

## MANAGING EVENTS THROUGH IMAGE MAKEOVER: AN UNIQUE CAREER CALL



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### Abstract

If one is comfortable at multitasking while at the same time feeling highly allergic to get into a monotonous routine of ten to five office schedules, then there is obviously a wiser option available to choose out of the nascent pallet ---- a unique career in the field of event and image managements. Latest among the numerous disciplines of modern management professions, this tagged-into-one domain has evidently created a most-choicest niche of its own in the world's arena of fabulous career avenues. To pick from the surging varieties of celebrations amongst ----- from seminars to birthdays, from product launchings to marriages, from fashion jewelleries to bridal make-up, modelling and beauty pageants and the like, one may definitely look for staging a perfect and most stylish event which adds to publicity glam and flamboyance.

**Keywords:** Allergic, Bridal, Fabulous, Flamboyance, Pageants, Modelling, Multitasking.  
**Introduction**

These days, where countering competitions remains the buzz word for tasting success, be it personal, professional or social life, none can really dare to bypass it. While many of us do carry a lot of knowledge, experience, skills and abilities in respective fields, we are often judged by what actually meets the eye. Let truth gets unfold, it is one's approach that comes first, based on which opinions are formed in the next few seconds. So whether it is to get a job, get a suitable match or get a prospective client on contract, image and event or event and image, the non-separable twins alone comes to the fore.

Careers, pertaining to the lucrative arenas of event vis-a-vis image managements, of

late, are alluring more and more youth and also the youthful now-a-days than ever before. It is definitely a wiser choice worth grabbing in a scenario where conventional employment opportunities are appearing choke-a-block syndrome. Beside regular entrants, to begin with, many homemakers are also now increasingly stepping into this nascent combined discipline by organising small and private events in their spare time.

Alongside, today there are many professional event management entities, thanks to the growing clouds of hospitality sectors, which take on independent consultancies and work with specific help-seekers on a freelance basis, as and when such specific needs arise.

Event and image management today is a product of the demanding new age world. The exposures of glamour and flamboyance have become the order of the day and helping in literally mesmerising the social and corporate events of all kinds. From seminars to birthdays and product launchings to marriages, grooming those future adults from job-ready to marriage-ready or super housewives etc., today everyone is vying to stage the perfect and most stylish events with occasion-fit image makeover.

## **The cue**

The growing domination of visual medias via television and of course through the ever green film industry have had a great influence on the lives of most people who are hell bent to get fascinated with the same kind of lavish lifestyle and glamour in their own reaches.

The entire canopy of entertainment industry and the common people around as well, obviously would require the services of trained event and image management specialists who are equipped with expertise, and borrow heavily from mainstream management and media concepts. These entail a series of background activities consisting of conceptualisation, planning, organising, budgeting, directing and executing etc. aiming for exhibitions, stage-shows, fashion or rock shows, music concerts, celebrity appearances, charity shows, conferences, weddings, product or brand launches and sport shows, to name a few.

## **The array of functions**

First and foremost, an event cum image manager, while using his excellent image persona, fetches clients for his company. The next stage delves through detailed conceptualisation of the whole show network around the theme as requisitioned by the respective client. The remaining major thrusts then subsequently come to create a publicity hype befitting marketing appeal that guarantees product awareness among the audience to ensure its ultimate success.

The desired hype is essentially created by the efficient use of multimedia including print and TV channels. The celebration venue is booked well in advance and properly organised for the show. Other aspects like creating sitting arrangements, lighting, public-address system, food and beverage, stage, stalls, security, ticketing, complimentary passes for VIPs and sponsors etc. for the event thus follow on.

### Event and image building

Image management is essentially a part and parcel of a successful event managing process. Like the ever green conundrum, seeking answer to which one has come first--- the egg or the chicken, one cannot similarly guarantee for sure that whether the image or the event needs to be taken care of at first? It is the faces of a same coin and both the terminologies have common importance in a situation to deal with. By intellectually manipulating the personal as well as organisation's image to an appreciable level, one would be able to provide necessary fillip for the possible success to an event. It is nothing but the art and science of projecting a powerful event statement backed by establishing its image to eventually create a great first impression before the prospective clients thereby optimally utilising one's personal resources of clothing, grooming, body language including social etiquette and vocal communication (see figure 1).

Managing an ideal image configuration necessitates highest value addition for visual communication. In today's highly fierce competitive world, the need for creating a positive impression is paramount for success in personal, professional and also in social lives. In India, already catering to the eventual growing demands from ten important city centres, the Image Consulting Business Institute, the academic wing of the First Impression Consulting Pvt. Ltd, is providing a cutting edge image building training under the international curriculum partnerships agreement with Ms. Judith Rasband, CEO of world renowned Conselle Institute of Image Management, USA. This Indian facility, duly armed with the prestigious accreditation from Scottish Qualifications Authority, are offering both Diploma and also Advanced Diploma programmes in image management covering the various aspects of leadership training, counselling, public- speaking and also the marketing skills.

**Figure 1**

### Elements of Image Management

Clothing
Grooming
Vocal Communication
Body Language
Etiquattee

The innovative programme being offered embraces contents that introduce necessarily one to the most inherent concept of both outer as well as inner image. It trains the aspirants in the finer points of verbal and non-verbal communications, protocol and etiquette, wardrobe management and also professional make-up and grooming.

Of late, to an encouraging note, today many upcoming event managers, equipped with the dual specialisations of image and event management qualifications, are increasingly finding the most glamorous and highly paid career opportunities. The options range from new-age jobs like fashion consulting, fashion blogging, fashion styling and also fashion media to the lucrative arena of premium fashion, luxury lifestyle, beauty and cosmetic industries. It also finds vast openings in the aviation, hospitality and fast-growing public relation space as well. Some are even choosing to have their own independent consultancy services to eventually cater the high net- worth individuals and companies by forming a trainer pool which is able to provide a practical approach to the entire programme rather than focusing merely on academic output.

Similar to the image management courses, one can also acquire professional qualifications in event management, presently being offered by various institutes in India under the purview of National Academy of Event Management and Development. There are scopes for both undergraduate Diploma as well as advanced P.G. Diploma courses.

After successfully passing out of any of the above courses, scopes for the individual entrepreneurs who wish to further their own business prospects can have opportunities to be inducted into franchisees schemes offered by many agencies as Master Franchisees or Business Franchisees with very modest investments.

The prospective entrants to the course need to have good communication skills, inherent marketing skills, be ambitious, bold, outspoken and possess high motivations in continuously honing his or her acquired skills on a regular basis.

## **Creativity counts**

In an environment where marketing entities mostly concentrate spending more on product promotion, seminars, etc. than on events and image building measures in print and radio, this career definitely offers great scope for creativity. In this specialised field, one gets the fabulous opportunities to imbibe multitasking at one go as it breaks free from the shackles of being a monotonous ten to five job. It is a highly performance-oriented field and any default or loose rope may ultimately tell upon the future.

## **Conclusions and suggestions**

The first and most important thing that a person acquires through image and event management training is the leadership qualities along with PR qualities. The marketing and business acumen of an individual will be able to develop excellent budgeting skills as well as risk management skills. All these qualities will give one the required insight as well as

foresight to deliver satisfactory services to his clients.

These unique career-bound new age options do not only make an individual capable of mere conceptualising, rather it makes the individual eventually fit of rendering his concept and creative ideas into reality by executing them to ultimate perfection. The demands for such street-smart individuals are increasingly attaining manifold and are desperately being sought after by various agencies in India and abroad.

Amidst the increasing chaos for seeking an employment opportunity through the doors of those conventional avenues, it is imperative that one has to get prepared to think something that ensures an out of box solution. Engaging in event and image management industry invariably show a person an innovative and creative alternative where one is sure to justify his or her entrepreneurship skills.

While our country is facing unprecedented challenges of increasing pressures from educated unemployed, these suggested new thought ways could bring solace against odds of uncertainties. India today provides great opportunities, one needs to be motivated to grab it.

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## THE LONG-RUN IMPACT OF MERGER AND ACQUISITIONS ON LIQUIDITY AND OPERATING EFFICIENCY: EVIDENCE FROM MANUFACTURING INDUSTRY IN INDIA



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### Abstract

India has emerged as one of the top countries with respect to merger and acquisition (**M&As**) deals. Indian corporate firms have been actively involved in **M&As**, domestically as well as internationally. Financial literature suggests that **M&As** decisions may be the result of one or more of the following motives: *synergy, agency, and aggressive*. *The present paper is carried out with the objective of studying what shift-in-structure (improvement) is experienced especially in the liquidity (**L**) and operating efficiency (**OE**) after **M&As** by studying 39 selected acquiring manufacturing firms in India.* The firms, which had gone into the **M&As** process during the **financial year 200607 are only considered for the study**. Paired samples t-test is applied to study the **L** and **OE** of these firms in the pre-and post-merger periods. The study proves that the parameter **L** has significant difference for 23 out of 39 manufacturing firms in the post-merger period, hence, manufacturing firms have the capacity to pay their debts as and when the due falls after **M&As**. The parameter **OE** has significant difference for 30 out of 39 manufacturing firms in the post-merger period; therefore, acquiring manufacturing firms use their assets and liabilities very well internally in the post-merger period.

**Key Words:** Merger & acquisition, post-merger liquidity, operating efficiency after merger & acquisitions

**JEL Classification:** G34; L25

### Introduction

Financial literature suggests that **M&As** decisions may be the result of one or more of the following motives: *synergy, agency, and aggressive*. The synergy motive implies that acquiring firms expect synergetic gains that result by merging the resources of the two firms. The gains may arise from various sources such as *potential reductions in production or distribution costs, realization of economies of scale, vertical integration, adoption of more efficient production or organizational technology, increased market power in product markets, increased utilization of the acquirer's management team, reduction of agency costs by bringing organization-specific assets under common ownership, elimination of inefficient target management, the use of underutilized tax shields, avoidance of bankruptcy costs, increased leverage, and other types of tax advantages*.

The study has analyzed liquidity (**L**) and operating efficiency (**OE**) of manufacturing firms in India in pre-and post-merger period. The existing literature in the area of research prove differing results, for instance, **OE** of target firms involved in abandoned mergers showed no improvement over a three year period after the bid-compared with a three-year period before it (**Richard and Holl, 1991; Kumar, 2009; and Wilson, 2010**. *Acquiring firms were at the lower end in terms of growth and liquidity of the industry. The target firms performed better than the industry performance in terms of profitability (Pawaskar, 2001)*. The acquiring firms always benefited more than that of the target firms in the **M&As** event viz current ratios and quick ratio (**Jain and Raorane, 2011**). *With this background, the present paper is carried out with the objective of analyzing what shift (improvement) is experienced in the L and OE of the acquiring manufacturing firms after M&As, in India.*

## Review of Literature

**Ramaswamy (1997)** concluded that the difference between target and bidder banks in their orientation towards **OE** has an adverse impact on performance change following a merger, and that cultural incompatibility between target and bidder, measured as a function of risk-taking attitudes among the other things, was negatively related to post-merger outcomes. **Rau and Vermaelon (1998)** found that the acquiring firms under-perform in the three years after the **M&As** while tender offers earn a small but statistically significant positive abnormal return. However, the long-term under performance of acquiring firms in mergers is not uniform across firms. **Kaur (2002)** found that both profitability and operating efficiency of targeted firms declined in post-takeover period, but the change in post-takeover performance was statistically not significant. **Rahman and Limmack (2004)** concluded that the components of operating cash flow indicate that improvement in post-acquisition performance is driven both by an increase in asset productivity and the higher level of operating cash flow generated per unit of sales. **Vanitha and Selvam (2007)** found that the **L** measures viz., *current ratio, quick ratio, net working capital ratio, and diversion of short-term funds* have not influenced the acquiring firms in the post-merger period. **Azhagaiah and Sathishkumar (2011)** concluded that there has been a significant increase in current



ratio and quick ratio of acquiring firms after merger. **Bertrand and Betschinger (2011)** found that the Russian acquirers suffer from the inability to leverage value due to limited **M&As** experience and capability, especially when making cross border acquisitions.

The cited literature provides an overview of impact of **M&As** on **L** and **OE** of manufacturing firms in the post-merger period. The previous studies, mostly, attempted to study the short-run impact say three years prior to merger and after the merger period. With these evidence and background, an attempt has been made in the present study, to study the impact of **M&As** on the **L** and **OE** of manufacturing firms in India in the long-run i.e., five years prior to merger year and five years after the merger year.

## Statement of the Problem and Significance of the Study

When a firm is merged with the targeted one or is acquired by the profit-making firm, generally it benefits both the firms; hence, it is the order of the day that all firms are interested in resorting to corporate restructuring in the name of **M&As**. However, the question that often arises is whether all the firms those are merged / acquired end up with improvement in **L** and **OE**? Because, some studies say **Richard and Holl (1991)**; **Kumar (2009)**; and **Wilson (2010) etc** prove that there was a negative performance after **M&As** the present paper is an attempt to seek answer to the stated question by analysing the impact of **M&As** on **L** as well as on **OE** by studying 39 selected acquiring manufacturing firms in India, which are listed in one of the leading stock exchanges in India viz the **Bombay Stock Exchange** and which have undergone **M&As** in the same (*related merger*) industry during the financial year 2006 2007. Hence, an attempt has been made to study the **L** and **OE** of the manufacturing firms in India in the long-run, that is during the period of five years (20012002 to 20052006) before merger and five years (20072008 to 20112012) after merger, hence, the period of the study is ten years (i.e., from 20012002 to 20112012; merger year 2006 2007 is the base).

## Objectives and Hypotheses Developed for the Study

The paper is primarily designed to examine the relevant benefits expected by adopting **M&As** strategy by the acquiring manufacturing firms in India. The motives behind the **M&As** are, in general, shareholders' wealth maximization, profit maximization, and financial and operating risk minimisation, improved liquidity and operating efficiency. The present paper attempts to analyse the impact of **M&As** on **L** and **OE** of selected manufacturing firms in India. More specifically, the present paper proposes

- To study the effect of **M&As** on *liquidity* in respect of current ratio, quick ratio, sales to working capital ratio, working capital to total assets ratio, and current assets to total assets ratio of manufacturing firms in India after merger; and
- To study the effect of **M&As** on *operating efficiency* in respect of investment turnover ratio, fixed assets turnover ratio, working capital turnover ratio, stock turnover ratio, debtors turnover ratio, total assets turnover ratio, and owner's equity turnover ratio of manufacturing firms in India after merger.



The present paper is attempted to estimate the *L* and *OE* of manufacturing firms in India in the post-merger period. The study has further attempted to investigate and test if there is any significant change in the results achieved by the manufacturing firms due to *M&As*. Based on the objectives, the following hypotheses are developed:

- $H_0^1 =$  There is no significant difference between the *liquidity* of manufacturing firms in India before and after the *M&As* process.
- $H_0^2 =$  There is no significant difference between the *operating efficiency* of manufacturing firms in India before and after the *M&As* process.

### METHODOLOGY OF THE STUDY

#### Data Source and Period of the Study

The study used secondary sources of data, which were collected from the capital market database called **Centre for Monitoring Indian Economy Private Limited (Prowess CMIE)**. Data on *L* and on *OE* for a period of five years prior to the merger year (200607) and five years after the merger year for each manufacturing firm were collected. The number of *M&As* is highest during 200607 (*vide table 1*) in terms of *M&As* deal announcement (228) as well as *M&As* deal completed (179). Hence, the sample units (firms) are based on the list of firms that ventured into the *M&As* process during 200607 **only and are considered for the study** for want of analysing the long-run impact of *M&As on L and OE*. The study period is restricted to 10 years ranging from 20012002 to 20112012 considering the year 200607 as mid-year.

