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From The Editor's Desk

At the outset, let me thank all contributors and readers for making ***"Tecnia Journal of Management Studies"*** as an astounding success. The great response we have been receiving from the readers are acknowledged for their interest of sending the research based articles to us for the publication. Moreover we are getting good response from reputed Management Institutes which are sending their Journals to us on mutual exchange basis. These kinds of support motivate us to serve you better. Our sincere thanks to all the respondents who are supporting us in this regards.

We are happy to launch the third issue of our academic journal.The present issue incorporates the following articles:

- Knowledge Management: A Strategic Approach towards the Increasing Pace of Innovation and Organizational Performance.
- Does Competitive Advantage Work in e-Business?
- Mega Brand Pulley Strategies for A.P. based B-School.
- Innovation in Marketing of Bank Products.
- Risk Management in Mutual Fund Industry.
- Mutual Funds in Indian Banking-An Emerging Source of Investments in the Competitive Era.
- Consumerism through Awareness of Consumer Rights.
- Working Capital Management in Sun Pharmaceutical Industries Ltd.-A Case Study.

My thanks to the authors Dr. Chandresh Agrawal, Dr. Babita Agarwal, Ms. Bhavna Chandak, Dr. Ramesh B Agadi, Dr. Jagannath B Kukkudi, Mr. Santosh Singh Bais, Mr. T.D. Babu, Dr. M. Appalyya, Dr. G. Jayabal, Ms. Nazia Sultana, Dr. Srinivas Shirur, Dr. R.K Uppal, Ms. Rimpi Kaur, Dr. A.K Srivastava, Mr. Sankar Thappa, who have sent their manuscripts in time and extended their co-operation particularly in following the American Psychological Association (APA) Style Manual in the references.

I wish to sincerely thank our Chairman Sh. R. K Gupta who has always been a guiding light and prime inspiration that led us to publish this Journal. I am grateful to Prof. A. K. Srivastava, Director, for his continued encouragement for bringing out the journal in such a proper form. I am also grateful to Prof. Nirmal Singh, Chairman, Editorial Committee for his advice and suggestions in shaping the Journal. My sincere thanks to our distinguished reviewers Prof. P. C Chhabra, Prof. W. A. Qazi and Dr. Urvashi Sharma for their untiring effort and support in bringing out this bi-annual Journal.

I am sure the issue will generate immense interest among corporate practitioners, policy-makers, academicians and students.

Dr. D. Antony
Editor

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KNOWLEDGE MANAGEMENT: A STRATEGIC APPROACH TOWARDS THE INCREASING PACE OF INNOVATION AND ORGANISATIONAL PERFORMANCE

Chandresh Agrawal*

Babita Agarwal**

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Abstract: *The arrival of the knowledge economy has brought a lot of new challenges. The human resource professionals may be uniquely positioned to take advantage of the challenges through knowledge management and to act as pathfinders in the knowledge jungle. Most organisations are already involved in managing knowledge for a long time. Many of them, however, do not realise the full extent of what they are undertaking. The purpose of this study is to provide an overview of the concept of knowledge management, its impact on innovation and organisational performance and to explain the major areas of study and thought related to the phenomenon. In this paper we have discuss that a solid understanding of the measurement issue in knowledge management will have a significant impact on both a corporation's chances of success in the knowledge economy and the human resource profession's influence on corporate knowledge journeys.*

Introduction

Peter Drucker in 'Managing in a Time of Great Change' lucidly portrays the arrival of the knowledge economy. According to him, knowledge has become the key economic resource and perhaps the only source of competitive advantage in this new environment. The knowledge economy has a dramatic impact on the way in which firms compete today. It affects every aspect of modern business – from a corporation's strategy to its products, from its processes to its organisation and its people. Everyone is grappling to come to terms with the new situation. Many have been carefully mapping out new strategies and business models that make most sense in this new economy that is centered on knowledge. Some smart and agile businesses have been widely successful while some of yesterday's giants have perished miserably. The human resource professionals may be uniquely positioned to act as pathfinders in the knowledge jungle by employing knowledge management (KM).

The term 'knowledge management' has come to describe almost everything that goes on inside an organisation–from organisational learning to change management, from document management tools to corporate intranets. The sustained interest in KM is justified by the widespread realisation that knowledge has become the principle source of sustainable competitive advantage. The survival in the new economy will be possible only by managing and leveraging corporate knowledge assets. This, in turn, requires linking information, people and processes in order to spawn continuous innovation and corporate renewal.

It requires corporate leadership that views collective knowledge sharing and innovation as the fulcrum of competitive advantage. This poses a huge challenge in organisations where employees have been notorious for hoarding knowledge due to its association with power. In the past, organisations have had a tendency to reward people who possessed knowledge and not those who were willing to share it. Knowledge management, on the other hand, compels employees to share their knowledge and instigates management to value those who do. A true knowledge-aware organisation is the one that is able to

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react quickly to the external demands by leveraging internal resources intelligently and anticipating external market directions and course changes.

Knowledge management surely is perceived and understood in a variety of ways, depending on the particular viewpoint of the observer. Organisational theorists like to define KM in terms of change management and organisational dynamics. Information technology (IT) people prefer to view KM from a technological angle and relate it with state-of-the-art IT infrastructure. Similarly, a large number of organisations have their own company-specific or product-specific definitions to suit their marketing ploys. Due to the fact that knowledge has a domain that is large enough to subsume anything that a person or organisation does and none of the above definitions can be convincingly refuted and therein lays one of the problems that KM is facing today.

Literature Review

Knowledge management is a key concept in today's business world as evident by the presence of abundant literature on current business, management and organisation. Some regard KM as a business fad or craze (Swan et. al,1999). A close examination of the knowledge management concept reveals that there has been considerable thought and research into it and many of the world's most successful corporations, businesses and organisations are investing considerable resources in this enterprise (Alvesson 2001).

Successful companies are those that consistently create new knowledge, disseminate it widely throughout the organisation and quickly embody it in new technologies and products. They argue that the new business environment is characterised by radical and discontinuous change. The environment requires the organisation members to anticipate changes and carry out a faster cycle of knowledge creation and action based on the new knowledge (McCampbell *et al*., 1999). Drucker (1993) calls our world a post-capitalist society and in his writing about the economic, political and social transformations that are taking place, he identifies a primary characteristics and resource – knowledge.

The post-capitalist society differs from past eras in how knowledge is applied. In the early part of the 20th century, the industrial revolution applied knowledge to the use of tools, processes and products. The productivity revolution began when people applied knowledge to human behaviour. The post-capitalist society is characterised by the fact that knowledge is being applied to knowledge itself (Uit Beijerse, 1999).

Even today, businesses are improving artificial intelligence system in order to capture and provide access to problem resolution, legal knowledge and new concept development (Grover and Davenport, 2001). Knowledge management requires attention and discipline. It requires considerable effort on the part of workers and managers alike, but the positive effects of KM are 'evident by an internal and external awareness of collective strength and the ability to respond and instantly organise to meet…demands and opportunities' (McCampbell et al., 1999).

Innovation

Carneiro (2000) defined innovation as the capability of creating valuable and useful new products, new services, new technology, or production process.

The Oslo Manual is based on Josef Schumpeter's definition (Schumpeter, 1949) of innovation, which has five elements (OECD, 1997):

1. The introduction of a new product or a qualitative change to an existing product;
2. The introduction of a process new to an industry;
3. The opening of a new market;
4. The development of new sources of supply for raw materials or other inputs;
5. Changes in industrial organisation.

Innovation comprises the magnitude and speed and this categorisation facilitates a good way of investigating the link between innovation and firm performance. Meyer argues that organisations increase the pace of innovation to enhance business value. Knowledge management reflects an organisation's quickness to adopt a product or process, relative to its competitors within the industry.

Organisational performance

The measurement of organisational performance can include financial measures, tangible and intangible benefits and intellectual capital. No single measure may fully explicate all aspects of the performance. Adopting perceptual measures as a proxy for objective measures of IT/IS (information sciences) business value is still open to debate (Ford and Schellenberg, 1982). Moreover, research has succeeded in alleviating the concerns by showing that the perceptual measures of firm performance correlate strongly with more traditional objective measures including sales growth, net income growth and return on investment. Based the above reasons, in our study, firm performance is assessed by the use of subjective measures such as market share, sales growth, profitability, efficiency of operations and quality of services in comparison with key competitors.

Hypotheses

Knowledge management and innovation speed

Effective knowledge application and transfer mechanisms enable organisations to innovate rapidly. Research also indicates that innovation speed to market, which is essential for business success, will become increasingly critical in the future. Questions have then been raised on whether firms adopting KM are receptive to the idea of innovation, or they have to continually develop new products or new processes. If this reasoning could be proven to be true, then KM should enable firms to promote innovation magnitude. Based on these arguments, we hypothesise that:

H_1: KM has a significant positive influence on innovation.

Knowledge management and organisational performance

When an organisation adopts innovations faster than its competitors, it is able to erect market segments because the knowledge contained in these innovations is not readily available to the competitors. For early KM adopters, knowledge helps achieve profit margins, which could result in significant firm performance. Early adoption of product innovations through KM increases the market segment in association with service quality and operating efficiency. Based on these arguments we test the following hypothesis:

H_2: KM has a significant positive influence on organisational performance.

Research methodology

This section presents an overview of the survey procedure and a brief description of the sample used in this study. It then describes how the research variables are operationalised and measured.

Data collection

Data collection was conducted through a questionnaire survey. The research and development (R&D) managers of IT firms were chosen to be the key information source in this study. The study decided to select specifically the IT sector as the target population since this sector has fundamentally changed during recent years owing to an increasingly turbulent environment. The IT environment is evolving from the homogenous markets with competitors that have access to the same capital sources and the same knowledge asset base. Recently, firms have begun to compete in the heterogeneous markets where competitors have access to diverse capital and knowledge asset conditions and must implement various management practices (such as KM practices) to improve their competitiveness.

The sample

The sample of the present study consisted of 40 people of Indore (N=40). Twenty respondents were taken to test each variable. The research was carried out through a survey method with the help of a self-developed, structured and non-disguised questionnaire. It consisted of 10 statements based on a 5-point Likert type scale on which the respondents were asked to indicate the degree of agreement or disagreement. The close-ended questionnaires helped to get a clear idea about the respondent's opinion. The questionnaires were administered through a structured personal interview to have the respondent's opinion.

Statistical analysis

Tool for analysis: T-test.

Results

The analysis of the T- test revealed the following results:

H_1 is accepted i.e., KM has a significant positive influence on innovation ($t=2.87$, $p<0.05$).

H_2 is accepted i.e., KM has a significant positive influence on organisational performance ($t=3.12$, $p<0.05$) (Table 1).

Table 1. The "T" values of the variables

Variable	T -value
Knowledge management and innovation	2.87
Knowledge management and organisational performance	3.12

T-value at 5% level of significance is 1.833

Discussion

The above results can help managers provide distinctive advantages to firms. Knowledge is mainly created through organisational structure. The structural KM resource within an organisation encourages employees' interactions, which are regarded as vital practices in the effective management of knowledge. The structural resource also facilitates the firm with the capability to adapt to a knowledge-intensive environment. The cultural KM resource has also proved to be supportive for knowledge- related processes. For example, knowledge is shared since organisational culture can understand the importance of knowledge. Employees also play a crucial role in shaping the KM processes in which employees can be more capable of creating new knowledge and this would lead to a higher capability of KM.

Knowledge management is a concept rooted in practicality and chiefly used in the business world. According to Wiig (1997) people and organisations practice KM to achieve two main objectives. The first is to make the enterprise act as intelligently as possible to secure its viability and overall success. The second objective is to gain understanding of the best value of knowledge assets. While the primary users of knowledge management reside in the corporate community, other organisations can benefit greatly from the practice.

Skyrme and Amidon, (1999) declare that any KM project requires a ‘systematic and holistic view of the knowledge agenda’. This means the team undertaking the project must understand the strategic role of the knowledge they are managing, how that knowledge is created, sharing and use.

Particularly, a more careful investigation of innovation should be conducted. Innovation involves the adoption of new ideas, processes and products. Early adoption of process innovations reduces the costs associated with servicing product innovations and this in turn allows the organisation to improve operating efficiencies.

Conclusion

The integrative framework is proposed for empirical evidences to link KM resources, innovation and firm performance. Advanced innovation also significantly increases the firm performance. Although the results are interesting and promising, they must be viewed with caution because there are limitations in this research. Since this study focused only on the IT industry, caution should be exercised in generalising the results to other firms that have a different environment. We need to explore to what extent these results can be replicated in other industries, such as banking industry, in which knowledge functions differently as compared to the IT industry. Additionally, our survey used a single respondent from each firm. However, the study was framed to query the research and development (R&D) managers and measure the factors from their viewpoints. In fact, some measures like firm performance might be more accurately reported by each departmental manager that is closer to the operations in the firm than only R&D managers.

In essence, KM is about the delicate balance and synergistic interaction between technology, people and the organisation in order to gain and sustain competitiveness in highly discontinuous environments. In more practical terms, KM is about the process of managing the flow of knowledge within an organisational setting by capturing, creating, synthesising, organising and disseminating knowledge so that the day-to-day decision-making is made more efficient and effective and ultimately greater value is delivered to customers.

Knowledge is recognised as an important weapon for sustaining competitive advantage and many companies are beginning to manage organisational knowledge.

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Does Competitive Advantage Work in e-Business?

Ramesh B Agadi*
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Santosh Singh Bais***

Abstract: *A trend for business in the 21st century is to offer their products and services electronically, a practice known as electronic commerce, commonly referred as "e-commerce". Major companies and other major retailers all offer their products online. Their mindset is that this offers quick, easy and efficient service. There are advantages to engaging in e-commerce. First, providing fast and efficient service leads to a competitive advantage and presents the opportunity to reach out to a larger target market. With the expansion of the Internet and a greater thirst for information and knowledge, global competition is becoming fierce, so gaining a competitive advantage is vital to the global and domestic strategy of a firm. In this regard the present work is an attempt to know how e-business is helping to corporate customer to enjoy competative advantage.*

Introduction

A trend for business in the 21st century is to offer their products and services electronically, a practice known as electronic commerce, commonly referred as "e-commerce". Major companies, such as Nike, Adidas, Future Shop, Sears and other major retailers all offer their products online. Their mindset is that this offers are quick, easy and efficient service. There are advantages to engaging in e-commerce. First, providing fast and efficient service leads to a competitive advantage and presents the opportunity to reach out to a larger target market. With the expansion of the Internet and a greater thirst for information and knowledge, global competition is becoming fierce, so gaining a competitive advantage is vital to the global and domestic strategy of a firm. Considering the newness of the internet and World Wide Web, it is safe to say that nearly everyone who has purchased online gained their understanding of commerce offline. "Dirt-side" commerce transactions have structural, schematic and semantic orders that do not fully map to the different medium of the web and it is this gap in mapping that causes the problems users experience trying to shop online, whether the problems stem directly from usability flaws or unmet expectations.

Most people have an understanding of commerce based on their experience as shoppers and buyers and they bring this experience with them when they start shopping online. Most problems with commerce sites are due to misunderstanding on the part of the site creators about how users understand the structure and elements of typical commerce transactions. Users have formed schemas to understand commerce, but commerce sites routinely ignore these schemas.

Commerce is a communicative transaction between two parties playing very familiar roles: *buyer* and *seller*. For commerce to occur somebody must do the selling and somebody must do the buying and these two bodies must share a basic understanding of how the transaction is generally supposed to flow. E-commerce web sites can not simply make products available to be bought (*surface it, they will buy...*); these sites must hold up their part of role-playing the commerce transaction.

E-commerce web sites must pay attention to how they communicate to users. E-commerce sites play their role of seller by trying to broadcast two messages to potential

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buyers: "buy from us" and "trust us". The impact of these explicit messages, though, is often corrupted by contradictory or distracting messages implicit in the site's implementation of navigation flow, page layout, visual continuity and information space.

E-commerce sites seem to shout the message that they are trustworthy, that users need have no trepidation over purchasing from these sites, but trust derives not from assertions but rather from experience and judgment. People interact and they make judgments and form expectations of others based on what they experience and what they surmise; it is a not easier to decide to trust a merchant when you can speak to them face-to-face and shake their hand. Trusting a web site to deal with you fairly and deliver your merchandise, though, well, that is harder to do when you realise that *anyone* can build a commerce site. E-commerce sites must work hard to build the impression of trustworthiness.

Historical Development

The meaning of the term "electronic commerce" has changed over time. Originally, "electronic commerce" meant the facilitation of commercial transactions electronically, usually using technology like Electronic Data Interchange (EDI, introduced in the late 1970s) to send commercial documents like purchase orders or invoices electronically.

Later, it came to include activities more precisely termed "Web Commerce" -the purchase of goods and services over the World Wide Web via secure servers (note HTTPS, a special server protocol which encrypts confidential ordering data for customer protection) with e-shopping carts and with electronic pay services, like credit card payment authorisations.

When the Web first became well-known among the general public in 1994, many journalists and pundits forecast that e-commerce would soon become a major economic sector. However, it took about four years for security protocols (like HTTPS) to become sufficiently developed and widely deployed (during the browser wars of this period). Subsequently, between 1998 and 2000, a substantial number of businesses in the United States and Western Europe developed rudimentary Web sites.

Although a large number of "pure e-commerce" companies disappeared during the dot-com collapse in 2000 and 2001, many "brick-and-mortar" retailers recognised that such companies had identified valuable niche markets and began to add e-commerce capabilities to their Web sites.

As of 2005, e-commerce has become well-established in major cities across much of North America, Western Europe and certain East Asian countries like South Korea. However, e-commerce is still emerging slowly in some industrialised countries and is practically non-existent in many third world countries. Electronic commerce has unlimited potential for both developed and developing nations, offering lucrative profits in a highly unregulated environment.

Success factors in e-commerce

Technical and organisational aspects

In many cases, an e-commerce company will survive not only based on its product, but by having a well-organised business structure and a secure, well-designed website. Such factors include:

- Providing an easy and secure way for customers to order. Credit cards are the most popular means of sending payments on the internet, accounting for 90% of online purchases.
- Providing reliability and security. Parallel servers, fail-safe-technology, information encryption and firewalls can enhance this requirement.
- Providing a 360-degree view of the customer relationship, defined as ensuring that all employees, suppliers and partners have a complete view and the same view, of the customer.
- Constructing a commercially sound business model. If this key success factor had appeared in textbooks in 2000, many of the dot-coms might not have gone into bankruptcy.
- Engineering an electronic value chain in which one focuses on a "limited" number of core competencies, the opposite of a one-stop shop.
- Operating on or near the cutting edge of technology and staying there as technology changes (but remembering that the fundamentals of commerce remain indifferent to technology).
- Setting up an organisation of sufficient alertness and agility to respond quickly to any changes in the economic, social and physical environment.
- Providing an attractive website. The tasteful use of colour, graphics, animation, photographs, fonts and white-space percentage may aid success in this respect.
- Streamlining business processes, possibly through re-engineering and information technologies.

Business to Business e-commerce

Business to Business e-commerce is defined as buying and selling between two companies over the internet. The companies might be manufacturers, wholselers, or retailers. B2B e-commerce sales are expetected to approch $ 1 trillion in Europe alone by the end of 2006.

