other firms for the same profits. Creating and sustaining competitive advantage required that a firm always stay ahead of its competition. According to Hoefter, 2001, a nation's industry is competitive relative to other nations' industries if the industry as an aggregate has a competitive advantage that allows it to consistently create higher value and higher profits than rival industries in other nations. At the level of national competitiveness, the term is typically used to describe either a nation's ability to sustain high productivity, leading to higher standards of living for its citizens.

In scientific literature, competitiveness is discussed under two basic approaches, namely; classical approach and neo-classical approach (Bruneckiene and Paltanavicience, 2012). The classical approach considers competitiveness as a dynamic contest process, whereas in the neo-classical approach, as a specific structure of the market. Taner, Oncu and Civi (n.d) regarded international competitiveness as the fuel for the engine of growth because it is the instrument that empowers the engine. To improve productivity and competitiveness, nation should compete in creating the policy, structure and institutional framework. Competitiveness is the name to describe the economic strength of a nation, industry or individual firm (Srivastava, Shah and Talha, 2006,). The concept of competitive advantage is widely used in modern economic literature to evaluate the patterns of trade and specialization of countries in commodities which have a competitive advantage (Saboniene, 2009).

According to the International Institute for Management Development (IIMD), "competitiveness is the ability of a nation to create and maintain an environment that sustains more value creation for its enterprises and more prosperity for its people' (IIMD, 2009, p.475)

As Porter (1990(a), p.73) mentioned, "competitive advantage created and sustained through a highly localized process. Differences in national values, culture, economic structures, institutions and histories all contribute to competitive success"
Considering the above definitions, competitiveness can be referred as a country's ability to create, produce and distribute products in international trade while increasing returns on its resources.

2.2 EXPORT COMPETITIVENESS

Export is often associated with competitiveness of the country at the international level. As Bruneckiene and Paltanavicience (2012) mention, in scientific literature, international competitiveness is often identified with exports. Krugman (1994) argued that, export is obviously important for the country competitiveness. Export expansion within external market increase export revenue and diversity of export structure can be considered as the country with necessary competitiveness. The competitiveness of export causes the nation to command greater market shares sustain the level of revenue, income, and employment created in the various sector of economy. Export competitiveness involves, measuring international share, diversifying export baskets, sustaining high rate of export growth, upgrading the technology, and skill content of export activity and expanding the base of domestic firms to compete internationally (Nogami, 2008).

Considering the above mentioned factors export competitiveness is identified as the reflection of national competitiveness. Then why a country needs to identify the determinants of export competitiveness? As Bruneckiene and Paltanavicience (2012) mentioned, without identifying factors affecting on competitiveness, it cannot be improved. The academic understanding of export competitiveness of a country is still forming and determinants of export competitiveness are still being identified.

2.3 PORTER'S DIAMOND MODEL

Competitive advantage was coined by Michael Porter in 1990, assessing that competitive advantage was created and sustained by firms' ability to innovate and improve the quality of products and production process through technological advancements (Porter, 1990b). "Porter's diamond framework is not a new theory that explains the competitiveness of countries, but rather a framework that enhances the understanding of the international competitiveness of firms" (Smit, 2010, p.105).

There are rich literatures on Porter's diamond model, Watchravesringkan *et al.,* (2010), Jin and Moon (2006), Bakan and Dogan (2012), Prasad (2000), Prasad (2004), Dunning (1993), Sun *et al.,* (2010), Ariyawardana (2001). Porter's diamond model revealed that a nation cannot succeed based on the isolation of industries. A nation's success in a particular industry is driven by four interrelated determinants, namely; factor conditions, demand conditions, firm strategy, structure and rivalry, and related and supporting industries. The model also suggested that the government should act as a challenger for industry to aspire higher level of competitive performance.

Factor conditions determinants include the production factors necessary to compete in a given industry (Porter, 1990b), such as; human resources, physical resources, knowledge resources, capital resources and infrastructure. Demand conditions are the pressures based on buyers' requirements about quality, price and services in a particular industry. Demand conditions make the direction of innovation and product development. Firm strategy, structure and rivalry refer to the conditions in the nation governing how industries are created, organized and managed, as well as the nature of domestic rivalry. Related industries are those in which organization can allocate production activities in the value chain. Supporting industries create potentials for competitive advantage by producing inputs, providing new technologies and opportunities to utilize new technology and transferring of knowledge. Apart from the main four factors, Porter argued that there are two other determinants of national competitiveness, chance and government role. A government can positively or negatively influence each determinant which contributes to nation's competitive advantage.

It is clear from literature that Porter's diamond model is not about trade, patterns of trade gains from trade, but it is rather a general framework for analyzing the determinants of advantage that enhance the international competitiveness of firms (Smit, 2010). Esterhuizen and Rooyen (2006) determined the factors influencing the competitiveness of agricultural exporting firms in South Africa. Porter's diamond model is used to identify the key factors that influence competitiveness of agriculture exports. Hoefter (2001) applied quantitative model on Porter's diamond model. The quantitative model included 17 elements and each is related to one of the determinants of Porter's diamond model. Korean textile industry's competitiveness investigated by Jin and Moon (2006) using Porter's diamond model framework. Shafaei (2009) emphasized that, Porter's diamond model of competitive advantage provides a good basis for identifying the determinants affecting the competitive performance of the synthetic fiber industry in Iran. Thailand apparel industry's competitiveness was studied by Watchravesringkan *et al.,* (2010) drawing attention on Porter's theory of the competitive advantage of nations. J.E Austin Association Inc. and Sri International (1998) developed the Porter's diamond framework for Sri Lanka (cited on Ariyawardana, 2001).

The most of empirical studies on determinants of export competitiveness [(Watchravesringkan *et al.,* (2010), Jin and Moon (2006), Prasad (2000), Prasad (2004), Dunning (1993), Ariyawardana (2001), Olmenda and Varela (2012)] are based on qualitative approach. There are limited numbers of studies (Shafaei (2009), Hoefter (2001) which applied both quantitative and qualitative model to identify the factors affecting on export competitiveness based on Porter's diamond model. To develop a model to analyze the interactions among the competitiveness factors of the real estate industry in Beijing and Tianjin Sun *et al* (2010) used Porter's diamond model. This study utilized structural equation modeling (SEM) to analyze the factors affecting on real estate competitiveness. In the model of Sun *et al* (2010), competitiveness factor was used as variable of firm's strategy, structure and rivalry of Porter's diamond model. The researchers argued that firms need a strategy to set direction for themselves and to outsmart competitors. Strategy enables the firm to concentrate its resources and exploit its opportunities and its own existing skills and knowledge to very fullest. By inspiring the work done by Sun *et al* (2010), Bakan and Dogan (2012) studied the main factors that affect the competitiveness of textile, food, and jewellery sectors of Kahramanmaras using Porter's diamond model. To measure competitiveness firm's strategy, structure and rivalry was used in the diamond model. Therefore, it is more vital to apply quantitative approach to identify determinants of export competitiveness of tea industry in Sri Lanka.

In addition to main determinants of export competitiveness introduced in Porter's diamond model, there may be many factors affecting export competitiveness. As Porter (1990(a)) mentioned differences in national values, culture, economic structures, institutions and histories all contribute to competitive success. While analyzing respondents' ideas in pilot survey relating to the influencing factors on tea export competitiveness in Sri Lanka, branding Ceylon tea; as high quality tea, make great impact to gain competitive advantage to tea industry. The concept of brand loyalty is comparatively more important for tea industry, especially for those who provide product with little differentiation and compete in dynamic environment. And also Sri Lankan tea is world famous for its rich aroma and taste. Then it is important to identify whether brand loyalty is a determinant of competitiveness of tea industry in Sri Lanka.

2.4 BRAND LOYALTY

"Brand has become so strong that hardly anything goes unbranded, even fruits and vegetables" (Wickramasinghe and Liyanage, 2009, p.58).

Brand loyalty brings competitive advantage to the firm. It is based on thorough understanding of the firms' customers' behaviour and business environment. There are two components that affect brand loyalty namely; buying behaviour and attitudes behind the purchase. Consumer satisfaction is integrated as a dominant factor of purchase intentions of the customer. A brand needs to concern about a customer in terms of satisfaction. Trust in the brand derives attitude behind purchase of product. A consumer who trusts a firm is likely to trust its brand. Firm's experience and quality of the product are concerned as influential factors on trust in the firm.