#### Sampling Design

Table 1: Number of Merger and Acquisitions of Manufacturing Firms during 2001-2002 - 2011-2012 in India

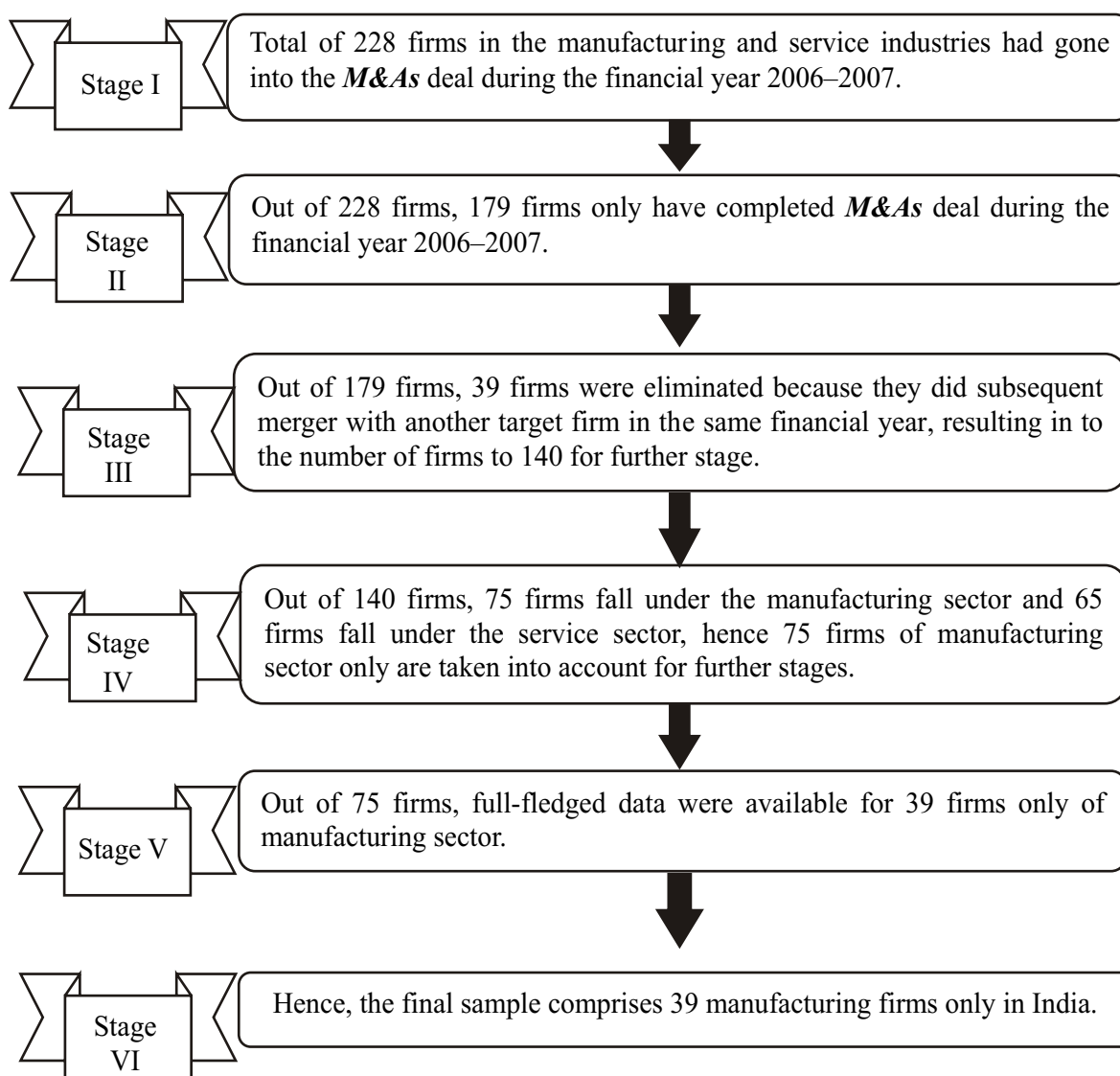
Year	Number of <i>M&amp;As</i> Deal Announcement	<i>M&amp;As</i> Deal Completed
2001-02	164	138
2002-03	133	114
2003-04	141	110
2004-05	147	113
2005-06	211	176
2006-07	228 -After elimination of subsequent merger {M (75) + S (65)} -Data availability for {M (39) + S (24)} -Final sample (manufacturing firms) for the study	179 140 063 039
2007-08	202	176
2008-09	131	108
2009-10	201	147
2010-11	170	109
2011-12	073	024

Source: Compiled Data from PROWESS Database Provided by CMIE  
M-Manufacturing industry; S-Service industry

## Sampling Procedure

Multi-stage sampling technique is used and the different stages followed are shown in *figure A*. The number of *M&As* held in the manufacturing sector in India during 2006-2007 is shown in *table 2*.

Figure – A



**Table 2: Industry wise Number of Merger and Acquisitions held in the Manufacturing Sector in India during 2006–2007**

Sl. No.	Name of the industry	No. of mergers (before elimination of subsequent M&As)	No. of firms went for subsequent M&As	No. of mergers (after elimination of subsequent M&As)	Full-fledged data available in the data source
1.	Food and Beverage	17	04	13	07
2.	Machinery	16	04	12	06
3.	Non-metallic Mineral Products	10	01	09	05
4.	Chemicals	24	06	18	12
6.	Textiles	10	01	09	05
7.	Metals and Metal Products	08	01	07	01
8.	Transport Equipment	05	03	02	01
9.	Miscellaneous Manufacturing	05	00	05	02
	<b>Total Number of Firms</b>	<b>95</b>	<b>20</b>	<b>75</b>	<b>39</b>

$$t = \frac{d}{S/n} \sim t_{n-1}$$

where,  $\bar{d} = \sum d / n$  and  $d = x - y$  or  $y - x$

$$S = \sqrt{\frac{\sum (d - \bar{d})^2}{n - 1}}$$

### Various Measures (Ratios)

**Table 3: Description of Liquidity and Operating Efficiency Ratios Used to Study the Financial Performance of Acquiring Manufacturing Firms in India**

Sl. No.	Classification of Financial Ratios	Variables	Description	Inference
1.	Liquidity (L)	Current Ratio	Current assets / Current liabilities	The ratio is most commonly used for measuring liquidity position of firms of manufacturing sector, which is also called 'working capital ratio'. The higher the <b>CR</b> is better is the position of the firm.
		Quick Ratio	Quick assets / Current liabilities	The ratio measures a firm's ability to meet its short-term obligations with its liquid assets. The higher the <b>QR</b> is better is the position of the firm.
		Sales to Working Capital Ratio	Working capital / Sales	The ratio measures how well the firm's cash is being used to generate sales. An increasing <b>WC_SR</b> is usually a positive sign, indicating the firm is more able to use its working capital to generate sales.
		Working Capital to Total Assets Ratio	Working capital / Total assets	The ratio measures the firm's ability to cover its short-term finance. An increasing <b>WC_TAR</b> is usually a positive sign, showing the firm's liquidity is improving over time. A low ratio indicates the firm may have too much current liability thereby reducing the amount of working capital position.
		Current Assets to Total Assets Ratio	Current assets / Total net assets	The ratio shows the proportion of current assets investment to total investment in assets.
		Investment Turnover Ratio	Sales / Investment	The ratio measures the efficiency in the use of invested capital.

Sl. No.	Operating Efficiency (OE)	Fixed Assets Turnover Ratio	Sales / Net fixed assets	This ratio expresses the number of times fixed assets are being converted into turnover in a stated period. The higher ratio shows that better utilization of the plants and equipment and low ratio indicates that fixed assets are not being efficiently utilized.
		Working Capital Turnover Ratio	Cost of goods sold or sales / Working capital	The ratio measures the efficiency of the employment of the working capital. It indicates the number of times the working capital is turned over in the course of the year. It helps in determining the liquidity of the firm in as much as it gives the rate at which inventories are converted in to sales and then to cash.
		Stock Turnover Ratio	Cost of goods sold or sales / Average stock	The ratio is computed to find out the speed flow of stock by relating cost of goods sold to average stock. It indicates whether stock has been efficiently used or not.
		Debtors Turnover Ratio	Cost of goods sold or sales / Sundry debtors	The ratio is also called as ' <i>receivable turnover ratio</i> '. It indicates that the number of times debtors turnover on an average in each year.
		Total Assets Turnover Ratio	Cost of goods sold or sales / Total assets	The ratio measures the ability of a firm to use its assets to efficiently generate sales. This ratio considers all assets, like plant and equipment, as well as inventory, accounts receivable, as well as any other current assets.
		Owner's Equity Turnover Ratio	Cost of goods sold or sales / Equity capital	The ratio is used to calculate the rate of return on common equity, and is a measure how well a firm uses its stockholders' equity to generate revenue. The higher the ratio is, the more efficiently a firm is using its capital.

Source: Compiled from various textbooks including Management Accounting by S. N. Maheswari.

## Impact of *M&As* on Liquidity and Operating Efficiency

### (A) Impact of *M&As* on Liquidity of Manufacturing Firms

**Liquidity (*L*)** in terms of Current Ratio (***CR***), Quick Ratio (***QR***), Sales to Working Capital Ratio (***S\_WCR***), Working Capital to Total Assets Ratio (***WC\_TAR***), and Current Assets to Total Assets Ratio (***CA\_TAR***) between the pre-merger and post-merger periods has been computed to analyze the impact of ***M&As*** on ***L*** of the firms, which entered into merger deal during 2006-07. Further, paired samples t-test is also used to test the significance of difference between the ***L*** of manufacturing firms in India in the pre-merger and post-merger periods. The results of the analysis are shown in *table 3*.

**Current Ratio (*CR*)** expresses the relationship between current assets and current liabilities. It is inferred (*vide table 3*) that the ***L*** in terms of ***CR*** of ADF Foods

*Ltd, Arvind Ltd, Permanent Magnets Ltd, Pfizer Ltd, and Visaka Industries Ltd* is significant ( $t = -4.50, P < 0.05; 5.46, P < 0.01; -4.74, P < 0.01; -2.89, P < 0.05; \text{ and } 4.98, P < 0.01$ ) at 1% and 5% level respectively after the **M&As** process. The **CR** in the post-merger period is increased for 19 out of 39 acquiring manufacturing firms.

**Quick Ratio (QR)** measures a firm's ability to meet its short-term obligation with its liquid assets. It is inferred (vide table 3) that the **L** in terms of **QR** of *Arvind Ltd, India Cements Ltd, Indo Rama Synthetics, Jain Irrigation Systems Ltd, Pfizer Ltd, and United Spirits Ltd* is significant ( $t = 3.34, P < 0.05; 4.97, P < 0.01; -2.99, P < 0.05; -2.81, P < 0.05; -3.60, P < 0.05; \text{ and } -3.11, P < 0.05$ ) at 1% and 5% level respectively after the **M&As** process. The **QR** in post-merger period is increased for 22 out of 39 acquiring manufacturing firms.

**Sales to Working Capital Ratio (S\_WCR)** measures how well the firm's cash is being used to generate sales. It is inferred (vide table 3) that the **L** in terms of **S\_WCR** of *ACC Ltd, Arvind Ltd, Batliboi Ltd, Blue Star Ltd, India Cements Ltd, JB Chemicals & Pharma, Modi Naturals Ltd, Pfizer Ltd, and United Spirits Ltd* is significant ( $t = 3.35, P < 0.05; 7.40, P < 0.01; -7.75, P < 0.01; 3.10, P < 0.05; 9.14, P < 0.01; -3.37, P < 0.05; -3.83, P < 0.05; -9.87, P < 0.01; \text{ and } -3.56, P < 0.05$ ) at 1% and 5% level respectively after the **M&As** process. The **S\_WCR** in the post-merger period is increased for 18 out of 39 acquiring manufacturing firms.

**Working Capital to Total Assets Ratio (WC\_TAR)** measures the firm's ability to cover its short term financial obligations. It is inferred (vide table 3) that the **L** in terms of **WC\_TAR** of *Batliboi Ltd, Bilpower Ltd, Blue Star Ltd, EID-Parry (India) Ltd, India Cements Ltd, Permanent Magnets Ltd, Pfizer Ltd, and United Spirits Ltd* is significant ( $t = -7.32, P < 0.01; 4.17, P < 0.05; 3.95, P < 0.05; 4.24, P < 0.05; 5.07, P < 0.01; -4.71, P < 0.01; -8.69, P < 0.01; \text{ and } -3.19, P < 0.05$ ) at 1% and 5% level respectively after the **M&As** process. The **WC\_TAR** in the post-merger period is increased for 18 out of 39 acquiring manufacturing firms.

**Current Assets to Total Assets Ratio (CA\_TAR)** expresses the relationship between current assets and total assets. It is inferred (vide table 3) that the **L** in terms of **CA\_TAR** of *ACC Ltd, ADF Foods Ltd, Ambuja Cements Ltd, Archies Ltd, Arvind Ltd, Batliboi Ltd, EID-Parry (India) Ltd, Emami Ltd, Indo Rama Synthetics, NCL Industries Ltd, Sterlite Technologies Ltd,*

Table 3 - Impact of M&As on Liquidity of Manufacturing Firms in India during 2001–2002 to 2011–2012

Sl. No.	Name of the firms	CR		QR		S_WCR		WC_TAR		CA_TAR	
		t-value	p-value	t-value	p-value	t-value	p-value	t-value	p-value	value	p-value
1.	ACC Ltd.	-2.49	0.067	0.48	0.652	3.35	<b>0.028*</b>	1.74	0.156	2.95	<b>0.042*</b>
2.	ADF Foods Ltd.	-4.50	<b>0.011*</b>	-2.28	0.084	0.39	0.711	1.59	0.186	3.05	<b>0.038*</b>
3.	Ambuja Cements Ltd.	-1.16	0.309	-0.52	0.625	0.08	0.936	0.96	0.389	-3.57	<b>0.023*</b>
4.	Archies Ltd.	-1.34	0.250	0.14	0.893	1.29	0.264	1.46	0.216	5.82	<b>0.004**</b>
5.	Arvind Ltd.	5.46	<b>0.005**</b>	3.34	<b>0.029*</b>	7.40	<b>0.002**</b>	1.35	0.247	-5.19	<b>0.007**</b>
6.	Aurobindo Pharma Ltd.	1.99	0.116	0.22	0.831	-0.41	0.697	0.44	0.682	0.36	0.737
7.	Baliboi Ltd.	-1.12	0.322	-2.13	0.100	-7.75	<b>0.001**</b>	-7.32	<b>0.002**</b>	5.07	<b>0.007**</b>
8.	Bilpower Ltd.	0.24	0.819	0.87	0.433	-0.98	0.382	4.17	<b>0.014*</b>	0.16	0.881
9.	Blue Star Ltd.	2.07	0.107	-1.07	0.342	3.10	<b>0.036*</b>	3.95	<b>0.017*</b>	-1.27	0.271
10.	BSL Ltd.	-0.88	0.426	1.20	0.297	0.70	0.520	0.85	0.440	0.01	0.992
11.	Caplin Point Laboratories	-2.29	0.084	0.72	0.510	2.684	0.055	2.57	0.062	1.53	0.200
12.	Chromatic India Ltd.	-1.46	0.217	-2.56	0.062	1.37	0.242	0.92	0.406	1.22	0.289
13.	Coromandel International	1.56	0.192	-0.64	0.552	-0.06	0.950	-0.27	0.796	0.02	0.981
14.	Dalmia Bharat Sugar & In.	-1.11	0.328	-1.58	0.187	-0.52	0.630	-0.56	0.605	-0.61	0.575
15.	EID-Parry (India) Ltd.	1.06	0.349	-1.21	0.292	2.76	0.050	4.24	<b>0.013*</b>	6.49	<b>0.003**</b>
16.	Emami Ltd.	1.68	0.166	2.68	0.055	2.74	0.052	-0.97	0.386	-3.48	<b>0.025*</b>
17.	India Cements Ltd.	-0.45	0.673	4.97	<b>0.008**</b>	9.14	<b>0.001**</b>	5.07	<b>0.007**</b>	1.50	0.206
18.	Indian Oil Corp. Ltd.	0.19	0.857	-0.13	0.903	-1.92	0.127	-1.79	0.147	0.83	0.449
19.	Indo Rama Synthetics	1.62	0.180	-2.99	<b>0.040*</b>	0.20	0.848	1.07	0.341	-2.91	<b>0.043*</b>
20.	Inducto Steel Ltd.	1.12	0.323	-0.06	0.954	-0.85	0.439	-2.66	0.056	-0.52	0.625
21.	Jain Irrigation Systems Ltd.	-1.50	0.207	-2.81	<b>0.048*</b>	1.69	0.165	0.97	0.386	0.72	0.509
22.	JB Chemicals & Pharma.	0.86	0.436	-2.07	0.107	-3.37	<b>0.028*</b>	0.56	0.603	1.88	0.133

23.	KLRF Ltd.	-1.56	0.194	0.87	0.432	-0.14	0.891	0.63	0.558	0.16	0.879
24.	Marksans Pharma Ltd.	0.60	0.579	0.19	0.852	0.14	0.893	-1.01	0.370	1.53	0.200
25.	Modi Naturals Ltd.	-0.76	0.490	-1.83	0.141	-3.83	<b>0.019*</b>	-0.57	0.598	1.22	0.288
26.	Motherson Sumi Systems	1.34	0.249	0.50	0.641	0.07	0.946	-0.01	0.987	1.71	0.162
27.	NCL Industries Ltd.	0.58	0.588	-1.79	0.147	-0.91	0.412	-0.71	0.513	5.87	<b>0.004**</b>
28.	Novopan Industries Ltd.	0.19	0.852	1.15	0.311	0.38	0.720	0.25	0.809	-2.01	0.114
29.	Permanent Magnets Ltd.	-4.74	<b>0.009**</b>	0.59	0.584	-1.70	0.163	-4.71	<b>0.009**</b>	-2.34	0.079
30.	Pfizer Ltd.	-2.89	<b>0.045*</b>	-3.60	<b>0.023*</b>	-9.87	<b>0.001**</b>	-8.69	<b>0.001**</b>	-0.61	0.575
31.	Reliance Industries Ltd.	0.13	0.901	0.39	0.712	0.81	0.461	0.30	0.774	0.56	0.602
32.	Sangam (India) Ltd.	-0.50	0.638	-0.43	0.685	-1.03	0.359	-1.52	0.202	-2.03	0.112
33.	Spentex Industries Ltd.	-2.32	0.081	-0.96	0.391	-0.30	0.775	0.35	0.741	-1.08	0.337
34.	Sterlite Technologies Ltd.	-1.19	0.299	-1.71	0.162	1.41	0.231	-1.80	0.145	-3.92	<b>0.017*</b>
35.	Thermax Ltd.	0.06	0.952	-0.79	0.471	-0.19	0.854	-0.84	0.446	-4.76	<b>0.009**</b>
36.	Uflex Ltd.	0.73	0.505	0.23	0.823	-1.73	0.158	-1.91	0.128	-6.59	<b>0.003**</b>
37.	United Breweries Ltd.	2.03	0.112	-0.25	0.812	0.57	0.595	0.17	0.872	2.66	0.056
38.	United Spirits Ltd.	-2.27	0.085	-3.11	<b>0.036*</b>	-3.56	<b>0.024*</b>	-3.19	<b>0.033*</b>	-0.35	0.744
39.	Visaka Industries Ltd.	4.98	<b>0.008**</b>	1.33	0.252	1.27	0.271	-2.39	0.075	-3.44	<b>0.026*</b>



Source: Computed results based on the compiled & edited data from the financial statements of selected firms listed-CMIE-prowess package.