Electonic Data Interchange (EDI)

EDI is an electronic computer-to-computer transfer of standard business documents. Companies have been doing EDI since the 1960s and orginally used telephone lines to transfer data. Companies can set up their own private EDI networks to communicate directly with their suppliers' systems. Some companeis with non-integrated information systems have built web services before creating an integrated back-office system. As a result, those companies often can not fill orders in a timely fashion. Hence e-commerce with ERP definitely offers competitive advantage.

Retailing in e-Business

The word "Retail" is derived from the French word "retailier" meaning 'to cut a piece of' or to 'to break bulk'. Retailing includes all the activities involved in selling goods and services directly to final consumers for their personal, non-business use. The retailing scenario in India is unique. Much of it is in the unorganised sector, with over 12 million retail outlets of various sizes and formats. With more than 9 outlets per 1000 people, India has the largest number in the world.

In a developing country like India, a large chunk of consumer expenditure is on basic necessities, especially food related items. The share of retail sector was about 71% in 2002 and it is growing rapidly and being accounted for nearly 85% in total of all items of the Indian markets. The e-business models includes B2B, B2C and C2C modles.

- Efficient management of inventory

The B2B transactions provide customers the benefits like:

- Quick response to customer demand
- Reduction in the cost of paperwork
- Efficient and fast product launch
- Control over fraudulent purchases etc.

Figure 1 Process Flow shows the Buyer, Exchange and Seller relationship.

1. Lucrative Market

- One can have access to a growing global market.
- Consumers are generally affluent and technically literate.
- Electronic shopping will be widely used by the next generation.

2. Dynamic Delivery

- Electronic vehicle permits instant information delivery and business responses in a customer's chosen environment.
- Captured statistices enables profiling of shopper demographics, preferences and activity within the site, to develop more effective merchandising strategies.
- Programmability enables dynamic market targeting personalise the shopping experience and to tailor product line presentation to viewer preferences.
- Information is always complete and up-to-date.
- Merchants can be the product line to seasonal and market requirments, without moving merchandise.

3. Preferred Environment

- Provides shoppers with a private location, efficiency, accessibility and fun. The dynamic nature of the site

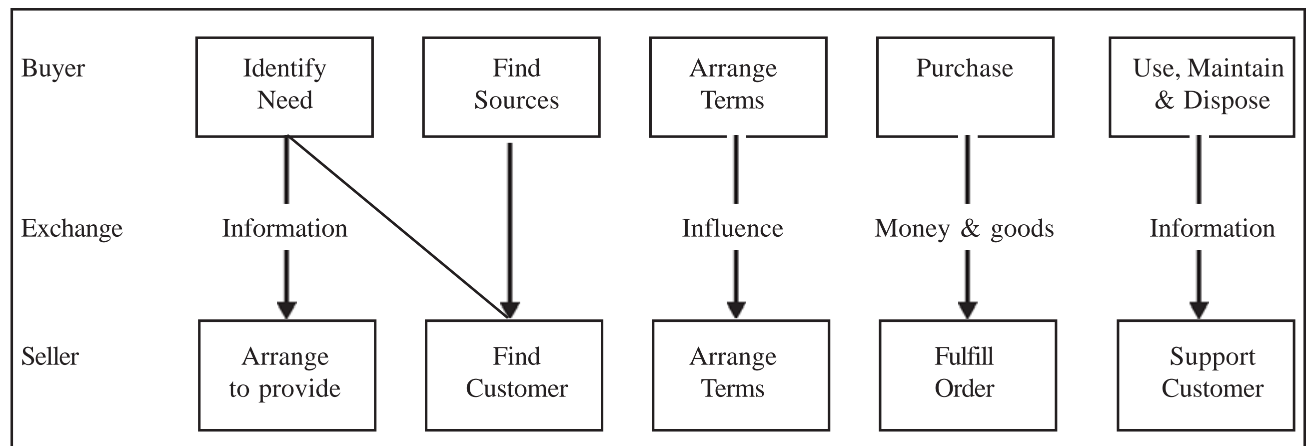

Figure 1. Process Flow

also invites shoppers to return often.

4. Economical

- Low cost for start up as compared to opening a physical site.
- Boundary-fee, since a single site can be reached by the world market.
- Low requirments of support staff reduce personnel costs.

Customer-Oriental

A successful e-commerce organisation must also provide an enjoyable and rewarding experience to its customers. Many factors go into making this possible. Such factors include:

- Providing value to customers. Vendors can achieve this by offering a product or product-line that attracts potential customers at a competitive price, as in non-electronic commerce.
- Providing service and performance. Offering a responsive, user-friendly purchasing experience, just like a flesh-and-blood retailer, may go some way to achieving these goals.
- Providing an incentive for customers to buy and to return. Sales promotions to this end can involve coupons, special offers and discounts. Cross-linked websites and advertising affiliate programs can also help.
- Providing personal attention. Personalised web sites, purchase suggestions and personalised special offers may go some of the way to substituting for the face-to-face human interaction found at a traditional point of sale.
- Providing a sense of community. Chat rooms, discussion boards, soliciting customer input and loyalty programs (sometimes called affinity programs) can help in this respect.
- Owning the customer's total experience. E-tailers foster this by treating any contacts with a customer as part of a total experience, an experience that becomes synonymous with the brand.
- Letting customers help themselves. Provision of a self-serve site, easy to use without assistance, can help in this respect.

Problems

Even if a provider of e-commerce goods and services rigorously follows these "key factors" to devise an exemplary e-commerce strategy, problems can still arise. Sources of such problems include:

1. Failure to understand customers, why they buy and how they buy. Even a product with a sound value proposition can fail if producers and retailers do not understand customer habits, expectations and motivations. E-commerce could potentially mitigate this potential problem with proactive and focused marketing research, just as traditional retailers may do.

2. Failure to consider the competitive situation. One may have the capability to construct a viable book e-tailing business model, but lack the will to compete with amazon.com

3. Inability to predict environmental reaction. What will competitors do? Will they introduce competitive brands or competitive web sites? Will they supplement their service offerings? Will they try to sabotage a competitor's site? Will price wars break out? What will the government do? Research into competitors, industries and markets may mitigate some consequences here, just as in non-electronic commerce.

4. Over-estimation of resource competence. Can staff, hardware, software and processes handle the proposed strategy? Have e-tailers failed to develop employee and management skills? These issues may call for thorough resource planning and employee training.

5. Failure to coordinate. If existing reporting and control relationships do not suffice, one can move towards a flat, accountable and flexible organisational structure, which may or may not aid coordination.

6. Failure to obtain senior management commitment. This often results in a failure to gain sufficient corporate resources to accomplish a task. It may help to get top management involved right from the start.

7. Failure to obtain employee commitment. If planners do not explain their strategy well to employees, or fail to give employees the whole picture, then training and setting up incentives for workers to embrace the strategy may assist.

8. Under-estimation of time requirements. Setting up an e-commerce venture can take considerable time and money and failure to understand the timing and sequencing of tasks can lead to significant cost over-runs. Basic project planning, critical path, critical chain, or PERT analysis

may mitigate such failings. Profitability may have to wait for the achievement of market share.

9. Failure to follow a plan. Poor follow-through after the initial planning and insufficient tracking of progress against a plan can result in problems. One may mitigate such problems with standard tools: benchmarking, milestones, variance tracking and penalties and rewards for variances.

Product suitability

Certain products/services appear more suitable for online sales; others remain more suitable for offline sales. Many successful purely virtual companies deal with digital products, including information storage, retrieval and modification, music, movies, office supplies, education, communication, software, photography and financial transactions. Examples of this type of company include: Google, e-Bay and Paypal.

Virtual marketers can sell some non-digital products and services successfully. Such products generally have a high value-to-weight ratio, they may involve embarrassing purchases, they may typically go to people in remote locations and they may have shut-ins as their typical purchasers. Items which can fit through a standard letterbox - such as music CDs, DVDs and books - are particularly suitable for a virtual marketer and indeed amazon.com one of the few enduring dot-com companies, has historically concentrated on this field.

Products such as spare parts, both for consumer items like washing machines and for industrial equipment like centrifugal pumps, also seem good candidates for selling online. Retailers often need to order spare parts specially, since they typically do not stock them at consumer outlets - in such cases, e-commerce solutions in spares do not compete with retail stores, only with other ordering systems. A factor for success in this niche can consist of providing customers with exact, reliable information about which part number their particular version of a product needs, for example by providing parts lists keyed by serial number.

Products unsuitable for e-commerce include products that have a low value-to-weight ratio, products that have a smell, taste, or touch component, products that need trial fittings - most notably clothing and products where colour integrity appears important.

Acceptance

Consumers have accepted the e-commerce business model less readily than its proponents originally expected. Even in product categories suitable for e-commerce, electronic shopping has developed only slowly. Several reasons might account for the slow uptake, including:

- Concerns about security. Many people will not use credit cards over the Internet due to concerns about theft and credit card fraud.

- Lack of instant gratification with most e-purchases (non-digital purchases). Much of a consumer's reward for purchasing a product lies in the instant gratification of using and displaying that product. This reward does not exist when one's purchase does not arrive for days or weeks.

- The problem of access to web commerce, particularly for poor households and for developing countries. Low penetration rates of Internet access in some sectors greatly reduces the potential for e-commerce.

- The social aspect of shopping. Some people enjoy talking to sales staff, to other shoppers, or to their cohorts: this social reward side of retail therapy does not exist to the same extent in online shopping.

There are three steps to analyse when looking at the creation of an online business: They are given as follows.

1. Consideration

How does a business know whether they should engage in such a practice? Despite the obvious advantages to e-commerce, it does not always meet the long term needs of a company. If the market for the product is quite small, then there is no need to engage in e-commerce as it will be less difficult to gain competitive advantage and would only result in unnecessary costs and expenses. Secondly, if the company wishes to remain domestic and not expand its services, then a company would be better suited to follow the normal processes of adversiting than participating in e-commerce. Finally, a company must consider whether the business would even succeed or thrive in the e-commerce environment. For example, selling food online would not be a viable venture, as the ultimate costs (wastage, storage, transportation) would outweigh the benefits.

However, if a company believes that their product has great market potential outside of their domestic realm and feel that they can participate in e-commerce, then some time must be taken to lay down the floor plan for the business. Some aspects to consider are:

- What is the idea for the business?
- Is it a product or service?
- What is the name of it?

- Will you emphasise price, quality, service, or another point?
- What is the target market?

2. Implementation

The key to successfully starting and creating an online business is choosing the right Web host. Try to find one that offers guarantees, is flexible, responds to your concerns and quite simply is one that offers the services that you want and need. Once you have found the right Web host for you and created an account, the next step is start building your site. This is going to be the bread and butter of your business. Having an attractive yet simple site will have a great impact. Ensure that it projects the right image and is directed to the right target market for your product. It should be easy to navigate and have a solid search option. Also clarify what sorts of policies you will implement, such as return policies, acceptance or rejection of credit cards, check-out and any other payment options such as cheques or money-orders. Finding the right merchant account to help you accept credit cards is important.

If you are selling products, there are many types of software out there to help you create an effective and efficient ordering system. Look at the features that you will need for your site and compare them to the software that is available. Some may be expensive and others will be free.

3. Finalisation

Now that you have created the website and are ready to begin, the next important step is to market your online business. The options are numerous and can include:

- Join a search engine and pay a fee for placement
- Contract with affiliate sites and programs
- Advertise
- Virally market
- Use promotions

A key step is developing some sort of PR strategy. Your customers are the most important aspect of your business. Make them happy. This can include offering links on your site to answer frequently asked questions (FAQs), shipping quickly, designing a system for easy returns, as well as any other type of cusomter service.

It is also important to constantly change and maintain the freshness of your site. This includes altering colours and creating new displays. Another noteworthy option is to include some sort of statistical counter so that you find out where your customers are logging in from and what they do on your site. Test any advertisements that you create to see how effective they are. E-commerce works as follows (Figure 2).

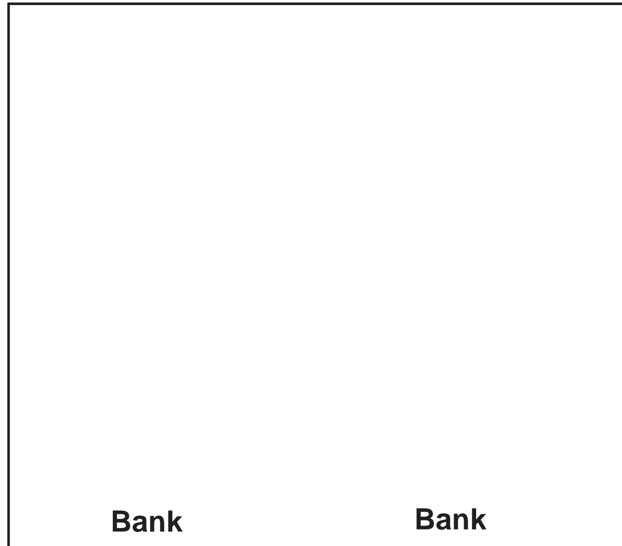

Figure 2. Working of e-commerce

The consumer moves through the internet to the merchant's web site. From there, he decides that he wants to purchase something, so he is moved to the online transaction server, where all of the information he gives is encrypted. Once he has placed his order, the information moves through a private gateway to a processing network, where the issuing and acquiring banks complete the transaction. This generally takes place in no more than 5-7 seconds.

There are many different payment systems available to accommodate the varied processing needs of merchants, from those who have a few orders a day to those who process thousands of transactions daily. With the addition of Secure Socket Layer Technology, e-commerce is also a very safe way to complete transactions.

Conclusion

Online commerce is still new enough that participants are still trying to get a handle on how the rules of commercial interaction apply to this new medium. The burden of smoothing the transition to online commerce falls to the creators and owners of e-commerce sites, because when a commercial transaction falters through misunderstanding or distrust, a typical buyer-to-be won't spend any effort analysing the contradictory message cues or violated role-playing expectations. When a potential customer is frustrated, he/she will exit; the merchant has the investment in fostering the relationship and so had better understand the mechanics of the relationship, starting with the roles.

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MEGA BRAND PULLEY STRATEGIES FOR A.P BASED B-SCHOOLS

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M. Appalayya**
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Abstract: *Management Education in India is more than 50 years old. In Andhra Pradesh, there has been growing demand for management education and resulted in mushroom growth of B-Schools but placement is poor at the state. This paper analyses the rational and functional features of the B-Schools and suggests mega brand pulley strategy so as to deliver more than expected emotional surplus value to the aspirants of Management Education.*

Review of Emotional Surplus Value Theory

In the search for revolutionary tools and ideas for improvement of business practices, thinking process has been subjected to deep intellectual ecstasies which in turn have spun off many thinking tools like "out of box" thinking or "lateral thinking", "six sigma" etc., and the latest to the quiver being "mega brand pulley strategy" propagated by Sombit Sengupta (Financial Express 21-10-04). It is a product of thinking 'beyond thinking' to surprise a consumer beyond his expectations, thus creating an immortal brand. The prescriptions of the theory (it has all the trappings of a theory) constitute "mega brand pulley strategy" which pulls the brand (product or service or organisation) to the legendary position. Delivering unexpected positive content creates emotional surplus value. It is a "stretched thinking", meaning that the best value has been defined outside traditional definition. This stretched thinking forces the delivering agency to excel in delivery and surprise the beneficiary. If an organisation can imagine its future deliverables with high clarity, it can deliver it. If an organisation can not make a picture of its best future deliverables, it is impossible to deliver them in reality. A package of content which this theory helps create, surprises the consumer since consumer never saw it nor imagined it. Emotional surplus theory, another name for mega brand pulley helps an organisation to deliver the content beyond the expectation of the consumer. It is a lamp to see what future or present consumer will be more than satisfied with. It is a vision beyond vision.

The successful brands like Wipro (applying thoughts), Britannia (eat healthy, think better), Saffola (the heart of a healthy family) and Brooke bond (Brooke Bond cheers your senses) are some of the beneficiaries of the emotional surplus value theory. These brands with this newly learned ability to see the surprising deliverables imagined through mega brand pulley strategy, have strengthened their brand power on long term footing.

What is Rational, Functional and Emotional Value?

Rational, Rational plus and Rational surplus

Rationality is the invisible part of any product, such as it being defect-free, which gives the brand its good reputation. In a car, for example, engine performance is not visible; in a food product, the quality of the ingredients is not visible; which is why it is rational. The customer would realise a brand's rational, rational plus, rational surplus value only on experiencing it obviously after its usage. Each of the terms, rational, rational plus and rational surplus signify, in that order, the progressive increment added up along the value ladder or value hierarchy. Rational and invisible

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quality determinants of a B-School comprise teaching methodology, research, counselling and industry exposure and placement assistance. A student gets to know of them only after joining the organisation (Figure 1).

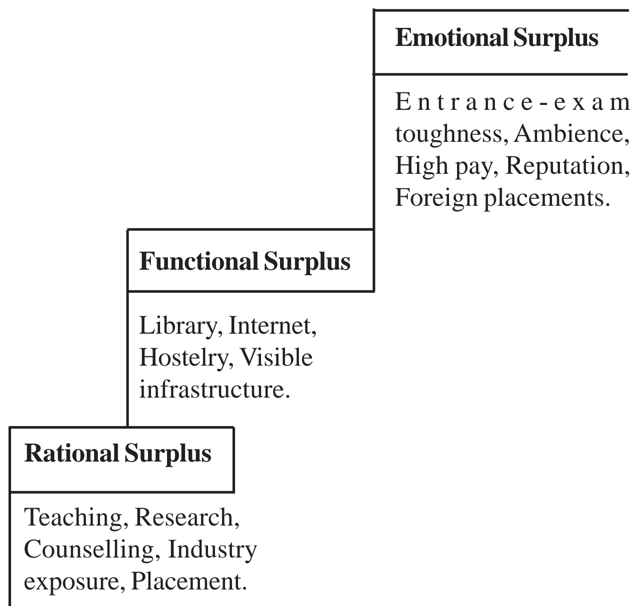

Figure 1. Steps to create differentiation of B-Schools

Functional, Functional plus and Functional surplus

The visible part of the value added to the product is its functional usage advantage that the customer can evaluate prior to purchase. It is a specific benefit that has a tangible and visible character. For example, in the car external functions like easy driving, quick pickup and comfortable seating can be checked during purchase and hence they are visible. A food product can be tasted to discover its functional, functional plus and functional surplus value. The prefixing of 'plus and surplus' to functional value indicate the progressive increments added to functional value ladder. The functional features of a B-School, which are visible, include library, good internet and good hostelry.

Emotional, Emotional plus and Emotional surplus

Emotional surplus can be built on a deliverable with a surplus value only with the cumulative addition of its rational and functional content and hence without having the rational surplus and functional surplus, it is not possible to reach the platform of emotional surplus.

After adding rational and surplus content in a product, aesthetics of the product from the emotional surplus value. The emotional value is a sum total of best rational values and functional values along with aesthetics. This emotional value connects the proposition of the product to the end user at deep emotional plane. This creates long term sustainability of the brand with the customer. For example, a car's creative styling and out of the box concept can increase its emotional surplus content only when rational and functional surplus has been added; in a food product its packaging design, the products' visual character and its out of box concept can create emotional surplus content only when the rational and functional surplus has been added (Figure 1 & 2). In the case of a B-school, entrance exam toughness, ambience, reputation, high salary for the placed students and foreign placements constitute the emotional content to the accumulation of value already created by rational and functional surplus.

