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The Management Accountant

Sustainable Growth

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Shri Kewal Handa, MD, Pfizer Ltd inaugurating the seminar on " New Mandatory requirements regarding CARR/Cost Audit" held at NMSA Hall, Vashi, Navi Mumbai on 11.02.12. Seen (L to R) are Shri Debasish Mitra, RCM, Shri G.K. Das, Secretary, NMCCA & Shri M. Gopalakrishnan, President.

A souvenir was released at the hands of Shri M. Gopalakrishnan, President. Seen in the photograph (L to R) Shri G.K. Das, Secretary, NMCCA, Shri Vivek Bhalerao, Chairman, NMCCA, Smt. Aruna Soman, Council Member, Shri M. Gopalakrishnan, President, Shri Kewal Handa, M.D. Pfizer Ltd, Shri T.C.A. Srinivasa Prasad, Council Member, and Shri Debasish Mitra RCM.

Inauguration of Hyderabad Centre of Excellence at Hyderabad on 22.01.12. Seen in the photograph are Shri M. Gopalakrishnan, President and Council Members Shri T.C.A. Srinivasa Prasad (4th from right), Shri S.R. Bhargave (5th from right), Shri Sanjay Gupta (5th from left) & other officials.

Seminar on "Statutory and Voluntary Cost management Systems in Industries" organized jointly by Surat South Gujarat Chapter of Cost Accountants & South Gujarat Textile Processor's Association, Surat at GIDC, Pandesara. Seen are Council Members Shri S.R. Bhargave (3rd from left), Shri Amit Apte (3rd from right), Dr. Heena Oza, Chairperson of the Chapter, Shri Vijay P. Joshi, Chairman, WIRC (at the centre) & other officials.

Shri Rakesh Singh, Vice President, laying Foundation Stone for 'Centre for Excellence' at Jaipur Chapter on 4.02.12. Seen in the photograph are Shri H.K. Goel, Council Member, Shri B.L. Jain, Chairman, NIRC & other officials.

Dr. Mahesh Joshi, Member of Parliament, Jaipur Constituency inaugurating the foundation stone ceremony for 'Centre for Excellence' at Jaipur Chapter on 4.02.12. Standing (L to R) are Shri B.L. Jain, Chairman, NIRC, Shri Vijender Sharma, Secretary, NIRC, Shri H.K. Goel, Council Member, Shri Sanjay Jain, Secretary of the Chapter, Shri Rakesh Singh, Vice President & Dr. Ashok Kumar Jain, Chairman, of the Chapter.

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The Management Accountant

Official Organ of the Institute of Cost Accountants of India established in year 1944 (Founder member of IFAC, SAFA and CAPA)

Volume 47 ◙ No. 3 ◙ March 2012

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IDEALS THE INSTITUTE STANDS FOR

❏ to develop the Cost and Management Accountancy profession ❏ to develop the body of members and properly equip them for functions ❏ to ensure sound professional ethics ❏ to keep abreast of new developments.

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MISSION STATEMENT

"The Institute of Cost Accountants of India Professionals would ethically drive enterprises globally by creating value to stakeholders in the socio-economic context through competencies drawn from the integration of strategy, management and accounting."

VISION STATEMENT

"The Institute of Cost Accountants of India would be the preferred source of resources and professionals for the financial leadership of enterprises globally."

DISCLAIMER

The views expressed by the authors are personal and do not necessarily represent the views and should not attributed to The Institute.

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Sustainability is the buzzword of our time which is used by the experts and the non-experts almost on every occasion and to describe almost everything. But, that's what a buzzword is defined in most dictionaries: a catchword, a slogan, a pretentious word of little exact meaning. The question is whether sustainability is such a buzzword devoid of any essence and real meaning; or it is a way of survival in a world already teeming with huge population and strapped for resources. In fact the word 'sustainability', in my opinion is a way of doing more with less and less resources.

'Sustainability' is essentially a term taken from the ecological science, but it came to greater prominence ever since the Brundtland Commission in its famous report, *Our Common Future*, combined it with the word "development". Since the early 1960s the deteriorating environmental conditions around the world had become a cause for great concern. Unsustainable technologies and industrial production started to wreck havoc all around the world. But the Brundtland Commission noted that degradations of environment are also caused by poverty and differing states of social development. All these probably prompted the Late Prime Minister Mrs. Indira Gandhi to say "Isn't poverty the greatest polluter?" The Stockholm Conference on Human Environment in 1972 and, in its aftermath, the environmental movement generated a plethora of literature, and heated debates too, on the role of economic growth vis-à-vis the sustainability of our ecological system. There were both anti-growth and pro-growth arguments. But in 1987 the World Commission on Environment and Development under the aegis of Ms. Gro Harlem Brundtland, formerly the premier of Norway, mandated for sustainable development that would take care of both the environment and the needs of the business and society for economic growth. Twenty years since the first summit on environment at Stockholm, when the international community gathered together at Rio, a practical articulation of the idea of sustainable development was made by the business community. **In a way, it is both recognition and an acceptance by business, not only of environmental responsibility, but also putting people at the centre of development. Some called it 'triple bottom line approach' while some preferred to call it 'People-Planet-Profit approach'. In the triple bottom line rhetoric, "the three lines represent society, the economy and the environment. Society depends on the economy and the economy depends on the global ecosystem, whose health represents the ultimate bottom line" and, because it takes into consideration all the three interrelated aspects of sustainable development, it is also called a Profit, People and Planet approach to environmental stewardship.**

In a way, it is both recognition and an acceptance by business, not only of environmental responsibility, but also putting people at the centre of development. Some called it 'triple bottom line approach' while some preferred to call it 'People-Planet-Profit approach'. In the triple bottom line rhetoric, "the three lines represent society, the economy and the environment. Society depends on the economy and the economy depends on the global ecosystem, whose health represents the ultimate bottom line" and, because it takes into consideration all the three interrelated aspects of sustainable development, it is also called a Profit, People and Planet approach to environmental stewardship.

In this Profit, People and Planet approach, profit relates to the creation of value through the production of goods and services and through the creation of jobs and income. Profit, in the ultimate sense, is an expression of the society's appreciation for the product of the company and the effectiveness with which factors are deployed. A focus for profit is therefore the traditional conclusion of the corporate Annual Reports. A social bottom line, on the other hand, shows how the company has benefited the society—an entity that includes customers, vendors, communities, governments and stake holders. The intriguing issue before us is not only to sustain but also to remain competitive by keeping the cost price below the market price

I am happy to inform our readers that the theme of this issue not only coincides with the twenty-five years of the concept of sustainable development, but it also acts as a precursor to the 53rd National Cost Convention – 2012 that is focused on a most important theme entitled, 'Sustainability Framework – Integrated Reporting, Imperatives for CMAs. Our esteemed readers may also kindly note that the present issue will appear quite fresh and colourful as about 80% of the magazine is being brought out in colour.

Wish you a very happy reading!

M. Gopalakrishnan, President

> **"The more you dig more water flows from the spring;**
> **The more you learn and disseminate the knowledge grows."**
> *Thirukurral by Thiruvalluvar (550 AD)*

Dear professional colleagues,

Greetings!

1st February 2012, will be written in letters of gold in the annals of the Institute history, as it is the effective date from which the notification passed by the parliament for the change of name of the Institute to The Institute of Cost Accountants of India and to use the designated letters ACMA and FCMA came into effect. Immediately following that the Institute was also able operationalise the decisions taken by the Council to use the title CMA before the name to denote the profession. Since it is not possible to write ACMA and FCMA which has been allowed by the Act, on each and every communication the Council decided to use the common letters in both of the designated letters viz., CMA as the title. The Council also decided to promote the Brand CMA for all the education, training & placement, membership, examination, CEP and other activities of the Institute. The Institute buildings including the Regional Councils and Chapters will be known as 'CMA Bhawan' and the name of the Regional Councils will be designated as "The Institute of Cost Accountants of India .... Regional Council / Chapter". The detailed guidelines are being worked out by the office and will be issued shortly. The Council decided to retain the existing logo with the new name incorporated into it, as it has been well recognized throughout India and abroad since the inception.

In addition to the name change, the amendment also enabled formation of LLPs amongst professionals. With this, the practicing members of our Institute can now enter into a Limited Liability Partnership, which has no company as its partner in accordance with the Limited Liability Partnership Act, 2008. The detailed guidelines in this regard are uploaded on the Institute's website www.icwai.org.

Events

The month of February was a busy month in terms of series of events taking place across India, where there was active participation from the Institute. The key events started with the India Corporate and Investor Meet (ICIM) programmes by the Ministry of Corporate Affairs across India starting with Kolkata and followed by Bangalore, Chennai, Delhi and Mumbai. The Honourable Union Minister of Corporate Affairs, while addressing the meetings, informed the new policies that are being framed by his Ministry for the corporate sector and highlighted the role of professionals in proper implementation of the policies of the Government. I represented the Institute in the CII programme on Integrated Reporting at Delhi, on 1st February 2012, where Dr.Bhasker Chatterjee, Director General & CEO of Indian Institute of Corporate Affairs was the Chief Guest. The role played by our Institute in the area was well acknowledged during the event.

Indian Institute of Corporate Affairs organized a "Seminar on Study of State of Corporate Governance in India: Stakeholders Consultation" at New Delhi on 21st February, 2012 at New Delhi. I along with various senior officers of the Institute attended this important programme. An empirical study presented by Indian Institute of Management, Kolkata, revealed the inadequacies of the present form of Corporate Governance, with little deviation of the quarterly results on a quarter on quarter basis, in spite of the widely publicized business risks that they faced. It points out to the need for a new form of business reporting, which delineates the results from the non business or one off transactions, to be disclosed separately, so as to differentiate normal results from abnormal flows during the period of reporting. I am sure that the emerging Corporate Governance policy of Ministry of Corporate Affairs addresses these concerns. I am sure that the new Cost Accounting reporting mechanism can possibly address these concerns.

Region and Chapters Connect

The Navi-Mumbai Chapter of Cost Accountants held a Seminar on Cost Accounting Records and Cost Audit Report Rules on 11th February 2012. I could see the effect of "Train the Trainers programme" launched by the Institute as the entire seminar was handled by local experts from Navi Mumbai. I also took the opportunity to visit the land we have acquired for Navi Mumbai Centre of Excellence and had discussion on the modalities of starting the centre soon. I have already informed about the good progress made in getting Govt. approval in my previous communiqué.

I visited the Coimbatore Chapter on 15th February 2012, and used the occasion to address the CFOs from the region on the Institute-Industry connect on many of the key areas of cost and management accounting. The industry representatives agreed that the performance reporting under the new notifications on CARR & CAR will be a major value addition which can be made use of by the industry. During the members meet, the members complimented the Council for achieving the name change with the use of designated letters for denoting membership of the Institute and thanked the Ministry of Corporate Affairs for the same. The event also showcased the PR capabilities of our chapter as the press conference was widely covered by the press in Business Line, The Hindu and Indian Express, which are popular in the southern part of the country.

I also addressed the members in the National Seminar held at Dhanbad-Sindri Chapter on 19th February 2012, which was addressed by Shri T.K.Lahiry, Chairman and Managing Director of Bharat Coking Coal Ltd. On the sidelines of the Seminar the CMD offered to promote a programme of financial literacy amongst the displaced families in the Region, who have young persons passing the Higher Secondary Examination. He also suggested that BCCL can also impart practical training to the selected candidates for skill development in financial accounting. I readily accepted the offer and have asked the CAT Directorate to implement the scheme. This can be a pilot scheme which can trigger similar Industry-Institute partnership across the country even in remote regions. This will also give a major opportunity to the youth in that region to achieve a higher level of earning. I thank the CMD of BCCL for kick starting a major initiative, which can prove to be a game changer in the region. I was also pleasantly surprised by the good infrastructure the chapter is having in a centre locality in the city. I requested the Chapter Managing Committee to make the infrastructure as part of Knowledge Centre for Mining industry instead of concentrating only on student coaching, which they readily agreed.

Students' matters, Examination Results and First Convocation

The results of the Examination held in Dec 2011, have been published on dot on 20th February 2012, with a major difference this year that they were published in the morning itself. I compliment the Examination Directorate for this achievement, keeping in view of the record number of candidates who appeared for the examination. I also congratulate the successful candidates who have passed the examination. As mentioned in my previous communication, the convocation is being held on 1st March 2012, at Science City Auditorium at Kolkata, for students who passed the examinations in June 2011.

It was decided that from December 2011 term examination, the suggested answers will be available for download from our website to all the registered students of the Institute. The details will be notified shortly. I am certain that this step will go a long way in helping the student community as a whole to prepare themselves in a better way for future examinations.

The Institute has also entered into an MOU with Food Corporation of India, for engaging 500 inter passed cost trainees throughout their offices across the country, under the Training scheme of the Institute. I thank the Chairman and Managing Director Mr. Siraj Hussain, CMA. A. K. Kapoor, Adviser Cost –Ministry of Food and the Company Senior management for enabling this key initiative. The Campus Placement drive has been started by the Training and Placement under the Committee for Members in Industry (CMI), with a joint meet of the Chairmen of all the four Regions participating in a pre- placement meeting at Kolkata. I am also encouraged with request to the CMI from some major corporate to organize exclusive campus placement for their organization.

Government of India Ministry and other Meetings

In order to provide an update on the Institute matters to the Ministry of Corporate Affairs, myself along with Vice President met the Honourable Minister of Corporate Affairs, Secretary, Joint Secretary and other officals. In the meeting with the Honourable Minister, he highlighted the need for incorporating the cost competitiveness in the new corporate governance policy that is being updated by the Ministry. We also highlighted the important role our profession can play in the policy framework of the Ministry during the meeting with the Secretary. He also highlighted the key role that can be played by the profession, and we agreed to help the Ministry in providing intellectual support in cost and pricing of the health care sector including drugs and pharmaceuticals. We also shared the decisions taken by the Council after the name change notifications with the MCA officials.

The Honourable Minister of Corporate Affairs, asked the Institute to present the scenario on cost competitiveness to the Exporters Convention which was held on 13th February 2012 at Mangalore. Among the various initiatives launched by the Ministry, I was able to establish a connect between the new notifications on Cost Accounting Records and Cost Audit Report and the aim of the Ministry of Corporate Affairs to promote cost competitiveness across the industry. The Honourable Minister while addressing the convention, brought out the need for an Study on Cost Competitiveness of the Indian Ports, which are the life line of exports. I agreed to the Minister's suggestion to bring out the study on exports jointly with Federation of Indian Exporters Organisation. Another study which was deliberated during the Convention was Costing in Agriculture with special reference to commercial crops for export. I am happy to inform you that the Institute has formed a study group of experts from Ports and agriculture respectively for both these topics and will come out with a detailed report within the next three months.

National Cost Convention

Friends, the National Convention Committee under the leadership of Shri. Rakesh Singh, Vice President is leaving no stones unturned to make the National Convention, a grand success. Since the IFAC-PAIB Committee meetings will also be held just before the convention, we will have the benefit of international speakers addressing the convention. Since this will the first national convention that will be held after the change of name of the Institute, I extol all the members to come and benefit from the deliberations.

Myself, alongwith Shri.A.S.Durgaprasad, met Shri.A.K.Awasthi, Deputy Comptroller and Auditor General of India, and thanked him for accepting to chair the Technical Committee of the National Convention. Under his intellectual leadership, the Technical Session and speakers have been finalized and I am sure that the convention will be providing technical deliberations of a high caliber which will benefit the profession.

CARR & CAR Initiatives

As we are moving towards the first year end which will start seeing the implementation of the CARR & CAR notifications, it is very important that the members both from industry and practice get fully trained in the new framework. Towards this the CEP 2 directorate as well as the Regional Councils and chapters are conducting a series of programmes aimed at expanding the limited no. of experts who are able to train the practitioners and members in the new cost audit framework. From the Institute we are also holding frequent meetings of the key working groups which have been formed to release the guidance to members in the form of FAQs, guidance notes and clarifications. The feedback control loop, which is an essential part of management decisions are equally applicable to this also, as the clarifications can be issued in consultation with the Ministry only if we get the feedback on the operational issues. Therefore, I request the members to continue to give the feedback.

The Technical Cell of the National task Force also accelerated its efforts in finalizing the next series of FAQs, while also retuning the ones already issued. The Working Group on construction industry also conducted its first meeting on 24th February 2012, in which I was also present.

Cost Accounting Standards and Cost Audit and Assurance Standards

Cost Accounting Standards Board, has started retuning the earlier CAS to fit in with the new framework and has released the Exposure Draft of Revised Cost Accounting Standard - 2 on Capacity Determination (CAS - 2). I am also happy to inform you that the work on guidance notes are also progressing well, with the release of Exposure Draft of Guidance Note on Cost Accounting Standard - 7 on Employee Cost (CAS - 7).

The new series of Cost Audit and Assurance Standards were also by the CAASB of the Institute in its meeting held on 1st February 2012 and the Exposure Drafts of Cost Audit and Assurance Standards on Planning an Audit of Cost Statements (CAAS – 320) and on Audit Documentation (CAAS - 340) have been released for public comments.

All the Exposure Drafts have been uploaded on the institute website and I request the members to send comments / suggestions on the same to the respective Secretariats.

International Events

I am happy to inform the members that our Institute co-hosted the International Federation of Accountants – Donor Community meeting which was held at Jaipur, India on 22nd February 2012. This was the first meeting of the MOSAIC Steering Committee of IFAC-Donor Community, aimed at establishing Professional Accounting Organisations in developing countries. During the meeting the efforts of both the Accounting Bodies from India, the costing institute and the chartered institute shared the various initiatives, which have been taken by us, in developing countries. The Institute was well represented during the meeting with the presence of Shri. Sanjay Gupta, Council Member; Shri B L Jain, Chairman, NIRC; Dr. Ashok Jain and Shri Sanjay Jain, Chairman and Secretary respectively of Jaipur Chapter of the Institute. The IFAC- Donor Community complimented the organization of the meeting, and was of the opinion that it facilitated very key decisions taken during the meet. The meeting was preceded by a meeting with Mr.Anthony M.Hegarty, Chief Financial Management Officer ,World Bank, at Delhi, who heads the MOSAIC Steering Committee.

As all members are aware, we have always been harping on the view that Internal Audit is not the preserve of chartered accountants alone. The function has metamorphosed beyond mere compliance orientation, with cross functional teams working on the area within enterprises, to have a futuristic assessment of not only managing risks and mitigating them. In order to institutionalise this concept, we had a meeting with the officials of Institute of Internal Auditors (USA) On 7th February, 2012 at our New Delhi office. Mr. Richard F. Chambers, President & CEO, Mr. Dennis K.Beran, Chairman of the Board, Mr Hal A.Garyn, Vice President IIA, Mr.Anil Bhandari, President, IIA-India and Mr. Ravi Harihara Iyer, Secretary-IIA-India were part of the IIA delegation. Shri Rakesh Singh, Vice President and Senior Officers of the Institute were present in the meeting. We also explored the possibility to areas of mutual co-operation in membership recognition and joint programmes with IIA.

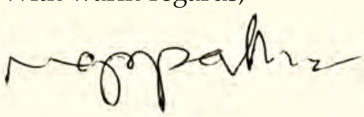
CEP Events

I am happy that the professional development continues to be on a robust path with intensive specialized inhouse as well as common programmes launched by the CEP Directorate. The Exclusive Training programmes on 'IFRS and Converged Indian Accounting Standards' by Dr. TP Ghosh, for Mahanadi Coalfields Ltd; Direct and Indirect Taxation and Costing for GAIL India Limited at Jaipur; Recent Trends in Financial Management including IFRS and New Schedule VI of the Companies Act and Management of Taxation during 14-17 February, 2012; and 'Corporate Tax-Planning, Compliance; Management and Strategic Cost Management' during 21-24 February, 2012; 'Project Appraisal and Internal Audit' at Guwahati on 27th and 28th February 2012; are some of the programmes.

I also wish to inform that the CEP 2 Directorate is in dialogue with CII for conducting a Training Course on 'Accountability Accredited Certified Sustainability Assurance Practitioner' for the members at Chennai in the first week of April 2012. The venue and the details will be available in the website as soon as they are finalized.

On behalf of the Institute, I wish members on the occasion of Holi, Navaratri and other festivals during the month.

With warm regards,



CMA M.Gopalakrishnan
President,
The Institute of Cost Accountants of India
1st March 2012

Dr.Sanjiban Bandyopadhyaya
Chairman,
Direct Taxation Committee

Respectable Professional Friends,

It is indeed a privilege to represent my alma mater and serve as Chairman, Direct Taxation Committee. This is my third consecutive year of assuming this esteemed office as its Chairman, which was erstwhile functioning as " Taxation Committee" in 2010-11 and "Taxation and Perspective Planning Committee" in 2009-10. I take this opportunity to express my gratitude to the Hon'ble Council for bestowing confidence on me in this long march towards attaining our objectives. The activities of the Committee are:

PREPARATION of Technical Papers on areas of Direct Taxation including International Taxation;

RESPONSE in lieu of Government Notifications/requirements like exercise on Pre-Budget Memorandum and prescribe tools for ensuring strict compliance ;

ADVISE MoF, Government of India through CBDT - on tools/ measures , based on Generally Accepted Cost Accounting Principles, which may be gainfully incorporated to plug revenue leakage and increase revenue collection for the exchequer

LIAISON with concerned Ministries to discuss, advise and prescribe methodology for effective application of Cost Accounting principles, as is relevant for assessment income, to plug revenue leakage and strengthen the governance mechanism.

In our efforts during 2011-12, till date, we have been working on various issues of National importance, which also include the following :

Preparation and submission of Pre-Budget Memorandum to the Ministry of Finance, Government of India [submitted on 15th November,2011 for Union Budget 2012-13]

Response to Tax Accounting Standards issued by the Central Board of Direct Taxes (CBDT), Department of Revenue, Ministry of Finance, Government of India [submitted on 8th November,2011]

Pre-budget Meeting and presentation before the Ministry of Finance [25th November,2011]

Presentation on effective application of Cost Accounting Principles for in assessment of Income;

Prescribing formats which would enable Revenue Authorities to collect more relevant information for assessment, with special reference to international transactions and matters relating to transfer pricing and determination of arm's length price;

Prescribing suggestions/recommendations on Income Tax Act, 1961 and also on Direct Tax Code Bill, 2010 to strengthen provisions enshrined therein, which would be in favour of the Revenue.

With the changing paradigm in socio-economic-dynamic corporate environment and increasing diversified and complex business transactions, the utilization of the services of Cost and Management Accountants is much felt and strongly upheld by both for the business houses as well the Revenue. While, the corporates are reaching far and beyond to expand their business horizon, through effective implementation of cost-reduction techniques Government, on the other hand, requires a proper mechanism to ensure governance through soft laws but strict compliance. One of the major activity of ours' is thus to uphold Generally Accepted Cost Accounting Principles (GACAP) and its effective application for assessment of income, through a bottom-up approach. Cost classification, cost accumulation and cost determination is our absolute domain. However, a top-down approach of deducting profit from sales, does not justify the actual cost. This bottom up approach of cost-built up mechanism, being wishfully avoided by statutory auditors, therefore, creates a path to evade tax, through wishful cost-setting. This leads to reduce reporting profits. With the increasing propensity of corporate financial frauds, surfaced and reported in public, it is quite apparent that mere conformance of legal and statutory compliance does not ensure a proper disclosure. I wonder, the magnitude of this parallel economy and spiraling inflationary pressure, could have been curbed and controlled. Huge amount of undisclosed funds could have been recovered from therein, which could, in turn, be gainfully utilized in funding various programmes on poverty eradication, infrastructure development, funding education and other economic development projects of this country, had, expertise and specialized services of Cost Accountants, been recognized and utilized by the Revenue Authorities. Further, with the reported statistics of fiscal deficit, steep fall in collection of targeted revenue, it is high time for the Government to seek the specialized services of Cost Accountants through a much deserved recognition by incorporating "Cost Accountants" in the definition of "Accountant" u/s 288(2) of the Income Tax Act, 1961 vis-à-vis in Clause 314(2) of the proposed Direct Tax Code Bill, 2010. Till the recent past, the Government of the country was kept in abeyance by vested interested group, who had opposed inclusion therein, with a fear to be exposed of their professional irregularities. It is a high time for the Government to offer due recognition to this esteemed profession and incorporation in the definition of Accountant.

As Cost Accountants, we measure performance and facilitate in compliance too. Expertise of "Cost Accountants" could be sought for, which apparently promises a major increase in revenue collection for the exchequer. Hence, the Ministry of Finance, should initiate involvement of our professionals, especially in conducting "Special Audits" all across manufacturing, trading or service sectors. I look forward for a healthy proposition and due recognition of our professionals in the ensuing Union Budget, 2012.

I shall fail in my duty, if I do not offer my gratitude to my colleagues in the Central Councils, members from the Regional Councils, fellow professional friends and well wishers, for their continuous support in our efforts.

I seek your sincere co-operation and valuable contribution/ suggestion.

Wish you all a very happy Fiscal year 2012-13.

Best Wishes

S. Bandyopadhyaya
01/03/2012

(Dr.Sanjiban Bandyopadhyaya)

1st March, 2012

P. V. Bhattad
Chairman
Regional Council & Chapter Coordination Committee

Dear Professional colleagues,

I would like to thank all the members for providing me with an opportunity to serve the profession, I am especially thankful to the President & my council colleagues for bestowing upon me the responsibility of Chairman of the Regional Council & Chapter Coordination Committee. The members and Chapters are the backbone of our Institute; they are the mouthpiece and ambassadors of the CMA Profession. Institutes can only frame guidelines, provide opportunities but implementation of these are done by the respective chapters. Chapters & Regions are inducting new members to the profession and also updating the knowledge of existing members through coaching activities and Continuous Education Programme. The quality of new members and updating the knowledge of existing members are entirely dependant on the Chapter & Regions. Therefore the roles played by them are very crucial and important for the profession to achieve greater heights.

The CWA (Amendment) Act 2011 effective from 01.02.2012 has changed the name of Institute of Cost and Works Accountants of India as Institute of Cost Accountants of India and now we are ACMA/FCMA. With this, we have got appropriate recognition and entrusted with added responsibility for maintaining and enhancing our performance.

For the benefit of students, members, Chapters & Regions, the council has taken up the task for formulating guidelines with the help of various Directorates of the Institute. The guidelines include compilation of rules, procedure, facilities and opportunities that are available to students, members, Chapters & Regions, which will also lead to good governance.

In the Regional Council & Chapter Coordination Committee the following decision were taken:

(a) The Chapters of the Institute to be constituted henceforth should spell out their area of operation and also giving the districts and/or pin codes.

(b) It was also decided that meeting of RCs & Chapters coordination committee shall be held at least once in a year, in each region. The Chairman of the Region, Chairman of Chapters Coordination Committee of the concerned Region and Chairman of all chapters of that region will be invited to attend the meeting.

This initiative will facilitate two ways direct interaction for speedy decision-making

(c) We have to revive the inactive chapters of the Institute.

(d) A new Chapter was formed in Western Region named Vapi Daman Silvasa Chapter of Cost Accountants having jurisdiction over Vapi, Daman, Silvasa & Atul.

I had the opportunity to attend the International Valuation Standard Council meeting at Hong Kong during the 1st week of November 2011 as representative of the Institute. In the said meeting we were of the view that our course conducted by Advance Study Department on "Business Valuation Management" should be given international recognition. This was well received and acknowledged.

The Institute is holding a National Cost convention at Delhi between 15th and 17th March 2012 and Chapters & Regions meet are scheduled on 14th March. The Representatives of Regions & Chapter are requested to participate and exchange their ideas and views. I sincerely hope that this shall lead to fruitful discussions for betterment of the profession.

I once again thank all my colleagues in the council, Directors and all the staff for their whole hearted support. I would be failing in my communiqué if I do not thank the President and Vice President for their guidance in enabling me to discharge my responsibilities towards the profession.

I wish all ACMAs/FCMAs success in the Cost & Management Accountancy profession.

With regards,

Yours sincerely,

(P. V. Bhattad)

1st March, 2012

Clean Development Machanism—a pathway to future sustainable development

Sujit Dutta
Head of the Department—MBA
Institute of Engineering & Management
Kolkata

Introduction

The first commitment period of Kyoto—Protocol, the global legally binding agreement for reducing emissions on which the current carbon market is based—will come to an end in December 2012.The existing Kyoto Protocol, the only pact that imposes legally binding cuts though only on developed countries, extended till the end of 2017. The Durban Conference agreed to extend Kyoto Protocol for a second period from January 2013 to December 2017. After Durban conference, due to extension of the Kyoto Protocol Mechanism, more and more companies will be looking towards environmentally sustainable projects through clean development mechanism. This will bring certainty to the UN-backed carbon trade. Market will be positive and more Indian companies will invest in the CDM projects. This will bring enormous growth in carbon credit trading and India—being the second largest supplier of carbon credit—it will bring tremendous opportunity for Indian Inc. to earn revenue from carbon credit through CDM project.

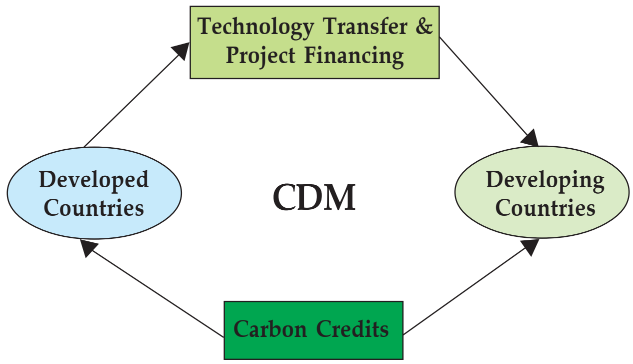
Objective

The objective of this study is to focus on key underlying issues of the CDM and to bring attention of the policymakers to take the mechanism forward and unleash the huge potential lying ahead of the industry.

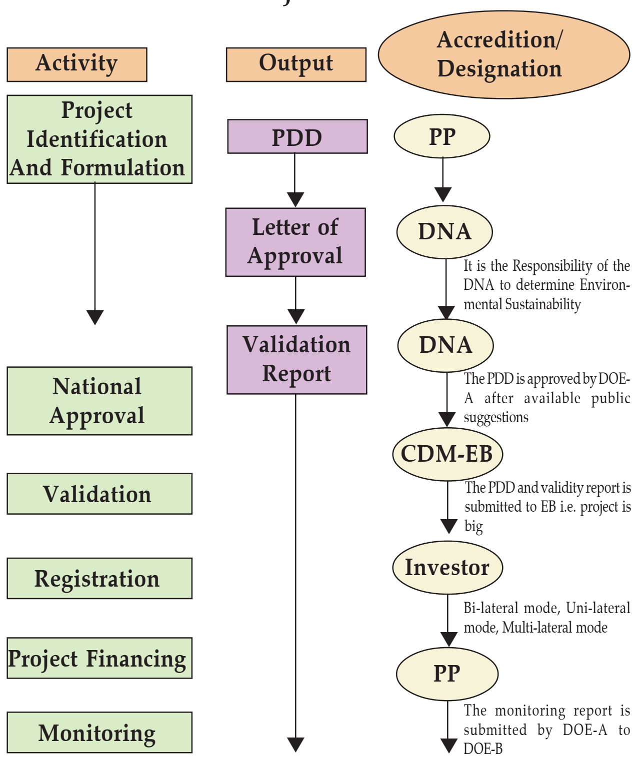
What is CDM?

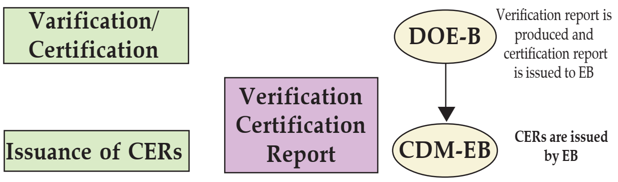
The CDM is a full-fledged offset standard. It is an economic instrument for inducing initiatives to meet the challenges faced by the impending threat of climate changes. The CDM mechanism creates a platform in which developing countries can voluntarily participate in the long term global climate actions. The aim of the CDM out of the three flexible mechanism of Kyoto Protocol is to assist sustainable development of developing countries. According to Article 12 of the Kyoto Protocol, the CDM allows Annex I countries to invest emission reduction projects in developing countries and receive credit in the form of Certified Emission Reductions (CER), which they may count against their obligatory reduction targets. Through this, industrialized countries can finance mitigation projects in developing countries contributing to their sustainable development.

Clean Development Mechanism



CDM Project Flow Chart





Note : *DNA : Designated National Authority; DOE: Designated Operational Entity; PP: Project Participants/ Proponents; EB: Executive Board; PDD: Project Design Document; CER: Certified Emission Reductions*

Ensuring Sustainability Development

CDM is an eventual result of a long evolution from a proposal by Brazil, a leading developing country. Most developing countries are struggling to get out of poverty. Many developing countries expect CDM to facilitate a substantial transfer of technology and other resources to support economic growth. An important question about CDM is whether it can support to initiate projects that serve both climate change mitigation and sustainable development objective. If CDM does not make its expected contribution to sustainable development, then support for it is likely to erode.

Sustainable Development

Social : Generation of employment directly and indirectly during operational and construction phase of the project is to be ensured. Whenever a project is started it provides many opportunities to the small-scale entrepreneurs around the project that enables the local people to have steady source of income for their livelihood. The project is also expected to create business opportunities for local stakeholders such as bankers, manufacturers, contractors, suppliers and so on.

Economical : The project facilitates earning additional revenue to the government. There will be inflows of fund through the sale of CERs and this will bring direct and indirect positive economic growth in the region as well as country.

Environmental : Use of modern technology will result in GHG emissions and thus reduce the environmental impact in the region. CDM project ensures real, measurable and long term emission reductions.

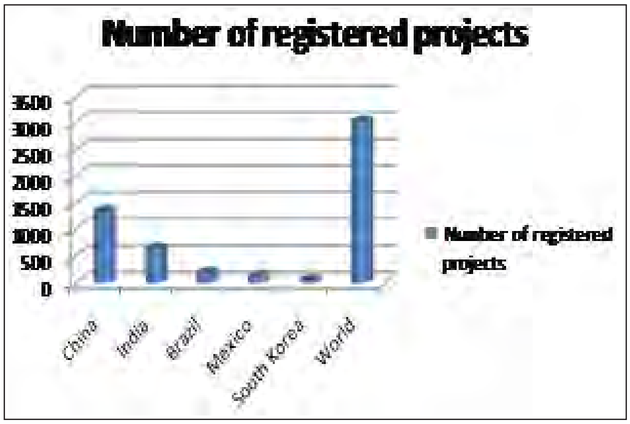
Technological : Transfer of new technology and other resources is a key element of CDM project. Modern and new technology will help in enhancing the skill and knowledge base of the employees. This can help other projects in the country to acquire technology and encourage capacity building across the country.

Eligible Sectors for CDM Projects

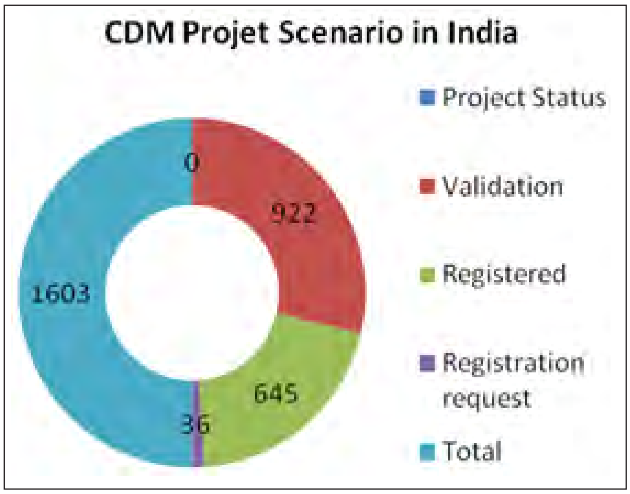
The important sectors which have potential for CDM projects in developing countries include the following :

- Agriculture
- Buildings (residential, commercial, and government buildings)
- Energy generation, distribution and use
- Forestry
- Industry and Manufacturing activities
- Mining
- Transport
- Waste Management

CDM from India's Perspective



CDM projects in few developing countries and, and the global scenario (as on 16th May 2011). Source: UNFCCC



CDM projects in few developing countries and, and the global scenario (as on 16th May 2011). Source: UNFCCC

Some emerging issues

To ensure the potential of CDM as a market based instrument for encouraging investments from the developed countries and to stimulate the project proponents in developing countries, there are certain issues which need to be addressed and these relates to whether

- It will help in enhancing the knowledge

(contd. to page 266)

"The art of communication is the language of leadership." — *James Humes*

Sustainable Growth—The Accountant's role

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The recognition governments and many organizations have given to the importance of sustainability and sustainable development is beginning to change business culture and society. The global challenge is to ensure that organizations develop sustainably to reverse the previous erosion of natural resources, and to improve their environmental, social, and financial performance. This requires radical changes in the way they do business and the way we live our lives.

From an environmental and social perspective, sustainability issues are transforming the competitive landscape, forcing organizations to change the way they think about products, technologies, processes, and business models. From a financial perspective, the primacy of shareholders as owners is giving way to an enlightened view of maximizing wealth creation that incorporates wider stakeholder perspectives and issues into decision making. Long-term sustainable value creation requires responsible organizations to direct their strategies and operations to achieving sustainable economic, social, and environmental performance.

Achieving a sustainable future is only possible if organizations recognize the role that they can and need to play. Effective action by the accountancy profession and professional accountants to better integrate and account for sustainability is an essential part of that role. Every organization today strongly believes that these professional accountants can influence the way organizations integrate sustainability into their mission, goals and objectives, strategies, management and operations, definitions of success, and stakeholder communications.

Professional accountants in all types of organization have a significant role in :

- challenging conventional assumptions of doing business, identifying risks, and seizing opportunities;
- integrating sustainability issues into strategy, operations, and reporting;
- redefining success in the context of achieving sustainable value creation;
- establishing appropriate performance goals and targets;
- encouraging and rewarding the right behaviors; and
- ensuring that the necessary information, analysis, and insights are available to support decision making.

Considerable progress has been made on defining, spreading awareness and gaining recognition that long-term sustainable organizational success and value creation is only achievable when organizations direct their strategies and operations toward achieving sustainable economic, social, and environmental performance.

Many of the corporate governance reform efforts are using the language of sustainability, stakeholder governance, and encouraging governing boards to take a longer-term view of performance, as the philosophy revolves around leadership, sustainability, and corporate citizenship.

Corporate do believe and understand that the sustainable success of an entity over the longer term as a key component of effective board practice. Vast majority of CEOs see sustainability as important to their company's future success in spite of economic difficulties. However, significant challenges remain for organizations, including integrating social and environmental (along with financial) factors into an organization's way of doing business in all the core elements of the organization, and across the supply chain.

Another challenge is engaging small-and medium-sized entities (SMEs). In most countries, SMEs account for a sizeable portion of private sector employment and gross domestic product. With regard to environmental and social issues, SME impacts are considerable, and therefore have vast potential to contribute to sustainable economies. The integration of social and environmental factors is critical if organizations are to gain the trust of stakeholders and the wider public. It is felt to reinforce the importance of information reporting and to expand from a business strategy and operational perspective to that of an integrated reporting perspective. Integrated reporting is emerging as a new theme and is well-supported.