\*Significant at 5% level; \*\*Significant at 1% level.

*Thermax Ltd, Uflex Ltd, and Visaka Industries Ltd* is significant ( $t = 2.95, P < 0.05$ ;  $3.05, P < 0.05$ ;  $-3.57, P < 0.05$ ;  $5.82, P < 0.01$ ;  $-5.19, P < 0.01$ ;  $5.07, P < 0.01$ ;  $6.49, P < 0.01$ ;  $-3.48, P < 0.05$ ;  $-2.91, P < 0.05$ ;  $5.87, P < 0.01$ ;  $-3.92, P < 0.05$ ;  $-4.76, P < 0.01$ ;  $-6.59, P < 0.01$ ; and  $-3.44, P < 0.05$ ) at 1% and 5% level respectively after the **M&As** process. The **CA\_TAR** in the post-merger period is increased for 17 out of 39 acquiring manufacturing firms.

### (B) Impact of M&As on Operating Efficiency of Manufacturing Firms

**Operating efficiency (OE)** in terms of Investment Turnover Ratio (**ITR**), Fixed Assets Turnover Ratio (**FATR**), Working Capital Turnover Ratio (**WCTR**), Stock Turnover Ratio (**STR**), Debtors Turnover Ratio (**DTR**), Total Assets Turnover Ratio (**TATR**), and Owner's Equity Turnover Ratio (**OETR**) between pre-and post-merger periods has been studied to analyse the impact of merger on **OE** of the acquiring manufacturing firms. The results of the analysis are shown in table 4.

**Investment Turnover Ratio (ITR)** measures the efficiency in the use of invested capital. It is inferred (vide table 4) that the **OE** in terms of **ITR** of *Batliboi Ltd, BSL Ltd, Emami Ltd, Marksans Pharma Ltd, Motherson Sumi Systems, NCL Industries Ltd, Novopan Industries Ltd, and Thermax Ltd* is significant ( $t = 3.42, P < 0.05$ ;  $3.52, P < 0.05$ ;  $-6.91, P < 0.01$ ;  $3.01, P < 0.05$ ;  $2.85, P < 0.05$ ;  $-5.09, P < 0.01$ ;  $8.37, P < 0.01$ ; and  $-3.13, P < 0.05$ ) at 1% and 5% level respectively after the **M&As** process. The **ITR** in post-merger period is increased for 19 out of 39 acquiring manufacturing firms.

**Fixed Assets Turnover Ratio (FATR)** measures the number of times fixed assets are being turned over in a stated period. It is inferred (vide table 4) that the **OE** in terms of **FATR** of *ADF Foods Ltd, Archies Ltd, Batliboi Ltd, BSL Ltd, Dalmia Bharat Sugar, EID-Parry (India) Ltd, Emami Ltd, Indo Rama Synthetics, JB Chemicals & Pharma, KLRFLtd, Marksans Pharma Ltd, Motherson Sumi Systems, NCL Industries Ltd, Permanent Magnets Ltd, United Breweries Ltd, and Visaka Industries Ltd* is significant ( $t = 6.09, P < 0.01$ ;  $12.20, P < 0.01$ ;  $3.30, P < 0.05$ ;  $30.87, P < 0.01$ ;  $5.14, P < 0.01$ ;  $5.48, P < 0.01$ ;  $-11.76, P < 0.01$ ;  $8.25, P < 0.01$ ;  $4.74, P < 0.01$ ;  $6.74, P < 0.01$ ;  $4.67, P < 0.01$ ;  $7.18, P < 0.01$ ;  $4.85, P < 0.01$ ;  $6.01, P < 0.01$ ;  $12.77, P < 0.01$ ; and  $5.48, P < 0.01$ ) at 1% and 5% level respectively after the **M&As** process. The **FATR** in the post-merger period is increased for 10 out of 39 acquiring manufacturing firms.

**Working Capital Turnover Ratio (WCTR)** measures the efficiency of the employment of the working capital. It is inferred (vide table 4) that the **OE** in terms of **WCTR** of *Archies Ltd, Marksans Pharma Ltd, and Modi Naturals Ltd* is significant ( $t = -4.10, P < 0.05$ ;

4.46,  $P < 0.05$ ; and 3.44,  $P < 0.05$ ) at 5% level after the **M&As** process. The **WCTR** in the post-merger period is increased for 16 out of 39 acquiring manufacturing firms.

**Stock Turnover Ratio (STR)** is computed to find out the speed flow of stock by relating cost of goods sold to average stock. It is inferred (vide table 4) that the **OE** in terms of **STR** position of ACC Ltd, ADF Foods Ltd, Arvind Ltd, Caplin Point Laboratories, Emami Ltd, India Cements Ltd, JB Chemicals & Pharma, Marksans Pharma Ltd, NCL Industries Ltd, Novopan Industries Ltd, Thermax Ltd, United Breweries Ltd, and United Spirits Ltd is significant ( $t = -3.57, P < 0.05$ ;  $-3.78, P < 0.05$ ;  $-3.01, P < 0.05$ ;  $-4.26, P < 0.05$ ;  $-7.35, P < 0.01$ ;  $-4.37, P < 0.05$ ;  $-3.23, P < 0.05$ ;  $2.97, P < 0.05$ ;  $-6.44, P < 0.01$ ;  $4.50, P < 0.05$ ;  $-3.68, P < 0.05$ ;  $-5.34, P < 0.01$ ; and  $-5.60, P < 0.01$ ) at 1% and 5% level respectively after the **M&As** process. The **STR** in the post-merger period is increased for 24 out of 39 acquiring manufacturing firms.

**Debtor Turnover Ratio (DTR)** expresses the relationship between net credit sales and average accounts receivable. It is inferred (vide table 4) that the **OE** in terms of **DTR** of ACC

Table 4 – Impact of M&As on Operating Efficiency of Manufacturing Firms in India during 2001-2002 to 2011-2012

Sl. No.	Name of the firms	ITR		FATR		WCTR		STR		DTR		TATR		OETR	
		t-value	p-value	t-value	p-value	t-value	p-value	t-value	p-value	t-value	p-value	t-value	p-value	t-value	p-value
1.	ACC Ltd.	-1.53	0.199	1.63	0.178	-0.83	0.451	-3.57	<b>0.023*</b>	-6.50	<b>0.003**</b>	0.75	0.495	24.94	<b>0.000**</b>
2.	ADF Foods	-1.66	0.171	6.09	<b>0.004**</b>	-1.15	0.311	-3.78	<b>0.019*</b>	-0.70	0.518	2.52	0.065	10.25	<b>0.001**</b>
3.	Ambuja	0.39	0.715	0.23	0.829	0.10	0.924	-2.00	0.115	1.28	0.270	-1.15	0.314	0.82	0.455
4.	Archies Ltd.	-2.65	0.057	12.20	<b>0.000**</b>	-4.10	<b>0.015*</b>	-2.62	0.058	-11.76	<b>0.000**</b>	-0.60	0.579	-1.67	0.170
5.	Arvind Ltd.	-2.05	0.109	-0.28	0.792	-2.30	0.082	-3.01	<b>0.040*</b>	-1.58	0.188	-3.88	<b>0.018*</b>	-4.41	<b>0.012*</b>
6.	Aurobindo	1.99	0.117	1.31	0.258	0.45	0.672	1.38	0.239	-0.76	0.490	0.70	0.521	0.37	0.729
7.	Baliboi Ltd.	3.42	<b>0.027*</b>	3.30	<b>0.030*</b>	-1.40	0.234	-0.54	0.618	0.68	0.531	2.14	0.098	3.70	<b>0.021*</b>
8.	Bilpower	0.58	0.592	-0.92	0.406	0.72	0.508	0.17	0.868	3.19	<b>0.033*</b>	1.61	0.182	-2.66	0.056
9.	Blue Star	-0.07	0.943	2.46	0.069	0.78	0.477	-0.01	0.987	6.41	<b>0.003**</b>	-0.50	0.642	-0.68	0.533
10.	BSL Ltd.	3.52	<b>0.024*</b>	30.87	<b>0.000**</b>	-0.57	0.596	1.36	0.243	-1.82	0.142	-0.27	0.797	-7.92	<b>0.001**</b>
11.	Caplin Point	-1.51	0.205	0.10	0.923	0.81	0.462	-4.26	<b>0.013*</b>	-12.41	<b>0.000**</b>	-0.84	0.446	-1.33	0.254
12.	Chromatic	-1.70	0.164	-0.73	0.505	2.27	0.085	-1.71	0.162	0.09	0.931	0.94	0.398	0.32	0.761
13.	Coromandel	0.67	0.539	-2.35	0.078	0.83	0.453	0.16	0.879	-2.50	0.067	-0.86	0.437	-1.46	0.216
14.	Dalmia Bhar	0.25	0.815	5.14	<b>0.007**</b>	2.34	0.079	-0.82	0.456	0.55	0.606	1.72	0.159	-5.61	<b>0.005**</b>
15.	EID-Parry	0.76	0.487	5.48	<b>0.005**</b>	0.75	0.493	0.59	0.582	-0.33	0.755	3.79	<b>0.019*</b>	3.02	<b>0.039*</b>
16.	Emami Ltd.	-6.91	<b>0.002**</b>	-11.76	<b>0.000**</b>	-2.31	0.082	-7.35	<b>0.002**</b>	-16.01	<b>0.000**</b>	-7.04	<b>0.002**</b>	-7.88	<b>0.001**</b>
17.	India Cement	-1.08	0.338	1.44	0.223	-1.24	0.280	-4.37	<b>0.012*</b>	-3.01	<b>0.040*</b>	-4.08	<b>0.015*</b>	1.34	0.250
18.	Indian Oil	-0.06	0.951	1.38	0.237	0.71	0.516	-1.19	0.300	-6.72	<b>0.003**</b>	-0.29	0.786	-1.61	0.182
19.	Indo Rama	-0.31	0.771	8.25	<b>0.001**</b>	-0.23	0.824	-0.84	0.447	-7.50	<b>0.002**</b>	-5.39	<b>0.006**</b>	-12.12	<b>0.000**</b>
20.	Inducto	-0.55	0.609	-1.31	0.258	-0.34	0.747	0.74	0.499	1.79	0.147	0.41	0.700	0.98	0.381
21.	Jain Irrigat	1.07	0.345	0.03	0.975	-0.72	0.507	-0.44	0.680	-0.33	0.752	-1.18	0.303	1.28	0.269
22.	JB Chemical	-1.68	0.168	4.74	<b>0.009**</b>	0.62	0.565	-3.23	<b>0.032*</b>	1.13	0.321	3.80	<b>0.019*</b>	1.88	0.132
23.	KLRF Ltd.	1.00	0.372	6.74	<b>0.003**</b>	0.70	0.522	0.86	0.434	0.82	0.457	0.23	0.829	-1.52	0.202
24.	Marksans	3.01	<b>0.040*</b>	4.67	<b>0.009**</b>	4.46	<b>0.011*</b>	2.97	<b>0.041*</b>	1.79	0.146	-0.13	0.902	4.36	<b>0.012*</b>

25.	Modi Natur	2.03	0.112	2.18	0.094	3.44	<b>0.026*</b>	2.03	0.112	-2.01	0.114	1.29	0.266	5.31	<b>0.006**</b>
26.	Motherson	2.85	<b>0.046*</b>	7.18	<b>0.002**</b>	1.24	0.281	1.21	0.291	4.85	<b>0.008**</b>	1.27	0.272	1.50	0.206
27.	NCL Indust	-5.09	<b>0.007**</b>	4.85	<b>0.008**</b>	1.14	0.318	-6.44	<b>0.003**</b>	-3.24	<b>0.031*</b>	3.64	<b>0.022*</b>	1.06	0.346
28.	Novopan	8.37	<b>0.001**</b>	2.54	0.064	-0.07	0.946	4.50	<b>0.011*</b>	3.63	<b>0.022*</b>	-1.97	0.120	-2.81	0.048
29.	Permanent	1.55	0.195	6.01	<b>0.004**</b>	0.05	0.958	1.38	0.239	-2.15	0.097	0.24	0.815	1.71	0.162
30.	Pfizer Ltd.	1.34	0.249	-1.53	0.201	1.23	0.284	1.12	0.325	-3.17	<b>0.034*</b>	16.10	<b>0.000**</b>	14.25	<b>0.000**</b>
31.	Reliance	-0.65	0.549	-0.21	0.840	-0.81	0.461	-1.09	0.337	-1.63	0.178	-2.09	0.104	-0.03	0.976
32.	Sangam	0.45	0.672	1.26	0.273	0.54	0.614	1.55	0.196	0.96	0.390	0.16	0.881	-1.05	0.352
33.	Spentex	-0.52	0.629	1.26	0.273	-0.68	0.531	-0.98	0.381	2.08	0.106	0.71	0.514	-0.73	0.503
34.	Sterlite	-1.82	0.142	-2.21	0.091	-0.05	0.956	-2.17	0.096	0.90	0.416	-2.94	<b>0.042*</b>	-3.63	<b>0.022*</b>
35.	Thermax	-3.13	<b>0.035*</b>	1.27	0.271	1.35	0.246	-3.68	<b>0.021*</b>	0.21	0.837	-2.97	<b>0.041*</b>	-3.11	<b>0.036*</b>
36.	Uflex Ltd.	1.97	0.119	0.13	0.899	1.57	0.191	1.00	0.373	2.20	0.092	-1.09	0.336	2.84	<b>0.047*</b>
37.	United	-1.89	0.131	12.77	<b>0.000**</b>	0.02	0.978	-5.34	<b>0.006**</b>	0.96	0.388	-0.55	0.606	3.79	<b>0.019*</b>
38.	United Spi	0.50	0.642	-1.10	0.332	-1.10	0.331	-5.60	<b>0.005**</b>	-0.83	0.452	3.48	<b>0.025*</b>	6.57	<b>0.003**</b>
39.	Visaka	0.64	0.553	5.48	<b>0.005**</b>	1.56	0.193	-0.75	0.494	-0.15	0.882	-4.49	<b>0.011*</b>	0.36	0.736

Source: Computed results based on the compiled & edited data from the financial statements of selected firms listed-CMIE -prowess package.

\*Significant at 5% level; \*\*Significant at 1% level

Ltd, Archies Ltd, Bilpower Ltd, Blue Star Ltd, Caplin Point Laboratories, Emami Ltd, India Cements Ltd, Indian Oil Corpn. Ltd, Indo Rama Synthetics, Motherson Sumi Systems, NCL Industries Ltd, Novopan Industries Ltd, and Pfizer Ltd is significant ( $t = -6.50$ ,  $P < 0.01$ ;  $-11.76$ ,  $P < 0.01$ ;  $3.19$ ,  $P < 0.05$ ;  $6.41$ ,  $P < 0.01$ ;  $-12.41$ ,  $P < 0.01$ ;  $-16.01$ ,  $P < 0.01$ ;  $-3.01$ ,  $P < 0.05$ ;  $-6.72$ ,  $P < 0.01$ ;  $-7.50$ ,  $P < 0.01$ ;  $4.85$ ,  $P < 0.01$ ;  $-3.24$ ,  $P < 0.05$ ;  $3.63$ ,  $P < 0.05$ ; and  $-3.17$ ,  $P < 0.05$ ) at 1% and 5% level respectively after the M&As process. The DTR in the post-merger period is increased for 21 out of 39 acquiring manufacturing firms.

