CHALLENGES AND FUTURE PROSPECTS OF TELECOM SERVICE INDUSTRY

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ABSTRACT

This paper examines the emergence of innovation and value creation for enhancing customers’ experience, as a result of increasing competition in the Indian telecom industry during the late 1990s and early 2000s. The report provides a detailed account of the evolution of the Indian telecom industry.

It traces various developments in the industry before, during and after the liberalization of the Indian telecom sector. It also provides information about the increasing popularity of cellular services which led to the emergence of several private telecom operators like Bharti Tele Ventures, Hutchison Telecom, Idea Cellular Ltd, Reliance Telecom Ltd, etc.

The fast track growth of the Indian telecom industry has made it a key contributor to India’s progress. India adopted a phased approach for reforming the telecom sector right
from the beginning. Privatization was gradually introduced, first in value-added services, followed by cellular and basic services. An independent regulatory body, Telecom Regulatory Authority of India (TRAI), was established to deal with competition in a balanced manner. This gradual and thoughtful reform process in India has favoured industry growth. Today, there are more than 225 million telecom subscribers in India. Every month, 6-7 million new subscribers are added. Upcoming services such as 3G and WiMax will help to further augment the growth rate.

Furthermore, the Indian economy is slated to sustain its 7-9 per cent growth rate in the near future. This is supported by the political stability that the country is experiencing currently. India’s demographic outlook makes it one of the largest markets in the world. A conducive business environment is also created by a favourable regulatory regime. There exists enormous business potential for telecom companies on account of the country’s low tele-density, which is close to 19 per cent presently. The Indian telecom industry is growing at the fastest pace in the world and India is projected to be the second largest telecom market globally by 2015.

**Keywords:** Telecom Industry, Government Policies, Analytical framework, Trends of telecom industries, Forecast

**OBJECTIVE AND METHODOLOGY USED:**

The main objective of the paper was to study the telecom sector under the given segments

- Global Overview of the telecom industry
- Indian Overview of industry
- Government Policy Analysis and their hindrance in the growth of the sector
- To provide an analytical Framework by comparing various giants in this sector.
- Trend and forecast for the industry
The methodology used for framing this paper is through secondary sources. Certain data is also collected by meeting concerned authorities of different telecom industries.

INTRODUCTION:

Beginning of telecommunication in India

- 1851 → First operational land lines were laid by the government near Calcutta
- 1881 → Telephone services introduced in India
- 1883 → Merger with postal system
- 1923 → Formation of Indian radio Telegraph Company
- 1932 → Merger of ETC and IRT into Indian Radio and Cable Communication Company
- 1947 → Nationalization of all foreign telecommunication companies to form the posts, telephone and telegraph, a monopoly run by the government’s ministry of communications
- 1985 → Department of telecommunication established, an exclusive provider of domestic and long-distance services that would be its own regulator
- 1986 → Conversion of dot into two wholly government-owned companies the VSNL for international telecommunication and MTNL for services in metropolitan areas
- 1997 → Telecom regulatory authority created

Telecommunication is important not only because of its role in bringing the benefits of communication to every corner of India but also in serving the new policy objectives of improving the global competitiveness of the Indian economy and stimulating and attracting foreign direct investment.

Indian Telecom industry is one of the fastest growing telecom markets in the world. In telecom industry, service providers are the main drivers; whereas equipment manufacturers are witnessing growth and decline in successive quarters as sales is dependent on order undertaken by the companies.

**Key highlights**

- In 2009 the overall telecoms industry was valued at well over $3.5 trillion with steady growth ahead.
• On a regional level, Western Europe still has the largest share of broadband subscribers worldwide.
• DSL is the most popular broadband access technology worldwide, equating for around a 66% market share.

GLOBAL OVERVIEW OF THE TELECOM INDUSTRY

Worldwide telecom statistics at a glance – mid-2013

Telecom Statistics of the world

<table>
<thead>
<tr>
<th>Telecom statistics</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td>7.7 billion</td>
</tr>
<tr>
<td>Fixed lines</td>
<td>1.3 billion</td>
</tr>
<tr>
<td>Mobile subscribers</td>
<td>4.5 billion</td>
</tr>
<tr>
<td>Mobile text messages sent</td>
<td>2.8 trillion</td>
</tr>
<tr>
<td>Internet users</td>
<td>2.2 billion</td>
</tr>
<tr>
<td>Fixed broadband subscribers</td>
<td>680 million</td>
</tr>
</tbody>
</table>

(Source: Budde Comm estimates)

GLOBAL SCENARIO

Until the 1980s the world telecommunications systems had a simply administrative structure. The United States telephone service was supplied by a regulated monopoly, American Telephone and Telegraph (AT&T). Telegraph service was provided mainly by the Western Union Corporation. In almost all other countries both services were the monopolies of government agencies known as PTTs (for Post, Telephone, and Telegraph). In the United States beginning in 1983, AT&T agreed in a court settlement to divest itself of the local operating companies that provided basic telephonic service. They remained regulated local monopolies, grouped together into eight regional companies. AT&T now offers long distance service in competition with half a dozen major and many minor competitors while retaining ownership of a subsidiary that produces telephonic equipment, computers and other electronic devices. During the same period Great Britain’s national telephone company was sold to private investors as was Japan’s NTT telephone monopoly. For telegraphy and data transmission, Western Union was joined by other major companies, while many multinational firms formed their own telecommunications services that link offices scattered throughout the world. New
technology also brought continuing changes in the providers of telecommunication. Private companies such as Comsat in the United States were organized to provide satellite communication links within the country.

Around the world we are witnessing remarkable changes to the telecoms environment. After years of debate, structural separation is now taking place in many parts of the world including Hong Kong, New Zealand, Singapore and some European markets. Structural separation – or at least full-blown operational separation – is required to advance the entire industry and to create new business opportunities and innovations which will benefit our society, our economy and ultimately our industry.

The focus is also shifting away from broadband to what it can actually achieve. Next Generation Telecommunications better describes this new environment and is essential for the emerging digital economy. Important services that depend on NGT include tele-health, e-education, e-business, digital media, e-government and environmental applications such as smart utility meters.

In order to meet this burgeoning consumer demand for NGT applications, we are seeing increasing investment in All-IP Next Generation Networks and fibre networks. A proper inventory of national infrastructure assets is required if we want to establish an efficient and economically viable national broadband structure for these services. In the developing markets, next generations telecoms will take the form of wireless NGNs (ie, LTE/WiMAX).

These are some of the elements of the broader ICT revolution that is unfolding before our very eyes. We are right in the midst of the transition from old communications structures (mainly one-way streets) to new structures that are fully-interactive and video-based.

One of the drivers behind the industry changes are the declining revenues experienced by the telcos in their traditional markets. Over the past 10 years or so, fixed-line operators have been affected by deregulation, a severe industry downturn, declining prices and major inroads by mobile services. In addition, people are drifting to other forms of communication, such as email, online chat, and mobile text messaging instead of the traditional phone.

This has also led to an increased need for bandwidth, which in turn has revived the submarine cable sector. In recent times there have been many cable build-out announcements around the world, and some major systems are again being constructed.
Over 25 systems are expected to be built over the next two to three years and network upgrades are also on the agenda for some existing systems.

It is clear that the mobile industry is also undergoing profound changes. The saturated developed markets are forcing the industry to find new revenue streams and we are now seeing other organizations such as media companies, content providers, Internet media companies and private equity companies becoming involved in this market.

For the time being however, voice will remain the killer application for mobile with some data services included as support services and niche market services. 4G (ie, WiMAX/LTE) is the real solution for mobile data and by 2015 it is expected that the majority of mobile revenues will come from data.

With the Internet economy, digital media and other telecommunications activities becoming further established, the need for modern and efficient infrastructure is becoming more critical.

**Tele-density**

*International Comparison of tele-density*
Despite the unsteady state of the global financial markets, the worldwide telecommunications industry is expected to continue expanding over the next five years as continuing growth of wireless services in emerging markets offsets the spending slowdown in the advanced economies, says a new market analysis report from The INSIGHT Research Corporation. According to the new industry market study, overall telecommunications services revenues are expected to grow at a compounded rate of nearly 10.3 percent over the next few years, reaching $2.7 trillion by 2013. Wireless makes the strongest showing while wireline follows a distant second. Nearly all of the growth in both sectors is expected to occur in broadband services, with wireless broadband service revenues expected to grow at a compounded rate of more than 70 percent over the forecast period, while wireline broadband services grow at under 10 percent over the same forecast horizon.

<table>
<thead>
<tr>
<th>Country</th>
<th>Population (million)</th>
<th>GDP (per capita) (US$)*</th>
<th>Teledensity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>175.96</td>
<td>2603</td>
<td>42.38</td>
</tr>
<tr>
<td>Canada</td>
<td>31.72</td>
<td>23417</td>
<td>104.58</td>
</tr>
<tr>
<td>China</td>
<td>1256.95</td>
<td>963</td>
<td>42.32</td>
</tr>
<tr>
<td>Egypt</td>
<td>68.65</td>
<td>1260</td>
<td>21.17</td>
</tr>
<tr>
<td>France</td>
<td>59.90</td>
<td>24057</td>
<td>126.19</td>
</tr>
<tr>
<td>India</td>
<td>1056.89</td>
<td>494</td>
<td>7.10</td>
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<tr>
<td>Malaysia</td>
<td>25.17</td>
<td>3870</td>
<td>62.36</td>
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<tr>
<td>Pakistan</td>
<td>149.58</td>
<td>428</td>
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<tr>
<td>Singapore</td>
<td>4.20</td>
<td>20894</td>
<td>125.84</td>
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<tr>
<td>UK</td>
<td>58.12</td>
<td>26369</td>
<td>143.13</td>
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<tr>
<td>USA</td>
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<td>36223</td>
<td>116.43</td>
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<tr>
<td>Asia</td>
<td>3621.14</td>
<td>2313</td>
<td>28.52</td>
</tr>
<tr>
<td>Europe</td>
<td>795.13</td>
<td>12822</td>
<td>96.28</td>
</tr>
<tr>
<td>World</td>
<td>6129.15</td>
<td>5583</td>
<td>40.32</td>
</tr>
</tbody>
</table>

Source: International Telecom Union (ITU)
* Figures pertain to year 2002
“The 2009 Telecommunications Industry Review: An Anthology of Market Facts and Forecasts” states that even amidst so much economic uncertainty the fact remains that telecommunications is a key input factor in economic growth. Telecommunications is a facilitator of socio-economic advancement and is a critical utility for economic development, much like water and energy. It is on the basis of telecommunications as a lynchpin in the eventual economic recovery that INSIGHT Research projects continued carrier revenue growth.

“The worldwide economy is in turmoil, there is no doubt about that, but over the long haul we expect the telecommunications industry to continue growing,” says INSIGHT president Robert Rosenberg. “Telecom is as necessary to development as roads and bridges, so we expect it to fare much better than other economic segments that may take longer to return to normalcy,” Rosenberg concluded.

INDIAN OVERVIEW OF THE INDUSTRY

Today the Indian telecommunications network with over 410 Million subscribers is second largest network in the world after China. India is also the fastest growing telecom market in the world with an addition of 9-10 million monthly subscribers. The teledensity of the Country has increased from 18% in 2006 to 33% in December 2008, showing a stupendous annual growth of about 50%, one of the highest in any sector of the Indian Economy. The Department of Telecommunications has been able to provide state of the art world-class infrastructure at globally competitive tariffs and reduce the digital divide by extending connectivity to the unconnected areas. India has emerged as a major base for the telecom industry worldwide. Thus Indian telecom sector has come a long way in achieving its dream of providing affordable and effective communication facilities to Indian citizens. As a result common man today has access to this most needed facility. The reform measures coupled with the proactive policies of the Department of Telecommunications have resulted in an unprecedented growth of the telecom sector.

The thrust areas presently are:

1. 1.Building a modern and efficient infrastructure ensuring greater competitive environment

2. With equal opportunities and level playing field for all stakeholders.
3. Strengthening research and development for manufacturing, value added services.

4. Efficient and transparent spectrum management

5. To accelerate broadband penetration

6. Universal service to all uncovered areas including rural areas.

7. Enabling Indian telecom companies to become global players.

Recent things to watch in Indian telecom sector are:

1. 3G and BWA auctions

2. MVNO

3. Mobile Number Portability

4. New Policy for Value Added Services

5. Market dynamics once the recently licensed new telecom operators start rolling out


7. Increased thrust on telecom equipment manufacturing and exports.

8. Reduction in Mobile Termination Charges as the cost per line has substantially reduced

9. Due to technological advancement and increase in traffic.

India's telecom sector has shown massive upsurge in the recent years in all respects of industrial growth. From the status of state monopoly with very limited growth, it has grown in to the level of an industry. Telephone, whether fixed landline or mobile, is an essential necessity for the people of India. This changing phase was possible with the economic development that followed the process of structuring the economy in the capitalistic pattern. Removal of restrictions on foreign capital investment and industrial de-licensing resulted in fast growth of this sector. At present the country's telecom industry has achieved a growth rate of 14 per cent. Till 2000, though cellular phone companies were present, fixed landlines were popular in most parts of the country, with
government of India setting up the Telecom Regulatory Authority of India, and measures to allow new players country, the featured products in the segment came in to prominence. Today the industry offers services such as fixed landlines, WLL, GSM mobiles, CDMA and IP services to customers. Increasing competition among players allowed the prices drastically down by making the mobile facility accessible to the urban middle class population, and to a great extend in the rural areas. Even for small shopkeepers and factory workers a phone connection is not an unreachable luxury. Major players in the sector are BSNL, MTNL, Bharti Teleservices, Hutchison Essar, BPL, Tata, Idea, etc. With the growth of telecom services, telecom equipment and accessories manufacturing has also grown in a big way.

Indian Telecom sector, like any other industrial sector in the country, has gone through many phases of growth and diversification. Starting from telegraphic and telephonic systems in the 19th century, the field of telephonic communication has now expanded to make use of advanced technologies like GSM, CDMA, and WLL to the great 3G Technology in mobile phones. Day by day, both the Public Players and the Private Players are putting in their resources and efforts to improve the telecommunication technology so as to give the maximum to their customers.

**Telecom Subscriber Base In India**

Indian telecommunication Industry is one of the fastest growing telecom market in the world. The mobile sector has grown from around 10 million subscribers in 2002 to reach 350 million by early 2009 registering an average growth of over 90%. The two major reasons that have fuelled this growth are low tariffs coupled with falling handset prices.

Surprisingly, CDMA market has increased it market share upto 30% thanks to Reliance Communication. However, across the globe, CDMA has been loosing out numbers to popular GSM technology, contrary to the scenario in India.

The other reason that has tremendously helped the telecom Industry is the regulatory changes and reforms that have been pushed for last 10 years by successive Indian governments. According to Telecom Regulatory Authority of India (TRAI) the rate of market expansion would increase with further regulatory and structural reforms.
Even though the fixed line market share has been dropping consistently, the overall (fixed and mobile) subscribers have risen to more than 350 million by first quarter of 2009. The telecom reforms have allowed the foreign telecommunication companies to enter Indian market which has still got huge potential. International telecom companies like Vodafone have made entry into Indian market in a big way.

Currently the Indian Telecommunication market is valued at around $100 billion (Rupees 400,000 crore). Two telecom players dominate this market - Bharti Airtel with 27% market share and Reliance Communication with 20% along with other players like BSNL (Bharat Sanchar Nigam Limited) and AT&T. One segment of the market that has been puzzling is broadband Internet. Despite the manner in which the country’s Internet market has been booming, India’s move into high-speed broadband Internet access has been distinctly slow. And, while there appears to be considerable enthusiasm amongst the population for the Internet itself, this has not been reflected in broadband subscription numbers. In 2006 India witnessed a good surge in broadband users with the total subscriber base in the country expanding by almost 200% to just over 2 million by year end. Despite this surge, broadband penetration in India still remains around only 0.2%; broadband services still account for only 25% of the total Internet subscriber base, still in itself comparatively low. So, if 70% of total population is rural, the scope for growth in this Industry is unprecedented.

The Ministry of Communications and Information Technology (MCIT) is has very aggressive plans to increase the pace of growth, targeting 250 million telephone subscribers by end-2007 and 500 million by 2010. Most of the expansion in subscribers is set to occur in rural India. India’s rural telephone density has been languishing at around 1.9%. The subscriber addition rate has been strong in the last 12 months but the regulatory developments will increase competition and thus curtail the long-term growth rates of individual companies. The savings through the setting of tower companies will partly go towards the higher capex and opex costs from more stringent spectrum allocation norms for the incumbents.

The Telecommunications sector has been consistently adding more than 7 million subscribers for the last 6 months, a very healthy net addition rate infact. All the private operators GSM as well as the CDMA operators have been very consistent in their
performance. The sector provides very strong revenue as well as earnings visibility over the next 12 months. However the recent regulatory developments are seem to be negative for the telecom companies as it will increase the number operators per circle which will intensify competition.

**Indian Telecommunications at a glance**

(As on 30th September 2013)

<table>
<thead>
<tr>
<th>Rank in world in network size</th>
<th>2nd</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tele–density (per hundred populations)</td>
<td>30.64</td>
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</table>

**Telephone connection (In millions)**

<p>| | |</p>
<table>
<thead>
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<tbody>
<tr>
<td>Fixed</td>
<td>38.35</td>
</tr>
<tr>
<td>Mobile</td>
<td>345.31</td>
</tr>
<tr>
<td>Total</td>
<td>383.66</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Village Public Telephones</th>
<th>5.6 lakh</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign Direct Investment (in million) (from January 2000 till August 2008)</td>
<td>182042 million</td>
</tr>
</tbody>
</table>

**Licenses issued**

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic</td>
<td>2</td>
</tr>
<tr>
<td>CMTS</td>
<td>60</td>
</tr>
<tr>
<td>UAS</td>
<td>224</td>
</tr>
<tr>
<td>Infrastructure Provider I</td>
<td>177</td>
</tr>
<tr>
<td>ISP (Internet)</td>
<td>382</td>
</tr>
<tr>
<td>ISP with Telephony (Broadband)</td>
<td>125</td>
</tr>
<tr>
<td>National Long distance</td>
<td>24</td>
</tr>
</tbody>
</table>
Indian telecommunication Industry is one of the fastest growing telecom markets in the world. **The mobile sector has grown from around 10 million subscribers in 2002 to reach 350 million by early 2009 registering an average growth of over 90% y-o-y.** The two major reasons that have fuelled this growth are low tariffs coupled with falling handset-prices

Surprisingly, CDMA market has increased its market share up to 30% thanks to Reliance Communication. However, across the globe, CDMA has been losing out numbers to popular GSM technology, contrary to the scenario in India. The other reason that has tremendously helped the telecom Industry is the regulatory changes and reforms that have been pushed for last 10 years by successive Indian governments. According to Telecom Regulatory Authority of India (TRAI) the rate of market expansion would increase with further regulatory and structural reforms. Even though the fixed line market share has been dropping consistently, the overall (fixed and mobile) subscribers have risen to more than 200 million by first quarter of 2007. The telecom reforms have allowed the foreign telecommunication companies to enter Indian market which has still got huge potential.

International telecom companies like Vodafone have made entry into Indian market in a big way. _Currently the Indian Telecommunication market is valued at around $100 billion (Rupees 400,000 crore). Two telecom players dominate this market - Bharti Airtel with 27% market share and Reliance Communication with 20% along with other players like BSNL (Bharat Sanchar Nigam Limited) and AT&T._ One segment of the market that has been puzzling is broadband Internet. Despite the manner in which the country’s Internet market has been booming, India’s move into high-speed broadband Internet access has been distinctly slow. And, while there appears to be considerable enthusiasm amongst the population for the Internet itself, this has not been reflected in broadband subscription numbers. In 2006 India witnessed a good surge in broadband users with the total subscriber base in the country expanding by almost 200% to just over 2 million by year’s end. Despite this surge, **broadband penetration in India still remains around only 0.2%;** broadband services still account for only 25% of the total Internet subscriber base, still in itself comparatively low.
The Ministry of Communications and Information Technology (MCIT) is has very aggressive plans to increase the pace of growth, targeting 250 million telephone subscribers by end-2007 and 500 million by 2010. Most of the expansion in subscribers is set to occur in rural India. India’s rural telephone density has been languishing at around 1.9%; So, if 70% of total population is rural, the scope for growth in this Industry is unprecedented.

GOVERNMENT POLICY ANALYSIS

As the sector is open for both private and public players there are huge number of players in the market which requires a proper picturing of rules and regulation to play a fair game. India has been very strong in case of rules and regulation; it has created body like DOT, TRAI, DTS who takes care of the rules and regulation. Apart from them it keeps issuing policy and act which checks the events happening in the industry. The government has been issuing policy like Broadband Policy 2004, new telecom policy 1999, National Telecom Policy 1994. There are more agencies like ITU, TDSA, TCIL, ICSIL, and MCOCA, which helped it regulating their work. With increasing number of players in market the government and its agencies have to function more carefully.