As Panyachokchai (2013) mentioned, brand loyalty is an important factor to keep long-term customers to use a product and also it is very important for firms to make a business plan and gain competitive advantage. Brand loyalty represents a favourable attitude towards a firm resulting in consistent purchase of the product over time and it is the result of consumers' learning that one brand can satisfy their needs (Assael, 2001). According to the study of Wignaraga (2008), there is a positive relationship between orders from leading buyers and export performance of the firm. To support Wignaraga (2008) argument, Brencic, Ekar and Virant (2001) explored the influence of buyers' behaviour on export performance in Slovenian international firms. Nawaz and Usman (2012) attempted to provide a broad view of brand loyalty by proposing a model. The key findings of the study revealed that consumer satisfaction, organizational commitment and trust are major antecedents of brand loyalty. In addition to satisfaction they revealed that there is a connection between trust and brand loyalty. Selnes (1998) explained that firm's reputation and customer's satisfaction has positive relationship with brand loyalty. Trust in the brand is outcome of the trust in the firm.

The characteristics of the firm can influence the degree to which consumers trust in the brand (Lau and Lee, 1999). A consumer's knowledge about the firm's characteristics is likely to affect his or her assessment of the brand. The characteristics of the firm proposes to affect a consumer's trust in a brand are the consumer's trust in the firm. Lages and Montgomery (2004) emphasized that there is a significant relationship between firm characteristics and export performance. As firm characteristics, they considered; export commitment, international experience, firm size and quality certificate obtained. Panyachokchai (2013) revealed that trust in terms of credibility was the most influencing factor on brand loyalty.

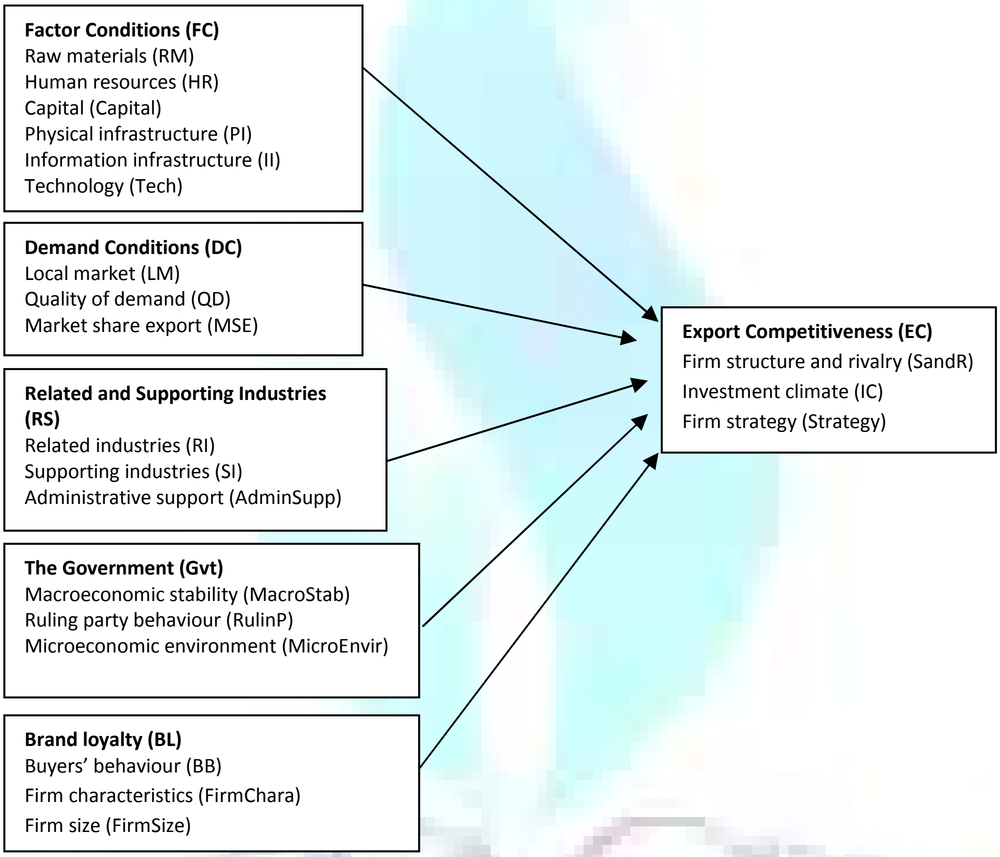
3. RESEARCH METHODOLOGY

This study used quantitative approach to investigate determinants of tea export competitiveness in Sri Lanka. As Amaratunga *et al.,* (2002) mentioned primary goal of the quantitative research is to describe and understand the strength of relationships in order to establish causal associations among objectively specified variables through testing hypotheses derived from predictive theories.

3.1 CONCEPTUAL FRAMEWORK

The proposed model in this study is based on Shafaei's (2009) approach, Sun *et al* (2010) and Bakan and Dogan (2012) model which are adopted from Porter's model. To develop a model to analyze the interactions among the competitiveness factors of the real estate industry in Beijing and Tianjin Sun *et al* (2010) used Porter's diamond model. In this study researchers argued that three variables of the diamond model; factor conditions, demand conditions and related and supporting strategy, affect the competitiveness factor. As competitiveness factor, firm strategy, structure and rivalry of the diamond model was used. Researchers used structural equation model (SME) to support their arguments. Firm's strategy, structure and rivalry explains how a firm or industry is originated, systemized and managed the domestic competition that could support a firm or industry to achieve a sustained competitive advantage internationally. The conceptual framework of the study is illustrated in Figure 3.1.

FIGURE 3.1: CONCEPTUAL FRAMEWORK OF THE STUDY



Source: Porter (1990, p.60) with adaptations Shafaei's (2009) and Bakan and Dogan (2012)

3.2 POPULATION AND SAMPLE

Target population of the study consisted with individual firms which are engaging in tea export in Sri Lanka. According to industry statistics there are 177 firms engage in tea exporting (Sri Lanka Export Development Board, 2012). To fulfill the theoretical requirements of sample size, 177 firms were taken as the sample of this study.

3.3 DATA COLLECTION

In Sri Lankan context, it is difficult to gather relevant data which suite to measure the desired model. To overcome the difficulty of collecting data from secondary data sources, this study decided to rely on primary data sources to achieve the main objectives. The data were obtained by using structured questionnaires. Questions in the questionnaire were designed as structured questions in terms of gathering information on ordinal scale form. The ordinal scale is ranging from 1 (strong disadvantage) to 5 (strong advantage) with the neutral point of 3 (neither competitive advantage nor competitive disadvantage). Responders' ideas and views related to the tea industry and influencing factors on export determinants were asked with the open-ended question in the questionnaire. Key managers in the tea exporting firms in Sri Lanka were chosen as the respondents of this study. Electronic mail (e-mail) survey was used to collect information.

3.4 STATISTICAL METHOD

To identify the importance of particular factors for the competitiveness of tea export in Sri Lanka, structural equation modeling (SEM) is an appropriate technique. SEM is a very general statistical modeling technique which represents factor analysis, path analysis and regression analysis. With the arising of issues related to data characteristics (non-normal data) and sample size in SEM, partial least squares structural equation model (PLS-SEM) was introduced. According to Monecke and Leisch (2012), depending on the researcher's objectives and the view of data to theory, properties of the data at hand or level of theoretical knowledge and measurement development, PLS-SEM path modeling is more suitable. PLS-SEM application has expanded in recent years with various disciplines. PLS-SEM works particularly well with small sample sizes. As a popular rule of thumb for this model estimations (Hair *et al.,* 2012), sample size should be ten times the maximum number of path in the constructed model. Smart PLS version 2.0 statistical package was employed to perform PLS-SEM application of this study.

3.5 HYPOTHESES DEVELOPMENT

According to the model, the following research hypotheses are defined;

H1: The factor conditions have a positive effect on the export competitiveness of tea industry in Sri Lanka
H2: The demand conditions have a positive effect on the export competitiveness of tea industry in Sri Lanka
H3: The related and supporting industries have a positive effect on the export competitiveness of tea industry in Sri Lanka
H4: The government has a positive effect on the export competitiveness of tea industry in Sri Lanka
H5: The brand loyalty has a positive effect on the export competitiveness of tea industry in Sri Lanka

4. RESULTS AND DISCUSSION

The main survey was conducted using 177 tea exporting companies. Of the 177 tea exporters, 129 responded. 6 questionnaires were not completed properly therefore those 6 questionnaires were removed from statistical analysis. Finally, 123 questionnaires were taken to conduct statistical analysis of this study. By conducting a statistical analysis based on partial least squares structural equation model (PLS-SEM) using Smart PLS version 2.0, the study attempted to identify the impact of factor conditions, demand conditions, related and supporting industries, government support and brand loyalty on export competitiveness of tea industry. Validation of measurement properties were tested through factor analysis, composite reliability, latent variable correlation, cross loading and multicollinearity analysis. All are satisfied with the threshold values.