**Total Assets Turnover Ratio (TATR)** measures the ability of a firm to use its assets to efficiently generate sales. It is inferred (vide table 4) that the OE in terms of TATR of Arvind Ltd, EID-Parry (India) Ltd, Emami Ltd, India Cements Ltd, Indo Rama Synthetics, JB Chemicals & Pharma, NCL Industries Ltd, Pfizer Ltd, Sterlite Technologies Ltd, Thermax Ltd, United Spirits Ltd, and Visaka Industries Ltd is significant ( $t = -3.88$ ,  $P < 0.05$ ;  $3.79$ ,  $P < 0.05$ ;  $-7.04$ ,  $P < 0.01$ ;  $-4.08$ ,  $P < 0.05$ ;  $-5.39$ ,  $P < 0.01$ ;  $3.80$ ,  $P < 0.05$ ;  $3.64$ ,

$P < 0.05$ ; 16.10,  $P < 0.01$ ; -2.94,  $P < 0.05$ ; -2.97,  $P < 0.05$ ; 3.48,  $P < 0.05$ ; and -4.49,  $P < 0.05$ ) at 1% and 5% level respectively after the **M&As** process. The **TATR** in the post-merger period is increased for 20 out of 39 acquiring manufacturing firms.

**Owner's Equity Turnover Ratio (OETR)** measures how well a firm uses its stockholders' equity to generate revenue. It is inferred (*vide table 4*) that the **OE** in terms of **OETR** of ACC Ltd, ADF Foods Ltd, Arvind Ltd, Batliboi Ltd, BSL Ltd, Dalmia Bharat Sugar, EID-Parry (India) Ltd, Emami Ltd, Indo Rama Synthetics, Marksans Pharma Ltd, Modi Naturals Ltd, Pfizer Ltd, Sterlite Technologies Ltd, Thermax Ltd, Uflex Ltd, United Breweries Ltd, and United Spirits Ltd is significant ( $t = 24.94$ ,  $P < 0.01$ ; 10.25,  $P < 0.01$ ; -4.41,  $P < 0.05$ ; 3.70,  $P < 0.05$ ; -7.92,  $P < 0.01$ ; -5.61,  $P < 0.01$ ; 3.02,  $P < 0.05$ ; -7.88,  $P < 0.01$ ; -12.12,  $P < 0.01$ ; 4.36,  $P < 0.05$ ; 5.31,  $P < 0.01$ ; 14.25,  $P < 0.01$ ; -3.63,  $P < 0.05$ ; -3.11,  $P < 0.05$ ; 2.84,  $P < 0.05$ ; 3.79,  $P < 0.05$ ; and 6.57,  $P < 0.01$ ) at 1% and 5% level respectively after the **M&As** process. The **OETR** in the post-merger period is increased for 18 out of 39 acquiring manufacturing firms.

## Summary of Findings

**Test of Hypothesis - Liquidity Parameter:** The impact of **M&As** on the **L** of the firms of manufacturing sector is tested by use of paired samples ttest, and the hypothesis developed is as follows:

Null hypothesis-  $H_0^1$ - "**There is no significant difference between the liquidity of manufacturing firms in India before and after the M&As process.**"

The result of the ttest reveals that the  $H_0^1$  is rejected for most of the manufacturing firms in India. It is inferred from the comparison of results of t-test based on **L ratios that there is a significant difference** between the **L** of the pre-merger and post-merger periods that there is a significant difference (shift positively) for 23 (ACC Ltd, ADF Foods Ltd, Ambuja Cements Ltd, Archies Ltd, Arvind Ltd, Batliboi Ltd, Bilpower Ltd, Blue Star Ltd, EID-Parry (India) Ltd, Emami Ltd, India Cements Ltd, Indo Rama Synthetics, Jain Irrigation Systems, JB Chemicals & Pharma, Modi Naturals Ltd, NCL Industries Ltd, Permanent Magnets Ltd, Pfizer Ltd, Sterlite Technologies Ltd, Thermax Ltd, Uflex Ltd, United Spirits Ltd, and Visaka Industries Ltd) out of 39 manufacturing firms at 1% and 5% level respectively after the **M&As** process.

**Test of Hypothesis - Operating Efficiency Parameter:** The impact of **M&As** on the **OE** of the manufacturing firms is tested by use of paired samples t-test, and the hypothesis developed is as follows:

Null hypothesis-  $H_0^2$ - "**There is no significant difference between the operating efficiency of manufacturing firms in India before and after the M&As process.**"

The result of the ttest reveals that the  $H_0^2$  is rejected for most of the manufacturing firms in India. It is inferred from the comparison of results of t-test based on **OE ratios before**

**and after the M&As process that they are significant** (shift positively) for 30 (ACC Ltd, ADF Foods Ltd, Archies Ltd, Arvind Ltd, Batliboi Ltd, Bilpower Ltd, Blue Star Ltd, BSL Ltd, Caplin Point Laboratorie, Dalmia Bharat Sugar, EID-Parry (India) Ltd, Emami Ltd, India Cements Ltd, Indian Oil Corpn. Ltd, Indo Rama Synthetics, JB Chemicals & Pharma, KLRF Ltd, Marksans Pharma Ltd, Modi Naturals Ltd, Motherson Sumi Systems, NCL Industries Ltd, Novopan Industries Ltd, Permanent Magnets Ltd, Pfizer Ltd, Sterlite Technologies Ltd, Thermax Ltd, Uflex Ltd, United Breweries Ltd, United Spirits Ltd, and Visaka Industries Ltd) out of 39 manufacturing firms at 1% and 5% level respectively after the **M&As** process.

### Concluding Remarks

The paper examined the impact of **M&As** on **L** as well as on **OE** of manufacturing firms in India, using *paired samples test* based on **L** ratios and **OE** ratios to study if there is a significant shift-in-structure (improvement) in the **L** as well as in the **OE** of manufacturing firms in the post-merger period based on the financial data spanning the years from 20012002 to 20112012, i.e. for a period of five years prior to the merger (20012002 to 20052006) and five years after the merger (20072008 to 20112012). The study is carried out with a sample of 39 manufacturing firms, which had gone into the **M&As** process during the **financial year 200607**, and **are considered for the study** for the simple reason that the number of **M&As** was the highest in 200607 in the recent past decade, and also for want of analysing the long-run effect of **M&As on L as well as on OE**.

The results of the study reveals that most of the manufacturing firms have the capacity to pay their debts as and when the due falls and the firms use their assets and liabilities very well internally in the post-merger period. Therefore, it reveals that there is a significant (shift) difference between the **L** as well as the **OE** of manufacturing firms in India in periods before and after the **M&As** process.

### Limitations and Scope for Further Studies

- The study is mainly based on secondary data and is restricted to the acquiring manufacturing firms in India, that are categorized into **food & beverage, machinery, non-metallic mineral product, chemical, textiles, metals & metal product, transport equipment, and miscellaneous categories**.
- The firms which originally went in for the **M&As** process in 200607, and subsequently entered in to **M&As** process with some other firms are ignored in the study for the simple reason that it requires a further attempt to explore the impact of **M&As** on **L** as well as on **OE**.
- The study consists of **L** and **OE** of the acquiring manufacturing firms in India, leaving scope for further studies to analysis *profitability, operating leverage, financial leverage, cost of utilization, and growth* impact on **M&As** in the post-merger period, with reference to *manufacturing firms, banking and financial firms, and non-financial firms*.
- The present study has used **paired samples t-test** only as a research method to study



the **L** and **OE** of acquiring manufacturing firms in India. Further studies may be conducted using the criterion variables viz *Market Value Added (MVA)* and *Economic Value Added (EVA)* with help of *correlation co-efficient and multiple regression* analysis to study the operating performance (**OP**) and shareholders' wealth (**SW**) of acquiring firms after ensuring the availability of data in the data source.

- Further study could try to analyze the efficiency and performance of banking and financial service industry in the post-merger period with help of **CRAMEL** and **CAMELS** research methods.

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## ROLE OF MICRO FINANCE IN RURAL DEVELOPMENT WITH SPECIAL REFERENCE TO THE NORTHEASTERN REGION



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### **ABSTRACT:**

*Micro finance has been envisaged as the new development paradigm for alleviating poverty through social and economic development of the poor. The role of micro finance institutions in bringing about inclusive growth is immense. The present article examines the micro-credit delivery model in India and the present status of micro-credit disbursal in North Eastern India. Moreover, the paper also throws light on the major deterrent factors of the micro-credit delivery system in this region. The present study has been conducted with the help of secondary data obtained from various sources.*

*Keywords: Micro Credit, Micro Finance, Rural Development.*

### **INTRODUCTION:**

The history of micro-finance can be traced back to the year 1462 when an Italian monk named Barnabé de Terni set up a charitable institution, Monte di Pietà, to fight usury. In 1720, Jonathan Swift was the first person to lend small amounts to poor craftsmen in the city of Dublin. Lysander Spooner started advocating the benefits of small credit to entrepreneurs and farmers as a means of alleviating poverty in the 18<sup>th</sup> century. Then, in 1864, Friedrich Wilhelm Raiffeisen founded the first cooperative lending banks to offer mutual financial guarantees to banks with a view to support

farmers in rural Germany. In 1880, Father Ludovic de Besse of France set up *Crédit Mutuel et Populaire*. In the following years, the French State launched *Crédit Agricole*, based on the Raiffeisen model, in an attempt to support the agricultural sector.

The formal concept of micro finance, however, is the brain-child of Nobel Laureate Prof. Muhammad Yunus of Bangladesh Grameen Bank way back in 1976. Since then microfinance has been developed as an alternative credit delivery system, which caters to the needs of the poor locally involving them in the system itself. It has been in practice in varying forms in different countries and is regarded as an important tool for economic empowerment. According to World Bank estimates, there are over 500 million people who have directly or indirectly benefited from microfinance-related operations. The Asian Development Bank (ADB) has defined microfinance as follows:

*“ The provision of a broad range of financial services such as deposits, loans, payment service, money transfers and insurance to poor and low income households and their micro enterprises.”*

Micro finance has been envisaged as the new development paradigm for alleviating poverty through social and economic development of the poor. The role of micro finance institutions in bringing about inclusive growth is immense. Microfinance is an intervention parameter to ensure micro outreach and deep penetration which ensures a step towards empowerment of marginalised section of the society. It seeks to provide services of high quality, at affordable prices, in convenient locations, and with dignity. This in turn helps in promoting economic development, employment and growth by reducing the level of poverty in the economy. In this spirit, the United Nations declared the year 2005 as the *International Year for Microcredit* with the motto of “Building inclusive financial sectors to achieve the Millennium Development Goals”.

## **OBJECTIVES:**

The present research enquiry has been undertaken with the following objectives:-

1. To examine the micro-credit delivery model in India.
2. To examine the present status of micro-credit in North Eastern India.
3. To study the limiting factors of the micro-credit delivery system in the NER.

## **METHODOLOGYADOPTED:**

The present study has been conducted with the help of secondary data

obtained from various sources. The two main sources of secondary data used for this purpose are the annual statistics furnished by the NABARD and the data from RBI's Basic Statistical Return. Besides these, various issues of Statistical Hand Book of Assam, Reports of North Eastern Councils, etc. have been extensively used. Tables have been used to convey the status of the microfinance in the NER, wherever necessary.

### ***MICRO CREDIT DELIVERY MODEL IN INDIA:***

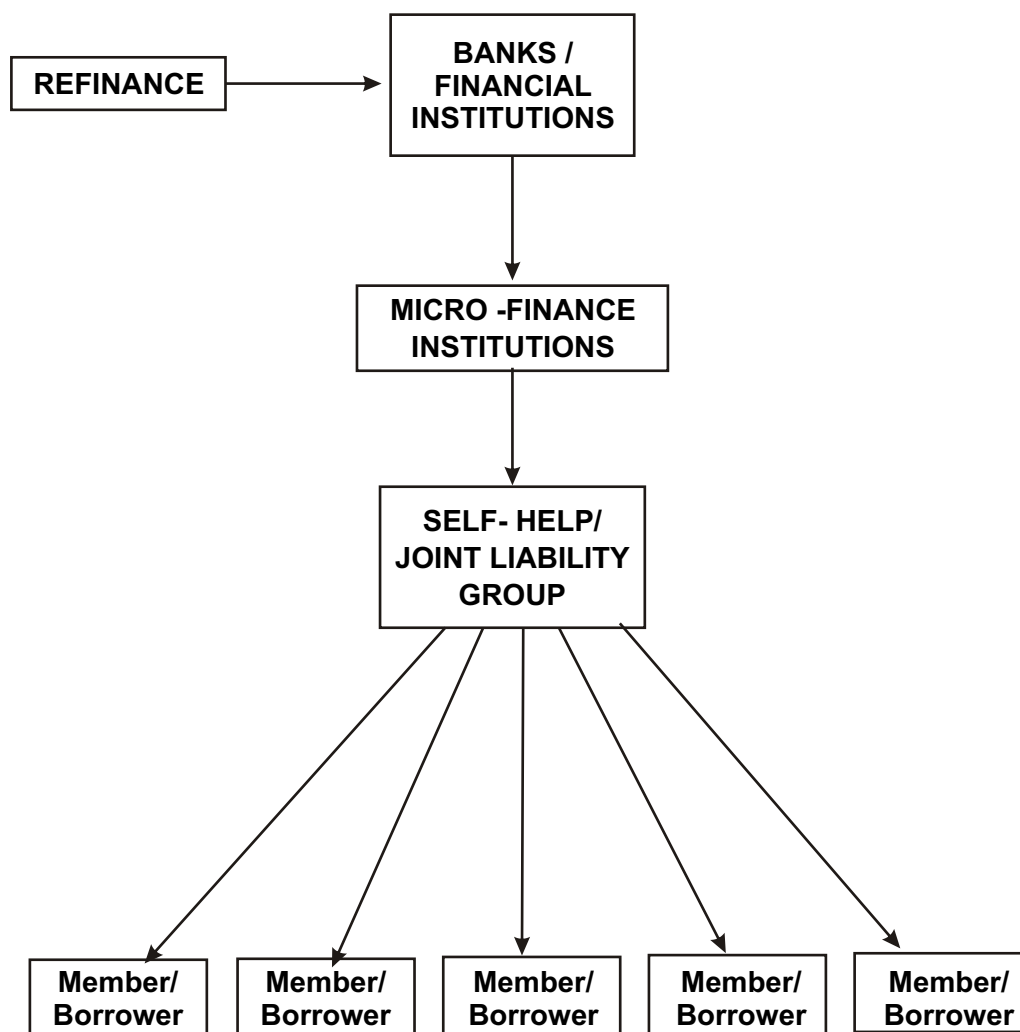
In consonance with Objective No. 1 of the present study, the microfinance models prevalent in India have been laid down as follows:

MODEL	MODE OF FINANCING
MODEL I - BANKING	Individuals or Self Help Groups (SHGs) are financed directly by banks without the intervention/facilitation of any Non-Government Organisation (NGO).
MODEL II SHG & Individual (direct financing)	Individuals or SHGs are financed directly with the facilitation extended by formal or informal agencies like Government, Commercial Banks and Micro-Finance Institutions (MFIs) like NGOs, Non Bank Financial Intermediaries and Co-operative Societies;
MODEL III - SHG & Individual (through intermediaries like NGOs & MFIs)	In this model, financing takes place through NGOs and MFIs as facilitators and financing agencies;
MODEL IV - GRAMEEN	This model is the Grameen Bank Model, similar to the model followed in Bangladesh.

Source: Self compiled

The credit delivery model in India starts with the flow of micro credit from banks or other financial institutions to the members of the SHGs and Joint Liability Groups (JLPs) through MFIs. In this process it is ensured that the poorest of the poor and the neediest people of the society are financially included and facilitated with the various opportunities of micro finance

**Figure1: Credit Delivery Model in India**



In addition to NABARD, several other apex bodies or wholesalers provide loans to financial intermediaries for on lending to SHGs. These include the Small Industries Development Bank of India (SIDBI), Rashtriya Mahila Kosh (RMK), Housing and Urban Development Corporation (HUDCO), Housing Development Finance Corporation (HDFC) and Friends of Women's World Banking (FWWB).

Having considered the micro-credit delivery in India, we shall now focus our attention to the present status of micro-credit in North Eastern India.

### **MICROFINANCE IN NORTH EAST INDIA:**

The people in North East (NE) India are predominantly in the farming sector. For trading and production purposes, small borrowers still depend on the local moneylenders whose interest rates are normally very high. To overcome such problems, individuals organise as SHGs with the aid of NGOs.

While the SBLP has made commendable advancements from its inception to this present day throughout the length and breadth of the country, but it is interesting to note that its progress in the NER has not been to the desired level. In the NER, Assam happens to be the state where, in comparison to other north-eastern states, the progress of the programme is particularly better, in terms of coverage. However, the share of spread of microfinance of the North Eastern Region is still negligible in comparison of other regions of the country. The following tables shall enumerate further the status of microfinance in the NER.