Department of Telecommunications

Until October 2000, the Department of Telecommunication (DOT) was the authority in granting licences and service provision. It also operated domestic basic telephone services throughout India. The policy making functions and the service providing function were segregated into two different entities during 2000. The two service providing department of telecom sector were corporatized—the department of telecom service and the department of telecom operation. The state owned corporation BSNL took over all service providing functions of these two departments.

National telecom policy, 1994

The new economic policy adopted by the Government aims at improving India's competitiveness in the global market and rapid growth of exports. Another element of the new economic policy is attracting foreign direct investment and stimulating domestic investment. Telecommunication services of world class quality are necessary for the
success of this policy. It is, therefore, necessary to give the highest priority to the development of telecom services in the country.

**The Telecom Regulatory Authority Of India Act, 1997**

Perform functions like recommend the need and timing for introduction of new service provider; recommend the terms and conditions of license to a service provider; ensure technical compatibility and effective inter-connection between different service providers; regulate arrangement amongst service providers of sharing their revenue derived from providing telecommunication services; ensure compliance of terms and conditions of license; recommend revocation of license for non-compliance of terms and conditions of license; lay down and ensure the time period for providing local and long distance circuits of telecommunication between different service providers and including administrative and financial functions as may be entrusted to it by the Central Government or as may be necessary to carry out the provisions of this Act.

**New telecom policy, 1999**

There were various objectives and regulations of this policy. Some important to mentions are:

1. Access to telecommunications is of utmost importance for achievement of the country's social and economic goals. Availability of affordable and effective communications for the citizens is at the core of the vision and goal of the telecom policy.

2. Strive to provide a balance between the provision of universal service to all uncovered areas, including the rural areas, and the provision of high-level services capable of meeting the needs of the country's economy

3. Encourage development of telecommunication facilities in remote, hilly and tribal areas of the country.

4. Enable Indian Telecom Companies to become truly global players

**Broadband Policy, 2004**
Recognizing the potential of ubiquitous Broadband service in growth of GDP and enhancement in quality of life through societal applications including tele-education, tele-medicine, e-governance, entertainment as well as employment generation by way of high speed access to information and web-based communication, Government have finalized a policy to accelerate the growth of Broadband services.

Demand for Broadband is primarily conditioned and driven by Internet and PC penetration. It is recognized that the current level of Internet and Broadband access in the country is low as compared to many Asian countries. Penetration of Broadband, Internet and Personal Computer (PC) in the country was 0.02%, 0.4% and 0.8% respectively at the end of December, 2003. Currently, high speed Internet access is available at various speeds from 64 kilobits per second (kbps) onwards and presently an always-on high speed Internet access at 128 kbps is considered as ‘Broadband’. There are no uniform standards for Broadband connectivity and various countries follow various standards.

**Administration and Control on Telecom Industry**

The Telecom Commission, set up in April 1989, has the administrative and financial powers of the Government of India to deal with various aspects of telecommunications.

The Commission and the Department of Telecommunications (DOT) are responsible, *inter alia*, for policy formulation, licensing, wireless spectrum management, administrative monitoring and control of the Public Sector Undertakings (PSUs) engaged in telecommunication services, research and development, standardization/validation of equipment. In addition to the Telecom Commission, other Government organizations engaged in the telecom sector (as a part of DOT) are the Centre for Development of Telematics (CDOT), the Telecom Engineering Centre (TEC) and the Wireless Planning and Coordination (WPC) wing.

CDOT was established in 1984 with the objective of developing a new generation of digital switching items. It has developed a wide range of switching and transmission products both for rural and urban applications. TEC is devoted to product validation and standardization for user agencies. It also provides technical and engineering support to the Telecom Commission and the field units. The Wireless Planning and Coordination wing deals with the policies of Spectrum management, licensing, frequency assignments,
international coordination for spectrum management and administration of the Indian Wireless Telegraphy Act, 1933. In order to administer the use of radio frequencies, the licenses/renewals for use of wireless equipment and the frequencies are authorized by WPC. The licenses are granted for specific periods on payment of prescribed license fees and royalty in advance and are renewed after expiry of the validity periods.

We saw various agencies and acts passed by Indian government to regulate the industry. The government has to be rigid and cautious as the global players enter into the market. The increasing number of services provided by telecom sectors call for additional attention. The government has been doing excellent job in maintaining a harmony between public and private players but still has a long way to go. The step taken by government towards the 6G allocation shows how effectively it can operate.

ANALYTTICAL FRAMEWORK

In this section SWOT analysis for the telecom industry has been done. Also carry out of the comparative analysis of the telecom industry as a whole to find the performance of the industry and compare it with that of different companies.

Strengths

- Technology is advanced and easy to implement: For telecom industry the technology is really advanced and more and more investment is done on technology to get world class infrastructure and knowhow to put in this field. Recently the telecom sector is going to add 3G spectrum as its latest upgradation.

- Management Team has prior experience: The management team controlling Indian telecom sector in really efficient. Thank goes to the IITs which produce world class engineers. So Indian telecom sector has abundance of technological knowhow.

Weakness

- High Cost of Infrastructure: The infrastructure cost of telecom industry is very high.
Low customer retention power: The customer retention power for telecom industry is really low and the customer changes their service provider company very soon.

Opportunity

• **Population:** The population of India is really an opportunity of telecom service providers, as the number of population without telecom service is also very high. The industry has to target India’s huge population to grow.

• **Changing Population psychograph:** Population psychograph is also changing. Previously telecom service was thought as an emergency service, now it has become an essential part of life in our country.

• **Increased Penetration Level:** All the organizations of the industry are trying to increase their penetration level, in other word to increase the tele-density of the country. The urban Indian population gives a real growth prospect to the industry.

• **FDI:** The foreign direct investment in telecom has been hiked up from 49% to 74%. This move is positive for the sector, as it requires investments of Rs 700–900 million over the next 5 years. FDI inflow by 2004 was 9950.94 cores in telecom. Countries like Europe, Korea, and Japan telecom are likely to enter India, as India is seen as fastest growing telecom market in world.

Threats

The treats to the industry are the following:

• **Government Policies** – Government may provide licenses to many foreign operators, which may already have pose a threat for the existing players in the industry.
New Technology can change the market dynamics: A lot of new technologies are coming. Then even have the potential of changing the entire industry dynamics or even create substitute of the telecom services existing.

TOP FIVE COMPANIES

The Top five companies, on the basis of ‘Market Share’ as on 31st sep, 2013 are:

1. Bharti Airtel Ltd.
2. Reliance Communications Ltd.
3. Vodafone Essar Ltd.
4. BSNL
5. Idea Cellular + Spice

<table>
<thead>
<tr>
<th>Parameters</th>
<th>Bharti</th>
<th>Reliance</th>
<th>Vodafone</th>
<th>BSNL</th>
<th>IDEA Cellular +Spice</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enterprise Value</td>
<td>1,62,852.92</td>
<td>1,25,007.91</td>
<td>0</td>
<td>0</td>
<td>33906.72</td>
</tr>
<tr>
<td>Sales</td>
<td>25,761.11</td>
<td>14792.05</td>
<td>2733.76</td>
<td>32359.5</td>
<td>6719.99</td>
</tr>
<tr>
<td>Other Income</td>
<td>359.91</td>
<td>520.58</td>
<td>115.68</td>
<td>5878.1</td>
<td>199.05</td>
</tr>
</tbody>
</table>

(Rs in Crs)
With government increasing the FDI gap to 74%, more foreign companies would be entering the Indian market and there will be stiff competition among the Indian players with the international players and hence the Indian players have to sustain growth and make profits. Hence, the few companies that do not meet the industry standard ratios need to work towards attaining the same.

UPCOMING TRENDS AND FORECAST

The recent development in information technology and science has made a great difference in telecom industry by increasing its efficiency and opening doors to major developments of sector. CDMA, GSM, 2G&3G SPECTRUM, WIMAX etc are some of the technology which have discussed. Both development and problem walks hand in hand, with increasing development the industry is facing huge challenges and problems. The industry will have to work more efficiently in order to overcome the problems. The industry in total has got a great future and has a lot of untapped potential market.

FUTURE PROJECTIONS

The Indian telecommunications industry is one of the fastest growing in the world and India is projected to become the second largest telecom market globally by 2010.

India added 113.26 million new customers in 2008, the largest globally. In fact, in April 2008, India had already overtaken the US as the second largest wireless market. To put this growth into perspective, the country’s cellular base witnessed close to 50 per cent growth in 2008, with an average 9.5 million customers added every month. According to the Telecom Regulatory Authority of India (TRAI), the total number of telephone connections (mobile as well as fixed) had touched 385 million as of December 2008, taking the telecom penetration to over 33 per cent. This means that one out of every three Indians has a telephone connection, and telecom companies expect this pace of growth to continue in 2009 as well. "We are extremely bullish that the growth will continue in 2009.
This year, the number of additions will be in excess of 130 million," according to T.V. Ramachandran, Director General, Cellular Operators Association of India (COAI), an industry body that represents all Global System for Mobile communications (GSM) players in India.

According to CRISIL Research estimates, eight infrastructure sectors, which include the telecom sector, are expected to draw more than US$ 345.28 billion investment in India by 2012.

With the rural India growth story unfolding, the telecom sector is likely to see tremendous growth in India's rural and semi-urban areas in the years to come. By 2012, India is likely to have 200 million rural telecom connections at a penetration rate of 25 per cent. And according to a report jointly released by Confederation of Indian Industry (CII) and Ernst & Young, by 2012, rural users will account for over 60 per cent of the total telecom subscriber base.

According to Business Monitor International, India is currently adding 8-10 million mobile subscribers every month. It is estimated that by mid 2012, around half the country's population will own a mobile phone. This would translate into 612 million mobile subscribers, accounting for a tele-density of around 51 per cent by 2012.

It is projected that the industry will generate revenues worth US$ 43 billion in 2009-10.

**Growth in Segments**

According to a Frost & Sullivan industry analyst, by 2012, fixed line revenues are expected to touch US$ 12.2 billion while mobile revenues will reach US$ 39.8 billion in India. Fixed line capex is projected to be US$ 3.2 billion, and mobile capex is likely to touch US$ 9.4 billion.

Further, according to a report by Gartner Inc., India is likely to remain the world's second largest wireless market after China in terms of mobile connections. According to recent data released by the COAI, Indian telecom operators added a total of 10.66 million wireless subscribers in December 2008. Further, the total wireless subscriber base stood at 346.89 million at the end of December 2008.
The overall cellular services revenue in India is projected to grow at a CAGR of 18 per cent from 2008-2012 to exceed US$ 37 billion. Cellular market penetration will rise to 60.7 per cent from 19.8 per cent in 2007.

The Indian telecommunications industry is on a growth trajectory with the GSM operators adding a record 9.3 million new subscribers in January 2009, taking the total user base to 267.5 million, according to the data released by COAI. However, this figure does not include the number of subscribers added by Reliance Telecom.

In WiMax, India is slated to become the largest WiMAX market in the Asia-Pacific by 2013. A recent study sees India's WiMAX subscriber base hitting 14 million by 2013 and growing annually at nearly 130 per cent. And investments in WiMAX ventures are slated to top US$ 500 million in India, according to a report by US-based research and consulting firm, Strategy Analytics.

**CONCLUSION**

The challenge of the day is to search for new cost-effective ways to roll out telecom services in rural areas. It means one has to choose proper and effective technology for deployment and leverage on the use of available infrastructure to reduce cost and time of role out of services. Those service providers who create the right business would emerge winners and the rest would remain spectators.

Connectivity of networks and cost of bandwidth are also important to facilitate broadband usage. Availability of local application and content is another area of concern. Most of the content available on website as of today is in English. The content in local and regional language will increase interest of the local population in broadband utilization.

The convergence of technologies and emergence of new applications is another thrilling area. Lot of revolution is round the corner in broadcasting and entertainment industries. The emergence of Internet protocol TV, mobile TV will all change the scenario in the coming years.

Wireless technology is the future growth driver for which spectrum is the most important input. The task of spectrum management in a multi user and multi usage scenario is more daunting and crucial than ever before.
• It would be increasingly difficult for a new entrant to lure customers, as there is nothing extra for a new player to offer.

• Return on investment or capital employed for a late entrant would be significantly lower than the existing players.

• Expansion has to be done with a long sighted view for profitability. The ones who would have large reserves and profits would cherish and leaving others to perish.

• It will be an era of strong regional players as every strong player will consolidate his position in the area he is strong by eating up smaller players till he attains a point from which the further consolidation becomes economically unviable.

• Once the fixed line market is matured, mobile will crossover fixed line market. A mobile revolution is in the offing in India.

In summary, if the last few years in telecom were exciting, it will be even more exciting in the coming years.

Critical Factors for Future Growth

Opportunity in rural areas: When compared to Indian metros, there is a large gap in tele-density; - 62 percent in the metros, nearly eight times higher than 8 percent in rural areas. To capitalize on the growing population and disposable income in rural India, telecom operators will have to explore and expand into ‘uncovered' geographies.

Re-examining high levies: The Indian telecom sector is one of the highest taxed sectors in the developing world, through levies, which comprise service tax, revenue share, spectrum cess, and value added tax.

Bringing down operators' capex: To expand the telecom services, there will be greater investment needs in the future. Telco’s will have to engage on active and passive infrastructure sharing.

Rational policy for spectrum allocation: The allocation of adequate spectrum is an urgent requirement for new and existing operators. A clear roadmap for future spectrum allocation has to be drawn, whether it is a 2G or a 3G platform. Operators need to be
cautious in ‘bidding’ and should not overpay for spectrum as that could disturb project economics.

**Data revenues to provide ‘buffer’:** India's data revolution is going to be fuelled by 3G and WiMAX. For the data revolution to reach villages, low-cost access devices, vernacular content, and community initiatives such as e-governance need to be in place.

**Enhancing skill sets:** The sector will require specialist resources to support and sustain growth over the next four to five years. And pressure on talent is expected to increase with the deployment of 3G and WiMAX services. The private sector will need to reorient its focus on talent development through training schools and facilitation programs that cater to the needs of the telecom industry.

**Impact of global economic downturn:** The current financial crisis could have a low-to-medium impact on the telecom sector in terms of rising costs of capital and reduction in discretionary spending on the part of customers, among other determinants.

The technology improvement has helped the sector to perform better and has also expanded the meaning of the term “telecommunication” from just audio message transformation to virtual presence of person. The sector clearly shows a great scope for future.

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• http://www.ibef.org/
• http://www.domain-b.com/
• http://www.trai.gov.in/
• http://www.perry4law.wordpress.com/
• http://www.indianembassy.org/
• http://www.emeraldinsight.com/
• http://www.search.epnet.com/
CAPITAL STRUCTURE OF GROWING BANKS OF INDIA VIS-À-VIS INCREASE IN THEIR PROFITABILITY

By

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ABSTRACT

Till 1991, banking sector of India was not much developed but now the banking sector of Indian sub-continent is witnessing a transition. Because of Narsimham Committee proposal, there has been massive growth of Indian banking sector and all the growing banks are involved in disbursement of massive quantum of credit to the customers. Major Banks are also involved in floating debentures, bonds and have got huge reserves and surplus besides customer’s deposits. The banks have also got huge quantum of equity share capital to augment growth and expansion of the business. Now, with the expanding business, every bank has huge quantum of funds in the capital structure and their profitability has also increased manifolds. The present research paper is devoted to analysis profitability of selected Development Banks along with growth in capital structure. The selected banks are IFCI Limited, ICICI Bank, IDBI Bank, HDFC Bank and Axis Bank or erstwhile UTI Bank.

Key Words: Banking, India, Development,
INTRODUCTION

The Development Banks are special purpose banks which provide different types of services to the clients within one roof. They are responsible for growth in agriculture, industry, exports and imports, capital markets, housing and urban development, investment etc. There are more than ninety Development Banks in India and all are facing a stiff competition amongst themselves. The profitability of Development Banks is highly important for all round growth of Indian sub-continent. It has been witnessed that major advancing of different types of industrial houses comes from growing Development Banks of India. The Development Banks have huge capital structure now and that is why they are prospering in terms of profitability because of massive expansion, growth, development and modernization of business. In the present research paper growth of capital structure of the Development Banks under consideration has been discussed besides ever increasing growth in their profitability.

OBJECTIVES OF THE PRESENT RESEARCH PAPER

The present research paper fulfils following major strategic objectives:

1. It throws light on profitability of selected Development Banks and shows that the net profit of all the Development Banks has increased with the expansion in the business operations.

2. Now, all the major Development Banks have huge reserves, customer deposits, and share capital, paid up capital because of which there has been mammoth growth in the profitability of the business because of expansion, modernization and development of the business under agenda of selected Development Banks.

HYPOTHESIS TESTING

In the present research paper following generalized hypothesis has been tested with the help of the important financial indicators of the Development Banks.

1. As the reserves and surplus, paid up capital, borrowings and customer deposits have increased the major Development Banks have been in a position to increase their net profits because of mammoth expansion in rural, semi urban and urban segments of the society.
2. It has been proved that the capital structure planning has direct relationship with profitability of the business enterprise as the reserves, customer deposits, share capital and borrowings increase liquidity and because of this, banks can improve their profitability and Net profit to revenue from operation to some extent in different time horizons.

RESEARCH METHODOLOGY

In the present research paper secondary data has been collected and utilized for a period from 2001-02 to 2011-13 which has been collected from annual reports of selected Development Banks e.g. IFCI Limited, ICICI Bank, IDBI Bank, HDFC Bank and Axis Bank or erstwhile UTI Bank which have also been furnished in the web portals of the banks to fulfill corporate social responsibility measures.

Sampling Technique

There are more than 90 Development Banks in the Indian sub-continent but only above five development financial institutions have been chosen out of a huge list by the process of judgment sampling as the chosen banks are growth economies of India and they are providing variety of financial services to the clients within one roof. The data has been analyzed from 2001-02 to 2011-13. These banks have been chosen because of their immense growth potential and impressive growth trajectory.