4.1 PATH COEFFICIENT

The individual path coefficients of the PLS-SEM can be interpreted just as the standardized beta coefficients in the regression model. These coefficients represent the impact of the endogenous construct on the predictor construct. Table 4.1 shows the results of path coefficient the model.

TABLE 4.1: PATH COEFFICIENT

	BL	DC	EC	FC	GVT	RS
BL			0.1755			
DC			0.1769			
EC						
FC			0.2819			
GVT			0.2759			
RS			0.1503			

Source: Compiled by authors based on empirical data

All the drive constructs in this model have positive impact on export competitiveness. Considering the relative importance of the exogenous driver constructs in predicting the dependent construct, factor conditions is most important followed by government support and demand conditions. Brand loyalty provides 0.1755 impacts on export competitiveness and a related and supporting industry has least impact on export competitiveness. The given model of this study does not have moderating variables. Total effect and path effect of this model is equal and there is no indirect effect on the constructs. As next pace in the data analysis, it is required to identify the actionable strategies based on size of exogenous construct weights. Then outer weights of constructs calculated and results are displayed in table 4.2.

TABLE 4.2: OUTER WEIGHTS

	BL	DC	EC	FC	GVT	RS
AdminSupp						0.2105
BB	0.3806					
Capital				0.1727		
FirmChara	0.3865					
FirmSize	0.3376					
HR				0.2036		
IC			0.3687			
II				0.2134		
LM		0.2324				
MSE		0.3418				
MacroStab					0.3886	
MicroEnvir					0.3757	
PI				0.2245		
QD		0.2809				
RI						0.2665
RM				0.4171		
RulingP					0.3285	
SI						0.2124
SandR			0.3766			
Strategy			0.3473			
Tech				0.2878		

Source: Compiled by authors based on empirical data

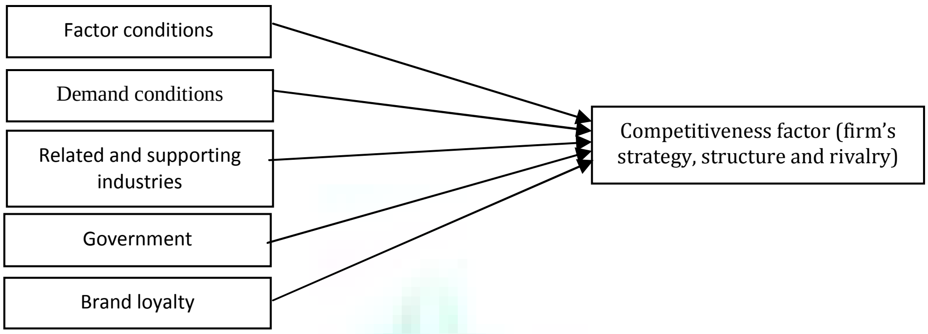
By examining the outer weights of construct indicators, it is possible to identify which specific element of export competitiveness needs to be addressed. As per that raw material is the highest out weight in factor conditions while macroeconomic stability to the second in government support. From the brand loyalty, firm characteristics has the highest outer weight and export market share has the highest value in demand conditions. The results shows in table 4.3 verified that all the determinants have positive path coefficients and are statistically significant (P value is less than 0.05 and t-value is higher than 1.96). Therefore, all the hypotheses developed in this study can be accepted.

TABLE 4.3: HYPOTHESES MEASUREMENTS

Variables	Path coefficient	Standard deviation	t-value	P-value (Sig.)
Factor conditions	0.2819	0.0381	7.4052	0.000
Demand conditions	0.1776	0.0365	4.8434	0.003
Related and supporting industries	0.1503	0.0338	4.4486	0.012
Government support	0.2741	0.0393	7.0296	0.000
Brand loyalty	0.1749	0.0437	4.0163	0.010

The proposed model for determinants of tea export competitiveness in Sri Lanka illustrated as follows (Figure 4.1).

FIGURE 4.1: PROPOSED MODEL OF THE STUDY



Source: Compiled by the author based on empirical evidence

4.2 DISCUSSION

Supported by the empirical evidences this study found out that factor condition has the most significant influence of tea export competitiveness followed by government support and demand condition. The prior studies also confirmed that findings. The study of Shafaei (2009) revealed that among the five determinants, factor conditions contributed the most to the performance while demand conditions contributed the least to the performance of the firms. Confirming the same findings, Esterhuizen and Rooyen (2006) identified that factor condition is the most important determinant in South African agro-food industry.

Watchravesringkan *at al., (*2010) revealed that factor conditions, related to country's natural and human resources, are necessary to enhance the competitive advantage in the apparel industry. Making argument they revealed that Thailand government plays an important role in assisting the apparel industry to sustain its competitiveness. Satharasinghe (1998) identified the factors determining competitiveness of an industry as; internal and external factors. Internal factors include leadership capability, ability to reduce cost of production, and degree of differentiation. External factors include micro and macro level policies of a country. Land policy, labour policy, infrastructure, and incentive for export orientations were considered as micro level policies; whereas, macro level policies consist with fiscal and monetary policy, trade, wage and industrial policy. Hoefter (2001) identified that main factor driving the competitiveness of Ghana's industries is natural resources. Having good supplier network (backward integration), building own infrastructures, working with foreign management and training labour forces are other factors which have been able to build up a competitive advantage in the industry. Bezic, Vojvodic and stojcic (2010) confirmed that use of internet and possessing quality certificates have significant impact on export competitiveness. The study of Ghosh and Ghosh (2013) tested the behavioural pattern of tea consumers considering the trait in mind like popularity of a brand, consumer satisfaction, brand loyalty, colour and price. The study evidently described the fact that brand loyalty is the dominating attribute that governs the decision making of the consumer while selecting particular tea brand.

4.3 MANAGERIAL IMPLICATIONS

The high cost of production becomes the enormous burden to tea industry. Labour shortage and low land productivity are the main factors affecting to have high production cost. To overcome the issue of labour shortage, social recognition of plantation workers need to be promoted. Making the facilities available to access to skill development will also be able to attract young generation to tea industry.

Tea plantation firms should increase soil fertility level by rehabilitating soils using compost. Research institutions should develop fast growing tea plants that could have a longer sustainable life span. In here assistance from related and supporting industries plays a key role. As an incentive provider, the government should provide subsidies for the cost of replanting and grant tax relief for replanting period.

Creating the strong competition in the local market is a vital strategy to enhance competitive. As a country which attracts one million tourists in 2013 and expects to have more than two million tourists in 2016, it is clearly noticeable that Sri Lanka should provide more places to promote Ceylon tea through tourists. The authorized parties like; Sri Lanka Tea Board, Export Development Board, Tea Exporters Association, should have responsibilities to promote a tea culture among Sri Lankans as well as among tourists visiting the country. The promotional campaigns must highlight the new trends in tea consumption such as; green teas, ice teas, cocktails and mocktails.

Consumers' trust towards the product and the firm helps to build brand loyal customers. To assure the customers of the best quality in keeping with international standards, tea manufacturing and tea exporting firms need to obtain international quality certificates such as; ISO 9001-2008 and HACCP food safety management system certification, JAS, GMP, KOSHER, NASAA and USDA Organic. It is also recommended to apply modern manufacturing practices such as Kaizan, 5S and JIT to tea processing centers.

Sri Lanka's present value added product range includes Green tea, flavored tea, organic tea, instant tea and ready to drink tea (RTD) in packets bags or other forms. Due to the improvements of research and developments, there are varies range of latest products introduced to value added product range of tea namely; T-bar, tea based soap, bath gel, shampoo and cosmetic products. Introducing the latest product range to tea export list will offer competitive advantage.

Further, the macroeconomic control functions should be strengthened and guiding function of government needs to be emphasized. In other words foreign exchange rate stability, tariff structure of the country, import-export policies and procedures of the country, and support given to expand the export destinations need to be strengthened to gain competitive advantage of tea exporting. On the other hand the government's support on promoting tea as brand rather than exporting tea in bulk is needed to be considered.