Particulars	Region	Parameters	Total
<b>Savings of SHGs with banks</b>	NER	No. Of SHGs	292188
		Savings	12167.09 (Rs. Lakhs)
	Southern Region	No. Of SHGs	3223434
		Savings	317450.84 (Rs. Lakhs)
<b>Bank loans disbursed</b>	NER	No. of SHGs	49307
		Loan amount	28716.99(Rs. Lakhs)
	Southern Region	No. of SHGs	995718
		Loan amount	1104053.97(Rs. Lakhs)
<b>Bank loans outstanding against SHGs</b>	NER	No. of SHGs	133785
		Loan outstanding	67347.79(Rs. Lakhs)
	Southern Region	No. of SHGs	2582112
		Loan outstanding	1902287.99(Rs. Lakhs)

<b><i>NPAs against bank loans to SHGs</i></b>	NER	Amount of gross	3713.33(Rs. Lakhs)
		NPA against SHG	
		NPA as a %age to loan	5.51%
		outstanding against SHG	
	Southern Region	Amount of gross	35653.37(Rs. Lakhs)
		NPA against SHG	
		NPA as a %age to loan	1.87%
		outstanding against SHG	

Source: NABARD

**Table 2: State wise variation in SBLP programme in NER**

(As on March 31, 2008)

State	Share(%) in		Indicator of SHG	
	Total SHGs	Total Loans	No. of SHGs per lakh population	Average loans to SHGs (in thousand Rs)
<b>Arunachal Pradesh</b>	0.0	0.0	101	56.6
<b>Assam</b>	3.1	1.3	371	26.1
<b>Manipur</b>	0.1	0.1	104	42.0
<b>Meghalaya</b>	0.0	0.0	49	27.7
<b>Mizoram</b>	0.1	0.1	241	68.0
<b>Nagaland</b>	0.0	0.0	19	42.8
<b>Tripura</b>	0.1	0.0	127	17.0

Source: NABARD

As has been observed in Table 2, the status of microfinance in the NER is a far cry from satisfaction. The present researchers have attempted to compare the status of microfinance in NER with that of the southern region, and this has presented us with a dismal figure. The southern region is leading the microfinance front of the country, whereas the NER is the most underdeveloped region as far as microfinance is concerned.

The perusal of the Table 3 yields that in respect of the NER also, the growth of microfinance activities is mostly skewed. While Assam is leading, states like Arunachal Pradesh, Meghalaya and Nagaland have still a long way to go even if they have to catch up Assam. In course of our research enquiry among several SHGs, the researchers noticed certain peculiarities with regard to redemption of micro credit by the SHG members as follows:

- Some of the members of the SHG are borrowers of bank loan in their individual capacity. Simultaneously, they are also a borrower to the MFI, i.e the designated SHG;
- They are exposed to confrontation with regard to determining the first priority of refunding the two varieties of repaying the loan;
- It is found the women members of the SHGs prefer to settle loan to the MFI first and deliberately commit default for their individual bank loan. This is because if one of the members in the SHG commits a default in repayment, that member will be looked down upon by other members, bringing bad name to the whole group as a defaulter;
- In order to keep themselves above such allegation, the members uphold their loan obligation by settling the dues with the MFI and restores their prestige, special status and dignity among the peer group;
- Subsequently, when their financial position slightly improves, they settle their dues with the bank.

Having discussed the present status of micro finance in the NE, we shall now discuss the limitations of the microfinance programmes in this part of the country.

### **LIMITATIONS OF MICROFINANCE PROGRAMMES:**

1. In course of our research enquiry, it has been reported that the minimum number of members to constitute an SHG as stipulated by the NABARD is 10-15 which is quite a high number. In some pockets, the mobilization of such number of members is rather a difficult exercise. As a result, some of the MFIs or in some cases the promoters of the SHGs who take the lead role in creating the SHGs, try to camouflage the number game. In fact, the unserious segment of those members do not avail of any credit as such, not even attend a meeting, put on their signature or thumb impression just to comply with the stipulated norms. It has been revealed that this kind of SHGs being a powerful lobby is able to mobilize the credit for their personal gain at the cost of the gain of the group members.



2. In the course of the research enquiry, it has also been ascertained that the officers of the NGOs/banks who are responsible for the collection of micro-credit from the SHG members, generally visit their residence during the official hours when the SHG member is out on his employment. Thus, it may result into non-payment of the interest or principal of the micro-credit availed by the SHG members, resulting in defaults and bad debts. In such cases, although there is no intention of default on the part of the borrower, yet default is committed because of wrong credit management policies of the lender.
3. Another serious limitation of the microfinance programme in the region is the lack of co-ordination between the various institutions offering micro-credit. Such lack of co-ordination leads to exploitation of the borrowers sometimes, as the MFIs charge interest rates according to their own reservations and calculations, which is, more often than not, too high.
4. The lack of knowledge on the part of the borrowers also poses a serious problem since in such a case they are more vulnerable to exploitation by the MFIs. Moreover, negligence also prevents the borrowers to take a rational decision regarding the type of micro credit which would best suit his/her purpose.
5. One of the most serious limitations of the programme is the lack of active support by the banks. Banks' attitude towards microfinance is somewhat 'not positive'. SHG banking is not seen as a profitable business opportunity. There are several factors which can be attributed for such neglect. The high rate of default is the prime reason for such a belief. Other major reasons are funds shortage, lack of availability of quality inputs, widespread corruption, low recovery of loans, etc.
6. Another serious limitation of NGOs/ promoters is shortage of quality staff vis-à-vis tasks to be accomplished.
7. Absence of SHG federations, which can work on strengthening of SHGs and take up the issues, which SHGs cannot tackle individually, is another serious impediment in strengthening of SHGs in the state.
8. High subsidy dependency on government aid is another limitation of the microfinance movement in the region. This problem arises because of inadequate funds.
9. The aggregate interest rate charged by MFIs from the members of the SHGs varies in average from 22-26%. This exorbitant interest rate has caused default on the part of most of the members of any SHG. The Malegam Committee Report in 2011 has severely criticised the interest rate structure.
10. Inadequacy or lack of security also creates problem in securing micro-credit.
11. Asset quality under management of an MFI is another area of concern.

12. Besides these, there are several other reasons for the legged success of microfinance in this pocket of the country like perceived security problem in the region, attitudes of the people, low rate of literacy, etc.

Having considered the constraints in the delivery of micro-finance, we shall now mull over the strategies to smoothen the delivery process.

### **STRATEGIES TO IMPROVE PERFORMANCE OF MICROFINANCE IN NER:**

- In order to make the micro credit institutions truly serving the cause of marginalised people the authorities may look into the options of reducing the minimum membership of SHGs.
- The JLG may be considered as an alternative option as against an SHG since the number of member of a JLG is limited to 5.
- There is total absence of disclosure to the outside agencies regarding the rate of interest in accumulation or aggregate rate of interest levied on the SHGs by the MFIs. Some kind of transparency has to be enforced upon such interest rate charged upon the SHGs.
- Presently, the RBI is not fully empowered to regulate the MFIs. The enactment of the NBFC/MFI Development and Regulation Bill/ Microfinance Development Authority Act is seen as a prudent step in this regard, as in that case the RBI will regulate the MFIs and will enjoy the power to frame policies for the sector. Once this enactment come to force, the abnormal designs and workings of SHGs can be checked by frequent visits and inspection.
- The RBI has started regulating certain aspects of NBFC/MFIs since 2011 to guide the sector, which is facing an acute liquidity crunch. The RBI holds that the total indebtedness of a borrower should not exceed Rs. 50000. Further, it has prohibited NBFC/MFIs from lending to a borrower with an annual household income of more than Rs. 60000 in rural areas and more than Rs. 120000 in urban and semi-urban centres. In contrast, Bangladesh established the Micro Credit Regulatory Authority under a separate act in 2006. They do not encumber the central bank of the country with the responsibility of regulating the MFIs in such trifling matters. We could even take a lesson from Bangladesh in this respect.
- The commercial banks should be made more oriented and attracted towards SHG banking. The present research investigation suggests that only Assam Gramin Vikas Bank (AGVB) has realized the potential of SHG - banking and its branches are more positive with promoters and SHGs.
- Interest reimbursement is another way by which the microfinance sector in the region could be revitalised, as has been observed in the case of Andhra Pradesh.

- Another strategy that could be employed to ensure better collection and fewer defaults is to send the collection officers before or after the working hours so that they could meet the SHG member in person and recover the dues personally.
- Regular meeting of the SHGs with the MFIs/NGOs is another strategy that could be embraced to arrest credit defaults.
- SHGs could be used as Business Facilitators and Business Correspondents, whereby the twin objectives of financial inclusion and microfinance can be met.
- In the NE, post office may be utilized for financial outreach and penetration. Apart from microfinance, micro insurance and pension schemes can also be encouraged.
- The government also has to continuously monitor the working of MFIs and banks so that the scope of malfunction and misappropriation can be reduced to the minimum.

## CONCLUSION:

Micro credit programmes not only help in generating income but also act as a proxy for social safety nets during income shocks resulting from events like sudden death of productive family member or loss of economic assets. It is generally urged upon MFI practitioners to provide their borrowers micro insurance cover. Further, innovations are required to strengthen the crucial risk reduction road. MFIs need to strengthen their micro-insurance type products so that they go beyond the traditional life insurance, and include health and crop insurance also.

A comprehensive legislation to monitor the working of MFIs and SHGs is long overdue. Fortunately, the Indian Parliament has passed a legislation bringing the micro credit sector under the legislative control whereby the RBI has been made the authority to control micro credit so as to enable the underprivileged section of the society to enjoy the fruits of development through financial inclusion, micro finance, micro insurance activities and thereby empowering the neglected section to be a partner in nation building exercise and at the same time, a beneficiary of national prosperity.

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## GREEN RETAILING - NEED OF THE HOUR



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### Abstract

The prime aim of retailing industry is to maximize the wealth of all its stakeholders. In pursuing this endeavor of wealth maximization, it tries to maximize the profits. Maximizing profits involve creation of mass customer base by offering them quality goods and services at an affordable price. But, now-a-days, the level of awareness amongst the customers has increased to such an extent that they expect not only quality goods and services but also expects the retailers to have some sense of social responsibility apart from making profits. One of the corporate social responsibilities that the retailing is expected to perform is protecting the environment in its operations. It has become difficult for these retailers to survive in the present scenario solely on the basis of marketing mix elements, and to make available the right merchandise mix for different segments of the consumers', retailers needs to keep the prices on lower side and inform their customers about their efforts regarding lower prices and their concern for other issues like environment and corporate social responsibilities. Retailers need to have social responsibility of going green with respect to the products and services that are supplied by them to the customers. Hence, the focus of concept of green retailing has come. So, this paper tries to find out the requirements for retailers to operate their retailing activities with green retailing concepts, enhance their competitive advantages and to study the role played by global and national retailers in order to boost and support the drive of green retailing, in support of environment, people and society who concern for its improvement.

**KEY WORDS:** Green retailing, Eco-friendly retailing, Green Wash.

### INTRODUCTION

The world economy is growing between 7 and 9 percent annually. It results in improvement in income dynamics along with factors like favourable demographics and spending patterns which drive the consumption scenario of the consumers. In this scenario, the traditional marketing methods of selling products by the retailers will not materialize. Hence, the retailers need to invent the modern marketing strategies coupled with the social responsibility of protecting the environment around them by offering green products. As environmentalists and experts predicted that the future will be green, the retailers now-a-days are forced to adopt green technology in their product distribution network. Green retailing is slowly and steadily becoming an exhortation in the Indian retail industry. It is becoming the talk of the town. Retailers across global economies are carving a niche for themselves by adopting eco-friendly practices and producing products that are environment friendly. Today, everyone is concerned about preventing environmental degradation. Retailers have sensed the need for green retailing and now most of the Indian retailers are stepping into this new avenue. Previously, green retailing was perceived as something insignificant phenomena. But of late, producers, retailers and consumers have realised that it is a must-have phenomenon as environmental protection has become a priority.

Green retailing can be defined as promoting the use of eco-friendly products, processes, materials or services in order to prevent environmental degradation and create a sustainable environment for people to live. Green retailing is the process of developing products and services and promoting them to satisfy the customers who prefer products of good quality, performance and convenience at affordable cost and which do not have a detrimental impact on the environment. It includes a broad range of activities like modifications in the product, production process, advertising, packaging, etc., in order to reduce the detrimental impact of products and their consumption and disposal into the environment.

By becoming environment-conscious, retailers are striving to bolster their brand and earn points from the customers. Mounting concern about environmental damage is spurring more and more consumers to seek products that not only promote environmental protection but also are green in nature. Almost all the sectors of industry including FMCG, IT, manufacturing, electrical, textile, mechanical, civil, retail, wholesale, agriculture etc., have marked their presence in eco-friendly retailing.

Retailers who think going green is just another fad or marketing gimmick should think again. As shoppers become increasingly aware of a business' overall impact on the environment, retailers would be wise to make sure they measure up. The truth is that green retailing is here to stay, with the threat of global warming, and increasing concern about the impact businesses make on the environment.

### COMPETITIVE ADVANTAGES OF GREEN RETAILING

**Environmentally friendly product-** Products which results in less pollution to the air, land and water.

**Sustainable-** A process, product or lifecycle that can be kept up indefinitely.

**Recyclable**-A product or packaging which can be collected, re-processed and resold as a new

product (Glass, Aluminium, Paper, and some Plastics)

**Hazardous / Toxic** - Anything that has the potential to cause harm to the human health, or the environment. For example Solvents, Batteries, and many Cleaners.

**Renewable** - That can be used over and over again without running out - e.g. Solar Energy.

## THE GREEN RETAILING REVOLUTION

### Eco-packaging

Packaging companies have developed more environmentally-friendly packaging, which is recycled, biodegradable, reusable and less bulky in recent years.

### Expanding the green offer

Growing numbers of mainstream retailers are increasing their range of organic, fair trade and eco-friendly products.

### Inside the store

The days of flooding a retail environment with energy-guzzling lighting are gone, with designers and lighting consultants opting for more environmental options. The Building Code of Australia outlines a maximum wattage for retail shops of 25 watts per square metre in shopping areas, which varies depending on ceiling heights.

### Decrease your waste

Consider the environment when purchasing office supplies and go for Energy Star appliances. Also make sure that retailers keep up with regular maintenance on mechanical equipment and use only recycled paper and ink cartridges.

### Consumers willing to spend more for green

The growing anxiety about the environment has also created a new niche market of consumers who hold grave concerns for the future and are willing to spend more to buy environmentally-friendly products.

## WHY ORGANISATIONS SHOULD ADOPT GREEN RETAILING?

**To gain a competitive advantage:** As more and more consumers are becoming aware of the eco-friendly philosophy, green retailers have diverse and fairly sizeable segments to cater to. The Surf Excel detergent, which saves water, advertised with the message Doh bucket paani roz bachanai (Save two buckets of water daily). Energy-saving LG consumer



durables and Orpat's power saver bulbs are examples of green retailing.

**Show social responsibility:** Many organisations have adopted the green philosophy as a social responsibility. There is a belief among organisations that it can achieve environmental as well as profit-making objectives by adopting green retailing. Many organisations adopt the eco-friendly motto simply to gain its customers much Pankit Patwa, Janit Parekh, Professor Srini R Srinivasan and Dr RK Srivastava elaborate upon the benefits of green retailing and explain how Indian retailers can adopt the "green" route Green Retailing The Indian Perspective needed trust. For instance, Infosys Technologies prepares all its reports such as financial reports, annual reports and all other related reports using paper made from recycled wastes. HSBC became the world's first bank to go carbon neutral. Other examples include Coca-Cola, which has recently invested in various recycling activities. Cell phone giants such as Sony Ericsson, Toshiba and Nokia have started green retailing by adopting green manufacturing processes in their electronics items such as cell phones. Organisations are trying to eliminate toxic chemicals from their cell phones. This makes it easier to safely recycle the products.

Education institutes such as Amity and ICFAI, Hyderabad are providing eco-friendly classrooms throughout the institute, hence contributing to green retailing. In this way, many organisations contribute to the promotion of going green as their social responsibility.

**Government pressure:** The government too has realised the importance of the green philosophy. The government is rising up to the alarming need to make companies more eco-conscious by imposing rules and regulations. The Indian government has developed a framework of legislations to reduce the production of harmful goods and by-products. This reduces the industry's production and consumers consumption of harmful goods, including those products that are damaging to the environment; for example, the ban of plastic bags in Mumbai, prohibition of smoking in public areas, etc.

**Competitive pressure:** According to Michael Porter, competitive pressure is one of the five competitive forces that shape the strategy of any organisation. The same holds true in the case of green retailing. Many organisations comply with green retailing to maintain their competitive edge. The green retailing initiatives launched by niche companies such as Bod Shop and Green & Black have prompted many mainline competitors to follow suit. Many companies such as Yahoo have started green campaigns. Many other IT companies have started similar campaigns in order to stay in the game.