Significance of the present research:

The present research would be of immense benefits to policymakers, planners, management of concerned banks, government, shareholders, investors, future research analysts etc. in many ways as they can know capital structure planning in the banking business entities as well as profitability in the business organization. The management of the selected Banks will be in a position to decide capital structure with prudence to improve liquidity, solvency and profitability of the business enterprise.
Table – 1

PAID UP CAPITAL OF SELECTED DEVELOPMENT BANKS

<table>
<thead>
<tr>
<th>Year</th>
<th>IFCI Ltd</th>
<th>ICICI Bank</th>
<th>IDBI Bank</th>
<th>HDFC Bank</th>
<th>Axis Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001-02</td>
<td>638.68</td>
<td>613.03</td>
<td>652.83</td>
<td>281.37</td>
<td>191.81</td>
</tr>
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<td>2002-03</td>
<td>638.68</td>
<td>612.66</td>
<td>652.83</td>
<td>282.05</td>
<td>230.19</td>
</tr>
<tr>
<td>2003-04</td>
<td>638.68</td>
<td>616.40</td>
<td>652.83</td>
<td>284.79</td>
<td>231.58</td>
</tr>
<tr>
<td>2004-05</td>
<td>639.99</td>
<td>736.77</td>
<td>721.77</td>
<td>309.88</td>
<td>273.79</td>
</tr>
<tr>
<td>2005-06</td>
<td>638.68</td>
<td>889.82</td>
<td>723.79</td>
<td>313.14</td>
<td>278.69</td>
</tr>
<tr>
<td>2006-07</td>
<td>638.68</td>
<td>899.27</td>
<td>724.35</td>
<td>319.39</td>
<td>281.63</td>
</tr>
<tr>
<td>2007-08</td>
<td>762.41</td>
<td>1112.69</td>
<td>724.76</td>
<td>354.43</td>
<td>357.70</td>
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<tr>
<td>2008-09</td>
<td>762.41</td>
<td>1113.25</td>
<td>724.78</td>
<td>425.38</td>
<td>359.00</td>
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<td>2009-10</td>
<td>737.84</td>
<td>1114.85</td>
<td>724.86</td>
<td>457.74</td>
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<tr>
<td>2010-11</td>
<td>737.84</td>
<td>1114.85</td>
<td>984.56</td>
<td>465.22</td>
<td>410.54</td>
</tr>
<tr>
<td>2011-12</td>
<td>737.84</td>
<td>1151.77</td>
<td>1278.38</td>
<td>469.33</td>
<td>413.20</td>
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<td>2012-13</td>
<td>1662.04</td>
<td>1152.71</td>
<td>1332.74</td>
<td>475.88</td>
<td>467.95</td>
</tr>
</tbody>
</table>

Source: Compiled from Annual Reports of Different Development Banks for different years

Analysis of Paid up Capital has been given in Table-1 and it can be ascertained from this table that paid up capital of major Development Banks has increased in the past regime. This has been because of growth, diversification, and modernization under agenda of the banks. The expansion of major Development Banks has been in the rural, semi urban, urban and international business segments. The above table shows that investors of the selected Development Banks have reposed great confidence with the stocks of the selected banks that is why paid up capital of growing banks is huge in quantity.
### Table – 2

**COMPARISON OF RESERVES AND SURPLUS OF SELECTED DEVELOPMENT BANKS**

<table>
<thead>
<tr>
<th>Year</th>
<th>IFCI Ltd</th>
<th>ICICI Bank</th>
<th>IDBI Bank</th>
<th>HDFC Bank</th>
<th>Axis Bank</th>
</tr>
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<tbody>
<tr>
<td>2001-02</td>
<td>497.66</td>
<td>5635.54</td>
<td>6042.30</td>
<td>1660.91</td>
<td>422.95</td>
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<td>2002-03</td>
<td>469.70</td>
<td>6320.65</td>
<td>6978.09</td>
<td>1962.78</td>
<td>687.92</td>
</tr>
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<td>454.94</td>
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<td>5182.06</td>
<td>2407.09</td>
<td>984.84</td>
</tr>
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<td>447.42</td>
<td>11813.19</td>
<td>5204.49</td>
<td>4209.97</td>
<td>2134.38</td>
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<td>2005-06</td>
<td>442.98</td>
<td>21316.15</td>
<td>5647.38</td>
<td>4968.39</td>
<td>2593.49</td>
</tr>
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<td>2006-07</td>
<td>873.84</td>
<td>23413.92</td>
<td>7575.10</td>
<td>6113.76</td>
<td>3111.59</td>
</tr>
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<td>2007-08</td>
<td>2134.55</td>
<td>45357.53</td>
<td>8095.50</td>
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<td>8410.79</td>
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<td>2008-09</td>
<td>2632.47</td>
<td>48419.72</td>
<td>8697.35</td>
<td>14220.94</td>
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<td>3608.12</td>
<td>50503.47</td>
<td>9438.39</td>
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<td>2012-13</td>
<td>4757.31</td>
<td>65547.83</td>
<td>19902.50</td>
<td>35738.26</td>
<td>32639.90</td>
</tr>
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</table>

Source: Compiled from Annual Reports of Different Development Banks for different years

In the Table No. 2 Reserves and Surplus of the Development Banks has been shown and it can be concluded from this table that major Development Banks have more reserves in capital structure as they have huge statutory reserves, amalgamation reserves, special reserves, share translation reserves, revenue reserves and many other types of reserve accounts because of which their financial viability has improved. Investors have reposed confidence with the growing banks of India because of increased reserves with them.
Table – 3
COMPARISON OF BORROWINGS OF SELECTED DEVELOPMENT BANKS

<table>
<thead>
<tr>
<th>Year</th>
<th>IFCI Ltd</th>
<th>ICICI Bank</th>
<th>IDBI Bank</th>
<th>HDFC Bank</th>
<th>Axis Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001-02</td>
<td>19788.69</td>
<td>49218.65</td>
<td>6879.48</td>
<td>1823.02</td>
<td>1245.81</td>
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<td>2002-03</td>
<td>20202.99</td>
<td>34302.42</td>
<td>5359.89</td>
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<td>719.31</td>
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<td>17230.17</td>
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<td>4635.08</td>
<td>2307.82</td>
<td>527.75</td>
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<td>15024.95</td>
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<td>4790.01</td>
<td>1781.41</td>
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<td>2005-06</td>
<td>13678.18</td>
<td>38521.91</td>
<td>47530.20</td>
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<td>2006-07</td>
<td>12924.28</td>
<td>51256.02</td>
<td>42404.37</td>
<td>2815.39</td>
<td>5195.60</td>
</tr>
<tr>
<td>2007-08</td>
<td>10222.99</td>
<td>65648.43</td>
<td>38612.55</td>
<td>4594.92</td>
<td>5624.04</td>
</tr>
<tr>
<td>2008-09</td>
<td>9671.27</td>
<td>67323.68</td>
<td>44417.03</td>
<td>9163.63</td>
<td>10185.47</td>
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<tr>
<td>2009-10</td>
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<td>47709.47</td>
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<td>17169.55</td>
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<td>2012-13</td>
<td>14369.73</td>
<td>145341.49</td>
<td>65808.87</td>
<td>33006.59</td>
<td>43951.09</td>
</tr>
</tbody>
</table>

Source: Compiled from Annual Reports of Different Development Banks for different years

In Table No. 3 Borrowed capital or borrowings of the selected Development Banks has been shown. The borrowings of major Development Banks have increased in the past. It can be ascertained from this table there are more borrowings as compared to equity share capital and the banks have been borrowing from the Reserve Bank, Government, different banks in India, international institutions and consortium, foreign banks, non banking financial companies, other agencies and institutions etc, to finance growth objectives. Since borrowings are more it is imperative that capital structure has to be selected after judicious assessment of cost of capital before taking loans from
different sources. Borrowed capital induces liquidity but poses the problem of asset liability mismatches, especially at the time of redemption of borrowed funds.

**Table – 4**

**COMPARATIVE POSITION OF CUSTOMER DEPOSITS OF SELECTED DEVELOPMENT BANKS**

<table>
<thead>
<tr>
<th>Year</th>
<th>IFCI Ltd</th>
<th>ICICI Bank</th>
<th>IDBI Bank</th>
<th>HDFC Bank</th>
<th>Axis Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001-02</td>
<td>Nil</td>
<td>32085.11</td>
<td>3383.43</td>
<td>17653.81</td>
<td>12287.21</td>
</tr>
<tr>
<td>2002-03</td>
<td>Nil</td>
<td>48169.30</td>
<td>4329.90</td>
<td>22376.07</td>
<td>16964.72</td>
</tr>
<tr>
<td>2003-04</td>
<td>Nil</td>
<td>68108.58</td>
<td>3864.29</td>
<td>30408.86</td>
<td>20953.90</td>
</tr>
<tr>
<td>2004-05</td>
<td>Nil</td>
<td>99818.7</td>
<td>15102.63</td>
<td>36354.25</td>
<td>31712.00</td>
</tr>
<tr>
<td>2005-06</td>
<td>Nil</td>
<td>165083.17</td>
<td>26000.91</td>
<td>55796.82</td>
<td>40113.53</td>
</tr>
<tr>
<td>2006-07</td>
<td>Nil</td>
<td>230510.18</td>
<td>43354.04</td>
<td>68297.94</td>
<td>58785.60</td>
</tr>
<tr>
<td>2007-08</td>
<td>Nil</td>
<td>244431.05</td>
<td>72997.98</td>
<td>100768.59</td>
<td>87626.22</td>
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<tr>
<td>2008-09</td>
<td>Nil</td>
<td>218347.82</td>
<td>112401.01</td>
<td>142811.58</td>
<td>117374.10</td>
</tr>
<tr>
<td>2009-10</td>
<td>Nil</td>
<td>202016.59</td>
<td>167667.07</td>
<td>167404.43</td>
<td>141300.21</td>
</tr>
<tr>
<td>2010-11</td>
<td>Nil</td>
<td>225602.10</td>
<td>180485.78</td>
<td>208586.40</td>
<td>189237.80</td>
</tr>
<tr>
<td>2011-12</td>
<td>Nil</td>
<td>255499.95</td>
<td>210492.56</td>
<td>246706.44</td>
<td>220104.30</td>
</tr>
<tr>
<td>2012-13</td>
<td>Nil</td>
<td>292613.62</td>
<td>227116.47</td>
<td>296246.98</td>
<td>252613.58</td>
</tr>
</tbody>
</table>

Source: Compiled from Annual Reports of Different Development Banks for different years.

**NOTE: IFCI Limited does not invite customer deposits. Therefore it is Nil for all years**

Customer deposits have been shown in Table No. 4 and it can be witnessed from this table that all the selected Development Banks have huge deposits.
except in case of IFCI Limited as it does not invite customer deposits. The customer deposits of major banks have increased in the past and ICICI Bank has highest customer deposits as customers have reposed confidence with it and it is second largest bank of Indian sub-continent. The increase in customer deposits are good for liquidity but it should be seen that there should be composition of more quantum of current accounts as compared to savings bank as well as deposit accounts as liability of payment of interest does not encounter with the exchequer of the banking business in case of current accounts while there is huge liability of interests in deposit accounts.

Table – 5

POSITION OF NET PROFIT FOR DIFFERENT DEVELOPMENT BANKS
FOR DIFFERENT TIME HORIZONS

<table>
<thead>
<tr>
<th>Years</th>
<th>IFCI Limited</th>
<th>ICICI Bank</th>
<th>IDBI Bank</th>
<th>HDFC Bank</th>
<th>Axis Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001-02</td>
<td>(—)884.70</td>
<td>258.29</td>
<td>424.30</td>
<td>297.04</td>
<td>134.14</td>
</tr>
<tr>
<td>2002-03</td>
<td>(—)259.69</td>
<td>1206.17</td>
<td>401.40</td>
<td>387.60</td>
<td>192.18</td>
</tr>
<tr>
<td>2003-04</td>
<td>(—)322.97</td>
<td>1637.10</td>
<td>465.00</td>
<td>509.50</td>
<td>278.31</td>
</tr>
<tr>
<td>2004-05</td>
<td>(—)443.40</td>
<td>1810.00</td>
<td>307.25</td>
<td>665.56</td>
<td>326.17</td>
</tr>
<tr>
<td>2005-06</td>
<td>(—)266.21</td>
<td>2540.00</td>
<td>560.88</td>
<td>870.78</td>
<td>468.78</td>
</tr>
<tr>
<td>2006-07</td>
<td>873.71</td>
<td>3110.00</td>
<td>630.30</td>
<td>1141.45</td>
<td>661.94</td>
</tr>
<tr>
<td>2007-08</td>
<td>1020.57</td>
<td>4158.00</td>
<td>729.45</td>
<td>1590.18</td>
<td>1086.27</td>
</tr>
<tr>
<td>2008-09</td>
<td>657.19</td>
<td>3758.00</td>
<td>858.53</td>
<td>2244.93</td>
<td>1823.56</td>
</tr>
<tr>
<td>2009-10</td>
<td>670.94</td>
<td>4025.00</td>
<td>1031.13</td>
<td>2948.70</td>
<td>2518.40</td>
</tr>
<tr>
<td>2010-11</td>
<td>706.25</td>
<td>5151.37</td>
<td>1650.31</td>
<td>3926.40</td>
<td>3388.49</td>
</tr>
<tr>
<td>2011-12</td>
<td>663.62</td>
<td>6465.25</td>
<td>2031.61</td>
<td>5167.09</td>
<td>4242.20</td>
</tr>
<tr>
<td>2012-13</td>
<td>450.87</td>
<td>8325.47</td>
<td>1882.08</td>
<td>6726.28</td>
<td>5179.43</td>
</tr>
</tbody>
</table>

Source: Compiled from data obtained from Annual Reports of selected Development Banks for different years.
Net Profit has been analyzed in Table No. 5. It can be ascertained from this table that selected Development Banks have better profitability than before. ICICI Bank has highest net profit in the present regime of 2011-12. The net profit can be increased further by cost management perspectives and managing different types of costs such as interest expenses, employee expenses, operational expenses etc. It can further be improved by expanding in rural, semi urban and urban segments of society besides expanding in international markets. Chronologically Net profit of the selected banks can be arranged in the following sequence: ICICI Bank with highest profits, followed by HDFC Bank, Axis Bank, IDBI Bank, and lastly IFCI limited.

Table 6

POSITION OF NET PROFIT TO REVENUE FROM OPERATIONS FOR SELECTED DEVELOPMENT BANKS

(%)  

<table>
<thead>
<tr>
<th>Year</th>
<th>IFCI Limited</th>
<th>ICICI Bank</th>
<th>IDBI Bank</th>
<th>HDFC Bank</th>
<th>Axis Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001-02</td>
<td>(—)39.34%</td>
<td>9.47%</td>
<td>5.91%</td>
<td>14.58%</td>
<td>8.40%</td>
</tr>
<tr>
<td>2002-03</td>
<td>(—)18.05%</td>
<td>9.62%</td>
<td>6.30%</td>
<td>15.52%</td>
<td>10.24%</td>
</tr>
<tr>
<td>2003-04</td>
<td>(—)29.14%</td>
<td>13.68%</td>
<td>5.65%</td>
<td>16.82%</td>
<td>13.01%</td>
</tr>
<tr>
<td>2004-05</td>
<td>(—)48.32%</td>
<td>15.63%</td>
<td>9.35%</td>
<td>17.77%</td>
<td>14.29%</td>
</tr>
<tr>
<td>2005-06</td>
<td>(—)16.17%</td>
<td>13.73%</td>
<td>8.42%</td>
<td>15.55%</td>
<td>13.40%</td>
</tr>
<tr>
<td>2006-07</td>
<td>43.91%</td>
<td>10.75%</td>
<td>8.54%</td>
<td>13.58%</td>
<td>11.83%</td>
</tr>
<tr>
<td>2007-08</td>
<td>51.99%</td>
<td>10.49%</td>
<td>7.58%</td>
<td>12.82%</td>
<td>12.16%</td>
</tr>
<tr>
<td>2008-09</td>
<td>46.86%</td>
<td>9.71%</td>
<td>6.59%</td>
<td>11.44%</td>
<td>13.21%</td>
</tr>
<tr>
<td>2009-10</td>
<td>40.49%</td>
<td>12.12%</td>
<td>5.87%</td>
<td>14.75%</td>
<td>16.13%</td>
</tr>
<tr>
<td>2010-11</td>
<td>28.40%</td>
<td>15.79%</td>
<td>7.97%</td>
<td>16.18%</td>
<td>17.12%</td>
</tr>
<tr>
<td>2011-12</td>
<td>23.28%</td>
<td>15.75%</td>
<td>7.97%</td>
<td>15.88%</td>
<td>15.47%</td>
</tr>
<tr>
<td>2012-13</td>
<td>16.34%</td>
<td>17.19%</td>
<td>6.65%</td>
<td>16.46%</td>
<td>15.35%</td>
</tr>
</tbody>
</table>

**Source**: Calculated on the basis of financial data obtained from Annual Reports of selected Development Banks for different years.
Net Profit to Revenue from Operation has been calculated in table number- 6 it is evident that major development banks have satisfactory net profit to revenue from operations. This ratio shows the operational efficiency of banks. The banks have satisfactory ratio because of prudent management of operations in the past but still profitability can be increased by cost minimization perspectives and cost on establishment, interest, operations, employees, rent, buildings, taxes, consultancy, legal charges, expenditure, postage, telephones, hiring of employees, insurance of substandard assets etc. can be controlled to improve this ratio. Profitability of the business depends on judicious utilization of capital structure of the banks. The excess capital can be invested in diversified portfolio of investments.

**Suggestions for Development Banks to improve profitability through capital structure planning:**

1. All the Development Banks have increased interest expenses because of more interests on borrowings thus cost of capital has to be adjudged judiciously before taking huge loans from any other entity.

2. Huge loan from Reserve Bank of India is not advisable as RBI imposes penalty on non compliance and banks have to manage a cash reserve also with Reserve Bank of India.

3. Loans from international institutions and consortiums should be taken after assessing country and sovereign risk exposures and loans should be taken from cheaper and reliable sources only.

4. Loans from banks, other agencies and NBFCs should be taken when they are not much costly.

5. An emphasis should be given to increase reserves and more efforts should be channelized to build revenue reserves, statutory reserves, share translation reserves, special reserves, amalgamation reserves in case of amalgamation of the business entity, this will improve their financial status and viability.

6. The short term liability on borrowings can be cleared so as to improve liquidity and profitability.

7. Maximum payment time float can be utilized in case of contingent liabilities and other borrowings while exercising accounts payable management so that
borrowed funds can be utilized to the maximum time periods without payment of penalty or interest.

8. Increased customer deposits infuse liquidity in the business but it should be remembered that more quantum of fixed deposits accounts has huge liability of payment of interest. Thus current accounts are better so far as liquidity management is concerned as they do not have liability of interest payment.

9. Long term bonds and debentures can be utilized to finance growth and expansion of the banking business. The bonds and debentures can be floated when interest rates are relatively low.

10. Equity capital can be useful for long term growth and expansion but use of excessive equity is not justified as this may erode intrinsic value of the equity during volatile market situation. Thus equity should be preferred when there are chances that economy will be in the boom in future. Excessive equity participation snatches voting rights from board of directors as voting powers are shifted to public.

11. Capital intensive banks can go for debt financing as they can easily repay back the debt funds.

12. Loan should be taken after ascertaining cost of capital and it should be taken from comparatively cheap and reliable sources only.

13. Excessive debt financing is not good for any business entity as this erodes solvency status of the business and increases interest expenses and this erodes profitability in turn.

14. The built capital structure should be used for meeting operational expenses, interest expenses, and employee expenses most judiciously and excessive funds can be deployed in growth investment avenues to increase profitability as also to meet strategic objectives.

CONCLUSION

It can be concluded that judicious capital structure plans can improve overall profitability of the banks. The debt and equity mix should be selected judiciously
as this has direct relationship with solvency of the business. Excessive debt financing is not good for any banking business entity as this erodes solvency status. The short term liability on borrowings can be cleared to improve the overall liquidity and profitability in long run after utilization of payment time float. Loan should be taken after ascertaining cost of capital. Use of excessive equity is not justified as this may erode intrinsic value of the equity during volatile market situation. Huge loan from Reserve Bank of India is not advisable as RBI imposes penalty on non compliance. Loans from international institutions and consortiums should be taken after assessing cost of capital and risk exposure.

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Carbon Trading and Carbon Credits: Environmental Protection or Lip-Service- A Critical Review

By

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ABSTRACT

Companies around the world are taking a closer look at their contributions to climate change, with an increasing number voluntarily reducing their “carbon footprints” by purchasing carbon credits. In a practice known as carbon trading or offsetting, businesses pay to outsource emissions reductions when it is more cost-effective or technologically feasible than doing so in-house. The market for these voluntary offsets, fueled by corporate commitments to become “carbon neutral,” is growing rapidly. This article takes a close look at carbon trading and its mechanism and whether it is really advantageous to the environment.

Key words: - Carbon trading, GHG, Offsetting, Credits/ Offsets

INTRODUCTION

Carbon trading is currently the central pillar of the Kyoto Protocol and other international agreements aimed at slowing climate change. Carbon trading is an approach used to control carbon dioxide (CO2) pollution by providing economic incentives for achieving emissions reductions. It is sometimes called cap and trade or carbon emissions trading. Carbon trading is administered by a central authority such as a government or international organization which sets a limit or cap on the amount of CO2 that can be emitted. Companies or other groups are issued permits that require them to hold allowances (or credits) in order to emit an equivalent amount of CO2. The total amount of allowances and credits cannot exceed the cap, limiting total emissions to that level.
Companies that need to increase their allowance must buy credits from those who pollute less. The transfer of allowances is referred to as a trade. The buyer therefore pays to pollute, while the seller is financially rewarded for reducing CO2 emissions. In theory, those that can easily reduce emissions most cheaply will do so.

**DEFINITION OF CARBON TRADING**

Carbon Trading is a scheme where firms (or countries) buy and sell carbon permits as part of a program to reduce carbon emissions. Usually firms are given a certain quote to pollute a certain amount. If they wish to pollute more than their allowance then they have to buy more permits. If they pollute less than their quota they can sell their spare permits on the market. Thus there is an incentive to reduce pollution and find the most efficient way of dealing with pollution. Over time governments can reduce pollution quotas to encourage greater efficiency. An exchange of credits between nations designed to reduce emissions of carbon dioxide. The carbon trade allows countries that have higher carbon emissions to purchase the right to release more carbon dioxide into the atmosphere from countries that have lower carbon emissions. The carbon trade originated with the 1997 Kyoto Protocol and is intended to reduce overall carbon dioxide emissions to 5% below 1990 levels between 2008 and 2012. Carbon trading is currently the central pillar of the Kyoto Protocol and other international agreements aimed at slowing climate change. Carbon trading has both proponents and critics but is increasingly coming in for criticism, not least because CO2 emissions in industrialized countries have continued to rise rather than drastically drop as a result of energy infrastructure changes.

Examples of Carbon Trading

An early example of an emission trading system has been the SO2 trading system under the framework of the Acid Rain Program of the 1990 Clean Air Act in the U.S. Under the program, which is essentially a cap-and-trade emissions trading system, SO2 emissions were reduced by 50% from 1980 levels by 2007

The European Union Emission Trading Scheme (or EU ETS) is the largest multi-national, greenhouse gas emissions trading scheme in the world. It is one of the EU’s central policy instruments to meet their cap set in the Kyoto Protocol (Jones et al., 2007, p. 64)
CONCEPT OF CARBON CREDIT

A carbon credit is a generic term for any tradable certificate or permit representing the right to emit one tonne of carbon dioxide or the mass of another greenhouse gas with a carbon dioxide equivalent (tCO$_2$e) equivalent to one tonne of carbon dioxide. Carbon credits and carbon markets are a component of national and international attempts to mitigate the growth in concentrations of greenhouse gases (GHGs). Carbon credits are assets defined by a variety of voluntary specifications, as well as by national and international regulations. The carbon market comprises all carbon credits, and there are a variety of accounting registries that track the GHG assets. Trading occurs on several exchange platforms, including Chicago Climate Exchange and NYMEX Green Exchange.