5. CONCLUSION

Given its current position, Sri Lanka has significant room to improve its competitiveness in tea industry through improving raw materials standard, applying technological innovation to production process, creating strong competition in the local market, stabilizing foreign exchange rate, and acquiring government support to build investment friendly environment, developing infrastructure facilities and export expansions. The findings of this study clearly emphasized that Sri Lanka's government has to play key role in providing an environment that would have allowed the development of competitiveness of tea industry. In addition to that the industry should be moved from short-term opportunities to long-term strategies. It should build up long-term competitive positions through quality and brand reputation. By analyzing the results and comments of respondents suggestions are given to improve the competitiveness of tea industry in Sri Lanka.

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CROSS CULTURAL MANAGEMENT IN INDIAN SOFTWARE COMPANIES: AN EMPIRICAL INVESTIGATION ON JAPANESE & INDIAN MANAGERS

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ABSTRACT

Globalization & Liberalization together have helped many developing countries to become a part of globalized world. The incremental globalization of the world economy has brought the researchers o scrutinize the cross-cultural aspects of the companies. Research has specially focused on the changes of the global economy on the multinationals from developed economies going into developed or emerging economies. Thus many questions about the management culture practiced in foreign subsidiaries of emerging countries' multinationals remain confused rather unanswered. However, the speed of globalization, it is important for the foreign Managers to understand the business and management culture in India and on the same platform how Indian employees working in these MNC's adapt to the foreign management styles to deliver the best of organizational performance. The research explored Japanese and Indian Managers' differences in perception of the diversity management practices in Indian software companies to understand the context in which they manage their human resources.

KEYWORDS
Globalisation, Liberalisation, cross culture.

INTRODUCTION

During the last decade, there was a notable increase in Japanese organizations expanding their business operations to the Indian sub-continent and response to the liberalization policy of the Indian Government that supports foreign direct investment in India. Japan now is India's fifth ranked trade partner and this trade gap points to untapped business opportunities. This research aims to investigate cross cultural and diversity management practices of Indian companies in order to assist Managers in international and multinational corporations to understand the context in which they manage their human resources.

Cross cultural management has an impact on human resource (HR) plans or business strategy. In the context of increasing internationalization of businesses and expansion where interactions among socially & culturally differing people occurs, HR Managers have to forcefully increase individual and group commitment to organizational goals by creating a conducive cultural yet diversified climate.

In the case of diversity management practices, there is no standardized term or procedure to accomplish the workforce. As a result 'Workforce diversity' evolved out of the cross cultural practices of the cross border nations.

OBJECTIVES

1. To study the cross cultural climate prevailing in Indian Software Companies.
2. To study the differences in organizational behavior pattern of Japanese & Indian Managers in Indian Software Companies.
3. To study the perception of diversity climate of Indian Software Companies among Indian & Japanese Managers.

REVIEW OF LITERATURE

Aubrey (2007) focuses on the concepts of vertical and horizontal diversity. Vertical diversity evaluates difference as superior or inferior, whereas horizontal diversity treats difference as variation.

There are two problems of vertical diversity namely assimilation and separation. Assimilation solves it by submergence of difference and separation by isolating difference. He argues that for a relational workforce in cross cultural set up, diversity paradigms should be integrated with work perspectives, levels of self-representation, uncertainty and certainty orientations.

One view of strategic human resource management acknowledges people as strategic resources and confirms that the 'objective of SHRM are governed by business strategy and corporate strategy is the driver of cross cultural HR strategy' (Erwee 2003).

Kramer (1998) identifies four nations of cross cultural management namely managing differences and similarities individuals, managing differences and similarities within a group, the process of managing 'inclusion' rather than assimilation of differences in a dominant culture, specifying the dimensions of diversity. Race, gender and age are defined as primary dimensions of cross culture whereas secondary dimensions refer to human factors that can change, for example, religious belief or educational level. Building the desired organizational culture, improving management systems and developing leadership competencies are described as actions taken at a system of cross-cultural HRM level.

To be successful and to sustain competitiveness, multinational organizations have to gain strategic control over various cross cultural diversified operations. Multinational firms need to integrate their strategic activities and SHRM policies & practices to overcome cross-cultural problems and conflicts arising in HR arena. (Schuler, Dowling, Decieri (1993). It is strategic human resource domain and the HR department has the prime responsibility for formulating cross cultural diversity-related management policies and also inducting line Managers to ensure effective implementation. Acknowledging the advantages of human diversity, and creating and upholding diversity awareness among the workforce through various intervention, are critical success factors for multicultural organizations. (D'Netto, Smith and Da Gama Pinto 2000).

Diversity programmes and cross-cultural exchange awareness about cross-cultural insensitivity will manage to help cross-cultural management for the expatriates who work in foreign multinational companies. (Erwee 2003).

Cross-cultural work awareness programs aimed at increasing representations of minorities and groups based on personal characteristics, coupled with adherence to diversity legislation and affirmative action will help the process of transformation from monocultural to multicultural entities (Cox 1991; 1993).

Visible involvement, dedicated commitment, strong support from leaders and senior management pertaining to diversity issues could impart credibility to diversity policies and practices. Finally, as the globalization forces facilitate the blending of people from distinct cultures, organizations will have to more intensively address the impacts of national and organizational culture (Nankerues et.al 2002).

Hofstede's (1993) earlier assessment depicted India as high on power distance; low on uncertainty avoidance; more masculine with strong affiliation to collectivism. Companies in India have established personal and hierarchal corporate cultures, incorporating the values and traits of their workforce.

RESEARCH METHODOLOGY

Cross cultural management is a business process and the realism paradigm is appropriate to describe business constructs to conduct research on International cross cultural HR.

Empirical Research is carried out to bring out the cross- cultural behaviour pattern of Japanese & Indian Managers.

TYPE OF RESEARCH

The research uses predominantly a quantitative survey method but also integrates quantitative information gathered in personal meetings.

TYPE OF DATA

Primary Data was collected from Japanese and Indian Managers' responses to a cross-cultural subject based on questionnaire from twelve IT companies of India. The research was designed to collect data through conventional mailing and the the second phase of research was collected through questionnaire cum interview with 16 Japanese Managers and 28 Indian Managers.

SAMPLE SIZE

Out of 16 Japanese Managers, 2 were General Managers, 14 were HR Managers. Out of 28 Indian Managers, 20 were HR Managers, 8 were General Managers. Most of the sampled companies were IT companies or associated IT services companies.

LIMITATIONS

1. As in cross-cultural studies, the language used is critical for reliable results.
2. Japanese were given simple language to understand the meanings of words.

RESEARCH QUESTIONS

1. What are the perceptions of diversity climate of Indian Software Companies among Japanese & Indian Managers?
2. What are the differences in organizational behavior pattern of Japanese & Indian Managers in Indian Software Companies?

FINDINGS I

The questions regarding cross-cultural perception and diversity climate of Indian Software Companies were answered by the sample of managers from the Indian and Japanese perspective. The table of responses is below:

Ho: There is no significant difference in the perceptions.

TABLE 1: MEAN SCORES OF DIVERSITY CLIMATE OF INDIAN SOFTWARE COMPANIES

S.No	Variables	Japanese Respondents N=16 Mean Score	Indian Respondents N=28 Mean Score	Mean Score Difference
1	Diversity in Staff setup	1.22	1.07	0.24
2	Complaints about other languages	2.96	4.26	0.09
3	Racial Ethnic or gender related problems	3.16	2.38	0.20
4	Resistance of Staff to work with other groups	3.98	4.16	0.19
5	Complaints about individuals	4.22	3.30	0.87
6	Conflicts between groups or individuals	4.26	4.14	0.20
7	Difficulties in getting promotions	4.08	3.86	0.80
8	Productivity problems due to conflicts	3.68	3.02	0.09
9	Difficulties in recruiting members of different culture groups	3.86	3.20	0.01
10	Problems resulting from cultural differences between groups	4.20	4.36	0.31

OBSERVATION OF INDIAN MANAGERS

From the above table 1, almost 80% of Indian Managers and 86% of Japanese Managers prove that cultural diversity is reflected in their companies and this reflection is also observed in their work also.

PARTICULAR OBSERVATION

Majority of Indian Managers do not experience resistance to staff in or work with other groups and a major proportion of them consider the occurrence of open conflicts between individuals or groups. Major Indian Managers often face complaints with age or gender related problems and an overall difference in culture does not create a large impact on the motivational level of employees.