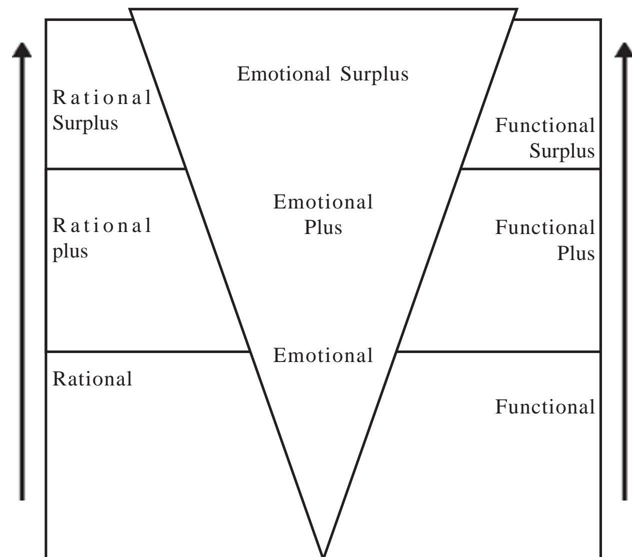

Figure 2. Route to value of surprise

Emotional Surplus = Rational Surplus + Functional Surplus
Emotional Plus = Rational Plus + Functional Plus
Emotion = Rational + Functional
High emotional Surplus Value is beyond experience.

Imagery can help understand it better. Highly virtuous inner character (rational) outward cleanly manners (functional) combine to form a strong foundation of a personality (brand) and with a high finesse for dress & hygiene (emotional), the former two traits together project (deliver) a cute, lovely and adorable personality. Brand promises and delivers. Promises evoke expectations and such expectations have to be fulfilled by effective delivery of the brand. Brand does the aforesaid the functions. Mega brand pulley makes the promise making part easy. The second function is that of action part, the delivery. High level deliverables are not only made easy of conception, but necessary thought processes for delivery are also triggered. The result is a delightful surprise for the customer.

Mega brand pulley strategy has three contexts to apply profitably:

1 Repositioning an existing old brands

2 Creating a corporate brand

3 Creating a new brand.

The pulley will re-launch with high energy from a high dominant ground, the brand by encapsulating in it the brand contents, the rational, functional and emotional at the highest level (at A – multi-plus rating) such that the customer is pleasantly surprised with the delivered value and falls in "love" with it. Because of the highest unexpected satisfaction, an emotional union strikes and married forever 'type bonding takes place between the owner and customer. We have explained the three types of contents in the following parts.

The pulley strategy anchors the brand on four values – human values, integrity, innovative solutions and value for money. With the help of these values achieved at surprisingly highest level, the deliverables overflow at the pinnacle of perfection, strike emotional chords with the customers and seats the brand in subliminal base of the customer's mind. Ecstatic love and connection at deep mental level takes place. The brand as a result, becomes a highly placed star and a category driver and thus hedges itself against competition. A powerful communication is facilitated that too at much less expenditure. International entry of the brand is also made easy. It creates a sustainable competitive advantage because of high quality deliverable which a mediocre player cannot afford to deliver.

Mega brand pulley-a positioning approach

A brief review of the positioning concept is attempted here to help one understand how Mega Brand Pulley Strategy is a brand positioning approach.

Product position refers to a brand's objective (functional) attributes in relation to other brands. It is a characteristic of a physical product and its functional features. Brand position on the other hand, refers to a brand objective (or perceived) attributes in relation to competing products. This perceived image of the brand belongs not to the product but rather is the property of the consumers' mental perception and in some instances could differ widely from brands true physical characteristics.

Functional brand benefits are with those related to problem solving capacity of the brand (e.g., higher mileage of Hero Honda, lower interest rates on ICICI loan etc.). Experienced brand benefits are like those related to giving sensory pleasure (e.g., the comfort of Taj Residency, the taste of Pizza Hut etc.). Symbolic brand benefits are like those related to symbolic image or personality enhancement (e.g., Louisse Phillipe Shirts , Tanishq Ornaments). A brand is the anticipation of the consumers feel towards a specific benefit about to be derived from an identified source (a product, a service and so forth) often associated with a standardised set of symbolic representations (name, logo, emblem, colour, tagline, image etc.). "Positioning is the art of selecting out of a number of unique selling propositions, the one which will get you maximum sales". The brand's strategy (promise) is the choice of what anticipation of benefit we intend to evoke in our customers, how the benefit will be attributed to our product or service. We make promises to consumers and their anticipations of the promised benefit are what we must measure to monitor our brand's success. An anticipation of benefit will not last if not consistently fulfilled. Branding is the creation of a system consisting of both arousing anticipations for and providing fulfillment of brand benefits (promises).

"Traditional brand building model (customer-bases brand equity CBBE) of stipulates creation of brand identity, brand meaning, brand responses and brand relationships". The power of a brand lies in what resides in the minds of the customer. The challenge for marketers in building a strong brand is ensuring that customers have the right type of experiences with products and services..."(Kevin Lane Keller, 2003).

There is a great resentment in the conventional branding approach. The trend now on the contrary is towards realness, not boasting, trendy catchy phrases and sizzling sales pitches. Mega brand pulley replaces distressing surprises with delightful surprises. Mega brand pulley is a fast-trajectory-positioning, by which competitive force is scaled down and only a few competitors will remain in the arena. As can be understood from the above positioning talks about finding vacancies and situating the brand in it, but on the contrary, Mega Brand Pulley aims at occupying a permanent wider space after reducing the competitive pressure. The theory further postulates that a brand should not be represented by a mere a logo of artistic handwork but should be anchored on true fulfillment of promised and cherished values of brand owner as reflected by value-trio-stratum consisting of rational, functional and emotional contents of the deliverables. To be precise, the expectations evoked and their fulfillment to the level of surprising delight rather than distressing disappointment, are at the core of the Mega brand pulley.

Statement of Problem

Management education in India is more than 50 years old. Till 1970's MBA degree was perceived as a prestigious one and used to be a passport for managerial jobs. Since 1990's, Universities have been permitting affiliated colleges to offer MBA courses one side and All India Council for Technical Education (AICTE) also has been permitting

institutions to offer 2 years PGDM/PGPM courses (which is equivalent to MBA of a University) and resulted in mushrooming of B-Schools in India. Due to liberalisation and privatisation, private Universities are also promoting management education. But today's management education in the country is being increasingly criticised for their low quality. As a consequence of globalisation of knowledge, our management schools have to compete with foreign players.

In Andhra Pradesh (AP), there has been spurt in demand for management education and resulted in significant growth in terms of number of institutions and also student intake. At present there are 215 management schools offering MBA course with a total intake of 13,000 plus (p.a.), which is probably more than required. Hence, around 50% of them who complete MBA every year cannot find placement. In this context, we want to assert that the deliverables of the B-schools should delight the students in terms of learning quality, placements and pleasurable remuneration, for which the B-school can employ mega brand pulley strategy. This strategy ensures rational, functional and emotional content of offer of B-schools and also the delight of experience beyond expectation such that the student is emotionally connected and is thus highly likely to generate positive word of mouth about a particular B-school. This article aims to elucidate the concept of mega brand pulley strategy, the current status of B-schools of AP, with respect to the imperatives stipulated in the strategy and the strategy framework to fill the gap towards high quality delivery and a delighted student.

Objective of the study

The objective of the study is to apply the concept of emotional surplus value theory to the area of management education in the state of Andhra Pradesh to find the position of the state and develop mega brand pulley strategies.

Methodology

a. Data sources and sample size

The study is based on secondary data. The data of B-Schools of Andhra Pradesh are extracted from Indian Management, September 2004. The All India Management Association(AIMA) rated 283 B-Schools of India including 37 B-Schools of Andhra Pradesh and published their scores (percentile). The overall score data are taken for our analysis. Further, for the age of the B-Schools (year in which the B-School commenced MBA programme or approval of AICTE was secured) and Commission rate of Technical Education, Hyderabad was also consulted.

b. Data classification and tabulation

The overall scores (the rating done by AIMA) of the B-Schools range from 0 to 85. Hence the slabs for defining the three levels of emotional value, the overall score is put as follows assuming a minimum of 35 for basic level, 36 to 60 for plus level and above 60, for surplus level. (Table 1a).

Table 1a. Levels of emotional value-overall score

Overall Scores	Level of Emotional value in scores (%)
00-35	Basic
36-60	Plus
>60	Surplus

Further for 37 B-Schools of Andhra Pradesh, the data is tabulated as follows:

1. Levels of emotional value-overall score (Table 1a)
2. Category of B-schools in A.P- level of emotional value
3. Co-ed B-Schools and Women B-Schools-level of emotional value
4. Hyderabad based and other B-Schools-level of emotional value
5. < 10yrs and >10yrs aged B-Schools-level of emotional value
6. Scores of Andhra Pradesh based B-Schools.

c. Analytical tools

The data is nominal and therefore percentages are used for the analysis of the data.

d. Hypotheses

The following are the hypotheses for the study:

i. There is no difference between AICTE approved (those offering 2 yr. PGDM/PGPM) and affiliated B-School in the creation of emotional value.
ii. There is no difference between Women B-Schools and Co-ed B-Schools in the creation of emotional value.
iii. There is no difference between B-Schools of Hyderabad and the B-Schools located in the other geographical locations of A.P in the creation of emotional value.
iv. There is no difference between B-Schools of <10yrs age and B-Schools of >=10yrs age in the creation of emotional value.

e. Assumptions

The overall scores (extracted from the rating of B-Schools) of the AIMA's survey of B-Schools (Sept'04) are based on intellectual capital, admission and placement, infrastructure, industry interface and corporate governance and hence assumed to reflect the combined effect of rational and functional features to trigger the levels of emotional value.

Findings of the study

The following are the findings of the study:

i. It is observed that only 5 B-Schools are able to deliver emotional value to the aspirants. Unfortunately, many (25/37) B-Schools are able to deliver only the minimum level (<= 35 overall score) of emotional basic value and 7 out of 37 B-Schools are striving to deliver plus level (36-60 overall score) of emotional value (Table1a & 1b and Figure 3) where the super-imposing triangle representing emotional surplus on the foundations of rational and functional contents. Instead of surplus being wider at the top as shown in Figure 2, the one in Figure 3, has a narrower top, which reflects sub-optimal emotional surplus of A.P B-schools, which is almost close to India's contribution to mathematics (zero). It goes without saying that the rational and functional contents of Andhra Pradesh B-Schools are also abysmally low.

Table 1b. Level of emotional value-overall score

Levels	Overall Score	No. of B-Schools (%)
Basic	00-35	25 (66)
Plus	36-60	07 (20)
Surplus	Above 60	05 (14)
-	**Total**	**37 (100)**

Analysed based on Table 7

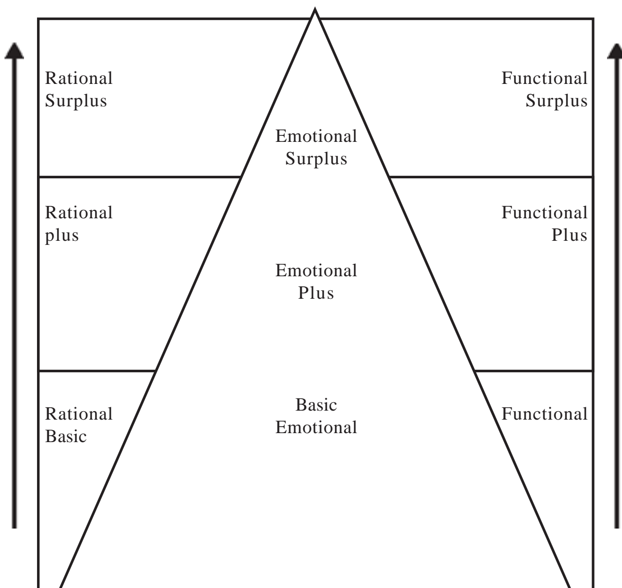

Figure 3. B-Schools-emotional value levels

ii. AICTE approved B-Schools offering 2yrs. PGDM/PGPM/ PGDBM etc., are doing better in the delivery of emotional plus value compared to that of affiliated B-Schools (Table 2).

Table 2. AICTE approved only and affiliated B-Schools-levels of emotional value

Levels of emotional value (overall scores)	AICTE approved only B-Schools (%)	Affiliated B-Schools (%)	Total (%)
Basic 00-35	01 (20)	24 (75)	25 (66)
Plus 36-60	03 (60)	04 (12.5)	07 (20)
Surplus above 60	01 (20)	04 (12.5)	05 (14)
Total	**05 (100)**	**32**	**37 (100)**

Analysed based on Table 7

iii. In Table 3, it is disclosed that all the 3 Women B-Schools are just delivering basic level of emotional value. All the 5 B-Schools which are delivering the surplus level of emotional value belong to Co-ed type (Table 3).

Table 3. B-Schools of Co-ed type and Women category level of emotional value

Level of emotional value (overall scores)	Co-ed type B-Schools (%)	Women B-schools (%)	Total (%)
Basic 00-35	22(65)	3(100)	25 (66)
Plus 36-60	07(21)	00	07 (20)
Surplus above 60	05(14)	00	05 (14)
Total	**34(100)**	**3(100)**	**37 (100)**

Analysed based on Table 7

iv. In Table 4, data is tabulated based on the location/region of the B-Schools. Here, the B-Schools are classified into two; B-Schools located in Hyderabad, Secunderabad and

Ranga Reddy (R.R.) Dist. Taken under Hyderabad category and the rest are taken as 'others', assuming that B-Schools can use location-wise advantage in the delivery of emotional value. The table reveals that there is no difference between the two categories as far as the levels of value delivery (Table 4).

Table 4. Hyderabad based and other B-Schools – level of emotional value

Level of emotional value (overall scores)	Hyderabad Based (%)	Others (%)	Total (%)
Basic 00-35	14(64)	11(74)	25 (66)
Plus 36-60	05(23)	02(13)	07 (20)
Surplus above 60	03(13)	02(13)	05 (14)
Total	**22(100)**	**15(100)**	**37 (100)**

Analysed based on Table 7

v. The distribution of B-Schools with respect to the age is presented in Table 4. Here, the age of B-Schools is classified into 2 groups that is <10 yrs and >=10yrs age. As per Table 4, it is observed that more or less same no. of B-Schools is operating in the surplus level emotional value delivery irrespective of age. But more no. of B-Schools are seen in the <10yrs category delivering only basic level of emotional value (Table 5).

Table 5. Age of B-Schools – levels of emotional value

Level of emotional value (overall Scores)	<10yrs aged B-Schools (%)	>=10yrs aged B-Schools (%)	Total (%)
Basic 00-35	17(68)	08(67)	25 (66)
Plus 36-60	06(24)	01(8)	07 (20)
Surplus above 60	02(8)	03(25)	05 (14)
Total	**25(100)**	**12(100)**	**37 (100)**

Analysed based on Table 7

vi. Discussion and implications of the study

Very less number of B-Schools in A.P are able to deliver the emotional value to their students, which signifies the need of adding of new rational and functional features on one hand and the restructuring of the existing rational and functional features at the B-Schools (Table 6) as more number of B-Schools are falling in the basic level of emotional value for all the features and the distribution of A.P based B-Schools in these features also similar to that of Figure 3 shown for the overall scores which are quite opposite to the theory of emotional surplus value. B-Schools offering 2 yr. PGDBM/PGPM/PGDM having approval from AICTE are doing better than the affiliated B-Schools which implies more freedom leads to more orientation to the customer needs and have more level of emotional value whereas in the case of affiliated B-schools, having lack of freedom in the development of curriculum, teaching methods and further common entrance test leading to the low level of emotional value delivery and hence more number of B-Schools are still in the basic level (Table 2). Co-education in the post graduate level is needed.

B-Schools having located in the city definitely have more access and Interface with industry and hence will be in a position to deliver surplus level of emotional value to its customers. But here in A.P it seems (Table 4) there is not much difference in the number of B-Schools as far as emotional surplus value delivery system implying, hence there is a dearth of industry interfere. Similarly, there is not much difference between <10yrs and >=10yrs aged B-Schools with respect to emotional value delivery which implies B-Schools are made to run like degree factories without focusing the needs and emotions of the aspirants of management education.

vii. Mega brands pulley strategies for Andhra Pradesh B-Schools

The following strategies are put forth to build brand so as to make the aspirants of B-Schools experience the emotional surplus value:

a. Andhra Pradesh B-Schools should focus on strategic strength by building knowledge base resources and keeping a right vision instead of short term demand cues.

b. By adopting new and innovative teaching methods and giving updated knowledge, the B-Schools should mould the students to see that the products of them surprise the industry in the generation of ideas and tackling the issues strategically.

c. B-Schools should focus much on experimental learning instead of simply making their students learn basic curriculum. This is possible by keeping touch with the

Table 6. Scores of Andhra Pradesh based B-Schools

Levels of scores	Rational factors			Functional factors	
	IC	A&P	II	INFRA	CG
Basic 00—35	25	22	19	29	19
Plus 36-60	07	08	14	04	10
Surplus above 60	05	07	04	04	08
Total	**37**	**37**	**37**	**37**	**37**

Analysed based on Table 7

industry by way of organising industry guest lectures, associating with the industry for developing cases and visiting industry periodically.

d. Research and publication centre should be made mandatory for all the B-Schools in A.P a monthly newsletter and a quarterly journal should be published by every B-School. Further, the editorial board should constitute at least one professor of IIM like reputed Institutes and necessarily see that articles of new concepts/new findings, which are of useful, need only be published. In breading should be avoided and cross-fertilisation should be encouraged.

e. Business schools must inculcate in their students' global business capabilities namely knowledge skills and attributes to succeed in the global economy. The aspirants should be trained to think, decide and act effectively and innovatively in an unpredictable global business environment.

f. B-Schools should focus more attention on basic management skills such as communication, leadership development and change management and prepare the MBAs for global adaptability. Proper focus on skills provides a challenge and skills are developed through practice as well as understanding of the theory behind them. Business leadership demands attributes of personality and character. These include integrity, self-confidence, curiosity and passion for excellence. The attributes required for business leadership can be developed in a B-School at least to the same degree as business knowledge and skills can.

g. Admission criteria is simply base on ICET, a common entrance test conducted by the Govt. of A.P to decide the eligible aspirants to allot them to different universities and affiliated B-Schools in the state. More than 80% of the applied students are clearing the entrance test which indicates its weakness. Maintaining toughness in the entrance by way of giving more weight on aptitude test gives more scope for getting the right aspirant.

Conclusion

The right combination of rational features (such as innovative teaching methods, high quality research, intensive industry exposure, sufficient support in placement and proper counselling) and functional features (such as adequate library, high speed internet and good hostelry, tough entry) will definitely let the B-School to deliver emotional surplus value to the aspirants.

Table 7. List of A.P B-Schools with scores, location, category etc.