One carbon credit usually represents the reduction of one metric ton of carbon dioxide or its equivalent in other greenhouse gases such as methane and nitrous oxide. Methane and nitrous oxide have approximately 21 times and 310 times, respectively, the heat-trapping capacity of carbon dioxide. Reducing methane by one ton is equivalent to reducing carbon dioxide by 21 tons. Carbon trading is an application of an emissions trading approach. Greenhouse gas emissions are capped and then markets are used to allocate the emissions among the group of regulated sources. The goal is to allow market mechanisms to drive industrial and commercial processes in the direction of low emissions or less carbon intensive approaches than those used when there is no cost to emitting carbon dioxide and other GHGs into the atmosphere.

Since GHG mitigation projects generate credits, this approach can be used to finance carbon reduction schemes between trading partners and around the world. There are also many companies that sell carbon credits to commercial and individual customers who are interested in lowering their carbon footprint on a voluntary basis. These carbon off-setters purchase the credits from an investment fund or a carbon development company that has aggregated the credits from individual projects. Buyers and sellers can also use an exchange platform to trade, such as the Carbon Trade Exchange, which is like a stock exchange for carbon credits. The quality of the credits is based in part on the validation process and sophistication of the fund or development company that acted as the sponsor to the carbon project. This is reflected in their price; voluntary units typically have less value than the units sold through the rigorously validated Clean Development
Mechanism.

Carbon Credits or offsets — which are creating the most complex commodity market in history — should not be ignored. With significant, sustained growth forecasted, innovative new financial instruments are driving “environmental finance” to become a strategic competitive dimension. Around the world, increasingly diverse companies are finding that offsetting emissions is an important component of a broader investment portfolio in capital, information, relationships and options to address the pressures associated with climate change.

HISTORY

The two types of markets for carbon credits are (1) compliance and (2) voluntary. Compliance markets have set a “cap and trade” system whereby the total annual emissions for an industry or country are capped by law or agreement, and carbon credits can be traded between businesses or sold in trading markets. Those producers who exceed their emission reductions can trade their credits to others in the marketplace who have not reached their emission goals. Voluntary markets exist for businesses or individuals to lower their “carbon footprint” by voluntarily purchasing carbon credits from an investment fund or company that has aggregated credits from individual projects that reduce emissions. The compliance markets are mainly a result of the Kyoto Protocol, a cap and trade system that resulted from the international Framework Convention on Climate Change.

The protocol was adopted at the 3rd Conference of the Parties in Kyoto, Japan, on December 11, 1997. The treaty required ratification by no less than 55 countries and enough industrialized countries to represent at least 55 percent of the total carbon dioxide emissions. Fifty-five countries agreed by May 23, 2002, but the 55 percent requirement was not met until Russia agreed on November 18, 2004. The treaty came into force 90 days later on February 15, 2005. As of May 2008, 182 countries had ratified the protocol. Carbon trading began in response to the Kyoto Protocol, signed by 180 countries in 1997. The Kyoto Protocol, signed by 180 countries in 1997, called for 37 industrialized countries to reduce their greenhouse gas emissions between the years 2008 to 2012 to levels that are 5% lower than those of 1990.
Article 17 of the Kyoto Protocol established emissions trading by allowing countries that have emission units to spare (emissions permitted to them but unused) to sell this excess capacity to countries that are over their emissions limits. In effect, this created a new commodity in the form of emissions and created a carbon market. Since CO2 is the principal greenhouse gas, emissions trading effectively became carbon trading. The units which may be transferred under Article 17 emissions trading, each equal to one tonne of CO2-equivalent, may be in the form of:

- An assigned amount unit (AAU) issued by an Annex I Party on the basis of its assigned amount pursuant to Articles 3.7 and 3.8 of the Protocol.
- A removal unit (RMU) issued by an Annex I Party on the basis of land use, land-use change and forestry (LULUCF) activities under Articles 3.3 and 3.4 of the Kyoto Protocol.
- An emission reduction unit (ERU) generated by a joint implementation project under Article 6 of the Kyoto Protocol.
- A certified emission reduction (CER) generated from a clean development mechanism project activity under Article 12 of the Kyoto Protocol.

Transfers and acquisitions of these units are to be tracked and recorded through the registry systems under the Kyoto Protocol.

**MECHANISM**

A tradable credit can be an emissions allowance or an assigned amount unit which was originally allocated or auctioned by the national administrators of a Kyoto-compliant cap-and-trade scheme, or it can be an offset of emissions. Such offsetting and mitigating activities can occur in any developing country which has ratified the Kyoto Protocol, and has a national agreement in place to validate its carbon project through one of the UNFCCC’s approved mechanisms. Once approved, these units are termed Certified Emission Reductions, or CERs. The Protocol allows these projects to be constructed and credited in advance of the Kyoto trading period. The Kyoto Protocol provides for three mechanisms that enable countries or operators in developed countries to acquire greenhouse gas reduction credit.
• Under Joint Implementation (JI) a developed country with relatively high costs of domestic greenhouse reduction would set up a project in another developed country.

• Under the Clean Development Mechanism (CDM) a developed country can 'sponsor' a greenhouse gas reduction project in a developing country where the cost of greenhouse gas reduction project activities is usually much lower, but the atmospheric effect is globally equivalent. The developed country would be given credits for meeting its emission reduction targets, while the developing country would receive the capital investment and clean technology or beneficial change in land use.

• Under International Emissions Trading (IET) countries can trade in the international carbon credit market to cover their shortfall in Assigned amount units. Countries with surplus units can sell them to countries that are exceeding their emission targets under Annex B of the Kyoto Protocol.

These carbon projects can be created by a national government or by an operator within the country. In reality, most of the transactions are not performed by national governments directly, but by operators who have been set quotas by their country.

HOW CARBON TRADING FORMS PART OF COMPANY CSR

Corporate social responsibility (CSR also called corporate conscience, corporate citizenship, social performance, or sustainable responsible business/ Responsible Business) is a form of corporate self-regulation integrated into a business model. CSR policy functions as a built-in, self-regulating mechanism whereby a business monitors and ensures its active compliance with the spirit of the law, ethical standards, and international norms. In some models, a firm's implementation of CSR goes beyond compliance and engages in "actions that appear to further some social good, beyond the interests of the firm and that which is required by law.

CSR is a process with the aim to embrace responsibility for the company's actions and encourage a positive impact through its activities on the environment, consumers, employees, communities, stakeholders and all other members of the public sphere who may also be considered stakeholders.

The term "corporate social responsibility" became popular in the 1960s and has remained a term used indiscriminately by many to cover legal and moral responsibility more narrowly construed.
Proponents argue that corporations make more long term profits by operating with a perspective, while critics argue that CSR distracts from the economic role of businesses. McWilliams and Siegel's article (2000) published in Strategic Management Journal, cited by over 1000 academics, compared existing econometric studies of the relationship between social and financial performance. They concluded that the contradictory results of previous studies reporting positive, negative, and neutral financial impact, were due to flawed empirical analysis. McWilliams and Siegel demonstrated that when the model is properly specified; that is, when you control for investment in Research and Development, an important determinant of financial performance, CSR has a neutral impact on financial outcomes.

In his widely cited book entitled Misguided Virtue: False Notions of Corporate Social Responsibility (2001) David Henderson argued forcefully against the way in which CSR broke from traditional corporate value-setting. He questioned the "lofty" and sometimes "unrealistic expectations" in CSR.

Carbon trading has both proponents and critics but is increasingly coming in for criticism, not least because CO₂ emissions in industrialized countries have continued to rise rather than drastically drop as a result of energy infrastructure changes. Some argue that CSR is merely window-dressing, or an attempt to pre-empt the role of governments as a watchdog over powerful multinational. Political sociologists became interested in CSR in the context of theories of globalization, neo-liberalism, and late capitalism. Adopting a critical approach, sociologists emphasize CSR as a form of capitalist legitimacy and in particular point out that what has begun as a social movement against uninhibited corporate power has been co-opted by and transformed by corporations into a 'business model' and a 'risk management' device, often with questionable results [9]

CSR is titled to aid an organization's mission as well as a guide to what the company stands for and will uphold to its consumers. Development business ethics is one of the forms of applied ethics that examines ethical principles and moral or ethical problems that can arise in a business environment. ISO 26000 is the recognized international standard for CSR. Public sector organizations (the United Nations for example) adhere to the triple bottom line (TBL). It is widely accepted that CSR adheres to similar principles but with no formal act of legislation.
The mechanics of carbon trading along with responses to the most commonly cited arguments for carbon trading are described in ‘Trading Carbon. How it works and why it's controversial’. FERN’s beginners guide to carbon trading. FERN believes that carbon trading is a dangerous distraction from the important task of ending industrial use of fossil fuel and moving to a low carbon future.

Carbon Credits offsets present a paradox. On one hand, they offer a cost-effective tool to reduce net emissions, and there is indication that a progressively more carbon-constrained economy will lead to wider adoption of more regulated offset trading schemes. Offsets also provide a resource to develop business synergies by strengthening brands, enhancing supply chain competitiveness and leveraging negotiations. But as their popularity grows, so does criticism. Critics argue that offsets do little to drive the internal business process innovations and systems-level changes needed. Moreover, some say, offsets may lead to complacency or “absolve climate guilt,” in turn forestalling the necessary commitments to new behaviours, policies and business practices. Critics have likened corporate offsets to “bargaining with the devil” and putting “lipstick on a pig.”
ADVANTAGES AND DISADVANTAGES

Advantages of CARBON TRADING:

- Reduction in green house gas emission
- Stringency in the cap or the upper threshold limit is contributing to lower emission over the years
- Source of revenue for developing nations
- Developing nations can earn revenue by selling carbon credits to countries with more fossil fuel demand.
- Supports a free market system
- The carbon trade market is without any economic intervention and regulation by government except to regulate against force or fraud
- Impetus for Alternative sources of energy or green technology
- Threshold limits encourages industries to harness alternative sources of energy and invest in green technology globally or in indigenous research

Disadvantages of CARBON TRADING:

- Right to pollute
- Industries in the ratified nations are purchasing legal rights to pollute the atmosphere
- Slow process
- Industries are opting the easy way— purchase more allowances than implementing greener technologies
- Lack of centralized system or global framework
- Absence of a centralized and accepted global standards/act are missing
- No effective carbon reduction in the atmosphere
- Leads to carbon reduction in one place and results in carbon emission in some

CONCLUSION

The carbon credit business is a rapidly changing business, and people should be aware that market rates, protocols, and registration programs can change quickly. There are many companies involved in carbon credit trading. Carbon Trading brings forth financial
incentives to reduce carbon dioxide emission and implement eco-friendly/green technologies. Stringent assignment of the caps or the upper threshold limits over the years can ameliorate the green house gas emission problem. The alternative/renewable sources of energy like wind, solar and hydro are supposed to get financial boost to substitute fossil fuels. Absence of a standard measuring technique in carbon sequestration or storage questions the feasibility of Carbon Offsetting techniques. Presently, the market is primarily driven by financial interest or gains by the investment farms as opposed to seeking environmental remedy.

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CASE STUDY

On

Event Management at Indian Institute of Entrepreneurship Development

By

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Learning objective: After reading the case the readers will be able to appreciate the concepts of

- Systematic planning
- Resource Management
- Contingency planning
- Event Management

IIED is continuously growing and is striving on the ladders of success with its bright students, energetic faculty members and hard working staff under the guidance of their dynamic leader Prof. Agrawal - a great visionary who believes in imparting outcome based learning to students for which he encourages his colleagues to give reward earning performance. In pursuit of carrying out future programmes and activities in the aforementioned direction the Director called all HOD members and asked them to take endeavours which besides imparting youth-employability skills amongst students, serves the platform for attracting potential students and participants to the organisation.
Prof. Gupta- HOD Dept of management in consultation with his faculty members was looking forward to various programmes proposed by his management experts and one of the workshops "Mantras of Entrepreneurship" got unanimous approval to be conducted in the forthcoming academic calendar.

On 3rd June 2013, Prof. Alok Deshpande received a call from Mr. Mehta, Member of American Consulate, who told him about his Pecha-Kucha style of presentation that he had done in Mumbai Last year. Out of curiosity Prof. Deshpande asked him to give details about the presentation programme and the concerned organisation, that he had mentioned about. It came out to be a faculty exchange programme of International Consulate that Mr. John had proudly talked about. In this programme rare professionals get opportunity to imbibe state-of-art learning under the guidance of experts from developed Nations in the relevant area.

This Consulate also conducts seminars and workshops for nurturing start up business proposals encouraging venture capitalists and young entrepreneur for fostering Entrepreneurship skills amongst young minds. AD thought of conducting the same workshop in his organisation for benefiting existing students as well as potential ones of his organisation so that habit of entrepreneurship could be inculcated into newer generation.

**PRELIMENARY PREPERATIONS**

Prof. Deshpande took an oral approval from Head of the Organisation and prepared a detailed programme proposal mentioning the purpose for financial requirement, Inter Department Resource requirement (Media, Computer Engineering & Application, Vocational and Entrepreneur), tentative due date and quantifying the number of attendees and type of target audience. [See in Exhibit 1]

The proposal got approval in 18th Academic Council and preparation for the same started right afterwards. AD called up a common meeting for all the Department members’ right from facilities to students discussing the challenges and issues for the preliminary preparation. He invited voluntary in-take of responsibility from his colleagues namely Prof. Gupta, Prof. Dubey, Prof. Padhan, Laxmi, Narayan & also from Students particularly Swapnamukta and Shobhanjali. At the same time, Prof. Deshpande contacted
heads of different departments and requested them to take their respective roles in the preparation of aforesaid workshop. See in [Exhibit 2]

The Meetings concluded with formulation of several teams each knowing their tasks, assigned responsibilities and deadlines. Students served as carriers of Inter team communication channels facilitating smooth flow of communication across the teams apart from enthusiastically participating in most of the designing -drafting activities. They regularly updated Prof. Deshpande about the developments that had taken place.

Laxmi, students and other colleagues struggled together for designing registration forms, brochures and Posters for the advertisement of the event. Here is a glimpse of their conversation showing their anxiety for meeting the deadlines.

Students: Madam, What are you searching for?
Is that the template style for our registration page?

Laxmi: No, I am preparing the list of Colleges and their Training and placements’ officers email-id’s, who are to be invited.

Students: Madam, You haven’t completed this yet and only one month is left, No problem, we have found a very good theme and template style for the same.

Laxmi: That’s very good. Give it to students and ask them to use it in such a way that entire content fits into that.

Narayan: What Content?

Laxmi: Yes, Prof. Deshpande has already given themes and topics to be included particularly Student Name, College Email-id’s and Graduation Course.

Students: Yes, Madam Prof. Deshpande Sir has already told us about that.

Laxmi: Ok, then, Do you have any doubts, or else, please finish off this work before 6 in the evening.

Prof. Deshpande arrives..
Prof. Deshpande: Laxmi- Have you prepared Lunch Box coupons. What would be the coupon format and how we will be distributing that?

Laxmi: I am just going to make it Sir.

Prof. Deshpande: Fine, Come with a rough draft of the same on tomorrow.

On 1st November, All the Cover letters, Registration Forms, Posters were ready. Only their re-arrangement and re-organisation for advertisement brochures was left. By 5th November, Invitation brochures comprising of Cover letter, Registration page were ready to get dispatched. Prof. Deshpande along with HOD Department of Management and other colleagues finished the task of booking auditorium, stocking the items mentioned in workshop checklist and placing order for lunch boxes. Laxmi prepared Lunch box Coupons for participants taking reference of their Registration ID. These IDs were actually the Coupon Numbers.

Prof. Pradhan and Prof. Deshpande together decided and drafted the content for Calling Business Plan ideas from participating students. The call for Business Plan was sent in addition to invitation letters to a large group of 100 colleges through emails, hand-brochures, pamphlets distribution and other Social –Networking Modes. Meanwhile Prof. Deshpande prepared the programme itinerary and conveyed & conformed it from invited experts of International US-Constellate. All of them agreed for sharing their experience and knowledge work in Pecha-Kucha presentation style for a half-day programme scheduled for 5 hours. All this could be managed owing to availability of surplus Resources within the institute and it helped in curtailing financial expenses.

[Pecha kucha format Exhibit-3]

Sunil was made in charge of outdoor arrangement like Arrow Indicators, Directed the Organising Committee in decorating and designing the venue. He prepared path way indicators to direct arriving participants reach venue easily. Arrangements were made for group discussion for experts and students in the backyard, besides making exotic standees for individual experts. He was also in charge of receiving media personnel’s and arranging for their hospitality.
On the D-Day

The experts sent by International – Consulate arrived Bhopal by the morning flight and arrangements for their stay were made in US based Marriot Group of hotels, one of the most luxuries hotels of Bhopal.

The Conference got a wonderful response by Bhopal city students of bhopal and locally based event rating agencies, more than 250 young minds attended the workshop entitled “Get up-Start Up- Mantras of Entrepreneurship”. By 9 am participants started arriving and by 10:30 am , 200 seats of Rajiv Gandhi Auditorium, located in IIED campus got occupied with students and faculties belonging to technical and management disciplines from various bhopal based technical institutions. The arrival of experts to the venue marked the beginning of workshop. They were given warm welcome by Department of Management; they were addressed and introduced to participants by IIED representatives.

Ms. Shinde was requested for anchoring the event to which she happily extended her agreement. The programme went on in perfect coordination with the planned schedule where the experts imparted knowledge through discussions and friendly interactions on techno-business aspects. Both Consulate and IIED had their representative in charge of the speaker-tracking process to record the issues discussed, debated and utility offered to participants through Questions & Answers sessions.

Prof. Deshpande suddenly showed signs of worry on his face as he continuously kept switching in between mobile talks with John the Secretary organiser. Ms. Diana in charge of Visa department who was expected to reach venue by 11:45 could not make it here. It was 11:15 and nobody has information about her. Then Prof. Deshpande along with John took help of the airport authority and Marriot Managers along with GPS tracking experts for tracing her location through taxi drivers’ mobile number.

Our nerves eased by her appearance at the auditorium at 12 noon and revealed how ambiguity on the name of venue misdirected her to similar name location 25 km far off from actual venue . Later with the help of local residents and other Government Officials she reached the venue at IIED campus. In the due coursed of time, Prof. Deshpande
delayed the hi-Tea session and replaced Diana’s interaction with Q&A and interactive video session of the experts.

Student council headed by Swapnamukta, Shobhanjali (MBA Scholars) of the organisation was made in charge of inviting business calls and presentation from participant students of 200 colleges. Being niche organisers of this kind of activity they extended the submission deadlines for the same up till 21\textsuperscript{st} Nov 2013. A Business Proposal on lines of Social-cum –Rural Entrepreneurship was made by IIED MBA Scholars which received heavy appreciation from the Expert panel. The members of consulate were requested to entertain and give their suggestions on five of selected Students’ business plans ranging from topics of Social Entrepreneurship, e-business application to Small business management ideas.

With a minute shuffling of event in schedule the programme went off smoothly and concluded with promising feedback on both sides of experts and participants. Owing to austerity measures introduced by Govt. in all the Public sector Undertakings the invited experts could not be reciprocated with Mementos, instead the administration thought of gesturing their humble presence by awarding them Certificates “AS EXPERTS” in the consulate International Knowledge –Exchange Programme held at Bhopal –November 2013. The event came to end by Vote of thanks given by Prof. Gupta Head of Department Management.

Prof. Rai from Department of media was given responsibility of media briefing Bites for the event being hosted were communicated to media personnel by Prof. Deshpande as part of pre-conference press release. In the meanwhile, Laxmi and Narayan speedily rushed through the process of details of participants so that the certificate distribution would be possible as soon as the workshop got over. Crediting to on spot registration facility by Narayan and Laxmi, the lunch box coupons viz-a-viz lunch boxes got effectively distributed amongst the participants.

**FEEDBACK**

After this, Verbal Summative and formative feedback was obtained where experts opined happy to have lively discussion with students and faculties. They also entertained five Business Proposals and showed their interest as venture capitalists in three of
Entrepreneurship ideas. Participants when queried for feedback talked about a number of valuables insights they obtained about starting a new project and how to carry it in future.

**Questions**

1. Does this case exemplifies the principles of management?
2. How would you rate this particular event on the concept of sequential planning?
3. Conceptually analyse the cost-effectiveness of the event.
4. Can you appreciate the concept of Contingency planning versus Systematic planning in reference to case.
5. According to you what future report on the workshop would have been prepared.
6. Can you identify similar events that contribute to the vision of Entrepreneurship Development conducted across different organisations.