OBSERVATION OF JAPANESE MANAGERS

Almost 92% of Japanese Managers definitely observe language constraints and they drop in efficiency level due to misunderstanding of instructions. Japanese Managers on the majority do not see work culture as a major issue as they accommodate with long grueling working hours.

INFERENCE

From the above discussion Ho is accepted which underlines that there is no major significant difference between perceptions of diversity climate among Japanese and Indian Managers in Indian Software Companies.

FINDINGS II

Ho: There is no significant difference in organizational behavior pattern of Japanese & Indian Managers in Indian Software Companies.

To test this research issue chi square test was conducted on various variables of the questionnaire.

Chi square value for variables is presented below:

TABLE 2

S.No.	Variables	Chi square value		Difference
		Japanese	Indian	
1	Dress codes	1.83	9.26	9
2	Punctuality	8.25	9.45	12
3	Flexibility	4.98	9.848	9
4	Recognition	6.87	21.60	10
5	Motivational	12.89	21.26	5
6	Interaction between groups	13.92	16.87	4
7	Leadership	7.07	16.92	6
8	Accountability	4.96	9.87	4

Computed P for Japanese ≤ 0.05

Computed P for Indian ≤ 0.01

Hence Null Hypothesis could be accepted.

On the whole analysis, a source of less difference between Japanese and Indian Managers can be noted in the aspects of Flexibility, Punctuality, Motivational, Leadership roles. So the perceptual differences amongst the Japanese and Indian Managers are not very large but can be viewed / realized on small size.

CONCLUSION

Research on cross cultural diversity in Japanese and Indian Managers is in the miniature level. This study helps to throw light on the assumptions and beliefs, thought process of collaboration work process of Japanese and Indian Manages. Cross Cultural Management is not viewed as a big problem by both groups although their perception about cross cultural diversity differs to some extent. Although it is possible to detect differences in cross cultural climates of Japanese and Indian firms because of cultural and societal dissimilarities, still this research only examines the outer layer of differences and is not deep rooted intensive research will open up the clarity.

SUGGESTIONS
To understand the cross cultural climate of a firm, the company employees should be dwelled on flexibility norms in order to accommodate the diversity needs and tolerance issues. Furthermore there is a general agreement among the managers about the lack of social interactions between various groups despite various cross cultural diversity promoting norms and policies while employing various cadres of people in firms.

HR Managers and General Managers should not hesitate about the spread of diversity practices. None of the sampled companies have taken initiatives to set separate departments to manage cross cultural diversity issues and this is often an unavoidable recommendation for International HR firms in a MNC scenarios point of view. So both the Japanese and Indian business should also expand their business with other strategic alliances of the world.

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BUSINESS PROCESS OUTSOURCING: PROBLEMS & PROSPECTS

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ABSTRACT

Times are changing, and rapidly so. Outsourcing may have started off on the basis of a labour arbitrage benefit in non-core jobs, but it is now rapidly redefining business models. Changing macro-economic factors supplemented by technological advances have led to the evolution of the outsourcing industry. Solid history in software development, High English proficiency, Government support activities, Cost effectiveness, Process quality focus, Skilled workforce, Good entrepreneurial skills, Reasonable technical innovations, had built India as a dominant player on the global front in BPO industry and ranks ahead of competitors such as China, Philippines, Ireland, Australia, Canada etc. On the other hand Improper Infrastructure, lack of business process experience, Poor globalization skills, Internal competition for resources, Regional geopolitical uncertainty, Rising labor costs, Competition from other countries, Government blocking reforms and different means of Corruption are the future challenges for Indian BPO sector. This article tries to elucidate the prospects and problem for Indian Outsourcing Business.

KEYWORDS

Outsourcing, Business Process.

INTRODUCTION

With the opening of economy, free movement has been granted and any organization may initiate its business operations anywhere. This mobility has increased competition in terms of quality and prices both. In this overall changed business scenario, the rule of survival of the fittest will prevail and those who can serve society with quality product at low price will thrive and others are bound to perish. Production process comprised of two activities namely 'CORE AND NON CORE'. Core activities are those which are crucial for a firm and can't be delegated whereas Non-Core are those which adds value to the product but can be delegated to some other specialized firm, and it is here the need of business process outsourcing (BPO) have been felt greatly.

DEFINITION:

"BPO is the delegation of one or more business processes to an external service provider that in turn owns, administrates and manages the selected process based upon defined and measurable performance metrics."

PROSPECTS FOR BPO

As such, any functions of management like marketing, financing, customer management, finance, production etc. can be outsourced. In India, customer care continues to be in the dominant segment in BPO with both revenues and employment doubling in 2012-13 over 2001-02.

BANKING, FINANCIAL AND INSURANCE

BFSI clients are keen on outsourcing since their front-end operations are in high cost locations. Their quest to control the expense to revenue ratio makes this a high-interest area for BPO firms, which can rid them of a lot of back-office work. For instance, company sends its raw accounting data to external service provider for processing it into final accounts and its interpretation. Other operations like retail banking, credit card processing, and mortgages and underwriting are also included herein. Growth rate is expected to be over 60%.

TELECOM

Practically anything can be outsourced in telecom. So about 25% of global outsourcing is in telecom. BPO outfits are engaged in activating services, managing relationships, answering queries, offering technology support and billing. Growth rate is over 100%.

HEALTH CARE

It is completely new area for Indian BPO firms, but has great potential. Already, about 20 companies are engaged in healthcare, offering services like billing, medical insurance, disease-coding, claims management, accounting and clinical trials data management. Growth rate is approximately 100-120%.

HUMAN RESOURCES

HR is another underdeveloped area but it has the potential to grow to $3.5 billion-5 billion by 2008. HR processes include data entry, payroll, processing, staffing, training, compensation, employee communication, pension plans & leave administration and HR data analytics. Growth rate is around 115-125%.

RETAIL

Retail service is an untapped opportunity. Retail chains like Wal-Mart and Tesco outsource back office work such as logistics management, receivables, payables and collections.

HOSPITALITY

Areas like travel and hospitality that are already being undertaken will also grow. That is because airlines and hotels are under pressure to reduce overheads.

FACTORS CONTRIBUTING BPO GROWTH

Multinational giants like American Express, British Airways, Citi group, Dell Computers, GE Capital etc. are outsourcing their business enjoy the benefits of outsourcing.

The BPO market largely relies on the following drivers for its operations.

- The economic downturn and increasing competition are putting cost pressures on enterprises that attempt to optimize their internal operations by reducing the cost of transaction processing in non-core areas. Enterprises around the world are attempting to focus their investments on their core business processes and are increasingly looking at outsourcing non-core business processes, particularly back-office functions.
- Industry consolidation continues to create opportunities for outsourcing i.e. energy, pharmaceutical, manufacturing, telecom and financial services industries. Companies of these industries are faced with integration issues (duplicate business process departments, different technologies) and the need to redesign a new corporate strategy with limited resources. Externalizing the business functions is an option for companies that are undergoing change.
- Globalization is driving multinational enterprises to outsource business processes to local service providers to gain local process expertise. BPO is a viable even crucial business solution in multi-country environments.
- By opting for outsourcing, the firm is left with the huge money will invest in some other business, which it otherwise invests in same business. It can use its other left resources in its core area.
- With the help of it, the company can reduce the risk and can mitigate it because experts in their specific fields provide outsourcing services.

BUSINESS PROCESS OUTSOURCING (BPO)-ADVANTAGE INDIA

The abundant skilled manpower has made India a target destination for multinationals to back end their operations in India. India ranks high in areas such as qualifications, capabilities, quality of work, linguistic capabilities and work ethics, and thus is ahead of competitors such as China, Philippines, Ireland, Australia, and Canada etc. Indian companies have unique capabilities and systems to set, measure and monitor quality targets.

In specific BPO categories, Indian centers have achieved higher productivity levels. For example, the number of transactions per hour for back office processing, than their Western counterparts are high.
India is able to offer a 24*7 service and reduction in turnaround times by leveraging time zone differences. India's unique geographic positioning makes this possible. Many state governments in India are offering incentives and infrastructure to set up IT enabled services.
About 100,000 engineers graduate from India every year. Many of these engineers are employed with call centers for troubleshooting and providing technical support at salaries that are dramatically lower compared to the pay scales in the US. The average monthly salary in India is $ 400 – 700 compared to $ 2700 – 2800 in US.

1. Cost savings of 40 to 60 percent.
2. Quality improvement of three to eight percent.
3. Productivity improvement of 20 to 150 percent.
4. More than 50 million English speaking population, growing in confidence, embracing liberalization and globalization faster than anybody would have dreamed of.