Integrating sustainability issues into business strategy and operations is now covered in more depth that reflects new thinking. The reporting perspective has been updated to provide guidance on how to improve stakeholder communications, based on sustainability reporting and providing an integrated view of environmental, social, and financial performance. The integration of sustainability information with mainstream financial reporting will increasingly be critical to maintaining the trust of customers and investors.

Connecting Professional Accountants to Sustainability

Professional accountants are categorized and seen as creators, enablers, preservers, and reporters of sustainable value for their organizations. Expectations are set in business as derived from the activities that they perform to support the development of sustainable organizational success. The professional expertise acquired and orientation equips them with the necessary qualities to support their contribution, and particularly to act as integrators by incorporating sustainability factors into their organizational strategy, operations, and reporting. This will allow organizations to simultaneously deliver improved business performance *and* to contribute to a better world.

Every organization clearly highlights the role of professional accountants to be more than simply that of preparers or assurers of financial and sustainability reports. More than one-half of all professional accountants globally work in organizations and are adapting to a world in which sustainability is the key to long-term organizational performance.

The organizational objectives and goal statements framed helps professional accountants to understand how, in their diverse roles, can influence change. Defining clearly the different facets of sustainability and corporate responsibility in organizational framework, can help professional accountants grasp all the important aspects of sustainability that they may encounter, directly or indirectly, and that would be important to their organizations.

Role of Professional Accountants and the Finance Function

The organizational framework will provide professional accountants with an opportunity to consider themselves as knowledgeable change agents. Professional accountants are well-positioned to help organizations interpret sustainability issues in a relevant way for their organizations, and to integrate those issues into the way they do business. Although developing a sustainable organization is a multi-disciplinary responsibility, the finance function needs to be clear on its role in providing and supporting sustainability leadership for several reasons:

- The finance function is well placed to influence behavior and outcomes through incorporating sustainability considerations into strategies and plans, business cases, capital expenditure decisions, and into performance management and costing systems.
- Integrated sustainability management involves managing opportunity and risk, measuring and managing performance, and providing insight and analysis to support decision making. This plays to the strengths of professional accountants working in finance functions and offers opportunities to provide higher value business partnering.
- Improving the quality of stakeholder communications and the reporting of sustainability information and how it connects to an organization's strategy and operations requires the same rigor as the process of financial reporting. Materiality, relevance, comparability, accuracy, and completeness continue to be essential qualitative characteristics of information.

Professional accountants understand the need for, and how to implement quality data and robust systems to capture, maintain, and report performance. They also have the project management skills needed to put such systems in place, applying appropriate processes and controls.

To rise to the challenge, professional accountants, on an individual level, will need to understand how sustainability does or might affect their role, and to identify and utilize the continuing professional development resources available. Continuing education will help accountants learn more about the applied aspects of sustainability and determine approaches to organizational improvement and transformation.

Accountants working in audit and advisory roles, particularly in SMEs, can consider how they could embrace sustainability issues to add value to their client service/ advisory role. Importantly, when acting in a public interest-related reporting or advisory capacity, it might be necessary to consider whether sustainability issues have been properly addressed and disclosed.

Organizational Perspectives and Key Considerations

Many accountants find it very difficult to get a coherent view of all the various perspectives of this topic due to overloaded information available from various sources. Fundamentally, it has been observed that organizations that have successfully embraced sustainable development have usually taken actions to cover (1) business strategy perspective, (2) operational perspective, (3) reporting perspective.

From the ***business strategy perspective***, the emphasis is adopting a strategic approach, so that sustainability is integrated into vision and leadership, strategic planning, objectives, goals, and targets, as well as incorporated into governance, accountability arrangements, and risk management.

The ***operational perspective*** focuses on how an organization can deliver on its strategy and specific sustainable development objectives and targets. It presents a full spectrum of management and management accounting activities to support higher quality information, which leads to more-informed decision making and can help support the choices an organization needs to make to chart a more sustainable path. This perspective covers how organizations can achieve relatively simple quick wins to improve energy efficiency and reduce waste, calculate a carbon footprint, and implement sustainability and environmental accounting, integrated management control systems, and performance measurement and KPIs.

The ***reporting perspective*** *covers* on how accountants can help improve the usefulness and relevance of their organization's external communications, including developing a reporting strategy to help achieve integrated business reporting. Professional accountants can lead the way in developing a reporting and disclosure strategy to help yield high-quality reports and accounts that provide a more complete picture of an organization's performance. This will involve reflecting sustainability impacts in financial statements, improving narrative reporting, determining materiality in relation to the needs of various stakeholders, and establishing an approach to external assurance that adds credibility to an organization's disclosure and can also help to improve an organization's reporting processes.

Let us review the key considerations for each of the above dimensions :

Business Strategy Attributes	Key Considerations
Defining Sustainability and Sustainable Development	• Create awareness of how the finance function can get involved in establishing a business case • Ensure clarity on uses of the business case • Focus the business case on linking sustainability to strategy and the impacts of organizational activity on society and the environment • Identifying significant, material, and relevant environmental and social issues. • Understanding sustainability issues and their relationship to a particular organization is an important precursor to establishing an approach to dealing with them.
Vision and Leadership	• A strategic approach to sustainability helps to identify a range of competitive strategies. • Values guide behaviors and decisions. • Integration of sustainability into the key business drivers requires leadership and ownership within the governing body and at all management levels. • Managerial and operational structures deliver the vision and strategy and ensure accountability and ownership.
Stakeholder Engagement	• Reinforce the importance of stakeholder engagement. • Establish a systematic and carefully planned approach to entering a dialogue with stakeholders. • Stakeholder dialogue can help managers consider how best to deal with the trade-offs between economic, social, and environmental performance. • Ensure that ongoing stakeholder engagement initiatives are continuous, dynamic, and periodically reviewed. • Build the knowledge and professional skills needed to deal with the challenges of understanding and balancing stakeholder expectations.
Goals and Target Setting	• Establish goals, targets, and performance measures. • Identify outcomes where possible. • Engage employees involved in executing strategy . • Link to rewards. • Establish a baseline against which progress can be monitored.
Integration with Risk Management	• Integrate sustainability issues into risk management and other management systems. • Gather information and assess cost benefit. • Assess potential impact. • Interpreting risk and causation. • Dealing with opportunity and risk
Engagement of Suppliers	• The overriding importance of values and a risk-based perspective to guide decisions. • Identify the opportunities associated with sustainable procurement. • Supplier monitoring and support is ongoing via periodic meetings and training, and with the consideration of collaborative opportunities. • Consider a systematic process for supplier selection that is clear to all potential and current suppliers. • Communicate how an organization builds relationships and does business with business partners and suppliers.

(contd.)

Operational Attributes	Key Considerations
Cutting Cost by minimizing waste	• Identifying large environmental costs that could be reduced • Monetizing procedures for costs, savings, and revenues related to any business activities with a potential environmental impact.

(contd.)

(contd.)

Business Strategy Attributes	Key Considerations
	• Using measurement and targets and ensuring accountability. • Small (and no cost) changes can lower energy costs and reduce carbon emissions. • Spreading awareness. • Spreading awareness. • Tracking physical accounting information. • Reviewing and understanding the impact of legislation regarding waste. • Changing processes.
Carbon Foot printing	• Moving beyond a GHG inventory. • Determine how to manage carbon emissions data. • Distinguish between boundaries, in terms of organizational and product footprints, and between entities in the supply chain. • Establish principles of a carbon audit report and the key issues to be disclosed in external reports for stakeholders. • Greenhouse gas inventory audit.
Improving information to support decisions and reporting	• Moving from a conformance- to an integrated performance-based view of accounting for sustainability impacts • Identifying, defining, and classifying costs to motivate desired activities and behaviors • Working across organizational functions, particularly integrating accounting, procurement and operations • Accounting for social costs and valuing social impacts • Using environmental and social cost and other non-financial information for project appraisal and capital budgeting
Integrated Management control Systems	• MCSs should incorporate specific activities that support sustainability goals and objectives into the organization's overall management and control cycle. • MCSs should ideally help to integrate social and environmental factors alongside financial and quality factors • (Internal) control effectiveness depends on effective governance and risk management.
Performance Measurement and KPIs	• Integrate sustainability measures where they have been identified as an important driver of strategy. • Judge how scientific cause-and-effect relationships between measures need to be to inform decisions. • Develop and use eco-efficiency indicators to link monetary and physical information for decision making • Develop and use socio-efficiency indicators to better understand social impacts.

Reporting Attributes	Key Considerations
Develop reporting strategy	• Determine the range of users and their needs for various types of reports and disclosures. • Break down functional silos to facilitate effective integrated reporting.

(contd.)

(contd.)

Reporting Attributes	Key Considerations
	• Use reporting frameworks and guidelines to help develop reporting processes and to ensure that all relevant sustainability information is disclosed. • Meeting stakeholder needs in all markets.
Reflecting impacts in financial statements	• Establishing how to reflect environmental (and, where applicable, other sustaina-bilityrelated) liabilities and costs in financial statements prepared under IFRSs. • Determining specific sustainability disclosure requirements under national securities regulations and Generally Accepted Accounting Principles (GAAP).
Transparency to Investors	• Avoiding over-disclosure and clutter. As is the case for other aspects of business reporting, the challenge for sustainability related disclosures in the MC (and in separate sustainability reports) is to avoid disclosing too much information, particularly immaterial clutter. For example, disclosing all risks that an organization faces could reduce the visibility, and therefore the relevance and understandability, of key risks. • Ensuring a forward-looking orientation. An annual report will incorporate both past performance and prospective events. • Viewing narrative reporting as a fair reflection of the management information used internally.
Determining Materiality	• In defining report content, materiality should be considered along with the need for other important information characteristics. • Accountability for materiality thresholds and judgments. • Materiality testing can also apply to the sustainability issues that potentially apply to the sector in which an organization operates • Determining a process for resolving different expectations regarding materiality. • Where information is reported can help (a) to reinforce materiality criteria, and (b) to keep the length of disclosures manageable (particularly where the application of materiality might vary between reporting for wider stakeholders from investors).
External Review and Assurance of Sustainability Disclosures	• The quality of external assurance is directly linked to stakeholder inclusiveness. • Clarifying the purpose and scope of the assurance. • Establishing the type of engagement. • Enhancing the assurance statement.

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(contdd. from page 261)

and skill of the employees with the new technology.

- It will help in increasing the direct and indirect employment opportunity.
- It will reduce pollution at the facility.
- It will contribute to a better local environment for the employees and the surrounding community.
- It will help in improving the social status of the people in and around the project.
- It will demonstrate the use of any new financial mechanism.
- It will generate additional revenue for the company.

Conclusion

The CDM—an innovative flexible mechanism under the Kyoto Protocol—has the objective of assisting developing countries in achieving sustainable development. It has been successful in giving momentum for clean energy projects. CDM activities witnessed steady progress over the years. It has helped in raising awareness of global warming and climate change. Hence, it is important to ensure that CDM continues to grow and promote environment-friendly projects.

CDM implementation brings opportunities as well as threats. Hence, role of the government is all the more important. The government will play a significant role in making policies and the objective of the policy making is to take advantage of the opportunities while be more effective in neutralizing the threats. Often it's the journey, which is more worthwhile than the destination itself. A new path … but it's important that the path being followed is the virtuous one. ❐

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"Vision is not enough. It must be combined with venture. It is not enough to stare up the steps, we must step up the stairs."
— Vaclav Havel

Sustainable Growth, Technological Optimism and the Malthusian Ghost

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Introduction

When in October 2011 Homo sapiens on the planet touched the seven billion mark, the world seemed to have responded to it with a kind of insouciant calmness. The red alert—like the one we saw in the blockbuster of the seventies, The Population Bomb (Ehrlich, 1972), or the worries expressed in the eighties in the famous document of the World Commission on Environment and Development entitled, Our Common Future (1987), was not there. The world seemed to have accepted it with a sense of blasé that either we have enough space and resources on this planet to support a rising tide of humanity; or there's nothing much we can do about it – something Garret Harding (1968) observed in his seminal article, The Tragedy of the Commons, that population problem had no technical solution.

However, the population trajectory on our planet lends itself to an interesting observation: since the world population reached the one billion mark in 1804, it took 123 years for the population number to double in 1927. The third billion mark was reached in 1959, just taking a quick 32 years; the fourth billion came more quickly, in 15 years. The fifth, sixth and the current seventh billion were added in 13 years, 12 years and 12 years, respectively. It is probably the reduced pace with which the last three billions were added to the world population that gave the demographers some comfort as well as some reasons to believe that the trajectory of growth might be tapering off towards a near stabilization point somewhere near the 9.3 billion mark by the middle of the century, and over 10 billion by the end of this century — only subject to hugely difficult target of reduction in the fertility rates in 39 African countries, nine Asian countries, six countries in Oceania and four countries in Latin America.

On the upper side of the estimate, a recent estimate of the United Nations (UNFPA, 2011) suggested that with a small variation in fertility, particularly in the more populous countries, the total could be even higher: 10.6 billion people could be living on Earth by 2050 and more than 15 billion in 2100. (UN, 2010). As is the case with most forecasting, the interesting thing about population statistics is that it is not amenable to forecast with clairvoyant precision; evidently, the current projections on population growth hugely contrasted with those made earlier (e.g. World Bank, 1992), predicting the global population somewhere near 12.5 billion in the middle of the twenty-second century only.

The intention of this paper is not throwing light on the demographic prospect of our planet. Instead, it explores briefly the implications of, and the profound environmental and resource challenges arising from, ever growing population. Such resource challenges are not entirely new to us; the publication of Rachel Carson's (1962) magnum opus, Silent Spring, was the harbinger of a whole movement for the environment in the 1970s.

The outgrowth of the literature that followed Carson's work delved on wide-ranging issues affecting the relationship of man with the environment and heralded the advent of the age of environmentalism, which, in effect, maintained the view that the bio-physical limits of our planet posed a definite limit to the human aspirations for resources for unlimited growth.

Throughout 1970s and 1980s, the raging debate between the pro-growth and the anti-growth protagonists provided a tapestry of literature with wide chasms between them. The idea of sustainable development, a catch-all phrase, (so much so that a Google search for the word was returned with 21 million entries) which was brought to greater prominence by the Report of the World Commission on Environment and Development (WCED, 1987), had, by providing a bridge between these two conflicting ideas—economic growth and environmental sustainability— spearheaded the case for technological optimism: "The Concept of sustainable development does imply limits—not absolute limits but limitations imposed by the present state of technology and social organizations on environmental resources and by the ability of the biosphere to absorb the effects of human activities. But technology and social organization can be both managed and improved to make for a new era of economic growth" (WCED, 1987: p. 8).

Twenty-five years later, a report by the McKinsey Global Institute, which is evocative of the apprehen-sions of the 1970s to a large extent, maintains that, "During most of the 20th century, the prices of natural resources such as energy, food, water, and materials such as steel all fell, supporting economic growth in the process. But that benign era appears to have come to an end. The past ten years have wiped out all of the price declines that occurred in the previous century. As the resource landscape shifts, many are asking whether an era of sustained high resource prices and increased economic, social, and environmental risk is likely to emerge" (Dobbs *et al*, 2011 : p. 1). The Report, in the backdrop of 3 billion more middle-class consumers expected to be in the global economy by 2030, 80% rise in steel demand projected from 2010 to 2030, 147% increase in real commodity prices since the turn of the century, 100% increase in the average cost to bring a new oil well on line over the past decade and, moreover, 44 million people driven into poverty by rising food prices in the second half of 2010, attempts to revive a case for technological optimism we have already seen in the Report of the WCED.

Incidentally, 2012 happens to mark 25 years since the concept of sustainable development was espoused by the WCED and embraced forthwith by the global community — the rich and the poor, the communists and the capitalists alike. Unfortunately, the stage for the celebration of the silver jubilee of such an all-embracing idea is visibly missing. Has the much-trumpeted sustainable development lost its relevance? Has the Malthusian limits returned with vengeance? To know the answer, we shall revisit the debates of the 1970s with its current relevance in the wake of the McKinsey Report.

Limits to Growth : Resurrection of the Malthusian Ghost?

Throughout the history of human society, population growth has always had its impact on the availability of food. As the world population hits its new height, a billion mouths, i.e., – 1 in 7 – go hungry around the world today. But hunger and scarcity of food is not unprecedented in the history of mankind. The spectre of hunger had always hovered around us from the dawn of civilisation, and there seems to be a permanent cycle in the history when human number and food supply went off balance. About 10000 B.C., when agriculture, the path breaking technology in human history, was adopted, the world's population was not more than 4 million. The spread of agriculture enabled more people to be fed so that human numbers grew steadily—doubling every thousand years until 1000 B.C. when population reached 50 million. The figure doubled relatively quickly in 500 years to reach 100 million around 500 B.C., and thereafter, it grew to reach 200 million at the peak of the Roman Empire about 200 A.D. The decline of the Roman Empire (which is attributed to barbarian overrun of the Roman Empire due to population pressure and scarcity of food:), and resultant warfare and instability had its impact on agriculture and in consequence there was no substantial growth in population until 1000 A.D. By the end of 1200 A.D. there was substantial increase in population when it reached its peak at about 360 million. It is at this juncture of the history of mankind that food crisis became conspicuous for the next one century when population did not grow more than 400 million. The next one hundred years were a demographic watershed in the history of Europe, when starvation, plague and black fever brought down population to a paltry 360 million. Between 1400 and 1700 A.D., population growth and food production suffered intermittently so that by the end of 1700 there were no more than 600 million people on the earth. From the beginning of 1800, there was a turning point in the demographic history of the earth with a steadily upward trajectory noted at the beginning of this essay. It is about this time (1798) that Rev. Thomas Malthus published his famous monograph, *An Essay on the Principles of Population*, examining the long-term relationship between population growth and food supply. His thesis was that with the diminishing supply of arable land, war, pestilence, famines or convulsions of war would put a quietus on the rapidly growing population.

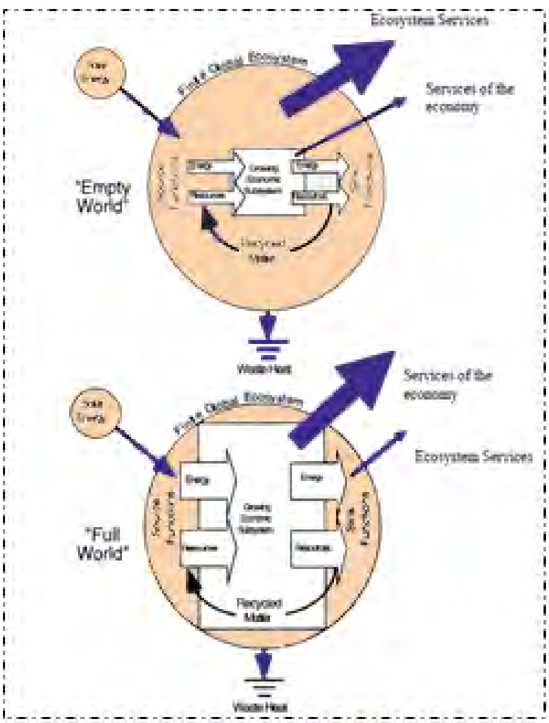
Malthus and his ideas enjoyed brief support but was put to rest for over a century when no such outcome was faced, owing manly to the agro-industrial revolution that swept throughout the world. But by 1970 population growth rate spiralled to 2.1% p.a., which is the most rapid and frightening growth rate in the whole history of the planet. Amidst heightened environmentalism (for a review article on this see Roy, 2009; 2010) that followed, two significant publications, namely, *Population Bomb* by Dr. Paul Ehrlich (1972) and the Club of Rome's Report, *The Limits to Growth*, by Meadows *et al*—(1972) caught attention of all. These two celebrated works examined the possibility of unlimited growth in population and consumption in a finite, and non-growing, planet.

The Meadows' team at the Massachusetts Institute of Technology constructed a simulated world model (world 3) and fed it data that assumed that population, industrial production and pollution would continue to grow exponentially in the future (as they have grown in the past). Since the world is physically finite, exponential growth of these three key phenomena must eventually hit a limit. Following this, they came to a rather apocalyptic conclusion : ''if the present growth trends in world population, industrialization, pollution, food production and resource depletion continue unchanged, *the limits to growth on this planet will be reached sometime within the next one hundred years*. The most probable result will be a rather sudden and uncontrollable decline in both population and industrial capacity'' (*Ibid.* p. 24; emphasis supplied).

The model allowed for improvements in resource supply, but still their conclusions remained unchanged. For example :

- If natural resource reserves are doubled, the crisis brought on by their estimates of pollution level is merely delayed.
- If ''unlimited resources'' are assumed due to breakthroughs in renewable energy and recycling techniques for raw materials, again pollution brings the system down.
- If successful pollution control is added to ''unlimited resources'', limits on arable land and the increased diversion of investments to higher cost agriculture set the limits to growth and yield a down-turn—a result postponed but not avoided by population limitations brought about by an increase in the effectiveness of birth control.
- If radical improvements are simultaneously assumed in resource availability, pollution control, land yields and birth controls, a period of opulence results, which gives way to decline when the scale of industrialization again depletes resources, generates excessive pollution and forces a reduction in food productions.

Meadows and their work had important followers in the 1970s (D'Arge, 1972; Schumacher, 1973; Kenneth Boulding, 1972; for example) as it had throughout 1980s and 1990s, when the captivating idea of sustainable development and its forceful following in the Rio Summit in 1992 was at its commanding height. The essence of the arguments of those followers of the 'limits to growth theory' has been encapsulated by Goodland and Dally (1992) in the following diagram :



Goodland and Dally through their model (empty world v. full world) show the global ecosystem as a closed system. Here nothing enters it, and nothing exits from it, except solar energy and heat loss. Economies and societies grow by utilizing the resources available to them, transferring these resources into commodities and services and getting rid of the waste products. Waste is dispatched into the sinks which are themselves part of the global ecosystem: oceans, rivers, land-fills and the atmosphere. But as the economic subsystem keeps on growing, it entails using up more and more of its resources and sink functions until to a point where no more space is left in the ecosystem to provide for resources and sinks.

The central idea expressed in Goodland and Dally (1992) does not appear to be a mere theory. Indeed, as Roy (2000) reported, many of the limits contem-plated by Goodland and Dally had started to show up in the early 1990s; for example, out of 1.3 billion people worldwide who did not meet WHO standards of particulate emission, 300,000 – 700,000 had died of serious exposures to particulate emissions each year throughout the decade; population explosion in China forced over-cultivation, leading to detritions of farm land by some 50 million acre (equivalent to all the firm lands in France, Germany, Denmark and the Netherlands); in the formerly Soviet Union, the Aral Sea had been reduced by two-thirds because of huge diversion of waters that had taken place in the past few decades for irrigation purposes; in Sweden, most of its lakes had turned acidic and somewhere acidification had increased 100 times more than they were in the 1930s; by the late 1980s in the Scandinavia, 20,000 lakes had been badly acidified and about one-third of all the lakes did not contain any life. Amongst many such examples, Roy (2000) also mentioned that in Vistula (Poland), a third of the rivers are devoid of all life. The area was unfit even for industrial use over two-thirds of its length because it is so corrosive that, 1,000 square kilometre of the Baltic Sea was biologically dead from the poisons brought down by the rivers.

The curious case of technological optimism

Since its publication in 1972, *The Limits to Growth* has been carefully examined and subjected to severe criticism appropriate to so fundamental a theme. The major attack to this work mounted by the optimists (known as 'technological optimists') is that a growing number of technological improvements in such areas as food production, environmental quality and energy will sustain life and the growing economic subsystem as the population grows. Commonplace examples of this doctrine show the starling breadth with which it is applied: If the world is running short of food, technological innovations can be relied upon to increase the productivity of agricultural land and acreage of arable land itself. Improved seeds, fertilizes herbicides, pesticides and irrigation methods can be developed to prevent famine. If environmental quality is threatened by pollution, more effective pollution-control devices can be invented. If fossil fuels are dwindling, engineers can find ways to reduce the cost of discovery and extraction and scientists can come up with natural and synthetic substitutes. Scientists may even find out ways to recycle resources *ad infinitum*. In short, technological optimism relies not just on the breakthrough in technology to provide life support for humanity, but assumes a growing accumulation of breakthroughs that can meet the demands of economic growth necessitated by population growth (Krier and Gillette, 1985).

The technological optimism, at its extreme, also holds the notion of fungibility so that production and growth can completely do away with exhaustible natural resources; therefore, resource exhaustion is not a problem. Robert Solo, the 1978 Nobel Laureate in Economics thus wrote : "If it is very easy to substitute other factors for natural resources, then there is in principle, no problem. The world can, in effect, get along without natural resources, so exhaustion is just an event, not a catastrophe" (Solo cited in Roy, 2000, p. 83).

American population biologist Ehrlich and his co-author (1971) contradicted and faulted the basic premise of the technological optimists. Expressing economic growth—reflected in GDP and industrial output—as a concomitant to population growth, these authors expressed global environmental problem and the resource challenge in terms of a simple equation:

Global environmental burden/resource needs = Global population × GDP per capita × environmental impact/resource consumption per unit of GDP.

Within this relationship, if by 2050 global population becomes 10 billion or more and the world GDP rises by 4–5% p.a. for the next 40 years, the conclusion for commentators like Stikker (1991), therefore, is that the same environmental burden or resource crises would prevail even though environmental impact and resource efficiency per unit of GDP improves by 90%. This is indeed a tall order. Current global data on air, water and solid wastes, on the contrary, leave no doubt that environmental problems and resource shortage have already assumed serious state and, as it appears, the ineluctable march towards many of the limits admonished in the catastrophist literature of *The Limits to Growth* and its ilk cannot be avoided by mere tweaking of existing technologies. Indeed, the McKinsey report is replete with examples of such productivity enhancing technologies, but notwithstanding its best effort to pen a rosy picture of the future, admittedly they cannot meet more than 20 percent of the 2030 forecast demand for energy, steel, water and land. The roller-coaster growth of the Indian, Chinese and other economies in the emerging markets have placed far more serious demands on natural resources of the planet. But yet, as a commentator in the McKinsey website suggested, if the rest of humanity consumed natural resources at half the lifetime rate of the average American, a really significant number of commodities would run out within a matter of 30 years; in some cases, rare earth metals, for example, it would vanish within 10 years. Even copper, which is considered to be a pretty plentiful base metal, would be gone within about 38 years (Niall Ferguson, 2012). With water scarcity looming large, according to some research, by 2030 the gap between availability and need will be about 40 percent (ibid).

The limitations of some other technologies/substitutions are also eminently visible. For example, world is enamoured with biofuels as a substitute for fossil fuels. But French author Jean Ziegler in his recent work *Massive Destruction* (2011) shows, not only do biofuels each year consume hundreds of millions of tons of corn, wheat and other foods, and not only does their production release into the atmosphere millions of tons of carbon dioxide, but, in addition to this, they cause social disasters in the countries where the transcontinental companies that manufacture the biofuel become dominant. The world has already used up 40 percent of the primary productivity in 1980. A doubling in population would entail appropriations of 80-100 percent of the primary productivity (something which is impossible), leaving practically no room for biofuel cultivation—except pushing more people to the already large hunger league. Global food production has been steadily rising – from about 600 million metric tons in 1950 to 1800 million metric tons in 1985 and thereafter, it is projected to grow at 2.1 billion metric tons in 2030. However, this much food would be just sufficient for 2.5 billion people at an American dietary level of 800 kg/year per person. If evenly distributed, this much food can at best provide subsistence living to 10 billion people only. The upshot of the argument is that simultaneous rise in the population and draw down of resources from the environment must run into bottleneck because of the finite limits of the earth. Finitude per se would not be a problem if it could be possible to recycle everything in keeping with the first law of thermodynamics, which states that matter and energy are constant; they can neither be created nor destroyed. But second law of thermodynamics states that the quality of energy does change. The implication of the second law of thermodynamics for our industrial system is that man cannot convert waste back into raw materials except by spending energy which itself degrades into waste heat, making it impossible to recycle.

The Stone Age Did Not Come to End for Want of Stones

The world at 7 billion is a sobering reminder of the predicament of the earth. But, as most of us have observed with bewilderment, since the beginning of 1980s, there were very few discussions on population issue as though it was no more a problem. However, an article in the Time has recently broached this uncomfortable issue "Until the 7 billion threshold was approached recently, population growth had largely disappeared as a major international issue — a far cry from the 1970s, when Malthusian thought was back in fashion and countries like India and China were taking brutally coercive steps to curb population growth. That's partially a reaction to those dark days — right-thinking environmentalists didn't want to be associated with unjust policies, and so population became the green issue that dare not speak its name" (Walsh, 2011). And in the process, humanity has lost its chance to tweak its way out of the crisis brought on by the ever increasing population by mere technological change.

The problem we have now requires nothing less than a revolution. However, the glimmer of hope that we foresee is that throughout history humanity has survived not by living within its limits, but by transcending it through evolving technology. The Stone Age did not come to an end just because there were not enough stones on earth, but because of the advent of the Metal Age, where stones are not the thing around which life revolved. Indeed, a sustainable society is one that continually evolves in the use of science and technology. As historian Mark Kurlansky (2002) in his fascinating book, Salt, tells us, three hundred years ago salt was the most sought-after commodity. In those days, supply of salt was as important a subject for national security as oil is now. But salt is no longer an issue one would like to talk about; our society has fixed the problem through innovation which has made its supply abundant. Imagine, food problem in our society is solved just like that! People like Sir Winston Churchill imagined early in the last century about it in its own inimitable style : "Fifty years hence we shall escape the absurdity of growing a whole chicken in order to eat the breast or wing by growing these parts separately under a suitable medium" (cited in Sample, 2005). Now scientists are close to producing, at least, theoretically, the world's annual meat supply with a single cell instead of rearing millions of livestock in the farm (ibid). Similar innovation in energy technology is taking place rapidly [See box for cutting-edge technologies]. Scientists in Australia have developed a prototype of car that would run on solar-powered hydrogen to be obtained from rooftop solar panels. Indeed, as we have seen in the past, scarcity and competition can lead to innovation and that seems to be an article of faith in the philosophy underpinned by technological optimism.

Cutting-edge technologies

High-speed digital switches made of silicon carbide and gallium nitride have been developed for high-frequency power management for everything from military jets to high-speed rail. They use 90 percent less energy, take up only about 1 percent as much space, and are more reliable and flexible than existing transformers.

Compressorless air conditioning and electrochromic windows : New compressorless air conditioners and electrochromic window technologies offer the potential to cut home-cooling bills by half.

Clean coal : Today, carbon capture and sequestration (CCS) costs $8,000 to $10,000 per kilowatt (kw). Innovative processes now under development could help coal-fired generators to capture more than 90 percent of their carbon dioxide, at a cost of less than $2,000 per kw.

Biofuels : Although second generation cellulosic biofuels have proved harder to make than many had hoped five years ago, innovative start-ups focused on cellulosic and algae-based biofuels are starting to create high-margin specialty chemicals and blend stocks, generating cash now and suggesting a pathway to deliver biofuels at $2 a gallon or less by 2020.

Solar fuels : It is possible to use photosynthetic microorganisms (e.g., algae) to convert waste carbon dioxide and sunlight as primary inputs in the production of ethanol, "drop-in fuels," such as diesel and jet fuel, or specialty chemicals. Solar fuels would, like biofuels, be a natural alternative to oil. However, solar fuels could be up to 200 times more land-efficient than current first-generation biofuels and could be grown on non-cropland, where the sun radiation is the highest. In addition, solar fuels could use brackish water, which would limit their impact on global water withdrawals. Carbon emissions could be 70 to 90 percent lower than with the use of conventional gasoline.

Advanced desalination technology : such technologies may be 70–80 percent cheaper and efficient than traditional reverse osmosis desalination techniques.

Soil-nutrient management : Microbial-based ecosystems can help support the management of soil nutrients by transforming organic nitrogen and phosphorous in soil into a usable form of nutrients for plants, increasing the uptake of nutrients by crops, and providing plants with amino acids that aid photosynthesis and resistance to stress. Early results from start-ups show such ecosystems increase plant yields by 10 to 40 percent and reduce fertilizer use by 30 to 50 percent.

Fuel cells : The low-temperature conversion of hydrogen to electricity happens at high efficiencies of up to 60 percent. Applications in the residential sector allow the use of both the produced heat and power, increasing efficiency to over 80 percent. These applications run on natural gas and use a local reformer to produce hydrogen for the fuel cell. Fuel cells in vehicles run on hydrogen, typically produced centrally through steam methane reforming or electrolysis. From a well-to-wheel perspective, fuel cell vehicles are more energy-efficient than combustion engine cars and have a longer range than battery electric cars. Fuel cells are commercially available, and significant cost reductions (up to 80 percent) could be achieved when sales volumes increase to the order of hundred thousands. The main challenge to scaling up fuel cell applications, especially for cars, is likely to be hydrogen distribution.

[Source: Dobb et al (2011)].

Conclusion

It is true that throughout its history human race has faced, and overcome, the limits imposed by nature. But the kind of challenge our society would be facing with unlimited population stands tall even if we assume continuous technological breakthrough. Some 10,000 years ago humanity had invented agriculture as an answer to our forebears' nomadic quest for food. But now, 35% of the earth's land is already degraded, and since this figure is increasing and largely irreversible, such degradation is a sign that we have exceeded the regenerative capacity of the earth's soil source. With a fairly large proportion of the primary productivity of land being already appropriated, we must invent new means of procurement of food or face widespread hunger sometime in the middle of the century.

Even if we solve this problem, unknown interconnections on a worldwide level may lead to a number of issues beyond our comprehension. The threat of global, warming looms large and there is no radical technology in sight to combat it. The Fourth Assessment Report of the Intergovernmental Panel on Climate Change (IPCC) has already issued red alert that an average global temperature increase of only 1 – 2 degree centigrade above the pre-industrial level would commit 15 – 40% the species of the planet to extinction. With a 3 degree increase in the temperature, as the report said, it would entail extinction of 20–50 % of species (including 25–60% mammals, 30–40% birds and 15–70% butterflies in South Africa). Any further rise in the global temperature would lead to a catastrophe far beyond human experience. Examples of environmental limits galore, the fact that population is growing by 10,000 an hour is scary enough. With the state of technology at hand, we are not too sure whether humanity will win the race against nature's limit. Even if we are able to transcend the limit of nature in the long-run, for now, as the McKinsey Report recognised, the resource landscape is likely to evolve unevenly in the coming decade, creating a wide variety of opportunities and threats for different companies, sectors, countries and regions. ❐

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"A leader has the vision and conviction that a dream can be achieved. He inspires the power and energy to get it done."
— Ralph Lauren

Sustainable Development : Should Green Investment be the Guiding Light?

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Introduction

We do not inherit the earth from our parents; we borrow it from our children". This old aphorism gives rationality a mandate that caring our planet is not just an act of prudence but an act to demonstrate the present human stewardship towards our progeny. It inspires us to make the right use of money for preserving life and elevating human consciousness as an act of sagacity.

In recent years, an increasing number of firms proactively address corporate social responsibility (CSR) factors such as environment, social, and governance (ESG) issues. Recent cases suggest that it is possible to enhance corporate value by resolving the ESG issues through corporate efforts, such as risk management, stakeholder management, etc. As a consequence of the aforementioned trends, various studies have been conducted on the relationship between the different aspects of ESG and corporate value. Most of the studies focus on the differences in market values and performance of socially responsible firms and conventional ones. If socially responsible firms and companies that take action to deal with corporate social responsibility issues record relatively better market returns compared to other firms, it could be concluded that corporate efforts to resolve ESG matters improve corporate values.

However, several questions remain. It is not clear whether excess returns could be brought about by other factors such as fund manager's skills. To deal with these points, Schroder [2007] analyses the performances of SRI indices instead of SRI funds and clarifies that the difference in risk-adjusted returns is much smaller than that of conventional indices. Statman [2000] shows supportive results by comparing the Domini Social Index 3 and the S&P500 Index. While these studies examine the performance of SRI indices. Derwall et al [2005] examine the performance of equity portfolios based on corporate scores for ESG issues.

There has been a growing interest, both in the academic as well as the business world, around the issue of Sustainable Development (SD) and the Socially Responsible Investment (SRI). Socially responsible firms receive more favorable responses as they create value for the firms in the long-run. If organizations can prove themselves socially responsible, investors will feel comfortable in dealing with them and as a matter of fact a sense of confidence will gradually build in the minds of people at large. Although financial performance remains at the heart of corporate disclosure, investors today place value on information about environmental and social aspect of companies and companies will react to investor responses to such non-financial disclosure and external assessments. Companies should consider the paramount importance of the environment and society in its daily operations and try to promote continuous improvement in this area. The company should framework a sustainable future programme which designs to help them in achieving savings through improvement in operational efficiency.

Better social performance may also function in similar ways as advertising does, by increasing overall demand for products and services and/or by reducing consumer price sensitivity (Dorfman and Steiner, 1954; Navarro, 1988; Sen and Bhattacharya, 2001; Milgrom and Roberts, 1986). Moreover, it has been suggested that positive social performance could reduce the level of waste within productive processes (Konar and Cohen, 2001; Porter and Van Der Linde, 1995). A major purpose of sustainability development is to encourage company management to control non-financial business risks, increase productivity and improve business opportunities in areas such as governance, environmental and social impact, and workplace practices (RepuTex 2005).

Awareness and proactive management of these non-financial risks provide opportunities for the organization to build a positive social responsibility reputation, reduce costs and future liabilities, and increase revenues (see RepuTex 2006).

Against this backdrop, our endeavour has been classified in seven sections. Section I introduces the paper. It highlights the motivation and the section plan. Section II highlights concepts of socially responsible investment, its origin and development. Section III highlights intertemporal model and its theoretical framework towards sustainability. Section IV and Section V offer plausible and dubious reasons of SRI. Section VI investigates global performances of SRI funds. Section VII concludes the article and offers policy implications.

Origin & Development

The origins of socially responsible investing date back to ancient times. In Biblical times, Jewish law laid down many directives about how to invest ethically. The origins of socially responsible investing are ancient, but it has only taken full stride in the last 20 years.

The modern roots of SRI can be traced to the impassioned political climate of the 1960s. In the 1960s, concerns about the environment, civil rights and militarism were all brought to the national forefront. During that decade, a series of movements changed the nation's consciousness about the issues of social responsibility and accountability. Events including the Vietnam War, the Bhopal Chemical disaster in 1984 and the Exxon Valdez oil spill in 1989, helped to stimulate public resentment and concern with corporate practices. With the adoption of a code of conduct first set forth by Pastor Leon Sullivan in 1977 to combat apartheid and human rights violations, there was a clear divide between multinational corporations that were perceived as responsible and those that were not. The Global Sullivan Principles, created twenty years later, called for equal pay for all people, fair employment practices and affirmative training and promotion of all people irrespective of color and creed.