**Exhibit 1**

| Department of Management | • Check list  
|                         | • Workshop packs Contents.  
| Department of Electronic Media | • Designing Certificates for Experts and Participants  
|                         | • Video and Audio Recording and Photographs  
|                         | • Computer system ready for Presentation, Mike, Chairs and whole Auditorium arrangements  
|                         | • Pre Conference and Post Conference Press Release.  
| Department of Computer Engineering & Application | • Online Registration facility  
|                         | • Uploading Brochures  

**Exhibit 2**

| Laxmi and MBA Students of Institute | • Designing of Registration form, Cover Letter, Brochures, Posters, and Flyers.  
|                                       | • Make List of Invitees, Send Invitation letter to invitees by Email,  
|                                       | • Check mentioned Email-id in contact  

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### Exhibit 3

| Pecha Kucha (Japanese word) | It is a **presentation** style in which 20 slides are shown for 20 seconds each (six minutes and 40 seconds in total). The format, which keeps presentations concise and fast-paced, powers multiple-speaker events. |

<table>
<thead>
<tr>
<th>RP</th>
<th>Prepared format and Content for inviting Business Plan page, Brochures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Narayan</td>
<td>Write names and distribute certificate to participants.</td>
</tr>
<tr>
<td>SM</td>
<td>Send invitation Letter to Invitees by hand, Arrange Standees, Banners, In charge of Outdoor arrangement and, Inform to Guards, Dispensary, etc.</td>
</tr>
</tbody>
</table>
Activity Flowchart

Conception of Idea at organisation level faculty level meeting.

Communication with Consulate and gathering information about Knowledge Exchange Programme.

Preparing plan creation of Teams Assigning of roles and task to each.

Dept. of Computer Engineering & Application

Dept. of Electronic Media

Dept. of Management

Providing Online facility for Registration

Designing Certificates, Multimedia Recording, Venue Management

Laxmi & Students

Prof. Deshpande

Prof. Pradhan

Program Itinerary, Call for Business Plan

Mr. Sunil

Outdoor Arrangement

Implementation of plan where for successfully conducting workshop

Feedback

Post-Workshop Reports


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Rural Marketing: Challenges and Prospects

By

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ABSTRACT

Almost 70% of the Indian population lives in villages and rural areas. Rural India consumes almost 60% of the total goods manufactured in India with majority of the products coming from FMCG sector. This is reason enough for firms from various sectors like FMCG, telecom, electronics etc. to come up with new marketing strategies aimed to capture the rural market.

Rural India is now being seen as a major hub for investment by India. In rural India marketing of a product mainly happens by the word of the mouth and by peer experiences of use of the product, due to the comparative less use of television and almost no access to internet. Research has also proved that rural consumers do not change their products frequently if they are satisfied with the product. Brand loyalty is high. Therefore the primary aim of any firm should be to position their brand in the mind of the rural population well, during the launching phase which will enable them to have a permanent and long lasting presence in the market. They should try to associate a good-will with their brand. The main aim of the paper is to observe the challenges and opportunities in rural market.

Key words: Rural Marketing, Marketing Strategies, Brand, Consumers

INTRODUCTION

Rural India accounts for around 50 per cent of India’s gross domestic product (GDP) and houses nearly 70 per cent of the country’s population. The market is a unique mix of burgeoning incomes and growing aspirations of around 850 million consumers who inhabit about 650,000 villages in the country. Some of India’s biggest companies generate
one-third of their consumers or business from the hinterlands. Hindustan Unilever (HUL) generates about 40 per cent of its total business from these rural markets which also accounts for 30 per cent of Coca-Cola and Maruti’s turnover. Of Airtel's 8.6 million DTH customers, about a third comes from rural regions in the country.

Consumption habits of people in rural regions are progressively mirroring those in urban areas. Due to this changing trend and the massive market, the hinterlands offer tremendous investment opportunity for private players. Rural India housed 75 per cent of all new factories built in the country in the last decade. Also, factories in these areas account for around 70 per cent of new manufacturing jobs.

**Market Size**

Rural India is now being seen as a major hub for investment by India Inc. In the period 2009–12, spending in rural India reached US$ 69 billion. The per capita gross domestic product (GDP) has grown at a compound annual growth rate (CAGR) of 6.2 per cent since 2000, in the country’s rural areas.

Rural consumption per person is said to have risen by 19 per cent yearly in the period 2009–12, which includes some impulse-driven categories.

At the end of 2013, mobile penetration in rural India was 41 per cent, while handset penetration was a little over 30 per cent. According to industry estimates, there are more than 250 million handsets in rural regions of the country, of which nearly 30 million users access the Internet on mobile phones.

The following are some of the major investments and developments in the Indian rural sector:

Honda Motorcycle and Scooters (HMSI) is establishing a ‘rural vertical’ in an effort to compete with market leader Hero MotoCorp which has an extensive rural distribution network. Honda plans to improve its 100cc bike segment and bring about a new entry point for HMSI in the country.

The company will build its distribution network through the addition of 1,000 sales points within a year, of which 70 per cent will come from rural markets. Canara Bank has extended its support to Biocon Foundation and Orissa Trust of Technical Education and Training (OTTET) for a public–private partnership (PPP) with the Odisha government, for an e-healthcare programme aimed at the betterment of rural regions in the state. Under this partnership, Biocon Foundation and OTTET will establish an electronic diagnostic facility, an e-Health centre managed by local entrepreneurs, at all Primary Health Centres.
(PHCs) in Odisha. Canara Bank will provide financial assistance for the entrepreneurs while Biocon Foundation and OTTET will provide the necessary training.

Bajaj Electricals Ltd plans to set up an integrated research and development (R&D) centre that will help the company create cutting-edge technology and drive innovation across its three business verticals. The company is seeking to increase its focus on non-urban regions, and plans to make appliances aimed specifically at the needs of the rural market, such as irons and mixers. The Tata Group has asked its companies to cooperate with each other in a bid to serve the country’s rural regions in a more effective manner. This ‘routes-to-market’ strategy is the first of other major initiatives being tried out by the company. The plan is still nascent but it is believed that Tata Strategic Management Group, the Group’s in-house management consulting arm, is working with the companies and will likely launch a pilot project shortly.

State Bank of India (SBI) has announced a one-year fellowship programme for rural areas named ‘SBI Youth for India (SBI YFI)’ for 2014, which aims to draft and encourage India’s youth to become change agents in the rural regions. The fellowship programme targets young professionals and graduates, who are passionate about leading the change for a better country.

With the rising demand for skilled labour among Indian industries, the Indian government plans to train 500 million people by 2022, and is seeking participation of entrepreneurs and private players in the space. The Centre is constantly taking steps towards improving rural education, with rural India, too, embracing online learning in a big way. Several corporate, government, and educational organisations are putting in the effort to train, educate, and produce skilled workers. Job-oriented vocational courses are today offered online which equip students with specific skill sets as well as a degree.

**OBJECTIVES OF THE STUDY**

1. To understand the rural market.
2. To unleash the potential of rural market.
3. To analyze the various parameters of potential of rural market.

Consumption patterns in rural markets are undergoing a change. Brands are no longer a novelty and premium products are a regular feature. Products which have traditionally been difficult to deliver in these regions are slowly penetrating the market. Amul, for one,
has opened parlours in rural areas with their sales believed to be outstripping those from urban areas. There is also big demand for products once viewed as being exclusively urban, such as chocolates, cheese and pizzas.

Nielsen estimates that rural India’s FMCG market will touch US$ 100 billion by 2025. Online portals are expected to play a vital role for companies trying to access these markets. The Internet allows for a cost-effective means to increase a company’s reach by overcoming geographical barriers. Today, with rural India being gradually empowered with computers and smartphones, the Internet will soon gain a foothold.

The concept of Marketing is demographic; it varies from place to place targeting people from various occupations, lifestyles and stages of life and making them aware of particular goods or products which might be of substantial use in their day to day life. In the 1970s, Nirma launched its low-priced detergent for consumers who had low income, especially for the rural population. Till then most of the products manufactured were aimed for the urban middle class and elite. But there existed a huge potential for low-priced products targeted for rural population. This concept was then extended and explained in a brilliant way by C.K Prahlad in his book “The Fortune at the Bottom of the Pyramid” according to whom the world population can be represented in the form of a Pyramid with the elite class lying at the tip of the pyramid, the middle and the upper-middle class lying in the mid-area of the pyramid and the lower class, which consists mainly population in rural areas, lying at the Bottom of the Pyramid.

Around 4000 million people considered to be the poorest in the world are placed in the bottom of the pyramid. Given its vast size, Tier 4 represents a multitrillion-dollar market. According to World Bank projections, population at the bottom of the pyramid could swell to more than 6 billion people over the next 40 years, because the bulk of the world’s population growth occurs there. This is reason enough for firms from various sectors like FMCG, telecom, electronics etc. to come up with new marketing strategies aimed to capture the rural market.

**OPPORTUNITIES**

Almost 70% of the Indian population lives in villages and rural areas. Rural India consumes almost 60% of the total goods manufactured in India with majority of the products coming from FMCG sector. Products like shampoo or skin moisturizer was
never affordable to people in the rural areas because the price was too high. CavinCare came out with an innovative idea of manufacturing small sachets of shampoo priced at 50 paisa. Suddenly shampoo which was not at all a popular product in rural areas had high demand in the market. This model was soon followed by the other FMCG companies where re-packaging of products like shampoos, soaps, toothpaste, detergents was done in the form of small sachets with a low price range. But due to the poor infrastructure in the rural areas marketing the products are a big headache for the FMCG companies.

A marketing strategy which is hugely untapped by most of the companies is employing the villagers themselves to market the products. HUL has been the pioneer in this form of marketing by the launch of the campaign HUL Shakti where women in villages are employed to form a distribution network of HUL products in the rural areas. Employing local people for marketing especially in areas where it is difficult to transport and commute was an innovative way to increase accessibility and marketing of the Bottom of the Pyramid (BoP) products. Considering the huge market share that FMCG products hold in the rural areas more companies should follow this strategy to market their products and have a larger reach. On a different note the electronics companies can also follow the BoP product structure followed by the FMCG companies in manufacturing low end small variants of refrigerators and air coolers/conditioners. Though electricity is one of the major hindrances in rural areas the problem can be overcome by extensive use of solar energy.

With FDI in retail making an entry in the Indian market agro-based companies can follow the structure adopted by ITC in e-Chaupal. ITC e-Chaupal follows a three layered structure which aims for profit maximization of farmers by cutting down on the involvement of the middlemen. ITC has successfully used this model for manufacturing “Aashirvaad Aata” by directly procuring high quality wheat from the farmers. Companies can follow this model in obtaining farm products directly from the farmers across India and sell them in the urban super markets which will be beneficial for the farmers as well as the consumers. An ad on advantage of this system is the use of the structured model in marketing other products in the rural market. For example with the help of the 3-layered e-Chaupal structure ITC was able to form a distribution system for the low priced cigarettes it manufactures in the rural market.
In rural India marketing of a product mainly happens by the word of the mouth and by peer experiences of use of the product, due to the comparative less use of television and almost no access to internet. Research has also proved that rural consumers do not change their products frequently if they are satisfied with the product. Brand loyalty is high. Therefore the primary aim of any firm should be to position their brand in the mind of the rural population well, during the launching phase which will enable them to have a permanent and long lasting presence in the market. They should try to associate a good-will with their brand. For example, non-availability of drinking water is one of the major issues in rural India. A company can launch a campaign of building tube-wells in the water hit villages in some parts of the country and try to emotionally connect with the people. Likewise a company can open their customer care/business processing units in the rural areas of the country. With growth of education in the rural areas there are enough people available, especially the youth who can be employable. Apart from creating a good-will this will also result in cost saving for the company as the cost of employment in rural India is much less compared to the cities.

With increase in per capita income due to use of superior quality of seeds and fertilizers and also due to the fact that there are a lot of rural schemes introduced by the government of India for the rural population the standard of living has improved. The following sectors can cache in on this development to extend their market to the Bottom of Pyramid population of the country.

- FMCG
- Automobile (2 wheelers)
- Telecom
- Electronics

Firms which deal in renewable energy, especially solar energy, also can have a huge market in rural India. With better quality and low priced photovoltaic cells being manufactured today, making solar lamps at a very reasonable price is not a demandable job. FMCG companies like Coca-Cola, Cadbury or electronics companies selling low-end refrigerators or air-coolers can go into a partnership with renewable energy firms in such a project. It will be a two way benefit project where the FMCG and consumer goods companies can also find new market in rural India due to availability of electricity.
CHALLENGES

Although the rural market does offer a vast untapped potential, it should also be recognized that it is not that easy to operate in rural market because of several problems. The major issues faced by companies are as follows:-

Low Literacy: It is difficult to educate the potential consumers in rural market about products due to low level of literacy.

Seasonal Demand: Monsoon being the harvesting season in India and agriculture being the primary occupation of majority of the rural population the demand for goods is majorly restricted in during the monsoons when the income is comparatively high.

Transportation and Distribution: The poor state of rural infrastructure is one of the major concerns of most of the companies planning to invest in this sector. Though the rural population is vast it is not possible to form an effective distribution system and reach out to a considerable number of target consumers.

Many Languages and Dialects: The presence of local languages causes major difficulty for companies in promoting their products in rural market. People are not educated enough to know one common language like Hindi or English and it is difficult for the companies to prepare promotional advertisements in every local language.

Availability of duplicate and cheap brands: Customers in rural India are very cost sensitive. Therefore the existence of duplicate brands, which are quite common in rural parts, at lesser prices gives considerable competition to the firms.

PROBLEMS OF RURAL MARKETS

- The development of appropriate communication systems to rural market may cost up to six times as much as reaching an urban market through established media, need rural communication facilities.

- The problems of physical distribution and channel management adversely affect the service as well as the cost aspect. The existent market structure consists of primary rural market and retail sales outlet. The structure involves stock points in feeder towns to service these retail outlets at the village levels. But it becomes difficult maintaining the required service level in the delivery of the product at retail level.
- Rural consumers are cautious in buying and decisions are slow and delayed. They like to give a trial and only after being personally satisfied, do they buy the product.

- Culture is a system of shared values, beliefs and perceptions that influence the behaviour of consumers. There are different groups based on religion, caste, occupation, income, age, education and politics and each group exerts influence on the behaviour of people in villages.

- As a general rule, rural marketing involves more intensive personal selling efforts compared to urban marketing. Marketers need to understand the psyche of the rural consumers and then act accordingly. To effectively tap the rural market a brand must associate it with the same things the rural folks do. This can be done by utilizing the various rural folk media to reach them in their own language and in large numbers so that the brand can be associated with the myriad rituals, celebrations, festivals, melas and other activities where they assemble.

- Life in rural areas is still governed by customs and traditions and people do not easily adapt new practices. For example, even rich and educated class of farmers does not wear jeans or branded shoes.

- An effective distribution system requires village-level shopkeeper, Mandal/ Taluka-level wholesaler or preferred dealer, distributor or stockiest at district level and company-owned depot or consignment distribution at state level. The presence of too many tiers in the distribution system increases the cost of distribution.

- Television has made a great impact and large audience has been exposed to this medium. Radio reaches large population in rural areas at a relatively low cost. However, reach of formal media is low in rural households; therefore, the market has to undertake specific sales promotion activities in rural areas like participating in melas or fairs.

- Many rural areas are not connected by rail transport. Kacha (wet) roads become unserviceable during the monsoon and interior villages get isolated.

- There are not enough opportunities for education in rural areas. The literacy level is as low (36%) when compared to all- India average of 52%.
Demand for goods in rural markets depends upon agricultural situation, as agriculture is the main source of income. Agriculture to a large extent depends upon monsoon and, therefore, the demand or buying capacity is not stable or regular.
RECOMMENDATIONS FOR EFFECTIVE RURAL MARKETING PRACTICES

- The Government has to develop infrastructure facilities like roadways, railways etc., in rural areas so as to reach large Indian rural market.
- The rural communication facilities like telecommunication systems, internet facilities, broadcasting systems etc., have to be improved so that there will not be any communication gap among players of the rural market segments.
- Effective Supply Chain Management practices can bring down the various costs associated with rural markets like distribution cost, cost of communication, customer cost, cost of sale etc.
- Educating rural consumers is the key to successful rural marketing. Rural consumers need to be educated in all aspects like usage of the products, gathering product information, consumer rights, laws and regulations, getting the right product at right place at right cost in right time.
- The efficient marketing is predominantly influenced by efficient distribution system it means products such ultimate consumer in the quickest time possible at minimum cost.
- The state marketing board or federation or market committees also the producers, traders and sellers have necessarily to be consulted as they have the principle interest towards its use.
- Suitable structure of support prices for various farm commodities adjusted from time-to-time. Adequate arrangement of agricultural produce on support price, if the price falls below the level.
- Rural marketing is the nerve center of a rural economy; rural markets are the channels for the movements of goods and services as well as to promote cultural integration.

CONCLUSION

In spite of having so many challenges in rural marketing the companies have shown considerable interest in the rural India and have tried to market themselves using the 4A model which says that the products marketed should be acceptable by the rural population, the products should be easily available, they should be affordable and most importantly an awareness drive should be created to educate people about the products.
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A STUDY OF CHALLENGES IN INDIAN BANKING

By

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ABSTRACT

Over the last three decades, there has been a remarkable increase in the size, spread and activities of banks in India. The new dimensions have held the banks responsible for commercial banks such as expansion of branch offices to unbanked and remote rural areas on a massive scale so as to cover small scale sector, cottage and rural industries, self employed persons, weaker sections of the society, and other persons of small means. Several services have been added to banking profile like merchant banking, mutual funds, new financial services and products and the human resource development. The prime challenge faced by banks today is to protect the declining profit margins due to the impact of competition. Another significant challenge for banks today is the use of technology. There is an imperative need for technological upgradation and integration in the way banks have been functioning all this is possible with the help of efficient human resource management practices. However, the challenges faced the HR front are numerous and need to be handled diligently. The present paper attempts to identify few challenges at Indian Banking scenario and suggests mechanisms to handle them.

Key Words: Indian Banking scenario, Management Practices, HR, Globalisation.
1. INTRODUCTION
Since 1991, India has been engaging in banking sector reforms aiming at increasing the profitability and efficiency of the 27 public-sector banks that controlled about 90% of all deposits, assets and credit. There has been radical transformation in the operational environment of the banking sector.
Banking system remains the focal point in the financial set-up of country and more so in the context of a developing country like India. Today when banks offer loans & related products at a lower interest rate, it enhances the growth prospects of the economy and vice-versa. There are some areas that need to be geared up for future growth, identified by the survey respondents RBI-Diversification of markets beyond big cities (84.2%), HR Systems (63.15%), size of banks (52.63%), high Transaction costs (47.3%), banking infrastructure (42%), and labour inflexibilities (42%)[1].
With further globalization, consolidation, deregulation and diversification of the financial industry, the banking sector has become even more complex. Technology, deregulation and liberalization have reinforced market competition, locally and internationally. Banks now have significant operations beyond their domestic borders and are handling a large amount of business and millions of non-resident clients across the globe.

2. IMPORTANCE OF HUMAN RESOURCE MANAGEMENT
HR is the key factor in the process of growth and development of organization. HR is a must for any organization that wants to be dynamic and growth oriented to succeed in a fast changing environment. ‘Management of people and management of risk are key challenges faced by banks. Efficient risk management may not be possible without efficient and skilled manpower. Banking has been and will always be a ‘People Business’. Banks must try to distinguish themselves by creating their own images, especially in transparent situations with a high level of competitiveness. In coming times, the very survival of the banks would depend on customer satisfaction. Banks must articulate and emphasise the core values to attract and retain certain customer segments.’[2] Values such as ‘sound’, ‘reliable’, ‘innovative’, ‘close’, ‘socially responsible’, ‘Indian’, etc. need to be emphasised through concrete actions and it would be the bank’s human resource that would deliver this. HR has become not only important
for enhancing the production efficiency/productivity but also to bring qualitative improvement among the workers at different levels.

3. LITERATURE SURVEY

Indian banking is the lifeline of the nation and its people. Currently, India has 79 scheduled commercial banks out of which 28 are public sector banks, 23 are private banks and 28 are foreign banks. The Banks are the important organizations in society which require faith of customers to keep their assets in terms of money and gold in banks. Several studies have been carried out in this area to mention a few are-

In the paper “Indian Banking Industry: Challenges And Opportunities” by Dr. K.A. Goyal & Vijay Joshi, International Journal of Business Research and Management (IJBRM), Volume (3) : Issue (1) : 2012 18 focus on several emerging challenges like Marketing, IT, Investment banking, Employee Retention, CSR in Indian banking and its effect in Indian Economy.

The paper “Emerging Challenges in Indian Banking” by MG Bhide and APrasad and Saibal Ghosh (2001) in Munich Personal Repec Archive (MPRA) Paper No.1171, discuss on history of banking in pre-reform period with their effects, and emerging weaknesses in the Banking System.

In the Speech “Human Resource Management in Banks –Need for a New Perspective” by K. C. Chakrabarty (Deputy Governor of RBI) in RBI Monthly Bulletin July 2012 page 1285 opining exclusively on human resource (HR) issues in banks with referring to importance of HR in banking and discussed about how to manage hr problems.