Name of B-School	Cat	Year	Score	I cap	A & PL	Inf-str	Ind int	Govt.	Loc'n
NIAEM Hyd	2M	1987	85	75	85	90	55	85	Hyd
Integrated Institute of Adv. Mgmt.	2M	1994	65	50	80	55	60	50	Vizag
IPE	2M	1964	65	80	45	50	50	85	Hyd
GIFT	1M	1997	65	55	65	65	40	55	Vizag
Dept. of BM(OU)	2M	1980	65	65	75	40	70	70	Hyd
CBIT	2M	1996	55	55	40	10	75	85	Hyd
College of Mgmt. Studies	1M	1988	60	65	35	65	45	30	Vizag
Aurora's PG College	2M	1997	60	70	65	35	45	30	Hyd
Nava Bharathi College	2M	1994	40	30	60	10	80	75	Sec'bad
Dhruva College of Mgmt.	1M	1995	45	50	55	05	50	40	Hyd
Vignana Jyothi Inst. of Mgmt.	1M	1994	40	20	70	30	50	95	Sec'bad
Sri Ramakrishna PG College	2M	1999	40	25	25	65	65	55	Kurnool
Mahatma Gandhi College	2M	1994	35	60	30	05	30	25	Guntur
ITM	1M	1995	30	30	65	20	40	10	Warangal
Amjad Ali Khan Inst. of Buss. Admn.	2M	1997	25	25	35	20	50	00	Hyd
Ambedkar Inst. of Mgmt. Studies	2M	1995	30	40	45	05	25	65	Vizag
TJPS College	2M	1987	10	05	10	50	00	50	Guntur
Pragathi Mahavidyalaya	2M	1982	15	05	45	05	30	60	Hyd
Pendekanti Inst. of Mgmt.	2M	1991	10	25	10	05	15	65	Hyd
Nizam Inst. of Buss. Mgmt	2M	1998	10	10	25	05	45	45	Hyd
Loyala Academy PG College	2M	2000	15	00	50	15	20	10	Sec'bad
GRB Degree College	2M	1995	10	15	15	05	45	40	Anaparti
A V PG College	2M	1991	20	25	60	05	15	35	Hyd
Bharat PG College for Women	2W	1992	15	25	35	05	30	10	Hyd

AQJ Center for PG Studies	2M	1997	20	40	10	20	20	35	Vizag
Annamacharya Inst. of Tech.	2M	2000	15	10	25	25	00	80	Cudapah
Vivekananda PG Studies	2M	1987	00	05	05	00	05	15	Hyd
University PG College	2M	1991	00	30	00	00	10	00	Khamam
Vanitha Mahavidyalaya	2W	1997	00	15	15	00	00	00	Hyd
R G Kedia College	2M	2000	05	15	05	15	25	45	Hyd
RBVRR Women's College	2W	1997	00	00	05	25	00	05	Hyd
Lal Bahadur PG College	2M	1997	00	00	05	00	00	05	Warangal
P B Siddharta College of Arts & Science	2M	1987	00	05	00	15	15	00	VZA
MESCO Inst. of Mgmt.	2M	2000	05	15	00	10	40	05	Hyd
DVR PG Inst. of Mgmt. Studies	2M	1999	00	00	20	00	10	20	R R Dist.
David Memorial Inst. of Mgmt.	2M	1997	05	00	10	10	40	30	Sec'bad
Akkineni Nageshwar Rao College	2M	1994	00	05	10	10	05	00	Gudivada
Maximum Score	-	-	**85**	**80**	**85**	**90**	**80**	**95**	-
Minimum Score	-	-	**00**	**00**	**00**	**00**	**00**	**00**	-
Average Score	-	-	**26**	**27**	**33**	**22**	**32**	**38**	-

Note:
i. Compiled from Indian Management Vol. 43, Issue 9, Sept'2004, pg. 44-50.
ii. Age, Category & Region of the B-School collected from Commission rate of Technical Education, Hyderabad.
iii. 1=AICTE approved only, 2=Affiliated B-Schools
iv. W= Women, M= Co-ed B-School.

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Innovation in Marketing of Bank Products

Nazia Sultana*

Abstract: *Bankers and banks are considered pillars of the society. The consumers trust banking and bankers, in whom they place a great deal of confidence, higher than for any other industry. Banking by and large lags far behind than most other consumer retail industries in developing leading-edge products and services. For banks to succeed in this global environment, they need to strengthen their relationship with their current customers and innovate their offerings. The use of technology in banking has created efficient banking services and many innovative solutions have been developed in retail and corporate banking. This paper makes an attempt to highlight the role of innovation in a service industry like banks and would in exploring the seeding options for future growth. It also brings out the various impediments to innovation in the banking sector. The thrust on innovation is imperative, particularly in the present context of consolidation and convergence both within and across the segments of the financial system.*

Introduction

Bankers and banks are typically considered pillars of the society. Conservatism and high community involvement are the trademarks of the industry, and they extend to the banking operations and practices. Due to a highly regulated image of the industry, the consumers trust banking and bankers, in whom they place a great deal of confidence, higher than for any other industry. The worldwide assets of the largest 1,000 banks grew 15.5 per cent in 2005 to reach a record of $60.5 trillion. This follows a 19.3 per cent increase in the previous year. The European Union banks held the largest share, 50 per cent at the end of 2005; up from 38 per cent a decade earlier. The growth in Europe's share was mostly at the expense of the Japanese banks whose share more than halved during this period from 33 per cent to 13 per cent. The share of the banks of the United States of America (USA) also rose, from 10 per cent to 14 per cent. Most of the remainder shares was from other Asian and European countries.

Currently, India has 88 scheduled commercial banks (SCBs); 28 public sector banks (that is with the Government of India holding a stake), 29 private banks (these do not have government stake; they may be publicly listed and traded on stock exchanges) and 31 foreign banks. They have a combined network of over 53,000 branches and 17,000 ATMs. According to a report by ICRA Limited, a rating agency, the public sector banks hold over 75 per cent of total assets of the banking industry, with the private and foreign banks holding 18.2 per cent and 6.5 per cent respectively (Financial Express, February 27, 2006).

Literature Review

According to Devlin, "Innovation in the delivery system of financial services is an 'opportunity to gain competitive advantage' which would give, say, a retail banking service provider, 'the basis for differentiation'. Innovation has a crucial role in securing sustainable competitive advantage in today's competition." (Devlin, 1995). Porter said that in any industry, the nature of competition is embodied in threat of new entrant, threat of substitute product or services, bargaining power of suppliers/buyers and the rivalry among existing competitors (Porter, 1998).

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Innovation is defined as the use of new knowledge to offer a new product or service that customers want. The knowledge here refers to technological or market knowledge. No matter how the paradigm shifts due to external factors like technology and environment, the process of innovation cannot be separated from a firm's strategic and competitive context (Afuah, 2003).

Changes in government regulation of the industry have caused traditional banks to expand their offerings. Competition is multiplying as these institutions fight for customers in new arenas (Llewellyn, 1998).

"Financial Innovation and Risk Sharing" MIT Press Franklin and Gale have cited a study of Donald Lehman at Columbia University in New York and Jacob Goldenberg and David Mazursky, both at the Hebrew University of Jerusalem. An incisive study of 197 product innovations (111 successes and 86 failures) showed that successful innovation was marked by the moderate newness to market, tried and tested technology and saved money (Franklin and Gale, 1994).

Indian banking industry

The lead in opening branches has taken over by the private sector banks that have beaten the public sector since 2000 (Table 1). Three-fourths of bank deposits are still with public sector banks, but there has been a steady decline in their share since liberalisation. Private sector banks have gained the most.

Innovation in banking

Between hidebound marketing ideas, long term standing structural limitations and complex regulatory requirements, banking by and large lags far behind than most other consumer retail industries in developing leading-edge products and services. The industry's rush of consolidation in the last decade nearly halved the number of banks in India. Foreign banks in India have proved to be more profitable than their domestic competitors. In 2005-06 they had a 1.52 per cent return on assets, compared with 0.97 per cent for the new private sector banks and 0.82 per cent for the public sector banks. The three big foreign sector banks - Hong Kong and Shanghai Banking Corporation Limited (HSBC), Citibank and Standard Chartered had return on assets of 1.37, 1.55 and 1.88 per cent respectively in the rapidly changing financial environment in which commercial banks are operating; it is only desirable that every player of this sector attempts to ensure both its short term competitive and long term strategic presence. Financial institutions like any other firms will need continually innovative and create new ideas and new products. The states with highest number of Nationalised Banks in India are provided in Table 2.

In a world of increased competition and enhanced information, financial organisations, like any business firms, are forced to review their existing products and develop new ones. Failure to do to so may lead to a firm's exit from the industry. Innovation has received considerable attention in the literature as having a crucial role in securing sustainable competitive advantage in today's business environment. For banks to succeed in this global environment, they need to strengthen their relationship with their current customers and innovate their offerings. But innovation is not easy in banking. The industry has to contend with a tangle of regulations that can slow down product and marketing innovation. Before introducing new products and sometimes even new marketing programmes, banks have to consider such factors as privacy laws, debt security guidelines and fair lending practices.

Table 1. Number of branches of different banks in India

Year	SBI and associates	Nationalised banks	Foreign banks	Private sector banks
1990	12,074	29,800	148	3,961
1995	12,947	31,817	157	4,213
2000	13,589	33,905	237	5,437
2006	13,831	34,012	259	6,516

(Source: Business World Banking Special Dec. 2006)

Table 2. States with the highest number of nationalised banks in India (June 2005)

State	Deposit (Rs. in Crore)	Credit (Rs. in Crore)	No. of offices
Delhi	1,09,803	69,299	1,016
Maharashtra	1,23,756	1,29,701	985
West Bengal	33,120	26,731	726
Karnataka	30,454	27,344	529
Tamil Nadu	23,775	24,663	493
Gujarat	15,044	9,734	404
Andhra Pradesh	17,281	16,071	344
Punjab	7,294	7,363	280

(Source: India State Top 10 of India 2006)

Bank products are different from consumer goods in a number of ways. First, they require no physical packaging. The so called undue proliferation of package size of consumer products has been the main cause of consumer groups and has even provided impetus to the Fair Packaging and Labelling Act. Some bank products are immune from the 'faulty products' issue. Faulty products are also linked to safety issues, repair/maintenance problems, warranties and guarantees; they also give rise to product recall situations. The bank products do not have the same potentially issue- provoking characteristics of packaging, safety, repair and maintenance that many consumer goods have. This is due to their intangible nature. This significantly reduces the potential for complaining, litigation and regulation that have been witnessed in other industries.

What does innovation mean?

Innovation should happen at every point along the system-customer interface, within product classes as well as the re-invention of branches. There is also hidden innovation in processes, product architecture and systems. Innovation can be defined as the use of new knowledge to offer a new product or service that customers want. The new knowledge refers to technological or market knowledge. Technological knowledge is the knowledge of components, linkages between components, methods, processes and techniques that go into a product or service. Market knowledge is the knowledge of distribution channels, product applications and customer's expectations, preferences, needs and wants.

'Just doing something and praying that it will work and not measuring it is a waste of time and money, because at the end of the year you are no smarter than you were at the beginning of the year', says Jerry Wind, Professor of Marketing at Wharton. No matter how the paradigm shifts due to external factors like technology and environment the process of innovation cannot be separated from a bank's strategic and competitive context.

How can banks innovate?

- Successful bank innovation begins first, yet learning to look at things from the customer's point of view and then trying to solve a problem. Like many companies, banks on the whole have been better product engineers than marketers, better at 'solving financial problems than consumer's problems'. Most of the offerings are too complex for the average consumer to understand. Even if a product cannot be simplified, the banks should help clients deal with the offerings complexity to create greater loyalty. Banks have to upgrade and constantly of new innovative customised packages and services competitive.

- The invasion of banking by technology has created an information age and efficient banking services. E-banking is becoming more and more popular today, as is banking via digital television. Beyond doubt, a substantial part of the future of banking business lies in a banking environment that is less and less branch based and where customers are able to access banking services remotely. India is still in the early stages of growth and development of e-banking. Competition and changes in technology and lifestyle in the past few years have changed the face of banking. E-banking is likely to bring a host of opportunities as well as unprecedented risks to the fundamental nature of banking in India.

- When banks do come up with new products, the products often fail because they do not focus enough on the consumer. If the product addresses one real need, no matter how small, banks should lift it. But how can banks learn to become more customer-focussed and innovative? Although regulations are not going away anytime soon, the other barriers to more customer centred innovation can be whittled away with some concerted effort.

- Internal structural changes can improve the chances of success in innovation. Banks should breakdown the wall between sales and customer service performance. In an unusual move for a banking innovation, Citibank linked its customer service performance to sales success, which created an incredible incentive to address customer service but gives bank's marketers greater insight into consumer needs than they ever had before.

- Clearer organisational processes can help make it possible for innovations to be developed on a regular schedule. Often banks do not have a clear process for gaining approvals of new product innovations. Without a process, innovations occur more slowly and painfully.

- Banks should look for new insights from the existing customer data. Most financial services companies either do not mine their data enough or do not do it in a way that allows the information to reach product development. One tool that is often used in consumer products but frequently overlooked in financial services is conjoint analysis.

- With competition as the buzzword among the scheduled commercial banks, all categories of banks have been investing on computerisation and the use of advanced communication networks. The country's second largest bank, ICICI Bank, is currently on a mission to make the optimum use of technology to reach out to rural India. Its technology team is developing products that can help reduce transaction costs considerably. For example, it has taken a stake of under 20 per cent in Financial Information Network and Operations (FINO) to provide technological solutions and services to finance providers to reach the underserved. The FINO is in the business of biometric cards, which help identify customers with the help of unique physical or behavioural traits. Such cards require a database of customer traits which, when created, would benefit the bank immensely.

The key to success is one's mental model of the company's business. Product innovations need not be financial in character always. For example, some credit cards marketed to tennis fans featuring a picture of their favourite player have performed better than other cards, although the card itself has the same benefits as the plainer versions. To witness the magnitude of transformation that can result from seeking innovation beyond stale industry models, one need look no further than the Indian banking sector, which is struggling against a growing wave of foreign competition over the past several years. Being in a fiercely competitive industry, the ability of banks to differentiate themselves on the basis of price is limited. Technology has introduced new ways of delivering banking to the customer, such as ATMs and Internet banking. Hence, banks have found themselves at the forefront of technology adoptions for the past three decades. It is imperative for banks to align their strategies in response to the changing customer's needs and developments in technology.

Changing nature of banking activities

The world financial industry is witnessing a significant change that is taking place in the traditional banking business. Commercial banks in the developed financial markets now find it harder to raise funds as cheap as before because of the outflow of deposits from bank accounts to high-paying capital and money market investments. In addition, they also no longer enjoy the near monopoly in the loans at a cheaper price either issuing securities to the public or approaching the finance companies. The responses of banks to these changed circumstances have been in their move towards non-traditional fee-generating activities including trading in derivative instruments and other off-balance sheet positions.

The significance of introducing a steady stream of innovative products for banks emanates from its potential to impact all these factors. Innovation, which transcends invention, represents the point of convergence of invention and insight. Indian banks will be able to know weather the competition provided by them are relevant to consumers in terms of technology, quality, reliability, pricing, performance and support.

Regulation and technological improvements are responsible for the vast majority of innovations in banking over the past quarter century. The introduction of personal computers and the proliferation of ATMs in the 1970s captured the bank management's attention. The regulatory changes in the 1980s fuelled much of the industry's growth, than downsizing as bankers focused on amassing market presence, which resulted in significant merger activity.

The banking industry underwent profound changes of consolidation, spread of electronic banking and increased freedom to combine banking with other financial services. The emerging environment highlights challenges of intensified competition, increased business complexities, profitability, thinning spreads, customer expectations and employee productivity. These factors, which link innovation to products, customers and markets, necessitate positioning of business in a far more global and synergetic context than through contemporary banking products with advanced consumer-friendly features at affordable prices.

What drove many bankers to invest in ATMs was the promise of reduced brand costs, since customers would use them instead of a branch to transact business. But what was discovered is that the financial impact of ATMs is a marginal increase in fee income substantially offset by the cost of significant increase in the number of customer transactions. Innovation has become an industry phenomenon and innovative products with focus on information technology (IT), multiple channels and proliferating delivery platforms such as branch, internet, offsite ATMs, anywhere banking, credit, debit, smart cards, mobile or fixed-line phones and institutional channels are commonplace.

As innovation transcends an organisation-centric agenda, policy, programme and accelerating interventions need to strengthen core competencies of Indian banks while exploring seeding options for future growth. Thrust on innovation is imperative, particularly in the present context of consolidation and convergence both within and across segments of the financial system.

Fiercely creative research and technology teams altered the face of Indian banking industry through innovations in core banking/clustered solutions, centralised processing, distributed servicing and easily scalable open systems to provide choice and convenience. Service with effective, standardised and controlled processes is the key driver of growth that surprises and delights the customer with new, differentiated and relevant benefits accruing from the products and services. The factors that link the innovation to products, customers and markets, necessitate positioning of business in a fear more global and synergistic context than through contemporary banking products with advanced consumer-friendly features at affordable prices.

Many innovative solutions have been developed in retail and corporate banking such as customer relationship management (CRM), credit cards, electronic cash management, relationship banking, credit appraisal, trade finance, e-commerce etc. The most important being CRM, that is primarily driven by the innovation of technology. But unlike other technological innovations, CRM has power to help bankers quickly and directly improve customer satisfaction. CRM is an added dimension to ensure that what the customer expects is consistent with what the bank is approached, that is less focused on providing the right services to the customer than attracting customers who are the right fit for what the bank has to offer. Further, the primary value of CRM is its potential as a customer retention tool. People are starting to measure CRM in terms of increased customer satisfaction rather than ROI. Financial service firms will need to shift to a customer-centric, rather than a product-centric business model. They see the profit in forming value-added relationships with their consumers and Electronic Customer Relationship Management (ECRM) will thus represent the next paradigm shift.

One fact of strategic marketing planning, which will be most heavily affected by the uncertainties of competition and environmental change is product development and innovation. The importance of new product development is underscored by the trend towards the unbundling of products/services and the need to understand the costs and prices of individual product/service offerings. In order to stay ahead of, or at least to keep abreast with the massive changes in the banking industry, strategic marketing planners will have to adopt a more aggressive and innovative product development structure. Marketers in banking industry know very well that long-term growth, market share and profitability are the fruits of a prudent, yet bold, programme of product innovation. Some of the best performing banks in India during 2005 and 2006 are provided in Table 3.

There are many factors, both internal and external, that contribute to development of innovative products tailored to specific needs and specific niches. Strategic factors to devise effective responses to innovation challenges include quick response to the identified customer needs, product quality and short cycle times for product development, developing marketing and technical capabilities, extensive training, rewards and recognition of performance. The important external factors include market research, exchange of new product ideas between banks and research or technological developments. Internal factors could relate to in-house development of new products, monitoring and evaluation of existing products and feedback from employees and customers.

Table 3. Some of the best performing banks in India during 2005 and 2006

Parameter	2005	2006
Profitability	HDFC Bank	HDFC Bank
Efficiency	HDFC Bank	Yes Bank
Safety	Punjab National Bank	Yes Bank
Size	State Bank of India	ICICI Bank
Valuation (price earning ratio)	HDFC Bank	Kotak Mahindra Bank
Growth	HDFC Bank	Yes Bank

(Source: Capital Line plus, RBI Dec 2006)

Successful innovation is marked by moderate newness to market tried and tested technology saved money, ability to meet customer's needs and existing practices. Innovation has gained momentum with progress in IT which is reflected in the enhanced use of pre-paid cards, e-loans, electronic data interchange, proliferation of ATMs and so on.

What inhibits innovation in banking?

There are several impediments to good innovations in banking sector. Internal structural problems inhibit marketing and product innovation. Product focussed companies typically have research and development departments. But it is no so in banks, where IT trends to drive research and development (R&D). Furthermore, departments within banking organisations are usually highly segregated from one another. People who know what kind of technical innovations are needed are often completely isolated from those in a position to deliver the innovations.