The ranks of socially concerned investors grew dramatically throughout the 1980s as millions of people, churches, universities, cities, and states focused investment strategies on pressuring the white minority government of South Africa to dismantle its racist system of apartheid. Gradually the crisis of global warming, the environment moved to the forefront of the minds of socially concerned investors. The origin of socially responsible investing are ancient but it has come full stride in the last 20 years. Millions of people began embracing the concept of SRI. Mutual funds and money managers arise to help investors channel their capital toward enterprises that contribute to a sustainable environment and a unified world. Even before the Sullivan Principles were articulated, people were creating SRI funds. The first SRI mutual fund was Pax World Fund, a $1 billion fund created in 1971 by Luther Tyson and Jack Corbett, who worked for the United Methodist Church.

Today there are a plethora of environmental and social concerns for socially responsible investors to move around. Pressing social issues such as diversity in the workplace, employee issues, human rights in overseas factories, and socially destructive products such as tobacco, now provide abundant ground for investors to base their choices on. However, there exist plausible and dubious reasons for SRI. We discuss them in Section IV.1 and Section V.1. Before that we study the theoretical foundation of SRI, the intertemporal model in Section III.1.

The Intertemporal Model

A classical approach towards SRI is to construct the problem in an intertemporal context which is what we have described earlier as the focal areas for corporate strategy, i.e., corporate mission of solving social problems, gaining a competitive edge by offering a qualitatively new solution, delivering results by making the employees identify with the company and coping with change by focusing on emerging problems. In this approach, corporate profits is seen to be a function of revenue and cost, the latter including the costs in a given perception of social responsibility in an intertemporal context. Table I offers a brief sketch of intertemporal model.

Table I : Intertemporal Model

$$\pi(t) = f\,[P * Q\,t \,\&\, C\,Qt\,]$$

where : $\pi(\,t)$ = *Corporate profit in time t* or corporate appropriation in time t $P * (Qt)$ = *Revenue from selling quantity Q in time t*

$C\,(Qt\,)]$ = *Cost of producing quantity Q in time t*

$C(Qt)$ implies social responsibility cost including material, capital, organizational and social responsibility cost given a certain perception of social responsibility at time period 't' [SRC(t)]. However,

SRC(t) $\Rightarrow$ Change in Perception of social responsibility in period t $\Rightarrow$ perception of social responsibility in period (t+1) = Perception of social responsibility + Change in perception of social responsibility in period (t+1)

This increase will further augment corporate profit in time (t+1) and so on and so forth, thereby setting the pace for corporate growth.

The international corporate achievement can be set not just in terms of profits, but in other measures of desired corporate performance. Put in other terms, discharging corporate social responsibility and allocating definite corporate budgetary provisions acts as a catalyst for corporate movements over time, i.e., corporate growth.

Plausible Reasons in favour of SRI

Havermann & Webster (1999) have attempted to trace the relationship between a company's strategy and its stakeholders (viz., shareholder, employees, customers and government) and to demonstrate thereby how socially responsible investing can impact a company's cash flow in terms of costs, sales and the cost of capital—ultimately to impact its share price. Hutton (1977) has assessed the relationship of a business with its stakeholders, called the Relationship Hierarchy, that reflects that depth of the key stakeholder relationships of a business by means of a vertically layered hierarchy. We explain the essence of both the studies.

Havermann & Webster have emphasized on cost of capital. A company that is out of favour with investors because of its products or processes will be subject to negative ethical screening accordingly, and, hence, will have to pay more for acquiring capital from the market, either by using more shares or by paying higher rate of interest. The second route is the mechanism of shareholder advocacy, a popular SRI strategy where shareholders apply themselves in the capacity of corporate owners through dialogue pressure, voting at annual general meetings (AGMs) and lending support for responsible governance to address issues of corporate ethical social, and for environmental behavior. The effectiveness of shareholder advocacy increases when it is accompanied by a credible threat of ethical consumer activism. Responsible consumer and equally responsible and ethical investor can work as a formidable team to produce synergic effect. Corporate law in many countries allows shareholders with a minority stake in a company also to place item on the agenda of shareholder meetings and requires that a vote be taken on these matters at meetings. This is a powerful mechanism for embarrassing management about alleged ethical failures.

Nowadays annual meetings of large companies receive wide media coverage that can produce considerable negative publicity sometimes leading to consumer boycotts and diminished retrial sales. All such events can be predicted to have an adverse impact on market perceptions reflected in low perceived utility value (PUV) about the company and its products in the eyes of customers leading to a decline in market capitalization and hence share prices.

Hutton has assessed the key relationship of a business with its stakeholders, called the Relationship Hierarchy that reflects the depth of the key stakeholder relationships of a business by means of a vertically layered hierarchy. Hutton's model of The Relationship Hierarchy is shown in Table : II

Table II : The Relationship Hierarchy

Awarenesss ⇒ **Trusts** ⇒ Transactions ⇒ Satisfactions ⇒ Loyalty or Commitments ⇒ Advocacy

At a high level of strong stakeholder relationships, the level of loyalty or commitment implies not only a willingness to repurchase (in the case of a consumer) but also to recommend the business to others if asked. At the highest level of advocacy the individual is so impressed by the company that he or she will recommend it to others without being asked. The company's own customers and other stakeholders are doing its marketing for mutual benefit.

Apart from plausible reasons, there exist some dubious claims against SRI. As mentioned earlier, we examine them in Section V.1.

SRI : Some Dubious Claims

Some people might think an SRI should under-perform because it places additional constraints on portfolio managers. It rules out companies that sell addictive or harmful products such as tobacco, alcohol, pornography, gambling games or weaponry. And it directs investors to buy stakes in companies that : (i) preserve the environment, (ii) practice good employee relations, (iii) do not violate human rights, (iv) adhere to good governance, (v) are sensitive to indigenous peoples, and enjoy good relations with their community.

Extra ESG requirements leave a smaller population from which to choose and earn good investment returns. In particular, the absence of stocks from the noncyclical sectors of tobacco, alcohol and gambling can punish relative performance during bear markets. Moreover, ESG-compliant companies may forgo profit opportunities (e.g. not mining in an area where environmental concerns exist) or incur extra costs (e.g. operating advanced pollution-remediation technologies), whereas non-ESG companies might create more profit by doing the opposite.

Implicit in the very existence of SRI is the claim that it is possible to identify which firms are more or less responsible. Not only is this claim questionable, but the selection criteria employed by SRI fund managers and researchers can be criticized on several grounds :

First, questions have been raised about both the information that fund managers rely on to make investment decisions and the consistency of the criteria they employ. According to a study of eight of the most prominent funds : "Sources of social information used varied widely from fund to fund with date provided by firms they being the most frequently used."

While all investors depend heavily on corporate self-reporting, the shortcoming of corporate financial reporting pale when compared with those of corporate voluntary disclosures of non-financial performances, in part because with one rare exception, there have been no legal penalties for providing incomplete or misleading information. Another common source of data articles in the business and popular press may reflect the effectiveness of firm's public relations, or that of its critics, rather than its actual behavior.

Moreover, many SRI fund managers use screening methodologies that are proprietary and, thus, they cannot reveal why a particular firm is excluded or included.

A second criticism focuses on the criteria employed by SRI funds to determine "corporate irresponsibility". Tobacco and alcohol are the two negative screens American funds use most often. The reasons for the former is relatively straightforward, but the latter is more problematic: why should a firm automatically be considered irresponsible because it produces or distributes wine, a product that shareholders in ethical mutual funds are as likely to enjoy as any other group of investors? More substantively, many funds restrict or prohibit investments in firms that produce military equipment or nuclear power. But should such firms be considered "irresponsible" in light of the fact that the former may contribute to legitimate national security needs and, later, may contribute to reducing carbon emissions? Despite all their claims to be on the cutting edge of changing public expectation of business, no fund has relaxed its exclusion of military contractors since September 11.

SRI has also been criticized for being too inclusive. According to a survey of more than 600 SRI funds, by Paul Hawken, more than 90 percent of Fortune 500 companies are included in at least one SRI portfolio. Howken argues that the selection criteria employed by many social funds allows virtually any publicly held firm to be considered responsible. The most widely held firm by socially responsible investment funds is Microsoft, a firm that Hawken criticizes for "its ruthless, take-no-prisoners management tactics'' as well as for antitrust violations in both the United States and Europe. Hawken is also critical of the social and ethical practices of other firms that feature prominently in SRI portfolios, including Walmart (held by thirty three SRI funds), Halliburton (held by twenty-three funds) and Exxon Mobile (held by forty funds).

Finally, the emphasis many funds place on competitive rates of return renders problematic a critical raison d'etre of social investment, namely, social responsibility pays. These funds typically apply their social attributes or yardsticks only after firms have been screened by normal financial criteria. The result may be exclusion of investment in firms whose social performance is outstanding or highly innovative, but whose financial prospects are uncertain or modest. An innovative or pioneering firm that has chosen to sacrifice short-term profits in the pursuit of social goals thus might not be owned by many socially responsible funds. This may be counterproductive from the perspective of promoting more responsible corporate behavior, and it also calls into question the popular claim that being more responsible can and should make a firm better investment.

The criticisms suggest that even if SRI funds were to consistently outperform no socially screened portfolios (which there are little evidence that they do), it is unclear what this would prove about the relationship between corporate responsibility and profitability. Empirical results that we offer in section VI.1 offers a better explanation to this controversy.

SRI : The Global Performance

The validity of the business case for virtue can also be explored through the financial performance of socially responsible mutual funds. The results of this analysis reveal that socially responsible funds and indexes perform no better or worse than those of any other kind of fund or stock index. The three most widely used ethical indexes are the Domini 400 Social Index, the Dow Jones Sustainability World Index (DJSWI), and the FTSE4Good Index. In addition to using positive screens, the Domino uses negative screens based on military contracting, the manufacture of alcohol or tobacco products, and revenues from gaming products or services and the ownership of nuclear power plants. DJSWI, which was established in 1999 by the Sustainability Asset Management Group, Swiss company in cooperation with Dow Jones Indexes, tracks the performances of the top 10 percent of leading sustainability firms in each industry group. The FTSE4Good Index includes firms that meet its criteria on social, environmental and human rights issues and excludes tobacco, arms manufacture and firms that produce nuclear power or uranium.

Reinforcing this conclusion are the track records of stock market indexes made up of companies screened by environmental, social and governance (ESG) criteria. The Domini 400 Social Index averaged 8.4% annually from 1990 to 2008, compared to 7.8%

for the Standard & Poor's 500 Index over the same period. In Canada, the Jantzi Social Index averaged 2.4% annually from 2000 to 2008, compared to 2.8% for the S&P/TSX Composite Index.

Between May 1 1990 and June 30 2004, Domino Social Index which is used as the basis for selecting the Domino Social equity Fund (the fourth largest fund with $1.2 billion under management), returned $5.40 for each dollar invested, while S&P returned $ 4.60. But this difference is largely attributable to the industries in which the fund invested; there was no evidence of a social factor. For its part, the FTSE4 Good has closely tracked the performance of the FTSE All share Index since 2000.

The DJSWI has performed more poorly than the benchmark Dow Jones Global Index since its inception in 1999, but much of this difference can be traced to the relative size of the two indexes. The DJSWI consists of only 250 companies, while the DJ Global comprises 5,029 making the former less diversified and therefore more susceptible to changes in the market valuation of any one form. It is also overweighed in the large capitalization stocks and growth companies and it adds and deletes companies more frequently than do most indexes in 2002, it replaced more than seventy companies nearly one- quarter of its portfolio. Although the performance of the DJWSI Index is often as evidence for or against the financial case for SRI, the lack of comparability between it and DJ Global Index renders any such assessment problematic. Alois Flatz, its former researcher director, cautions "..it is premature to draw definitive conclusions regarding the business case for sustainability… A much longer time frame is needed to attribute index or fund performance to particular sustainability criteria or strategies.''

As in the case of Domino Social 400 and DJSWI, much of the relative performance of SRI mutual funds and indexes is affected by the performances of the industries in which their investments are concentrated. For this reason, in some years they have outperformed their mainstream counterparts and in other years have lagged behind them. For example, during the latter part of the 1990s, many social funds showed relatively strong returns due to their heavy exposure in financials, "clean" technology, health care, media and communications. But their performance was then negatively affected when the value of many of these firms declined.

In addition, social investors are not free from the fads that affect all other investors. In Britain during the late 1980s, there was considerable excitement about the financial prospects of green companies and a green index of thirty companies involved in environmental services increased in value from 100 to 147 in just 5 months. This Green Euphoria, however, could not be sustained and over the next five years the index steadily underperformed the FTSE All Share Index. A similar development occurred in the United States, where fifty worst mutual funds listed by the Wall Street Journal in 1993 contained a number of environmental funds, most of them involved in environmental remediation.

While there continues to be debate over whether the use of negative screens by virtually all SRI funds increases risk or lower returns (or both), or alternatively whether socially screened investments are less volatile and result in higher returns, the consensus of the more than 100 studies of social investment funds and their strategies is that the risk-adjusted returns of a carefully constructed socially screened portfolio is zero. In other words, share returns are neither harmed nor helped by including social criteria in stock selection. This explains why SRI investments vehicles have recently grown in popularity in both United States and Europe; there appears to be little cost associated with making such investments. But it also undermines the frequent claim that more responsible firms, at least as assessed by SRI fund managers and researchers, perform better. It also explains why the funds that manage 98% of investments in mutual funds in the United States continue to pursue other investment strategies, none of which is necessarily any better or worse.

Ironically, if more socially responsible firms did systematically perform better, we would expect all fund managers to heavily weigh their portfolios with those firms' securities. This would both erase all differences in financial performance between socially responsible and "normal" funds and raise the price of the shares of more responsible firms so as to reduce the return from future purchase of them. Still, if the financial market undervalues corporate social performance, then more responsible investors might in principle be able to earn higher returns when the financial consequences of responsible or irresponsible behavior eventually affected earnings. But there is no persuasive evidence that the market does so.

Some advocates of SRI continue to claim that informed investment funds will perform better because their managers are more aware of the significance of corporate social and environmental policies on long run financial performances. As one environmental foundation writes : "We believe that we are once again on the cusp of redefining the responsibilities of a prudent fiduciary this time to recognize that improving environmental performance is a primary pathway to increasing shareholder value". Its claim is that as an environmentally conscious investor, it possesses insights into the long-term financial benefits of corporate environmental efforts which more conventional investors have overlooked.

Have such claims have not yet been validated does not mean that they never will be. But there is reason to be skeptical. For this claim cannot rest on an investor's ability to accurately measure current corporate environmental practices or, more precisely, the relationships between current and future corporate environmental practices and between those practices and current and future environmental pressures and opportunities. But how can anyone know which environmental issues will become politically salient or whether a firm that has successfully addressed environmental issues in the past will also manage them well in future? Such uncertainties about future financial performance are no different from those that confront any investment strategy.

In this context it is worth recalling that the social investment community was no more able than any investors to identify the failures of corporate governance that created massive shareholder losses at the beginning of twenty first century. Enron, World Com, Adelphia and Health care were all widely held by SRI funds. Enron was widely respected for its CSR; it was ranked one of the 100 best companies to work for; received several environmental awards; issued a triple bottom line report; established a social responsibility task force; developed codes of conduct covering security corruption and human rights; supported progressive climate change policies and was known for its generous philanthropic contributions. These practices which led a number of SRI funds to include Enron in their portfolios did not make Enron a sound investment. And, Shell, whose environmental and human rights initiatives led it to be included in many SRI portfolios also, did not turn out to be a prudent investment when in 2004 it was revealed to have finished the amount of its oil reserves.

Jantzi Social Index February 2011 Returns

On March 3, 2011 — Jantzi-Sustainalytics reported that the Jantzi Social Index® (JSI) increased in value by 4.16 per cent during the month of February. During the same period, the S&P/TSX Composite Index increased by 4.44 per cent and the S&P/TSX 60 Index increased by 4.56 per cent. Since inception on January 1, 2000 through February 28, 2011, the JSI has achieved an annualized return of 6.79 per cent, while the S&P/TSX Composite and the S&P/TSX 60 had annualized returns of 7.05 per cent and 6.75 percent, respectively, over the same period. Table III highlights the return from the fund as reported in February 2011.

Table III : Jantzi Social Index February 2011 Returns

Returns	Feb	3 mos	1 yr	3 yr	5 yr	10 yr	Inception Annualized	Inception Cumulative
JSI	4.16%	10.54%	20.97%	3.83%	5.62%	7.38%	6.79%	108.32%
S&P/TSX Composite	4.44%	9.78%	24.84%	4.42%	6.82%	8.20%	7.05%	114.01%
S&P/TSX 60	4.56%	10.33%	22.61%	3.59%	6.90%	7.93%	6.75%	107.39%

From Table III it appears that almost all the time returns are comparable or in tuned between JSI & S& P but in 3rd year's return JSI has outperformed S&P.

Apart from it, there are other evidences too :

1. The Dow Jones Sustainability Index (DJSI) outperformed the Standard & Poor's 500 during the 1990s by about 15%

2. The Dow Jones Sustainability group Index (international focus) yielded a total return of 139 percent versus 95% for the benchmark Dow Jones Global Index, between 2000 and 2010.

3. Storebrand Scudder Environment value Fund (European Focus) outperformed the Morgan Stanley Capital International World Index (MCCIWI) by 8% between 2005 and 2009 (due to change in portfolio construction, the MSCIWI was not recognized as an appropriate benchmark after 2009).

4. Innovest's review of performance data shows that, depending upon the sector, the Ecovalue 21 (US focus) performance-rating model demonstrated that companies with above-average environmental performance score shave consistently outperformed below average companies by 300 to 2,500 basis points per annum.

5. The trend of Good money Industrial Average and the Dow Jones Industrial Average, since 1997, also show that SRI funds on average have earned higher returns than others. Goodmoney is an index of 30 shares chosen to cover the same industries as the shares in the DJIA but screened according to ethical criteria. Both of these numbers refers to averages. They suggest there is no cost to SRI. On average, there may even be a gain.

Conclusions

In conclusion, it is essential to explore whether ethically oriented investors can rely upon socially responsible investment (SRI) as a reliable guiding light for manifesting their investing their investment priorities, given the mixed responses from available evidence, relating to the questions raised earlier. This issue needs to be highlighted, considering that there could be disparity in CSR rating published by various rating agencies that provide a measure of a company's composite performance in terms of environmental, social and economic parameters. To cite an instance of rating conflicts and possibly confusing signals for potential investors, we take the case of two CSR rating agencies—Innovest Strategic Value Advisors, and Oekom—that completed environmental evaluations of the Japanese auto major Toyota in the year 2003. In its Ecovalue '21 environmental rating, Innovest Strategic Value Advisors granted Toyota an AAA ratring, the highest possible score on a scale that mimics bond rating, ranging from AAA to CCC. However, in the environmental section of its Corporate Responsibility Rating (CRR), Mumbai-based Oekom Research gave Toyota a C on a scale that mimics school grades, ranging from (A+) to (D-). Furthermore, Toyota was placed 2nd of 16 auto companies that Innovest rated, while it came 16th of the 20 auto companies that Oekom rated.

To be sure, both Innovest and Oekom are highly respected rating firms. In a bid to reinforce the business base for sustainable investment, Innovest has been trying to identify in almost all industry sectors—that environmentally proactive companies fare better in the financial markets. Oekom has traditionally focused exclusively on the evaluation of corporate social/environmental performance, and has fairly recently begun to correlate these to corporate financial performance. The eco-efficiency subsection of the two ratings represent a significant deviation: Oekom assigns Toyota a D; while Innovest says that Toyota has "superior eco-efficiency overall".

The difference may be accounted for in terms of each firm scoring factors when the company does not disclose the information necessary to make a proper assessment. So in the absernce of explicit information, Oekom rates the company as if it has worst performance, even if the actual performance may be average or even superior. On the other hand, Innovest's opinion is that "lack of information does not lead to an automatic penalty in terms of the score assigned" it should be a case by case assessment.

So what do we conclude about Toyota's corporate sustainability profile? Is one screen "right" or other "wrong"? If so, which is more reliable? In this connection it may be apt to allude to what psychologists refer to as "the Roshomon effect" for describing multiple different interpretations of the same phenomenon, after Akira Kurosawa's 1950 Japanese film Rashomon. Viewers of Rashomon are obviously tempted to legitimize one story over another, but Kuroswa skillfully presents each narrator as potentially reliable while also showing reasons why all the narrators may skew the facts to present their own selves in a sympathetic light. Roshoman leaves viewers with the impression that the impulse to authorize one interpretation over an other is futile.

Hearing the multiple different interpretations gives us greater insight both into the event itself and into the motives of the narrators.

Similiarly, ethically aware investors may find it confusing to hear seemingly contradictory reports about the social/environmental dimensions of corporate performance, but they would certainly be wiser to consider the breadth and diversity of available information upon which to base their investment decisions. ❐

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"Management is efficiency in climbing the ladder of success; leadership determines whether the ladder is leaning against the right wall." *—Stephen R. Covey*

Sustainable Growth—Concept, Indices and India's Growth

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Concept

The United Nations (UN) defines sustainable development as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs." Some important factors that must be taken into account when discussing sustainable development are the rational use of natural resources and energy, pollution, and climate change. In development terms, sustaina-bility means responsible growth—when social and environmental concerns are aligned with people's economic needs.

'Sustainable Growth' generally refers to the sustainable growth at the macro level which, in turn, is aggregation of such growth by the population of a country through various sectors and forms. The report of the Growth Commission aptly puts it as "The growth of GDP may be measured up in the macroeconomic treetops, but all the action is in the microeconomic undergrowth, where new limbs sprout, and dead wood is cleared away."

Growth is commonly referred to the economy growth. However, the essential stipulation for the growth to be sustainable is that such growth shall be with ensuring such growth for the future generations as well. Hence two major challenges for growth to be sustainable are :

- Growth has to be through maintaining the environment without harming the same in any manner. Growth that is achieved with ever depleting natural resources and adding to the concerns arising out of 'climate change' cannot be termed as sustainable growth.
- Growth has to be equitable so that it is inclusive. To quote from UNDP "for **growth** to be inclusive, it must be sustained and **sustainable** and that, for it to be sustained and **sustainable**, it must also be equitable"

Growth and Globalization

The disparities within the incomes among the population of a country, whether developed or developing, have been a challenge to the policy planners. Ensuring the spread of the gains out of growing economy throughout the population of all classes, categories and geographies are essential to maintain the integrity and coherence within a nation. Historically and even in present day world, several nations have experienced demonstrations, revolts, revolutions and such other protests arising out of socio-economic imbalances and cultural disparities.

About sixty five per cent of world's seven billion population is reported to be living in high-income or high growth economies. This is mostly because two most populous countries—China and India—have been consistently reporting high GDP growth over the past decade or more. The remaining thirty five per cent population continues to live in countries with stagnating—or even declining—incomes.

The world population is expected to grow by fifty per cent by the year 2050 and out of which nearly two-thirds is expected to live in countries that are currently experiencing little or no growth. This presents a larger challenge not only to the countries that are not experiencing growth but also to countries which have been growing. This is because most economies have been growing not just because of their domestic markets but because of their trade and commerce with other countries.

To be more specific, the growth of China and India is significantly attributed to their policies of opening their economies. Opening of the economies not only helped in attracting investments into the country but also resulted in increased export of goods and services from these two countries. During the year 2010-11 about 58 per cent of the Tata group's total revenues are reported to be from international operations. On this strength the group states that 'anchored in India...the Tata group is spreading its footprint globally through excellence and innovation'.

The slow growth of USA economy and, thereafter the emerging economic crisis of Europe, pushed these countries to explore other markets in several other parts of the globe including the least developed countries. Hence, for these two growing economies to sustain their growth, it is important that the no-growth or slow-growth countries with which they are engaged in trade or commerce record growth, or increased growth respectively.

Such growing countries also have the advantage of access to latest technologies and resources including cross-border flow of capital. The Growth Commission Report contains thirteen success stories stating that these cases demonstrated that fast, sustained growth is possible as 13 economies have achieved it. These high growth countries are reported to have benefitted from imported ideas, technologies and know-how from the rest of the world as well as they exploited global demand.

A Nation's Growth Measure

Economic growth is a recent phenomenon in human history. It began with the industrial revolution in Britain at the middle (1760) of the 18th century. "It is impossible to contemplate the progress of manufactures in Great Britain within the last thirty years without wonder and astonishment," wrote Patrick Colquhoun, a Scottish merchant, in 1814. This progress spread to Europe and North America in the 19th century, accelerating as it traveled. In the 20^{th} century, particularly in the second half, it spread and accelerated again.

The economy's growth is measured in terms of growth in 'Gross Domestic Product (GDP)'. It is a statistical method of compression, reducing the restless endeavor and complex data on a nation's economy into a single number which can reflect positive or negative growth over a period. A nation's sustainable growth is usually a result of the following:

- Investment in infrastructure, health, education, skills and knowledge of people.
- Development and/or transfer of technology.
- Dynamic policies including those dealing with internal/external trade; industry, investment etc. with consistency over a longer period.
- Necessary structural changes to economy/ governance.
- Fair labour markets that balance the interests of investors, management and work force.
- Stable currency and exchange rate.
- Flow of capital and efficient financial markets.
- Stable macroeconomic conditions.
- Consistent and growing domestic savings to part finance investments.
- Efficient and expanding financial services sector
- Balanced development throughout regions and sections of population.
- Concern for and being cautious about environment.

Growth in economy may not be the ultimate but it makes a nation march ahead with confidence and work on achieving various objectives. It may help in eradication of poverty, increasing income levels of the people, reducing unemployment etc. It may bring in resources to invest in social development like education, health and other Millennium Development Goals (MDG) to which the world economies are committed. Further, a growing economy will also be able to invest in strengthening or developing infrastructure and other core/priority sectors. To sum up : "a growing GDP is evidence of a society getting its collective act together."

Indices of growth

Human Development Index (HDI) is a popular measure that indicates the human development in a country which is direct result of nation's growth. The HDI is a single statistic that serves as a reference for both social and economic development. HDI is a way of measuring development by combining indicators of life expectancy, educational attainment, and income into a composite index. The importance of HDI with reference to sustainable growth can be better understood with the following extract from Human Development Report 2011 :

"Development progress in the world's poorest countries could be halted or even reversed by mid-century unless bold steps are taken now to slow climate change, prevent further environmental damage, and reduce deep inequalities within and among nations, according to projections in the 2011 Human Development Report. *Sustainability and Equity: A Better Future for All* argues that environmental sustainability can be most fairly and effectively achieved by addressing health, education, income, and gender disparities together with the need for global action on energy production and ecosystem protection."

Purchasing Managers' Indices (PMIs) is one of the early indicators used to assess the growth in economy. PMIs are long-established monthly data-driven snapshots of individual countries' economies. They are compiled using proprietary and highly effective market research techniques (based on interviews with senior purchasing executives) which accurately measure economic activity and report well before other comparative official and government statistics. Typically the individual reports cover one key sector per country for example manufacturing or services. PMIs are among the most closely watched surveys in the world and are essential must-have data for economic analysts, financial market players and other decision makers such as central banks that require early indicators of changing market conditions when setting interest rates.

Unlike the Index of Industrial Production (IIP) which reflects the on-the-ground production levels, the PMI is designed to indicate industrial activity in advance. With 50 points being the line that differentiates expansion (>50) from contraction (<50), a reading of 57.5 points clocked by the manufacturing PMI for January 2012, has brought cheer to the Indian economy.

Logistics Performance Index (LPI) is one of the measures developed to study the enabling services to promote trade and commerce across nations which drive growth in economies. World Bank acknowledging the importance of efficient logistics for increased trade and growth developed Logistics Performance Index (LPI). Launched in November 2007, the Logistics Performance Index (LPI) is an interactive benchmarking tool created to help countries identify the challenges and opportunities they face in improving trade logistics. The LPI and its indicators provide the first in-depth assessment of the logistics gap among countries across several areas of performance.

The LPI is a multidimensional assessment of logistics performance, rated on a scale from one (worst) to five (best) : 'It uses more than 5,000 individual country assessments made by nearly 1,000 international freight forwarders to compare the trade logistics profiles of 155 countries. The 2010 LPI also provides a snapshot of selected performance indicators in nearly 130 countries, including expanded information on the time, cost, and reliability of import and export supply chains, infrastructure quality, performance of core services, and the friendliness of trade clearance procedures'.

Based on a worldwide survey of global freight forwarders and express carriers, the LPI develops measures of the logistics friendliness of the countries surveyed. Feedback from the survey is supplemented with objective data on the performance of key components of the logistics chain. The LPI provides a comprehensive picture of countries' supply chain performance. It is built on the following seven areas of performance :

- Efficiency of the clearance process by customs and other border agencies
- Quality of transport and information technology infrastructure for logistics
- Ease and affordability of arranging international shipments
- Competence of the local logistics industry
- Ability to track and trace international shipments
- Domestic logistics costs
- Timeliness of shipments in reaching destination.

India's sustained growth

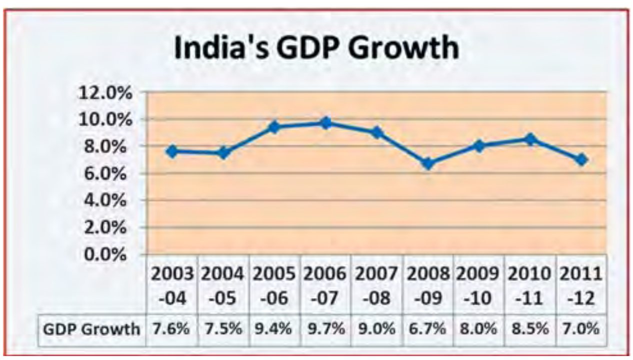
Sustaining growth becomes much more important before discussing about sustainable growth even when it is essential that growth has to be sustainable. The growth story of India began with the initiatives on economic reforms during 1991-1995. Subsequent emphasis on development of infrastructure and disinvestment of Government shareholding in Public Sector Undertakings (PSU) in addition to taking forward the economic reforms, helped sustaining the growth during 1999-2004.

The growth of India's economy continued till the year 2007-08 but started declining thereafter. In addition to recessionary conditions in several economies across the globe, the economic crisis in Europe, certain domestic aspects are also often cited as reasons for such slowing down in growth.

The above highlights the challenges in sustaining growth and need for thrust on policy initiatives that help maintain the growth momentum. However, in a democracy like India, it is always a challenge to ensure proactive and growth oriented policies as social initiatives and programmes may require resources that are to be diverted from otherwise productive deployment.

While HDI, PMI, LPI etc. offer themselves as indices at the macro level, several organizations begun initiatives under Social Performance Management (SPM). As Peter Drucker said : "It is not enough for business to do well, it must also do good." The initiatives include implementing and reporting under 'Triple Bottom Line" which encompasses three Ps or three pillars as under :

- Financial (Profit)
- Social (People)
- Environment (Planet)



Corporate India has been increasingly becoming proactive in adapting green and sustainable growth models. This may either because of their concern for the future or out of business opportunities that arise

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Food security and biofuel : A paradox of sustainability

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Food security

The World Food Summit of 1996 defined food security as existing "when all people at all times have access to sufficient, safe, nutritious food to maintain a healthy and active life". Commonly, the concept of food security includes both physical and economic access to food that meets people's dietary needs as well as their food preferences. Food security is not just a complex sustainable development issue linked to health and nutrition, it is closely associated with sustainable economic development, environment, and trade. According to the World Health Organization (WHO), food security is built on three pillars:

- Food availability : sufficient quantities of food available on a consistent basis.
- Food access: having sufficient resources to obtain appropriate foods for a nutritious diet.
- Food use: appropriate use based on knowledge of basic nutrition and care, as well as adequate water and sanitation.

United Nations' high-level panel on global sustainability warned that "the world is running out of time to make sure that there is enough food, water and energy to meet the needs of a rapidly growing population and to avoid sending up to 3 billion people into poverty". The Panel's report further stated that as the world's population is set to grow to nearly 9 billion by 2040 from 7 billion now, and the number of middle-class consumers to grow by 3 billion over the next 20 years, the demand for resources will rise exponentially. According to U.N. estimates, by 2030, the world will need at least 50% more food, 45% more energy and 30% more water, at a time when the changing environment will be creating new limits to supply. And if the world fails to tackle these problems, it risks condemning up to 3 billion people into poverty (Chestney, 2012).

Sustainability

The World Commission on Environment and Development defines sustainable development as the "development that meets the needs of the present without compromising the ability of future generations to meet their own needs." Controversy may arise as to what may be defined as the present need and what implies the future one. It is debatable whether the present needs can be met without encroaching upon the future generations' needs. The concept of sustainability itself may appear to be faulty when the compromise becomes inevitable. In the context of food security the issue of sustainability has became more crucial in so far as renewable bio-energy is concerned. The issue of sustainability in respect of food is gradually coming into conflict with the sustainable energy production from biomass. Less pollutant energy or a square meal for the mass— the issue of sustainability hinges between the two.

Global food crisis

The year 2008 experienced the worst food crisis throughout the globe. The global food crisis during the last decade emerged from an unprecedented increase in the price of food, especially of staples, coupled with depleting food stock. Quite naturally, the majority of the developing countries had to enhance cereal import. The consequences of the crisis are most pressing in low-income countries, where, on an average, 50-80 percent of per capita income is spent on food. The World Bank points out that global food prices have risen by 75% since 2000, while wheat prices have increased by 200%. The costs of other staples such as rice and soya bean have also hit record highs, while corn is at its most expensive in 12 years. The increasing cost of grains is also pushing up the price of meat, poultry, eggs and dairy products. And there is every likelihood that prices will continue their relentless rise, according to expert predictions by the UN and developed countries. The rise in food prices have, as chain reaction, pushed up inflation further worsening the purchasing power of the poor. FAO identified 37 developing countries as the ones with most urgent hunger needs (UNCTAD, 2008).

The global food crisis undermines the fundamental human rights of the people and crucially hampers the achievement of millennium development goal since reduced availability and affordability of food compromises health, nutrition, education and many such social indicators. A food shortage impacts the gender disparity in the developing countries significantly. Food crisis should not be viewed as a short-term phenomenon. It has its causes rooted in the complex socio-political patterns of the global economy. Among the major contributors to the crisis were changing climatic conditions, rising energy prices, changing demographic pattern and faulty development policies at various national levels. Production of biofuels, although not very significant as of now, may, in course of time, replace all the major agents to the food crisis. An invention to save the earth from burning fossil fuels may cause the humankind starve one day.

Biofuels

Biofuels, namely the fuels from plants, are a renewable source of energy and, therefore, have drawn a growing interest worldwide in recent decades, mainly as a substitute of fossil fuels. In contrast to other renewable energy resources, biomass, an organic material, can be converted directly into burnable fuels to assist in meeting transportation fuel demands. The two most widely used types of biofuels are ethanol and biodiesel. Ethanol is an alcohol modified to be utilized as a fuel. Ethanol is produced by fermentation through the brewing of any biomass containing carbohydrates. Presently, ethanol is derived from starches and sugars and is produced from corn, potatoes, sugarcane, or potato, millet and so on. However there has been constant research to allow it to be produced from fibrous substance which consists of the bulk of most plant matter—the cellulose and hemicellulose. Ethanol is widely used as a blending agent with gasoline to boost octane and, at the same time reducing carbon monoxide and other toxic smog-causing emissions. Biodiesel is made from vegetable oil or animal fat (triglycerides) reacted with methanol or ethanol. In order to lessen harmful vehicle emissions, it can be utilized in its pure form or as an additive (normally 20%) as a renewable substitute fuel for diesel engines. It is produced mainly from the oils extracted from ethanol or methanol-induced rapeseed, sunflower, soybean or palm oil (IEA, 2007).

Several factors may explain the increased demand and consumption, global goals for reducing greenhouse gas emissions, and the desire for independence to import fuel from politically unstable regions (Ajanovic 2010, Timilsina and Shrestha, 2010). In recent years, many countries have different political objectives and are up to replace fossil fuels with biofuels. Europe meets 5.75% of its energy demand for transportation by biofuel. The target percentage for the USA is 10% by 2020 (Ajanovic, 2010). Biodiesel and ethanol are both clean and environment-friendly which can be produced on-site in local villages or communities from locally available, renewable resources. Most of the equipments that are needed at different stages of production may be made and maintained at the local workshop. This can make biofuels an economical option to fossil fuels and can aid in strengthening local communities—both socially and economically.

Present estimates predict that the world oil production will reach its peak sometime in the next 10 to 15 years. It thus makes sense to search for new alternatives before that day arrives. Biofuels—being cleaner burning energy sources—lessen the toxic pollutant emissions produced by burning gasoline, and it cuts down on the dumping of used oil. Another gain is that many alternative fuels can be generated, while oil is a non-renewable resource. Demand varies, and there is always the possibility of discovering new reserves. More importantly, biofuel is capable of improving the performance of the engine. Biofuel is a "quality" fuel help to lengthen the life of vehicles. As an alternative to the "traditional" diesel fuel, biofuel is expected to yield significant energy security and environmental advantage to its consumers. Thus biofuel appears to be a sustainable solution to our growing energy demands.

Conflict between fuel and food

Production of biofuels gave rise to an alternative use of land earlier meant for agriculture. Acres of lands are being booked by the biofuel producers for cultivating grains that serve as the inputs of biofuel industry. Farmers are being lured with high prices for producing corns and other grains—of course not for food but for biofuels. This, on the one hand, is leading to food shortage and, on the other hand, playing havoc on biodiversity. Biofuels are now in competition with the production of food consumption (Brown, 2008). The market for biofuels has also been associated, at least in part, to rising prices of edible products. Nellemann (2009) states that the origin of this crisis is complex and it appears to be related to several factors.

Biofuels have forced global food prices up by 75%—far more than previously estimated—according to a confidential World Bank report obtained by The Guardian (2008). The figure emphatically contradicts the US government's claims that plant-derived fuels contribute less than 3% to food-price rises. It will add to pressure on governments in Washington and across Europe, which have turned to plant-derived fuels to reduce emissions of greenhouse gases and reduce their dependence on imported oil. Rising food prices have pushed 100 million people worldwide below the poverty line, estimates the World Bank, and have sparked riots from Bangladesh to Egypt. Developed countries described higher food and fuel prices as the first real economic crisis of globalisation. "Without the increase in biofuels, global wheat and maize stocks would not have declined appreciably and price increases due to other factors would have been moderate," says the report. The basket of food prices examined in the study rose by 140% between 2002 and February 2008. The report estimates that higher energy and fertiliser prices accounted for an increase of only 15%, while biofuels have been responsible for a 75% jump over that period. It argues that production of biofuels has distorted food markets in three main ways. First, it has diverted grain away from food for fuel, with over a third of US corn now used to produce ethanol and about half of vegetable oils in the European Union going towards the production of biodiesel. Second, farmers have been encouraged to set land aside for biofuel production. Third, it has sparked financial speculation in grains, driving prices up higher (Chakraborty, 2008).