**Cost or profit issues:** The elimination of hazardous waste can drastically reduce costs. Organisations often develop a symbiotic relationship where the waste of a particular organisation is converted into something useful that can be used by another firm.

**Economical business model:** This is the right time for businesses to invest in green retailing. No doubt the initial cost is high, but it would be beneficial in the long run. Investing in green retailing would be a prudent decision in the long run as it would ensure that the retailer doesn't have to bend over backwards and make heavy eco-friendly investments in future.

**Employee and industry goodwill:** Most of the employees also feel proud and responsible to be working for an environmentally responsible company. The company would also be able to enjoy goodwill from the retail industry in the long run.

**Consumer friendliness:** Today, many consumers are becoming increasingly environment-conscious. By adopting the green retailing model for business, companies can cater to consumers' aspirations for environmentally less damaging or neutral products.

## CHALLENGES TO GOING GREEN

Several factors act as limitations curbing the retailer from achieving the rewards of green retailing. These factors need to be analysed thoroughly. Mentioned below are a few limitations of green retailing.

There are several barriers that come in the way of implementing green retailing. As a retailer, one must identify these barriers. Let us examine the major challenges facing green retailing. One of the major challenges faced especially by Indian retailers today is convincing customers to buy green products as there is a lack of awareness among customers about to green retailing. Customers today are becoming eco-conscious but a lot needs to be done in order to attract more customers to such products. To realise the true potential of green retailing, entrepreneurs must help consumers change their behaviour. To increase the sales of environmentally sensible products, companies must remove five barriers namely, lack of knowledge, negative perceptions, distrust, high prices and low availability.

**Lack of awareness:** Consumers today are aware that green retailing is the need of hour. But most of them are unaware of how and in what way to contribute. They do not know what measures they should take in order to ensure an eco- friendly environment. Their knowledge is only confined to avoiding usage of plastic. They believe that this is the only thing they can do to save environmental degradation. Hence, awareness needs to be created among the consumers.

**Less motivation to contribute:** Even if people know about the importance of green retailing, how many of them actually contribute to it? It is easy to discuss these issues but difficult to actually follow best practices. Hence, a desire needs to be created in the minds of consumers so that it becomes a priority in their lives. The government can initiate this through mass advertising and creating awareness about following green practices to a large extent.

**Negative perceptions:** At times, consumers are able to accurately identify which product is eco-friendly and which product is not. Hence, to safeguard brand reputation, it is vital that eco-friendly products should be given the appropriate image so that they don't fail.

**High prices:** Even if the consumers pass the above mentioned barriers, they hesitate to buy because of the high price of green products. If consumers decide to use green products, a look at the price tag makes them turn their back on such products. During today's global economic crisis, consumers are becoming increasingly conscious of what they buy. Hence, something needs to be done in order to lower the prices to some extent.

**Low availability:** Even though some consumers surpass all the above barriers, they may find out that the green products that they want are unavailable. Consumers find it difficult to locate such products. The consumers are not always informed about the availability of these products.

**Resource crunch:** This is the most common problem faced today by players who have taken up green retailing. Most organisations face a crunch with regard to knowledge and resource requirements for implementing green retailing. This has become a major hurdle for companies that are desperately trying to make a mark in green retailing.

**Confusing imagery of products:** There could be confusion among the consumers regarding the spectrum of products that come under green retailing. For example, people may mistake eco-friendly brands as being associated with herbs, herbal therapy or medicines.

**Questionable credibility:** Customers may doubt the credibility and quality of green products. They constantly wonder if it is an authentic product and whether it actually meets stringent standards and requirements.

### BREAKING DOWN BARRIERS TO GREEN RETAILING

There are several barriers acting as impediments to the growth of green retailing. These barriers can be broken down if retailers take a few firm steps consistently over a period of time.

**Educate consumers:** Since consumers are largely unaware of green retailing, consumers need to first perceive themselves as educators and not sales people. Non-profit and government agencies also need to take up the cause of creating awareness on green retailing. Retailers should educate their customers about the advantages of using green products through media such as websites. For example, Yahoo and NDTV have started campaigning for environment friendly products through their websites. They have launched websites that provide users with information about green retailing and how to save the environment from getting degraded.

**Build better products:** For consumers to improve their opinion on green products, companies must create ones that are equal to or better than conventional alternatives. Building a better product would also yield benefits for the company.

**Be honest:** Build an open climate communication. To build public trust, companies must inform the public about the true environmental impact of various harmful activities as well as about their attempts to reduce this impact. Honesty would go a long way in helping the company flourish. In India, Hidesign has invested in a tannery, which uses only organic products.

**Offer more:** To increase sales of green products, companies should make sure that the

consumers understand the returns both financial and environmental on their investment. When these returns are considered to be high, consumers would naturally tend to be loyal towards green products.

**Bring products to the people:** Companies cannot sell their products if consumers cannot find them. It sounds obvious, but many products today are not widely available. Hence, retailers must ensure that their products are easily available and accessible to the consumer.

## GLOBAL RETAILERS' INITIATIVE FOR GREEN RETAILING

Large retailers such as IBM, Tesco, Wal-Mart, Kohl's, Office Depot and many more have adopted green strategies and realized the significant benefits accruing from them. Green initiatives include, green buildings, efficient delivery systems, efficient lighting systems, and the use of renewable power such as solar, wind and biomass and promotion of green products. Clear product labeling on major domestic appliances and the falling cost of energy saving light bulbs has led to consumers spending in excess of £1.1bn on greener products.

### Industry mindset: the rationale for environmentalism

- 87.5% of (US) retailers reported an increase in energy costs from the previous year
- 64% said they would be creating more energy efficient stores when building or remodeling
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### IBM for green retailing

The offerings described in this paper illustrate IBM's commitment to becoming Big Green. IBM has nearly four decades of commitment to environmental concerns starting in 1971 with the establishment of a corporate Policy on Environmental Affairs. Between 1990 and 2005, IBM reduced its total CO2 emissions by 40%. IBM was a charter member of the Energy Star program, and, recently, IBM Project Big Green is investing \$1 billion to increase the energy efficiency of IBM products. IBM created a product stewardship program in 1991, covering design for recycling, use of recycled plastics, product energy efficiency and use of environmentally friendly materials and processes. IBM has offered take-back programs for some products since 1989; process more than 49,000 metric tons of product waste annually.

### Wal-Mart: Opens second high efficiency store

▮

▮ Aims to use 20% less energy.

▮ Future: aims to design and operate a prototype which is 25- 30% more efficient than a conventional store.

▮ Energy saving, motion activated lights in fridges and freezers

- Low flow taps in restrooms, Use of recycled plastics.
- Integrated water-based heating and cooling.
- Daylight harvesting, Colored concrete flooring.
- Wal-Mart & LEEDs- Initiative to reduce energy costs by more than \$2.6 M annually.

Wal-Mart's: supply and supplier focus

Vendor orientated "packaging scorecard"

Wal-Mart seeks to reduce packaging by 5% by 2013, Hybrid truck research

**Results since 2005:** Savings of US\$26m, 10m gallons of diesel conserved, 100,000 tons of carbon dioxide release prevented

### Boots

Boots will trial carbon footprint labels on selected private label products... the labels will measure each products carbon levels, and inform shoppers how they can reduce their own carbon footprint.

**Tesco:** Tesco offers double Club card points on green goods

- Organic products, Fair trade ranges
- Energy efficient light bulbs, Recycling old phones and printers
- Rewards for reusing competitors shopping bags

### Kroger

Kroger's windfall "Kroger's greenest store in Ohio will save an estimated 82% on monthly utility bills"

### Metro

Metro in Canada reports success with reusable bags- Metro has announced that more than 1.7 million reusable bags have been sold

### Staples

- Profitability and Sustainability are not diametrically opposed
- Seeking 'absolute' 10% reduction in greenhouse gas emission by 2012
- Reduced total energy use psf by 5%" since 2001, Electricity consumption 14%

### Waitros

- Waste and recycling, Organic and agricultural policy, Responsible sourcing

**Kikki.k:** Aims to set carbon neutral precedent

- Environmental audit
- Aiming to become carbon neutral by the end of 2007 \
- Changing to renewable energy

## J.C. Penney

JC Penney became the first retailer to attain the Energy Star for a retail store thereby reducing the carbon footprint of its operation. Going beyond, it has continued to measure and track energy performance of its 1,000+ stores. It has also achieved a Designated to Earn the Energy Star recognition for the new stores.

## Gift Fair's Green by Design

Gift Fair's new category called Green by Design. Booths displaying this hopeful sign were showcasing eco-friendly products for consideration by retailers. Some of the exciting Green by Design products included the very attractive and functional Clean Conscience bags made in the USA from recycled PET fabric and the Elisabethan eco-fashion line handmade in Colorado exclusively from reclaimed fabrics and appliques.

## Khol's Department store

Khol's Department store has earned the Energy Star for superior energy performance for over 160 stores. Second, by building new low-carbon businesses. They are in a move to develop new radically-effective low-carbon solutions.

## Asda UK

- Pilot to reduce packaging on fruit and vegetable
- Trial has had 'favourable impact' in sales
- No "increased wastage", Pledge to cut private label packaging by 25% **Co-Operative Group, UK: taking the lead in energy efficiency**
- Aiming to reduce energy consumption by 25% in the next 5 years
- Removing all tungsten light bulbs from stores
- Plans to increase ranges of power saving products

## WRAP launches grocery packaging initiative

The grocery and home improvement sectors in the UK and overseas are being urged to increase their "competitive edge and reap other benefits" by showcasing their approaches to sustainable packaging through an international study launched by WRAP (Waste & Resources Action Programme).

## INDIA'S FIELD OF GREENS

The country is undergoing a second agricultural revolution--building the infrastructure that connects farm to supermarket. Even though the "Green Movement" started more than a decade ago, it is only now becoming the trendy thing to be, doing and buy

in retail sector. Building green isn't just a cost-saving strategy; it's a brand-growth strategy. A green building is also an opportunity for retailers to communicate achievements and values with their key stakeholders - customers, shareholders, communities, vendors, and employees. It takes more than selling a few green products to be called a Green Business. To become a green retailer requires a great concern for green.

### **Bharti Wal Mart, partners Coca-Cola for 'Go Green' project**

Bharti Walmart joined hands with beverage major Coca-Cola India to undertake a plantation drive in and around Best Price Modern Wholesale store as part of their drive to plant over 2000 saplings in Amritsar. In partnership with Amritsar Municipal Corporation, to adopt and manage the road stretch from Taranwala Bridge up to the end point of Amritsar Municipal Corporation and partnered with Divisional Forest Office to plant trees on the 8 KM stretch. Further, the Best Price Modern Wholesale cash-and-carry store has provided ten pushcarts to the unemployed and economically disadvantaged from nearby rural areas located. Bharti Walmart also launched India's first skills training center in a Public Private Partnership with the Punjab Government in December 2008. The Training Centre, which offers 100 per cent scholarship to all enrolled candidates, aiming to bridge the shortage of skilled workers for cash and-carry and organized retail formats, thereby creating employment opportunities for the youth. Nearly 1200 students have been certified out of which 335 have been placed in various jobs and nearly 100 are placed in house, Modern Wholesale store.

### **Field Fresh**

Field Fresh, a new company that plans to become India's first large-scale exporter of produce, has leased 4,200 acres on 78 farms in Punjab, producing beans, snow peas, carrots, okra, baby corn and other vegetables for export to Europe and the Middle East. "Organized supermarkets have to have an organized back end," says Lynn Forester de Rothschild, founder and CEO of E.L. Rothschild, a British investment firm owned by a branch of the Rothschild banking family. E.L. Rothschild is a fifty-fifty investor in Field Fresh with Bharti Enterprises, which is planning to set up a nationwide retail chain, probably with Britain's Tesco, as well as an export business. In other parts of India it is buying produce on contract from farmers, guaranteeing to pay market prices, though farmers are free to sell elsewhere. This contract system will probably become Field Fresh's main business model once farmers have learned to produce consistently high-quality crops using new seeds, fertilizers, and techniques the company provides.

Field Fresh's initial export attempts last year proved disastrous. Fifteen out of 20 containers of grapes, as well as shipments of mushrooms and okra, were wasted because of poor-quality skins, pest attacks, or airport delays. But even though Tesco is among Field Fresh's overseas buyers, it has not been easy breaking into foreign markets. Field Fresh expects its exports this year to grow to \$15 million, after an initial investment of \$50 million.

### **Reliance**

Announced a \$5.6 billion multiyear investment in agriculture and retail, links are being



established with farms on several thousand acres in Punjab, West Bengal, Maharashtra, and elsewhere, with rural centers providing goods for farmers and handling their produce. Supply chains are planned from these hubs to Reliance Retail's outlets, as well as to foreign buyers. Reliance wants to deliver "better returns for the Indian farmer and producer by connecting them directly to Indian and global consumers, and lower prices and better product quality for consumers." Reliance is already growing mangoes on land adjacent to Reliance's oil refinery at Jamnagar and plans to become India's biggest mango exporter, selling 3,600 tons annually within five years.

## PepsiCo

One big company that has already had a positive impact on Indian agriculture is PepsiCo (Charts). The American company has been working with farmers in Punjab since the 1980s, initially pulping tomatoes in return for obtaining government permission to produce and sell its drinks in India. Pepsi introduced new varieties that have helped boost the state's tomato crop from 18,000 tons to 300,000 tons.

Pepsi has a five-year program with the Punjab government to provide several hundred farmers with four million sweet-orange trees for its Tropicana juices by 2008. It is also developing a seaweed crop for a food-gelling agent on 4,000 rafts off the southern Indian coast. And it has introduced Punjab farmers to high-yielding varieties of other crops, such as basmati rice, mangoes, potatoes, chilies, peanuts, and barley, which it uses for its Frito-Lay snacks or sells to domestic and foreign buyers. Last year its agriculture exports totaled \$40 million.

## Government's Concern

India's Agriculture Secretary, Radha Singh, is backing the big companies' entry into vegetables and fruits because of the obvious growth potential and the impact they can have on farmers' performance. She is also encouraging states to relax the mandis' monopoly and improve infrastructure. "Until recently," Singh says, "the government has never looked at linkages beyond basic food production because the focus has been on self-sufficiency." But anything that might result in consolidation or in the displacement of farmers from their land is politically sensitive - especially at a time when crop failures and bankruptcy have led to an average of 15,000 farmer suicides annually over the past five years.

## BEWARE THE GREEN WASH

One major precaution that needs to be taken if a business is going to make a successful transition to being a green retailer is to avoid green wash. This term refers to misleading consumers over your business' environmental practices, a practice which is currently on the increase. And the backlash from consumers can be hard to recover from. In the past year or so, the Australian Competition and Consumer Commission (ACCC) have been cracking down on dubious green claims, catching more than a few companies off guard. Woolworths, Goodyear Tyres, Origin Energy and Coopers Brewery have all made misleading green statements in their advertising, packaging or promotions. So, unless a company is

completely confident that its green claims are true, they run the risk of the wrath of the ACCC, a consumer backlash, incurring fines, having to make public apologies, legal fees and the costs associated with scrapping marketing campaigns. To ensure you're not green washing consumers, make sure all claims can be substantiated, that they are clearly defined and relevant for your consumers.

Hence, we can say that future of green retailing in India is promising and we may see the emergence of innovative green techniques in the future.

### **SUGGESTIONS - A SUSTAINABLE BARGAIN**

The consumers' not to be treated like guinea pigs merely for a desire to be seen as socially responsible. The engagement that retailers follow with consumers today is more instructive in nature, telling them what to do in order to be more eco-conscious; they don't create a partnership that offer greater benefits than mere guilt-alleviation. So as a strategic approach for all companies that want serious engagement and tangible result from their consumers, here are few suggestions.

Retailers need to translate green benefits into tangible consumer benefits. The drivers for this transformation are: emotional (alleviation of guilt), and offerings green merchandises, larger windows that allow in natural light to minimize energy use, use everything in the store being recyclable, more loyalty points for the purchase of greener products. Retailer may offer green credit cards that will offer greater savings on eco friendly products. This fundamental principle of incentives and rewards can be applied across business and geographies. This way, the consumers doesn't just buy into emotional benefits of going green but also gets tangible, rational benefits.

### **FUTURE OF GREEN RETAILING**

Today, the eco-green philosophy is the need of the hour. Hence, the future of green retailing is bright as the awareness of leading a greener lifestyle is increasing day-by-day. Green retailing not only helps the retailers to cut costs, build their brand name and earn goodwill among their customers but also creates a sustainable environment for a happier and safer lifestyle. The order of the day is to accelerate this process and make the retailing process more eco-friendly and create awareness about eco-friendly retailing among customers. However, green retailing is still in its nascent stages in India. Retailers should aggressively promote green practices so as to generate adequate awareness among Indian consumers about the advantages of purchasing environment-friendly products. Retailers have to develop an effective supply chain and employ efficient best practices to make these products available at reasonable rates.