BPO – PROBLEM AREAS
1. Infrastructure: One of the challenging areas for BPO in India is lack of infrastructual facilities in correlation with the amount of business growth.
2. Business process experience: Being an adopted concept to the Indian environment, we lack Experience in transforming business process effectively with in stipulated time.
3. Distance from US: Geographically draw back to Indian BPO sector, is away from U.S. market. The effected hard-core sectors like pharmacy, biotechnology and related areas have more effect on its BPO operations due to distance when compared to other counter parts.
4. Poor globalization skills: India adopted the concept of globalization where recently when compare to west. This made us a bit poor in our globalization skills and operations.

And **other problematic areas** are:
- Positioning & Brand management.
- Cultural differences.
- Leverage expertise for higher-value education.
- Fear/Uncertainty from Pakistan.
- Legal system.
- Some time blinding nationalism.
- Corruption/Piracy/trust.
- Political & religious instability-war.
- Internal competition for resources.
- Over-promise/Under-deliver.
- Regional geopolitical uncertainty.
- Rising labor costs.
- Competition from other countries.
- Government blocking reform/deals.

CONCLUSIONS
India is already well on the way to making the transition as scores of Indian companies are emerging as global players, looking outward with a new-found energy and confidence and last year, for instance, Indian companies paid almost 2 billion dollars - five times the amount for all of 2001 - to acquire 62 overseas companies. If certain minute weaknesses are taken care by us, India will predominantly continue its solid stake in BPO sector. India would soon move from business process outsourcing (BPO) to engineering process outsourcing (EPOs) and Knowledge Process Outsourcing (KPOs), as India was rapidly ascending the knowledge chain and was no longer a base for only low-end processes and operations.

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KOLKATA TO KUNMING: IMPORTANCE OF NORTH EASTERN INDIA

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ABSTRACT

Sino-India's relation had taken a paradigm shift when both come forward to engage in form of trade and commerce with the India's initiation of 'Look East Policy' and China's shifting of development in priority basis towards the southern and western. In this course the Kolkata to Kunming or K2K initiation take shape as a medium of sub-regional integration. This initiative was conditioned by the regional (eastern India and southern China) importance in their respective policy making and framing. K2K had cross a decade with not much of significant endeavors in the course of Sino-India's relations. Something has been missing out and the resultant is the slow pace in integrating the respective regions and missing part is the North Eastern India in form of bridge. The racial and cultural affinity to China and physical belongingness to India, the North Eastern India do have a role to be played which is not seen by many. The BCIM car rally projected the possibility of connecting the Bangladesh, China, India and Myanmar from eastern India to southeastern China via Bangladesh and Myanmar. Thus Kolkata-Imphal-Kunming does make better sense in connection with that of K2K initiative.

KEYWORDS

Sino-India's relation, Kolkata to Kunming and importance of North Eastern India.

INTRODUCTION

Look East Policy' (LEP) was the driving principle of the India's engagement with Southeast Asia and beyond following its 'New Economic Policy' of 1991. The year 2007, mark the realistic approach in India's foreign policy making by initiating 'Look East Policy-North East' (LEP-NE). The opening of North Eastern India (NEI) as a gateway to the world for trade and commerce along with 'people to people contact concept', led India for a major paradigm shift in its policy making and largely widen its security, economic, strategic and political outlook. This shift in the engagement with the other countries had given an essence of the localization of the foreign policy making. Nevertheless practicability of the evolving concept of the localization of the foreign policy seems to be not in channel as citing the India's China engagement.

The BCIM (Bangladesh, China, India, Myanmar), BASIC (Brazil, South Africa, India, China), BRICS (Brazil, Russia, India, China, South Africa), etc. and others multilateral and bilateral engagement had evolved in the wake of Asian rising market, and integration of finance, trade and commerce. Unlike European and American, the Asian racial and ethnic compositions are so diverse that reflects the mosaic culture. This culture is the wheel to the world view of each region and country which manifested at the market and its engagement. Bearing this in mind, we can zeroed the Sino-India's relations will better if some synthesis cultural element is included. NEI stands this synthesis culture and the region can play a role of bludgeon in every aspect of Sino-India's relations. With this understanding, this analysis will narrate the importance of Kolkata to India and Yunnan to China leading to the evolution of K2K in Sino-India's relations. Further, the similarity and shared culture and history of NEI and Yunnan Province of China will be highlighted. The concluding remark of this analysis will be the KIK (Kolkata-Imphal-Kunming) or NEI as a corridor to the India's engagement with China microscopically and East and Southeast Asian in larger context as a pragmatic ingress of integrating the entire 'Asian' region.

OBJECTIVE OF THE STUDY

This study is to find assisting front of K2K which will act as a medium to strengthen Sino-India's relation in form of integrating both for trade and commerce rather than proxy war and unhealthy competition.

HYPOTHESIS

Whether the region which has cultural and racial affinity can play a role in nation to nation engagement or the economic driven principle conditions by global trend of economic integration had made borderland to act as a bridge.

RESEARCH METHODOLOGY

Extensive literature survey, collection of secondary data and historical analysis were used to construct the concept. Since this research is analytical research, data are collected from the website, blogs, journal, books, governmental statement, newspapers, etc.

WHY K2K IN THE FRAMEWORK OF SINO-INDIA'S RELATION

Why K2K in Sino-India's relation is the fundamental question that has pose and nobody tries to either response or ponder over it. This quest is better answer if we thoroughly study the importance of Kunming for China and Kolkata for India. Before bringing forth the importance of the respective regions, what are the factors that compel to take shape the K2K in 2002 rather than in earlier needs to be address? The prime factors are as follows;

Firstly, the collapse of the communist in Eastern Europe along with disintegration of the erstwhile USSR, compel India to go closer to Southeast and East Asia rather than remaining stranded.

Secondly, India's initiation of its 'New Economic Policy' and LEP induced to open a new front of economic engagement.

Thirdly, the concept and content of LEP shifted from trade to economic and security paradigm in engaging with other countries.

Fourthly, the growing Sino-India's engagement in terms of trade and commerce since the beginning of 2000s marking China as the largest trading partners of India.

Fifthly, Chinese concept of developing its economically weak Yunnan Province by linking with its immediate Asian neighbors for its development.

Lastly, China's changing outlook of domestic and foreign policy making in the realm of converting itself as one of the economic master of Asia and the world.

With these factors what needs to observe is the importance of these two regions and that of K2K which are as follows:

IMPORTANCE OF KUNMING FOR CHINA

Yunnan Province is the poorest region in China and its poor economic condition had adversely affected to the fiscal policy of China. It has 25 recognized ethnic groups out of 52 different ethnic groups of China. According to National Bureau of Statistic PRC, the overall population of Yunnan is 46.13 million with highest illiteracy rate of China by 2011. It shared international boundary with Myanmar in west, Laos in south and Vietnam in southeast which gave a comparative advantage for border trade with neighboring countries. Micheal Lubina hold the opinion that, China's Myanmar policy is condition by geopolitical factors from the perspective of securing markets, development of Yunnan and Myanmar domestic stability. The evolving intricacy of the Chinese economy after its economic liberalization and its resultant societal norms obliges the central authority for balance allocation. According to Hongbin Cai and Daniel Treisman, *'Mao period* *onward the provincial self-reliance and self-sufficient economy in China was encouraged, which ultimately mean 'multidivisional market'*. The changes that has brought by economic liberalization of 1970s had not reached to the Yunnan in favorable manner. It was recently only Beijing had realized the importance of the region and its tap resources. Beijing organized 'China International Travel Mart' for every two year at Kunming to promote tourism for income generation of the region. As the concept of developing the region with the vision of reviving the 'Southern Silk' route and saving China from internal chaos mooted a new phase of China's policy making. Such opening will prevent China from engulfing to other political unrest and insurgency problem minted out from resentment, which already had at Tibet and Xinxiang. The region is well off in rubber plantation, tobacco, mineral base industry, high potential of hydro power generation, etc. With this availability and geographical proximity along with the strategic location of the region do command to be a gateway to the Southeast and South Asia. Thus driven by such enthusiast the 'China South Asia Commodity Fair' was shifted its venue to Kunming from Beijing in 2009. This shows the importance of the Yunnan province in evolving China's engagement with the other nations.