The U.S. concluded 2010 as the top renewable ethanol producing country, according to the Global Biofuels Outlook to 2020, recently released from Hart Energy Consulting's Global Biofuels Center (GBC). With more than 51 billion liters (13.47 billion gallons) of ethanol production capacity in operation, the U.S. is by far the leader, with South America's largest nation, Brazil, following with nearly 27 billion liters (7.1 billion gallons). When combined, these two countries represent 82% of ethanol production capacity in operation worldwide. China ranks a distant third at more than 2.7 billion liters (713 million gallons). The ranking continues with France in fourth place. Canada rounds out the top five. In 2009, the U.S. ethanol industry had a total of 170 operating plants (Hart Energy, 2011). Corn for ethanol remains a central plank of US agricultural and energy policy. The 2007 Energy Bill quintuples the country's biofuels target to 35 billion gallons by 2022 (Holmes, 2008).

Concluding remarks

A section of social thinkers claim that the heavily subsidised biofuel industry is fundamentally immoral, diverting land which should be producing food to fill human stomachs to produce fuel for car engines. According to International Food Policy Research Institute the most direct effect is the diversion of land from corn, sugarcane and other crops to biofuels. Emphasis on those few crops leads to the destruction of other varieties of crops resulting in the loss of biodiversity to the detriment of global life. Once the price of corn starts going up, there was some shift from poor consumers in Africa to alternatives like rice. Thus, our concern for green earth starts forcing people to change their natural food habits. The growth of biofuels has a distorting ripple effect on other food crop markets. The major developing countries have started setting lofty targets of biofuel production. There is no apparent reason to deny that biofuels can gift us a greener earth for our posterity. But achieving that goal might force millions to starve now.

The question appears very straight—should hunger be compromised for the greener energy?

We need a new growth model where sustainable development moves from the margins to the heart of the key economic decisions.

The choice between food and energy is not mutually exclusive. We need both for our survival. Striking the balance between the two is, therefore, the biggest challenge of sustainability. ❐

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"Make your top managers rich and they will make you rich." —Robert H. Johnson

Sustainable Development—Issues and Critics from Indian Perspective

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—"You have to decide whether development means affluence or whether development means peace, prosperity and happiness"—Sunderlal Bahuguna

What is Sustainable Development?

The definition of sustainable development is very broadly defined by various research groups. One of the important studies is done by Board on Sustainable Development of the U.S. National Academy of Sciences. Under its report titled Our Common Journey : A Transition toward Sustainability, the board emphasized on what is to be developed and what is to be sustained in the future (refer Exhibit 1). For defining 'What is to be sustained' the board classified three major categories :

- **Nature** : Nature is sub-categorized into Earth, Bio-diversity, and Ecosystems.
- **Life Support** : Life Support is further classified under Ecosystem Services, Resources, and Environment.
- **Community** : Community is sub-classified under Culture, Groups, and Places. Similarly, 'What is to be Developed' is also classified under three categories :
- **People :** This is further sub-classified into Child Survival, Life Expectancy, Education, Equity, and Equal Opportunity.
- **Economy :** Under this category, the sub-classifications are Wealth, Productive Sectors, and Consumption.
- **Society :** The sub-classifications are Institutions, Social Capital, States, and Regions.

Exhibit 1 : Sustainable Development : A Definition

WHAT IS TO BE SUSTAINED	FOR HOW LONG? 25 years "Now and In the future" Forever	WHAT IS TO BE DEVELOPED
NATURE Earth Biodiversity Ecosystems		PEOPELE Child Survival Life Expectancy Equity Equial Opportunity
LIFE SUPPORT Ecosystem Services Resources Environment	LINKED BY Only Mostly But And Or	LIFE SUPPORT Ecosystem Services Resources Environment
COMMUNITY Cultures Groups Places		SOCIETY Institutions Social Capital States Regions

Source: U.S. National Research Council, Policy Division, Board on Sustainable Development, Our Common Journey : A Transition Toward Sustainability (Washington, DC : National Academy Press, 1999)

The degree upto which these factors are sustained and developed is an important decision. Initiatives to sustain and develop these factors may be combined at different degrees, and thus may be linked through 'only', 'Mostly', 'But', And', and 'Or'. There are various opinions about the time period for actions to be taken. According to the board the time horizon may be '25 years' or 'Now and in the Future', or 'Forever'. Though, what is meant by 'Forever', and 'in the future' is not defined. As we observe, environment, poverty, culture, and education plays a major role in sustainable development. Now, we will take on these issues from the Indian perspective.

Management accounting can play a very important role in sustainable development. Bennet and James (1997) interpreted management accounting for sustainable development as a tool for supporting decision-making which incorporates environmental, institutional, economic and social components. They also concluded that "there is an increasing potential for environmental-related management accounting to make a substantial contribution to both business success and sustainable development".

Sustainability Development from Indian Perspective

The significance of sustainable development was first mentioned by Indira Gandhi, the then prime minister of India at UN Conference on Human Environment at Stockholm in 1972. She emphasized that the elimination of poverty is essential for adopting sustainable development. Over the years, unplanned industrialization, uncontrolled exploitation of natural resources led to severe environmental damage and adverse impact on sustainable future.

The pertinent question is what should be our approach towards a maintainable future:

Eradication of Poverty : Abject poverty usually leads to destruction of environment. Poor people usually depend heavily on immediate environment for sustenance. This dependence often leads to destruction of natural resources. Improvement of natural resources management systems often results into elimination of poverty and sustainable development. For ages, especially rural poor remain dependent upon their small land-holdings for basic diet. If, under market forces, the poor somehow loses control over the land, it aggravates the poverty and the impact on environment.

Altering the Unsustainable Pattern of Production and Consumption : Increased urbanization, unplanned consumption and production leads to erosion of natural resources. This should be encountered through proper public awareness and education. Establishment of desirable limits of consumption and related production is necessary by applying appropriate mechanisms, which may include incentives, education, and legislation. Development decisions that lead to more sustainable society is desirable. Improved technologies that lead to optimum consumption of resources should be encouraged. Management accountants can play a very positive role in this regard.

Economic and Social Development through Managing and Protecting Natural Resource Base : The protection and sustenance of natural resources while developing the society and economy should be of paramount interest. Evaluation of all developmental projects should be guided from environmental perspective. Marginal and poor people should have equitable rights, and access to natural resources like water, land etc. Traditional modes for sustenance of natural resources like water harvesting, creation of ponds, groves, and bushes should be encouraged.

Globalization and Sustainable Development : The issue of sustainable development becomes more relevant in the era of globalization. The social commitment of business and development should be in synchronization with commercial interests. Issues linked to local culture and diversity should be taken into consideration while creating developmental issues. Impact of global issues over local livelihood should be taken into consideration for sustainable development. Civil unrest, war, and conflict are major threat to sustainable development. Effective mechanism to deal with adverse situations and continued sustainable development is essential.

Sustainable Development and Health Issues : Physical, mental, and spiritual wellbeing is essential for sustainable development. Physical and economic access to healthy and balanced diet, clean air, drinking water, education, primary health care etc by common people should be ensured. In a developing country like India, people often suffer from some traditional diseases like cholera, malaria etc. due to lack of hygiene and basic amenities. Modern widespread diseases like AIDS, cancer etc are also taking toll on human life. For sustainable development, the basic health facilities should be strengthened. India is also enriched of traditional medical systems like Ayurveda. These traditional systems should be strengthened and made accessible to all.

Governance of Sustainable Development at Local, National, and International Level :

Sustainable Development at Local Level : Involvement at the local level of the society is important for sustainable development. Formation and strengthening of democratic institutions at grass-root level usually leads to better sustained manage-ment of natural resources. In a away, participation of local people in governance is essential for sustainable development. This may happen through elected local bodies, or community groups. Appropriate representation and capacity building of women and every community is necessary for successful sustainable development. The cultural, occupational, and economic heterogeneity of population is an essential asset for successful sustainable development.

Sustainable Development at National Level : Optimization of resources from various sources is required for effective implementation of sustainable development. This emphasizes the requirement of co-ordination among various government departments, NGOs, corporate bodies, and research institutions to achieve the goal of sustainable development. Modification, simplification, or even elimination of certain acts and laws may be considered for effective sustainable development. Areas lacking policies should be identified and proper steps should be taken to fill the gap.

Sustainable Development at International Level : Some areas like across-the-border environmental impacts, marine issues, management of biological resources etc., international co-operation is desirable. Experience sharing with international bodies is effective for sustainable development. A better governance regime is to be formed for better compliance and cooperation.

Conclusion

With modern development comes the erosion of environment and natural resources. While adopting the path of development, we must consider the implications on future generations. It should be ensured that this development can be sustained over the years to come. The good news is—thinking has already been started towards this direction, and the bad news is—a lot is to be done. ❐

"A desk is a dangerous place from which to view the world." — *John Le Caré*

Financial Model for sustainable Growth Rate : Managerial Perspectives

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Introduction

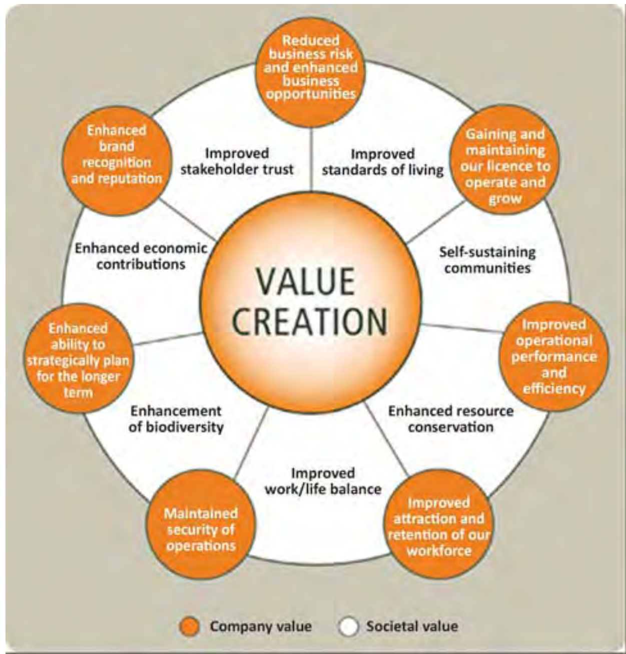
Financial Management endeavors to make optimal investment; financing and dividend decision with an objective to maximize owner's wealth via-a-vis maintain sustainable growth of an enterprise. Sustainable growth, with reference to business, is the realistically sustainable growth that a business enterprise could maintain without facing financial crisis in future. A business that grows quickly may find difficult to sustain the growth. Similarly, a business that grows too slowly or not at all may stagnate. Thus the objective of any business enterprise is to determine optimum growth rate.

Basically, there are three principles of sustainable business i.e., dedicated long term customer relationship, environmental responsibility, and profit and power sharing (Holden A).

Sustainable Growth Rate (SGR) is defined as "the annual percentage of increase in sales that is consistent with a defined financial policy i.e. target debt to equity ratio, target dividend payment ratio, target profit margin and target ratio of total asset to net sales (Robert C Higgins). Indeed, a sustainable growth rate that the company can sustain without having increased financial leverage. Thus, the sustainable growth rate model (formula) is directly predicted on RETURN ON EQUITY (ROE). The SGR Model provides a comprehensive framework and helps in calculating company's specific sustainable growth rate. However, the Optimal Growth Rate (OGR) assesses sustainable growth from the total ***shareholders' value creation*** and profitability prospective. This OGR is independent of a given strategy and business model.

Sustainable Business Model—A conceptual Framework

A successful business model innovation is set to become the most prominent source of competitive advantage and of sustained, profitable growth and success and, consequently of shareholders and stockholders value (Daum J.H. etal). A Sustainable Value Creation Model is furnished as follows :



Models for Sustainable Growth Rate

Model I

Sustainable Growth Rate (SGR) = ROE × (1 – Dividend Payment Ratio)

To calculate the sustainable growth rate for a company one most know how profitable the company is based on a measure of its return on equity (ROE).

$$\text{ROE} = \frac{\text{Net Income (After Tax)}}{\text{Average Shareholder's Equity}}$$

One must also know what percentage of a company's earnings per share it pays out in dividends, which is called the dividend payment ratio.

$$\text{Dividend Payment Ratio} = \frac{\text{Yearly dividend per share}}{\text{Earning per share}}$$

Assumptions : The above model is based on the following assumptions :

- Maintain a target capital structure without issuing new equity.

- Maintain a target dividend payment ratio.
- Increase sales as rapidly as market conditions allow.

Model II

According to Robert C. Higgins, the Sustainable Growth Rate is the maximum growth rate a company can achieve consistent with the firm's established financial policy.

Formula

$$SGR = \frac{P_m \times (I - d) \times (I+L)}{T - \{PM \times (I- d) \times (I+L)\}}$$

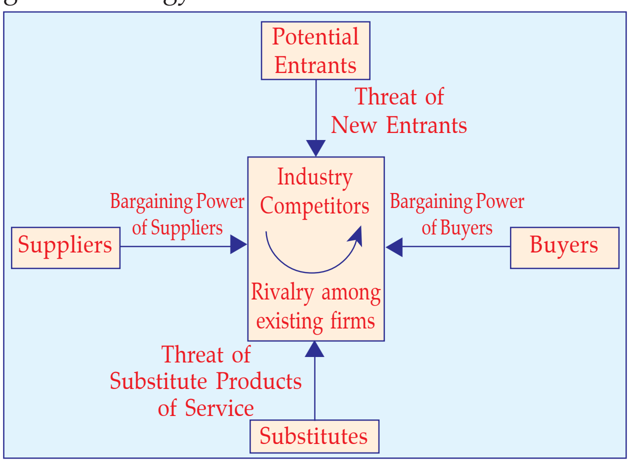
where P_m = Profit Margin (Existing & Target)
d = Dividend payout ratio (Target)
L = Debt equity ratio (Target)
T = Ratio of Total Asset to Sales

Assumptions

- Depreciation is sufficient to maintain the value of existing assets.
- The profit margin remains stable.
- The proportion of assets and sales remain stable i.e. constant asset to sales ratio.
- Current Capital Structure and dividend policy should be maintained i.e. constant debt to equity ratio.

Strategy for Sustainable Growth

CEOs of both small and big business houses visualize to maintain sustainable rate of growth on long term basis. Obviously, achieving this objective is not an easy task when there is a rapid change in the political, economic, competitive and technological environment. The change in each of the environmental factor presents unique challenges to CEOs searching for elusive holy-grail of sustainable growth. Since Return on Sales (ROS) and Sales growth are the prime indicators of SGR, the business leaders should focus on the 5 forces of the Porter's model and develop growth strategy model as follows :



Economists and Business Researchers contend that achieving sustainable growth is not possible without paying heed to twin cornerstones : Growth Strategy and Growth Capabilities. If the CEOs do not give proper attention to these aspects, then the business will be doomed to failure in achieving sustainable growth. After all, if the company has an excellent growth strategy in place—but has not put the necessary infrastructure in place to execute that strategy—long term growth is impossible. The reverse is true as well. Finally, the company should limit the scope of **Red Ocean Strategy** and venture into **Blue Ocean Strategy** for a better sustainable growth.

Managerial Implications of Sustainable Growth Rate

The following are the managerial implications for sustainable growth rate :

1. To Plan Healthy Corporate Sales Growth

- If a company's actual growth rate temporarily exceeds its sustainable rate, the company may go for borrowing required fund.

- If the actual rate exceeds sustainable growth for longer periods, management must formulate financial strategy from among the following options :

— Sell new equity.
— Permanently increase financial leverage.
— Reduce dividends.
— Increase the profit margin.
— Decrease the percentage of total assets to sales.

In practice, the companies often undertake these measures due to other negative impacts.

2. To Plan for Expanding Financial Leverage

The sustainable growth model is particularly helpful in situation in which a borrower requires additional financing. The need for additional debt creates a potentially risky situation of too much debt and too little equity. Either additional equity must be raised or the borrower will have to reduce the rate of expansion to a level that can be sustained without an increase in financial leverage.

3. Use of free cash flows in most productive way.

Matured firms like TATA groups, Godrej Industries limited, Bata India Limited, SBI etc have a actual growth rates that are less than sustainable growth rate. In such situation, the management should find the production use of free cash flows. The various options for such use are :

— Increase dividend rate.
— Increase possession of lower earning liquid asset.

These actions serve to decrease the sustainable growth rate. Alternatively, these forms can attempt to enhance their actual growth rates through the acquisitions of rapidly growing companies.

4. To Manage inflationary effect for positive growth

These are two sources of growth—increased volume and inflation. To bring the real growth the company should finance for assets having highly bullish value due to inflationary effect. Inflation increases the amount of external financing required and increases debt-equity ratio which is calculated on a historical cost basis. In some situations, the creditors/lenders may require that the firm's historical Debt-to-Equity ratio will remain constant. Indeed, inflation lowers the firm's sustainable growth rate.

Conclusion

Financial model for **"Sustainable Growth Rate"** is a dynamic tool for a business enterprise to survive and grow. The two models discussed in this article may be used by the business leaders to plan for long term sustainable growth. Defining financial policy, formulating various growth strategies, redesigning the capital structure, developing financial reengineering tools and inviting the favorable blessings of inflation can be strategically done by using Sustainable Growth Rate (SGR) of a business enterprise. ❒

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(contd. from page 282)

out of concern for environment. Some organizations have begun positioning sustainable growth into their organization structures. 'In ITC, a board level Sustainability Committee reviews, monitors and provides strategic direction to the company's sustainability practices towards fulfilling its triple bottom line objectives. A member of the senior management team of ITC's Environment, Health and Safety function is represented on the Corporate Management Committee that is entrusted with the task of strategic management of the company's business'. Tata Power was reported to be the first company to have a Chief Sustainability Officer in 2008, in India.

More can be expected in the future years to come from all stakeholders including government and corporate in the light of the conclusion from Durban Summit on Climate Change. 'The United Nations Climate Change Conference, Durban 2011, delivered a breakthrough on the international community's response to climate change. In the second largest meeting of its kind, the negotiations advanced, in a balanced fashion, the implementation of the Convention and the Kyoto Protocol, the Bali Action Plan, and the Cancun Agreements. The outcomes included a decision by Parties to adopt a universal legal agreement on climate change as soon as possible, and no later than 2015'.

Sustained and inclusive growth of India

With reference to India's GDP during the year 2010-11, the agriculture sector contributed 16.1 per cent; industry contributed 28.6 per cent and services sector contributed 55.3 per cent. Over the years the contribution from agriculture as a percentage has been declining and that of services sector has been increasing. However, during the year 2010-11, with 7 per cent growth, the agriculture sector contributed significantly for the economic recovery. The 7 per cent growth in agriculture sector is in comparison to a mere 1 per cent growth it recorded in the year 2009-10 and as compared to 9.3 per cent growth reported from services sector during the year 2010-11.

Notwithstanding the slow growth rate with nearly two thirds population depending on agriculture, the sector continues to be the focus for the country's sustained and inclusive growth. The services and industry sector are important for overall economic growth and in creating employment opportunities. Hence, for sustained and inclusive growth of India, all the three sectors are important and need focus in the years to come unlike most developed economies of the world. ❒

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"Catch someone doing something right."

— Kenneth Blanchard and Spencer Johnson

Tax Titbits — Fallout From Vodafone's Case

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A non-resident company—Vodafone International Holdings BV of Vodafone group—was treated as a representative assessee of a non-resident seller in Hutchison group under Section 163 through overseas intermediaries and action was taken for failure to deduct tax at source in respect of deemed capital gains. The reasoning was—the shares in an Indian company were involved as "underlying assets". Liability to deduct tax at source was upheld by the High Court in Vodafone International Holdings B. V. v. Union of India [2010] 329 ITR 126 (Bom). On such a view, many investments in India routed through Mauritius, UAE or Singapore companies would be subject to tax even on transfer of shares of the holding companies for tax in India without the benefit of the Double Tax Avoidance Agreement. The decision, therefore, created uncertainty in settled law. The matter was taken up by the Supreme Court. Revenue has raised multiplicity of arguments each of which has been discussed elaborately by a Bench of three judges by the Supreme Court reversing the decision of the High Court in this much-awaited decision in Vodafone International Holdings B.V. v. Union of India [2012] 17 taxmann.com 202 (SC).

Representative assessee

A representative assessee is liable under Sections 161 and 163 of the Income-tax Act, 1961, to carry out whatever tax obligations its principal has. However, Section 195 providing for tax deduction at source covers payments made by a resident to a non-resident, so that Section 195 could have no application, where the payment is from one non-resident to the another. The non-resident purchaser cannot, therefore, be treated as an agent under Section 163. Consequential disallowance under Section 40(a)(i) of the Income-tax Act would also have no application. On this inference, even merits of the liability need not have been gone into, but, all the same, the Supreme Court dealt with merits as well.

Companies and shareholders are distinct persons

Industrial revolution in the West heralded by the concept of limited liability for the investor was rendered possible by the principle that company and shareholders are different as decided in the classic case in Salomon v. Salomon [1897] AC 22. On the same reasoning, a subsidiary is distinct from a foreign company as long as it has got a commercial purpose and economic substance, except where it is a mere puppet for the holding company. Neither the concept of piercing the corporate veil nor the doctrine of substance over form, nor the concept of beneficial ownership or *alter ego*, can be brought in to "look through" a transaction. What the Assessing Officer can do is to "look at" a transaction, unless "look through" is specifically provided in the statute.

Shares and controlling interest cannot be dissected

One of the arguments was that the Vodafone group was paying not only for the shares, but also the controlling interest which goes with it. This argument was not accepted, since share in a company consists of "congeries of rights and liabilities" as was pointed out by Macmillan J. in IRC v. Crossman 1 All E.R. 762, so that there is no scope for dissection of the payment between the shares and controlling interest. When one pays for a bulk of shares, the control element certainly goes into the pricing mechanism.

An unwanted intermediary

An argument that impressed the High Court was that the transfer was engineered through an intermediary, CGP Investments, which was a subsidiary of a company registered in Cayman Islands. CGP was, therefore, treated as an interloper, whose presence could be ignored as artificially introduced. The Supreme Court, however, found that CGP investments was formed as early as in 1998 with 42% interest in 2005 for Hutchison through two Mauritius companies engaged in the business of mobile telephone service. There was no material to suggest that these transactions over the years are not "genuine business transactions", but are "fraudulent or dubious". It was pointed out that these developments were not merely by way of share transactions, but by way of loan agreements, non-compete agreements, brand names, oracle licence, matters relating to preference shares etc., so that CGP could not be dismissed as a mere interloper. Functioning through subsidiaries and their subsidiaries is not a mere tax device, but necessary for such objectives like hedging, covering political risks, mobility of investments, ability to raise funds etc. Many other rights—like Right of First Refusal (ROFR), Tag Along Rights (TARs), subscriptions option, call option, put option, cash and cashless option, agreements like shareholders' agreement relating to voting rights giving controlling interest and various other ancillary agreements connected therewith—are independent and legally enforceable as long as they are not inconsistent with the Memorandum and Articles of the company.

Tax planning

In IRC v. Duke of Westminster [1935] 19 TC 490, a taxpayer's right to plan his affairs in a manner that he pays least tax was conceded. But in Ramsay Ltd. v. Inland Revenue Commissioners [1981] 1All E.R. 865, a transaction lacking in commercial purpose imposed as a device, it was held, could be ignored. Indian law too recognised a right to avoid tax, subject only to legislative injunction in CIT v. A. Raman and Co. [1968] 67 ITR 11 (SC), while artificial tax planning was frowned upon in CIT v. B.M. Kharwar [1969] 72 ITR 603 (SC). Both views have found support in English and Indian law—more with reference to the facts of each case. In McDowell and Co. Ltd. v. CTO [1985] 154 ITR 148 (SC), the leading judgement purported to exorcise the ghost of Westminster by treating tax avoidance as impermissible, but the other judges concurring with judgment did so only because artificial device was adopted for such tax avoidance in the case. In fact, a Bench of Five Judges in Mathuram Agrawal v. State of Madhya Pradesh [1999] 8 SCC 667 restored the Westminster principle in Indian law. The Supreme Court in Union of India v. Azadi Bachao Andolan [2003] 263 ITR 706 (SC) had not noticed Mathuram Agrawal's case (supra), but had found consistently with this decision that McDowell and Co. Ltd.'s case (supra) did not fault legitimate tax planning.

Valuation

Another argument of revenue was that valuation adopted for the shares was not sound and that it had a hidden purpose, so as to justify inference of liability. It was found that valuation may be a science, but not law. It is largely a matter of opinion depending on various factors. It should be taken at the price paid for the enterprise taking into account the compendium of rights and liabilities. In a matter of capital gains, what is material is only the consideration for enterprise value received for the shares in the light of section 45 of the Income-tax Act.

Scope of Section 9

A non-resident is sought to be made liable under Section 9 *inter alia* in respect of transfer of capital asset located in India. Section 9 is a deeming provision. Though indirect transfers are covered by the expression "directly or indirectly", shares located abroad are not covered. Law cannot be stretched, so as to subvert the rule of law itself as was pointed out in Ransom (Inspector of Tax) v. Higgs [1974] 3 All ER 949 (HL). Indian law in Ishikawajima-Harima Heavy Industries Ltd. v. Director of Income-tax, Mumbai [2007] 3 SCC 481 and CIT v. R.D. Aggarwal [1965] 1 SCR 660 would support such an inference.

Anti-avoidance provision

Both the leading and concurring judgement in Vodafone's case (supra) point out to the absence of General Anti Avoidance Rule (GAAR) in the present law, which is sought to be introduced in the Direct Taxes Code Bill, 2010. Double Tax Avoidance Agreements also do not contain Limitation of Benefit (LOB) clause in case of abuse of the Agreements. Does it mean that the conclusion in this case would be different, if these provisions are available? On the clear finding on the facts of the case—that no Indian asset is the subject matter of transfer—anti-avoidance provisions could not have changed this inference of law. Whether the statute or the Court could lay down a law that "a person has to arrange his affairs so as to attract maximum tax liability" is a question asked by the Gujarat High Court in Banyan and Berry v. CIT [1996] 222 ITR 831 (Guj). After all, the same income cannot be taxed in both the countries, which are parties to a Double Tax Avoidance Agreement. If it is understood that adoption of anti-avoidance provision would make a difference to law, so as to bring to tax what is not taxable according to the provisions of law, a fresh spate of litigation is in the cards. ❐

"The conventional definition of management is getting work done through people, but real management is developing people through work."
— Agha Hasan Abedi

When Penalty is not Exigible Under Section 271 (1) © of Income Tax Act, 1961?

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Introduction

Chapter XXI of the Income Tax Act, 1961 ('Act' for short) provides for penalty that may be imposed on the assessee for non-compliance of the provisions of this Act or suppression, concealment of income etc., Section 270 to 273AA provides various penalties. Section 273B provides that notwithstanding anything contained in the provisions of this Act which impose penalty on the assessee, no penalty shall be imposable on the person or the assessee, as the case may be, for any failure referred to the provisions if he proves that there was reasonable cause for the said failure.

In '**Hindustan Steel Limited V. State of Orissa' – (1972) 83 ITR 26 (SC)** the Supreme Court held that an order imposing penalty for failure to carry out a statutory obligation is the result of a quasi-criminal proceedings, and penalty will not ordinarily be imposed unless the party obliged either acted deliberately in defiance of law or was guilty of conduct contumacious or dishonest, or acted in conscious disregard of its obligation. Penalty will not also be imposed merely because it is lawful to do so. Whether penalty should be imposed for failure to perform a statutory obligation is a matter of discretion of the authority to be exercised judicially and on a consideration of all the relevant circumstances. Even if a minimum penalty is prescribed, the authority competent to impose the penalty will be justified in refusing to impose penalty when there is a technical or venial breach of the provisions of the Act, or where the breach flows from a bona fide belief that the offender is not liable to act in the manner prescribed by the statute.

In this article Section 271(1)© of the Act is taken into consideration for analysis as to when penalty is not exigible under this Section.

Section 271(1) ©

For the purpose of analysis we have to refer the provisions of Section 271(1) © of the Act. Section 271(1)© reads as follows :

"271(1) If the Assessing Officer or the Commissioner (Appeals) or the Commissioner in the course of any proceedings under this Act, is satisfied that any person…

© had concealed the particulars of his income or furnished inaccurate particulars of such income, or…

(iii) in the cases of referred to in clause © or clause (d), in addition to tax, if any, payable by him, a sum which shall not be less than, but which shall not exceed three times, the amount of tax sought to be evaded by reason of the concealment of particulars of his income or fringe benefits or the furnishing of inaccurate particulars of such income or fringe benefits.

Explanation 1. Where in respect of any facts material to the computation of the total income of any person under this Act —

(A) Such person fails to offer an explanation or offers an explanation which is found by the Assessing Officer or the Commissioner (Appeals) or the Commissioner to be false; or

(B) Such person offers an explanation which he is not able to substantiate and fails to prove that such explanation is bona fide and that all the facts relating to the same and material to the computation of his total income have been disclosed by him,

Then the amount added or disallowed in computing the total income of such person as a result thereof, shall for the purpose of clause © of this sub section, be deemed to represent the income in respect of which particulars have been concealed.

Ingredients

For imposing penalty on the assessee the assessee either had concealed his income or furnished inaccurate particulars of income and the same is to be proved.

For invoking Explanation to Section 271(1) © the following three ingredients are required to be satisfied cumulatively —

- The assessee offers an explanation which he is not able to substantiate;

- He fails to prove that such explanation is bona fide; and
- That all the facts relating to the same and material to the computation of total income have been disclosed by him.

Case Laws

In **'Commissioner of Income Tax V. Harsh Vardhan Chemicals and Mineral Limited' — (2003) 259 ITR 212 (Raj)** it was held that no penalty was leviable in view of the finding of the Tribunal that when the assessee had claimed deduction of an amount that was debatable it could not be said that the assessee had concealed any income or furnished inaccurate particulars for evasion of tax, and in view of the findings of the Tribunal, no case was made out for interference.

In **'Southern Gas Fittings P Limited V. Deputy Commissioner of Income Tax'—(2002) 80 ITD 202 (Chennai)** the Tribunal held that at the cost of repetition we may mention here that from all the facts and circumstances of the case, it seems that it is a case of difference of opinion, as the claim for depreciation etc. was made by the assessee on the basis of trial production which was supported by record, but the stand of the Department was that since no commercial production was there, the assessee was not entitled for such claim.All the facts of the case were before the Assessing Officer and as such it cannot be said to be a case of filing inaccurate particulars or making any concealment before the Assessing Officer. Even if the assessee would claim this depreciation etc., on the merits and rejected by the Assessing Officer, still law is clear that even if the explanation of the assessee is rejected, no case for imposition of penalty would be made out.

In **'Commissioner of Income Tax V. Prem Dass' — (2001) 248 ITR 237 (P&H)** the High Court dismissed the appeal filed by the Department in which the Tribunal cancelled the penalty on the ground that difference between the returned income and the assessed income was due to difference of opinion about estimated rates of income and expenditure.

In **'Durga Kamal Rice Mills V. Commissioner of Income Tax'—(2004) 265 ITR 25 (Cal)** the High Court held that when two views are possible and when no clear and definite inference can be drawn in a penalty proceeding, penalty cannot be imposed.

The Honorable Supreme Court in **'Commissioner of Income Tax V. Munim'—(2009) 313 ITR (St.) 30 (SC)** confirmed the view of the High Court in which it was held that when the assessee does not include particular item in the turnover under bona fide belief that he is not liable to do so, it would not be right to treat the return as a false return inviting the imposition of penalty.

In **'Union of India V. Rajasthan Spinning and Weaving Mills' – (2010) 1 GSTR 66 (SC)** the Supreme Court held that the facts on record proved that the assessee offered explanation before the Assessing Officer and also proved on record that the explanation of the assessee was bona fide in making a claim under Section 80-IB of the Income Tax Act, 1961 on issue. Therefore it could not be held that the assessee has failed to offer any explanation at the penalty stage and also failed to prove that the claim of the assessee was bona fide. The Supreme Court was of the view that these are not fit cases for levy of penalty under Section 271(1)(c).

In **'Income Tax Officer V. Shilpa Filaments P Limited' – (2011) 12 ITR (Trib) 324 (Ahmd)** the Tribunal upheld the findings of the Commissioner (Appeals). The Commissioner (Appeals) held that the penalty had been imposed on four aspects. One was on account of interest from debtors and the second was on scrap sales. These two issues were decided in favor of the assessee by the Tribunal. Therefore no penalty can be imposed on these grounds. The third ground was on account of notional reallocation of expenditure between two units for working out allowance under Section 80-IB of the Act. This reallocation was a debatable issue and had arisen because of difference of opinion and could not form a ground for penalty under Section 271(1)© of the Act. The addition on account of interest from fixed deposits which were taken into account by the assessee for the purpose of deduction under Section 80-IB of the Act was upheld on the ground that the amount was incorrectly claimed by the assessee. The assessee could not have anticipated under Section 80-IB of the Act would go against him and therefore the assessee's explanation was bona fide and Explanation 1 to Section 271(1)© was not attracted. The Tribunal held that it was not a case of concealment of income or furnishing of inaccurate particulars of income.

In **'New Horizon India Limited V. Deputy Commissioner of Income Tax'—(2011) 12 ITR 332 (Delhi)** the High Court found that Sec. 271(1) © of the Act postulates imposition of penalty for furnishing of inaccurate particulars and concealment of income. In this case the High Court found that in the audit report accompanying with the return it was clearly mentioned that the amount of Rs. 7,15,276/- was not admissible under Section 40(a) (1a) of the Act. Hence there was neither any concealment nor furnishing of any inaccurate particulars. The assessee's case is that inadvertently the said amount was not reduced in the computation of income. It is also a settled law that the said amount is allowable in the year in which the TDS deducted is paid to the Government account. Hence the Assessing Officer disallowed the same in the current assessment year and remarked that the same will be allowable in the next assessment year. The High Court held that the assessee cannot be held to be guilty of concealment of furnishing of inaccurate particulars of income. The High Court set aside the order and deleted the levy of penalty.

In **'Abhinav Ajmera V. Assistant Commissioner of Income Tax' – (2011) 12 ITR (Trib) 290 (Delhi)** penalty has been levied for the difference in treatment of the receipts from the sale of trees and agricultural land. The assessee has submitted to the Assessing Officer that the assessee has received Rs.10 lakh as the total reimbursement for all the trees and existing crop of horticulture and the same were included in the total sale value. The copy of khasra gidauri showing the crop was also attached. The Assessing Officer did not accept the same by holding that it was composite sale along with the land. On this basis the penalty was imposed under Section 271(1) © of the Act. The Tribunal found that Section 271(1)© postulates imposition of penalty for furnishing inaccurate particulars and concealment of income. In this regard the Tribunal found that the assessee has sold land on which various crops and horticulture were existing. In the earlier years he had been furnished all the necessary particulars and made a claim. There was no concealment of particulars. It was only the Assessing Officer's opinion that being composite sale the assessee's claim cannot be accepted. The claim of the assessee cannot be construed as ex facie bogus. In the consideration of the Tribunal the penalty cannot be imposed under Section 271(1) © of the Act.

In **'Dholu construction and projects Limited V. Income Tax Officer'—(2011) 12 ITR (Trib) 438 (Ahmedabad)** the Tribunal held that unless the Assessing Officer gives a finding on the basis of material on record that all the conditions under Section 271(1)© read with Explanation 1(B) are cumulatively and simultaneously satisfied, penalty cannot be levied. In this case the assessee had offered an explanation to the effect that he had paid a sum of Rs.10 lakhs for grabing contact and has substantiated the claim. Because of the fact that there is no written agreement between the assessee and Tirupati Traders for withdrawing from the bid there is nothing else which was required to be furnished in order to substantiate the claim. To this extent, the Tribunal held that first ingredient of Explanation 1(B) is satisfied against the assessee. Regarding the second ingredient there is nothing in the record to suggest the explanation of the assessee was not bona fide. Surrounding circumstances and consequence of events did indicate that the assessee might have paid money to grab the contract from GMDC. Similarly there is nothing on record to suggest that any material fact to the computation of income in fact existed but was not disclosed by the assessee. Had there been the agreement between the assessee and Tirupati Traders existing then there is apparently no reason for the assessee to hide that agreement from the Department. Therefore greater probability is that such agreement did not actually exist. In view of this, ingredients 2 and 3 are not satisfied against the assessee. Therefore there is no case for levy of penalty under Section 271(1)(c).

In **'Comet Leasing & Finance Limited V. Assistant Commissioner of Income Tax'—(2011) 12 ITR (Trib) 667 (Delhi)** the Assessing Officer in the penalty proceedings held that the assessee deliberately furnished inaccurate particulars of income to the tune of Rs.10,70,000 being excess depreciation claimed and interest income to the tune of Rs.1,34,820/- not offered. The assessee concealed the particulars under Section 271(1)© of the Act and the Assessing Officer imposed penalty on the assessee. The Commissioner (Appeals) held that it was clear that the depreciation was wrongly claimed and the assessee had also not offered interest income since it was a financing transaction, therefore, the penalty was leviable. On appeal, the Tribunal held that the assessee having offered an explanation which was also substantiated, which was bona fide and since all the facts relating to same and material to the computation of total income had been disclosed by him, even in terms of Explanation 1 to Section 271(1)© the amount disallowed byway of depreciation would not result into income in respect of which particulars had been concealed. The penalty levied under Section 271(1)© of the Act was to be cancelled.

In **'Sabara Impex Limited V. Income Tax Officer' —(2012) 13 ITR (Trib) 68 (Mumbai)** the assessee wrote off the net sundry balances for which the assessee could not submit any cogent explanation. The assessing officer held that it was a fit case for levy of penalty on account of wrongful write off of sundry balances under Section 271(1)© of the Act. The Commissioner (Appeals) held that the assessee claimed expenditure by the write off, the genuineness of which could not be proved and that the assessee had furnished inaccurate particulars of income by wrongfully claiming a deduction which was not admissible. The Tribunal held that in respect of the write off of net sundry balances there was nothing to indicate incorrectness of particulars beyond unacceptability of the claim of deduction. The penalty could not be sustained and therefore it was to be deleted.

In **'Commissioner of Income Tax V. H.P. State Forest Corporation Limited'—(2011) 340 ITR 204 (HP)** the assessee, a Government company, engaged in the business of extraction of timber and resin from forests reduced the closing stock on account of deterioration of old stock. The Assessing Officer made

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Building on Revenue : New Service tax Circular on Construction Services

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ROME WAS NOT BUILT IN A DAY. This reassuring maxim comes to mind while analyzing the levy of service tax on construction services. Taxation is similar to the construction. It requires careful foundation and proper erection of the superstructure. The service tax on construction services has been beset by many maladies, most of which are the in the making of the tax policy itself. The real estate sector in our country is largely unregulated and it is a well known fact that unethical practices are rampant. The exponential growth in the Economy since 2005 has seen the sector expand by leaps and bounds. The spread of disposable incomes and the growing number of people who want to own homes has ensured that the construction sector derives sizable income year after year. This activity has rubbed off on banks that extend home loans at very profitable rates. The cement and steel industry has been stimulated by the demand for housing. Large masses of construction labour have found employment, thanks to the real estate boom. No wonder that the Government felt that they should milk this sector and take home tax revenues. Therefore, the Department of Service Tax introduced a levy of service tax on construction service covering both residential housing and commercial / industrial buidings. Service tax on residential housing has been in place since 16th June 2005 and service tax on commercial construction of buildings, pipe lines and conduits has been in existence even earlier, from 10th September 2004. To complicate the levies, there has been a works contract service since 1st June 2007 on construction services.