A change in government regulation of the industry has caused traditional firms to expect their offerings. Competition is multiplying as these institutions fight for customers in new arenas. Disintermediation is also acting as an impediment wherein equivalent products are available from a number of sources inducing consumers to switch from one product/service provider to another. Wealth-transfer is yet another inhibitor. The customers who will be transferring wealth are, in general, older, brand loyal customers who have maintained significant amount of money with particular banks for a long time. In many cases, those receiving money will be younger, less brand loyal individuals who lack existing financial relationship. Therefore, they are significantly less predictable than the older customer base. The shift between this long standing customer base and the emerging wealthy is accelerating and banking companies need to manage this shift properly for its customers. Two other forces risk aversion and inertia can tamp down the urge to innovate. Banks must be exceptionally careful not to overcomplicate their offerings as product confusion can undermine the confidence the customer must have in the bank to trust it with their money.

Conclusion

First, basically the ideas for new products or services frequently lie dormant or develop slowly until the proper conditions appear. Here, the key entrepreneurial and managerial responsibility is to sense what and how circumstances are changing. Second, important new products or services are frequently invented or discovered by independent operators or small firms. Seldom do these innovators reap the full fruits of their contribution. Third, established firms, often the large organisations, may have little incentive to innovate or adopt the new concept until after it is relatively well proven and/or becomes a competitive threat. Fourth, the stronger the institutions' and industries' traditions, the less likely it is that a proposal for significant change will receive a fair hearing. More often, the change is forced by circumstances external to the firm and industry.

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RISK MANAGEMENT IN MUTUAL FUND INDUSTRY

Srinivas Shirur*

Abstract: *Investment in equity is risky although the returns are relatively higher as compared to debt. Investors should invest in equity, not out of sheer greed, but through proper financial planning. This requires defining the objectives of the investor in accordance with the resources at her disposal. The best way to invest in equity as part of a financial plan is through equity based mutual fund. Investors should be well aware of the risks involved in this alternative. It is the responsibility of investors, SEBI, trustees of the mutual fund company and Asset Management Companies to contain the risk involved, for the benefit of the small investors.*

Introduction

Just as every cigarette pack contains a statutory warning 'smoking is injurious to health', every single mutual fund offer document will carry the caveat 'mutual funds are subject to market risks'. What it means in a layman's term is that there is a possibility that your investment in a mutual fund can go down in value over a period of time. The investor can incur a negative return by investing in a mutual fund, which is not the case with debt.

According to the efficient market hypothesis, a higher return in any asset class has to inherently accompany a higher risk. However, in case an asset class has higher returns with lower risk as compared to other alternatives, then the demand for it will rise, thereby leading to an increase in the price of that asset and a decrease in its return. At the time when the Capital Asset Pricing Model (CAPM) model was developed, risk was considered to be uni-directional, i.e., the return of any portfolio depended only on the return on the index multiplied by the beta of the portfolio (Markowitz, 1959). Empirical evidences proved the results unsatisfactory (Black, Jensen and Scholes, 1972). Mutual fund managers can earn abnormal returns through timing the market (Jkon, 1983) and bearing unsystematic risk by not diversifying the portfolio properly (Fama, 1972). An average investor in mutual funds should have a fair idea about the risk exposure of fund managers in the process of taking these additional risks. In an efficient market, it is virtually impossible for the fund managers to earn abnormal returns without taking commensurately more risk. It is important that the fund managers should give adequate information on each category of risk undertaken by the fund.

The mutual fund industry has fiduciary relation with the unit holders of their companies. They have to take risk commensurate with the potential return in normal circumstances. They are not allowed to gamble in the market or time the market as per Asset Management Companies' (AMC) whims and fancies. The best mutual fund company is the one which gives a steady return with minimum fluctuations, as measured by its alpha.

There are three main reasons for investors investing in mutual funds rather than managing it by themselves (Shah, 1997).

1. **Diversification:** Diversification is the key tool in managing risks. The CAPM theory holds that in order to minimise systematic risk, the investor should invest in at least 50 stocks. Most of the retail investors do not hold 50 stocks.

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2. **Economies of scale:** Sound investment strategies and tactics require information of various companies and costly software to support effective analysis, which can be viably applied if the scale of investment is large.

3. **Professional focus:** The AMC is managed by professional managers selected from première management institutes who devote full time in managing the portfolio. Lay investors neither have the time nor the skills to manage the portfolio themselves.

Types of mutual funds

As far as risk management in equity oriented mutual funds (where more than 75 per cent of the fund is invested in equity) is concerned, there are broadly two categories, *viz*., passive funds (index based) and active funds (sector or theme specific). Both set of funds have unique risk features of their own. Active funds have the task of finding the sunrise sectors and locating the companies which are currently undervalued or is likely to grow at a rapid pace in future. There is always a possibility of error in selecting stocks or in the timing of buying and selling of shares. This requires intensive research, which increases the management fees of the AMC, which has to be borne by the investors. On an average, the AMCs charge 2 to 2.5 per cent annually for providing these services in case of active funds while it is only 0.8 to 1 per cent in case of passive funds. Still, there is no conclusive proof that active funds perform better than passive funds.

The experience of the western world shows that about 80 per cent of the active funds under-perform the passive alternative (Nayak, 1997). In contrast, the Indian experience has shown that active funds perform better than passive funds, especially when the market is rising. One of the reasons for this trend is that India is an emerging market and new enterprises are coming up and new markets are being created. Such entities are not included in the index immediately even though their success is fairly predictable. Although the National Stock Exchange (NSE) has been quick to recognise the importance of new companies like Suzlon Energy and Jet Airways and has included them in the index within one year of its initial public offer. Yet, there are various new companies with high potential, which are not included in the index. By recognising such companies, fund managers can outperform the index.

In case of passive funds, continuous rebalancing of funds is required, which may be risky. As the stock exchange can add or delete certain companies' shares from the index, passive fund managers have to buy shares of companies whose shares have been added and sell shares of the companies whose shares have been deleted from the index. As soon as the stock exchange adds a company's share in the index, its price tends to rise and vice versa for the deleted stocks (Srinivas, 2005). Sometimes, price change due to the announcement of such news is 7 to 8 percentage. This may adversely affect the performance of the passive funds.

Risk analysis

An investor in mutual funds faces many types of risks which are usually addressed by Securities Exchange Board of India (SEBI). The SEBI has even prepared an operating manual for 'Risk Management System' for mutual funds with the support of Price-water-house Coopers. The manual is basically prepared for creating an internal check and balance of the AMC. The manual covers the following types of risks (Pulania, 2005a):

- **Fund management:** Volatility in the market due to economic reasons, interest rate movements, liquidity risks etc.

- **Operations:** Errors, frauds and omission while conducting operations.

- **Customer service:** Deals with investor grievances due to internal lapses.

- **Marketing and distribution:** Relates to new product development and selling and distribution.

It analysis fund management risk from the investors' perspective in the overall context of his or her financial planning. Fund management risk is the most obvious risk, which keeps the investors away from equity in general and mutual funds in particular. The rest of the risks dealt by 'Risk Management System' may not be of immediate concern to the investors in general although they are very important for the smooth functioning of the AMC.

Four types of investor risks will be discussed in detail.

1. **Shortfall risk:** It is defined as the risk that the fund's return will be less than the risk free return. For the Indian stock market, the probability of this risk is 36 per cent over a one year horizon, 21 per cent over a 5- year horizon and 0.4 per cent over a 50- year period. Thus, the shortfall risk decreases as the time horizon increases (Kulkarni, 1997). Hence equity investment in general and mutual funds in particular are long- run investments and people who try to time the market usually incur the highest loss.

2. **Volatility risk:** Stock market, by nature, is fluctuating on an hour to hour basis and shows weekly, monthly and yearly changes. If one defines risk as volatility (which most people do), then the stock markets are

indeed very risky. But if you define risk as the probability of suffering a loss over a long-term, then the risk is entirely manageable and largely dependent on the quality of your investment decisions (Kumar, 2006). The short-term movements of the market have almost nothing to do with the fundamentals and almost everything to do with investor psychology and behaviours when large cap indices, such as the sensex leap up by three or four or even five per cent in a matter of hours that has nothing to do with the fundamentals (Kumar, 2006).

3. **Beta risk:** Compared to the benchmark index, the mutual funds may have higher or lower beta. What it means is that if the beta is more than one, then volatility in Net Asset Value (NAV) of the mutual fund will be more than the index. A fund with a higher beta is naturally more risky than that with a lower beta. That does not mean that one should invest in funds with a low beta. Selection of funds depends on the overall strategy of personal financial planning. A higher beta only means that in case the index increases by, say 10 per cent, then fund's NAV will increase by more than 10 per cent. But the vice versa will also be equally true. At the time of boom, investors tend to focus only on returns when investing in mutual funds and tend to ignore the risks involved. Research has shown that an overwhelming number of people generally invest in funds by asking just one question "Which ones have delivered the highest returns this year?"

Although bit technical, but a more appropriate concept for better judgment of fund managers' capabilities is the concept of 'alpha' which is universally used to measure the performance of the funds.

Using Jensen's measure of risk, one can estimate alpha with the help of the CAPM.

$$a = (r_p \% r_f) \% b (r_m \% r_f) + e$$

where,

a = Excess returns on the portfolio after controlling the beta, i.e, Jensen's Measure

r_f = The risk free rate of return

r_p = Returns on the portfolio

r_m = Returns on the market index

b = Systematic risk

e = Random error

4. **Agency risk:** Agency conflict may arise because of the divergence between the interests of investors from the interests of the managers of the funds. It is usually considered that agency risk always has a negative impact on the returns. But this may not always be true. If an investor invests directly in the capital market, then there is a tendency to trade more often than necessary. There is also a danger that he may get scared by wild fluctuations in the market and may take wrong decisions under distress. In contrast, the fund managers may retain their patience and take decisions based on formal research. Despite the above argument, there is no doubt that agency risk is quite genuine. Some of the reasons why agency risks may adversely affect the returns are as follows.

a. A fund manager might not fully exert his mind when making decisions.

b. A fund manager may buy securities because of kickbacks offered by the companies concerned. This is a major problem with reputed AMCs because lay investors with a herd mentality tend to follow these fund managers.

c. A fund manager may prefer certain brokerage firms for some consideration even though quality of its execution is substandard.

d. A fund manager may not try to minimise transaction costs by taking negotiated trading option even if it is economical. Usually, fund managers tend to prefer stock exchange based trading due to anonymity in trade even if it is uneconomical because in such a case, they do not have to explain the rationale of the decision to the compliance officers.

e. A fund manager may deliberately allow the brokers to resort to front running to the determent of the investors.

Policies to manage the risks

Broadly, the above mentioned four risks will be discussed. Although SEBI has laid down detailed guidelines under SEBI (Mutual Funds) Regulation, 1996, but these risks could not be managed unless the AMC itself has the internal check and balance mechanism in place to deal with it and trustees are vigilant enough to spot any lacunae in the operations of the AMC. In addition, the investors' education is equally important so that they can take informed judgment about the performance of these mutual funds based on their overall sound personal financial planning strategy.

Let us cover these four risks one by one.

1. Shortfall risk

The antidote for this risk is investor education. The Government has set up a fund for this purpose but is hardly used effectively. Some brokerage houses, such as ICICI direct are conducting free training programmes on weekends

to educate the investors, but not many brokerage houses take such training programmes seriously. Even mutual funds send only a set of documents every 6 months as required under the SEBI regulation, which is hardly read by the lay investors. As a result, investors enter the market when the stock market is rising rapidly, with very high expectations of 80 to 100 per cent returns within a short span and tend to invest a major proportion of their resources in equity market. As soon as the market crashes, such investors resort to distress sale and end up incurring heavy losses. What is required on the part of investors is a fair knowledge of risk, return and liquidity parameters of various alternatives of investment and plan their portfolio in accordance with these variables without worrying about short term corrections in the capital market.

Since independence, India has not faced a long run bear phase except for short term scams; hence an average investor in India is little more optimistic than is warranted by the situation. Let us look at the major bear phases in the rest of the world. The worst is ofcourse, the great depression of 1930s. The Dow Jones Industrial Average fell from 381.17 to 41 (fell by over 90 per cent) and as late as April 1942, the US stock prices were still 75 per cent below their 1929 peak and would not revisit that level until November 1954 — almost a quarter of a century later. The stock market took 25 years to recover its 1929 high value (Salsman, 2006). On July, 12, 2006, the Dow Jones Industrial Average was at 11,000 levels. However, the crash of Monday, October 19, 1987 was even more severe than the crash of 1929. On the Black Monday of 1987, the Dow Jones Industrial Average fell 22.6 per cent. Similarly, the Nikkei index of Japan reached a peak of 40,000 in 1989 and fell thereafter to below 12,000 in 2001 only to rise marginally to 14,000 in 2006.

Such irrational behaviour of capital markets lead Prof. John Keynes to make a famous remark 'Markets can stay irrational for far longer than you can stay solvent'. The best way to protect the small investors from such mayhem is to properly educate them. They should be taught the benefit the diversification and long term financial planning. The sales agents of the mutual funds are least interested in doing this, as their main aim is to sell the mutual fund units as quickly as possible and earn good commission.

2. Volatility risk

Equity is inherently more risky as compared to any other asset class although it provides high returns. An investor in mutual fund does not need to worry about intra day price fluctuations because NAV is calculated at the end of the trading session at about 8.30 p.m. certainly; the weekly, monthly and yearly fluctuation is always a cause of concern. Even AMCs cannot do much about these fluctuations. Since this risk is inherent in the market, even stock exchange and SEBI do not have any role to play in it. Only the investors can manage this risk through sound financial planning. This can be done when an investor tries to logically balance his fear and greed. The best method is to try the 100 – age method. In this method, an investor should invest in equity mutual fund up to the extent of 100 minus his age. For example, if a person is of 35 years, then he should invest only 65 per cent of his wealth in equity. The rest should be in fixed-income alternatives. This method is applicable only to risk seeking investors who have covered most of their emergency needs of money through cashless insurance. In case an investor is risk averse or has not been able to take insurance, then it is better to deal with volatility risk by (100 – age)/2 methods.

3. Beta risk

Shortfall risk and volatility risk are absolute risks for which wisdom of the investors has to play a bigger role than the trustees of AMCs or SEBI. In contrast, beta risk is a relative risk. Both SEBI and trustees of AMCs have an important role to play in managing beta risk

a. SEBI

Diversification is the key to reduce beta risk. SEBI tries to regulate beta volatility by imposing following restrictions on investments by AMCs.

i. **Investment in debt instruments:** A maximum of 15 per cent of its NAV could be invested in debt instrument of single issuer which is rated above investment grade. The limit is 10 per cent in case of unrated debt instrument. The total investment in unrated debt instrument is 25 per cent of NAV.

ii. **Investment in unlisted equity shares:** A mutual fund scheme should not invest more than 5 per cent of its NAV in the unlisted equity shares in case of open ended schemes and 10 per cent in case of close ended schemes.

iii. **Investment in group companies:** No mutual fund scheme shall make any investment in any unlisted security of a group company or listed securities of group companies in excess of 25 per cent of the net assets.

iv. **Investment in unrelated companies:** In case of unrelated company, the maximum limit for investment in any company is 10 per cent in case of listed companies and 5 per cent in unlisted companies for open ended schemes and 10 per cent in close ended schemes.

v. **Investment in derivatives:** Derivatives play a very important role in mutual fund portfolio. Depending on the style and objectives of a scheme, a manager can decide the beta of the portfolio. He can fine tune the portfolio to reach the desired beta. Technically, this is called as portfolio rebalancing. Portfolio rebalancing can

be achieved more efficiently and at a lower cost using derivatives rather than cash market transactions. In order to check excessive speculation by the fund managers, SEBI has permitted the managers of funds to do using derivatives, whatever it could have done directly-no more and no less (Pulania ,2005b).

b. Trustees

i. **Investment in derivatives:** Derivative products are specialised instruments that require investment techniques and risk analysis different from those associated with stocks and bonds. Derivatives require the maintenance of adequate controls to monitor the transactions entered into, the ability to assess the risk that a derivative adds to the portfolio and the ability to forecast the price of securities being hedged and the interest rate movements correctly. There is a possibility that a loss may be sustained by the portfolio as a result of the failure of another party (usually referred to as the "counterparty") to comply with the terms of the derivatives contract. Other risks in using derivatives include the risk of mis-pricing or improper valuation of derivatives and the inability of derivatives to co-relate perfectly with underlying assets, rates and indices. Trustees should devise proper policies regarding application of derivatives and clear objective guidelines to decide on the strategies for getting long or short on a particular day and the limit up to which derivatives could be combined with cash market transactions.

ii. **Dealing with large unit holdings:** Trustees should ask AMCs to disclose large unit holding in the scheme which are over 25 per cent of the NAV to the retail investors. It has been seen that large unit holders (mainly corporate investors) are speculative investors who trade very often. Such investors tend to de-stabilise the portfolio and the volatility of the NAV tends to increase.

iii. **Allocation of funds:** Trustees should see to it that policies of AMCs regarding investment in debt (rated as well non-rated and allocation in each company) and in equity (listed and unlisted, group and unrelated company and sectoral and company) is being strictly adhered to and action should be taken against any manager who does not follow the policies.

c. Investors

i. **Check the beta of the scheme:** Investors should not just look at the past performance but also the beta of the scheme. A scheme with high beta may do very well in the boom phase but decline equally rapidly when the market enters the bearish phase.

ii. **Portfolio diversification strategy:** Investors should analyse the portfolio diversification strategy of the scheme. Any scheme with less than 30 to 40 companies in its portfolio will always have beta of more than one. Investors should invest in such schemes with a great caution.

iii. **Sectoral allocation:** A well-diversified fund will always have fewer betas as compared to sector specific or thematic scheme. Similarly, commodities based scheme will have a higher beta as compared to product based scheme even though former have lower PE ratio. Hence an investor should prefer diversified fund with product specific strategy in order to reduce beta.