IMPORTANCE OF KOLKATA FOR INDIA
Kolkata had served as one of the strategic transacts point of the South, Southeast and East Asia with the rest of world since British India time. West Bengal is the India's fourth most populous with 7.55% having an area of 88,750 km and shared international boundary with Nepal and Bhutan in south and Bangladesh in the east. It is the home of Bengali, Marwari, Bihari, Oriya, Sherpas, Tibetans, Nepali, Santhal, Kol, Toto, Chinese, Tamils, Gujaratis, Anglo-Indians, Armenian, Punjabis, Parsis, etc. The Chinese inhabitants are mainly concentrated at Chinatown in the Eastern Kolkata which is also only Chinese settlement in India. It is also the headquarters of three Zones of the Indian Railways viz. Eastern, Southern and Northeast Frontier Railway and one of the major sea and river port in eastern India which gives an immense advantage in trade and commerce. It had been the place where all the differences met and diffuse to evolve a unique pattern of medium for engagement. India looks toward Southeast Asian via West Bengal with immense interest particularly with Myanmar where India needs oil. Its engagement with East and Southeast Asia via West Bengal do make a sense and pragmatic approach, sensing its location, ethnic composition, diversity of culture and prolong engagement with the rest of world since British time.

KOLKATA TO KUNMING/K2K
As India and China were on the verse of overtaking the western dominion in every aspect, it is inevitable of both either to merge for mutual benefit or compete for the dominion. Both had bitter experience over the unsettle boundary problem followed by the proxy war. Realizing the drawbacks of such, both despite several differences in certain area comes up with better engagement in trade and commerce. K2K was an idea that had flourished amongst the scholars of India and China by giving its shape as 'Tract II' interaction of India and China in 2002. Chinese government took pro-active step in materializing the sub regional (Yunnan and West Bengal) level interaction as the Yunnan Development Research Centre (YDRC) had served as the nodal organization in facilitating the K2K activities. From Indian side, South Asia Research Society, Maulana Abul Kalam Azad Institute of Asian Studies (MAKAIAS), China Centre of University of Calcutta, and Centre for Studies in International Relation and Development (CSIRD) bear the responsibility of materializing the initiation.
The primary objective of the K2K initiative has been concentrated to facilitate mutual interaction of India and China at sub regional level mainly focusing at the economic, cultural and academic interactions. According to CSIRD, the K2K Forum meets every year alternatively in Yunnan and West Bengal, wherein representatives from Chambers of Commerce, departments of tourism, IT, culture, health, tea board and industry, and academics presented making the meets a resourceful one. In the 9th meeting of the BCIM at Kunming in 2010, K2K was presented as a model "Track II" process to be emulated at the (multilateral) BCIM level. The K2K meet of 2011 resulted to the creation of "K2K Business Forum" and "K2K Secretariat". Some of the objectives of the K2K Forum are as follows:
1. It is to facilitate cooperative ties among the commercial associations from both sides;
2. It further commits itself to organizing trade fairs, promote joint ventures, collaboration in R&D and mutual technology transfer;
3. The Business Forum is firmly committed to promote Small and Medium Enterprises and provide them market access in both provinces;
4. Working towards establishment of trade and cultural centres in Kolkata and Kunming.
5. It is further committed to facilitate mutually beneficial commercial, academic and cultural interactions;
6. To promote mutual cultural understanding, the K2K Forum is working towards organizing mutual cultural exhibitions in Kolkata and Kunming;
7. Concluding Memorandum of Understanding between universities and other academic institutes in both the provinces is another objective the K2K Forum is committed to;
8. The Forum also envisages creating K2K Cultural Forum and K2K Educational Forum to give a boost to mutual interactions in these two fields.

As further development of the K2K Forum, it will focus on seven areas:
1. Agriculture and Food Processing
2. Non-Conventional Energy
3. Textile
4. Leather
5. Tea and Jute
6. Travel and Tourism
7. IT.

Understanding the importance of the two region of both and how the K2K had evolved and contributed to the Sino-India's relation, a bird eye views on the Sino-India's relations became inevitable. The following section will dealt with Sino-India's relations into phase wise, so as possibility of an auxiliary front in India's engaging with China can develop.

SINO-INDIA'S RELATION
Sino-India's relation hover around the unsettle boundary, master of Asia and its resultant standstill position. India and China compete for a powerful global player and leader of Asia which resulted to the liability of involvement of both into proxy. The relation between the two better explained into phases wise as bellows;

FIRST PHASE 1947-1962: FRIENDSHIP AND WAR

In 1948 India stretch the hand of good neighbor by proclaiming noninterference in China's internal matter and even became the second nation after Myanmar to recognize the Communist China by Non Communist State. In 1958 a big chunk of Northern Assam and NEFA were included in the 'China Pictorial' and in western sector infrastructure development by Chinese were in full swing at the disputed area in which India officially objected to it. Both made accusation of encroachment to its respective boundary wherein Nehru government followed the forward policy and ultimately Sino-India War of 1959-61 broke out. The total Chinese territorial claim reach 33, 000 in western sector, and 90,000 in eastern sector by the end of war, thus Sikkim, Bhutan, North Eastern Frontier Tract, eastern part of Assam, and Ladakh became the bond of contention. In 1962 China unilaterally declares cease fire and 'Sino-India War' ended with the 'Colombo Proposal'. Several Chinese scholars hold the opinion that; China goes for border war with India in 1959 to escape from the border related problem with other neighbors.

SECOND PHASE 1663-1990: ARM RACE, PROXY WAR AND RECONCILIATION

China's nuclear explosion at Lop Nor in 1964 gave an extra boost to the Chinese supremacy. China-Pakistan's relation gain momentum as China gain 2,700 sq. miles (part of Jammu and Kashmir) in wake of containing Indo-USSR relation and India's influence at the Asian regions. Which found manifested in Indo-Pakistan War of 1965 wherein China warn India of dare consequence of its activities across the Sikkim border and the western sector; Soviet intervention stop from further spread of enmity environment. The relation further deteriorated with the India's involvement in Bangladesh war and its nuclear explosion of 1975. Meanwhile, Sikkim was included to the Indian Union in which China term it as an act of aggression. India's becoming a nuclear power state and China's shift of policy towards peace and development helps in defusing the tension between the two. The diplomatic relation was restored from 1976 onward, but again turns to soar in 1986 when China condemn the establishment of disputed Arunachal Pradesh as state of Indian Union. Rajiv Gandhi visited China in December 1988, resulting to set up a 'Joint Working Group' (JWG) on boundary question and a 'Joint Group' (JG) on Economic Relations, Trade, Science and Technology. This shows the effort that was made by both to normalize the tension despite many odds.

THIRD PHASE 1991-1997: NECESSARY EVIL AND CONTINUING PROXY WAR

In 1991 India's economy was liberalize and initiated its 'LEP', with a foremost task of integrating with Association of Southeast Asian Nations (ASEAN). This initiative has seen by the ASEAN countries as a way of balancing China and China perceive this development as India is on the verse of competing and containing its sphere of influence at the Southeast, East Asia and Pacific. In 1993 P.V. Narasimha Rao visited China and signed an agreement on 'Border Peace and Tranquility' and set up 'Sino-India Expert Group of Diplomatic and Military Officers' to assist the work in JWG. This was follow by the JWG meets in New Delhi and exchanges the 'Instruments of Ratification' in respect to Confidence Building Measures Agreement. This demonstrated the eagerness of both to normalize the relation in the realm of mutual growth and prosperity indicating the importance of trade and commerce in diffusing the tension between the two.

FOURTH PHASE 1998-2006: RECONCILIATION WITH MISTRUST AND FEAR PSYCHO

In 1998 George Fernandez reports claim that China was India's potential threat number one which offends the former. The same year India goes for nuclear test at Pokhran and cited the China as a reason in which China strongly condemn it. Jiang Zemin in an interview at Newsweek on 21st June 1998, said, *'I was very surprised that they conducted the nuclear tests. I was even more surprised that they cited China as a reason for their nuclear testing'*. After two year, China responded to the India's nuclear explosion by militarization and development of 'Blue Water Navy' along with the condemnation of India's act of treachery by allowing Tibetan to use its soil for anti-China activities. Despite this first 'Bilateral Security Dialogue' between the two was held at Beijing resulting to some positive initiatives. Amidst this development, the residence of Arunachal Pradesh and Jammu and Kashmir who are visiting to China were issue staple visa indicating that they are part of China and strengthening its claim over the disputed territory. India established 'Far Eastern Naval Command' as a counter response to the China's presence and increasing influence at Indian Ocean and its neighbor. Further, India built a 165 km long road connecting Manipur with Kalaymew/Kalemu to dilute and temper the Chinese economic dominance at Northern Myanmar and may be used in future for military movement. Nevertheless there is a greater success in economic term through JWG and JSG (Joint Study Group) indicating the possibility of better relation. Driven by the necessity of each other for its fast developing economy, both were on the verse of minimizing the tension as much as possible. The signing of an agreement on 'political parameter and guiding principle for the settlement of Sino-India boundary question' and recognition of Sikkim as a part of India by China shows step forward for reconciliation.