The service tax on construction of residential houses does not cover construction of expensive mansions, palatial houses nor extensive Villas. The tax has added to the woes of the house-purchasing middle class by levying the tax on residential apartments exceeding twelve in number in a gated project. This is the moral deficit in the current structure of service tax on residential housing. A house built by the super rich running into tens and hundreds of crores will pay no tax, whereas a middle class apartment in a gated community will set back the purchaser by several lakhs of rupees in service tax. This moral deficit needs to be addressed by the Government, either by withdrawing the tax on middle class housing, say upto Rs.50 lakhs in gross value, or by reducing the rate of tax to a token amount.

In this Article, it is proposed to take up service tax levy on residential construction and the trigger for the discussion is the latest Circular No.151/2/2012-ST dated 10th February 2012 issued by the Central Board of Excise and Customs. Before discussing the service tax on residential housing, it may be better to have a look at the statutory description of the taxable service.

"Construction of complex" means —

(a) construction of a new residential complex or a part thereof; or

(b) completion and finishing services in relation to residential complex such as glazing, plastering, painting, floor and wall tiling, wall covering and wall papering, wood and metal joinery and carpentry, fencing and railing, construction of swimming pools, acoustic applications or fittings and other similar services; or

(c) repair, alteration, renovation or restoration of, or similar services in relation to, residential complex.

"Residential complex" means any complex comprising of —

(i) a building or buildings, having more than twelve residential units;

(ii) **a common area;** and

(iii) any one or more of facilities or services such as park, lift, parking space, community hall, common water supply or effluent system,

located within a premises and the layout of such premises is approved by an authority under any law for the time being in force, but does not include a complex which is constructed by a person directly engaging any other person for designing or planning of the layout, and the construction of such complex is intended for personal use as residence by such person.

Explanation.—For the removal of doubts, it is hereby declared that for the purpose of this clause, —

(a) "personal use" includes permitting the complex for use as residence by another person on rent or without consideration;

(b) "residential unit" means a single house or a single apartment for use as a place of residence.

"Taxable service" means any service provided or to be provided to any person, by any other person, in relation to construction of complex.

[***Explanation***.—For the purposes of this sub-clause, construction of a complex which is intended for sale, wholly or partly, by a builder or any person authorized by the builder before, during or after construction (except in cases for which no sum is received from or on behalf of the prospective buyer by the builder or a person authorized by the builder before the grant of completion certificate by the authority competent to issue such certificate under any law for the time being in force) shall be deemed to be service provided by the builder to the buyer;]

In the service tax on residential construction services, one of the grey areas has been construction by parties to a Joint Venture and sharing of the constructed units between the parties to the Agreement. Typically such Joint Ventures will involve a land owner with or without an existing building to be demolished and a builder or developer who agrees to develop a desired superstructure on the land. The land owner and the developer will share both the land and the constructed superstructure in a specified proportion, usually in terms of constructed units. The developer would either rent out or sell outright his share of the superstructure inclusive of the land U.D.S. The land owner would get his share of units without having to spend on anything. There has been a lot of confusion on whether service tax was applicable to such Joint Ventures. More pertinently the following doubts have emerged regarding the scope of taxation :

- Whether the number of residential units should be counted taking the shares of both the land owner and the developer?
- Whether the residential units allotted to the land owner would be in the nature of self-use and thus exempt from service tax?
- If the residential units allotted to the land owner are taxable, whether exemption will apply if the number of units in the hands of the land owner is less than twelve?
- Whether the residential units have to exceed the number twelve, both in the hands of the land owner and the developer in order to attract service tax?
- Whether the Joint Venture is to be treated as a single entity even if unincorporated in the Eyes of Law?
- If the Joint Venture for development and construction is treated as a single entity, will the allotment of residential units to the land owner and the developer be considered as self-use and thus non-taxable?
- If the residential units allotted to the developer alone are taxable, then what is the legal basis for exempting the land owners' share of residential units and taxing those of the developer?

These are the questions that have so far stumped both the Departmental Officers and the private parties equally. The situation bristled with confusion and uncertainty. The context seemed to invite Government intervention at least for Revenue considerations. Now the Central Board of Excise and Customs has come out with a Circular dated 10th February 2012 entering the unchartered waters. Before analyzing whether the lingering questions as discussed above have been satisfactorily answered in the Circular, let us examine the propositions made out by the Department in the Circular. Unfortunately the Department has approached the issue in a non-practical manner and has pulled out so called business models which do not lend themselves to conceptual clarity. Of course, the Circular does not fail to say that tax is payable in almost all the instances covered.

The Circular claims to unearth and cover the following business types :

- Tripartite Business Model.

- Re-development and Rehabilitation Projects including Re-construction by a building society.
- Investment Model.
- Conversion Model.
- Build-Operate-Transfer (BOT) Model.
- Joint Development Agreement Model.

Now let us examine what the CBCE has to say about each Model.

A. Tripartite Business Model :

The CBEC has asked itself a question as to whether flats/houses given to the land owner in exchange for development rights to the builder are taxable. In answer, the Board has stunned everyone by stating that the construction service modeled on the above pattern is not taxable for the period prior to 1st July 2010. The Board says that the basis of its conclusion is in terms of its own Circular No.108/02/2009-ST dated 29th January 2009.

In this context it is to be remembered that the Circular dated 29th January 2009 has generated a lot of controversy and it was remarkable for its amazing confusion. The field formations of the CBEC had virtually rebelled against the Circular by refusing to implement and apply the Circular. There has been no instance in the country where anybody got the Department to apply the above Circular successfully in their favour. Thus, it is one thing to say that the construction service of the above kind was not taxable prior to 1st July 2010, but another matter to suffuse it with uncertainty by linking it up with the controversial Circular dated 29th January 2009.

B. Re-development and Rehabilitation Projects including Re-construction by a Building Society :

The CBEC has restricted the scope of its clarification to Housing Societies and its transaction with its members. In this Model the Board has clarified as follows.

The CBEC Circular states that under this Model, the builder/developer receives consideration from two classes of his service receivers. The first category is the Society/Members of the Society who would transfer development rights over the land (including permission for additional number of flats) to the builder/developer. The second category consists of buyers of flats other than the Society/Members who generally would pay by cash.

(i) Re-construction undertaken by a building society by directly engaging a builder/developer will not be chargeable to service tax as it is meant for the personal use of the society/its members. ***Construction of additional flats undertake as part of the reconstruction, for sale to the second category of service receivers, will also not be a taxable service, during the period prior to 01/07/2010;***

(ii) For the period after 01/07/2010, construction service provided by the builder/developer to second category of service receivers is taxable in case any payment is made to the builder/developer before the issuance of completion certificate.

The Circular answers one of the questions we posed at the beginning, but restricts that to a Building Society, which is rather strange. Exempting service tax if payment is made after issuance of completion certificate creates a distorted playing field and appears bad in equity. The basis of tax should not ideally consist in the mode of payment of the consideration.

C. Investment Model :

The Board's clarification covers booking of flats by investors either in terms of a specified area of construction or a flat of a specified area. The CBEC seems to catch buyers of investor-types who have the option to exit from the Project by selling out or to retain the flat for own use. The CBEC clarifies that in this Model, after 1st July 2010 the investment amount paid in advance to the builder/developer would be liable to service tax. If the investor exits from the Project either before or after the issuance of completion certificate, the builder or developer would be entitled to take credit under Rule 6(3) of Service Tax Rules, 1994 (to the extent he has refunded the original amount). The Circular cautions that if the builder/developer resells the flat before the issuance of completion certificate, service tax would be payable.

The objective of the Circular is clearly to tax all considerations that may arise in the course of investor purchasing and selling.

D. Conversion Model :

The Board's clarification is as follows :

Conversion Model **:** Conversion of any hitherto untaxed construction/complex or part thereof into a building or civil structure to be used for commerce or industry, after lapse of a period of time.

Clarification **:** ***Mere change in use of the building does not involve any taxable service, unless***

conversion falls within the meaning of commercial or industrial construction service.

The clarification does not go far enough. It appears that the benefit of non-taxability in Conversion Projects is denied to residential housing Projects and this makes it discriminatory. When commercial or industrial conversion is eligible for exemption, why not residential conversion?

E. BOT Projects :

The Circular concedes that there could be many variants of this Model and that tax implications would differ. The Government has milked this Project type for Revenue. This is clear from the Circular when it says that the services provided by the Government or its Agency to the concessionaire or service provided by the concessionaire to the users of the facility or the services provided by the contractor to the concessionaire are all taxable. The Circular has not explained as to how the services provided by the concessionaire to the user of the facility would come under construction service and similarly when the service provided by the Government or its Agency does not consist in construction, but only in according the right to use or the right to develop, how it would attract service under construction service is not explained in the Circular.

F. Joint Development Agreement Model :

The Circular states that these Projects attract service tax and for this they have referred to the type of clarification provide under paragraphs 7, 8 and 9 of another Circular No.148/17/2011-ST dated 13th December 2011. This is curious. The circular dealt with service tax liability of film & movie distributors and inter alia dwelt upon joint venture agreements in that field. Today it is well known that the film industry is up in arms against this service tax on virtually, movies. They have gone on a nation-wide strike very recently. It is a moot point whether the circular will stand or get withdrawn or postponed to a politically convenient time or become modified, under the tremendous pressure being exerted by the entertainment industry. If it is modified or postponed or withdrawn, will it not affect the present circular on construction which is partly based on the reasoning in the "film industry" circular? These are the questions that need answers. The view of the Board by implication that all the flats developed under a Joint Venture Model would be taxable under Service Tax Law is guaranteed to lead to litigation.

G. Other Clarifications In The Circular :

Absence of requirement of Completion Certificate:

The CBEC has clarified that where completion certificate is waived or not prescribed, its equivalent by any other name should be used as a dividing line between service and sale. The Circular states that authorities competent to issue completion certificates include an Architect or a Chartered Engineer or a Licensed Surveyor.

H. Valuation :

The Circular states that value of the flats given in exchange for development rights, where the value would mostly not be known, would be determinable on the basis of value of flats sold by the builder/ developer from his quota for a known consideration. In cases of any differences in the periods of sale, the Circular clarifies that the value of similar flats as are sold nearer to the date on which land is being made available for construction should be taken. This clarification is in the context of the Tripartite Business Model.

I. Conclusion

It will be seen that the service tax on construction related services has got murkier with the latest Circular of the Board. The Department can be happy that the Circular will fetch it more tax revenues. Equally it is guaranteed to generate uncertainty, confusion and controversy in equal measure and lead to litigation. It appears that the construction sector, especially that of residential housing, deserves a clear respite and tax holiday from the vagaries of an uncertain and unclear service tax. There is something incongruous about a tax that lets off the hook the wealth-filled villas, commodious condominiums and palatial mansions with terrace gardens sprouting all over the country but squeezes the sweat purchases of residential dwellings by the hard-pressed, tax paying middle class. It is time for a rethink of tax policy on residential construction, not just in service tax but encompassing all areas where taxes of all kinds converge to the detriment of the citizens. The policy should call for equity and fairness in the taxes that are collected on residential units where life dwells in. ❐

> ***If you pick the right people and give them the opportunity to spread their wings—and put compensation as a carrier behind it—you almost don't have to manage them." — Jack Welch***

Hindustan Unilever's Cost Aggression

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Introduction

The most prominent star in the galaxy of the Indian Fast Moving Consumer Goods (FMCG) sector is Hindustan Unilever (HUL). Through years of sustained hard work, right investments, high quality research and astute strategies – this FMCG giant has built a powerful good name for itself, setting a very superior benchmark for others to pursue.

The acute competition prevalent in the Indian FMCG sector is well-known—its level intensifying further with the entry of foreign players after the economic liberalization that took place in1991. Gradually, with every market segment and all product categories becoming replete with substitutable brands, the only survival route available to these players is to increasingly appeal to the tastes and preferences of the more and more discerning customers of the times. However for any such attempt, the threshold of competitive cost and prices cannot really be crossed. Since plethora of brands exists in every product category, any unique price-rise by a brand/firm has generally been observed to be penalized grossly in this extremely value and price-sensitive Indian market. The EMI-riddled customers unhesitatingly ditch trusted brands for newer ones at the slightest inconvenience in their price-value matrix.

Hence controlling costs, curtailing costs and cost-minimisation activities occupy critical position in the 'must-do' agenda of every company seeking to set up successful business in this highly slippery FMCG marketplace. Measures to rein in costs are plenty and naturally differ with the size, nature and capabilities of the entities.

Objective

HUL—which operates in varied categories across multiple product lines—faces an overwhelming challenge to balance cost, price and quality at the face of superlative customer expectations.

Here an attempt has been made to enlist the cost-controlling measures of HUL under such testing circumstances.

Mitigating Higher Raw Material Cost

It is known that all costs are not controllable and, like any other company, rise in the prices of inputs and periodic rapid spirals therein are major de-stabilising factors for the cost and price-structures of HUL. Here, passing on the increased burden of rising input costs to the ultimate customers is the last resort and best avoided—for it is inevitably accompanied by sacrifice in market-shares in the highly competitive FMCG marketplace. This point may be substantiated from the following discussion :

The period from January to June 2008 saw a sharp upward spiral in the prices of key inputs of HUL's products such as LAB, petroleum derivatives and palm-oil. This contributed to the sharply escalating costs for soaps and detergents. Here, HUL made the strategic choice of passing on these input costs almost entirely to its customers by taking substantial price-increases spanning its portfolios.

HUL hiked prices of its products by 1-28 percent across categories such as tea, detergent, soap, shampoo and personal care from October 2008. Among the key price moves, HUL hiked prices of Lux 100 gm soap bar by 6 percent, of Surf Excel Quick Wash detergent by 5-6 percent, and of Surf Excel Blue by12-13 percent, of Brooke Bond Red Label tea and Taj Mahal tea by 8-14 percent.

Compared to its competitors, HUL took larger price increases in some of its key segments. In the January- March quarter of 2009 (which was the last quarter of the financial year 2008-2009), net profit of HUL grew by 4 percent from Rs 381 crores to Rs 395 crores. Net sales for this quarter, however, grew by 6 percent, compared to the industry growth rate of over 12 percent. Although the sales realizations had increased by 12 percent in this quarter, sales volume had gone down 4.2—percent indicating that customers had to spend more money for buying less of HUL's product(s). Consequently, the company's market-share in soaps and skincare fell from 49.6 percent and 53.1 percent in December 2008, respectively, to 48.2 percent and 52 percent in March

2009, respectively. HUL's arch rivals in the consumer products space such as Procter&Gamble, Godrej Consumer Products Limited, and Dabur India Limited, among others, managed to dent its market shares in most categories like detergents, soaps, shampoos and skincare.

The HUL management also admitted to early signs of downtrading towards cheaper brands and smaller pack sizes. And, as the analysts pointed out, HUL's focus on high-value products vis-à-vis stable pricing by its rivals made it lose market share from all fronts – established players, regional ones and newer entrants—especially in product categories directed towards the mass end of the market (" HUL changes strategy to regain market share", 2009).Between March 2008 and March 2009, HUL lost market share in key segments in which it operates, viz, personal wash (from 54.3 percent to 48.2 percent), skincare (from 55.4 percent to 52 percent) and toothpaste (from 29.5 percent to 28 percent) ["Slowing juggernaut", 2009]

In the April-June quarter of 2009, HUL's net sales fell by 8 percent to Rs 4,476 crores and, consequently, net profits dipped from Rs 558 crores to Rs 543 crores that is by 2.7 percent. The reasons attributed for such fall in net profits were as mentioned above plus a higher spend on advertisement to the tune of 26 percent in the said quarter, as well as a 15 percent rise in Minimum Alternate Tax (MAT) and lower other incomes. Foreign exchange loss of Rs 31.8 crore on open-forward contracts was also a contributor for the above-mentioned fall in net profits ("HUL June quarter net down 2.7% on higher ad spend", 2009)

Despite the endorsement of some of the biggest Bollywood stars viz, Shahrukh Khan, Aiswariya Rai-Bachhan, Priyanka Chopra, HUL's beauty soap Lux saw the biggest dip of 2.1 percent in value market share in the 12 month period ended June 2009. Similarly, HUL's germ-protection brand Lifebuoy's value market share dropped from 17.9 percent to 16.6 percent during the same period.

However the prices of key raw materials such as palm oil, LAB and packaging materials started to ease during 2009, dropping by about 25 to 40 percent below 2008 levels. (However, the sharp correction in input prices has another dimension also. It helps to resurrect regional and local competitors in the staple FMCG categories. Since urban consumer spends continued to be under pressure during 2009, the threat of consumers' downtrading to cheaper local as well as national brands continued to loom for HUL.)

From early 2009, HUL cut prices of its key soaps and detergents by 4 percent to 20 percent. The price-cuts have been undertaken through a combination of increase in weight of some packs or a reduction in MRP. For instance, HUL increased the weight of its popular Lifebuoy toilet soap from 115 gm to 120 gm, but kept the price unchanged at Rs. 15. This translated into an effective price-cut of 4.2 percent. HUL also reduced the MRP of 200 gm Wheel Active Blue detergent cake by 20 percent from Rs 10 to Rs 8. For the quarter ended September 2009, operating profit grew 16.48 percent to Rs. 605.72 crores from Rs. 520 crores while operating margins improved by 140 basis points, with tight cost management and operating leverage.

Vegetable oil prices, which had dropped to extremely low levels in 2009, began rising in 2010 and increased steeply towards the end of 2010. Crude oil prices increased significantly. This adversely impacted the price of laundry chemicals, packaging cost and freight cost. The practice of extra-fill in the form of consumer promotion and higher grammage packs was discontinued. Moreover, the business was managed dynamically with increased frequency of cost and pricing review, and aggressive cost saving programmes, which helped to minimise the impact of escalating input-prices.

However HUL has not always passed on the burden of rise in input costs to final customers – devising ways to circumvent such cresis to maintain stability in its costs and prices in the highly competitive market that it operates. So HUL here takes advantage of cost variations by seamlessly changing product formulations without any difference in the end-use experience through value–engineering which is enabled through its supreme capacity of research and innovation.

In 2003, there was tremendous rise in oil prices and firming up of international cargo rates which impacted the costs of HUL quite adversely. Use of alternative materials, tight control of indirect costs and other cost effectiveness programmes helped mitigate the impact of cost increases. Savings generated through these initiatives were re-invested in superior quality and competitive pricing. Operating margins were lower in 2003 compared to 2002. Relentless focus on cost reduction programmes resulted in significant benefits. Several breakthroughs in factory efficiencies were achieved, resulting in significant productivity gains and conversion cost optimisation.

In 2005, again there was steep increase in petroleum (there was major diversion of oils for production of bio-fuels) and petrochemical costs leading to substantial rise in raw material, packaging material and distribution costs (freight). HUL employed 'Best Practises' and leveraged Unilever's relevant global and regional strengths to mitigate such cost pressures to a considerable extent. Significant buying cost advantages were generated and strategic alliances with many international and local vendors for key raw and packing materials, led to development of new technologies, new materials and joint cost reduction programmes (through reduction of input costs, locational synergies, and import substitution) – the benefits of which were shared between HUL and the concerned vendors. This was part of the 'Ten Point Programme' that HUL initiated in 2003 where the company sought to leverage its scale fully in supply chain, logistics and buying to drive lower costs. Global buying of some of the ingredients across different geographies obtained better economy of scale for HUL. For e.g., in case of display containers—instead of every country doing its own buying, it is being singularly done at the European level under a global procurement officer. Moreover, through Vendor Certification Programme several vendors were certified for implementation of quality systems and zero defect track record. The buying function of the company focused on reducing lead time and procurement costs and developing reliability in the supply of raw materials and PM by fully leveraging benefits of scale and synergy through Unilever's global buying network.

Several small scale industries and ancillary units were developed to support HUL's operations. HUL also undertook a 'Partner in progress' initiative, under which more than 500 managers visited about 65 suppliers to develop meaningful ways of improving the quality of the supply chain through mutually rewarding partnerships.

Rationalisation of Advertisement and Promotion Expenses

Operating multiple product-lines in highly competitive categories, HUL is India's largest advertiser, accounting for about 18 percent of total spend on advertisement in the country. India's largest media-buying house Group M manages HUL's media buying. HUL works with media agencies like Lowe, O&M and McCann-Erickson. According to rough estimates, HUL's ad-spends are placed at around Rs. 1,300 crores on an annualized basis.

Lord Leverhume—one of the pioneering leaders of Unilever—had said 'I know half my advertising is wasted. I just don't know which half.' But the present management is extremely conscious to plug any inefficiency in its promotional spends. In 2009, HUL revised the terms of its contract with its advertising agencies with a view to derive more value for its money.

Aligning its policy with the global 'performance-based' payment package of Unilever, HUL sought to reimburse its agencies the cost for the advertisement, topping up by a bonus if certain performance targets are achieved. However, if the campaign falls short of the target, the company will only cover the costs incurred by the agency. The advertising agency business margins were also slashed from 10 percent to about 5 percent. This is quite unlike the earlier system where upfront commissions were guaranteed. Under the earlier system, creative and media agencies were compensated either on a monthly retainership fee or on the basis of commissions which could vary between 8- 12 percent of their media budgets.

Here the concept of 'Return on Marketing Investments' (ROMI) has been used to drive continuous improvement. ROMI is about optimizing the effectiveness of advertising, promotional and trade investments. HUL has developed advanced marketing mix modeling techniques that allows assessment of all the marketing levers to drive growth and superior yields from marketing investment. For example, the media elasticity of each of the brands have been identified which helps HUL to optimize its advertising spends.

With increase in rural consumption in certain FMCG categories like hair oils, toothpaste, shampoo, skin creams and lotions, HUL seeks to judiciously break down its massive advertisement budget among print, electronic and below-the-line activities to raise its effectiveness pertinent to relevant geographies.

To enhance the effectiveness of advertisement and promotional expenditures, world class quantitative tools such as Advertising Budget Guidelines, Minimum Invest Levels, Market Activities Costing and Dynamic Resource Allocation were used and fully leveraged through unlimited access of Unilever's such outstanding Intellectual Properties.

Productivity Augamentation

For example, in some of HUL's detergent factories 'twin track' is deployed on single production lines. This helps in nearly doubling of the production thus improving operating efficiencies and cutting down cost. Apart from this, today most of HUL's production lines have developed the capability of quick changeovers to meet the market demand mitigating to a large extent the risk of obsolescence and providing for long-term cost-efficiency.

Elimination of Wastes

At HUL, cross-functional teams identify and put in place actions to eliminate wastes and hidden costs from all facets of the business. TPM (Total Productive Maintenance) is employed in factories to continuously reduce business waste and eliminate losses in the supply chain to meet zero error, zero loss. Through application of TPM, appropriate capital expenditure investments are executed in creating capacity to enable future growth, and to de-bottleneck existing assets to run them efficiently. These result in increase in asset productivity levels improving 'throughput' from existing assets generating savings which are ploughed back into the products. It helps in delivering top-quality products with world class service at a competitive cost.

From 2009, HUL has sought to downsize the number of SKUs in its portfolio of over 35 brands extending to 1,200 SKUs. By eliminating and rationalizing the tail-end SKUs, HUL is in the process of substantial simplification and cost-savings.

Empowered teams led initiatives to reduce specific energy consumption and also piloted the use of sustainable alternative biofuels at several sites, resulting in appreciable savings in energy costs.

HUL has sold several residential and commercial properties across India to cut costs and raise cash. It has shifted its headquarters to Mumbai's Andheri western suburb and leased out its former headquarters in South Mumbai to either corporates or banks after refurbishing it.

Citadel strategy is pursued for certain specific brands (usually premium ones) for concentrating on specific geographies where most of the demand is generated. For example, in the ice-creams business, 20 major cities have been focused upon. It helps in protecting the turf and growing these specified markets for the company. At the same time, it also conserves the resources by not spreading out on equal strength across varied geographies.

Cutting down on travel of executives and using video-conferencing instead.

The traditional model is essentially about cost + margin=price. In the bottom of the pyramid, the same model cannot be applied. So the price is first set. Here price minus desired margin equals the desired cost. And the target cost is the end-to-end cost of the total business system. So, to arrive at better efficiencies in managing costs, the factories are closer to the point of sale that allows reductions in freight costs—both inwards cost for materials and outward cost for despatch to the customer. The costs are reduced—both at back-end as well as point-of-sales through across-the-board innovation.

In 2009, Polman had frozen executive bonuses (executive directors and senior management) and linked them to performance, instilling a sense of aggression and performance culture in Unilever globally. Such freeze which insiders refer to as the policy of deferred bonus, have been lifted—at least in India. HUL has witnessed double digit volume growth for at least two quarters now after a year of single digit growth (5% in volume terms for the year ended March 2010). Consequently, senior and middle-level managers have earned bonuses up to Rs. 40 lakh and Rs. 20 lakh, respectively. However, Polman has implemented targets for executive bonuses based on sales volume instead of earnings.

HUL has either shed or reassigned managers as part of a plan to link revenue and profits to headcount. In 2009, some staff including managers with 5-10 years' experience in the company has been redeployed to functions such as research and development, while the rest have been given a severance package and laid off. These jobs were mostly in supply-chain management; where the company undertook a massive restructuring identify redundancies ("30 HUL managers face layoff or redeployment", 2009).

In order to optimize resources in an increasingly competitive scenario, HUL offered VRS to about 200 people. The VRS is being offered to its staff in clerical and field sales offices. The eligibility criteria will be for people over 40 years of age who have spent more than 15 years with the company ("HUL offers pink slips to 200 staff, 2009).

HUL had divested a 51 percent stake in the BPO business (earlier known as Unilever India Shared Services) in October 2006 in line with its strategy to focus on core businesses such as home and personal care.

Revamping Distribution Network vis-a-vis Improving Efficiency and Cost

Distribution efficiency happens to be an area of core competence for HUL. Apart from its wide and unmatched distribution network, HUL has strived to augment the quality of coverage through cutting-edge technology and made substantial investments in I-T for the purpose.

Since 2001, through RS-Net which is a web enabled stockist management system, HUL has established two way connectivity with its stockists. Using this infrastructure, HLL has implemented a Continuous Replenishment based ordering and selling system that sought to eliminate inefficiencies in stockist inventory holding—both in terms of quantity and quality. All Redistribution Stockists who are key elements in HUL's country-wide distribution framework are under a Continuous Replenishment System, leveraging the internet. An end-to-end technology solution has been deployed which helps reduce inventory cycles while enabling optimum service levels—ensuring freshness of stock, reduction in wastage and less working capital blockage. Before Continuous Replenishment System was implemented, stock levels of as high as10 days to 2 weeks were maintained with the suppliers, which after its implementation has come down to 5 to 7 days.

Backing this up was the 'Internal Network Planner and Optimiser' which helped in ascertaining the daily stock positions at each point in the supply chain, project stock requirements at these points, plan for replenishment — and do so with complete transparency across the supply chain. Instead of planning for every month, the company was thus facilitated to plan for every day, and even for every shift, in line with an overall optimisation strategy. The underlying objective was to move to making today what was sold yesterday.

The physical distribution set-up has also been continuously stream-lined. The hub-and-spoke method on which the rural distribution framework was built up (comprising Redistribution Stockists, ReDistributors and Star Sellers) was dismantled by HUL in 2009 across India, as connectivity to rural areas had improved. SSs who were responsible for supplying HUL's basket of products to the kiranas in the nook and corner of the hinterland were eliminated and the RDs were directed to supply the products directly to the kiranas. The SS partners have been absorbed to a large extent by HUL in its wholesale channel. In the process, its entire distribution process was streamlined; to do away with unnecessary layers in distribution and thus improve efficiency and reduce cost

During 2010-11, the Supply Chain team worked on a strong Cost Effectiveness Programme to deliver savings throughout the supply chain, by various means including identification of further opportunities for waste elimination. This has facilitated the business to achieve a significant cost reduction (around 6% of supply chain costs), the highest ever in the recent past.

Continuous improvement to develop consumer-led, agile value chain through leveraging scale and improving efficiencies by rapid deployment of appropriate technologies has resulted in reduction in inventories, improved product freshness and time-to-shelf, which has resulted in significant reduction of working capital.

Conclusion

HUL's strategy on costs has been succinctly summarized by Harish Manwani, Chairman, HUL, at the company's 76th Annual General Meeting ("HUL to rationalize costs, prices", 2009) where he declared that for his business 'It will be business as usual on growth but business unusual on costs.' The FMCG behemoth seeks to be extremely cautious on its cost front—deploying it to generate and sustain growth and this stand of the company has been vindicated from the above discussion. Each and every aspect of the organization has been considered here, which is the very essence of an effective cost minimization programme. ❐

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an addition on the ground that the value of stock was reduced illegally on the basis of the reports from the concerned Officers. The Commissioner (Appeals) and Tribunal confirmed the addition made by the Assessing Officer. Thereafter the Assessing Officer imposed penalty under Section 271(1)© of the Act. The Commissioner (Appeals) reduced the penalty. The Tribunal set aside the order holding that no penalty could have been imposed on the assessee as it has disclosed all material facts and there was no concealment of income on its part. On appeal by the Department before the High Court, the High Court dismissed the appeal of the department holding that the accounts of the assessee were duly audited and the Comptroller and Auditor General had approved the accounts of the assessee. Merely because the assessee had claimed depreciation which claim was not accepted by the Revenue that by itself would not attract penalty under Section 271(1) ©.

Conclusion

From the provisions of Section 271(1) © of the Act and the case laws discussed above it can be inferred that no penalty can be imposable unless it is proved that the assessee had concealed the income or furnished the inaccurate particulars of income. The assessee is to substantiate the same. Burden is also on the Assessing Officer to prove that the assessee had concealed the income or furnished inaccurate particulars of income. Mere having the opinion will not serve the purpose. Mere non-accepting the fact would not attract penalty under Section 271(1) © of the Act as held in 'H.P. State Forest Corporation Limited' case (Supra). Intention of the assessee to conceal or give inaccurate particulars of income is to be proved. Mens rea is the essential requirement to impose penalty as held by the Supreme Court in **'Dilip N. Shroff V. Joint Commissioner of Income Tax' – (2007) 291 ITR 519 (SC)** in which the Supreme Court held that mens rea was an essential requirement for imposing penalty under Section 271(1) © of the Act. The Supreme Court in the said case also observed that if the contention of the Revenue is accepted then in case of every return where the claim is not accepted by the Assessing Officer for any reason, the assessee will invite the penalty under Sec. 271(1) © of the Act. ❐

"Vision is the art of seeing the invisible." — *Jonathan Swift*

Managing Organisational Creativity

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The future belongs to the creatives. In the emerging and future world of business, competitive advantage depends not on capital, not even on technology, information or knowledge but on creativity and innovation. Those companies which are able to harness the creative and innovate energies of its people will be the leaders of the future. How to do this at a collective or organizational level? This question is one of the current debates in management. This essay examines this question based on some of the latest studies and research on the subject and also on the Indian spiritual perspective and practices on creativity.

Tap ideas from all ranks

Invite ideas from all the levels of the organizational hierarchy and tap the creative potential of the whole organization. Don't depend on a few elite or "superstar" creatives. This requires genuine empowerment of the frontline workers. Recent research shows that giving complete autonomy and encouragement to the initiatives of workers at the lower level has enormous advantage. For example, Google's founders tracked the progress of ideas that they had backed versus ideas that had been executed in the ranks without support from above, and discovered a higher success rate in the latter category. Similarly, it was noted that Philip Rosedale, the founder and chairman of Linden Lab, the fast-growing company that manages Second Life, says the greatest successes come from workers' own initiatives.

Encourage and Enable Collaboration

Counteract the myth of the lonely innovator; encourage and reward collaborative effort; incorporate the ability or willingness to share ideas or collaborate with others into the performance appraisal system; create an environment which enables collaboration.

Recently Harvard Business Review brought out a special issue on "Collaboration." In an article in this issue, Paul Adler and his team of scholars, make the following observations based on their long and extensive research on what they call as "Collaborative Enterprise":

- Collaborative communities encourage people to continually apply their unique talents to group projects—and to become motivated by a collective mission, not just personal gain or the intrinsic pleasures of autonomous creativity. By marrying a sense of common purpose to a supportive structure, these organizations are mobilizing knowledge workers' talents and expertise in flexible, highly manageable group-work efforts. The approach fosters not only innovation and agility but also efficiency and scalability.
- Collaborative communities share a distinctive set of values, which we call an ethic of contribution. It accords the highest value to people who look beyond their specific roles and advance the common purpose.
- The key coordinating mechanism of a collaborative community, which is often made up of overlapping teams, is a process for aligning the shared purpose within and across the projects. We call that type of coordination interdependent process management, a family of techniques including kaizen, process mapping, and formal protocols for brainstorming, participatory meeting management, and decision making with multiple stakeholders.

Open the Organisation to diverse perspectives

Invite opinions, viewpoints and perspectives from diverse disciplines and social or cultural groups. For example, the design firm IDEO includes engineers, psychologist, marketers and behavioural scientists in its innovation team. Gender diversity is an important part of this process. The perspectives of woman in the creative process can be a very precious input in a male dominated corporate environment.

Map the Phases of Creative Work

Each phase of creative work requires different kinds of management. For example, the first phase of the discovery or creating the new idea has to be totally unstructured with maximum freedom and autonomy for the members of the creative team. Any attempt to standaradise this phase or structure it into a fixed format, would be counter productive. The main objective of this stage is creative incubation and not standardized efficiency. But the later stages of creativity when the idea moves form the stage of discovery to implementation can be structured or standardized for greater efficiency. Similarly, each phase of the creative process may require different kind of people with temperament, talent and skill-set which correspond to that stage. For example, the discovery phase requires people who are radical thinkers or paradigm-breakers. But the subsequent phases require skill in operational management like resource allocation.

Find the Right Balance between Efficiency And Creativity

The corporate world in general tends towards process standardization which enhances efficiency, but it stifles creativity because there is not much freedom of choice, judgement or innovation in a rigidly standardized process. But still efficiency is essential for effective operation management. How to reconcile the need for standardized efficiency with creative freedom? Joseph Hall and Eric Johnson, in their article in Harvard Business Review, presents some useful suggestions.

We have to distinguish and identify clearly what are the activities or domains where creative freedom is essential for adding value to the customer or the process. In general, creative freedom is more important in those domains where large variety, fast change and uncertainty are the main driving factors and a quick response to the changing customer needs or environment is needed for gaining competitive advantage. In such domain, standardization has to be kept to the minimum. But in those domains where creative choice, judgement or innovations of individuals or teams do not add much value to the process or customer, standardization may be necessary.

For example, Ritz-Carlton gives large creative freedom for the front-line team made of desk managers, steward's waiters and chefs to plan, innovate and decide what is best for serving the needs of individual customers, without any interference from higher management. But at the same time, maintains carefully defined standards for cleaning rooms and other facilities. Initially, Carlton had a detailed well-defined list of instructions on how to serve or behave with the customer in every possible situation like for example, "use words like 'good morning', 'certainly' I'll be happy to." But later Carlton management realized that such a standardized approach doesn't give sufficient freedom for the frontline staff for innovation and flexible judgement to serve the needs of the individual customer. So, the staffs guidelines are redesigned to keep them broad and vague like, "I am empowered to create unique, memorable and personal experiences for our guest." Customer satisfaction improved.

Manage the Commercialization Trade-off

Very few creatives have the capabilities to commercialize their ideas. So, in many large organizations these two stages or functions are separated and kept away from each other. But a problem with this method is that commercialisers don't have the same passion for the idea as its creators. As a result, quite often, projects loose steam as they move from creative phase to the stage of commercialization. The other alternative is to make the creatives and commercialisers work together in a team. For example, as we have mentioned earlier, the design firm IDEO includes marketers in the design team along with idea-creators.

Minimize Dilution through Bureaucracy

As the idea passes from the discovery phase and moves through other departments like finance, engineering or sales, each trying to modify it according to their needs, the creative power of the idea gets considerably diluted. Leaders and managers must make a conscious effort to counteract this dilution of the idea through bureaucracy. One way of doing it to involve bureaucracy in the creative process. We have to create a system or process by which the creative team which generates the idea and the operational management team which implements the idea work together.

Motivate People to Embrace the Creative Challenge

Management has to encourage people to constantly grapple with challenging problems and explore new possibilities and ideas. The creative minds are fired by independence, autonomy and intellectual challenge and the organization must be able to provide such an environment where creativity can flower. However, as we have indicated earlier, the attention of management should not be confined to a few exceptional creatives. Every individual has a creative spark in her. To bring it forward, we must make an effort to understand her unique interests, aptitude, skills and capabilities and provide a matching challenge.

The other important aspect of motivation, which is very much recognised, is appreciation. In general creatives are self-motivated and love the intellectual challenge involved in creating something new. But this doesn't mean they are entirely free from the lure of external motivators. They may become demotivated if their good works are not appreciated. So a sympathetic and appreciative leader, who can understand precisely—through listening, dialogue and discussion—the motivational needs of each creative and keep them in high spirits by providing the right motivational inputs, can considerably boost the creative potential of a team.

Understand the Value of Failures and the Virtue of Mistakes

The creative journey is a non-linear, unpredictable and uncertain process, which proceed through trial and error and experimentation. Errors, mistakes and failures are inevitable and integral part of the creative path. They are part of the learning process and must be viewed as opportunities for learning and growth. As long as we are learning something new from our mistakes and failures, they must be seen and appreciated as positive virtues and not condemned or punished as signs of incompetence. So leaders in charge of creative teams must tolerate mistakes and failures. She has to cerate a culture of learning where people are trained to probe deep into the root causes of mistakes and failures and make this learning a stepping stone to future growth and success.

Create a Filtering Mechanism

Evolve a mechanism or process for filtering ideas, which means, selecting good ideas and weeding out the unfeasible ones. According to the well-known management guru Gary Hamel, the best way to do this is found in the Silicon Valley, where, "If an idea has merit, it will attract venture capital and talent. If it doesn't, wont." Gary Hamel believes that Silicon Valley model can be replicated within a company by creating a "dynamic internal market for ideas, capital and talents" and gives some examples to show how it can be done. One of them is Royal Duth Shell Co. which had set up a panel for screening and funding creative ideas. Any employee of Shell who has a creative idea is invited to give a ten-minute pitch to the panel, followed by a 15 minute Q & A session. If the member agrees that the idea has real potential, the employee is invited to a second round of discussion with a broader group of company experts whose knowledge or support may be important to the success of the supposed venture. Ideas that get the green light are provided with funds within eight or ten days.

Include the Customer in the Creative Process

In the corporate world, creativity cannot be an end in itself but has to serve customer needs. So, wherever possible it is better to include the customer in the creative process. Here are two examples where customer makes a significant contribution to the creative development of a product :

- Lego, Danish toy-maker, invites the customerss' children, parents and adults to suggest ideas for product development. Customers design their own products which are then sold to them.
- Sony has set up a web-site to support customers who are interested in developing new type of games that could be played in the Sony Play Station. It attracts nearly 10,000 participants, a number that vastly exceeds the number of in-house and contract developers creating games for the play station.