4. Agency risk

Although SEBI has issued strict guidelines to check the agency risk related problems, still the trustees as well as investors should be vigilant. The SEBI guidelines are discussed below:

a. SEBI regulation

i. **Restriction on expenses:** SEBI has issued detailed guidelines as to the maximum expense which could be charged by the AMC as management fees and entry and exit load. This has to be clearly informed to the potential investors at the time of investment.

ii. **Providing periodic information to the investor:** A mutual fund shall send to all unit–holders a complete statement of its scheme portfolio on half yearly basis.

iii. **Disclosures:** The trustees shall be bound to make such disclosures to the unit holders as are essential in order to keep them informed about any information which may have an adverse bearing on their investments.

iv. **Inspection and investigation:** The SEBI has the powers to appoint an auditor to inspect and investigate the affairs of a mutual fund.

v. **Winding up:** Any scheme could be wound up only if it approved by simple majority of the unit-holders.

vi. **Transactions in securities:** An asset management company shall not purchase or sell securities through any broker which is an average of 5 per cent or more of the aggregate purchases and sale of securities made by the mutual fund in all the schemes, unless the AMC has recorded in writing the justification for exceeding the limit of 5 per cent and reports of all such investments are sent to the trustees on a quarterly basis. In addition to this, the regulation also specifies that an AMC should

not utilise the services of the sponsor or any of its associates, employees or their relatives, for the purpose of any securities transaction and distribution and sale of securities.

vii. **Appointment of custodian:** No custodian in which the sponsor or its associates hold 50 per cent or more of the voting rights of the share capital of the custodian or where 50 per cent or more of directors of the custodian represent the interest of the sponsor or its associates shall act as custodian for a mutual fund constituted by the same sponsor or any of its associates or subsidiary company.

viii. **Approval of the Board for the appointment of trustee:** No trustee shall be appointed without the prior approval of the Board.

ix. **Board of Directors:** The Board of Directors should have 50 per cent independent directors in case of the AMCs and two third of the trustees shall be independent persons.

b. Trustees

Trustees have an important role to play in protecting the interests of the small investors. They act as a watchdog of the mutual fund company. They are required to fulfill the following responsibilities:

i. **Change in the schemes:** The trustees should see to it that no change in the fundamental attributes of the scheme should be done by the AMC unless such change is intimated to the unit holders and an option is given to them to exit at the prevailing NAV without any exit load.

ii. **Restriction on business activities of the AMC:** Trustees should see to it that AMC does not undertake any business activities which are in conflict with the activities of the mutual funds.

iii. **Quarterly review:** The trustees should quarterly review all transactions carried out between the AMC, brokers, custodians and take corrective steps in case of any shortcomings.

iv. **Effective empanelment of brokers:** The trustees should see to it that there is no undue concentration of business with any single broker. This will go long way in improving the efficiency of managing the funds.

v. **Prompt appointment of an honest 'Compliance Officer':** Although appointment of a compliance officer is mandatory under SEBI guidelines, but it is the responsibility of the trustee to see to it that a well qualified and honest professional is appointed who can inform them about any malpractices taking place in the AMC.

vi. **Separation of the front office from the back office:** The single most important reason for frauds in the AMCs is the inability of the trustees to separate the back and front office. Those who take a decision on buy and sell should be separated from the executives who actually place the order and those responsible for taking custody of the stocks. Inability to do this may lead to the problem of front running.

c. Investors

It is usually believed that once an investor invests in a fund, the rest of the things will be taken care by the AMC. Nothing can be further from truth. Mutual funds are good at picking good stocks but do not specialise in timing the market the way hedge funds are able to do. Hence, it is very important that investor keeps a regular vigil over the performance of the AMC and should not hesitate to change the AMC in case of poor results. Investors should particularly analyse the following aspects of an AMC:

i. **Change in the managers of AMC:** Quality of the managers is the key to good performance of any AMC. A very good performing scheme may suddenly start under-performing because of the change in the managers. Investors should review the change in managers and try to collect some information about the new managers and the reason for changeover. If the investor is not convinced about the change, then he should change the scheme or the AMC.

ii. **Change in the fundamental attributes of the scheme:** Sometimes, due to various factors, a company may try to change the fundamental attributes of the scheme, such as like change from close to open ended scheme or vice versa, change in sectoral allocation or strategy regarding hedging or application of derivatives. Investor is given an option to exit without exit load if his objectives of investment do not match the objectives of the AMC. In such a situation, he/she should consider exiting the scheme if objectives of AMC and his/her own objectives do not conver.

iii. **Periodic Review of NAVs:** Investors should periodically review his portfolio at least once a month and accordingly take a decision of increasing or decreasing his exposure in various schemes. He should especially concentrate on two aspects viz., PE ratio and diversification of the scheme. A scheme of a lower PE

should be preferred. A good AMC will always invest in at least 30 to 50 companies. This reduces the volatility of the scheme and is a good indicator of the wisdom of the managers of the scheme.

The road ahead

Despite tremendous growth in mutual fund industry in the past four years, it is still in the nascent stage in India as compared to other countries. Only 2 per cent of Indians invest in equity compared to 60 per cent in the developed countries. There are only 37 AMCs in India compared to about 900 in the USA. To encourage equity culture in India, the mutual fund industry has to play a big role. In the recent past, due to a booming economy, its growth has been phenomenal. From merely Rs. 5,000 crores at the time of liberalisation in 1991, its Assets Under Management (AUM) has increased to Rs. 2,40,000 crores (an increase by 48 times). To gain the confidence of the investors, all the entities involved in the industry viz., SEBI, Trustees, AMCs, Fund managers and Investors should understand their respective roles. In addition, the Government should provide a framework whereby the investors get various options to spread their portfolio and optimally plan their risks, returns and liquidity profile over a planned time horizon. Immediate attention should focus on strengthening the retail debt market and popularising Exchange Traded Funds (ETF) which account for 80 per cent of the transaction in the USA equity market. In addition, certain other innovative products, such as like capital guaranteed funds and dual risk based funds (in which an investor who has low appetite for risk can transfer part of his risk to other set of investors who have higher appetite for risk with in the same scheme) should be introduced in the market so that investors can invest in avenues which exactly match their preferences.

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MUTUAL FUNDS IN INDIAN BANKING - AN EMERGING SOURCE OF INVESTMENTS IN THE COMPETITIVE ERA

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Rimpi Kaur**

Abstract: *Honorable Prime Minister of India, Dr. Manmohan Singh has recently announced to achieve the target of 10% growth rate in the coming years through the inclusive growth of the economy. To achieve this growth rate the financial institutions such as banking sector, insurance sector and capital market will be the pillars with innovative products and services. In the post emerging scenario of LPG, the banks have gained a momentum share in the capital market with various financial instruments like shares, debentures, other securities, debts etc., where among them mutual funds occupies a crucial place. The proposed paper analyses the growth rate of mutual funds and how they are affecting different segments of the economy. The second part of the paper concludes that the share of mutual funds in overall investments of all scheduled commercial banks in India has increased from 0.9% in 1999-00 to 1.2% in 2003-04 with the overall growth rate of 159% during the study period. The paper ends with some strategies to create awareness regarding the mutual fund investments in the different sections of the society.*

Introduction

Since 1991, the financial sector reforms in India have been distinguished by two broad characteristics, a move towards deregulation of interest rates and financial stability especially with the open market access to public sector with the greater play of market forces. Hence, managing and assessing the risk have become crucial in Indian financial sector, where the market risk is the major challenge for Indian banks. But on the other hand, this freedom has created many opportunities to reduce risk by the optimum disbursement of investments in different risk-averted securities. Banks, now free (to some extent) to choose their best portfolio. As we know, majority of the Indian banks' investments i.e. 75 % are in government securities and hence only 25 % are in other segments. The most popular investment modes in India are equity shares, debentures etc., but now-a-days, mutual funds are gaining popularity with their increasing share in total investments in banks and other institutions mainly due to lesser risk and tax exemptions.

Mutual Funds

Mutual funds are association or trusts of public members who wish to make investments in the financial instruments or assets of the business/corporate sector for the mutual benefits of its members. Mutual funds are an ideal medium for investment by small investors in the stock market, which pools together the investments of small investors and then invest in different options in stock market with the proper selection of financial instruments.

"Mutual Fund is a fund established in the form of a trust by a sponsor to raise money by the Trustees through the sale of units to the public under one or more schemes for investing in securities in accordance with these Regulations"- SEBI.

Hence, mutual funds raise resources from the investors by launching various types of schemes and invest the same in eligible securities and other financial instruments.

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Origin of Mutual Funds

Until 1987, Unit Trust of India was the only mutual fund in the country which was set up in 1964. In 1987, the public sector banks with six banks established another mutual fund whereas they remained four after two public sector banks namely Indian Bank and Bank of India have closed their mutual funds since 1995-96. At the same time, GIC, LIC and IDBI also floated their mutual funds in the form of subsidiaries. The mutual fund industry expanded in 1993 with the opening of this market for private sector too. At the end of March, 2002, 37 mutual funds are operating in the country having intensified composition and led to product innovations.

Composition of Indian Mutual Fund Industry

1. Public Sector Mutual Funds

- Banks Sponsored Mutual Funds
  - SBI MFs
  - Canbank MFs
  - PNB MFs
  - BOB MFs
- Financial Institutions Sponsored Mutual Funds
  - GIC MFs
  - LIC MFs
  - IDBI MFs
- Unit Trust of India Mutual Funds

2. Private Sector Mutual Funds

- Indian Private Sector
  - Benchmark AMC Ltd
  - Cholamandalam AMC Ltd
  - Kotak Mahindra AMC Ltd
  - J M Capital Management Ltd
  - Escorts AMC Ltd
- Joint Venture (Indian)
  - Birla Sun Life AMC Ltd
  - DSP Merrill Lynch Investment Management Ltd
  - First India Asset Management Private Ltd
  - HDFC AMC Ltd
  - Sundaram Newtond AMC Ltd
  - Pioneer ITI AMC Ltd
  - Tata TD Waterhouse Asset Management Pvt. Ltd
  - Credit Capital Asset Management Pvt. Ltd
- Joint Venture (Foreign)
  - Alliance Capital
  - Standard Charted
  - Dundee Investment
  - ING Investment
  - JF Asset Management
  - Morgan Stanley Investment
  - Prudential ICICI Management
  - Sund F & C Asset Management
  - Templeton Asset Management
  - Zurich Asset Management

From November, 2002 mutual funds like HDFC MFs has tied up with ICICI Bank and HDFC Bank to sell its schemes through ATMs of ICICI and HDFC Bank.

Regulatory Body

SEBI (Securities and Exchange Board of India) is the only regulating authority for mutual funds in India, but for the money market mutual funds (MMMFs), guidelines are issued by RBI too. Mutual funds are to be registered with the SEBI to commence business, which has power to inspect or cancel registration of mutual funds. Different guidelines are provided by SEBI at different periods of time.

Mutual funds can be invested in various financial instruments of capital market according to SEBI regulations but for MMMFs, investments can be made only in the money market instruments like treasury bills, dated government securities, call and short notice money, commercial papers/bills etc., the MMMFs related guidelines were announced by the RBI in April, 1992.

Now, the required information related to mutual funds is available on websites of related mutual funds. From 20th June, 2002, SEBI instructed mutual funds to invest in government securities in the demat mode only which is a new dimension in online trading of mutual funds.

Benefits of Mutual Funds

Mutual funds mobilised funds largely from small investors and invest in corporate securities such as equities, debt instruments etc., as per the objectives of the scheme. Thus, provide an opportunity to the investors to indirectly own corporate securities, which reap for them the following benefits:

Diversification of risk: As funds are invested in a large member of securities, individual investor's risk is diversified, which is not possible in direct purchase of financial instruments.

Professional management: MFs employ professional experts who manage the investment portfolio efficiently.

Liquidity: As many corporate shares are not actively traded at the stock exchange, but in case of open-ended scheme. The MFs provide the facility of buy back of units from investors at a price fixed by them and hence provided liquidity to the investors.

Convenience: It is convenient to buy & sell units because in brokerage is to be incurred.

Provide market analysis: Being institutional investors, MFs can afford market analysis generally not available to individual investors.

Maximise income by reducing risks: MFs reduces risk and maximise income in the form of dividends and capital appreciation as through proper selection of financial instruments.

Re-investment of dividends and capital gains: Another benefit is that dividends and capital gains are re-invested automatically in MFs and hence are not fretted away. This feature is a form of forced saving and can make a big difference in the long run.

Attract foreign capital flow: MFs also attracts foreign capital flow into the country and secures profitable investment avenues abroad for domestic savings through the opening of offshore funds for various foreign investors.

Tax concessions

a. **To the mutual funds:** According to section 10 (23-D) of the Income Tax Act,1956, income of the MFs registered under SEBI Act and notified MFs setup by PSB's or a public financial institution or authorised by RBI is exempted from tax.

b. **To the investors:** An investor of MFs enjoy the following tax benefits:

i. **Income tax:** The Finance Act 1999 has exempted from tax any income received from a mutual fund specified under sec. 10 (23-D) of Income Tax Act, 1961. This exemption is available from the assessment year 2000-01 and afterwards; thus any income from MFs in the hands of recipients is exempted from tax.

But render newly inserted section 115-R, income from MFs or units of UTI is taxable at flat rate of 20% (with surcharge) to be payable by UTI or mutual fund even this income is subject to exempted under sec. 10 (23D).

But there is exception for this section for the income distributed to:

- The unit holders of U.S. scheme of 1964 of UTI.
- Unit holders of any other open ended equity oriented fund in respect of income distributed under such scheme for a period of 3 financial years commencing from April 1, 1999.

ii. **Wealth tax:** Units of all MFs are exempted from any wealth tax.

iii. **Gift tax:** Gifts of units are exempted from gift tax either by the donor or donee.

Hence the MFs are beneficial for the individual investor to gain many benefits.

During the last two decades, MFs have improved their share in the capital and money market of India. With the entry of new competitors and with the introduction of IT investments have made easier for the investor especially because of demat-services. Our banks are also an important part of our financial system that contribute good share of investment in NPS.

The development and performance of MFs can be judged with the help of some related material.

Role of MFs in India

Mutual funds in India, because of their small size and slower growth in the recent past, have tended to play only a limited role in the stock market. The share of MFs in total turnover of stock markets (BSE+NSE), has declined from 4.9% January, 2000 to 3.6% in January, 2003, mainly due to the shifting of MFs composition from equity to debt due to subdued equity market conditions.

MFs are very popular all over the world and play an important role in many countries. At the end of 2001, there were about 52,735 open-ended MFs schemes in the world with total asset base of US $ 1,094 billions, whereas, assets of MFs in India constitute less than 5% of GDP which is very low in comparison with about 25% in Brazil and 33% in Korea, which is mainly due to slow penetration of MFs in rural areas.

According to survey conducted by SEBI-NCAER (2000), MFs have been found to be popular mainly with the middle and high-income groups and have not been found to be an attractive investment avenue for the low-income group (Niti Bhasin, IFS, 2004).

Table 1. Resources Mobilised by Mutual Funds: 1993-94 – 1998-99

MFs	1993-94	1994-95	1995-96	1996-97	1997-98 (P)	1998-99 (P)	Overall Growth (%)
1. Banks sponsored MFs	148 (1.32)	765 (6.78)	113	6	243 (6.07)	253 (8.19)	70.95
SBI	105 (0.93)	218 (1.93)	76	3	190 (4.75)	248 (8.03)	136.19
Canbank	43 (0.38)	206 (1.83)	3	2	53 (1.32)	5 (0.16)	-88.37
Indian Bank	-	94 (0.83)	-	-	-	-	-
Bank of India (BOI)	-	53 (0.47)	-	-	-	-	-
Punjab National Bank (PNB)	-	156 (1.38)	10	-	-	-	-
Bank of Baroda (BOB)	-	38 (0.34)	24	2	-	-	-
2. FIs sponsored MFs	239 (2.13)	576 (5.11)	235	137	206 (5.15)	576 (18.64)	141.00
General Insurance Corporation of India (GIC)	227 (2.02)	320 (2.84)	65	-32	-19	18 (0.58)	-92.07
Life Insurance Corporation of India (LIC)	12 (0.11)	69 (0.61)	117	169	100 (2.5)	377 (12.20)	3041.61
IDBI	-	187 (1.66)	53	-	125 (3.12)	181 (5.86)	-3.21
3. UTI MFs	9297 (82.69)	8611 (76.37)	-6314	-3043	2875 (71.84)	170 (5.50)	-98.17
4. Private sector MFs	1560 (13.88)	1322 (11.73)	133	864	678 (16.94)	2090 (67.64)	33.97

Source: Report on Trend and Progress of Banking in India, 2003-04

Note:

1. Values in parenthesis shows percentage share of related MFs from the whole MFs industry.
2. P- Provisional.

Analysis of Results

Table 1 and 2 shows the popularity earned by different mutual funds in India. Table 1 shows that from 1995-96 Indian Bank and Bank of India (BOI) have closed their MFs, PNB form 1996-97 and Bank of Baroda (BOB) from 1997-98 also have not shown any MFs.

During 1995-96 to 1996-97, overall MFs have shown negative growth but private sector MFs experienced 6 times positive growth. During 1993-94, 1994-95 & 1997-98 the share of UTI was the highest but goes on decreasing i.e. 83%, 76% and 72% respectively in total of all MFs where private sector and banks' MFs are in succession. But during 1998-99 share of private sector MFs is the highest i.e. 68% whereas FIs sponsored MFs are at second position with 18.64% share and UTI has only 6% share decreased from 83% (1993-94). From the banks sponsored MFs, SBI has the highest share i.e. 8% and in case of FIs' MFs, LIC is dominating with 12% share. Overall growth in MFs is the highest i.e. 141% in FIs sponsored MFs with 3042% increase in LIC only whereas banks' MFs are in succession with 71% growth. UTI has experienced decline by 98%, which has affected the overall performance of MFs industry with 72% decline.

Table 2 shows that during 2003-04, overall growth is the highest in private sector MFs with 5624.03% rate and banks' MFs is in succession with 1012% growth whereas UTI experienced decline of 63% but still the growth in overall MFs industry is 1073%. If we analyse the share of MFs of different types, that is the highest of public sector MFs i.e. 81.57% and of private sector MFs is only 18% in 1997-98 but this composition has changed in 2003-04 where share of private sector MFs is dominating with 90% and public sector MFs have only 10% share in the whole MFs industry and this is resulted because of negative performance of UTI during 2001-02, 2002-03.

Overall MFs are gaining good share in the share market where private sector is dominating with 90% share in the MFs industry.

Table 2. Resources Mobilised by Mutual Funds: 1997-98 – 2003-04

MFs	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03 (P)	2003-04 (P)	Overall Growth (%)
1. Banks sponsored MFs	237 (5.83)	-88 (-5.26)	336 (1.52)	248 (2.23)	863 (8.53)	1033 (22.54)	2635 (5.53)	1011.80
2. FIs sponsored MFs	203 (5.00)	547 (20.28)	295 (1.33)	1273 (11.43)	407 (4.02)	862 (18.80)	1127 (2.36)	455.17
3. UTI MFs	2875 (70.74)	170 (6.31)	4548 (20.56)	322 (2.89)	-7284 (-71.98)	-9434 (-205.85)	*1050 (2.20)	63.48
Total public sector MFs (1+2+3)	3315 (81.57)	629 (23.33)	5179 (23.42)	1843 (16.55)	-6014 (-59.43)	-7539 (-164.50)	4812 (10.09)	45.16
Private sector MFs	749 (18.43)	2067 (76.67)	16937 (76.58)	9292 (83.45)	16134 (159.43)	12122 (266.50)	42873 (89.91)	5624.03
Total	**4064**	**2696**	**22117**	**11135**	**10120**	**4583**	**47684**	**1073.33**

Note:

1. P- Provisional.
2. * Data pertain to period February 1, 2003 to March 31, 2004 being first year of operation after the bifurcation of erstwhile UTI into UTI Mutual Funds and Specialised Undertaking of UTI.
3. For UTI, the figures are net sales (with premium) under all domestic schemes and for other mutual funds, figures represent net sales under all ongoing schemes.
4. Data excludes amount mobilised by off-shore funds and through roll-over schemes.

Share of MFs in Indian Banking Industry

All scheduled commercial banks in India have investment composition with dominating share of government securities i.e. 75% from total investments in 2003-04. Overall growth in investments is 94% which is notable and shows sound investment progress. During 2003-04, other domestic investments in shares, bonds etc., have 23% share where MFs have only 1.2% share and hold fifth position in all the investments of scheduled banks.

Table 3 analyses the share and growth of MFs in investments of all Scheduled Commercial Banks (SCBs) during 1999-00 to 2003-04. It shows that MFs have grown at 159.45% growth rate during 2003-04 from Rs. 3,679 crore (1999-00) to Rs. 9,545 crore (2003-04) which shows an excellent growth. Whereas its share in overall investments of all SCBs is 0.9% in 1999 and increased to 1.2% in 2003-04 which shows 0.3% growth in share of MFs but still this growth is very low as compared to other investment instruments which shows their low popularity in India.