FIFTH PHASE 2007-2013: PARADIGM SHIFT IN HOME AND FOREIGN POLICY MAKING

India's foreign policy making took a major lift by initiating LEP-NE in 2007 which incorporated NEI in India's engagement with other nations. China's opposition and ban on the fund of Asian Development bank US$ 60 billion for Arunachal Pradesh watershed development in 2009 can be seen as a response to protect its interest. The beginning of 2010 mark with the increases cooperation in the field of business as a 'Business Deal' struck for US $ 16 billion marking the China as India's largest business partner surpassing US 10 billion business deal. The 'BCIM Car Rally' of 2013 which begin from Kolkata passing through NEI and ending at Kunming had marked new era for Sino-India's relation. This rally has opened a new engagement front between the India and China. Both tries to include it's prolong neglected and most backward regions viz. Yunnan and NEI in its multilateral and bilateral engagement.

After analyzing the Sino-India's relation it is clear that the NEI can play a major role in diluting and tempering the differences. The region location and available man power and natural resources can act as a catalyst of resource hunger India and China for mutual growth rather than compete. As scholars like Jayanta Kumar Ray and Prabir De had identified the advantage of integrating NEI and Southwest China to the evolving economic integration. With this understanding the following section will dealt deeply with the importance of NEI.

IMPORTANCE OF NORTH EASTERN INDIA

The term North Eastern India evolved from the political administrative convenience during the British time to economic basis region of Union of India, then slowly as an ethnic/race base region. Many NEI insurgents (People Liberation Army-Eastern Zone, Naga) had claimed that, China provides logistic and tactical training to them in wake of separation movement from Indian Union. Insurgency in the NEI is minted out from New Delhi perception in regards to the people of region and the region as a geo-strategic importance of mainland India. As Sadar Vallabhbhai Patel sent a letter to Nehru saying, *"China is no longer divided. It is united and strong. All along Himalayas in the north and northeast …… a population ethnologically and culturally not different from Tibetans and Mongoloids the undefined states of the frontier …… with its affinities to Tibet or Chinese have all the elements of potential trouble between China and ourselves."* Further in 1962 when NEI ask for protection, Nehru replied through All India Radio broadcasting by saying *"We lost Bomdila, a small town in Kameng Division…….my heart goes out to the people of Assam"* leaving the people to their own fate.

The uniqueness of NEI and its importance for governance as a region was realize by the centre after 24 years and thus established North Eastern Council (NEC) in 1971 as the acting agency for the development of the eight states. Further, 'The North Eastern Development Finance Corporation Ltd' (NEDFi) was incorporated on August 9, 1995 and the Ministry of Development of North Eastern Region (DoNER) was set up in September 2001 as to uplift the region respectively. The infrastructure position of the region was on pathetic condition which poses a challenge to reap the market potential and gateway of Southeast and East Asia via NEI. In 2007 October the Ministry of External Affairs took a historical step by announcing the LEP-NE, which literally meant the region to serve as a bridge of South, Southeast and East Asia. This steps can be regarded as a three way benefit, **firstly,** it will serve as a healing to the insurgency affected area by providing a ray of hope; **secondly,** localization of foreign policy making in response to the evolving Asian market integration and **lastly** an additional front of engagement wherein a huge manpower is tap.

The influence of the Chinese culture as a soft power over the world movies news channel and other can be seen very visibly and on the other side the Indian culture and ethos has a wide spread influence at the Southeast Asian countries wherein there is a prolong Chinese presence. The NER is the region wherein the synthesis of the Aryan, Dravidian and Mongoloid culture took place, it blend and diffused to develop a unique pattern of mosaic culture. This mosaic culture will be another ingress wherein India can utilized in penetrating the Asian market. As matter of fact market behavior is condition by the culture and the culture in return was influence by the market norms. The geographical location, shared customs and mosaic culture of NER had proven to act as a bridge of India's engagement with the Southeast and East Asia.

KOLKATA IMPHAL KUNMING

It had been more than a decade that K2K had evolve as a tract II model in Sino-India's relation. How far this initiation had able to integrate both and to what extend it had been able to contribute to materialize better engagement between the two. If located from the realistic perspective, the home and foreign policy making of both had shown some commonality. India goes for making NEI a bridge and gateway for its engagement with the neighbors and integration of Asian markets. Similarly, China emphasizes to make Yunnan gateway for engaging with the Southeast Asian Countries with further extension by reviving 'Southern Silk Route'. As already BCIM initiation of land connectivity pointed out Manipur as the gateway for India, the concept of Kolkata-Imphal-Kunming will give better optimal approach in Sino-India's relation.

The air distance between Kolkata to Kunming is 1485.42 km with time consuming of 2.13 hours and if happen to passes through Imphal it is 1509.14 km with a time consuming of 2.25 hours. Hopping system with a stoppage at Manipur on hours and day basis will serve in economic betterment of the state along with a new twist in Sino-India's relation. Tulihal Airport is situated at the heart of Imphal West city which gave an advantage of easy accessed to the international market as well as Ema Keithel (largest women market in Asia). Manipur is home of 'Phumdi' (world only floating island), Sangai, Siroy Lily, bamboo base vegetables and herbal medicinal plants which are well-known and in high demand at Southeast and East Asia. The advantages of accumulating Imphal at the K2K process in the form of Kolkata-Imphal-Kunming are;

1. Manipur tourism will boost if the hopping system of travelling Kolkata to Kunming is introduce;

2. Manipuri youths will employed in certain areas related with this initiation which in turn will give decrease in number of youth indulge and enrolment to the insurgency and its activities;
3. Dependency towards the central government for maintenance will decrease;
4. Opportunity of more FDI flows to the region;
5. Additional assessment to the LEP-NE and its people to people contact concept;
6. Prolix to the pre-conceive notion hover around the security dilemma related with the insurgency and proxy war;
7. It will be an asset to the human resource hunger Yunnan Province, since there has high chance of manpower flow from the NEI;
8. Liability of better understanding of each other since the NEI will act as cathode of reacting Sino-India's relation over the proxy war, Asian supremacy, etc.

CONCLUSION

In the light of the above advantages and the slow pace of integrating the India and China in respect of trade and commerce in the eastern and southwestern corridor that had minted out from the K2K, Kolkata-Imphal-Kunming will act as an igniter. The process of K2K will healthier if NEI had been taken on board, since India and China is much enthusiast in opening the gateway towards the Southeast Asia and far beyond via the respective region, thus KIK do make a sense. To be precise indeed the region which has cultural and racial affinity can play a role in nation to nation engagement serving the border land as a bridge by giving the concrete understanding of localization of foreign policy.

TABLE NO. 1: YUNNAN AND NORTH EASTERN INDIA

Minutiae	Yunnan	North East India
Boundary	Have international Boundary with Laos Myanmar Vietnam	Have international Boundary with China Bangladesh Bhutan Nepal Myanmar
Ethnic Minority	Have maximum ethnic minorities (25 out of 56)	Maximum number of ethnic minorities of India
Area	394,000 km^2	262,230 km^2
Population by 2011	46.3 million	45,587,982
Culture	Mixture of several ethnic groups developing into mosaic culture with slight influence of mainland along with culture of self-identification	Mixture of several ethnic groups developing into mosaic culture with influence of mainland along with culture of self-identification
Religion	Christian, Buddhist, Animism/Traditionalist	Hindu, Islam, Christian, animism/traditionalist, Buddhist
HIV/AIDS	Highest in China	Highest in India
Ethnicity/Race	Mongoloid	Mongoloid, Aryan, Dravidian
Dialect	Tibeto-Burman, Tai, Tai Lu, Tai Nua, Hmong-Mein	Indo-Aryan, Sino-Tibetan, Tibeto-Burman, Austric, Tai
Market Culture	Partially women oriented and minimal role of women	Separation of women market(Manipur) and generally market are run by women folk (entire NEI)
Literacy	Highest Illiterate in China	Literate with considerable pool of English speaking

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