Train People in Intuitive Thinking

The truly creative idea comes not from the logical and analytical intellect at the surface levels of our being but from the deeper levels of consciousness, which contains the intuitive faculties. Sri Aurobindo describes intuition as "rays from an intenser and greater Light than the tempered clarity of our intellectual understanding." (7) To awaken or activate these faculties in employees they have to be trained in the following practices :

1. How to receive intuition by keeping the surface mind silent.
2. How to arrive at the holistic insight or decision based on an understanding of the consequences for the larger whole of life.
3. Integrative thinking, which means how to integrate two opposite ideas in a higher synthesis.

The main discipline for receiving intuition is to silence the surface intellectual mind. As The Mother of Sri Aurobindo Ashram explains the process :

"To learn to be quiet and silent—when you have a problem to solve, instead of turning over in your head all the possibilities, all the consequences, all the possible things one should or should not be doing, if you remain quiet with an aspiration for goodwill, if possible a need for goodwill, then solution comes quickly. As you are silent you are able to hear it."

However, this intuitive approach through mental silence requires a certain minimum level of mental development. We must keep in mind that a lazy underdeveloped mind full of inertia cannot remain silent, and if it tries to do so, it will slip into a black hole in the subconscious, where there is neither the light of reason nor intuition. So a culture of deep and creative thinking provides a good mental foundation for the development of intuition in the individual or the group.

Here comes the importance of another method for developing intuition, which is to stretch the rational and logical mind to its utmost limits. For example, modern systems theory and ecological thinking which views each thing as part of a larger whole and tries to perceive the interconnected unity of all thing, can be

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Demistifying Khandelwal Committee Recommend actions on HR in PSBs

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General

The committee has conducted an in-depth study with following broad assumptions :

1. Forces of competition, consolidation and convergence are exerting continual pressure on organizations and individuals alike to deliver best value.

2. The confluence of market forces and technology has made business highly competitive.

3. Due to integration of global markets the profit margins have thinned

In this background, the Committee has sought to address various HR related issues by suggesting measures for comprehensive HR reforms so that Public Sector Banks can emerge as globally competitive financial entities, leveraging their human capital. The entire philosophy of the Committee is suspect since the agenda of consolidation of Public Sector Banks was discussed in Parliament and the then Finance Minister assured the House that consolidation of Public Sector Banks is not on the agenda of the Government.

As regards internationalization of our banking operations, it is emphasized that the Public Sector Banks are adequately equipped to handle international Trade Finance of domestic customers and also the visible and invisible foreign remittances. In a country where 45 to 50 crores of the people do not have access to banking facilities, the laudable initiative of RBI and Government for financial inclusion must take priority over blindly imitating the culture and practices of Global Banks. It is more so when 2008 financial crisis witnessed collapse of giant global banks. We must remember that big is not always strong in the business of banking.

It is the efficient and transparent banking system with proper corporate governance which should be the focus of Government initiatives. In any service industry including the banks, Human Resources play a vital role and must be regarded and respected as such. The need of the hour is to create a feeling of Nationalism and orientation to serve the domestic clientele with the commitment towards making our country a better place. The turmoil witnessed in sectors like Civil Aviation in spite of consolidation and so-called competition and convergence must be taken as a lesson.

If we rely on the following table taken from the report of Khandelwal Committee on HR issues in Public Sector Banks, we get startling revelations :

Table-1

Indian Banking System—1991 Through 2009

	1991	2009	Change
Branches (No.)	46,051	65,412	19,361
Deposits (Rs. crore)	2,43,701	40,53,638	38,09,937
Advances (Rs. crore)	1,51,341	29,94,334	28,42,993
Customer (No.)	8,64,18,430	58,16,58,012	49,52,39,582
Staff (No.)	9,47,544	9,41,375	6,169

It can be noticed that in the year 1991 there were 9,47,544 employees to manage 46,051 branches, whereas in the year 2009 there were only 9,41,375 employees to manage a larger number of 65,412 branches. Similarly the business mix has gone up from Rs. 3,95,042/- crores in 1991 to Rs. 7,47,972/- crores in 2009. The increase in client base has been phenomenal from 8,64,18,430 to 58,16,58,012.

If we take the tentative figures for December 2011, the number of branches has crossed 75,000, business mix has crossed Rs.109,24,848 crores and the client base has increased to 72,67,50,000.

These figures reveal that a reduced number of employees are being forced to manage huge growth of business, customers and network. It has resulted in the bank officers working extended hours ranging from 10 to 14 hours. It implies that the compensation paid to them for an official 6 ½ hours work (net of lunch hours) is being used to make them work almost double the prescribed hours. The phenomenal increase in business and client base and a simultaneous reduction in staff strength defy logic. Such a situation has made not only the working hours of officers unduly large, but has also led to worsening health, social discontentment, strained family life and overall stress—both mental and physical.

Khandelwal Committee is conspicuously oblivious to such major issues while recommending various HR initiatives. If employer ignores such vital issues pertaining to HR, no force on earth can motivate the employees. It is violative of human rights and exploitation of officers' community in Public Sector Banks, where the so-called strong trade unions are in place. It is a serious cause of concern not only for the officers' associations but also for the bank managements, Government, Indian Banks' Association and Human Rights Organisations.

Manpower and recruitment planning

The government has accepted the recommendations of the committee with regard to manpower planning factoring the impact of technology, staff cost, net work expansions, officer–clerk ratio, bench marking, outsourcing, standard of recruitment, qualification lateral recruitment on contract largely for specialized positions etc.

Manpower planning can be better done by the bankers having vast domain knowledge of the business of banking. The suggested help of outside experts is undesirable. The suggestion to set up a steering committee of the Board to monitor HR activities with two HR specialist directors in the Committee is untenable because there is no specific provision and practice to appoint two HR specialists on the Board of Public Sector Banks. Recommended ratio of officers and clerks at 1 : 0.5 for urban and metro branches and 1 : 0.75 for rural and semi-rural branches has huge cost implications. In CBS, several non-core tasks of transactional nature have been migrated from clerical menu to supervisory menu, thereby compelling a high cost resource (officer) to do a job which can be better done by a low cost resource (clerk).

An economic sense must dictate that in any comprehensive manpower planning the objective should be to identify more and more jobs of routine and transactional nature which could be added to existing clerical duties and only security related jobs including the decision making must be entrusted to officers. It will help officers to attend to quality job and clerks to attend to routine and mundane jobs.

Table II

S. No.	Name of the Bank	Officer-Clerk Ratio	Staff Cost Ratio	Cost Income Ratio
1	Punjab & Sind Bank	0.24	75	0.49
2	Andhra Bank	0.35	57	0.46
3	Oriental Bank of Commerce	0.63	55	0.45
4	Union Bank of India	0.70	52	0.42
5	Vijaya Bank	0.84	65	0.51
6	Allahabad Bank	0.93	62	0.42
7	Canara Bank	0.94	61	0.44
	Average for these 7 banks	**0.66**	**61**	**0.46**
1	Punjab National Bank	1.36	70	0.42
2	Bank of India	1.23	63	0.36
3	Indian Bank	1.18	69	0.39
4	Bank of Baroda	1.14	66	0.45
5	Syndicate Bank	1.13	61	0.50
6	Indian Overseas Bank	1.11	66	0.43
7	Corporation Bank	0.98	47	0.36
	Average for these 7 banks	**1.16**	**63**	**0.41**
	Average for all Nationalised Banks	**1.02**	**63**	**0.44**

A perusal of the above figures would reveal that the Punjab and Sind Bank with the lowest officer-clerk ratio of 1: 0.24 has the highest staff cost at 75% as against an average of 65% for off the nationalised banks as compared to Corporation Bank with officer-clerk ratio of 1: 0.98 having the least staff cost ratio of 47%. Interestingly, Punjab National Bank, with an officer-clerk ratio of 1:1.36 has the second highest staff cost ratio of 70%. If we analyse the cost to income ratio of these banks, we find that the first seven banks with the combined lower officer-clerk ratio of 1:0.66 have a higher cost to income ratio of 0.46 as against the average of 0.44 for all the Nationalised Banks whereas the other seven banks with a higher officer-clerk ratio of 1:1.16 have a lower cost to income ratio of 0.41—which is much below the average of 0.44 for all the Nationalised Banks. This analysis renders the recommendation of Khandelwal Committee irrelevant and economically meaningless.

A healthy ratio of officers to clerks providing adequate number of clerical staff to perform routine clerical jobs will lead to huge cost savings.

Benchmarking studies are suggested in a vague manner. The current global benchmarking is BASEL norms and Indian Public Sector Banks are much ahead of such benchmarks. There is need to factor the cost of implementing Government's agenda of social banking, financial inclusion etc and such factors should influence the benchmarking for Public Sector Banks. Outsourcing is not desirable for business of banking where each employee is expected to possess unquestionable integrity and fidelity to maintain secrecy of customer data. The issues like business process reengineering, change management etc., must be undertaken with the involvement of permanent staff and must percolate top-down.

Ban on recruitment for about 20 years from 1985 was an unwise initiative as it has created a generation gap posing problems in succession planning. A proper succession planning calls for regular intake of people across cadres. The banks had forgotten the art of testing methodology and process of recruitment. IBPS must be streng-thened to help the banks recruit quality people and revival of BSRB may also be given a thought. Increasing the ratio of direct recruits to 50% of vacancies is illogical and will kill the spirit and aspiration of clerical staff joining the banks with the hope of better career prospects. Prescribing higher educational qualification for clerks and subordinate staff will accelerate attrition rate in view of the given low levels of salary. We need to recruit clerks to man all the locations and, hence, recruitment cannot be restricted to only rural branches. Urban and Metro branches do have clerical job and need to be provided with clerical staff as a cost effective measure.

Lateral recruitment of Specialists on contract runs contrary to the Committee's own recommendation of creating succession planning at higher levels in specialized verticals. A plan to groom three persons as reserve for each critical position is more than adequate and leaves no scope for lateral recruitment at higher levels of hierarchy. In Indian conditions, where there is no unemployment dole, five year contract employment would lead a specialist with uncertain future and without a settled job. Even social issues like marriage and bringing up a family will become a casualty of an uncertain and unsettled job.

TABLE III

(Rs. In Crores)

S. No.	Name of the Bank	Officer-Clerk Ratio	Business/ employee	Profit/ emplo-yee	Business Branch	Profit/ Branch
1	Punjab & Sind Bank	0.24	6.82	0.05	65.0	0.48
2	Andhra Bank	0.35	7.26	0.05	72.3	0.46
3	Oriental Bank of Commerce	0.63	11.39	0.06	119.1	0.65
4	Union Bank of India	0.70	8.11	0.06	92.0	0.67
5	Vijaya Bank	0.84	7.52	0.02	81.6	0.24
6	Allahabad Bank	0.93	7.03	0.04	63.6	0.34
7	Canara Bank	0.94	7.37	0.05	119.0	0.76
	Average for these 7 banks	**0.66**	**7.92**	**0.047**	**87.51**	**0.51**
1	Punjab National Bank	1.36	6.65	0.06	82.3	0.70
2	Bank of India	1.23	8.28	0.07	109.1	0.99
3	Indian Bank	1.18	6.20	0.06	75.5	0.76
4	Bank of Baroda	1.14	9.13	0.06	113.1	0.75
5	Syndicate Bank	1.13	7.88	0.04	88.6	0.41
6	Indian Overseas Bank	1.11	6.86	0.05	91.2	0.61
7	Corporation Bank	0.98	9.83	0.07	116.2	0.85
	Average for these 7 banks	**1.16**	**7.83**	**0.059**	**96.54**	**0.72**
	Average for all Nationa-lised Banks	**1.02**	**7.48**	**0.050**	**95.80**	**0.61**

It can be seen that the business per branch and employee at 119.1 and 11.39 is the highest in case of Oriental Bank of Commerce which is essentially on account of merger of Global Trust Bank with OBC. Barring Oriental Bank of Commerce the business per branch and per employee is highest in the case of Canara Bank with 119.0 and Corporation Bank with 9.83, respectively. The next bank having higher number at 113.1 and 9.13 with higher officer-clerk ratio (1 : 1 : 14) is Bank of Baroda. These numbers are against an average per branch business of 95.80 and average per employee business of 7.48 for all the Nationalised Banks. A group comparison of banks with lower officer-clerk ratio shows that the average business per branch at 87.51 is much lower than the business per branch of 96.54 in respect of the banks with higher officer-clerk ratio. It clearly establishes the fact that the banks with a higher officer-clerk ratio have been posting better numbers in terms of business per branch.

As regards the profit per employee it can be seen that individually and collectively the banks having average higher officer-clerk ratio have posted an average per employee profit of 0.059 as against 0.047 posted by those banks which have got average lower officer employee ratio. While per employee profit of the banks having average higher officer-clerk ratio is higher than the average ratio of 0.050 for all the nationalised banks. In respect of those banks having average lower officer-clerk ratio, it is much lower (0.047) than the average per employee profit 0.050 for all the nationalised banks.

This leads us to conclude that in terms of business and profitability the banks with higher officer-clerk ratio have been performing better than those banks with lower officer clerk ratio. A look at the last column of the table reveals that the per branch profit in respect of those banks which have lower officer ratio is 0.51 whereas it is 0.72 in respect of those which have higher officer clerk ratio as against an average of 0.61 in respect of all the nationalised banks. This analysis again renders the conclusions about reducing the officer-clerk ratio recommended by Khandelwal Committee as irrelevant and meaningless. It is, therefore, reiterated that the Government should withdraw its guidelines to Public Sector Banks about bringing down the officer-clerk ratio to 1 : 0.5 in metro and urban centres and 1 : 0.75 in rural and semi-urban centres.

Training and Skill development

Committee's recommendations accepted by the Government are good theoretical concepts which need to be supported by training infrastructure which is hardly enhanced by any Public Sector bank in the last 20 years to keep pace with technological and market changes where the business dimensions of banks have undergone phenomenal change. In today's context each bank officer needs at least 15 training days a year. Apart from this there should be a provision of mandatory leave by every officer for 10 to 15 days a year. These two initiatives, if put to practice effectively, need to be supported by a buffer of 10% of assessed manpower. The committee is completely silent about it. Budget for training the trainers and the employees need to be enhanced substantially with accountability for its effective utilization.

Career Planning

The Public Sector banks are already practicing fast track promotions for officers. Committee's recommendation of 3 years' compulsory rural/semi urban service to be eligible for promotion is impracticable because there is a probation of two years which is used to give exposure to any recruit in all the aspects of banking—particularly general banking, credit management, foreign exchange business, agricultural banking etc. which are all not available in rural branches. It will, therefore, imply that two year rural service can be completed only after two years' probation period is over. It makes the eligibility for Scale I to II at a minimum length of service of 3 years instead of 4 years an impracticable proposition. It will also not leave much scope for providing rounded exposure in various functional areas through job rotation. Three years branch managerial assignment at the early stages of the career will further constrain it. A span of 18 years to facilitate promotion up to the rank of General Manager is unrealistically low as it will make an Officer, General Manager at the age of 40, leaving 20 more years for him to rise up to the level of CMD. Lesser number of Board level vacancies would lead to large scale frustration at the level of General Managers.

Banking business involves more of decision making which can be enabled by technology and skills. Visualizing a situation to make a person ED or Chairman at 40-45 years of age is fraught with the risk of immature handling of huge public money. The experience of Barings Bank, Singapore, where 24 year old Nick Leeson brought the bank down to collapse within two months may be taken as a lesson. Viewed in the background of committee's focus on consolidation, the vacancies for ED and CMD will further shrink and the feeder cadre will be too huge. It will be a perfect recipe for frustration and discontentment at higher executive level.

Committee has laid huge emphasis on grooming and nurturing the industry leaders by giving them exposure and training, losing complete focus on the important aspect that as to when such potential industry leaders will deliver their best before becoming General Manager/ED/CMD. Grooming of functional specia-lists in each vertical will render lateral recruitment irrelevant and hence the recommendations of the committee are conflicting. Retention strategies should focus on emotional factors, superiors valuing employees' contribution, environment of trust and transparency apart from monetary compensation to be more attractive which the Committee has not looked into.

Performance management

The recommendations are generic in nature except introduction of 360° feedback. Performance management can be made easier by ensuring quality recruitment, for which a competitive compensation package having regard to external parity would be needed. There should be due compensation for responsibility, transferability and accountability.

Succession Planning and Leadership Development

Committee has recommended back up by having three potential successors in reserve also for each critical and leadership position. The idea of engaging the attention of steering committee of Board on HR is impractical in as much as the Government does not appoint two HR specialists as Directors on the Board. An effective succession planning does not leave any scope of lateral recruitment. To have three potential successors in reserve is untenable and unrealistic especially in view of the recent guidelines of the Government prescribing a GM, DGM and AGM ratio of 1:3:9 for the bank including the field functionaries. It may not be feasible to create reserve of three DGMs capable of replacing a General Manager for IT or Risk Management. The prescribed ratio will act as a constraint on maintaining the suggested reserve of executives. The commercial nature of banking business will make such theoretical and bureaucratic recommendations a non-feasible non-starter proposition.

Type of measures suggested by the Committee for HR development would entail huge cost and will escalate the staff cost substantially. The Committee has not visualized the impact assessment on efficiency, productivity and profitability as a sequel to implementation of its recommendations. It shows that the cost-benefit analysis is not carried out to substantiate the desirability of the recommendations. Pure HR specialists without domain knowledge of business of banking cannot help achieve the goals.

There is need for developing HR qualities in each floor level managerial cadre employee in the bank. Surprisingly, the Committee has not thought of institutionalizing the concepts like role modeling, sharing success stories etc. Appointing retired senior executives as mentor is aimed at creating re-employment opportunities when there is huge unemployment in the country. Mentoring should be done internally. The posts of ED & CMD should be internalized to prevent cultural invasion client migration and conflict. The suggestion of the committee that ED and CMD too need mentors is insulting to their position. ED (HR) should be provided to all the banks irrespective of their size.

Employee Engagement and Motivation

Committee recommends online resolution of grievances, free flow of ideas and suggestions, encouraging learning initiatives through appropriate recognition and reward schemes. Resolution of Human Grievances needs human touch which cannot be generated online.

Professionalization of HR

Every CMD and ED may not have specialized HR background. Their areas of specialization could relate to CORE banking activity. It, therefore, calls for imparting HR trainings with a focus on developing special HR capabilities in every managerial cadre employee. To do so in a sustained manner will lead to good HR culture and climate. Lateral recruitment cannot be a sustainable solution to address HR capability deficit. People from within will have to be groomed and trained in the field of HR to facilitate a broader understanding of business strategies and their integration with HR quality and quantity.

The role of vigilance mechanism in the banks need to be reviewed whereby the genuine bad debts/losses even at lower levels are viewed in right perspective without using hindsight to arbitrarily fix accountability. It will go a long way to create a climate of trust and encourage good business decisions.

Creating Risk Culture

The recommendation of premature retirement for non-performers after the age of 55 is obnoxious, to say the least. The nature of banking business is such that it involves a coordinated team effort to be a performer. The targets for the branches and regions are fixed by the superiors arbitrarily as dictated by their wisdom and perceived interests. Allocation of stiff targets and lack of support through credit sanctions and deposit mobilization at competitive price are all in the hands of superiors. This nature of our business can make anybody performer or non-performer at the mercy of superiors. Hence such concepts of premature retirement cannot be institutionalized in a Public Sector organization. The accountability policy for non performing credits does exist in all the Public Sector Banks. What is paradoxical in such a policy is that when profit and loss account is charged to make provisions for Non Performing Assets, simultaneous efforts to fix accountability and initiate disciplinary action also commence. On the other hand, when profit, and loss account is charged to make provisions towards other investments, the value of which has been impaired, rightly no accountability is fixed. Why similar treatment is not extended to non-performing credits which are normal business failures? Committee's suggestion to fix accountability for delay in concluding disciplinary cases is a welcome suggestion but similar accountability should be fixed in respect of delay at CVC and CBI's end which more severely impact the morale of the officers' community. The limitation for initiating disciplinary action having been fixed by CVC at four years from the date of event, is not adhered to in any bank. Committee has shown an absolute oblivion in this respect. There is need to fix accountability for its non-adherence. Sanction for prosecution are granted by the Competent Authorities on dotted lines without application of mind. It is antithesis to good HR practices.

Any initiative on HR in Public Sector Banks would be incomplete without a thorough reorganization of vigilance administration. It is imperative to understand that the Public Sector Banks are faced with Risk Averse tendency in decision-making. A vague and ambiguous definition of frauds having enlarged scope has acted as additional deterrent in the genuine decision-making as the people see the darker side of their promotional avenues getting shut. Committee has failed to deliberate on such vital issues impacting HR.

Reward Management

The existing system of performance linked incentive to staff has resulted in allurement without loyalty or commitment. Consequently, the level of window-dressing has increased and performance parameters are manipulated in an unfair and unethical manner to qualify for performance incentive. It has led to several avoidable disciplinary cases in Public Sector Banks.

ESOP have been creating discontentment in those Private Sector banks where it is in vogue. It has caused IR conflicts, agitation, unrest and strikes. Implementing the concept of ESOP in Public Sector Banks is fraught with similar risks and hence undesirable.

It is suggested that the banks which achieve the targets fixed under Statement of Intent (SoI) are allowed to pay bonus to entire staff since the achievement of targets is a team effort in which every employee—irrespective of his level in hierarchy—makes his humble contribution.

It is imperative for banks to attract better talents from employment market, for which one of the important aspects is external parity in wages having relation to responsibility, mobility, accountability etc. If we succeed in attracting better talent at entry level, good HR practices to nurture such talents on a sustainable basis shall prove to be quite effective to build result-oriented human resource and leadership.

Wages, Service Condition and Employee Welfare

Industry level settlements have ensured equal wages for equal work which is enshrined in our Constitution and it guards against discriminatory compensation packages in different Public Sector Banks. The observation of the Committee that each bank's 'capacity to pay' is undermined, is unfair. The amount of money charged to bank's profit and loss account to write-off the loans of willful defaulters including big industrialists, has not caught the eye of the Committee. Banks are made to pay hefty dividend to the shareholders. It is possible only because the banks have been earning adequate profits and have the capacity to pay. If human resources are taken due care they will take good care of other stakeholders.

The observation about capacity to pay is therefore misplaced and untenable

We need to set up a wage commission for Public Sector Banks having General Mangers of different banks and representatives of officers and employees to consider periodical revision of pay scales. Committee has been critical of standardization for its unfounded fears. Standardisation, per se, cannot be condemned, otherwise government's role to issue broad guidelines to Public sector Banks on many issues will become irrelevant. Recent standardization of number of vacancies of General Manager and promotion policy norms are immediate cases in point. When the Government and IBA issued guidelines to disentitle the officers from getting stagnation increment, Professional Qualification Pay (PQP) for passing JAIIB/CAIIB and automatic movement to the Basic Pay of next higher scale, it was challenged in the court. IBA and the Government are on record having filed their counters that they would like Public Sector Banks to follow uniform practice in HR matters.

Staff Welfare Fund should be 3% of declared net profit without any cap. It is beyond comprehension that the Committee which talks of 'capacity to pay', has fixed a cap to restrict the actual 3% of declared net profit to be used towards staff welfare. Committees suggestion to allocate 25% of welfare fund to retirees is a welcome move. The restrictions of business mix and number of employees to classify the banks in different groups is irrational when amount of welfare fund is linked to net profit. If a bank is able to earn higher profit for a lesser business mix with lesser number of employees, it is only fair to share higher amount in the form of staff welfare. Incentives are both a reward and motivation for excellent performance. This type of conditionalities would be anti-thesis to smaller and medium size efficient and high performing banks.

Other conditionalities therefore should be left to the collec-tive wisdom of staff welfare committee having representatives of management, employees' union and officers' associations without outside interference. Elected representatives of retirees' associations should join the management representatives to manage the retirees welfare fund instead of being on staff welfare fund.

Industrial Relations

Committee has recommended re-visiting of various segments for different reasons, which are not HR friendly. We suggest that all the past settlements should be consolidated for better understanding. There should be provision for housing at every place of posting for all the employees who are subjected to mobility. There should be preference in Kendriya Vidayalas for admission of bank staff's children. Indian Banks' Association should invest in creating Educational Infrastructure in different parts of the country to facilitate the staff mobility eventually.

Navartna Status to some Public Sector Banks

All Public Sector Banks are listed on stock exchanges and the share price Index takes care of such aspects. Decorative status would lead to unhealthy and unethical practices of manipulation to earn such title. Hence it is not desirable. ❐

"Hire people who are better than you are, then leave them to get on with it . . . ; Look for people who will aim for the remarkable, who will not settle for the routine." — *David Ogilvy*

Survival Kit in the Current Globalised Economy

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Today, all industries across the economy are facing toughest time ever. Decreasing margins, ever-demanding customers and global competition is hallmark of the current scenario. The situation is undoubtedly difficult but not beyond recovery. In this context, it would be advantageous to have a historic view as to how the Indian business scenario has changed over the years and how have we landed in the current scenario.

Our country India has had a golden history. During the pre-British period, the country was known as the golden bird. It was one of the biggest trading centers of the world and had a major share in the world trade. Traders and businessmen from the world over came to India for enhancing their wealth. However, unfortunately, this golden bird was plundered by the predators time and again. Britishers were the last to have come to India in this row. They came to India through the East India Company and took advantage of the fragmented polity prevalent at that time by adopting the policy of "divide and rule". Britishers indulged in massive exploitation as much as it finally resulted in awakening of the nation and throwing of them from the country.

Outlook at the time of independence

15th August 1947—the country got its hard earned independence. But unfortunately at a massive price in the form of division of the country between two independent nations. At that stage, two people at the helms were the father of the nation Mahatma Gandhi and Pandit Jawaharlal Nehru. As far as business was concerned, the two had different ideologies. While, Pandit Nehru dreamt of a modern and industrialized India, Bapu had a vision which was more conventional —that of self-reliant India with emphasis on the cottage / tiny / small scale industry. Anyway, at the time of independence, the economy of the country was in shambles and then there was this agony of partition. There was hardly any industry in the right shape worth its name. The only thing which was positive was a "positive outlook" (in today's parlance the "feel good factor") with a desire to grow and march forward towards the growth and development of the nation.

Socialism without accountability is disastrous

We adopted socialistic pattern of society. While the intentions were highly laudable the effects proved to be catastrophic for the economy of the nation. Little emphasis was laid on the development of infrastructure and the word profit was looked upon with contempt. The Government which could have focused on governance of the nation for growth and stability also got into running of the business. Accordingly, umpteen number of public sector undertakings (PSUs) proliferated, which later turned out to be the centers of inefficiency. These PSUs continued making losses year after year proving to be a big burden on the exchequer of the nation resulting in a huge debt burden on the nation, internal as well as external. PSUs made losses and these losses were made up by the Government. with no accountability on the part of the PSUs whatsoever. Thus the inefficiency received direct encouragement from the Government—perhaps unwittingly.

Pitfalls of Controlled Economy

Thus with the socialistic pattern of society, the economy was controlled through the so-called License and Permit Raj. If an individual or economy of a nation has to prosper and grow it needs three things : (1) optimum utilization of its resources (2) technology & capital, and (3) continuous value addition by each and everyone. Unfortunately, post-independence and pre-nineties all theses characters were found to be far too inadequate as far as the Indian economy was concerned.

It was purely a Sellers' market. Everything which was made could be sold. And it could be sold because the demand far exceeded the supply. And everything which ran smoothly was nationalized in the garb of public interest. The example of nationalization of Air India one can hardly forget in this context. In fact, the controlled economic structure ensured that not many industries were set up or if set up then not expanded. As a result of such structure, gains were of course there but the same restricted to a limited few. Who these few were is anybody's guess.

Close to International Bankruptcy

What was the end result? What else could it be? Came the year 1991, and the country was on the verge of international bankruptcy. The foreign reserves were just adequate for taking care of import requirements of eleven days. The country which used to be a donor to the world had to hold a begging bowl. Not many would forget that four hundred metric tonnes of gold had to be pledged by the country in favour of IMF so as to tide over the payment crisis. And as any lender would do, the IMF/World Bank imposed many conditions which, of course, inter alia, included that the country would need to adopt reforms so as to ensure that the economy was set to move on the right path. It was around the same time that the discussions and deliberations commenced in the forties with Maastricht Treaty culminated in the establishment of the World Trade Organization (WTO) of which India has been a founding member.

Internet Revolution

In the Indian context, the quantitative restrictions have been removed from almost all the items. Today you want to import an item from anywhere in the world, you can simply do so. You do not have to go through the hassles of obtaining the import license or any such permission or approval. Custom duties have been lowered and will be lowered further progressively so as to match the world standards. Subsidies, are being withdrawn. First it was the sales tax incentives, now it may be the turn of the export incentives. It is going to go on like this now. There is a free flow of foreign direct investment. Today you can see more multinationals in the country like never before.

In this changed environment, challenges are there for all to face. WTO and the Internet have produced a truly paradigm shift in the business and profession. Today as a manufacturer, my competition is not with the other manufacturers in the same city or state or even the country. Today, as a manufacturer, I face competition from each and every part of the world. It means, not only I need to know my own cost, but I also need to know the cost at which the same goods are being produced elsewhere in the world. And I need to make sure that I am not only quality competitive but also price competitive and delivery competitive.

This is equally applicable to a management professional—be it a Cost Accountant, Chartered Accountant, Company Secretary, or a Lawyer.

If we do not do what is stated above, we stand the same risk which Ambassador and Fiat brands of cars had in India. Where are these models and companies producing them today? A black & white TV brand called "Weston" for which there used to be a big demand and it was available on premium. Where is it today?

Challenges before the Indian Economy

Now the question is "What is the mantra to survive and grow in today's global scenario". And before we discuss the answer, let's look at the challenges that we face. An indicative summary of the same is :

1. Dismantling of the international borders and the world becoming a big village
2. Global meltdown
3. Unprecedented Financial Credit Crisis
4. Customer focus with overpowering Buyers' market
5. Quality consciousness of the highest order and price competitiveness like never before
6. Global competition for the manufacturing sector as well as the service sector including management and legal services
7. Mass scale entry of multinationals
8. De-industrialisation.

Strategies to face the global environment

So what are the options that we have to survive and grow in such a scenario or it is end of the road. I for one would feel that, in short term, the situation may be full of threats and difficult times, the long term is safe, particularly for those who are prepared to change and break the mindset. We are heading towards a perfect market scenario which would ensure that in the ultimate analysis everyone who adds value is a winner. Those who are efficient and effective would gain in any case and those who are not would be forced to pull up their socks and upgrade themselves to the changed standards.

At the macro level, there is bound to be shake up across the board and one would see lot more consolidation in the form of merger and amalgamation. Size is going to matter. "Bigger the better" is going to be the buzzword. Size would decide your negotiation power. Economies of scale will gain prominence. One would need to join hands with the competition in whatever form to enhance its negotiation power while dealing with the vendors and customers and so also to ensure optimum utilization of its resources.

And of course at the micro level, Cost Reduction Strategies, Innovative ideas and implementation thereof by the business firms and the professional firms is going to be critical for growth, sustenance and better profitability. Customer is going to be the king and the Customer's delight is going to be the new age mantra for growth—sustenance and profitability.

Basically, it is sustained level of competency in one's chosen field that is going to be the survival and growth mantra for anyone and everyone. And if it is not achieved for whatever reason, sooner than later, we will find ourselves having been overrun by someone.

Thus one has to be in synch with the requirements of the customer and so also with the ground realities of the economy. One can go on talking of level playing field, but the only way in which one can get it is by creating one by himself. All kinds of protections, reservations and subsidies are going to be the things of the past. And this is going to happen sooner than later. So if I was to design a strategy for survival and growth in the global scenario, I would most certainly include the following in armoury :

1. Remember, the Vision and Mission statements are not permanent documents. Revisit them once in a while.
2. Work for attaining highest level of productivity in every aspect of the business.
3. Remain constantly aware of the "Risks" and be prepared for it.
4. Attain Price Competitiveness of the highest order
5. Create Culture of Cost consciousness in the whole organisation.
6. Work with Customer-centric attitude at all levels.
7. Absolute optimization of resources.
8. Be driven by an urge to "create wealth" and not "amass wealth".
9. Continuously feeling pulse of the economy and creating strategies for responding to changes.
10. Ability to respond fast, speed of activity.
11. Change in attitude at all levels.
12. Accountability at all levels.
13. Deliver flawless service, job and products with no compromise on quality whatsoever.
14. San the "chalta hai attitude"—for good and forever.
15. Find out the role of your product/service in the final product of your customer.
16. Ensure and maintain high energy levels across the organisation.
17. Remember, Innovation is a journey and not a destination.
18. Forget the hierarchical systems. One who adds value is important.
19. Continuous introspection, evaluation and monitoring.
20. Compliment rather than compete even with your competitors.
21. Build expertise and become an authority in your chosen field.
22. Keep pace with technological advancement and adopt the same.
23. Value Human Resource. Don't throw them away simply because you can. Find our ways and means to retain them. Because, ultimately whatever an organisation achieves it is through the Human Resource only.
24. Finally, don't ignore and pay only lip service to "Transparency and Good Corporate Governance". Ensure sincere and serious implementation of them in the organisation.

Today all the players in the industry and professions—big, small or medium—are in the same situation. While, the vendors insist on prompt payments and continuous price increase, the customers demand longest possible credit and the product choice with no bounds. Gone are the days of annual automatic price increase from the customers. Now you earn profit from the cost which you cut at your end. And the situation is going to be more serious with the passage of time. The world standards are going to be the benchmarks and not the national best which may not really be the best.

And, therefore, constant adherence with the above-said survival kit will provide the necessary respite and succor to the ones who wish to make and leave their mark on the portal of the industry or profession. This is going to be our survival and sustenance kit in the new Globalized Economy. ❐

"Never try to teach a pig to sing; it wastes your time and it annoys the pig." — Paul Dickson

New Takeover Regime 2011 : An overview

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In September 2009, market watchdog SEBI had constituted an expert committee under the chairmanship of Late Sri C. Achuthan, the former chairman of Securities Appellate Tribunal, in order to review the simplification of the existing Takeover Regulation and to suggest suitable changes, as deem fit, to align with the best global practices. This committee is known as Takeover Regulation Advisory Committee (TRAC). The Committee, on July 19, 2010, has released its comprehensive reports suggesting the changes in the rule of game of takeover with a new draft Takeover Regulations. The draft regulations were open for pubic comments till August 2010. On July 28, 2011, SEBI in its meeting had accepted by and large most of the recommendations of TRAC.

Securities Exchange Board of India (SEBI) notified the much-awaited new regulation called SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011, on September 2011, four days after the chief architect of the code C, Achuthan, breathed his last. The new Regulations took effect on October 22, 2011.

Key changes in the New Takeover Regulation :

- I. Introduction of new definitions and modification of existing definitions
- II. Increase in initial trigger limit from 15% to 25%
- III. Creeping Acquisition Limit raised from 15%-55% to 25% - 75%
- IV. Increase in offer size from 20% to 26%
- V. Non–compete fees or control premium to the sellers in the offer price
- VI. Voluntary Open offer
- VII. Recommendation on the open offer by Board of Target Company
- VIII. Derails provisions relating to indirect Acquisition of share or control
- IX. Determination of offer price
- X. Exemption of open offer
- XI. Conclusion.

An Analysis of the Important Provisions of SEBI (Substantial Acquisition of Shares and Takeover) Regulations, 2011, is setout :

I. Definition

The definition of "acquirer" as given in the new Regulation is more or less same with the one existing in the SEBI Takeover Regulation 1997 with an addition of the word "through"

SEBI SAT Regulations, 1997	SEBI SAT Regulations, 2011
"Acquirer" means any person who, directly or indirectly, acquires or agrees to acquire shares or voting rights in the target company, or acquires or agrees to acquire control over the target company, either by himself or with any person acting in concert with the acquirer.	"Acquirer" means any person who, directly or indirectly, acquires or agrees to acquire whether by himself ***or through*** or with any person acting in concert with him, shares or voting rights in or control over a target company.

New Regulations, 2011, has recognized a person as acquirer even where the acquisition whether of shares or voting rights or control has been made by him through person acting in concert with him i.e. through special purpose vehicle or through the controlling entities.

The **definition of "control"** has been introduced in the new Regulations, which is similar to recommendation of TRACT Report with an exception that the word **"ability"** has been removed.

TRACT had recommended to enlarge the scope of the term Control to include "ability" along with "right" to appoint majority of director or control the management or policy decision. The intention behind this recommendation is to include de facto control rather than just de jure control to trigger open offer obligations.

The term "negative control", as used by the SEBI in its various judgments, orders has not been defined in the new Regulations, 2011. By using the negative control, acquirer would restrict the Company to pass the special resolution in the general meeting of the Company. For example: acquirer holds 25 shares out of the total of 100 shares of the Company. In a general meeting of the company, only the 75 members presents out of 100 members. So the percentage of holding of acquirer in that meeting is 33.33% (25/75 × 100), which is more than 26% and very important for special resolution.

The **definition of "Shares"** has been broadened in the New SEBI SAT Regulation, 2011. The definition is modified to include depository receipts, which is treated at par with the equity shares carrying voting rights.

SEBI SAT Regulations, 1997	SEBI SAT Regulations, 2011
"Shares" means shares in the share capital of a company carrying voting rights and includes any security which would entitle the holder to receive shares with voting rights but shall not include preference share.	"Shares" means shares in the equity share capital of a target company carrying voting rights and includes any security which entitles the holder thereof to exercise voting rights. Explanation: For the purpose of this clause shares will include all depository receipts carrying an entitlement to exercise voting right in the target company.

New Definition Introduced :

- **"Enterprises Value"** means the value =

➢ Calculated as market capitalization of a company, **plus** ➢ Debt ➢ Minority Interest and ➢ Preferred shares	Total cash and cash equivalents

The concept of enterprises value is very important in case volatile capital market.

- **"Volume weighted average market price"** mean

$$\frac{\text{The number of equity shares traded in the stock exchange} \times \text{the price of each equity share}}{\text{Total no. of equity shares traded on the stock exchange}}$$

- **"Volume weighted average price"** means

$$\frac{\text{The number of equity shares bought} \times \text{price of each equity share}}{\text{Total no. of equity shares bought}}$$

- **"Weighted average no. of total shares"** means

The number of shares at the beginning of a period, adjusted for shares cancelled, bought back or issued during the aforesaid period X a time weighting factor.