### **CONCLUSION**

Retailers now are showing great concern for the green retailing, we have discuss that there are lot of benefits by adopting concepts of green retailing, our consumers get their merchandises at reasonable prices, retailers are able to operate their stores with sustainable

profits, our environments are safe with less pollution, less use of electricity saves lot of natural resources which are consumed for producing electricity, less use of polythene bags will save the soil, CFL lightings will emerge less carbon and our air being our life will be less polluted. Global retailers are taking good care of their responsibilities for these concerns for their consumers, themselves and our environment.

Even though the "Green Movement" started more than a decade ago, it is only now becoming the trendy thing to be, doing and buy in retail sector. Concern and practices by retailers, and corporate are a welcome step. Building green isn't just a cost-saving strategy; it's a brand-growth strategy. A green building is also an opportunity for retailers to communicate achievements and values with their key stakeholders - customers, shareholders, communities, vendors, and employees. It takes more than selling a few green products to be called a Green Business. The true nature of going green goes so much deeper than that. We must hope that this mission of green retailing will continue and prosper in future and more and more people will have concern and contribute their initiative for the cleaner and greener tomorrow.

Due to global warming and environmental degradation, people are increasingly realising the importance of using green products and adopting eco-friendly practices. Companies like Tata Motors, IBM, HP, Infosys etc., as a part of their corporate social responsibility, are adhering to new and innovative ways of eco-friendly manufacturing processes.

Green retailing is gradually beginning to assume immense importance and relevance in the country. Retailers have begun to respond to the need of the hour, and green retailing is steadily entrenching its roots firmly into the Indian market.

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## AN EMPIRICAL STUDY OF THE BUSINESSMEN PERCEPTION OF VARIOUS ISSUES AND CHALLENGES ASSOCIATED WITH FDI IN INDIAN RETAIL SECTOR



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### ABSTRACT

The liberalized environment since 1991 with changes in income levels, lifestyles, taste & habits of consumers with preference for superior quality and branded products, vast domestic market with a very competitive manufacturing base has lead to major retail boom in recent years. Retail trade contributes around 10-11% of India's GDP and currently employs over 40 millions of people. FDI in retail is fundamentally different from that in manufacturing. FDI in manufacturing basically enhances the productive employment in most cases; but FDI in retail trade may create job losses and displacement of traditional supply chain. According to Indian Staffing Federation (ISF), an apex body of the flexi staffing industry in India, FDI in retail can create around 4 million direct jobs and almost 5 to 6 million indirect jobs including contractual employment within a span of 10 years.

In this background the present study makes an attempt to study the likely impact of FDI on Indian retail sector, with focus on some employment opportunities. The study attempts to find out the perception of respondents regarding various issues and challenges associated with FDI in retail. It also attempts to find out the positive and negative aspect of FDI in retail. The Study was conducted during December 2012 - January 2013. It is based on a sample size of 100 Personnel consisting of Retail Industry Professionals and Small Entrepreneurs of Lucknow region. The findings suggest that FDI in Retail will provide better Prices to suppliers especially farmers and it will create new employment opportunities.

**Keywords:** FDI, Retail sector, Liberalization, Employment opportunities, Indian Staffing Federation, Small Entrepreneurs.

## INTRODUCTION

Retailing in India is one of the pillars of its economy and accounts for 14 to 15% of its GDP. The Indian retail market is estimated to be US\$ 450 billion and one of the top five retail markets in the world by economic value. India is one of the fastest growing retail markets in the world, with 1.2 billion people. India's retailing industry is essentially owner manned small shops. In 2010, larger format convenience stores and supermarkets accounted for about 4% of the industry, and these were present only in large urban centres. India's retail and logistics industry employs about 40 million Indians (3.3% of Indian population).

Until 2011, Indian central government denied foreign direct investment (FDI) in multi-brand retail, forbidding foreign groups from any ownership in supermarkets, convenience stores or any retail outlets. Even single-brand retail was limited to 51% ownership and a bureaucratic process.

In November 2011, India's central government announced retail reforms for both multi-brand stores and single-brand stores. These market reforms paved the way for retail innovation and competition with multi-brand retailers such as Walmart, Carrefour and Tesco, as well single brand majors such as IKEA, Nike, and Apple. In December 2011, under pressure from the opposition, Indian government placed the retail reforms on hold till it reaches a consensus.

In January 2012, India approved reforms for single-brand stores welcoming anyone in the world to innovate in Indian retail market with 100% ownership, but imposed the requirement that the single brand retailer source 30% of its goods from India. Indian government continues the hold on retail reforms for multi-brand stores. IKEA announced in January that it is putting on hold its plan to open stores in India because of the 30% requirement. Fitch believes that the 30% requirement is likely to significantly delay if not prevent most single brand majors from Europe, USA and Japan from opening stores and creating associated jobs in India.

## LITERATURE REVIEW

India has been ranked the fifth most attractive destination for retail investment among 30 emerging markets because of rising disposable incomes and rapid urbanization. Even though its ranking slipped from the fourth spot in 2011, India has been placed ahead of the UAE, Saudi Arabia, Indonesia and Russia. According to **US-based global management consulting firm A T Kearney**, India remains a high-potential market with accelerated retail

market growth of 15 to 20% expected over the next five years, supported by GDP growth of 6 to 7%, rising disposable income, and rapid urbanization.

According to **AC Nielsen & ASK Technopak**, India was the highest shop density in the world. It was estimated that there were 11 outlets for every 1000 people. Retailing is the single largest component of the service sector in terms of contribution to the gross domestic product in economic activity in the sector Banking & Insurance. The total number of retail outlets increased by 42% i.e. 8.6 million in 1997 to 14 million in 2005.

**Aditya Narayan Mishra, President - staffing, Randstad India**, an HR services firm, said it is not possible to cite a precise figure for the number of jobs that FDI in these sectors will create. But hiring will happen at a faster pace. **Kumar Rajagopalan, CEO, Retailers Association of India**, said for every 250 sq ft of retail space that is added, one new job is created. "With FDI, the opportunities will be more," said Mishra. **Dr. Abhijit Sen, former co-chairman of the Nicco Group** said there was empirical proof that FDI in retail will not shrink employment opportunities, going by the US example. According to Dr. Sen, some 16% of total employment was in retail trade, which is dominated by the hypermarkets. And this has thrown up huge employment opportunities, he maintained, disputing the assumption that allowing FDI in retail in India will shrink employment.

**Prof. Dipankar De of ICFAI Business School, Kolkata**, expressed doubts over the actual benefits that may accrue to the nation through FDI in retail. He cited a report of the UK Competition, which says thousands of retail jobs were lost on the entry of hypermarkets through FDI in retail in the UK.

According to a study by the Indian council for **Research on International Economic Relations (ICRIER)**, retailing contributes to 11% of the GDP and employs 8% of the total national workforce. The share of the organized sector in retail trade is currently a mere 2% and is expected to reach 9-10% by 2010, indicating a huge opportunity for prospective new players. Some facts retaining sector in India are mind-boggling. There are 12 million outlets as against 8 million in USA even though their economy is 13 times larger.

**According to KPMG survey**, India has emerged as the top FDI destination offering a higher return on investment than emerging markets like Mexico, Brazil and even China. The retail sector is second largest source of employment and the job market is hugely receptive to this, with more and more Business Schools focusing on the sector and large retailers setting up retailing academies.

## FDI POLICY IN INDIAN RETAIL SECTOR:

### Division of Retail Industry



The retail industry is mainly divided into:

1. **Organised retailing** refers to trading activities undertaken by licensed retailers, that is,

those who are registered for sales tax, income tax, etc. These include the corporate-backed hypermarkets and retail chains, and also the privately owned large retail businesses.

2. **Unorganised retailing** refers to the traditional formats of low-cost retailing, for example, the local kirana shops, owner manned general stores, paan/beedi shops, convenience stores, hand cart and pavement vendors, etc. The Indian retail sector is highly fragmented with 97 per cent of its business being run by the unorganized retailers. The organized retail however is at a very nascent stage. The sector is the largest source of employment after agriculture, and has deep penetration into rural India generating more than 10 per cent of India's GDP.

**Table 1: Comparison of Unorganized and Organized Retail formats**

Unorganized	Organized
Large Bargaining Power	Low operating cost and overheads
Proximity to consumers	Range and variety of goods
Long operating hours	Long operating hours,
Strong customer relations	Quality assurance (brand related and durability).
Convenience and hygiene	

**Source:** Compiled by Author(s)

### 3.2 Entry Options for Foreign Players prior to FDI Policy

Although prior to Jan 24, 2006, FDI was not authorized in retailing, most general players had been operating in the country. Some of entrance routes used by them have been discussed in sum as below:-

#### 1. **Franchise Agreements**

It is an easiest track to come in the Indian market. In franchising and commission agent's services, FDI (unless otherwise prohibited) is allowed with the approval of the Reserve Bank of India (RBI) under the Foreign Exchange Management Act. This is a most usual mode for entrance of quick food bondage opposite a world. Apart from quick food bondage identical to Pizza Hut, players such as Lacoste, Mango, Nike as good as Marks as good as Spencer, have entered Indian marketplace by this route.

#### 2. **Cash And Carry Wholesale Trading**

100% FDI is allowed in wholesale trading which involves building of a large distribution infrastructure to assist local manufacturers. The wholesaler deals only with smaller retailers

and not Consumers. Metro AG of Germany was the first significant global player to enter India through this route.

### 3. Strategic Licensing Agreements

Some foreign brands give exclusive licenses and distribution rights to Indian companies. Through these rights, Indian companies can either sell it through their own stores, or enter into shop-in-shop arrangements or distribute the brands to franchisees. Mango, the Spanish apparel brand has entered India through this route with an agreement with Pyramid, Mumbai, SPAR entered into a similar agreement with Radhakrishna Food lands Pvt. Ltd.

### 4. Manufacturing and Wholly Owned Subsidiaries

The foreign brands such as Nike, Reebok, Adidas, etc. that have wholly-owned subsidiaries in manufacturing are treated as Indian companies and are, therefore, allowed to do retail. These companies have been authorized to sell products to Indian consumers by franchising, internal distributors, existent Indian retailers, own outlets, etc. For instance, Nike entered through an exclusive licensing agreement with Sierra Enterprises but now has a wholly owned subsidiary, Nike India Private Limited.

**Table 2: Evolution of FDI Policy in India**

Year	FDI Policy
1991	<b>Liberalization:</b> Indian economy opened FDI up to 51% allowed under the automatic route in select priority sectors
1997	FDI up to 100% allowed under the automatic route in Cash & Carry (wholesale)
2006	FDI up to 51% allowed with prior Government approval in 'Single Brand Retail'
2008	Government mulled over the idea of allowing 100% FDI in single-brand retail and 50% in multi brand retail
2010	Government proposing to allow FDI in Multi brand retailing
2012	Government has ultimately taken the bold decision and notified the much-awaited
	policy allowing 100 % FDI in single brand retail from the existing 51%.

**Source:** Compiled by Author(s)

### 1.3 FDI Policy with Regard to Retailing in India

It will be prudent to look into Press Note 4 of 2006 issued by DIPP and consolidated FDI Policy issued in October 2010 which provides the sector specific guidelines for FDI with regard to the conduct of trading activities.

- FDI up to 100% for cash and carry wholesale trading and export trading allowed under the automatic route.
- FDI up to 51 % with prior Government approval (i.e. FIPB) for retail trade of Single Brand products.
- FDI is not permitted in Multi Brand Retailing in India.

#### 1.3.1 Prospected Changes in FDI Policy for Retail Sector in India:

The government, led by Dr. Manmohan Singh, announced following prospective reforms in Indian Retail Sector:

1. India will allow FDI of up to 51% in multi-brand sector.
2. Single brand retailers such as Apple and Ikea, can own 100% of their Indian stores, up from previous cap of 51%.
3. The retailers (both single and multi-brand) will have to source at least 30% of their goods from small and medium sized Indian suppliers.
4. All retail stores can open up their operations in population having over 1million. Out of approximately 7935 towns and cities in India, 55 suffice such criteria.
5. Multi-brand retailers must bring minimum investment of US\$ 100 million. Half of this must be invested in back-end infrastructure facilities such as cold chains, refrigeration, transportation, packaging etc. to reduce post-harvest losses and provide remunerative prices to farmers.
6. The opening of retail competition (policy) will be within parameters of state laws and regulations.

### 3.4 Single and Multi-Brand Retailing:

**3.4.1. FDI in Single-Brand Retail** - The Government has not categorically defined the meaning of Single Brand anywhere neither in any of its circulars nor any notifications.

In single-brand retail, FDI up to 51 per cent is allowed, subject to Foreign Investment Promotion Board (FIPB) approval and subject to the conditions mentioned in Press Note 3[13] that

- only single brand products would be sold (i.e., retail of goods of multi-brand even if produced by the same manufacturer would not be allowed).

- Products should be sold under the same brand internationally.
- Single-brand product retail would only cover products which are branded during manufacturing.
- any addition to product categories to be sold under single-brand would require fresh approval from the government.

**3.4.2 FDI in Multi-Brand Retail** - The government has also not defined the term Multi Brand. FDI in Multi Brand retail implies that a retail store with a foreign investment can sell multiple brands under one roof. In July 2010, Department of Industrial Policy and Promotion (DIPP), Ministry of Commerce circulated a discussion paper on allowing FDI in multi-brand retail. The paper doesn't suggest any upper limit on FDI in multi-brand retail. If implemented, it would open the doors for global retail giants to enter and establish their footprints on the retail landscape of India. Opening up FDI in multi-brand retail will mean that global retailers including Wal-Mart, Carrefour and Tesco can open stores offering a range of household items and grocery directly to consumers in the same way as the ubiquitous 'kirana' store.

## 3.5 SWOT Analysis of Indian Retail Sector

This Analysis is basically based on secondary data collected from the existing literature of the individual organizations, National and International Journals, Economic Survey, through the Internet and interviews with the founders, and through interactions with the other members of the organizations.

### 1. Strengths

- The retail sector in India is hovering around 33-35% of GDP as compared to around 20% in USA.
- The retail sector in India enjoys an extremely high growth rate of approximately 46%.
- The organized portion of retail sector is only 2-3%, thereby creating lot of potential for future players.

### 2. Weaknesses

- AT Kearney's study on global retailing trends found that India is least competitive as well as least saturated markets of the world.
- The unorganized portion of retail sector is only 97% as compared to US, which is only 20%.
- The retail sector in India does not enjoy industry status in India, thereby making difficult for retailers to raise funds.

### 3. Opportunities

- Organized retail will need more workers. According to findings of KPMG , in China, the employment in both retail and wholesale trade increased from 4% in 1992 to about 7% in 2001 post reforms and innovative competition in retail sector in that country.
- Intermediaries and mandi system will be evicted which will directly benefiting the farmers and producers. Therefore, the prices of commodities will automatically be checked. For example, according to Business Standard, Walmart has introduced —Direct Farm Project at Haider Nagar in Punjab, where 110 farmers have been connected with Bharti Walmart for sourcing fresh vegetables directly.
- Cost conscious and highly competitive retailers will try to avoid wastages and losses and it will be their endeavour to make quality products available at lowest prices, hence making food available to weakest and poorest segment of Indian society.
- Heavy flow of capital will help in building up the infrastructure for the growing population as India is already operating in budgetary deficit.

### 4. Threats

- Current Independent Stores will be compelled to close. This will lead to massive job loss as most of the operations in big stores like Wal-Mart are highly automated requiring fewer work forces.
- Big players can knock-out competition as they can afford to lower prices in initial stages, become monopoly and then raise price later.
- India does not need foreign retailers as they can satisfy their whole domestic demand.

## 4 RESEARCH METHODOLOGY

The Study was conducted during December 2012 - January 2013, is based on a Sample size of 100 Employed including University Faculties, Retail Industry Professionals and Small Entrepreneurs of Lucknow region.

### Objectives:

The objectives of the study are given as follows:

1. To find out the perception of selected Sample regarding employment opportunities with respect to FDI in retail.
2. To study to find out the positive and negative aspect of FDI in retail.

**Research Design:** Exploratory

**Type of data:** Primary and Secondary

## Sources of data:

The Primary data was collected through interviews with the help of a structured questionnaire. The secondary data was collected from the existing literature of the individual organizations, National and International Journals, Economic Survey, through the Internet and interviews with the founders, and through interactions with the other members of the organizations.

## Profile of the sample:

The study covers different categories of University Faculties according to their Profile namely Professors, Associate Professors and Assistant Professors. The study also covers different categories of Retail Industry Professional according to their Hierarchy Level. The study also covers different categories of Small Entrepreneurs according to their turnover of Rs.25 lakhs to 1 crores, between Rs. 1 crore to Rs 5 crore and above Rs 5 crore.