Table 3. Investments in MFs (All Scheduled Commercial Banks) (Rs. Crores)

Years	Amount	Percentage Share of MFs from Total Investments
1999-00	3679	0.90
2000-01	4230	0.90
2001-02	3772	0.70
2002-03	5246	0.80
2003-04	9545	1.20
Overall Growth (%)	**159.45**	**0.30**

Overall, we concluded that MFs are not much popular as gained only 1.2% shares in the investment composition of all SCBs of India even these are growing at excellent rate of growth.

Major Issues

1. Decline in share of MFs of UTI in the whole MFs industry
2. Low popularity, especially among the low income groups
3. Lack of initiative by the public sector banks
4. Difficulty to shift saving pattern from bank deposits to mutual funds
5. Lack of proper infrastructure
6. Lack of decent investor servicing
7. Lack of knowledge to rural population
8. Electronic ways of investment
9. Difficult guidelines of SEBI, complex and uneasy to understand for common people
10. Ineffective regulations of SEBI that are mainly serve to institutional investors but ignore the individual investors.
11. Presence of some unethical practices
12. Delay in decisions and improper enforcement of rules exist.

MFs still not gain much popularity due to some unethical working and other issues like the most important is failure of Morgan Stanley Growth Fund which has proved to be a clear case of isolation of advertisement code. Hence, there is a need to have some strategies to protect investors and make the MFs more popular among the rural population too.

Strategies

- **Launch Attractive Schemes:** If mutual funds have to grow fast, they would need to devise appropriate scheme groups, especially in rural areas. This is the only way to ensure participation of all categories of investors into capital market.

- **Investor Education and Awareness:** Conduct seminars, personal contact programmes, workshops etc., to aware the people about MFs, different schemes, their benefits and working along with related formalities to invest, which is so crucial for its long term development and this is the right way to aware rural population and low-income groups in particular.

- **Initiation of PSBs:** Public sector banks should start to establish their MFs separately or in collaboration with other private sector competitors to earn more and compete in the market. This will again help to increase member of investors of MFs.

- **Information Technology:** Introduce electronic techniques to process or deal with the purchase & sale of MFs. As SEBI has made MFs investments through demat services only in government securities, but it should be compulsory for all other investment instruments. There should by special schemes to sell/ purchase MFs through ATMs.

- **Money Market Mutual Funds (MMMFs):** Special schemes should be launched to attract MMMFs with some attractive benefits either fiscal or in the form of capital appreciation.

- **Stop Unethical Practices:** There should be special supervisory body, to check unethical practices in MFs, which is the need of the hour to gain the confidence of investors.

- **Proper Enforcement of Rules:** SEBI should ensure proper enforcement of rules so that confidence of the investors can be maintained. For this purpose, SEBI should announce special guidelines and that should be easy to understand for common man.

- **Benefits (Tax Exemption):** To attract the investors from middle-income and low-income groups, special benefits should be given like exemption of tax on income earned from MFs especially for the rural areas. Investments of MFs in rural areas should be totally free of tax liability so that maximum savings can be mobilised from their areas.

- **Benefits to Banks/Institutions:** To popularise the MFs in rural areas, the banks and institutions investing MFs in rural areas, SSI or others should be fully exempted from tax and provide with proper infrastructure to develop MFs in these areas.

- **Mergers & Acquisitions:** Merger and acquisitions improve the quality of management, facilitate forward and backward linkages with other operations of the acquirer and afford scope for realising synergetic benefits. Indian banks should consolidate foreign majors coming to Indian shore that would help to expand their business and reduce dependency on foreign majors.

- **Set Benchmark:** Every bank sponsoring MFs should set their own benchmark and maximum share in the investment portfolio should be of that instrument set as benchmark. If the benchmark contributes maximum income then continue otherwise shift to other profitable one and the whole thing evaluate the performance of the fund manager.

Future Areas of Intensive Research

- A study to compare the MFs in banking industry with that of other financial sector and non-financial sector.
- A detailed study of returns from each MFs in India in comparison to other countries.
- A study of factors responsible for low popularity of MFs in India especially in rural areas and among low-income groups.
- A comparative study of cost and income from MFs and from other instruments for investments.

Conclusion

MFs industry has emerged as the most dynamic segment of the Indian financial system, although in India MFs haven't attained the status of their counterparts in the USA, UK and other developed countries, where they are the biggest financial intermediaries next to commercial banks. We may concluded that as MFs in Indian banking has only 1.2% share in investments at all, shows lower popularity and the reason is lack of proper infrastructure, control over ethical practices, lack of attractive schemes etc., support hinder its growth and development. MFs activity in India will also emerge as the most vibrant segment of the financial system, but with the efforts of SEBI and other agencies. Reliance Growth Fund with compound annual return of 71.38% is at the top position while others have also given over 30% returns. Hence, with the sincere efforts, we can get the top position in the world by increasing the tendency to invest more in MFs as compared to individual investments. MFs are less risky and hence provide many options to earn more, but the only thing is to popularise them with the efforts of SEBI and other agencies by adopting some effective and strict actions.

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Consumerism through Awareness of Consumer Rights

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Abstract: *In the era of globalisation, there is an emergent need to protect the rights of consumers. Even though the Government of India has enacted a separate law (the Consumer Protection Act, 1986) to protect the rights of consumers, it is not sufficient until the consumers themselves become aware of their rights. In this paper an attempt has been made to explore the ways of strengthening consumerism among the consumers so that with the support of the government, the consumers themselves can protect their interest and defend themselves from deceitful sellers/marketers.*

Introduction

There was a time in India when only those things were produced, which were of use to the consumers and in quantities required by them. The economy was not surplus oriented and the consumer was treated royally. But with the beginning of the industrial revolution, large-scale production started and the consumers were compelled to purchase the products through advertising and sales promotion schemes. The aim of the producers became to earn as much profit as possible without caring for the consumers' interest. This led to unethical practices, such as producing poor quality goods, black marketing, dissemination of inappropriate and incorrect information, promotion of hazardous products, exploiting the consumers through charging higher and different prices for the same product from different customers etc. Today, the consumers are subjected to all kinds of exploitation because the business persons take advantage of the gullibility of the consumers.

The business houses sometimes spend huge amounts of money on advertisements and packing of goods, which are projected as new, different and improved products though in reality, they remain identical to those already being marketed by them. Such expenditure can be considered as a social waste. This expenditure should have been on quality improvement, but all these are ignored by marketers to earn more profit. The malpractices of marketers increased tremendously after liberalisation of Indian economy, which gave rise to 'Consumerism'.

Consumerism has been defined as a social movement, which seeks to safeguard and strengthen the rights of the consumers in relation to the producers or suppliers of goods and services. Greyer and Diamond (1974) also explained consumerism as seeking to increase the rights and powers of buyers in relation to sellers. Thomas (1977) stated consumerism to be 'social movement which seeks to protect the rights of the consumers in relation to the producer'. He goes on to elucidate, while the producer has the power to design the product, distribute, advertise and price it, the consumer has only power of not buying it'. The obligation rests on all consumers to take all possible steps to protect themselves before they buy rather than regret when it is too late.

The Indian government designed and implemented various laws for consumer protection, such as:

i. Essential Commodities Act, 1955,
ii. Prevention of Food Adulteration Act, 1954,
iii. The Standards of Weights and Measures Act, 1976 and
iv. The Standards of Weights and Measures (Enforcement) Act, 1985.

However, consumer exploitation continued and so in 1986 a new act named Consumer Protection Act, 1986 was designed and implemented in which consumers' rights were defined.

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Consumer rights

In America, Relph Nader is known as the Father of consumer movement. He formed a group named 'the public citizen', which developed consumerism as a major national force and fought for consumer rights. This resulted in the formulation of various consumer protection legislations in America, such as the National Traffic and Motor Vehicle Safety Act, 1962, Wholesome Meat Act, 1967 etc. (Antony, 1989). The consumer movement in America did a commendable service in educating the consumers about their rights and pressing the government along with the companies to make necessary arrangements to protect consumer's interest on a priority basis. The former American President, John F. Kennedy advocated four rights of consumers in the U.N. Charter of the Human rights in 1962, which are given below (Kumar, 1999):

i. Right to safety
ii. Right to be informed
iii. Right to choose
iv. Right to be heard

Later, four more rights were added as follows (Sundaram, 1985):

i. The right against exploitation by unfair trade practice,
ii. The right to protection of health and safety from the goods and services, which the consumers buy or are offered free,
iii. The right to get the grievances redressed and
iv. The right to a physical environment that will protect and enhance the quality of life.

The Indian scenario of consumer rights

In India the scene is quite different from the West. Consumers in India are mostly unorganised, widely scattered and poorly educated. The majority of its population lives in the villages and is marked by illiteracy, unorganised markets and lack of sources of information. This leads to problems, such as shortage of essential goods, undue price rise, poor quality of goods, food adulteration, manipulative advertisement etc., which facilitate the producer in exploiting the consumers. So, to stop the consumer's exploitation from the dishonest sellers and producers, the Government of India had made an effort on the basis of the consumer laws of the west and included consumer rights in the Consumer Protection Act, 1986. These rights are enumerated below (Singh, 2000):

i. Right to safety
ii. Right to be informed
iii. Right to choose
iv. Right to be heard
v. Right to seek redressed and
vi. Right to consumer education

Right to safety

The right to safety means the right to be protected against the marketing of those goods and services, which are unsafe to the health and life of the customers. The products must neither cause any physical danger to consumers nor harm them in any way.

Right to be informed

The right to be informed means that the consumers have the right to be informed about the quality, quantity, potency, purity, standards, price of goods, product constitutes, its use, its manufacturer, its life and the hazards if any etc., so that they can be protected against any deceptive trade practices.

Right to choose

Through this right the consumers are free to buy any product of their choice. They are free to exercise their option to choose a particular brand or to decide about the quantity.

Right to be heard

The consumers must be given an opportunity to register their dissatisfaction and to get their complaint to be heard and weighed. This right has wide connotation and the consumers' opinion should be taken in all planning and implementing the redressed activities.

Right to seek redressal

This provides the consumers the right to have a fair settlement of just and deserving claims or grievances. When the products and services are not of the same quality as they were advertised by the manufacturer or seller, the consumers can exercise this right.

Rights to consumer education

Consumer education is very important because it teaches them how to seek, use and evaluate consumer information. It educates them about their shopping thereby ensuring them the best purchase in relation to their resources, values and lifestyle.

To protect consumer interest and rights, the government has adopted a simple procedure through the three tier redressal agencies. The government aims to encourage consumers to take initiatives without any fear and actively participate to recover their damages. The Union Government is also extending financial assistance to voluntary agencies for promoting a strong consumer protection movement in the country.

Enforcement of consumer rights via redressal agencies

The government has made provisions in the Consumer Protection Act, 1986 for speedy judgment and relief to consumers through consumer protection councils and redressal agencies at the District, State and National level through the District Consumer Forum, State Commission and National Commission, respectively. Recently, at the centre and state levels, the government has established separate departments to deal with the consumers' affairs, such as banking, power sector, transport services, telecom services etc.

Ways to strengthen consumerism in India

For strengthening the consumer movement in India, the effort of the government alone is not adequate. The consumers need to actively participate in the movement. They can also help the government in the effective implementation of Consumer Protection Act in the country through the following ways:

1. Consumers should educate other consumers on how to seek, use and evaluate consumer information.
2. Consumers should resort to group buying for this purpose a few families from each location may form a group to direct purchase goods from whole sellers, manufactures or producers. The group should consist of at least one member from each family who has to bear some responsibility in performing the functions like:
    a. consolidation of indents of the commodities submitted by the group members.
    b. collecting the money from each member according to the indent and maintaining accounts.
    c. organising distribution of commodities delivered to the group by the central body.
    d. holding monthly meetings of the group members.
    e. participating in the monthly meetings of the central body.
3. Consumers may form a registered association that will check the quality, price of the goods etc., on the complaints of consumers.
4. On the pattern of the big organisations in the metropolitan cities, such as the Consumer Guidance Society of India, Surat Grahak Mandal, the Karnataka Consumers Service Society in Bangalore, small organisations at the Tehsil, Block and District levels should be promoted, so that the consumers can actively participate at these levels too.
5. The voluntary consumer organisations, with government support, should force the shopkeepers to disclose the fair price list of goods and mention the daily stock of, at least, the essential commodities at the proper place in the shop.
6. The consumers should put up a united front to boycott those sellers/producers who are involved in food adulteration, short-weighing etc., and they should be black listed.
7. A network of consumers and societies should be constructed in the rural and urban areas to work for the protection of their interests through developing consumer rights awareness.
8. At the school/college level, small group of students should be made to guide illiterate persons about consumer rights.
9. From time to time, academic institutions, government bodies and societies, should organise seminars and workshops to explore the knowledge of consumer rights and redressal agencies. The business organisations should sponsor these seminars and conferences as a part of their social responsibility.
10. The business organisations should promote the consumer council and encourage consumers to socially boycott those marketers who do not care for consumers.
11. To develop consumerism as a social responsibility of business persons.

Conclusion

The Government of India has enacted a number of legislations to protect the interest and rights of consumers but it is not sufficient until a sense of self-responsibility among the consumers and social responsibility on the part of business, trade and industry is developed. Therefore, consumer councils, voluntary organisations and consumers themselves must come forward to protect themselves through protection of their consumer rights.

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WORKING CAPITAL MANAGEMENT IN SUN PHARMACEUTICAL INDUSTRIES LTD. – A CASE STUDY

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Abstract: *Working capital is the lifeblood of the business organisation. Merely having the investment in fixed assets does not determine the success of a business organisation, it is also important to have efficient management of working capital. The objective of working capital management is to maintain a satisfactory level of working capital through the management of current assets and current liabilities. If a satisfactory level of working capital is not maintained the organisation is likely to become insolvent and may even be forced to bankruptcy. Therefore, for the smooth running of the business efficient management of working capital is required. This paper highlights on concepts of working capital, working capital policy, component of working capital and factors affecting working capital of Sun Pharma Industries Ltd., during the last five years and identify which factors are responsible for the improvement of working capital of the company.*

Introduction

Working Capital Management is the lifeblood of a business. Just as circulation of blood is essential in the human body for maintaining life, working capital is essential to maintain the smooth running of business. No business can run successfully without an adequate amount of working capital. Working capital refers to a firm's investment in short term assets. Working capital can also be regarded as that portion of the firm's total capital, which is employed in current operations. It refers to all aspects of current assets and current liabilities. Current assets are those assets, which in the ordinary course of business can be or will be converted into cash within one year without undergoing a diminution in value and without disrupting the operations of the firm. The major current assets are cash, marketable securities, accounts receivables and inventory. Current liabilities are those liabilities, which are intended at their inception to be paid in the ordinary course of business within a year out of the current assets or earnings of the concern. The basic current liabilities are: accounts payable, bills payable, bank overdraft and outstanding expenses.

The movement of funds from working capital to income and profits and back to working capital is one of the most important characteristics of business. This cyclical operation is concerned with utilisation of funds with the hope that they will return with an additional amount called income. If the operations of a company are to run smoothly a proper relationship between fixed capital and current capital has to be maintained.

Sufficient liquidity is important and must be achieved and maintained to provide the funds to pay off obligations as they arise or mature. The adequacy of cash and other current assets together with their efficient handling virtually determine the survival or demise of the company. A businessman should be able to judge the accurate requirement of working capital and should be quick enough to raise the required fund to finance the working capital needs.

Because if its close relationship with day to day operations the management of working capital is very important for a business firm. It is being increasingly realised that inadequacy or mismanagement of working capital is the leading cause of business failures. Neglect of

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management of working capital may result in technical insolvency and even liquidation of a business unit. Inefficient working capital management may cause either inadequate or excessive working capital, which is dangerous.

Working capital management is concerned with the management of firm's current accounts, which include current assets and current liabilities. The goal of working capital management is to manage the current assets and current liabilities of a firm in such a way that a satisfactory level of working capital is maintained i.e. it is neither inadequate nor excessive. This is so because both inadequate as well as excessive working capital position are bad for any business. Inadequacy of working capital may lead the firm to insolvency and excessive working capital implies idle funds, which earn no profits for the business.

In this article, a modest effort has been made to analyse the working capital management of Sun Pharma Industries Ltd., during the period of 2000-01 to 2004-05.

Profile of the company

Sun Pharmaceutical Industries Ltd., began in 1983 with just 5 products to treat psychiatry ailments; sales were initially limited to 2 states- West Bengal and Bihar. Sales were rolled out nationally in 1985. Products that are used in cardiology were introduced in 1987 and Monotrate, one of the first products launched then has become one of their largest selling products. They set up first bulk active plant in Panoli in 1994. Another plant the multinational Knoll Pharmaceuticals in 1996.

In the time they have crossed several milestones and emerged as one of the top 5 pharma companies in India.

In the year 2004-05 the turnover of the Sun Pharmaceutical Industries Ltd., was Rs. 9,956 million and net profit was Rs. 3,057 million.

Literature Review

The importance of working capital management is not new to the finance literature. Over twenty years ago, Largay and Stickney (1980) reported that the then-recent bankruptcy of W.T. Grant, a nationwide chain of department stores, should have been anticipated because the corporation had been running a deficit cash flow from operations for eight of the last ten years of its corporate life. As part of a study of the Fortune 500's financial management practices, Gilbert and Reichert (1995) find that accounts receivable management models are used in 59 per cent of these firms to improve working capital projects, while inventory management models were used in 60 per cent of the companies.

More recently, Farragher, Kleiman and Sahu (1999) find that 55 per cent of firms in the S&P Industrial index complete some form of a cash flow assessment, but did not present insights regarding accounts receivable and inventory management, or the variations of any current asset accounts or liability accounts across industries. Thus, mixed evidence exists concerning the use of working capital management techniques.

Objectives of the study

i To assess significance of working capital by selecting few important parameters such as working capital ratio, acid test ratio, current assets to total assets ratio, total assets to sales ratio, inventory turnover ratio, age of inventory, debtors turnover ratio, and age of debtors etc.

ii To make item wise analysis of the elements or component of working capital.

iii To identify the items responsible for changes in working capital.

iv To study liquidity position of the company by taking four measures at time namely: inventory to current assets, debtors to current assets, cash & bank to current assets and loan & advances to current assets.

Scope of the study

The scope of the study will cover all the components of current assets and current liabilities. The liquidity ranking and liquidity position of the company are also being covered under the study.

Limitation of the study

i The study is limited to five years (2000-01 to 2004-05) performance of the company.

ii The data used in this study have been taken from published annual reports only. As per the requirement and necessity some data are grouped and sub grouped.

iii For making a clear-cut opinion ratio technique of financial management has been used.

Sources of data: The data of Sun Pharmaceutical Industries Ltd., for the years (2000-01 to 2004-05) used in this study have been taken from secondary sources e.g. published annual report of the company.

Secondary data

Audited profit and loss account
Audited balance sheet
Annual reports

Methodology of the study

Editing, classification and tabulation of the financial data, which are collected from the above mentioned sources, have been done as per the requirement of the study. For assessing performance of the working capital position in this study the techniques of ratio analysis have been used. The collected data have been analysed in the following way:

i Analysis of liquidity ratio.

ii Analysis of liquidity position.

iii Item wise analysis of component of gross working capital.

iv Liquidity ranking.