II. Increase in initial Trigger limit for open offer from 15% to 25%

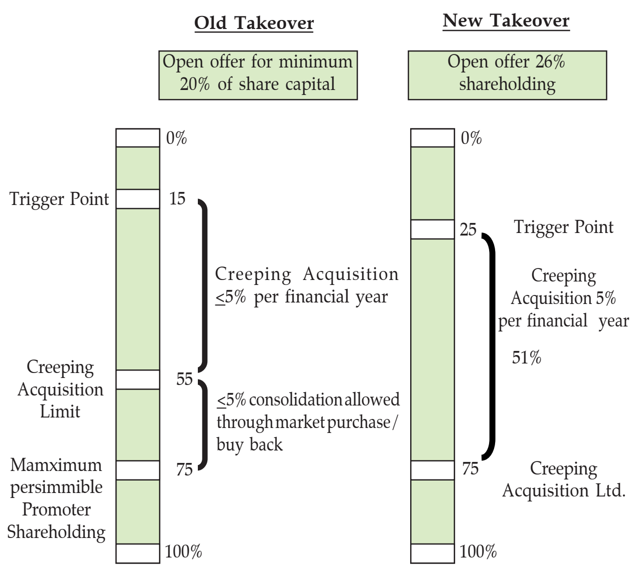
The initial threshold limit for triggering open offer was increased from 10% to 15% and now to 25% of the voting capital of the company. The increase in threshold of 10% (i.e from 15% to 25%) is a welcome step in comparison to the global practices in other countries, where the initial threshold limit ranges between 30% to 35%.

The new threshold of 25% applies from October 22, 2011. With the new Takeover Regulations, now the acquirer can increase its holding to extent of 24.99% without attracting an obligation to give an Open Offer to the shareholder of the Target Company.

Implications

- It would be beneficial to Private Equities (PE), Foreign Institutional Investor (FII) and other investors to increase their shareholding up to 24.99% without triggering the cumbersome and costly Takeover Regulations. Earlier it was restricted to 14.99% only.
- With this new Takeover Regulations, promoters can also consolidate their holding up to 25% without triggering open offer.
- Company would be able to raise more capital in cost effective manner in coming months.
- The Individual shareholder would also eligible for open offer trigger points that mean they can also increase their holding up to 24.99% without triggering the new Takeover Regulations.
- With such strategic buy-out by the Promoters as well as investors may be influence to ramp up price of securities in the capital market.
- With the new threshold limit (i.e 24.99%); investor would be able to block special resolution in Target Companies with relative ease.

Therefore, the increasing the open offer threshold limit to 25% is likely to be war for takeover reputed companies. No transitional provisions are mentioned in the new Takeover Regulation for increasing their holding.



III. Increase in Creeping acquisition range from 15-55% to 25-75% limit

In the New Takeover Regulations, there is one single and clear creeping acquisition bracket i.e. 25-75%, which is very simpler than the earlier regulation.

In earlier Regulations, there was range of 15-55% with a limit of creeping acquisition not more than 5% each financial year and a one-time increase of 5% only through stock exchanges with the range of 55-75% without making an open offer.

Implications

- This would be good opportunity for the Promoters to bump up their holding to the maximum level of 75%, which was a challenge in earlier resolution.
- Creeping acquisition limit of 5% is same as earlier Regulations.
- Creeping acquisition of 5% per year is available for all the shareholders holding 25% or more.
- Through creeping acquisition, if the acquirer together with PACs increases beyond the maximum permissible non-public shareholding, the acquirer would require to bring down the non-public shareholding to the level specified within twelve months from the date of completion of the offer period.
- The manner of computation of 5% creeping acquisition has been clarified in new Takeover Code. For this, gross acquisitions would be considered for determining the quantum and any dilution or decrease in shareholding/voting right would be ignored.
- This would be a defense mechanism against hostile takeover threat.

IV. Increase in offer size from 20% to 26%

The minimum offer size has been increased from the existing 20% of the total issued capital to 26% of the total issued capital as of 10th working days from the closure of the tendering period.

The increase of 6%, fails the whole logic of TRAC recommendations. The rational behind the TRAC recommendation was to increase the offer size to 100% of remaining shareholders so that an equal opportunity to exit the Target Company could be provided, who desires to exit from the Company. SEBI increased marginally offer size (i.e. 26%) due to stiff opposition and lobbying from India corporate house. Besides, the Indian Banking law restricts banks from funding acquisitions.

Implications

- However, the logic of increase offer size to 26% does not known, the move is good for domestic promoters and the general public shareholders.
- Technically, an acquirer can now acquire controlling stake of 51% (i.e. 25% for initial trigger limit plus 26% through open offer) in the company. This would reduce the public float and liquidity in the market with the shares being concentrated in few hands.
- The cost and fund involvement of open offer would go up.
- This will require huge amount of Fund and only the serious investor can make such acquisition and shall trigger offer.

V. Non–compete fees or control premium to the sellers in the offer price

Non-compete fee means the amount of compensation payable to the selling promoter for not being able to carry on the same business of the Target Company for the relevant period.

SEBI SAT Regulations, 1997, allowed to pay such fee to extent of 25% of the whole transaction value to the promoters of a company, which is a part of the most M&A transactions. Any payment of such fee in excess of 25% would be part of offer price to the shareholder of the Company.

New SEBI SAT Regulations, 2011, has dispensed with non-compete fee as per recommendation given by TRAC. The intention behind the removal of such fee is on the sprit of equal treatment of all shareholders. Under this Regulations, any direct or indirect non-compete fee or control premium paid to controlling shareholders would be added to the offer price.

Implications

- The logic behind the removal of such fee may not be acceptable to the promoters. Most of the business in India is in family owned and promoter run, where they contribute their unique knowledge and expertise substantially rather than just being in realms of management. This is a loss to the promoters as on non-compete fee would not part of their deal.
- This would mean that promoters would not provide any preferential treatment that would be at par with other shareholders.
- Promoters may not be willing to exit from the Company without getting something additional from their efforts.

VI. Voluntary Open offer

The new Takeover Regulations provides a separate provision for Voluntary Offer. Under the new Regulations, an acquirer together with persons acting in concert shall be entitled to make a Voluntary Offer for acquiring shares subject to compliance with following conditions:

- Minimum offer size should be 10% of the total share of the Company
- At the time of voluntary offer, prior holding of such persons should have at least 25% or more but not more than maximum permissible limit.
- After completion of offer, aggregate shareholding cannot breach the maximum permissible requirement.
- No acquisition of shares is made in preceding 52 weeks otherwise than open offer.
- Not acquire of share during offer period.
- Such offer restricts to acquire any further shares of company for a period of six months after completion of open offer except through another Voluntary Offer or Competing Offer or Bonus issue or stock splits.

Implication

- Such Voluntary Offer may be helpful for smaller percentage of shareholders. The important is that the right of the acquirer to increase their shareholding through "creeping acquisition" still subsists in each financial year without being required to make an open offer.

- Through it if the acquirer together with PACs increases beyond the maximum permissible non-public shareholding, the acquirer would require to bring down the non-public shareholding to the level specified within twelve months from the date of completion of the offer period.

VII. Recommendation by Board of Target Company

The new SEBI SAT Regulations makes it obligatory on the part of Board of Target Company to constitute a committee of independent directors to make a reasoned recommendation on the open offer. Such new regulation is in contrast with the existing regulations (generally not followed in most takeovers) which had left this requirement at the choice of the directors of the Target Company.

Implication

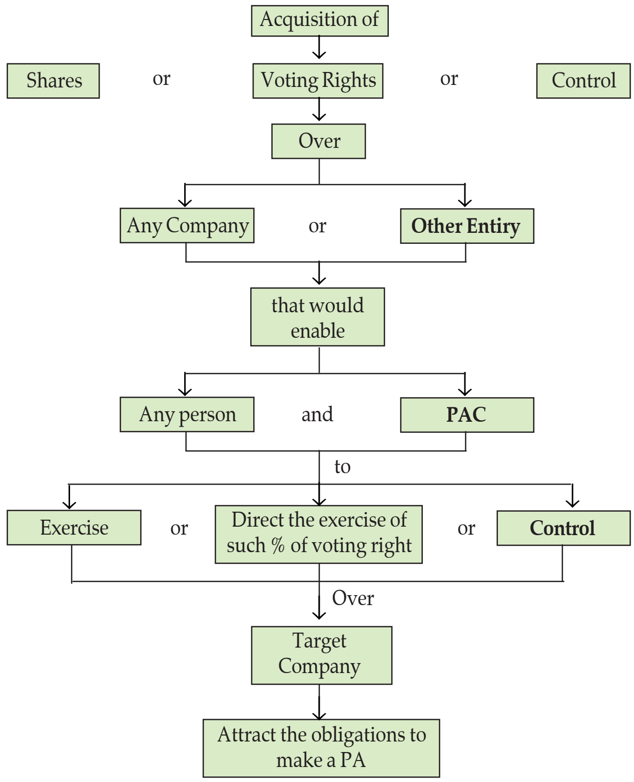
- This would assist the public shareholding with greater insight to make a reasoned decision.
- Such an unbiased recommendation or commend on the open offer should be published in newspaper to help the public shareholding.
- This may create conflict of directors' interest issue, particularly where they hold shares in the target company.

VIII. Indirect acquisition of shares or control

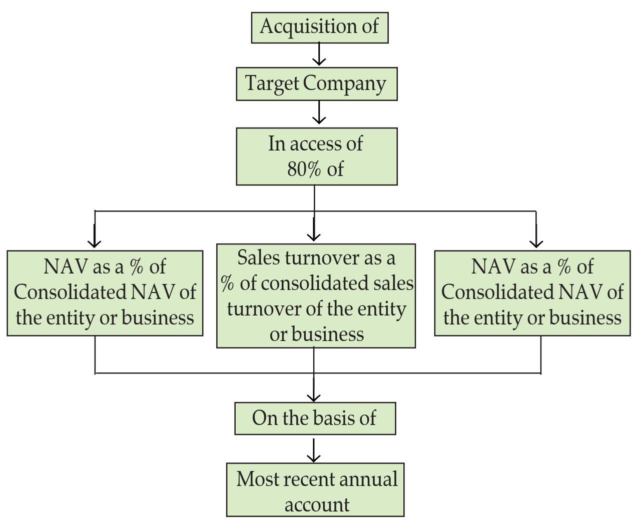
SEBI SAT Regulations, 1997, limited the scope of indirect acquisition. There was no separate regulation for the same. Explanation to Regulations, 10 & 11 of 1997 code, acquisition shall mean and include indirect acquisition by virtue of acquisition of companies, whether listed or unlisted, or whether in India or abroad.

New SEBI SAT Regulations, 2011, expands the scope of definition of indirect acquisition under Regulation 5.

Regulation 5(1) : Indirect acquisition means



Regulation 5(2) : Circumstance in which indirect acquisition is to be deemed as direct acquisition :

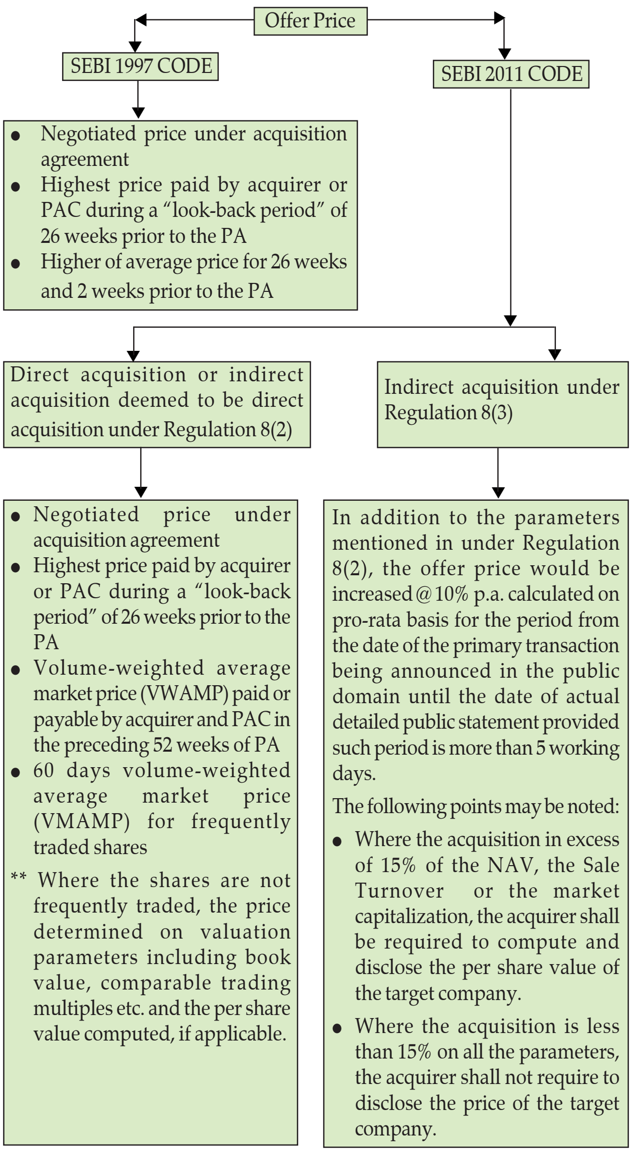


Implication

- Indirect acquisition will also trigger the requirement of public announcement.
- The wolds *"other entity"* under Regulation 5(1) are wide enough to cover foreign companies/bodies corporate, Limited Liability Partnership (LLP) and Trust etc.

IX. Determination of Offer Price

The new Takeover Regulations provides market price based parameter for determining the offer price. It provides differential pricing formula for open offer arising due to direct acquisitions as well as indirect acquisitions.



- The mechanism of offer pricing is to give minority public shareholding an equal exit opportunity on same terms to the substantial or large shareholders.
- The new Takeover Regulation provides the volume weighted average market price for 60 days instead of simple average of the weekly high and low of the closing price/daily intra-day high and low price of the shares, which are readily available in the market.
- The 26 weeks and 2 weeks average price deleted from the offer price parameters. 26 weeks price average was not reflective of prevailing market price and distorted the value of the shares. 2 weeks average price considered a volatile period for offer price parameter.
- Volume weighted average market price is a more accurate determinant of the prices at which share are actually transacted and it would also eliminate the outer effect of high and low prices.
- A look-back period of 52 weeks (instead of prevailing of 26 weeks) is to be treated as anti-abuse provisions as it would make more expensive to defer the public announcement intended by the acquirer.

X. Exemption from open offer

Regulation 10 of new Takeover Code provides a list of exemption, which is correspond to Regulation 3 of the 1997 takeover Code.

Some of the important exemptions are :

- **Corporate Debt Restructuring (CDR) :** Unlike in SEBI Takeover Code 1997, new code 2011 provides that acquisition pursuant to such scheme is exempt from open offer obligations provided if the shareholders' approval by way of special resolution passed by Postal ballot and no change of control over the target company takes place through such acquisitions.
- **Buyback of Shares :** Unlike in SEBI Takeover Code 1997, new SEBI Takeover Code 2011 contains exemption provisions for increase in shareholding pursuant to buyback by Target Company :

➢ Where a shareholders holding increases beyond 25% threshold limit pursuant to buy back, such increase shall be exempt from open offers obligation provided such shareholder reduces his shareholding below 25% within a grace period of 90 days.

➢ In case a shareholder's stake is between 25%-75% and the increase in stake due to buyback is more than annual creeping acquisition limit i.e. 5%, exemption from open offer is available subject to the following:

➢ Where such shareholder has not voted in favour of resolution authorizing the buyback under Section 77 of the Companies Act, 1956.

- Such increase in stake does not change in control over the target company,

- Such resolution is passed by way of postal ballot,
- In case of Board Resolution, such shareholder in the capacity of director has not voted.
- **Voting right on Preference Shares :** New Takeover Code, 2011, has amended the definition of "shares" to include preference shares. It contains the exemption provisions in a situations where voting right accrue to preference shareholders on account of non-payment of dividend.
- **Inter se transfers :** New Takeover Code 2011 provides that acquisition pursuant to inter se transfer of shares among qualifying parties are exempt from the obligation to open offer.
- **Right Issues :** Acquisition through right issue is exempt from open offer when the acquirer has not renounced any of his entitlement and the price of the right issue is not higher than the ex-right issue price of target Company.

Conclusion

The New Takeover Code, 2011, would be certainly a ne game changer for merger and acquisitions in India. The new takeover code seems to be much better aligned to the international practices. With the abolition of non-compete fees, both promoter and minority public shareholders would now get the same price for their shares being acquired by acquirer. The marginal increase of offer size from 20% to 26% as against 100% recommendation of TRAC would help domestic acquirer to minimize the cost of acquiring due to lack of access to bank funding and the other side minority shareholders would get the exit opportunity.

However, the logic of increase offer size to 26% does not known and not clarifies in New Regulations. Where the acquirer together with PAC increases their holding beyond maximum permissible non-public shareholding, the acquirer becomes ineligible to make a voluntary delisting offer under SEBI (Delisting of Equity Shares) Regulations, 2009, unless a period of twelve months expires. The logic for waiting 12 months is not clarified by SEBI New Takeover Code. An unbiased recommendation for Open offer by Independent Director would help the public shareholding.

The new exemption for open offer available for Corporate Debt Restructuring and Buyback of shares is a very good step in the new code. The Individual shareholder would also be eligible for open offer trigger points which may intricate the whole process of consolidation strategies for promoters. ❒

(contd. to page 307)

a very good mental discipline for preparing the rational mind to receive intuition.

Role of the Leader : Pulling it Together

And finally comes the question what is the role of the leader in a creative team? It is to orchestrate the team and hold it together. The leader here is more of a system integrator than a commander. His or her main tasks are :

- Constantly remind and hold before the team-members the larger mission and the immediate targets.
- Provide sufficient freedom and autonomy for the team members but at the same time motivate them to share their ideas and collaborate with others.
- Resolve interpersonal conflicts and attend to the needs of the individual members and the team as a whole.
- Monitor the progress of the creative process, provide feedback to the team-members and make course-corrections wherever necessary.

Elizabeth Long Lingo of Vanderbilt University, who has done extensive research on the production of country music, gives the example of the producer as a leader of a creative team. The music business requires the integration of many parties like songwriters, publishers, artists. The person who brings them all together is the producer. He operates in the centre of the whole creative process without being the focus of attention. He has to orchestrate the creative output of a diverse group of experts without over-controlling them. His task and his professional satisfaction come from helping others to realize their unique talents and achieve a collective goal-a hit record. ❒

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Mergers and Acquisitions in the New Economic Order

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The corporate sector all over the world is restructuring its operations through mergers and acquisitions in an unprecedented manner in order to successfully overcome the challenges posed by turbulence caused in the world relating to business cycles. One of the striking features of the present mergers and acquisitions scenario is the presence of a large number of cross-border deals, which is an easier way of internationalization comparing Greenfield mode of entry. Further, this is leading to a gradual shift in the organic ways of foreign investment into inorganic means of brownfield investment. Conceptually, Greenfield investment means when the company invest in another country through setting up new firm whereas Brownfield investment means making investment in already established firms. India's emergence as a major developing economy and its potential to drive global economic growth along with China in this century is being acknowledged by economists across the globe. A sustained growth of 8%- 8.5% combined with a huge domestic demand, is attracting global corporates towards India. This coupled with the increasing appetite of Indian companies for M&A activity in India with more and more companies scouting for potential targets.

Concepts

A merger has been defined as an arrangement whereby the assets of two (or more) companies become vested in, or under the control of one company —(which may or may not be the original two companies), which has its shareholders, all or substantially all—the shareholders of the two companies. In a merger, one of the two existing companies may form a new company by transferring their business and undertakings—including all other assets and liabilities—to the new company. Although the term merger and amalgamation appear synonymous, there is difference between the two. Amalgamation means when two or more companies merge together to form a new company, the process is known as amalgamation. The amalgamating companies lose their identity and the shareholders of the amalgamating companies become shareholders of the amalgamated company. The various types of mergers are :

a. Co-generic mergers or mergers within the same industry; and
b. Conglomerate mergers or mergers within different industries.

Co-generic mergers take place between companies operating in the same industry i.e. horizontal mergers or when two or more companies which are engaged in different functions within the same product i.e. vertical merger.

Conglomerate merger take place between companies from different industries. The businesses of the merging companies lack commonality in their end products or services. A company achieves diversification by acquiring companies from different industries. A conglomerate merger is a complex process that requires adequate understanding across diverse businesses.

Takeover

Takeover is a strategy of acquiring control over the management of another company- either directly by acquiring shares carrying voting rights or indirectly by participating in the management. Where the shares are closely held by a small number of persons, a takeover may be effected by an agreement with the shareholders. However, where the shares of the company are widely held by the general public, it involves the process as set out in the SEBI (substantially acquisition of shares and takeovers) regulations, 1997.

Mergers and Acquisition happening globally

Credit Crisis and its impact on M&As

The unprecedented global financial crisis and resultant economic slowdown has not come as a surprise for the dealmakers who, at that point of time, were forced to go back to the drawing boards in order to rework the terms of almost each and every transaction on account of valuation differences, funding issues etc.

Further, deals worth several billions of dollars were axed as conditions in the credit markets deteriorated, the permanent one being Kaupthing Bank's last minute decision to call off its planned $4.39 billion takeover of Dutch rival NIBC Holdings. The write down of billions of dollars of mortgage loans had dried up the capital of most of the financial institutions. While institutions took every possible steps to shore up their equity through private placements, equity issues through private placements, equity issues and financial assistance from the governments, the plunging market value of their stocks foiled most of their fund-raising exercise too..As a clear impact, many companies were forced to be merged /acquired into / by larger companies to avoid bankruptcy. Some of these deals were :

Serial No.	Deal	Value of deal (in US$)	Outcome
1.	Bank Of America—Merill Lynch	$44.4 billion	Bank of America has attained leadership position in retail brokerage and wealth management. The combination added to the bank's existing $589 billion assets under management, an approximately 50% ownership in the financial Blackrock, which has $1,400 billion in asset under management.
2.	Lyod TSB—HBOS	$22 billion	This deal has created a new banking group with total assets exceeding £1,000 billion, making it the last fourth largest bank in Britain and the largest market positions in current accounts, mortgages, savings and loans. Lyods' combination with HBOS has lead to significant annual savings of over £1 billion per year by 2011, or around 10% of the combined cost base.
3.	Wells Fargo—Wachovia	$15.4 billion	This acquisition has led Wells Fargo to have big retail banking network and has created it as one of the strongest financial firms in the world.

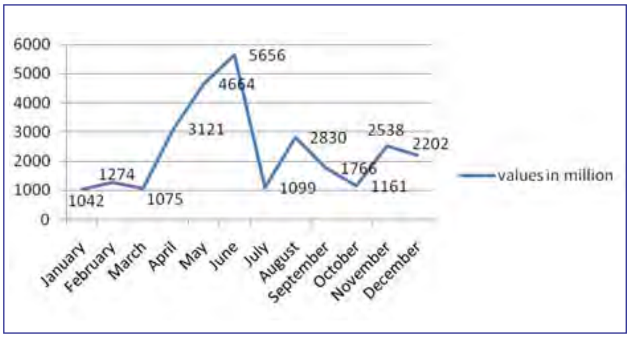
Appendix 1 : Forced mergers and acquisition in the recent years

Since the liberalization of foreign investment/ foreign exchange policies coupled with rapid economic growth have driven foreign/Indian companies to acquire softer targets in India/abroad. Interestingly, most of the M&A deals transactions amongst the Indian corporate sectors have been driven by some of India's largest and oldest corporate houses.

However in the recent past, India contributes less than 1% in the global M&As deals that took in the year 2010 and 2011. Further, even in the Asia-pacific region, India's share in the M&A activity is less than 1% which is much lower as compared to other countries.

(Source: merger market: Press release—Global M&A Round-up for Half-year End 2010)

With the advent of liberalization of government regulations, substantial proportion of FDI came through the mergers and acquisition route which has helped in acquiring companies in both inbound and outbound areas. The movement of FDI on a month-on-month basis is illustrated :



Appendix 2 : Flow of FDI in 2011 (Source: RBI report)

The continuous fall in the FDI during the year 2011 clearly depicted the skeptics in the minds of the investors for risk involved and low return scenario glooming over the country. However, despite of the headwinds like global slowdown, rising inflation, high interest rates, volatile stock market and the weakening of rupee, there has been steady growth in the mergers and acquisition in the country in 2011.

There have been 961 deals which valued to US$51 billion compared to 971 deals amounting to US$62 billion in 2010, in both M&A and PE deals. Though there has been dip of 15% on the mergers and acquisition activity, there had been nine deals which have been more than a billion dollar each, which is second only to last year where we had ten deals.

Though the first half yearly M&A activity report showed similar growth as of the last year's first half year, with M&A deal values amounting to US$ 28.4 billion compared to US$28.9 billion in H1 2010, the second half year has witness relatively lower activity compared to corresponding period in the previous year which clearly reflected the looming economic certainty. The major reasons for the slowdown in the investment scenario are :

- European crisis
- Weakening of Indian rupee
- Rising Inflation
- Introduction of strict regulatory norms
- High Interest rates.

Despite of the above facts, the deal volumes have remained robust throughout the year. The other major change witnessed during the year was the introduction of merger control provisions by the Competition Commission Of India (CCI) and government regulations on specific M&As such as inbound acquisition of drugs and pharma companies requiring approvals for the same. Though such regulatory steps will cater greater transparency in the mergers but, however, it will impact the timeliness of the closure of deal with delay in the process which will hamper the restructuring deals in future.

The overall deal that happened in the year 2011 is shown :

	Volume			Value (US$ bn)		
Year to date	**2009**	**2010**	**2011**	**2009**	**2010**	**2011**
Inbound	74	91	132	3.9	9	26.9
Outbound	82	198	132	1.4	22.5	10.4
Cross Border	**156**	**289**	**264**	**5**	**31**	**37**
Domestic	174	373	342	6.7	18.3	5
Total M&A	**330**	**662**	**606**	**12**	**50**	**42**
PE	206	253	347	3.4	6.2	7.7
QIP	54	56	8	8.6	6.2	0.9
Grand Total	**590**	**971**	**961**	**24**	**62.2**	**50.9**

Appendix 3 : M&A deals in 2011

A remarkable trend reversal was observed in the cross border deals with focus on deal activity shifting from outbound to inbound as can be seen in the table above. One of the major reasons for the reversal was due to the premium valuations that made the Indian businesses look attractive. Out of the nine deals valued at over a billion dollars each transacted during the period, six were in bound. Another reason for the shift could also be the relatively stable Asian/Indian economy in comparison to a few other uncertain European economies. Domestic deal activity in the year has witnessed relatively low values as compared to 2010, mainly due to continuing focus on mergers and restructuring activities, despite volumes remaining buoyant.

Trend

In recent years, we have seen outbound deals overtake inbound deals. However, the trend has changed with inbound deal growing by 200% and outbound deal has declined by 50%. Though the number of deals are exactly the same in both, the deal values is significantly higher in inbound than outbound. Such a trend depicts a clear picture of foreign companies/investors, especially Japanese and US companies, remaining bullish with the India's growth story. The major reason for the big leap in the inbound deal was due to the premium valuations that made the Indian businesses look attractive for the investors/companies. Policy changes in sectors such as aviation and retail has initiated the inbound deals in the economy. The other reason for the growth was the relative stable Asian/Indian economy in comparison to a few other European economies.

The top deals that have happened during the year are :

Acquirer	Target	Sector	% Stake	US$ million
Vedanta Plc	Cairn India	Oil & Gas	59%	8,670**
British Petroleum	Reliance Industries	Oil & Gas	30%	7,200
Vodafone Group Plc	Vodafone Essar	Telecom	N.A.	5,000
Mundra Port SEZ Ltd (Adani Group)	Abbot Point Port	Shipping & Ports	100%	1,957
GVK Power & Infrastructure	Hancock Group-coal mines, port / rail project	Mining	79%	1,260
iGate Corporation Apax Partners	Patni Computer Systems	IT & ITeS	83%	1,209

**Multiple transactions

Appendix 4 : Top M&A deals that took place in 2011

As far as domestic transactions are concerned, the value of deals has gone down but has stepped up in terms of number of deals. This gives a fair indication that most of the companies are going for restructuring and mergers that has happened in the Indian economy.

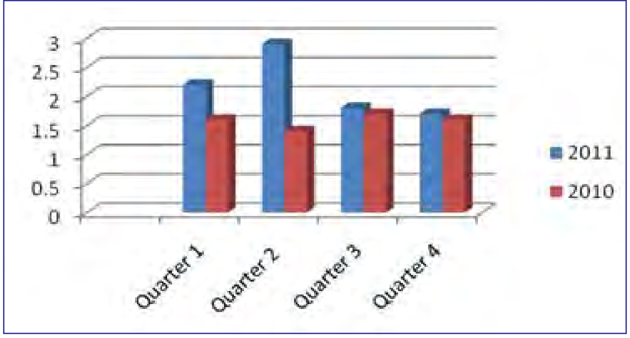
In 2011, there were 9 deals that was over 1 billion plus in valuation. The largest deal were in Oil and Gas sector signifying that global players are exploring opportunities to participate in the Indian growth story in this sector.

Trend of Private Equity (PE) deal investment

PE firms are investment vehicles that use fundamental analysis to make investment in equity shares of unlisted and listed companies. PE firms raise capital either from their limited partners (LPs), who range from high-net-worth individuals to institutional investors. For making an investment in a listed company. PE firms may buy stakes either by acquiring existing shares or by making a fresh investment by infusing funds into the listed company itself. Such transactions are called Private Investment in Public Equity (PIPE).

PE firms may also be distinguished on the basis of the stage at which they invest. While some firms may invest in early stages ventures that have the potential to grow exponentially, other firms may commit capital to growth stage companies that have already established themselves in local markets and have potential to bring new or improved products and services into existing or new markets. Value unlocking for the PE firms and the promoters of these companies typically happens by way of an initial public offering (IPO). An investment made by way a PE firm immediately pre-IPO is termed as late-stage investment. The eventual aim of most PE firms therefore is to take the company public and list it on a stock exchange. PE firms usually exit wholly or partially in the IPO to free up their locked capital and return some of it to their limited partners.

In 2011, Private Equity firms have made a significant comeback making large investment at various stages across sectors, geographies and industry segments. The traditional investments which were in real estate and infrastructure has again came to fore-front after many years. Infrastructure has been the most sought after investment sector in the current year which was around 50% of the overall investment in the economy. This shows the present trend in terms of pushing the infrastructure in the nation for the economic growth. The other sectors which had also got significant investment is automotive, technology and pharmaceuticals.



Appendix 5 : Quarterly report of PE investment in 2011

PE deals showed significant activity in 2011 with a 23% increase in deal values over 2010. The resurgence in PE activity could possibly be attributed to sluggish IPO & QIP activity coupled with return in confidence levels which were seen lacking in 2009 and the first half of 2010. There have been 347 PE deals in 2011 totaling a value of US$ 7.7 bn. While pure play PE has increased in both value and volumes over 2010, QIP investments have been negligible this year.

The biggest PE investment deal was the 30% stake in Hero investment by Bain Capital and Government of Singapore for a total investment of $8.48 billion. These funds were used to buy the 26% stake held by Honda in Hero Honda Motors for $851 million.

Many private equity firms, both globally and in India, were also active with several assets changing hands. One of such deal related to exit effected by Sequoia Capital India and Lightspeed vantures from Tutor Vista Global, an online education service firm in favour of UK based publishing house Pearson PLC.

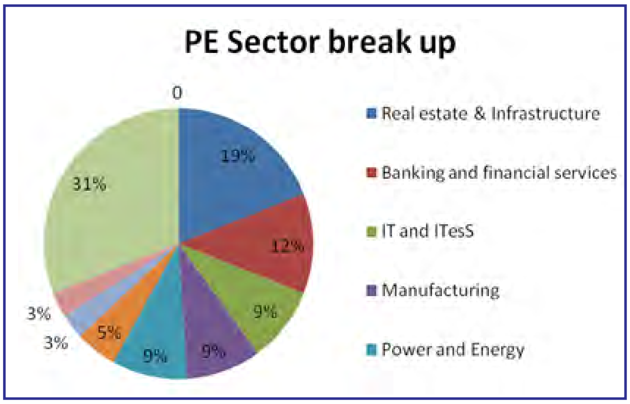
Likewise all the top PE deals that had happened during the year are :

Investor	Investee	Sector	Stake	US$ million
Bain Capital, Government of Singapore	Hero Investment	Automotive	30%	848
Apollo Global Management	Welspun Corp	Manufacturing	N.A.	284
Texas Pacific Group	Shriram Capital	Banking & Financial Services	15%	257
Macquarie SBI Infrastructure Investments	GMR Airports Holding Ltd	Real Estate & Infrastructure	N.A.	200
Standard Chartered PE (Mauritius), JM Financial-Old Lane India Corporate Opportunities Fund, NYLIM Jacob Ballas India Fund	GMR Airpots Holding Ltd a unit of GMR Infrastructure	Real Estate & Infrastructure	N.A.	200
Goldman Saches	ReNew Wind Power	Power & Energy	N.A.	200
Blackstone	Embassy Proper-Developments	Real Estate & Infrastructure	37%	200

Appendix 6 : Top PE Deals in 2011

As per the sector-wise breakup, the traditional option like real estate and infrastructure were the most preferred in the year. The total PE investment in Real estate and infrastructure was around US$1.7 billion of overall funding in India. As compared to last year, there was heavy inflow of cash in the road, railway and airport projects which took large portion of the overall investment.

Other major sectors driving PE activity were automotive (US$ 1bn), Power and energy (US$ 892bn), Banking and finance (US$ 816mn) and IT and ITES (US$ 783bn).



Recent Updates on mergers and acquisition

The government, through its Company Bill 2011, has approved provisions made to facilitate between 2 or more small companies or between holding company and its subsidiary or such other class of companies as may be prescribed. Fast track merger would require approval of ROC, OL, members holding at least 90% of shares and majority of creditors representing 9/10th in value.

This provision clearly brings forth the government's motive to ease out the procedure of merger for small companies so that the compromise or reconstruction can be taken without much formalities.

To conclude, the year has emerged fairly resilient in terms of deal appetite, despite challenging circumstances. However, stabilization of economic factors is critical for deals to continue the momentum going forward. The rise of global equity markets and the improvement in the business sentiment have enticed corporates to once again pursue the policy of inorganic growth.

With the exception of a few blue blips like Euro zone crisis, it should be commonly assume that the global economy is on the path to recovery which will, in turn, foster economic growth and, finally, help in increasing the transaction deals pertaining to mergers and acquisitions. ❐

Month	Investment value (US $) (2011)	Composite year gap (2010)
January	2.5 billion across 67 deals	3.90 billion across 86 deals
February	8.27 billion across 76 deals	1.95 billion across 84 deals
March	9.79 billion across 78 deals	13.65 billion across 51 deals
April	5.13 billion across 102 deals	3.07 billion across 136 deals
May	5.38 billion across 99 deals	8.60 billion across 72 deals
June	3.33 billion across 102 deals	3.77 billion across 107 deals
July	2.60 billion across 86 deals	14.55 billion across 54 deals
August	2.55 billion across 78 deals	1.56 billion across 45 deals
September	2.95 billion across 82 deals	1.29 billion across 101 deals
October	2.29 billion across 73 deals	1.87 billion across 81 deals
November	2.95 billion across 76 deals	4.35 billion across 63 deals
December	2.26 billion across 45 deals	3.44 billion across 91 deals
Total	**51 billion across 961 deals**	**62 billion across 971 deals**

Appendix 7 : Month-on-month detail on M&A in India

"Surround yourself with the best people you can find, delegate authority, and don't interfere as long as the policy you've decided upon is being carried out." — *Ronald Reagan*

Evaluation of Credit Risk Management in Urban Co-Operative Banks—A Study in Hooghly District

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Introduction

Cooperation is a form of organization wherein persons voluntarily associate together as human beings on a basis of equality and work together for a common goal. Cooperatives are based on the values of self-help, self-responsibility, democracy, equality, and solidarity. In the tradition of their founders, cooperative members believe in the ethical values of honesty, openness, social responsibility and caring for others. Co-operative Banks in India are registered under the Co-operative Societies Act, 1904. The cooperative banks are also regulated by the RBI. They are governed by the Banking Regulations Act, 1949, and Banking Laws (Co-operative Societies) Act, 1965. Co-operative banks are of two types—Rural Co-operative Credit Institutions (RCCI) and Urban Co-operative Banks (UCB) as shown below. For a start, it's easy to set up a cooperative bank, since there are just two requirements: a minimum capital, and a minimum membership.

Credit risk is defined as the possibility of losses associated with a diminution in the credit quality of the borrowers/counterparties. Credit risk management means a critical assessment of a borrowing entity and of investments to ascertain its viability. Since most problems in banks begin with bad loans, and since lending policies are primarily determined by banks' boards, RBI's inability to establish its authority over the boards makes the situation precarious for depositors. The various possible reasons of loan default are willful default, loss of job, change in financial condition, wrong loan appraisal, inflation etc.

Literature Review

Several studies were conducted on the activities of UCBs in India by the committees appointed by the RBI and the Govt. of India. Sketches on the major ones are :

- RBI taken up the first study of UCBs in the year 1958-59.
- The Indian Central Banking Enquiry Committee (1931), observed : The duty of these urban banks should be to try to do for the small trader, the small merchant and the middle class population.
- The Rural Banking Enquiry Committee (1950), also commented on the role that urban co-operative banks could play in providing banking facilities.
- The Working Group on Industrial Financing through Co-operative Banks (1968), (known as Damry Group) appointed by the Reserve Bank recognized the key role which urban banks could play in providing finance to cottage and small-scale industries.
- The Madhavdas Committee (1979), evaluated the role played by urban co-operative banks in greater details and drew a roadmap for their future role recommending support from RBI and Government in the establishment of such banks in backward areas and prescribing viability standards.
- While the Marathe Committee (1992), redefined the viability norms and ushered in the era of liberalization.
- The Madhava Rao Committee (1999), focused on consolidation, control of sickness, better professional standards in urban co-operative banks and sought to align the urban banking movement with commercial banks.

Objective of Study

The proposed study, as such, aspires to make a humble attempt to enquire about the cause and effect of credit risk in the UCBs in Hooghly district of West Bengal during 2004-05 to 2010-11. The RBI has taken various initiatives for the upliftment of the urban people in the form of these institutions.

The following are the objectives of the study :

- To examine the financial condition of the UCBs in Hooghly district.
- To evaluate the present scenario in terms of managing credit risk by the UCBs.
- To examine creditworthiness of the UCBs in Hooghly district
- To provide some suggestion for improvements in the UCBs.

Methodology

The research methodology has the following approaches : a detailed survey of the existing position of UCB with the help of structured questionnaires and pilot survey in Hooghly district.

The indicative parameters for Credit Risk Rating should include: Current and Savings Account (CASA) Ratio, Credit-Deposit (C/D) Ratio, and Capital to Risk Weighted Assets Ratio (CRAR).

The collected data from the selected urban co-operative banks are classified, tabulated and analyzed in a systematic manner with the help of some sophisticated statistical tools like Arithmetic Mean (A.M.), Standard Deviation (S.D.), Coefficient of Variation (C.V.), Correlation Coefficient(r), Trend Analysis and Test of Significance (Chi-square test) to understand the impact of credit risk management on the UCBs profitability, liquidity and solvency position.