Out of the 100 sample, a majority, i.e., 55 percent were in the age group of (25-30). Most of them are well educated and postgraduates (60 percent). A majority of the respondents have a Hindu religious background (55 percent) and the remaining have other backgrounds such as Muslims (30 percent), Christian (6 percent) and other communities (9 percent).

## 5 DATA ANALYSIS

The questionnaire consists of 10 attributes related with People Perception on FDI in Retail which are expected to be analyzed. All the attributes listed are taken into consideration after a thorough analysis of the review of literature so as to know the People Perception on FDI in Retail. The respondents were asked to give their order of priority regarding the listed attributes. The responses are analyzed and presented in table 2. The mean score of the responses are calculated and ranks are given accordingly (the higher the mean score, the higher attributes is given the highest priority. To probe further into the responses, standard deviation is calculated for all the listed attributes. (Table 2)

**Table 2: People's Perception on FDI in Retail**

People's Perception on FDI in Retail	SA	A	NAND	D	SD	Mean	Rank
1 FDI in Retail will create new employment opportunities	70	22	8	0	0	4.62	2
2 FDI in Retail will help to control intermediaries who dominate the value chain	64	30	6	0	0	4.58	4
3 FDI in Retail will provide better Prices to suppliers especially farmers.	76	20	4	0	0	4.72	1
4 FDI in Retail will provide jobs to Educated Youth.	52	36	8	4	0	4.36	5
5 FDI in Retail will provide products at competitive prices	10	20	10	24	36	2.44	9
6 FDI in Retail will help in increasing GDP	30	32	18	14	6	3.66	7
7 FDI in Retail will improve present Public procurement and Public Distribution System (PDS).	42	28	12	10	8	3.86	6
8 FDI in Retail will provide better technical knowledge and international exposure.	20	22	18	16	24	2.98	8
9 FDI in Retail will help to develop better Infrastructure Facilities especially logistics.	66	28	6	0	0	4.60	3
10 FDI in Retail will lead to new short term courses in Retail at college level.	12	8	20	20	40	2.32	10

(Source: Primary data)

If the mean score falls

- Between (5-4), the response is most favourable
- Between (4-3), the response is favourable
- Between (3-2), the response is uncertain
- Between (2-1), the response is unfavourable
- Between (1-0), the response is most unfavourable



The attribute 'will provide better Prices to suppliers especially farmers.' has scored the highest response (4.72). This attribute speaks about the elimination of distribution system which is presently not able to deliver farmers their value of hard work. The direct involvement will help farmers to get better prices.

The next attribute that is given priority is 'will create new employment opportunities' which has scored a high response (4.62). This attribute also fulfils the objective of this paper. We believe that Retail sector employs 7% of work force in India, which is now limited to unorganized sector only. Once the reforms get implemented this percentage is likely to increase substantially.

The next attribute that is given priority is 'will develop better Infrastructure Facilities especially logistics.' which has scored a high response (4.60). Generally, there has been a lack of investment in the logistics of the retail chain, leading to an inefficient market mechanism. Lack of adequate storage facilities and distribution networks cause heavy losses to farmers in terms of wastage in quality and quantity of produce in general.

The next attribute that is given priority is 'will control intermediaries who dominate the value chain' which has scored a response (4.58). Intermediaries often flout mandi norms and their pricing lacks transparency. Wholesale regulated markets, governed by State APMC Acts, have developed a monopolistic and non-transparent character. According to some reports, Indian farmers realize only 1/3rd of the total price paid by the final consumer, as against 2/3rd by farmers in nations with a higher share of organized retail.

The next attribute that got positive response from the respondents is 'will provide jobs to Educated Youth.' (4.36). With a contribution of an overwhelming 14% to the national GDP and employing 7% of the total workforce (only agriculture employs more) in the country, the retail industry is definitely one of the pillars of the Indian economy.

The next attribute that got positive response from the respondents is 'will improve present Public procurement and Public Distribution System (PDS)' (3.86). There is a big question mark on the efficacy of the public procurement and PDS setup and the bill on food subsidies is rising. In spite of such heavy subsidies, overall food based inflation has been a matter of great concern. The absence of a 'farm-to fork' retail supply system has led to the ultimate customers paying a premium for shortages and a charge for wastages.

Other significant attributes which help in understanding perception regarding FDI in Retail are 'will help in increasing GDP' (3.66) and 'will provide better technical knowledge and international exposure'. (2.98).

The Micro Small & Medium Enterprises (MSME) sector has also suffered due to lack of branding and lack of avenues to reach out to the vast world markets. While India has continued to provide emphasis on the development of MSME sector, the share of unorganized sector in overall manufacturing has declined from 34.5% in 1999-2000 to 30.3% in 2007-08. This has largely been due to the inability of this sector to access latest technology and improve its marketing interface.

The next attribute that got unfavourable response is 'will provide products at competitive prices' (2.44). The inflow of FDI in retail sector is bound to pull up the quality standards and cost-competitiveness of Indian producers in all the segments which may provide better products at competitive prices.

Further, from table 1 it can be inferred that FDI in Retail will lead to new short term courses in Retail at college level. (2.62). This attribute got unfavourable response **as the number of yearly pass out business post graduates are more with respect to number of vacancies**. Does one need to pursue courses in retail to do well in this sector? Not necessarily. Fresher must work and learn the skills on-the-job. Big retail giants usually train newcomers. This is likely to create more jobs in tier two cities, where people sometimes cannot afford higher education.

### 3 CONCLUSION

FDI in retail sector would certainly enable to optimize youth employment in India. For those fearing the effects of FDI in retail in India, the examples of Thailand and China should give them comfort. Notwithstanding the mounting pressure from left wing parties, the present Indian government has decided to allow FDI in retail outlets meant exclusively for single brands which mean that multi nationals can invest up to 51% in joint ventures for marketing their premier brands.

The opponents of the giant retailers forget that India is large enough for both the multinationals and the small family runs businesses. For instance, when MNC's like McDonalds, Kentucky Fried Chicken and other such outlets came to India; their opponents argued that the Indian eateries as well as the small roadside vendors will become bankrupt because the foreign investors have deep pockets. All businesses have thrived and nothing of this kind happened. The road side vendors still remain the favourite meals of Indians along with the burgers.

According to Indian Staffing Federation (ISF), FDI in retail can create around 4 million direct jobs and almost 5 to 6 million indirect jobs including contractual employment within a span of 10 years. With FDI, opportunities will be generated in front-end jobs, specialists in warehousing and retail management. The job spread is huge. The slowdown, which had earlier affected the stores, is likely to see a revival. From the employment point of view, jobs will be created in not only mainstream areas such as retail, but also in areas such as front-end sales, facility management, security management, inventory, merchandising, customer relationship and visual merchandising, among others. In smaller towns, knowing the local language will be an asset because it will help one connect with the masses.

There is nothing to fear, therefore, from the advent of the giant retail stores. These Giant retail stores will bring in an element of high professionalism in the production and sale of the commodities in daily use, and will highlight the need for improved infrastructural facilities linking the towns with the countryside. This will help to develop better storage and transport arrangements. Logistics and supply chain companies are also expected to grow as they will be the link between small manufacturers, producers and farmers and the organised retail chains, and thereby help them get higher returns for their supplies. This will also help small-time producers in gaining access to the latest technologies, systems and processes, hence,

maximizing their profits. Global retailers have already been sourcing from India and their presence will enhance exports from as they leverage relationships with local suppliers. To reach its potential, the Indian retail sector requires significant capital, technology and best practices to bridge the existing productivity gap and achieve scale in operation, which are critical to the sector's success. So while the government may have shown the way, only time will tell how promising it will be for retailers to setup shop in India.

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### OPPORTUNITIES AND CHALLENGES IN FINANCIAL INCLUSION IN INDIA



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#### Abstract

The Government of India and RBI have taken major initiatives towards ensuring the inclusive growth through financial inclusion so that the access of financial services will reach to the mass population. The main aim of this paper is to highlight the requirement of financial inclusion and to estimate the social benefits from these initiatives. A Reserve Bank of India data shows that as many as 139 districts suffer from massive financial exclusion, with the adult population per branch in these districts being above 20,000 and only 3% with borrowing from banks. On the assumption that an adult has only one bank account on an all India basis, 59% of the adult population in the country has bank accounts, 41% of the population is, therefore, unbanked. In rural India coverage is 39% against 60% in urban areas. The unbanked population is higher in the poorer regions of the country, and is the worst in the North-Eastern and Eastern regions. This paper is an attempt to provide evidence on impact of financial inclusion in India, the various issues of financial exclusion and the present status of financial services of India.

**Keywords:** - Financial Inclusion, Microfinance Institutions (MFIs), Non-Banking Finance Companies (NBFCs), Business Correspondents (BCs), Reserve Bank of India (RBI) & Self-Help Groups (SHGs).

**Introduction:** - The process of ensuring access to appropriate financial products and services by vulnerable groups such as weaker sections and low income groups at an affordable cost in a fair and transparent manner by mainstream institutional players is known as financial inclusion. Financial Inclusion should include access to financial products and services like no-frill accounts, micro credit, saving products, remittances and payment services, insurance and healthcare, mortgage, financial advisory services, entrepreneurial

credit, pension for old age, business correspondence and self help group, branchless banking, micro finance and micro credit facility and investment plan for child's education.

**Importance of Financial Inclusion:** - In the majority of developing countries, access to finance is now being perceived as a public good, which is as important and basic as access, say to safe water or primary education. A question that arises is whether financial inclusion can be interpreted as a public good. A good is considered a public good if it meet the conditions of 'non-rivalness' in consumption and non-excludability. The concept of financial inclusion has a special significance for a growing economy like India as bringing the large segment of the productive sectors of the economy under formal financial network could unleash their creative capacities besides augmenting domestic demand on a sustainable basis driven by income and consumption growth from such sectors. Financial inclusion efforts do have multiplier effect on the economy as a whole through higher savings pooled from vast segment of the bottom of the pyramid population by providing access to formal savings arrangements resulting in expansion in credit and investment by banks. Deeper engagement of the of the under-banked population in the economy through the formal financial system could lead to improvement of their financial conditions and living standards, enabling them to create financial assets, generate income and build resilience to meet macro-economic and livelihood shocks. Government also immensely benefits by the way of efficient and leakage-proof transfer of vast amounts of welfare benefits to the targeted, disadvantaged group of the population. From the perspective of the Reserve Bank of India, greater participation by all the economic agents in the financial system makes monetary policy more effective and, thereby, enhancing the prospects of non-inflationary growth. It also reduces reliance on the informal sector which tends to dent the impact of monetary policy decisions.

**General Equation:** -  $FI = BC + NFA$  where,  $BC = \text{Banks} + OFIs + MFIs + IT$

$NFA = \text{No- Frills Savings Banks Accounts}$

$BC = \text{Banks} + \text{Other Financial Institutions} + \text{Micro Finance Institutions} + \text{Information Technology}$

$OFI = \text{Insurance Companies, Mutual Funds, Pension Companies}$

**Essentials of Financial Inclusion:** - Appropriate technology, appropriate and efficient delivery models, mainstream banks determination and involvement, strong collaboration among banks, technical service provider, BC services and liberalization of BC model.

**Financial Exclusion:** - Lack of access to financial services which could be due to several reasons such as lack of sources of financial services in our rural areas which are popular for the ubiquitous money lenders but do not have saving deposit and insurance services, high information barriers and low awareness especially for women in rural areas, inadequate access to formal financial institutions that exist to the extent that the banks could not extend their outreach to the poor due to various reasons like high cost of operations, less volume and more number of clients among many others, poor functioning of financial institutions are the

main reasons of financial exclusion.

### Financial Inclusion: India's position compared with other countries: -

The extent of financial exclusion in India is found to be higher as compared with many developed and some of the major emerging economies. The wide extent of financial exclusion in India is visible in the form of high population per bank branch and low proportion of the population having access to basic banking services like savings accounts, credit facilities, and credit and debit cards. The following table summarizes India's performance in the area of financial inclusion as compared with other developing as well as developed countries.

Country	Number of Branches	Number of ATMs	Bank Credit	Bank Deposits
	(per 0.1 million adults)		(As per cent of GDP)	
India	10.91	5.44	43.62	60.11
Austria	11.81	48.18	35.26	32.57
Brazil	13.76	120.62	29.04	47.51
France	43.11	110.07	56.03	39.15
Mexico	15.22	47.28	16.19	20.91
UK	25.51	64.58	467.97	427.49
US	35.74	173.75	46.04	53.14
Korea	18.63	250.29	84.17	74.51
Afghanistan	2.25	0.50	11.95	21.4
Philippines	7.69	14.88	27.57	53.02



**Source: World Bank, Financial Access Survey, 2010-11**

**Opportunities in Financial Inclusion:** - The growth trend of the Indian economy over last few years appears to indicate the beginning of a new phase of higher growth. From an average growth rate of around 6.0% for a quarter of a century, growth rate has accelerated 8.1% from last few years. Along with declining population growth, this suggests high growth rate in per capital income in excess of 6% in recent years, and perhaps approaching 7%, which would lead to doubling of per capital income every ten years. Most importantly, the current growth rate is not a flash in a pan so through the financial inclusion, we will achieve the inclusive growth and access of credit facility will lead to increase the entrepreneurial skill of people and short out the problem of credit crunch among the less developed people. There is a general consensus among economists that financial development spurs economic growth. Theoretically, financial development creates enabling conditions for growth through either a supply-lending (financial development spurs growth) or a demand following (growth generates demand for financial products) channel. And that will lead to the growth of different financial products in India.

**Challenges in Financial Inclusion:** -The RBI circular on Business Correspondent Model allows, NGOs/ MFIs set up under societies/ Trust Acts, Societies registered under Mutually Aided Cooperative Societies Acts or the Cooperative Societies Acts of States, section 25 companies, and post offices to act as Business Correspondents. Most organizations incorporated in these forms have social mandates, with less emphasis on business model. The present guidelines exclude NBFC and MFIs from the ambit of being a Business Correspondent. The current experience of MFIs outreach in India shows high growth rate and outreach to the poor, and at the same time, limitations on the types of financial services that can be offered by them. The BC framework allows for this to be corrected. However, currently the legal form that allows MFIs to grow in size and scale and access greater resources is not permissible as a Business Correspondent. Most MFIs incorporated under other legal forms, permissible under the BC framework; aim to register as NBFCs to attract capital for expansion and scale of business. Non Banking Finance Companies should be brought under the ambit of Business Correspondent framework, as they not only serve the need of scale through their high outreach, but also have access to resources for professional management of an enhanced responsibility through the BC model. From the perspective of banks, providing such services would have various risk associated with it. The major risks to the banks are legal, reputation and operational risks. These risks are to be managed with tight and regular monitoring, developing systems and procedures and by developing effective risk mitigating tools and matrix. The banks can consider evaluating these institutions through various benchmark indicators and procedures like capital adequacy, governance, liquidity of the institution and placing minimum liquidity at banks concerned in the form of deposit, systems and procedures, regular inspection of the BC either through in house or external auditors.

**RBI Efforts on Financial Inclusion:** - The Reserve Bank of India (RBI) has enabled branchless banking by facilitating the business correspondent/facilitator model, enabling non-government organizations, micro-finance bodies, co-operative societies, grocery shops, PCOs and individuals to collect small deposits, disburse and recover certain loans, and also sell other financial products like insurance, pension and mutual funds and to handle



small remittances and payments. But it is also true that while a large number of no-frills accounts have been opened; those that are operational have yet to reach a meaningful level? On its part, the government has also unveiled a number of initiatives to mainstream the marginalized, like small borrowers eligible for another loan, issuing them credit cards without security, asking banks to adopt one district for 100% financial inclusion, and establishment of the financial inclusion fund and financial inclusion technology fund. This apart, there are over 83 million Kisan Credit Cards. Similarly, there are over 5 million Self Help Groups (SHG) having saving of almost Rs. 40 billion. The Reserve Bank of India also said that financial inclusion is not restricted merely to opening of bank accounts and should imply provision of all financial services like credit, remittance and overdraft facilities for the rural poor.

**Conclusion:** - Notwithstanding the regulatory, operational and other aspects in focus, financial inclusion is a complex issue which cannot be solved by any factors in the system. Formal financial institutions such as banks, insurance companies, mutual funds, pension companies will have to join hands with small NGO-MFIs, larger NBFC-MFIs, and technology providers to enable inclusion. The strengths of these institutions will have to be put together through sound collaborations for financial inclusion. Local and national presence organizations have to ensure that these partnerships look at both commercial and social aspects to help achieve scale, sustainability and impact. This collaborative model will have to tackle exclusion in two ways. By ensuring that there is a supply of appropriate and affordable services available to those that need them and by stimulating demand for appropriate financial products, services and advice with appropriate delivery mechanism. These different sets of institutions have to appreciate the power of this model and collaborate to deliver and to reach the large number of masses by providing comprehensive financial services and financial advice. Such collaborations will also ensure that financial inclusion is not looked upon as a social obligation, but viable business models over time.

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