For assessing the behaviour of ratios, statistical techniques have also been used e.g. mean, growth rate, standard deviation and co-efficient of variation in this study.

Findings and Analyses

Current Ratio

The current ratio is calculated by dividing current assets by current liabilities. Current assets mean all those assets, which are convertible into cash within a year, such as marketable securities, debtors, stock, cash, bank and prepaid expenses. Current liabilities included the obligation maturing within a year like creditors, bills payable, outstanding expenses, bank overdraft and income tax liability. The current ratio is thus measure of short-term solvency. It indicates the availability of current assets in rupees for every one rupees of current liability. A ratio of greater than one means that the firm has more current assets than current claims against it. Ideal of current ratio is 2:1 in normal condition.

As per Table 1, current ratio of the Sun Pharma Industries Ltd., always more than their ideal standard 2:1. Current ratio always in between 2.5 to 4.0 times during the study period, which shows sound liquidity position of the company. Overall average of current ratio is 4.37 during the study period which is very satisfactory.

Liquid Ratio

Liquid ratio or quick ratio or acid test ratio is more rigorous test to liquidity than the current ratio. The term 'liquidity' refers to the ability of firm to pay its short-term obligation as and when they become due. The two determinant of current ratio is current assets and current liabilities. Current assets include inventories and prepaid expenses, which are not easily convertible into cash within a short period. Quick ratio may be defined as the relationship of quick assets and current liabilities. An asset is said to be liquid if it can be converted into cash within short period without loss of value. In that sense cash in hand and cash at bank are most liquid assets. Ideal ratio is 1:1.

Table 1. Selected Liquidity Ratios of Sun Pharma Industries Ltd. (2000-01 to 2004-05)

Year	Current Ratio	Liquid Ratio	Absolute Liquid Ratio	Inventory Turnover Ratio	Age of Inventory	Debtors Turnover Ratio	Average Collection Period	Working Capital Turnover Ratio	Current Assets to Total Assets Ratio	Current Assets to Total Sales Ratio
2000-2001	3.79	2.06	0.47	2.28	157	6.50	55	2.56	0.65	0.53
2001-2002	3.91	2.34	0.30	3.17	113	7.41	49	3.08	0.59	0.44
2002-2003	3.66	2.49	0.59	2.88	125	4.71	77	2.03	0.66	0.68
2003-2004	2.57	1.71	0.41	3.35	107	2.58	140	2.86	0.39	0.57
2004-2005	7.92	7.08	4.02	3.39	106	5.48	65	0.65	0.58	1.76
Mean	4.37	3.14	1.16	3.01	119	5.34	77	2.24	0.57	0.80

Source: Compiled from Annual reports of Sun Pharma Industries Ltd. (from 2000-01to 2004-05)

As per Table 1, acid test ratio is also in satisfactory position. Ratio is always more than their ideal standard 1:1 highest ratio during the study period is 7.08 times in 2004-05 and lowest ratio is 1.71 times in the year 2003-04. Overall average during the study period is 3.14 times which is comfortable as per the norms.

Absolute Liquid Ratio

Although receivables, debtors and bills receivables are generally more liquid than inventories yet there may be doubts regarding their realisation into cash immediately or in time. Hence some authorities are of opinion that the absolute liquid ratio should also be calculated together with current ratio and acid test ratio so as to exclude even receivables from the current assets to find out the absolute liquid ratio. Absolute liquid assets included cash in hand and cash at bank and marketable securities. The acceptable norm for this ratio is 0.5:1 to1:2.

As per Table 1, absolute liquid ratio is highly fluctuating during the study period. Ratio had been increased from 0.47 to 4.02 times between 2000-01 and 2004-05. Overall average during the period is 1.16 which is a comfortable situation as per norms.

Inventory Turnover Ratio

Inventory turnover ratio establishes relationship between the costs of goods sold with average stock. This ratio measures the velocity of conversion of stock into sales. Usually a high inventory turnover indicates efficient management of inventory because more frequently the stocks are sold where the lesser amount of money is required to finance inventory. A low inventory turnover ratio indicates an inefficient management of inventory over investment in inventory, sluggish business, poor quality of goods and lower profit as compared to total investment. A high inventory turnover may be the result of a very low level of inventory which results in shortage of goods in relation to demand and a position of stock or the turnover may be high due to conservative methods of valueing inventories at lower value or the policy of the company being to buy frequently in small lot.

As per Table 1, inventory turnover ratio in 2000-01, 2.28 times; 2001-02, 3.17 times; 2002-03, 2.88 times; 2003-04, 3.35 times; 2004-05, 3.39 times with overall average of 3.01 times. It is clear that inventory turnover increases which show fast moving of the stock during the study period resulting working capital position stronger.

Age of inventory

Age of inventory indicates duration of inventory in organisation. It shows moving position of inventory during the year. If age of inventory is minimum it means company's activity position is satisfactory, they are able to sell their product within shorter period of time which indicate sound liquidity position of organisation. On the other hand, if age of inventory is too high it indicates slow moving of stock due to lower demand of product or excessive production by the company, due to stocking policy, which affects directly liquidity position of company. Inventory is one of the major items in current assets, which shows investment of working capital in stock.

As per Table 1, age of inventory decreases from 157 days to 106 days between 2000-01and 2004-05 with an average of 115 days. It indicates that the company has been able to control the inventory management during the study period.

Debtors Turnover Ratio

Debtors' turnover ratio indicates the velocity of debt collection of the firm. In simple words, it indicates the number of times the debtors are turned over during a year. Generally the higher value of debtors' turnover the more efficient is the management of debtors or more liquid are the debtors.

A precaution is needed while interpreting a very high ratio may imply a firm's inability due to lack of resources to sell on credit thereby losing sales to profits. There is no rule of thumb, which may be used as a norm to interpret the ratio, as it may be different from firm to firm depending upon the nature of business. This ratio should be compared with ratio of other firm doing similar business and a trend may also be making a better interpretation of the ratio.

As per Table 1, it is clear that debtor turnover ratio shows satisfactory position during the study period. Ratio had been decreased during the study period. Ratio had been decreased from 6.50 times to 5.48 times between 2000-01 and 2004-05, which shows that the company follows a liberal credit policy to increase the sales.

Average Collection Period

The average collection period represents the average number of days, for which a firm has to wait before their receivables are converted into cash. It measures the quality of debtors. Generally shorter the average collection period the better is the quality of debtors as a short collection period implies quick payment by debtors. Similarly, a higher collection period implies as inefficient collection performance, which in turn adversely affects the liquidity or short term paying capacity of a firm out of its current liabilities. Moreover longer the average collection period, larger is the chance of bad debts. But a precaution is needed while interpreting a very short collection period because a very low collection period may imply a firm's conservative policy to sale on credit to its customers and thereby losing sales and profit.

As per Table 1, it is clear that it increases from 55 days to 140 days between 2000-01 and 2004-05 with an average of 77 days. It indicates the liberal credit policy of the company.

Working Capital Turnover Ratio

Working capital of a concern is directly related to sales. The current assets like debtor bills receivables and cash, stock changed with the increase or decrease in sales. The working capital is taken as working capital= current assets – current liabilities. This ratio measures the efficiency with which the working capital is being used by a firm. A higher ratio indicates efficient utilisation of working capital and a low ratio indicates otherwise. But a very high working capital turnover ratio is not a good situation for any firm and hence care must be taken while interpreting the ratio.

As per Table 1, it is clear that working capital turnover ratio fluctuated from 0.65 times to 3.08 times. Lowest ratio is 0.65 times in 2004-05 and highest ratio is 3.08 times in 2001-02 with an average of 2.24 times which shows that working capital used twice in a year during the study period.

Current Assets to Total Assets

This ratio expresses the relationship between the amount of current assets and the amount of investment in total assets. It helps to assess the importance of current assets of a concern.

From Table 1, it is evident that on an average near about 57% are current assets. It indicates that during the study period the major portion of the total investment has been made for working capital purpose. Table 1 shows that current assets to total assets in 2000-01, 0.65 times; 2001-02 , 0.59 times; 2002-03, 0.66 times; 2003-04, 0.39 times and 2004-05, 0.58 times. It shows that portion of investment in current assets in total assets is decreasing.

Current Assets to Total Sales

This ratio indicates the efficiency with which working capital turns into sales. A lower ratio implies by and large, a more efficient use of funds. Thus a high turnover rate indicates reduced lock up of fund in working capital. An analysis of current assets to sales ratio over a period of time shows the overall efficiency of working capital management of a firm.

As per Table 1, ratio of current assets to total sales in the year 2000-01, 0.53 times; 2001-02, 0.44 times; 2002-03, 0.68 times; 2003-04, 0.57 times; 2004-05, 1.76 times with an average of 0.79 times which is very positive from efficiency point of view.

Table 2. Liquidity Position of Sun Pharma Industries Ltd. ((2000-01 to 2004-05 - in million)

Year	Current Assets	Liquid Assets	Current Liabilities	Working Capital	Increase/ Decrease
2000-01	3240	1760	856	2384	-
2001-02	3259	1948	833	2426	42
2002-03	4869	3313	1329	1329	(1097)
2003-04	4806	3191	1869	2937	1608
2004-05	17545	15679	2215	15331	12394
Mean	6743.80	5178.20	1420.40	4881.40	-
Growth Rate	441.51%	790.85%	158.76%	543.08%	-
S.D.	5447.13	5287.97	548.56	5250.91	-
C.V.	102.12%	80.77%	38.63%	107.58%	-

Source: Compiled from Annual reports of Sun Pharma Industries Ltd. ((from 2000-01 to 2004-05)

Liquidity position of Sun Pharma Industries Ltd.

Liquidity refers to the ability of the concern to meet its current obligations as and when these become due. If current assets can pay off current liabilities then liquidity position is satisfactory and otherwise vice versa. The liquidity position of Sun Pharma Industries Ltd., is analysed in Table 2.

It is observed from the Table 2 that current assets had been increased from Rs.3,240 million to Rs.17,545 million between 2000-01 to 2004-05. Mean of current assets is Rs. 6,743.80 million with a growth rate of 441.51%. Standard deviation of current assets is Rs. 5,447.13 million and co-efficient of variation is 80.77% which shows steady growth of current assets during the study period.

Liquid assets had also been increased from Rs. 1,760 million to Rs. 15,679 million between 2000-01 to 2004-05 with an average of Rs. 5 ,178.2 0 million. The growth rate is 790.85% that shows sufficient liquidity position of the company during the study period. Standard deviation is Rs. 5,287.97 and co-efficient of variation is 102.12%.

Current liabilities had been increased from Rs. 856 million to Rs. 2,215 million between 2000-01 and 2004-05 with a growth rate of 158.76% during the study period. The average is Rs. 1,420.4 million. Standard deviation is Rs. 548.56 and co-efficient of variation is 38.63% which is lower than the growth of current assets and liquid assets.

Working capital had been increased from Rs. 2,384 million to Rs.15,331 million between 2000-01 and 2004-05 with an overall average of Rs. 4,881.4 million. It registered a growth rate of 543.08% which shows that working capital increases more than the current assets co-efficient of variation is 107.5% which is more than current assets and current liabilities. It showed a positive trend always except in 2002-03 which showed that working capital positively increased during the study period due to increase in current assets.

Composition of Working Capital

An element wise analysis of gross working capital enables one to examine in which element the gross working capital funds are locked up and to find what are the factors responsible for the significant changes in working capital in different years. In Table 3, the share of each element has been calculated in percentage separately for each of the years under study and the average share percentage for all years has also been calculated.

Out of the four elements of working capital the element namely Inventory contributed highest in gross working capital from 46.68% to 10.64% between 2000-01and 2004-05 with an average of 32.62%, which shows that working capital blocked up due to increases in inventory. Whereas the Debtors contribute the second highest portion from 29.01 % to 13.39% between 2000-01 and 2004-05 with an average of 28.54%.

Table 3. Component of working capital with respective percentage of Sun Pharma Industries Ltd. (from 2000-01 to 2004-05)

Year	Inventory to Current Assets	Debtors to Current Assets	Cash & Bank to Current Assets	Loan & Advances to Current Assets
2000-01	46.68%	29.01%	12.53%	12.81%
2001-02	40.23%	33.08%	7.61%	19.12%
2002-03	31.96%	40.50%	16.61%	11.38%
2003-04	33.60%	26.72%	15.77%	23.95%
2004-05	10.64%	13.39%	50.73	25.24%
Mean	32.62%	28.54%	20.65%	18.50%

Source: Compiled from Annual reports of Sun Pharma Industries Ltd. ((from 2000-01 to 2004-05)

During the study period of this study a remarkable change in share of different elements of working capital took place. The share of cash and bank in gross working capital increased from 12.53% to 50.73% between 2000-01 and 2004-05.

"In a comfortably financed business cash and bank will probably run not less than 5% to 10% of current assets. Since the current liabilities are not expected to exceed half of the current assets." The cash percentage should run not under 10% to 20% of the same.

Table 3 shows that the company maintained necessary cash and bank balance during the study period and this definitely affects positively the profitability of the company.

Liquidity Ranking

The liquidity position of a firm is largely affected by the composition of working capital in as much as any considerable shifts from the relatively more current assets to the relatively less current assets or vice-versa will materially affect a firm's ability to pay its current debts promptly.

To determine the liquidity position of the company more precisely, a comprehensive test has been done in Table 4. A process of ranking has been used to arrive at a more comprehensive measure of liquidity in which four factors – namely inventory to current assets ratio, debtors to current assets ratio, cash and bank to current assets ratio and loan and advances to current assets ratio, have been combined in a points score. In case of debtors to current assets, cash and bank to current assets ratio, loan and advances to current assets ratio a high value indicates relatively favourable position and ranking has been done in that order. On the other hand, a low inventory to current assets ratio shows a more favourable position and hence ranking has been done in that order. Ultimate ranking has been done on the principle that the lower point scored the more favorable is the liquidity position.

Table 4 shows that the year 2002-03 and 2004-05 registered the most sound liquidity position and was followed by 2003-04, 2001-02,2000-01 respectively in that order. The fluctuation in the liquidity position over different year's of the period of study may be a point for investigation in to the financial efforts of the concerns.

Conclusion

From the view point of conventional standard of working capital ratio, acid test ratio, absolute test ratio, the short term liquidity is very much satisfactory.

Table 4. Statement of Ranking in order of Liquidity of Sun Pharma Industries Ltd. (from 2000-01 to 2004-05)

Year	Inventory to Current Assets 1	Debtors to Current Assets 2	Cash & Bank to Current Assets 3	Loan & Advances to Current Assets 4	Liquidity Rank				Total Rank	Ultimate Rank
					1	2	3	4		
2000-01	46.68	29.01	12.53	12.81	5	3	4	5	17	4
2001-02	40.23	33.08	7.61	19.12	4	2	5	4	15	3
2002-03	31.96	40.50	16.61	11.38	2	1	2	3	8	1
2003-04	33.60	26.72	15.77	23.95	3	4	3	2	12	2
2004-05	10.64	13.39	50.73	25.24	1	5	1	1	8	1

Source: Compiled from Annual reports of Sun Pharma Industries Ltd. ((from 2000-01 to 2004-05)

i. The mean percentage of current assets to total assets is 57% which is decreased regularly but it is still higher investment in current assets.

ii. Age of inventory decreases which is very positive from liquidity point of view.

iii. Average collection period increases during the study period which shows the liberal credit policy of the company.

iv. The element wise analysis of working capital reveals that inventory constitutes 46.68% to 10.64% of gross working capital, debtors constitutes 29.01% to 13.39% of gross working capital, cash & bank constitute12.53% to 50.73% of gross working capital and loan & advances constitute 12.81% to 25.24% of the gross working capital. Contribution of Inventory and Debtor are highest through out the period of study.

In this study it is clear that the overall position of the working capital of Sun Pharma Industries Ltd., are satisfactory but there is a need of improvement in inventory and debtors. Because debtors are not properly managed due to liberal credit policy. Age of inventory decreases but still it requires further improvement in the inventory.

In Sun Pharma Industries Ltd., the major portion of the current assets are in the form of debtors and inventory. Whereas other current assets are properly utilised and maintained. The liquidity position mainly depends upon debtors and inventory but other components like loan & advances, cash & bank balances etc., are also responsible.

But in this study we found that there is a need of immediate improvement in inventory, debtor's accounts and debt collection policy. The management should try for proper management inventories and debtor's accounts which would facilitate uninterrupted liquidity for the organisation.

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Book by a Corporate Author

Committee of Public Finance. (1979). *Public finance.* New York: Pitman.

13(B) Rules for citing the periodical articles on the reference list.

The Reference section appears at the end of the paper and lists all the research materials, which have been used.

a) Use the author's surname and initial(s) only. Do not use first names, degrees, and the like.

b) Cite all authors in the Reference list in the order they are listed with the source.

c) Following the author information, give the date of publication in parentheses.

d) For weekly and daily periodical/magazines such as newspapers and popular magazines, cite the year, month and day.

For monthly article/magazine, cite the year and the month.

For the professional journals, cite only the year.

e) The title of the article follows. Only the first letter of the first word of the title or subtitle or any proper name appearing in the title should be in upper case.

f) The title of the journal (in italic) comes next, followed by the volume number, and if appropriate, the issue number.

If the journal uses continuous pagination, i.e., it runs page numbers throughout a year or volume; no reference to an issue number is needed. In that case, the title of the journal is italicized, as well as the volume number.

g) If the journal is re-paged issue by issue, i.e., each issue has a page number 1, then the issue number must follow the volume number. The issue number is in parentheses but is not italicized.

i) The next part of the citation is the pagination. The page designation p is **not** used except when citing newspaper articles.

j) If the journal is from an electronic database, retrieval information must be included which states the date of retrieval and the proper time of the database.

k) For more than one publication in one year by the same author, use small lower case letter to distinguish them.

References: Articles (Citation)

Weekly Magazine/Article:

Singh, N. and Srinivasan T.N. (2005, May 21-27). Foreign Capital, Deficits and Growth. *Economic and Political Weekly,* XL, (21), 2196-2197.

Monthly Magazine/Article:

Gupta, K. (2005, May). Durables: On a Fast Track. *Pitch 11*(8), 42-50.

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Taylor, M.A. & Callahan, J.L. (2005). Bringing creativity into being: Underlying assumptions that influence methods of studying organizational creativity. *Advances in Developing Human Resources, 7*, 247-270.

(Re-paged issue)

Prasad, T. (2005). Mandi: A Field Sales Campaign for Teaching Personal Selling Skills through Experiential Approach. *IIMB Management Review Advances in Developing Human Resources, 17*(1), 87-94.

13(C) Other References (Citation)

Newspaper article

Maira, A. (2005, February 25). Putting humanity into capitalism. *The Economic Times.* P.16.

Computer Software

Soldan, T.J., & Spain, J.D. (1984). Population growth [Computer software]. City, State (2 letters): Conduit.

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White, D. R. (1997). What is network theory? Retrieved April 23, 2006, from http://eclectic.ss.uci.edu/drwhite/netsy196.htm

Paper Presentation

McCollum, E.E., & Callahan, L.L. (22, November). *The narrative assessment interview: The use of a psychoanalytic tool to evaluate a leadership development program.* Paper presented at the American Evaluation Association Conference, Washington, DC.

Ph.D. Thesis

Antony, D. (2005) *"Human Resource Development Practices and their impact on Organizational Effectiveness (A Study of Selected Industrial Organizations)"*, Ph.D. Thesis, University of Delhi, Delhi.

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