T.V. Rao’s book “The HRD Machinery” has discussed several aspects of HRD by their instruments, processes and outcomes, tasks, function, qualities and competence requirement by HRD managers.
D.V. Ramana Murthy in his article “Human Factor in Banks” by has talked about Human factors and trade unions. He spoke on the significance of the human interface and trade unions in banks.

4. OBJECTIVES OF THE STUDY

1. To explore the Future landscape, Growth Drivers, Critical issues and Challenges of Indian banking changing scenario.
2. To study the opportunities for the Banks in changing banking scenario as HR perspective.
3. To suggest recommendations and possible interventions in order to improve the existing HRD practices with a view to make organization more effective and responsive.

In the fulfillment of these objectives, a logical study is made on all important avenues of human resource development in banks.

5. FUTURE LANDSCAPE OF INDIAN BANKING

Four trends regulate the scenario of banking industry world over, viz.

1) Consolidation of players through mergers and acquisitions.
2) Globalisation of operations.
3) Development of new technology.
4) Universalisation of banking.

The Upcoming scenario pointed out certain characteristics that need to be discussed-

(a) Multi layer dynamic banking structure: The reoriented banking structure would comprise of four tiers. The first tier consists of three or four large Indian banks with domestic and international presence along with branches of foreign banks in India. The second tier comprises several mid-sized banking institutions including niche banks with economy-wide presence. The third tier encompasses old private sector banks, Regional Rural Banks, and multi state Urban Cooperative Banks. The fourth tier embraces many small privately owned local banks and cooperative banks.
(b) **Continuous & Consistent banking licenses**: RBI since liberalization in 1991 has invited application for private banking licensing as an interval of about 10 years. However, the central bank is now considering continuous banking license owing to the fact that the application window is always open. There is a case for reviewing the current ‘Stop and Go’ licensing policy and consider adopting a ‘continuous authorisation’ policy, as continuous authorisation keeps the competitive pressure on the existing.

(c) **Size alteration and conversion of banks**: Though RBI prefers to have some very large scale banks from India at global scale it finds merit in existence of small banks due to various factors such as supply of credit to small enterprises and agriculture and banking services in unbanked and under-banked regions in the country.

(d) **Consolidation & Associations of banks**: There is a need for consolidation as few Indian banks cater to global needs and the growing corporate and infrastructure funding needs.

(e) **Dilution and Abolition of government stake in PSBs**: The Narasimham Committee had recommended reducing the government ownership in public sector banks to 33 percent. The idea behind this was that it would help the government to reduce its allocation of scarce funds to recapitalize the banks from time to time.

To improve major areas of banking sector Govt. of India. RBI, Ministry of finance has made several notable efforts. Many of leading banks operating in market have made use of the changed rules and regulations such as CRR, Interest Rates Special offers to the customers such as to open account in zero balance. ‘Due to liberalization, Privatization and Globalization, Indian banks have gone global .The Indian banking system is set to involve into a totally new level. It will help the banking system to grow in strength going into future. Due to liberalization banks are operating on reduced spread main focus is highlighted on consumerism’ [5]. Therefore banks are entered have now in non banking products such insurance an area of tremendous opportunities.

6. **GROWTH DRIVERS FOR INDIAN BANKING INDUSTRY**
6.1 High growth of Indian Economy: The growth of the banking industry is closely linked with the growth of the overall economy. India is one of the fastest growing economies in the world and is set to remain on that path for many years to come. This will be backed by the stellar growth in infrastructure, industry, services and agriculture. This is expected to boost the corporate credit growth in the economy and provide opportunities to banks to lend to fulfill these requirements in the future.

6.2 Rising per capita income: The rising per capita income will drive the growth of retail credit. However, with an increase in disposable income and increased exposure to a range of products, consumers have shown a higher willingness to take credit, particularly, young customers. A study reveals that foreign and private banks share of younger customers is over 60% whereas public banks have only 32% customers under the age of 40.

6.3 New channel: Mobile banking is expected to become the second largest channel for banking after ATMs. New channels used to offer banking services will drive the growth of banking industry exponentially in the future by increasing productivity and acquiring new customers. After ATMs, mobile banking with the help of new 3G is expected to give another push to this industry growth in a big way. The IBA-FICCI-BCG report predicts that mobile banking would become the second largest channel of banking after ATMs.

6.4 Financial Inclusion Program: Currently, in India, 41% of the adult population doesn’t have bank accounts; Under the Financial Inclusion Program, RBI is trying to tap this untapped market and the growth potential in rural markets by volume growth for banks. Financial inclusion is the delivery of banking services at an affordable cost to the vast sections of disadvantaged and low income groups. The RBI has also taken many initiatives such as Financial Literacy Program, promoting effective use of development communication and using Information and Communication Technology (ICT) to spread general banking concepts to people in the under-banked areas.

All these initiatives of promoting rural banking are taken with the help of mobile banking, self help groups, microfinance institutions, etc. Financial Inclusion, on the one side, helps corporate in fulfilling their social responsibilities and on the other side it is fueling growth
in other industries and so as a whole economy.

7. **CHALLENGES FACED BY INDIAN BANKING INDUSTRY**

Developing countries like India, still has a huge mass of people who do not have access to banking services due to scattered and fragmented locations. But if we talk about those people who are availing banking services, their expectations are raising as the level of services are increasing due to the emergence of Information Technology and competition. Since, foreign banks are playing in Indian market, the number of services offered has increased and banks have laid emphasis on meeting the customer expectations.

Now, the existing situation has created various challenges and opportunities for Indian Commercial Banks. In order to encounter the general scenario of banking industry a few the challenges and opportunities are being discussed.

(i) **Prospects in Rural Market**

Banking in India is generally fairly mature in terms of supply, product range and reach, even though reach in rural India still remains a challenge for the private sector and foreign banks. In terms of quality of assets and capital adequacy. Consequently, we have seen some examples of inorganic growth strategy adopted by some nationalized and private sector banks to face upcoming challenges in banking industry of India.

(ii) **Risk Management Avenues**

In emerging markets, risk management, has become a greater concern with the modernisation of banking sector. ‘This is due to the new risks that institutions face with greater exposure to the global banking sector as well as under the new payments systems which demand greater efficiency with quicker transactions, lower levels of fraud and transaction errors Under BASEL I, banks were focused on credit risk and market risk and their risk management strategies were focused on managing these risks individually in isolation. BASEL II has highlighted the inter-linkages of a large number of risks like credit risk, liquidity risk, market risk, operational risk etc’ [6]. Therefore, banks constantly endeavor to upgrade the risk management systems to address the changing environment and for these banks are required to allocate significant resources.
(iii) Enhancement in Knowledge and Skills of its HR

Banks now shift their focus from generalist orientation of the staff to specialist orientation i.e., recruiting those who have the ability to imbibe and absorb technology. In the light of this requirements there is need to be thorough improvements in the existing practices of recruitment, training and redeployment. Thus, investment on Human Resource is deemed necessary because in competitive sectors like banking, managers need to possess achievement orientation attribute in adequate measures, and those possessing more of this attribute tend to perform well and produce better results for their organisations.

(iv) Implementation of Corporate Governance

Corporate governance has become more relevant for banks since they not only accept and deploy large amount of uncollateralized public funds in fiduciary capacity but also leverage such funds through credit creation. Effective risk management systems determine the health of the financial system and its ability to survive economic shocks. Research shows that many risk management failures are due to breakdown in corporate governance which arises due to poor management of conflicts of interest, inadequate understanding of key banking risks and poor board oversight of the mechanisms for risk management and internal audit. A sound corporate governance mechanism, involving transparency and accountability of operations, is central to survival in a competitive market and good corporate governance at all times cannot be beyond honesty, integrity, values and ethics.

(v) Customer Relationship Management in Retail lending

Recently banks have adopted customer segmentation which has helped in customizing their product folios well. Thus retail lending has become a focus area particularly in respect of financing of consumer durables, housing, automobiles etc., Retail lending has also helped in risks dispersal and in enhancing the earnings of banks with better recovery rates.

For Specialized product offerings to different segments of customers, data mining has become an important tool for decision making by the bank management. By this, the Executive Information System (EIS), Decision Support System (DSS) have become faster and more accurate. Thus, banks need to be customer-centric in order to acquire and retain
customers. And for this, a bank need to appoint Customer Relationship Managers, field-level sales force, help desk, call centers, interactive voice response systems, kiosks, interactive television and e-mail.

(vi) Global Banking Approach

It is practically and fundamentally impossible for any nation to exclude itself from world economy. Therefore, for sustainable development, one has to adopt integration process in the form of liberalization and globalization as India spread the red carpet for foreign firms in 1991. The impact of globalization becomes challenges for the domestic enterprises as they are bound to compete with global players. If we look at the Indian Banking Industry, then we find that there are 36 foreign banks operating in India, which becomes a major challenge for Nationalized and private sector banks. These foreign banks are large in size, technically advanced and having presence in global market, which gives more and better options and services to Indian traders.

(vii) Need for Branch Rationalisation

Banks, in order to reduce its administrative costs, need to rationalise the branch networking by consolidating the number of branches within a local area into a single profit centre without affecting customer service. Moreover, at the industry level, strategic alliances and mergers of even healthy banks would also become necessary.

(viii) Enhancement of Prudence

Future banking has to be based on prudence. New bloods with new skills are to be inducted to face the coming challenges. Business will have to be organised on more commercial lines with focus on income and profit centers and on Information Technology. Prudent policies for provisioning have to be adopted apart from norms laid down by the RBI for investments and credit.

(ix) Asset Liability Management System

All commercial banks should give utmost importance to Asset Liability Management from the view point of liquidity as well as interest rate sensitivity. Asset Liability Management is deemed necessary because asset-liability mismatches expose the
banks to various types of risks i.e., risks of illiquidity and insolvency, risks arising from globalisation and deregulation.

Asset Liability Management Committee (ALCO) of the individual banks should practically customise and parameterise their approaches and actions and strike a balance between risk and reward.

(x) Brand Building Approach

It takes years to build a brand. A brand is a name, term, sign, symbol or design or a combination of these intended to identify the goods or services of one seller or a group of sellers and to differentiate them from those of competitors. Therefore, huge investment of resources – both monetary and time – is required to build a brand and for its management.

(xi) Disclosures and Transparency Norms

RBI has made it mandatory for all commercial banks to disclose additional information on maturity pattern of loans and advances, investment securities, deposits and borrowings, foreign currency, assets and liabilities, movements in NPAs and lending to sensitive sectors in the balance sheet.

(xii) Value addition for Shareholders’ Value

In a knowledge economy, shareholders of banks are increasingly taking interest in the affairs of the banks. The Committee on Banking Sector Reforms (BSR), chaired by M. Narasimham, recommended that the minimum shareholding by Government/ RBI in the equity of nationalised banks and the SBI brought down from 51 per cent to 33 per cent. Therefore, banks have to devise ways and means as to how to optimise the shareholders value in each and every business activity they undertake.

(xiii) Environmental Concerns

It is quite clear from the recently formed Copenhagen Climate Council (CCC) that there is a severe need for environmental awareness among all the countries of the world. Banks strictly follows any project (loans, investment) which is related to environment concern.
(xiv) Social and Ethical Aspects

Apart from profit maximization, banks are supposed to support some social concerns organizations. They focus on investing in community, providing opportunities to the disadvantaged, and supporting social, environmental, and ethical agendas. Social banks try to invest their money only in endeavors that promote the greater good of society, instead of those, which generate private profit just for a few.

(xv) Outsourcing Methods

Recent trends suggest that organization increasingly focus on their ‘core businesses’ leveraging on their ‘core competence’, with a view to achieve quantum jump in their operational efficiency and profitability. Non-core activities are outsourced by them to agencies which can perform such activities more effectively with cost efficiency on account of domain expertise and economy of scale they may have. Outsourcing can help organisations to move up in the economic value chain.

(xvi) Non-Performing assets (N.P.A)

Non-Performing assets are another challenge to the banking sector. Vehicle loans and unsecured loans increases N.P.A. which terms 50% of banks retail portfolio was also hit due to upward movement in interest rates, restrictions on collection practices and soaring real estate prices. So this is a challenge for every bank has to take care about regular repayment of loans.

(xvii) Capital Adequacy Norms

Imposition of minimum capital adequacy requirements promotes more prudent management of commercial banks. A high capital adequacy requirement limits the ability to extend additional loans and thus contains inter-bank competition, which would increase the financial cushion of commercial banks to cope with a volatile economic environment [9]. More importantly, such adjustments by banks in their capital ratios are effected primarily by boosting their capital rather than through systematic substitution away from high-risk loans.

(xviii) Aims of BASEL-III norms
Basel III is a global, voluntary regulatory standard on bank capital adequacy, stress testing and market liquidity risk.

Pillar-I Capital, Risk Coverage, Containing Leverage

Pillar-II Risk Management and Supervision

Pillar-III Market Discipline

It requires-Improvement in systems and procedures, Pressure on Return on Equity, Pressure on Yield on Assets, Change in Business Mix.

(xix) Microfinance in Banking

Microfinance refers to small savings, credit and insurance services extended to socially and economically disadvantaged segments of society. It is emerging as a powerful tool for poverty alleviation in India. Micro Finance may be defined as provision of thrift, credit and other financial services and products of very into rural areas, semi urban or urban for enabling them to raise their income levels and improve living standards.

Quality of SHGs, Deserving poor are still not reached, Microfinance outreach in seven poorest states of India, Low depth of outreach, Unregulated microfinance institutions are major issues.

(xx) Indian Customers orientation

The biggest Challenge/opportunity for the Indian banking sector today is the Indian customers. Demographic shifts in terms of income level and cultural shifts in terms of life style aspirations are changing the profile of the Indian customer. This is and will be a key driver of economic growth going forward [8]. The Indian customers now seek to fulfill his lifestyle aspirations at a younger age with an optimal combination of equity and debt to finance consumption and asset creation. The consumer represents a market for a wide range of products and services.

8. HUMAN RESOURCE MANAGEMENT PERSPECTIVE

Efficiency of Challenges are met will mainly depend on the extent to which the bank’s leverage their primary assets i.e., HR in context of the changing economic & business environment.
Many literature surveys reveal that a paradigm shift is taking place in the role of the HR function in these organizations. There is a real danger of the function itself being outsourced in most organization.

The danger comes through the following shifts:

* Banking is getting globally penetrated through virtual networks in form of Retail Banking, mobile banking etc.
* The government is seriously thinking of privatization and this leads to a government-protected system, to an environment where it has to be contended with market forces and large corporations with significant brand equity and also follow vastly different HR strategies & practices.
* Technology is eliminating routine paper activities.
* Virtual Organisations are coming up.

**HRD Practices in Banks**

I. Staff Meetings

* Staff Meeting aims at group synergy, team building, open culture, family feeling and talent recognition which individually and cumulatively benefit the organizations.
* Goals/Targets set for the unit/Bank is discussed in the monthly Staff Meetings conducted at all branches/units and action plan is drawn in achieving them.
* The forum is being effectively utilized for harmonious functioning of all the branches and administrative units through greater involvement and collective contribution of all staff members.

II. Brain Storming Sessions

* This is a technique for generating ideas and suggestions on topics of relevance and also to provide alternate solutions to problems by simulative thinking and imaginative power of cross section of employees.
* Corporate Topics are selected for each quarter and BSS are conducted in administrative offices/branches on the topic during every quarter.
* Suggestions worthy of implement are circulated for necessary action.

III. Study Circle
* Concept of Study Circle aims at self development of employees by kindling the desire to acquire/update knowledge, information and experience.

* Guest lectures/ Power Point Presentation / Group Discussions, etc are arranged on topics of general interest by inviting experts in the field.

* Study Circle Meeting is conducted once in two months in administrative offices and once in a quarter in branches.

IV. Quality Circles

* It is a time tested tool of Total Quality Management (TQM) which promotes team spirit, cohesive quality work culture, commitment and involvement of employees.

9. HR CHALLENGES FACED BY INDIAN BANKING INDUSTRY

1. Banks today need well trained and equipped to carry forward their plans of financial inclusion to distant-remote villages.

2. Implementation of BASEL-III norms also requires graduates in economics having sound knowledge of accountancy, finance and global economics.

3. The real challenge of this sector is the “Indian companies”, pertaining to transform into global corporations without losing the positive values and culture that is Indian legacy.

4. ‘As most part of the jobs in this industry is monotonous and routine, the HRD Department has to empower, engage and motivate employees to create effectiveness & efficiency through motivation organizational structures, systems & procedures are facilitators of these, and there is a need to focus greater attention on these aspects by the industry’[7].

5. However, the emergence of a core and peripheral workforce in many organization has presented new challenges for HR managers public & private sector organizations are fast becoming diverse communities for core workers, flexibly employed casual and part-time workers, consultants, contractors & business partners.
6. Certain rigidities have also developed in HRD within this banking system itself because this industry is largely in the public sector.

10. SUGGESTIONS

Following suggestions are very essential to adhere for effective Banking Administration:

1. Employee development and growth has to be regularly reviewed against business outcomes as part of strategic and operational planning.
2. Team work is another important and essential soft skill that is necessary in this industry.
3. HR functions should be linked with corporate goals.
4. Shift from Industrial relations manager to Business manager or Commercial manager.
5. The HR Professionals have to introduce & improve the adaptability of their structure that will be able to absorb, draw and retain the best.
6. As people are the primary asset, it is essential not only to invest in them, but also to ensure that the supporting elements for this asset are such that it can provide the maximum value on a sustainable basis.
7. To overcome the public sector’s hierarchical structure, which gives preference to seniority over performance, is not the best environment to attract the best talent from among the young.
8. Have special R & D wings in HR Department for ongoing in house & external research development, review and implementation of HR policies.
9. There should be a balanced compromise between organisational need and individual need
10. Steps are taken to keep their workforce motivated through proper encouragement like man of the month award, repeat get-together, conferences, sports events, dinners, company sponsored travel, reunions etc.
11. There must be a clearly defined system of succession planning and career growth planning in banks.

11. RECOMMENDATIONS
1. It is worthwhile to consider wide scope of the banking and core finance related courses amongst higher –level educational institutions, so that specializations in the area of banking and financial services becomes an option in higher education curricular.

2. This calls for greater transparency more effective communication and a high degree of professionalism in the bank’s staff, are the need of the hour.

3. Continuous application of evolving human resources management strategies for enhancing the levels of knowledge, sharpening skills and for acclimatizing work culture are also to be practiced.

4. Incentive structures need to be conceived, supported by appropriate training and motivations, which aligns the employee’s goals and orientations with the core competencies and strategic advantages of the institution.

5. This service sector has to explore the feasibility of entering into collaborative agreements with universities and other institutions in India and abroad to identify and provide specialized training in the financial services industry with an ongoing flow of emerging training packages.

6. Information technology is an area where human resources development is critical fortunately, Indian professionals are world leaders in this area and spirit of co-operation and partnership between them in banking industries will result in a strong and modern financial system comparable to the best in the world.

7. There should be a transparent and talent driven -system of recruitment from open market including lateral induction of experts.

12. CONCLUSION

Our analysis formulates the following points for consideration:

A. If the banking incorporates these norms the growth pace may enhance by 10%-15%.

B. HR being the primary concern for any form-the HR practices and policies must be flexible, welfare oriented and transparent

C. A lot of issues and problems would be addressed by proper implementation of the written mandate of HR policies
D. The Banking area deals with the HR aspects so, both at the giver and the Receiver end, weightage should be given to individualism and Group welfare as well

E. Along with the HR aspects, banking must also enhance their markets along with their securities and derivatives.

F. Trading instruments needed to be altered and matched to those in the global scenario.

The paper discusses the various challenges and opportunities like rural market, transparency customer expectations, management of risks, social and ethical issues, and employee and customer retentions, HR challenges. Banks are striving to combat the competition. The competition from global banks and technological innovation has compelled the banks to rethink their policies and strategies.

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SUPPLY CHAIN MANAGEMENT: INCORPORATING THE BUSINESS DEVELOPMENT

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ABSTRACT

Traditionally, marketing, distribution, planning, manufacturing, and the purchasing organizations along the supply chain operated independently. These organizations have their own objectives and these are often conflicting. Many manufacturing operations are designed to maximize throughput and lower costs with little consideration for the impact on inventory levels and distribution capabilities. Purchasing contracts are often negotiated with very little information beyond historical buying patterns. The result of these factors is that there is not a single, integrated plan for the organization---there were as many plans as businesses. Clearly, there is a need for a mechanism through which these different functions can be integrated together. Supply chain management is a strategy through which such incorporation can be achieved.

Supply chain management is typically viewed to lie between fully vertically integrated firms, where the entire material flow is owned by a single firm and those where each channel member operates independently. Therefore coordination between the various players in the chain is the key in its effective management. Cooper and Ellram compare supply chain management to a well-balanced and well-practiced relay team. Such a team is more competitive when each player knows how to be positioned for the hand-off. The relationships are the strongest between players who directly pass the baton, but the entire team needs to make a coordinated effort to win the race.
Keywords: Supply Chain Management, Business Development

INTRODUCTION

A supply chain is a network of facilities and distribution options that performs the functions of procurement of materials, transformation of these materials into intermediate and finished products, and the distribution of these finished products to customers. Another definition is provided by the APICS Dictionary when it defines SCM as the "design, planning, execution, control, and monitoring of supply chain activities with the objective of creating net value, building a competitive infrastructure, leveraging worldwide logistics, synchronizing supply with demand and measuring performance globally." Supply chains exist in both service and manufacturing organizations, although the complexity of the chain may vary greatly from industry to industry and firm to firm.

Below is an example of a very simple supply chain for a single product, where raw material is procured from vendors, transformed into finished goods in a single step, and then transported to distribution centers, and ultimately, customers. Realistic supply chains have multiple end products with shared components, facilities and capacities. The flow of materials is not always along an arborescent network, various modes of transportation may be considered, and the bill of materials for the end items may be both deep and large.

OBJECTIVE OF STUDY

- To know supply chain management
- To know the problem associated with supply chain management
- Activities in supply chain management
- Decision at various level for better supply chain
- To know Supply chain business process integration

Problems addressed by supply chain management

Supply chain management must address the following problems:
• **Distribution Network Configuration**: number, location and network missions of suppliers, production facilities, distribution centers, warehouses, cross-docks and customers.

• **Distribution Strategy**: questions of operating control (centralized, decentralized or shared); delivery scheme, e.g., direct shipment, pool point shipping, cross docking, DSD (direct store delivery), closed loop shipping; mode of transportation, e.g., motor carrier, including truckload, LTL, parcel; railroad; intermodal transport, including TOFC (trailer on flatcar) and COFC (container on flatcar); ocean freight; airfreight; replenishment strategy (e.g., pull, push or hybrid); and transportation control (e.g., owner-operated, private carrier, common carrier, contract carrier, or 3PL).

• **Trade-Offs in Logistical Activities**: The above activities must be well coordinated in order to achieve the lowest total logistics cost. Trade-offs may increase the total cost if only one of the activities is optimized. For example, full truckload (FTL) rates are more economical on a cost per pallet basis than less than truckload (LTL) shipments. If, however, a full truckload of a product is ordered to reduce transportation costs, there will be an increase in inventory holding costs which may increase total logistics costs. It is therefore imperative to take a systems approach when planning logistical activities. These trades-offs are key to developing the most efficient and effective Logistics and SCM strategy.

• **Information**: Integration of processes through the supply chain to share valuable information, including demand signals, forecasts, inventory, transportation, potential collaboration, etc.

• **Inventory Management**: Quantity and location of inventory, including raw materials, work-in-progress (WIP) and finished goods.

• **Cash-Flow**: Arranging the payment terms and methodologies for exchanging funds across entities within the supply chain.

Supply chain execution means managing and coordinating the movement of materials, information and funds across the supply chain. The flow is bi-directional.
Activities/functions related to SCM

Supply chain management is a cross-function approach including managing the movement of raw materials into an organization, certain aspects of the internal processing of materials into finished goods, and the movement of finished goods out of the organization and toward the end-consumer. As organizations strive to focus on core competencies and becoming more flexible, they reduce their ownership of raw materials sources and distribution channels. These functions are increasingly being outsourced to other entities that can perform the activities better or more cost effectively. The effect is to increase the number of organizations involved in satisfying customer demand, while reducing management control of daily logistics operations. Less control and more supply chain partners led to the creation of supply chain management concepts. The purpose of supply chain management is to improve trust and collaboration among supply chain partners, thus improving inventory visibility and the velocity of inventory movement. Several models have been proposed for understanding the activities required to manage material movements across organizational and functional boundaries. SCOR is a supply chain management model promoted by the Supply Chain Council. Another model is the SCM Model proposed by the Global Supply Chain Forum (GSCF). Supply chain activities can be grouped into strategic, tactical, and operational levels. The CSCMP has adopted The American Productivity & Quality Center (APQC) Process Classification Framework a high-level, industry-neutral enterprise process model that allows organizations to see their business processes from a cross-industry viewpoint.
Strategic level

- Strategic network optimization, including the number, location, and size of warehousing, distribution centers, and facilities.
- Strategic partnerships with suppliers, distributors, and customers, creating communication channels for critical information and operational improvements such as cross docking, direct shipping, and third-party logistics.
- Product life cycle management, so that new and existing products can be optimally integrated into the supply chain and capacity management activities.
- Information technology chain operations.
- Where-to-make and make-buy decisions.
- Aligning overall organizational strategy with supply strategy.
- It is for long term and needs resource commitment.

Tactical level

- Sourcing contracts and other purchasing decisions.
- Production decisions, including contracting, scheduling, and planning process definition.
- Inventory decisions, including quantity, location, and quality of inventory.
- Transportation strategy, including frequency, routes, and contracting.
- Benchmarking of all operations against competitors and implementation of best practices throughout the enterprise.
- Milestone payments.
- Focus on customer demand and Habits.

Operational level

- Daily production and distribution planning, including all nodes in the supply chain.
- Production scheduling for each manufacturing facility in the supply chain (minute by minute).
Demand planning and forecasting, coordinating the demand forecast of all customers and sharing the forecast with all suppliers.

Sourcing planning, including current inventory and forecast demand, in collaboration with all suppliers.

Inbound operations, including transportation from suppliers and receiving inventory.

Production operations, including the consumption of materials and flow of finished goods.

Outbound operations, including all fulfillment activities, warehousing and transportation to customers.

Order promising, accounting for all constraints in the supply chain, including all suppliers, manufacturing facilities, distribution centers, and other customers.

From production level to supply level accounting all transit damage cases & arrange to settlement at customer level by maintaining company loss through insurance company.

SUPPLY CHAIN DECISIONS

We classify the decisions for supply chain management into two broad categories -- strategic and operational. As the term implies, strategic decisions are made typically over a longer time horizon. These are closely linked to the corporate strategy (they sometimes {\it are} the corporate strategy), and guide supply chain policies from a design perspective. On the other hand, operational decisions are short term, and focus on activities over a day-to-day basis. The effort in these type of decisions is to effectively and efficiently manage the product flow in the "strategically" planned supply chain.

There are four major decision areas in supply chain management: 1) location, 2) production, 3) inventory, and 4) transportation (distribution), and there are both strategic and operational elements in each of these decision areas.

LOCATION DECISIONS

The geographic placement of production facilities, stocking points, and sourcing points is the natural first step in creating a supply chain. The location of facilities involves a commitment of resources to a long-term plan. Once the size, number, and location of
these are determined, so are the possible paths by which the product flows through to the final customer. These decisions are of great significance to a firm since they represent the basic strategy for accessing customer markets, and will have a considerable impact on revenue, cost, and level of service. These decisions should be determined by an optimization routine that considers production costs, taxes, duties and duty drawback, tariffs, local content, distribution costs, production limitations, etc. (See Arntzen, Brown, Harrison and Trafton [1995] for a thorough discussion of these aspects.) Although location decisions are primarily strategic, they also have implications on an operational level.

**PRODUCTION DECISIONS**

The strategic decisions include what products to produce, and which plants to produce them in, allocation of suppliers to plants, plants to DC's, and DC's to customer markets. As before, these decisions have a big impact on the revenues, costs and customer service levels of the firm. These decisions assume the existence of the facilities, but determine the exact path(s) through which a product flows to and from these facilities. Another critical issue is the capacity of the manufacturing facilities--and this largely depends the degree of vertical integration within the firm. Operational decisions focus on detailed production scheduling. These decisions include the construction of the master production schedules, scheduling production on machines, and equipment maintenance. Other considerations include workload balancing, and quality control measures at a production facility.

**INVENTORY DECISIONS**

These refer to means by which inventories are managed. Inventories exist at every stage of the supply chain as either raw materials, semi-finished or finished goods. They can also be in-process between locations. Their primary purpose to buffer against any uncertainty that might exist in the supply chain. Since holding of inventories can cost anywhere between 20 to 40 percent of their value, their efficient management is critical in supply chain operations. It is strategic in the sense that top management sets goals. However, most researchers have approached the management of inventory from an operational perspective. These include deployment strategies (push versus pull), control policies --- the determination of the optimal levels of order quantities and reorder points, and setting
safety stock levels, at each stocking location. These levels are critical, since they are primary determinants of customer service levels.

TRANSPORTATION DECISIONS

The mode choice aspect of these decisions are the more strategic ones. These are closely linked to the inventory decisions, since the best choice of mode is often found by trading-off the cost of using the particular mode of transport with the indirect cost of inventory associated with that mode. While air shipments may be fast, reliable, and warrant lesser safety stocks, they are expensive. Meanwhile shipping by sea or rail may be much cheaper, but they necessitate holding relatively large amounts of inventory to buffer against the inherent uncertainty associated with them. Therefore customer service levels, and geographic location play vital roles in such decisions. Since transportation is more than 30 percent of the logistics costs, operating efficiently makes good economic sense. Shipment sizes (consolidated bulk shipments versus Lot-for-Lot), routing and scheduling of equipment are key in effective management of the firm's transport strategy.

SUPPLY CHAIN MODELING APPROACHES

Clearly, each of the above two levels of decisions require a different perspective. The strategic decisions are, for the most part, global or "all encompassing" in that they try to integrate various aspects of the supply chain. Consequently, the models that describe these decisions are huge, and require a considerable amount of data. Often due to the enormity of data requirements, and the broad scope of decisions, these models provide approximate solutions to the decisions they describe. The operational decisions, meanwhile, address the day to day operation of the supply chain. Therefore the models that describe them are often very specific in nature. Due to their narrow perspective, these models often consider great detail and provide very good, if not optimal, solutions to the operational decisions.

To facilitate a concise review of the literature, and at the same time attempting to accommodate the above polarity in modeling, we divide the modeling approaches into three areas --- Network Design, "Rough Cut" methods, and simulation based methods. The network design methods, for the most part, provide normative models for the more strategic decisions. These models typically cover the four major decision areas described earlier, and focus more on the design aspect of the supply chain; the establishment of the
network and the associated flows on them. "Rough cut" methods, on the other hand, give guiding policies for the operational decisions. These models typically assume a "single site" (i.e., ignore the network) and add supply chain characteristics to it, such as explicitly considering the site's relation to the others in the network. Simulation methods is a method by which a comprehensive supply chain model can be analyzed, considering both strategic and operational elements. However, as with all simulation models, one can only evaluate the effectiveness of a pre-specified policy rather than develop new ones. It is the traditional question of "What If?" versus "What's Best?".

**Supply chain business process integration**

Successful SCM requires a change from managing individual functions to integrating activities into key supply chain processes. An example scenario: the purchasing department places orders as requirements become known. The marketing department, responding to customer demand, communicates with several distributors and retailers as it attempts to determine ways to satisfy this demand. Information shared between supply chain partners can only be fully leveraged through process integration.

Supply chain business process integration involves collaborative work between buyers and suppliers, joint product development, common systems and shared information. According to Lambert and Cooper (2000), operating an integrated supply chain requires a continuous information flow. However, in many companies, management has reached the conclusion that optimizing the product flows cannot be accomplished without implementing a process approach to the business. The key supply chain processes stated by Lambert (2004) are:
Customer relationship management
Customer service management
Demand management style
Order fulfillment
Manufacturing flow management
Supplier relationship management
Product development and commercialization
Returns management

Much has been written about demand management. Best-in-Class companies have similar characteristics, which include the following: a) Internal and external collaboration b) Lead time reduction initiatives c) Tighter feedback from customer and market demand d) Customer level forecasting

One could suggest other key critical supply business processes which combine these processes stated by Lambert such as:

a. Customer service management
b. Procurement
c. Product development and commercialization
d. Manufacturing flow management/support
e. Physical distribution
f. Outsourcing/partnerships
g. Performance measurement
h. Warehousing management

a) Customer service management process

Customer Relationship Management concerns the relationship between the organization and its customers. Customer service is the source of customer information. It also provides the customer with real-time information on scheduling and product availability through interfaces with the company's production and distribution operations. Successful organizations use the following steps to build customer relationships:

- determine mutually satisfying goals for organization and customers
- establish and maintain customer rapport
produce positive feelings in the organization and the customers

\textit{b) Procurement process}

Strategic plans are drawn up with suppliers to support the manufacturing flow management process and the development of new products. In firms where operations extend globally, sourcing should be managed on a global basis. The desired outcome is a win-win relationship where both parties benefit, and a reduction in time required for the design cycle and product development. Also, the purchasing function develops rapid communication systems, such as electronic data interchange (EDI) and Internet linkage to convey possible requirements more rapidly. Activities related to obtaining products and materials from outside suppliers involve resource planning, supply sourcing, negotiation, order placement, inbound transportation, storage, handling and quality assurance, many of which include the responsibility to coordinate with suppliers on matters of scheduling, supply continuity, hedging, and research into new sources or programs.

\textit{c) Product development and commercialization}

Here, customers and suppliers must be integrated into the product development process in order to reduce time to market. As product life cycles shorten, the appropriate products must be developed and successfully launched with ever shorter time-schedules to remain competitive. According to Lambert and Cooper (2000), managers of the product development and commercialization process must:

1. Coordinate with customer relationship management to identify customer-articulated needs;
2. Select materials and suppliers in conjunction with procurement, and
3. Develop production technology in manufacturing flow to manufacture and integrate into the best supply chain flow for the product/market combination.

\textit{d) Manufacturing flow management process}

The manufacturing process produces and supplies products to the distribution channels based on past forecasts. Manufacturing processes must be flexible to respond to market changes and must accommodate mass customization. Orders are processes operating on a
just-in-time (JIT) basis in minimum lot sizes. Also, changes in the manufacturing flow process lead to shorter cycle times, meaning improved responsiveness and efficiency in meeting customer demand. Activities related to planning, scheduling and supporting manufacturing operations, such as work-in-process storage, handling, transportation, and time phasing of components, inventory at manufacturing sites and maximum flexibility in the coordination of geographic and final assemblies postponement of physical distribution operations.

e) Physical distribution

This concerns movement of a finished product/service to customers. In physical distribution, the customer is the final destination of a marketing channel, and the availability of the product/service is a vital part of each channel participant's marketing effort. It is also through the physical distribution process that the time and space of customer service become an integral part of marketing, thus it links a marketing channel with its customers (e.g., links manufacturers, wholesalers, retailers).

f) Outsourcing/partnerships

This is not just outsourcing the procurement of materials and components, but also outsourcing of services that traditionally have been provided in-house. The logic of this trend is that the company will increasingly focus on those activities in the value chain where it has a distinctive advantage, and outsource everything else. This movement has been particularly evident in logistics where the provision of transport, warehousing and inventory control is increasingly subcontracted to specialists or logistics partners. Also, managing and controlling this network of partners and suppliers requires a blend of both central and local involvement. Hence, strategic decisions need to be taken centrally, with the monitoring and control of supplier performance and day-to-day liaison with logistics partners being best managed at a local level.

g) Performance measurement

Experts found a strong relationship from the largest arcs of supplier and customer integration to market share and profitability. Taking advantage of supplier capabilities and emphasizing a long-term supply chain perspective in customer relationships can both be correlated with firm performance. As logistics competency becomes a more critical factor
in creating and maintaining competitive advantage, logistics measurement becomes increasingly important because the difference between profitable and unprofitable operations becomes more narrow. A.T. Kearney Consultants noted that firms engaging in comprehensive performance measurement realized improvements in overall productivity. According to experts, internal measures are generally collected and analyzed by the firm including

1. Cost
2. Customer Service
3. Productivity measures
4. Asset measurement, and
5. Quality.

External performance measurement is examined through customer perception measures and "best practice" benchmarking, and includes 1) customer perception measurement, and 2) best practice benchmarking.

**h) Warehousing management**

As a case of reducing company cost & expenses, warehousing management is carrying the valuable role against operations. In case of perfect storing & office with all convenient facilities in company level, reducing manpower cost, dispatching authority with on time delivery, loading & unloading facilities with proper area, area for service station, stock management system etc.

**CONCLUSION**

Organizations increasingly find that they must rely on effective supply chains, or networks, to compete in the global market and networked economy. In Peter Drucker's new management paradigms, this concept of business relationships extends beyond traditional enterprise boundaries and seeks to organize entire business processes throughout a value chain of multiple companies.

During the past decades, globalization, outsourcing and information technology have enabled many organizations, such as Dell and Hewlett Packard, to successfully operate solid collaborative supply networks in which each specialized business partner focuses on only a few key strategic activities. This inter-organizational supply network can be
acknowledged as a new form of organization. However, with the complicated interactions among the players, the network structure fits neither "market" nor "hierarchy" categories. It is not clear what kind of performance impacts different supply network structures could have on firms, and little is known about the coordination conditions and trade-offs that may exist among the players. From a systems perspective, a complex network structure can be decomposed into individual component firms. Traditionally, companies in a supply network concentrate on the inputs and outputs of the processes, with little concern for the internal management working of other individual players. Therefore, the choice of an internal management control structure is known to impact local firm performance.

In the 21st century, changes in the business environment have contributed to the development of supply chain networks. First, as an outcome of globalization and the proliferation of multinational companies, joint ventures, strategic alliances and business partnerships, significant success factors were identified, complementing the earlier "Just-In-Time", "Lean Manufacturing" and "Agile Manufacturing" practices. Second, technological changes, particularly the dramatic fall in information communication costs, which are a significant component of transaction costs, have led to changes in coordination among the members of the supply chain network.

Many researchers have recognized these kinds of supply network structures as a new organization form, using terms such as "Keiretsu", "Extended Enterprise", "Virtual Corporation", "Global Production Network", and "Next Generation Manufacturing System". In general, such a structure can be defined as "a group of semi-independent organizations, each with their capabilities, which collaborate in ever-changing constellations to serve one or more markets in order to achieve some business goal specific to that collaboration" (Akkermans, 2001).

**BIBLIOGRAPHY**


PRADAN CHANGING RURAL LIVES IN INDIA

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ABSTRACT

India is a developing country where the poverty exists as a major challenge. To tackle this PRADAN which stands for “PROFESSIONAL ASSISTANCE FOR DEVELOPMENT ACTION” working as a leading NGO in India has added a series of success stories making the rural people self sufficient to lead their lives with dignity. In this paper I have tried to enlist the various efforts led by PRADAN which outbreak as a success stories. The objective of this paper is to throw light on the various activities and approaches intertwined and applied to result in providing a livelihood to rural communities. In this paper I have listed various cases which justifies the paradigm shift towards success from poverty to changing lives of the poor people.

Keywords: PRADAN, Rural communities, poverty alleviation, livelihoods, achievements, contributions, challenges.

INTRODUCTION:

Non Governmental organisations have been concentrating social mobilization on contemporary issues of importance such as women empowerment, human rights, and implementation of various central and state government development programmes. The NGOs in India have contributed handsomely towards social mobilization and social activism through their intensive campaigns, people’s mobilization programmes and effective networks.

The NGO as a social force facilitates collective action and people mobilization for the purpose of achieving the desired objectives. The NGOs are deploying various people-
oriented as well as people-centered strategies, and these organizations build rapport with the people and mobilize them.

PRADAN, an India based NGO (Non Government Organization). Its title stands for Professional Assistance for Development Action. It is a voluntary organization registered under the Societies Registration Act of India. In 1983, a few young professionals set up PRADAN, inspired by the belief that well-educated people with empathy towards the poor must work at the grassroots to remove mass poverty. Soon there were several score professionals in PRADAN, working in remote villages in many parts of the country, helping poor families enhance their livelihoods through concrete action programmes.

The very sticking feature of this scheme is that it is quite different from earlier programmes in terms of objective, strategy, methodology and sustainability. Obviating the loose ends of the earlier programmes, it intends to overcome poverty through generation of self-employment opportunities with a debatable participation, contribution and initiative of the poor themselves.

**OBJECTIVES:**

The objective of this paper lies in enlisting the success stories in various regions in India in order to justify the changing lives and its contribution in poverty alleviation in India. The paper highlights the activities and the approaches implemented to the various projects run by the NGO which embark the changes made in the lives of the rural communities and providing them the livelihood opportunities to lead their lives with dignity.

**NGOs APPROACHES AND ACTIVITIES:**

PRADAN put the establishment of SHGs as a first and main step in the efforts to help the poor to be self-reliant. PRADAN focuses on Group approach by organizing the poor into self help groups (SHG) through social mobilization process. Against this backdrop of this programme, the PRADAN’s guidelines emphasis on the role of NGOs and their significant participation in mobilizing people and to creating awareness among the people for the successful implementation of the PRADAN schemes.

PRADAN’s core competency is in the area of sustainable livelihoods. By addressing issues of livelihood, PRADAN has been able to make an impact in the lives of
poor communities. Having access to sustainable livelihood opportunities, the poor become less vulnerable to adverse natural and man-made forces. Control over their source of livelihood improves the poor’s image of themselves. Livelihood is a tangible instrument around which rural poor people can be organised, opportunities to deal with outside systems be created, and a greater impact on the fight against poverty be attained.

In this light, PRADAN is guided by the principle that for the rural poor communities to be able to access opportunities for sustainable livelihoods, they must first be enabled. This concept of “enabling communities” implies that PRADAN adopts participatory processes in its work with the people, making available ideas and technologies in a manner that enhances the poor’s access to and control over their resources. These resources, in turn, aid in the improvement of their lives, in organising them into appropriate peoples’ institutions at various levels, to improve their bargaining power and in enhancing their ability to deal with mainstream systems and provide sustainability to the interventions.

Some literature review can be done to understand the approaches in use by others as well:

According to Sachs (2005), a ‘poverty trap’ must first be solved in combating poverty. Although the poor have willingness to overcome their ill-being, they are not able to do it by using their own resources. There are so many factors that trap the poor until they are in powerless conditions, such as diseases, climate stress, environmental degradation, physical isolation, and also extreme poverty itself.

In helping the poor to climb out of poverty, NGOs use two approaches: supply-side and demand-side (Clark, 1995). In a similar sense, Fowler (1997) identifies two types of NGO tasks: micro-tasks and macro-tasks. From the supply-side or micro-tasks approach, NGOs provide various basic public services to the poor. It is argued that especially in countries where government lack public services, NGOs play a significant role in the direct provision of social and economic services. In general, NGOs emerge and play the roles as service providers.
Unlike the supply-side approach where NGOs directly provide services to the people, the demand-side NGOs play indirect roles. The demand-side role of NGOs can be seen as being an articulator of the people’s ‘voice’. NGOs mobilize and clarify the demand for services, from both the government and the market, so that the people are able to achieve its development goals. In the context of service delivery, generally, NGOs seek to improve the access of the people to the services provided by the state. NGOs also engage in policy advocacy to influence public policies concerning the poor people. In line of this approach, NGOs have developed various strategies to influence the process of public policy making and to control the implementation of development programs or projects. This is also an area into which NGOs have been moving during the 1990s when they revised and re-strategized to move away from direct service delivery and prioritized policy advocacy and lobbying (Hulme, 2001).

Clark (1995) identifies some potential NGO contributions by employing the demand-side approach as follows: “Such NGOs assist citizens in finding out about activities of the government and others which might affect them; they use advocacy and political influence to hold local officials accountable for activities (or inactivity) which are damaging to the poor; they help communities mobilize and form societies to express their concerns, and help guard against reprisals; they construct fora in which officials can consult people about development plans and listen to alternatives presented by the people; and they help ensure that individuals disadvantaged by government decisions receive just compensation, negotiates with affected parties” (Clark, 1995: 345).

These two approaches are not mutually exclusive. In the recent trends, NGOs combine the two approaches for increasing their efficacy to reduce poverty. In practice, NGOs can function on both the supply and the demand sides and even forge the linkages between the two sides. The latter is emphasized by Fowler (1997) by arguing that it is necessary for NGOs to make a linkage between micro-tasks consisting of provision of goods, of social and of financial services, capacity building, process facilitation, and fostering linkages, and macro-tasks consisting of policy advocacy, lobbying, public education and mobilization, monitoring compliance, and reconciliation and mediation (Fowler, 1997: 12-16).
PRADAN develops savings and credit activity as a basis for enhancing micro business. To do micro business, the people need an access to financial service institutions. In order to strengthen the group, community facilitators encourage the group to follow three main guidelines. Firstly, the group should focus on income generating activities, such as the formation of savings and capital, and the development of production enterprises and marketing. Secondly, the members of the group should have openness of mind and attitude especially in managing various ideas and interests of the members. And thirdly, participatory or democratic mechanisms should be used in formulating the group decisions.

The Case studies of PRADAN are enlisted below to fulfill the very objective of this paper as;

**Case Studies of PRADAN NGO and poverty alleviation:**

**PRADAN FOR MICROFINANCE:**

Finance and financial institutions are a critical component of infrastructure that impacts human development. The role of finance in the lives of people—especially the poor and those with poor individual and social asset base—is often defining, whether it is access to consumption credit, credit for business or work, access to micro credit for meeting basic, day-to-day expenses, or the financial security required in the times of death, disease, or disaster.

Finance is one of the inputs that can provide the poor and the needy with the required ‘push’ to overcome food insecurity, social backwardness, livelihood vulnerabilities, seasonality, and debilitating shocks, and to cross over to the other side of the poverty line. Irrespective of the location of a household (rural or urban) or its economic status, it requires finance in varying amounts to meet diverse production and consumption needs that can be categorized into life cycle, emergency, and investment needs(Sa-Dhan 201+3).

Poor households are seldom able to pool sufficient resources on their own to address their basic livelihood requirements. Consequently, they compromise on meeting the basic needs of their members, leading to poor health and productivity of women, other earning
members, and youth in the household; lack of education and production skills, thus, limiting their opportunities for employment; inadequate housing; and persistent food insecurity fuelled by a perpetual state of indebtedness at the hands of local moneylenders. Such conditions lead to a poor quality of life of the poor in both rural and urban areas, and this is where major financial services (savings, credit, and insurance) can come to their rescue. Emerging field experiences also reveal the impact that timely and targeted provision of credit and finance can have on people’s lives.

SHG-based credit interventions do not stop at improving disposable incomes of the members. A study carried out in 2012 for testing the Consultative Group to Assist Poor (CGAP) Poverty Assessment Tool with the SHGs promoted by the NGO PRADAN (Professional Assistance for Development Action) revealed the following:

- Households of SHG members were less likely than non-members’ to experience food shortage, and those that did, experienced it for a shorter period than non-members.
- They also had better access to clean drinking water.
- SHG members had less reliance on moneylenders, and better capacity to save, accumulate assets, and diversify livelihoods.
- Far greater numbers of SHG members’ than non-members’ children attended school, and there was greater gender equity in school attendance for SHG members.
- SHG members also compared favourably to non-members on a variety of health issues: for example, they were more likely to know about family planning methods, childhood immunization, and causes of diarrhoea.
- Membership also increased their likelihood of attending community-level meetings of various kinds.
- The comparison between PRADAN SHG members with and without livelihood promotion was also extremely striking. Those who were part of the livelihood promotion project, whether they were also part of an SHG or not, demonstrated stronger effects in relation to gender indicators than non-members or other SHG members.
One of the major NGOs running SHG programmes in MP is PRADAN which is a national voluntary agency working in 26 districts across seven states in the country. PRADAN’s mission is to help the rural poor in India, by focusing on the promotion and strengthening of their livelihoods. The NGO recognizes credit as a key input for livelihood promotion, and considers micro finance delivery through an SHG model as a necessary and complimentary strategy to livelihood promotion. In India, PRADAN was promoting 5358 SHGs that were addressing the needs of 76742 female clients (53.5 per cent tribals, 14.5 per cent *dalits*, and 29.5 per cent OBC beneficiaries). PRADAN seeks to promote SHGs as the first step towards local livelihoods planning, for undertaking sectoral interventions, and subsequently, to leverage credit on a large scale.

In MP, one of the most successful and widely cited SHG-based livelihood interventions of PRADAN has been the poultry enterprise, which consists of rearing broilers for consumption in towns and cities. The NGO has helped establish a producer organization, so that market and other fluctuations can be absorbed and the entrepreneurs also gain from scale economies. The programme currently covers 244 producers, organized into Kesla Poultry Co-operative (KPC) in Hoshangabad district. The KPC works according to modern principles of supply chain management model, and a strategy based on forward and backward vertical integration. Each producer is selected carefully and is given hands-on training before s/he is assisted to set up a unit.

The KPC seeks to provide its owner-members with a minimum additional income of Rs 7500 per annum from broiler farming. It aims to capture 35 per cent market share of the Bhopal broiler cluster; to become the largest vertically integrated production house in MP; and to demonstrate the financial viability and technical feasibility of decentralized, small-scale poultry. The Co-operative provides members all the inputs at prices and quality standards available to large farmers. It provides reliable marketing services. Through a system of decentralized input distribution, door step marketing service, and localized veterinary care, a complete production package is available to members; this ensures participation of women in the activity rather than being appropriated by men. The system of de-linking production risks from enterprise risks by fixing the input–output prices helps the Co-operative remain competitive in the market and insulates member-
producers from volatile markets. A blend of local cadre drawn from the member families and professional management ensures that there is unwavering commitment to the Co-operative’s mission and efficiency.

The Co-operative today rears more than 3 lakh birds a year with an annual turnover of Rs 187 lakh. It has retail and wholesale outlets in 4 markets and is poised to expand its market chain. It generated incomes to the producer members to the tune of Rs 11 lakh. Additionally, the Co-operative provides close to Rs 7 lakh to workers selected from amongst the producers for providing veterinary services, central production, and marketing services, and to workers at warehouse-retail points.

Income from poultry has reduced family deficits and replaced wage earning in the existing livelihood portfolio of the family. Producers earn an average of Rs 8000 per annum, which translates into more than 270 person days per family at prevailing wage rates of Rs 30 per day. Women have access to this employment opportunity by working at home for 2–3 hours a day. The co-operative reaped a net profit of Rs 2.3 lakh as on 31st March 2002. Over the years, PRADAN has established linkages, financial systems, self-management, and mutual support routines and an intensive training programme to launch new people into the enterprise. PRADAN has also taken steps to initiate replication of the Kesla model in Sidhi under the MP Government’s District Poverty Initiatives Project (DPIP). It is envisaged to provide opportunities to generate incomes through broiler rearing to 350 poor families in the identified villages. Locally, the project would continue to expand to about 50 new producers per year, the principal constraint being control over the market. Besides poultry, PRADAN is also working in the areas of irrigation, and silk, oyster mushroom, and milk production for rural livelihoods promotion in MP.

GENDER EQUALITY PROJECT:

The Gender Equality project is a pilot that PRADAN is implementing in nine project locations with 80,000 women in partnership with UN-WOMEN and Jagori. Unlike the rest of PRADAN’s Programmes that work for economic development, the Gender Equality project aspires for larger social and political empowerment led by women. Over the next two years, the programme is expected to cover all of our project
Over a period of time, PRADAN has realized that it is not enough to focus on income generation for families while women, who are equal stakeholders in the family, face violence or discrimination. It is important to see how our work puts women in charge of their lives. This shift is based on the belief that women are equal stakeholders in the development process. It calls for women to work together on a large scale as collectives and strive to bring about a cultural change in the patriarchal society.

Mass rural poverty and the marginalization of women results from imbalanced interactions between and within the three broad constituents: People (Individuals, groups and communities), Institutions (social, political and economic) and resources (natural and financial). Thus, PRADAN’s approach to livelihoods now focuses on not just creating assets and enhancing income but also re-configuring the dynamics between people, institutions and resources, leading to a more equitable and just society.

At individual level few success stories are enlisted as;

**DADIMO: INNOVATING LIVELIHOODS:**

Dadimo, 41, has managed to rebuild her life through her Self-Help Group at Sosopi, a small hamlet in the remotest block of Jharkhand’s West Singhbhum district. With a small landholding of 0.14 ha. – and a husband suffering from prolonged illness – it was a difficult life for Dadimo being the sole breadwinner of the family. Besides working as an agriculture labourer in other farmers’ fields, she kept a small breed of livestock, which she often needed to sell in order to make ends meet. No matter how hard she was working, her family’s food sufficiency would last for only six months.

Dadimo is now the proud owner of a shop, on which she devotes her days, while at the same time managing cultivation in their own and leased land. She is also an active federation member of Self-Help Groups in her panchayat.
It was in October 2003 when PRADAN first set up a Self-Help Group in Dadimo’s village. At that time, the group had 14 members. Dadimo was the seventh member to take out a loan from the group funds. She used her first loan of Rs. 200 for her puffed-rice business. That loan had a cycle of one week which she repaid within two weeks. Within a little more than three years, she took out 16 cycles of loan, amounting to Rs. 66,600. Dadimo has proven herself to be one of the most credit-worthy members of her SHG, having repaid all of her loans on time.

She used her money to invest in her own shop and create improvements for her farming, a task she fulfilled with training support from PRADAN. Today, Dadimo earns an average profit of Rs. 2,300 every month from her shop and around Rs. 7,000 to Rs. 8,000 a year from her vegetable cultivation.

And she continues to innovate. With her latest loan of Rs. 12,000, Dadimo plans to purchase bullocks both for use in her own field and for offering them for hire. Moreover, she seeks to engage her husband’s cooperation in managing a paddy de-husking machine.

Dadimo is a fine example of how SHGs can help change lives. Just recently, she managed to transfer her son from the village school to Saint Teresa in the nearest town.

She saves Rs. 100 every week in the SHG, and for her loans, makes two Recurring Deposits of Rs. 580 and Rs. 100 in the nearest Post Office. She says, “If you can properly use the money you need not stick with one business only. The only thing you need is courage.”

2. RAMANIUS: SELLING SEEDS OF PROSPERITY

Ramanius is an agriculture service provider and owner of a seed and fertilizer store. Being the eldest son, he was left with the task of taking care of his four brothers and two sisters after they lost their parents early.
Farming was the main source of livelihood for Ramanius and his fellow villagers in Tukku Toli. But while most of them have land, they suffered from lack of irrigation. PRADAN’s assistance in Tukku Toli remained constant over time. A couple of years back, PRADAN installed a lift irrigation system in the village. Although Ramanius’ farm could not be included in the system, he still benefited from the new farming practices which were introduced to the village by PRADAN. He proudly says, “I was the first to use new paddy seeds and also the first to take a loan for agriculture from the SHG at 2% a month. I borrowed Rs. 5,000 for a pair of oxen and Rs. 7,000 to start a seed and fertilizer shop. I repaid both within five months.”

In the last three years, Ramanius’ paddy output has grown from 2,840 kg to 7,300 kg. He leased in a tenth of an acre of the newly irrigated land to grow winter vegetables in 2003 and earned Rs. 10,500 by selling those. When PRADAN personnel asked villagers to identify someone to be trained to assist them in farming, they named Ramanius as their unanimous choice. They were even willing to pay for his services. Says Ramanius, “PRADAN taught me new ways of farming and how to take care of farm animals. Now I, along with another person from a nearby village, provide veterinary care to livestock in seven villages. This brings in Rs. 3,000 a year.”

Ramanius also earned Rs. 5,500 from his makeshift seed and fertilizer shop in its first eight months of existence. He expects to earn more in the kharif season. The villagers have benefited too, with technical help and quality inputs for agriculture and livestock rearing well within their reach. Ramanius also brings them the latest market information. He dreams of setting up a pucca seed and fertilizer shop so that, all round the year, every villager has access to good seeds and fertilizers.

SAVITRIBAI: HELPING WOMEN HELP THEMSELVES

Before joining the Self-Help Group initiated by PRADAN in 2002, Savitribai’s family was completely dependent on daily-wage labour and the occasional harvesting of
soyabean to make ends meet. The SHG has helped Savitribai’s family create improvements in their household income.

She took out loans amounting to Rs. 60,000 in order to set up a poultry farm in her backyard. The poultry farm has since been helping her family to earn more and meet their needs. But it is not only the enhanced incomes that her SHG has assisted Savitribai. For her, one of the most positive changes in her life – and in that of her entire village – is that they have become independent of moneylenders. The old power equation has shifted and now women can directly access banks instead of being always at the mercy of the moneylenders.

Savitribai quickly earned the respect of the women in her community, eventually becoming one of the 450 leaders of the Narmada Mahila Sangh, a coalition of 300 SHGs known for its charged presence in the community. Speaking of the impact of having an organised movement of women, Savitribai enthusiastically says, “Women now regularly participate in panchayat meetings, enjoy freedom of mobility, and share the household duties with their husbands.”

**AJAMBER SOY: ESTABLISHING ENTREPRENEURSHIP**

Ajamber Soy of Punnibudi village in Jharkhand, had been rearing Tasar since 1998, using traditional practices learnt from his father. Like many others around him, Ajamber too looked at the traditional trade of Tasar rearing as a loss-making venture, signified by low and unsure returns for the families who practiced it. In spite of his deep interest in trying to better the situation he was not sure how to go ahead. His opportunity came when PRADAN started working in his village. PRADAN highlighted the practices and areas in Tasar cultivation that needed improvement in the light of technological advancement, and suggested new methods of silkworm rearing and silkworm seed production. This convinced Ajamber When PRADAN called for volunteers for training in 2004, Ajamber readily agreed and visited Godda to gain exposure to new methods of Tasar rearing being promoted by PRADAN. He quickly picked up the modern and improved techniques of Tasar sericulture from PRADAN. An entrepreneur by nature, Ajamber made the best use
of the opportunities that came his way. He received assistance for procurement of required rearing and grainage equipments from PRADAN. He also mobilised loans from financial institutions for his venture. Buoyed by the support which he received, Ajamber scaled up his level of production over the years. Today he has an annual turnover of over Rs. one Lakh from his grainage. Ajamber, today, has employed eight people in his grainage, and provides them a decent living. He also provides training in silkworm rearing to the youth of his village so that they take up a remunerative livelihood in the village itself and lead a life of dignity. His success has not only created a positive impact on his life, but also on others’ lives resulting in the overall economic progress and welfare of his village. He now plans to set up a plant with turnkey facilities, right from rearing of silkworms to manufacturing silk. In the year 2008 Ajamber was declared the National Winner in the Citigroup Micro Entrepreneur Awards Programme.

NGO CONTRIBUTIONS AND CHALLENGES:
Assessing NGO performance in poverty reduction is a difficult task. It is clear that the NGOs have significantly contributed in reducing poverty in rural areas where the majority of populations live below the poverty line. Some lessons learned can also be generated from their best practices.

In general, the development interventions of PRADAN have reached the poor and increased their standard of living. It has been able to reach out the poorest in India: adivasi, dalit, landless people, and other marginal groups. Although there is no program clearly set up for and exclusively benefited the poorest, PRADAN has had a long history of engagement in its efforts to deal with the poor especially in the rural areas of India.

The NGOs also posit the women not only as the main target but also as the main agency of program interventions. As clearly indicated by the success of projects, the involvement of women is widely believed by many agencies as an influence as to whether the poverty reduction program will succeed or fail in achieving its goals. In the context of the very established patriarchal system in India, SHGs in PRADAN are able to involve the women in every stage of the program sequences. In the similar sense, from the outset of microfinance scheme, they put the women in the central position.
The successful program interventions of the NGOs are actually results of long endurance and engagement in accompanying the poor. From the beginning, these NGOs are formed as a part of their response toward the ill-being of the poor. Their long engagement provides them with worthy experiences and knowledge in dealing with complex and structural problems of poverty. Raised from such experiences and knowledge, these NGOs formulate and implement their genuine and innovative strategies and approaches of poverty reduction.

The main characteristic of their approach is that they put the core problem of the poor first. The program intervention is designed as an entry point to address the core problem. Given that the core problem of each area or community varies, a similar and rigid program intervention cannot be practiced. In the case of rural areas, the core problem of the poor is the lack of sanitation infrastructures, while in the case of urban places it is the lack of access to capital or financial resources. The inception of microfinance acts as a part of their efforts in searching a suitable intervention scheme to address the core problem of the poor. Only in a condition where the core problem of the poor are addressed, can NGOs expand their interventions to enhance the well-being of the poor. This fact provides a lesson to be learned that there is no short-cut to sustainable poverty reduction.

It has been noted that, NGO contributions in poverty reduction are limited. While NGO projects reach the poor people, they tend not to reach down to the very poorest. NGO projects also tend to be small scale. The total numbers assisted are also small. Furthermore, it is also rare for NGO projects to be financially self-sufficient. Finally, although NGOs execute a number of very imaginative projects, many of them appear to be unwilling to innovate in certain areas or activities. Therefore, because of these limitations, the roles of NGOs in alleviating poverty cannot be exaggerated.

Poverty is not caused by a single factor at the local level. Many variables working at macro-global context influence the persistent poverty in the world. In other words, in order to enlarge their level of achievements, NGOs must deal with some challenges.

- Strengthening local institutions and building linkages with development agencies at the supra level of the village.
Scaling up the program intervention
Building synergy with the government and business sectors.
Engaging in policy advocacy

CONCLUSION:

The involvement of NGO in alleviating poverty has changed the life of the poor in developing countries. By designing and implementing innovative program interventions, they have enhanced the quality of life of the poor. They have facilitated the poor to reach a first foothold on the development ladder.

The NGO explained in this paper indicate that at the local level, NGOs have intensively engaged in poverty reduction. As shown by the cases of poverty reduction programs, the NGO appear to have performed reasonably well. The conditions of the poor have improved, sometimes quite significantly, as the result of the NGO intervention. Given their valuable experiences and the development of their organizational capacity, it is most likely that their contributions to poverty reduction will increase in the future.

From a macro perspective, given a huge number of the poor, NGO contributions in poverty reduction is reasonably limited. However, they provide an inspiring work to find alternative models or ways in enhancing the standard of living of the poor. Their works actually constitute as islands of excellence in the context of the very slow progress in alleviating poverty in the world. In order to address the limitations and to enhance their performance, NGOs have to deal with some challenges: strengthening local institutions and linking them with supra-local level of development agencies, scaling up their innovative development program, building synergy with the government and the private sector, and engaging in advocacy for pro-poor development policy.

REFERENCES