Findings

There are 5 UCBs in the district of Hooghly. The details are :

Hooghly District	1. Uttarpara Co-op. Bank Ltd (Gr I)
	2. Konnagar Samabay Bank Ltd. (Gr I)
	3. Nabagram Peoples Co-op. Bank Ltd. (Gr I)
	4. Baidyabati Sheoraphuli Co-op. Bank (Gr I)
	5. Hooghly Co-op. Bank Ltd. (Gr I)

The financial position of the UCBs in Hooghly district is presented through following parameters:

(i) Deposit

The Deposit of urban banks increased from Rs. 165.9 crores as on 31 March 2005 to Rs 271.31 crores as on 31 March 2011 i,e., by 64 %. The average annual growth rate of deposit is 6%.

Trend Analysis of Total Deposits of UCBs

Year	Actual Values	Indices	Trend Values (Y_c)	Deviation
2004-05	165.09	100	245.22	37.92
2005-06	174.28	105	288.98	75.48
2006-07	168.65	101	332.74	159.65
2007-08	183.94	110	376.50	201.58
2008-09	205.33	123	420.26	224.97
2009-10	240.82	145	464.02	206.86
2010-11	271.31	163	507.78	206.01

Y_C stands for computed values of **deposit** based on the least squares equation in the form of $Y_c = a + bX$, where the equation comes to $Y_c = 201.46 + 43.76X$, with origin at the year 2004-05 and X unit = 1 year and Y unit = rupees in crores. It is observed that the calculated value of x^2 (chi square) is 1,112.5, whereas the tabulated value of (chi square) is 12.592 at 5% level of significance with 6 degrees of freedom. As the calculated value is more than the tabulated value, it implies that the difference between the actual values and the trend values of deposit are significant.

(ii) Loans and Advances

Deposits of Surveyed UCBs

(Rs. in crores)

Sl. No.	Bank Name	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	Average Annual Growth
1	Uttarpara Co-op. Bank Ltd	52.98	55.24 (4.2)	45.13 (–18)	42.51 (–5)	43.45 (2.2)	50.88 (17)	55.88 (9.8)	**–1%**
2	Konnagar Samabay Bank Ltd.	21.59	21.96 (1.7)	22.43 (2.1)	25.26 (12)	29.26 (15)	35.64 (21)	41.22 (15)	**12%**
3	Nabagram Peoples Co-op. Bank Ltd.	28.57	30.12 (5.4)	28.75 (–3)	30.62 (6.5)	35.01 (14)	40.93 (16)	44.75 (9)	**9%**
4	Baidyabati Sheoraphuli Co-op. Bank	38.34	38.87 (1.3)	38.96 (00)	43.71 (12)	45.49 (4)	53.07 (16)	59.98 (13)	**7.5%**
5	Hooghly Co-op. Bank Ltd.	24.42	28.09 (15)	33.38 (18)	41.84 (25)	52.12 (24)	60.30 (15)	69.48 (15)	**20%**
	TOTAL	**165.9**	**174.2 (.5)**	**168.6 (–.03)**	**183.9 (.09)**	**205.3 (11.6)**	**240.8 (17.2)**	**271.3 (12.6)**	**6%**

Note : 1) Figure in parenthesis indicates the growth percentage
2) Annual Average growth percentage is calculated on the basis of Moving Average method to get more effective result

Loans and Advances of Surveyed UCBs (Rs. in crores)

Sl. No.	Bank Name	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	Average Annual Growth
1	Uttarpara Co-op. Bank Ltd	14.44	14.57 (00)	15.94 (9.4)	16.07 (00)	16.11 (00)	16.47 (2.2)	16.5 (00)	**1.5%**
2	Konnagar Samabay Bank Ltd.	2.98	3.01 (1)	3.26 (8.3)	4.05 (2.4)	4.51 (11)	5.03 (11)	5.61 (11)	**14%**
3	Nabagram Peoples Co-op. Bank Ltd.	4.68	4.75 (1.4)	4.72 (00)	5.04 (6.7)	5.05 (00)	5.16 (2.1)	6.26 (21)	**3%**
4	Baidyabati Sheoraphuli Co-op. Bank	14.71	18.15 (23)	21.50 (18)	24.54 (14)	27.55 (12)	31.48) (14)	36.7 (16)	**14%**
5	Hooghly Co-op. Bank Ltd.	11.44	14.40 (25)	17.16 (19)	18.05 (5)	19.27 (6.7)	19.36 (00)	22.4 (16)	**7.5%**
	TOTAL	**48.25**	**54.88 (13.7)**	**62.58 (14)**	**67.75 (.08)**	**72.49 (0.6)**	**77.5 (.06)**	**87.5 (13)**	**7%**

Note : 1) Figure in parenthesis indicates the growth percentage
2) Annual Average growth percentage is calculated on the basis of Moving Average method to get more effective result

The Loans & Advances of urban banks increased from Rs 48.25 crores as on 31 March 2005 to Rs 87.59 crores as on 31 March 2011 i,e., by 81.5%. The average annual growth rate of loans & advances is 7%.

Trend Analysis of Loans & Advances of UCBs

Year	Actual Values	Indices	Trend Values (Y_C)	Deviation
2004-05	48.25	100	61.98	3.09
2005-06	54.88	113	56.67	0.05
2006-07	62.58	129	111.36	38.02
2007-08	67.75	140	126.05	50.16
2008-09	72.49	150	140.74	64.25
2009-10	77.5	160	155.43	78.03
2010-11	87.59	181	170.12	77.76

Now, again Y_C stands for computed values of **loans and advances** based on the least squares equation in the form of $Y_c = a + bX$, where the equation comes to $Y_c = 67.29 + 14.69X$, with origin at the year 2004-05 and X unit = 1 year and Y unit = rupees in crores. It is observed that the calculated value of (chi square) is 312.44, whereas the tabulated value of (chi square) is 12.59 at 5% level of significance with 6 degree of freedom. As the calculated value is more than the tabulated value, it implies that the difference between the actual values and the trend values of loans and advances are significant.

(iii) Gross NPA

Gross NPA of Surveyed UCBs (Rs. in crores)

Sl. No.	Bank Name	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	Average p.a.
1	Uttarpara Co-op. Bank Ltd	3.25 (22.3)	3.31 (20.8)	3.46 (21.6)	4.06 (25.2)	5.14 (31.2)	4.67 (28.3)	**3.98** (24.9)
2	Konnagar Samabay Bank Ltd.	.38 (12.8)	.45 (13.9)	.49 (12.2)	.56 (12.6)	.67 (13.4)	.60 (10.8)	**.525 (12.6)**
3	Nabagram Peoples Co-op. Bank Ltd.	.44 (9.4)	.51 (11)	.73 (14.6)	.79 (15.8)	1.15 (22.3)	1.28 (20.6)	**.81 (15.6)**
4	Baidyabati Sheoraphuli Co-op. Bank	1.81 (10)	2.36 (11)	2.94 (12)	3.92) (14.2)	4.35 (13.8)	4.69 (12.8)	**3.34 (12.3)**
5	Hooghly Co-op. Bank Ltd.	1.55 (10.8)	1.69 (9.8)	1.84 (10.2)	1.97 (10.2)	3.42 (18)	1.88 (8.4)	**2.05 (11.2)**
	TOTAL	**7.43 (15)**	**8.32 (15)**	**9.46 (15)**	**11.3 (15.5)**	**14.73 (19)**	**13.12 (14.9)**	

Note : 1) Figure in parenthesis indicates the percentage of Gross NPA to Loans & Advances.

The standard tolerance level of GNPA as per the RBI guidelines is 15% of loans & advances and it is found that on an average all the UCBs are below that level.

The Analysis of the financial data is done through :

(A) Ratio Analysis :

(a) CASA Ratio

CASA Ratio to Total Deposit (%) (Current & Savings Account/ Total Deposit) of Surveyed UCBs

Sl. No	Bank Name	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	Mean	C.V
1	Uttarpara Co-op. Bank Ltd	47%	50%	53%	56%	52%	53%	56%	**52%**	**6%**
2	Konnagar Samabay Bank Ltd.	48%	51%	53%	51%	47%	48%	51%	**50%**	**4%**
3	Nabagram Peoples Co-op. Bank Ltd.	42%	44%	42%	43%	39%	39%	41%	**41%**	**4.6%**
4	Baidyabati Sheoraphuli Co-op. Bank	67%	66%	66%	60%	51%	52%	55%	**60%**	**11%**
5	Hooghly Co-op. Bank Ltd.	45%	49%	47%	46%	46%	43%	42%	**45%**	**5%**
	Average	**49.8%**	**52%**	**52.2%**	**51.2%**	**47%**	**47%**	**49%**	**49.6%**	

As the overall average of CASA ratio is 49.6% which implies that Savers are now putting less money into current and savings accounts (CASA) of UCBs instead parking them in term deposits. Higher the CASA ratios better the credit worthiness of a bank.

(b) C/D Ratio

Credit –Deposit Ratio (C/D Ratio) of Surveyed UCBs

Sl. No	Bank Name	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	Mean	C.V
1	Uttarpara Co-op. Bank Ltd	27%	26%	35%	37%	37%	32%	29%	**32%**	**14%**
2	Konnagar Samabay Bank Ltd.	13%	15%	14%	16%	15%	14%	14%	**14%**	**7%**
3	Nabagram Peoples Co-op. Bank Ltd.	15%	15%	16%	16%	14%	13%	14%	**15%**	**7.3%**
4	Baidyabati Sheoraphuli Co-op. Bank	38%	47%	55%	56%	61%	59%	61%	**54%**	**15%**
5	Hooghly Co-op. Bank Ltd.	50%	51%	51%	43%	37%	32%	32%	**42%**	**20%**
	Average	**28.6%**	**30.8%**	**34.2%**	**33.6%**	**32.8%**	**30%**	**30%**	**31.4%**	

The yearly average C/D ratio of the surveyed UCBs was 28.6% in 2004-05 and 30% in 2010-11. So there is no gross increase in the C/D ratio during these 7 years. The Mean and C.V is computed to analyze the consistency of the ratio during the study period. The standard C/D ratio is 60% as per the RBI guidelines. Almost all the banks are below that.

(c) CRAR

Capital to Risk Weighted Asset Ratio (CRAR) of Surveyed UCBs

Sl. No	Bank Name	2006-07	2007-08	2008-09	2009-10	2010-11	Mean
1	Uttarpara Co-op. Bank Ltd	11%	15%	14%	12%	13%	**13%**
2	Konnagar Samabay Bank Ltd.	46%	40%	42%	37%%	41%	**41.2%**
3	Nabagram Peoples Co-op. Bank Ltd.	36%	34%	30%	30%	30%	**32%**
4	Baidyabati Sheoraphuli Co-op. Bank	50%	48%	53%	53%	35%	**47.8%**
5	Hooghly Co-op. Bank Ltd.	23%	22%	24%	26%	25%	**24%**
	Average	**32.5%**	**31.8%**	**32.6%**	**36.33%**	**28.8%**	**32.5%**

Higher CRAR means higher capability to absorb any unforeseen risks that may arise out of loss assets. The standard CRAR is 9% as per the RBI guidelines. All the banks are above the norms.

(B) Statistical Analysis

Correlation Co-efficient (r)

Sl. No.	Bank Name	Correlation between deposit and loans & advances		Correlation between Loans & Advances and Gross NPA	
		r	T value of	r	T value of r
1	Uttarpara Co-op. Bank Ltd	–0.36	0.73	0.70	0.73
2	Konnagar Samabay Bank Ltd.	0.97	0.37	0.91	0.37
3	Nabagram Peoples Co-op. Bank Ltd.	0.88	0.42	0.85	0.41
4	Baidyabati Sheoraphuli Co-op. Bank	0.95	0.38	0.97	0.38
5	Hooghly Co-op. Bank Ltd.	0.92	0.39	0.33	0.39

Here we find that a positive relationship exist between deposit and loans and advances and between loans and advances and gross NPA. So if deposit increases, loans are also increasing but on the contrary gross NPA is also highly correlated.

Relationship between Parameters of Credit Risk of Surveyed UCBs by simple correlation

Year	GNPA (%)	CDR (%)	L&A (Rs in cr)	CRAR (%)
2005-06	15.00	30.08	54.88	—
2006-07	15.00	34.02	62.58	32.05
2007-08	15.00	33.06	67.75	31.08
2008-09	15.05	32.08	72.49	32.06
2009-10	19.00	30.00	77.05	36.33
2010-11	14.09	30.00	87.59	28.08
Mean	15.73	31.04	70.46	32.05
r	—	**–0.46**	**0.29**	**0.85**

Here we got correlation between loans and advances and CRAR with gross NPA but inverse relationship between GNPA and C/D Ratio.

The summarized findings are

- In business, credit risk emerged as the biggest risk for co-operative banks, which is evident with rising NPAs.
- It is apparent that the swelling NPA has become a major problem of the urban co-operative banks.
- Poor resource base is the main constraint of the urban co-operative banks.
- Most of the UCBs follow conservative credit policy.
- Another problem, which vitiates co-operative movement, is the interference of the politicians in the organization.
- Urban co-operative banks are suffering from the lack of professional management and in most of the cases approach is very much casual

Recommendations

- The management should keep **NPAS under control** and **reduce the net NPAs** to the expected level so that the bank does not fall in lower category. It should adopt the strategies at two stages, i.e. **Pre-sanction in depth scrutiny** and **Post-sanction supervision** and **follow up.**
- It is advised to the management to develop more effective credit appraisal policy and loan recovery strategy.
- The bank needs to prepare a comprehensive perspective plan for product diversification to maintain a competitive edge in the market.
- The urban co-operative banks, with their new formed emphasis on prudential norms, need a high degree of professionalism in management.
- Banks may have to quickly better their risk management practices and integrate them into business strategy and implementation.

Conclusion

The Urban Cooperative Credit movement in India is a century old. A revolution in the urban co-operative sector is that a co-operative Bank turns into Pvt. Bank. Saraswat Co-operative Bank, which was established in 1918 to help families in distress, the largest lender in the segment is planning to convert itself into a private bank and has sounded off the RBI of its intentions. The Reserve Bank of India on 8th August 2007 signed a memorandum of understanding with the West Bengal government for setting up a state-level Task Force on Urban Co-operative Banks (TAFCUB). It would not be out of place to mention that the United Nations (U.N) International Year of Co-operatives (IYC) secretariat in the month of April 2011 released a logo in six languages recognizing 2012 as the International Year of Co-operatives. ❐

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Efficient Cash Management : The Pulse of Today's Business

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Introduction

Cash is the lifeblood of every business and therefore efficient cash management becomes inevitable in a business unit. The overall cash management in a business world covers the management of a series of business processes from acquisition of raw materials and ultimate delivery of goods and/or services. It ensures that the movements of cash flow, logistic flow and financial information flow inside and outside the enterprises. Cash Management ensures the efficient rotation of money in the various levels of operating cycles without creating adverse situations of cash surplus or deficit.

Cash is required to meet in firm's transactional needs and precautionary needs. A firm needs cash to make payments and acquisition of resources and services for the normal conduct of business. Also, it keeps additional funds to meet any emergency situation. Some firms may also maintain cash for taking advantages of speculative changes in prices of input and output.

Focus Areas

The financial manager should know as to why the cash management is a necessity. The cash management strategy is built around two goals, i.e. :

(a) to provide cash needed to meet the obligations, and

(b) to minimize the idle cash held by the firm.

A large investment minimizes the chances of default but penalizes the profitability of the firm. A small cash balance may free the excess cash balance for investment in marketable securities and thereby increasing the profitability of the firm. Two prime objectives for a firm's cash management system are :

1. Management of cash flows
2. Control of cash flows.

Management of cash flows

Meeting the cash outflow: The primary objective of cash management is to ensure the cash outflow as and when required. Enough cash must be in hand in order to make payments at different points of time without any liquidity. It will help the firm in (a) avoiding chance of meeting financial obligation, which, in turn, can affect goodwill of the firm in the market, (b) availing discounts if the payments are made before time, (c) meeting unexpected cash flow without much problem.

Minimizing the cash balance : Investment in idle cash balance must be reduced to a minimum. The objective of cash management is based on the idea that unused asset earns no income for the firm. The funds locked up in cash balance are a dead investment and has no earnings—so a minimum cash balance should be maintained.

Control aspect

Controlling and reviewing of the cash must be done on regular basis. The financial manager should take appropriate steps for preventing any unexpected deviation in inflow and outflow of cash. The efficiency of a firm's cash management program can be enhanced by the knowledge and use of various procedures:

Controlling inflows **:** The financial manager should take steps for speedy recovery from debtors. Periodic statements should be prepared to show the outstanding bills. Incentives offered to the customers for early payments should be well-communicated. Once the drafts or cheques are received from the customers no delay should be done in depositing them with the banks. To overcome these problems concentration banking and lock box system help reducing time lag.

A firm may open collection centers in different parts of the country to save postal delays. This is known as *concentration banking*. Under this system, the collection centers are opened at different states, as near debtors as possible—hence reducing the time in dispatching. The firm may ask these debtors to make payments at the regional centers rather than posting them to the central office. The concentration banking results in saving of time of collection and hence, results in better cash management. But concentration banking involves some cost in terms of minimum cash balance required by the bank.

Under lock box system, the customers can mail their payments to a post office near their workplace. The firm may arrange with the local banks or some other agency to collect the payments and credit to the firm's account as fast as possible. This is a new concept that firms has adopted. However, some of the commercial banks provide services to their large clients, of (a) collecting cheques from the office to the client and (b) sending high value cheques to the bank for clearing on the same day.

Hence concentration banking and lock box system attempt to reduce the mailing time of customers' payments and reduce the time during which payments received remained uncollected and speed of the movement of cash to the main office of disbursement.

Controlling outflows *:* An effective control over cash outflow also helps better cash management and reducing cash requirement. A financial manager should try to slow down the payments as much as possible but the goodwill of the firm should not be effected. There is no need to make early payments to the creditors unless and until any discount is provided by them, however, on time payments should be made. Balance lying in the bank must be fully utilized so as to take maximum advantage out of it, but there should be sufficient amount of balance in the bank when the cheque is expected to be presented for payment.

Thus effective control of outflow can result in larger cash balance. The underlying objective helps in delaying the payments without affecting the goodwill of the firm.

Playing the float **:** When the firm receives or make payments in form of cheques etc. there is usually a time gap between the time the cheque is written down and when it is cleared—it is known as 'float.' For the payee firm, float refers to the time between the receipt of the cheque and the availability of the funds in its account.

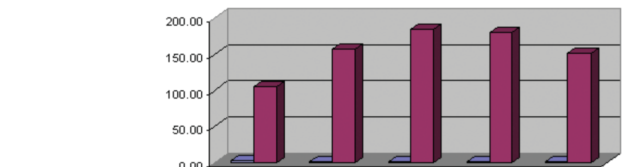
Float has three components :

1. mail time : it is the period between the issue of the cheque and its receipt by the payee.
2. processing time : it is the time between the cheque received by the payee and deposited in the bank.
3. collection time : it is the time consumed for transferring of funds from payer's bank to the payee's account.

Investing surplus cash : On the basis of the cash budget the financial manager may come to know if the cash is available for some time. So on the basis of this he can invest that amount for small period of time in some profitable capital project. Determination of cash is very critical exercise and a lot depends upon the experience of the manager. He should take care of precautionary demand as well as sudden fluctuation in the market before going for the investment of the surplus cash.

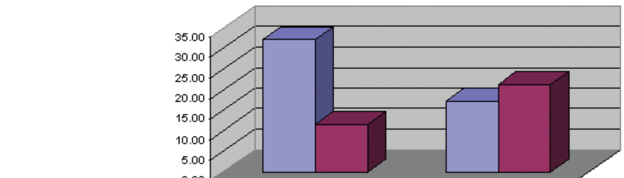
Following are some of the industry examples regarding cash collection policy. Cash policy is one of the most essential components of cash management. The three companies discussed here are from diverse industries. The reason is that we can appreciate better the cash realization policy in companies of different nature and different industries.

Figure 1
Bharat Electronics Ltd.



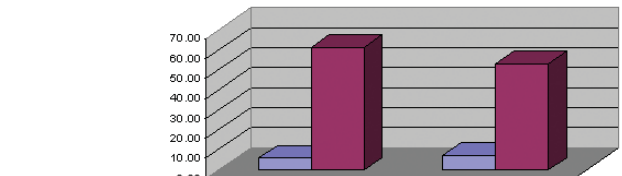
	March,06	March,07	March,08	March,09	March,10
Debtors Turnover Ratio	3.47	2.33	2.00	2.03	2.41
Average Collection Period (Days)	105	156	183	180	152

Figure 2
Reliance Industries Ltd.



	March,09	March,10
Debtors Turnover Ratio	32.01	17.19
Average Collection Period (Days)	11	21

Figure 3
Tata Consultancy Services Ltd.



	March,09	March,10
Debtors Turnover Ratio	6.00	6.92
Average Collection Period (Days)	61	53

Bharat Electronics Ltd. has the longest collection policy, consisting of around 6 months. But keeping in view the nature of business of Bharat Electronics which is defence—it is well understood. Had it been into other sector this would have been an unsatisfactory picture. Reliance shows a very promising picture having a collection period of just 3 weeks. It not only enhances the cash position but also provides the company an opportunity to invest effectively in various investment opportunities. Tata Consultancy's collection period of around 2 months is an industry phenomenon, being an IT company in the service sector.

(contd. to page 347)

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

(Statutory body under an Act of Parliament)

53rd National Cost Convention -2012

Vigyan Bhawan, Maulana Azad Road, New Delhi-110 003

Theme

SUSTAINABILITY FRAMEWORK

Integrated Reporting, Imperatives for CMAs

On 15th, 16th & 17th March, 2012

Hosted by : Northern India Regional Council, 3, Institutional Area, Lodhi Road, New Delhi-110 003

Tel. : 011-24602281, 24622158 Fax : 011-24644630 E-mail : ncc2012@icwai.org, ncc2012@nirc-icwai.org

53rd NATIONAL COST CONVENTION- 2012

THEME : SUSTAINABILITY FRAMEWORK - Integrated Reporting, Imperatives For CMAs

For the last couple of years many Corporates have been reporting on Sustainability and Sustainability Performance which includes social, environmental and economic results, which determines the overall stakeholder value.

Sustainability of organizational success is an integral part of the business strategy and management accountants play a key role in the process. It has become an essential element of corporate activities that sub serves the interest of all stakeholders and makes sound business sense, as accountability, transparency, governance, reporting and risk management all form part of drivers for sustainability. Sustainability has three dimensions i.e. economic viability, social responsibility and environmental responsibility.

Integrated Reporting brings together material information about an organization's strategy, governance, performance and prospects in a way that reflects the commercial, social and environmental context within which it operates. It provides a clear and concise representation of how an organization demonstrates stewardship and how it creates and sustains value. Integrated reporting allows the organisations to succeed and prosper in the long run. Organisational social and environmental performance is becoming integral to their whole business and sustainability of their company.

CMAs are well positioned to help organizations interpret sustainability issues in a relevant way for their organizations, and to integrate those issues into the way they do business. Although developing a sustainable organization is a multi-disciplinary responsibility, the finance and accounting function needs to be clear on its role in providing and supporting sustainability leadership. CMAs can also contribute in managing "behaviour and outcomes" by incorporating sustainability considerations into strategies and plans, business cases, capital expenditure decisions, into performance management and costing systems.

Integrated sustainability management involves managing opportunity and risk, measuring and managing performance, providing insight and analysis to support decision making. This provides opportunity to augment value business partnering. Recent circulars and notifications by Ministry of Corporate Affairs, Government of India coupled with International focus on Cost Management and Integrated Reporting Highlights the growing importance of role of CMA's in Sustainability framework.

Looking forward for your co-operation and active participation.

Thanking you,
Yours faithfully

CMA B.L. Jain
Co-Chairman, Convention Committee

CMA Rakesh Singh
Chairman, Convention Committee

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53rd NATIONAL COST CONVENTION- 2012

THEME : SUSTAINABILITY FRAMEWORK - Integrated Reporting, Imperatives For CMAs

Dear Sir,

The Institute of Cost Accountants of India, established under an Act of Parliament, is the premier professional body imparting training and propagating Cost and Management Accountancy in India and abroad. There are over 56,000 members in Service and Practice. The members in service with Government, Public and Private Sectors, are occupying high positions like Chairman & Managing Director, Directors, CEOs, CFOs and so on.

We are proud to inform you that the 53rd National Cost Convention-2012 is being organised by the Institute of Cost Accountants of India and Northern India Regional Council.

The theme of the Convention is **Sustainability Framework - Integrated Reporting, Imperatives For CMAs** scheduled on 15th, 16th & 17th March, 2012, at New Delhi. This mega Convention will be attended by a large number of delegates from India and abroad.

The Convention will be addressed by eminent personalities both from India and abroad. On the occasion of this Convention, the committee has decided to bring out a Souvenir which will be released by the Chief Guest at the Valedictory Function . The Convention of this nature can be a success only with your participation through Advertisements.

We request you to participate in this mega convention by Releasing an **advertisement in the souvenir.** A Souvenir Advertisement Form is enclosed.

Looking forward to your active participation.

Thanking you,

Yours Sincerely,

CMA TCA Srinivasa Prasad
Central Council Member and Chairman,
Souvenir Committee

Advertisement Tariff	₹
Back Cover - 18 cm x 24 cm	75,000/-
Front Inside Cover - 18 cm x 24 cm	50,000/-
Back Inside Cover - 18 cm x 24 cm	50,000/-
Centre Spread (Colour) - 18 cm x 24 cm	25,000/-
Special Full Page (Colour) - 18 cm x 24 cm	20,000/-
Ordinary Full Page - 18 cm x 24 cm	15,000/-

PROGRAMMES

15th March, 2012

Inaugural Session :	09:30 a.m. to 11:00 a.m.
Tea Break	11:00 a.m. to 11:30 a.m.
Plenary Session : Policy Intervention for Sustainable Development with CMA as an Enabler	11:30 a.m. to 13:00 p.m.
Lunch Break	13:00 p.m. to 14:00 p.m.
Technical Session I : Enhancing Corporate Governance Framework to Integrate Sustainability and Strategy (i) Performance Management	14:00 p.m. to 15:30 p.m.
Tea Break	15:30 p.m. to 16:00 p.m.
Technical Session II : Enhancing Corporate Governance Framework to Integrate Sustainability and Strategy (ii) Compliance	16:00 p.m. to 17:30 p.m.

16th March, 2012

Technical Session III : Deepening Capital Markets through Responsible Investment Supporting Sustainability	09:30 a.m. to 11:00 a.m.
Tea Break	11:00 a.m. to 11:30 a.m.
Technical Session IV : From Financial Reporting to Integrated Reporting-Paradigm Shift	11:30 a.m. to 13:00 p.m.
Lunch Break	13:00 p.m. to 14:00 p.m.
Technical Session V : Climate Change, Carbon Emissions and Management Accounting Carbon Accounting	14:00 p.m. to 15:30 p.m.
Tea Break	15:30 p.m. to 16:00 p.m.
Technical Session VI : CMA as a Game Changer in Supporting Sustainable Strategies (I) Risk Management (ii) Whole Life Costing	16:00 p.m. to 17:30 p.m.

17th March, 2012

CFO Forum : **(Indian CFOs Experience Sharing)**	09:30 a.m. to 11:00 a.m.
Tea Break	11:00 a.m. to 11:30 a.m.
Valedictory Session	11:30 a.m. to 13:00 p.m.

53rd NATIONAL COST CONVENTION - 2012

CEP 10 Hrs.

53rd NATIONAL COST CONVENTION- 2012

DELEGATE FOR CONVENTION

Dear Sir,

We invite you / your company to register / sponsor delegates for the 53rd National Cost Convention 2012 to be held from 15th to 17th March 2012 at Vigyan Bhawan, New Delhi.

Participants

Corporate Directors, CFOs, Cost and Management Accountants and other Senior Management Executive in the Corporate Sector, Practicing Professionals in Secretarial, Financial, Legal and Management Disciplines, Researchers, and Academicians would benefit from participation in the Convention.

DELEGATE FEE AND REGISTRATION PROCEDURE

PARTICULARS	Payment by Cash, Cheque or Demand Draft
Corporate Delegates	₹ 6,000/-
Members	₹ 5,000/-
Cost Accountant-in-practice	₹ 3,000/-
Student	₹ 2,500/-
Spouse	₹ 2,000/-
Foreign Delegates	$ 200/-

The entire fee is payable in advance and is not refundable once the nomination is received. The registration form duly completed along with Delegation Fees may please be sent to:

The Chairman,
Delegate Committee,
NIRC of ICAI,
3 Institutional Area, Lodhi Road,
New Delhi-110 003

Thanking you,

CMA Sanjay Gupta
Chairman, Delegate Committee

PAYMENT
The Cheque / Demand Draft to be drawn in favour of "National Cost Convention 2012, (ICAI)" payable at New Delhi Details for NEFT Payment : Indian Overseas Bank, Lok Kala Manch, Lodhi Road, New Delhi-110003 Current A/C No.: 14981000056073 IFS Code: IOBA0001498

53rd NATIONAL COST CONVENTION - 2012

SPONSORSHIP DETAILS

PLATINUM SPONSOR

Delegate fee (non-residential) exemption for 10 delegates
Prominent display on the Convention Backdrop as Platinum Sponsor and
all other prominent places Sponsor Logo in badges and all NCC Material –Rs. 10,00,000

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Delegate fee (non- residential) exemption for 4 delegates
Prominent display on the Convention Backdrop as Silver Sponsor and
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Delegate fee (non- residential) exemption for 2 delegates
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SPONSOR FOR CULTURAL EVENT

Delegate fee (non-residential) exemption for 2 delegates,
Display at Convention Culture Event as Sponsor –Rs. 1,00,000

Note: One special full page (Coloured) advertisement in the Souvenir for all above mentioned categories.

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Banner/ Stall / Publicity Material on request –Rs 50,000

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CMA Om Prakash	Central Council Member
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CMA Rakesh Sharma	Chairman, Ludhiana Chapter

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CMA Chandra Wadhwa	Former President
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CMA Sanjay Gupta	Central Council Member

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CHAIRMAN

CMA Rakesh Bhalla	Vice Chairman, NIRC

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CMA Balwinder Singh	Practicing Cost Accountant
CMA I.P. Singh	Director, Ministry of Finance
CMA Neeraj Sharma	Chairman, Ghaziabad Chapter

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CMA M.K. Anand	Former Chairman, NIRC
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CMA Ravi Sahni	Member, NIRC

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CMA Arvind Kumar	Treasurer, NIRC
CMA Saurabh Srivastava	Member, NIRC

MEMBERS

CMA Manish Kandpal

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CMA Robin Singh

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

(Statutory body under an Act of Parliament)

53rd NATIONAL COST CONVENTION- 2012

Theme : Sustainability Framework - Integrated Reporting, Imperatives For CMAs

DELEGATES REGISTRATION FORM

The Chairman,
Delegate Committee,
National Cost Convention-2012
The Institute of Cost Accountants of India
NIRC, 3 Institutional Area, Lodhi Road, New Delhi-110003

Dear Sir,

Please register the following delegates for attending the 53rd National Cost Convention -2012 on March 15th, 16th & 17th 2012 at Vigyan Bhawan, New Delhi. The particulars of the delegates are as under:

1. Name of the delegate(s)

NAME OF THE DELEGATE	DESIGNATION	ADDRESS OF THE DELEGATE (for Convention correspondence)

MEMBERSHIP NO. / STUDENT NO.	PRACTICING / NON PRACTICING	TEL. No.	MOBILE No.	E-MAIL

2. Details of the Payment

PAYMENT
The Cheque/Demand Draft to be drawn in favour of "National Cost Convention 2012, (ICAI)" payable at New Delhi. Details for NEFT Payment : Indian Overseas Bank, Lok Kala Manch, Lodhi Road, New Delhi-110003 Current A/C No.: 149801000056073 IFS Code: IOBA0001498

Contact Detail : Northern India Regional Council, 3, Institutional Area, Lodhi Road, New Delhi-110 003
Tel. : 011-24602281, 24622158 Fax : 011-24644630 E-mail : ncc2012@icwai.org, ncc2012@nirc-icwai.org

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53rd NATIONAL COST CONVENTION- 2012

Theme : Sustainability Framework - Integrated Reporting, Imperatives For CMAs

SPONSORSHIP FORM

The Chairman,
Delegate Committee,
National Cost Convention-2012
The Institute of Cost Accountants of India
NIRC, 3 Institutional Area, Lodhi Road, New Delhi-110003

Dear Sir,

I/We wish to Sponsor ....

in connection with **the National Cost Convention-2012** on 15th, 16th and 17th March at New Delhi.

A crossed, Cheque/DD No. .... Dated ....

for ₹...drawn on .... Bank

in favour of **National Cost Convention-2012** is attached.

Name of the Organisation.. Signature...

Address .... Name ....

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Tele. No. .... Mobile ....

Fax .... E-mail... Website...

RATES OF SPONSORSHIP

Particulars	₹
PLATINUM	10,00,000/-
GOLD	5,00,000/-
SILVER	3,00,000/-
DINNER	3,00,000/-
LUNCH	2,50,000/-
CONVENTION KIT	2,00,000/-
MEMENTOES	1,00,000/-
CULTURAL EVENT	1,00,000/-
OTHER SPONSORSHIPS	50,000/-

* Taxes Extra as applicable

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53rd NATIONAL COST CONVENTION- 2012

Theme : Sustainability Framework - Integrated Reporting, Imperatives For CMAs

SOUVENIR ADVERTISEMENT FORM

The Chairman,
Souvenir Committee,
National Cost Convention-2012
The Institute of Cost Accountants of India
NIRC, 3 Institutional Area, Lodhi Road, New Delhi-110003

We are pleased to release the following advertisement for the Souvenir to be brought out at the

National Cost Convention - 2012

Advertisement Tariff	₹	✓*
Back Cover - 18 cm x 24 cm	75,000/-	
Front Inside Cover - 18 cm x 24 cm	50,000/-	
Back Inside Cover - 18 cm x 24 cm	50,000/-	
Centre Spread (Colour) - 18 cm x 24 cm	25,000/-	
Special Full Page (Colour) - 18 cm x 24 cm	20,000/-	
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* Tick whichever is applicable

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A crossed, Cheque/DD No. .... Dated ....

for ₹..drawn on .... Bank

in favour of **National Cost Convention-2012** is enclosed herewith.

Name of the Organisation... Signature...

Address .... Name ....

.... Designation..

Tele. No. .... Mobile ....

Fax .... E-mail.. Website..

PAYMENT

The Cheque/Demand Draft to be drawn in favour of "National Cost Convention 2012, (ICAI)" payable at New Delhi.
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Contact Detail : Northern India Regional Council, 3, Institutional Area, Lodhi Road, New Delhi-110 003
Tel. : 011-24602281, 24622158 Fax : 011-24644630 E-mail : ncc2012@icwai.org, ncc2012@nirc-icwai.org

ICAI invites entries for participation in 9th National Award for Excellence in Cost Management-2011

A Questionnaire has been designed to obtain information on Cost Management practices and performance of the companies involved in manufacturing or service operations. We solicit your participation in the 9th National Award for Excellence in Cost Management-2011.

The award categories are as follows:

A) **Public Sector - Manufacturing**
Small, Medium and Large

(B) **Private Sector - Manufacturing**
Small, Medium and Large

(C) **Service Sector**
Small, Medium and Large

Duly filled-in and signed Questionnaire, alongwith all the attachments and the prescribed fee should be sent to Mr. T.R. Abrol, Asst. Director, The Institute of Cost Accountants of India, Delhi Office: CMA Bhavan, 3, Institutional Area, Lodhi Road, New Delhi-110003, latest by 31st March, 2012. For any clarification relating to the Questionnaire/Cost Management Award 2011, you may contact Mr. S.C.Gupta, Director on Mobile: 09313375254 or email: gupta@icwai.org.

We believe this will be a great opportunity for you to participate in 9th National Award for Excellence in Cost Management-2011 and demonstrate your commitment in the profession and win the prestigious award.

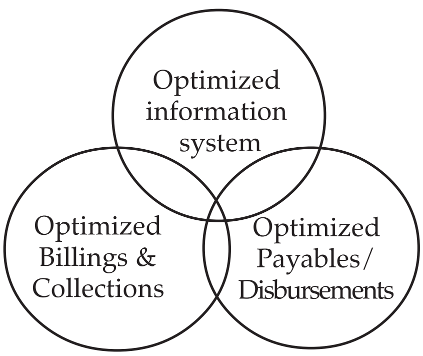
(contd. from page 334)

Effective Cash Management

Effective cash management revolves around following key areas:

- Understand that credit collection starts with credit extension. Resist the temptation to cut corners when extending credit terms and payment guidelines to new customers. In other words, avoid using credit extension as a sales tool.
- Learn your customers' payable rules. Understand what your top customers' procedures and prerequisites are, so your invoices can more quickly wade through them to avoid administrative delays in payment.
- Understand the driving force behind slow/no payment patterns. Johnson breaks all receivables problems into three categories : "should not pay" because the product, service or billing the customer received was not right (errors in business operations); "cannot pay" because the customer does not have the money (errors in credit extension); and "will not pay" because the customer is attempting to be "shrewd" or, perhaps, unethical. Assessing problem receivables in such a manner will allow an organization to quickly identify the correct action for each receivable problem, such as quick correction of product/billing deficiencies, extraction of a partial payment or payment plan, or initiation of aggressive collection efforts.
- Avoid printing checks until they are needed. Printing checks before they are needed understates the Accounts Payable balance and risks premature mailing. It is a poor practice and is to be avoided.

Following diagram depicts the flow of an efficient cash management system :



Effective cash management

Tools for Cash Management

When the economy is strong, companies can lapse into sloppy cash-management practices.

Don't let that happen to you. Try exploring these options:

Sweep accounts. These bank accounts are the easiest way to generate some income from your company's spare funds; however, they make sense only if the money you'll earn will be greater than the fees your bank will charge. Business owners have two types of sweep accounts to choose between:

- **Controlled-investment accounts.** Think of these as checking accounts with the ultimate in zero balances. Every day, your bank will leave only enough in your checking account to cover those checks that were presented the night before for payment that day. The rest gets swept, quite early, into overnight investments. "These are the most profitable form of sweep account, but they won't work for your company if you have any electronic payments or wire transfers, since those may be submitted for payment later in the day and your account won't have enough cash in it to cover them," warns Stephen King.
- **End-of-day sweep accounts.** A safer bet for most small-business owners, these accounts wait until a late-hour cutoff to determine how much to sweep into your overnight investments. Typically their investment yields are 10 to 20 basis points (.1% to .2% of the investment) lower than those offered with controlled investments.
- **Lock-box accounts.** A lock box is a cash-management system that helps you collect your funds quickly. Generally set up with the assistance of a big money center or regional bank, lock boxes provide your company with a special zip code and, usually, quicker deliveries from regional post offices. They are especially important if you have clusters of customers in out-of-state locations and don't want to lose days waiting for their checks to arrive by long-distance mail.

How to Project?

Projection of your sales and expenses is the first step toward creating a cash flow budget that your business can rely on. This profit and loss (P&L) projection is not intended to be a detailed financial statement. It is intended to act as a guide to help you forecast your company's sales and expenses.

How to use this projection?

Forecast sales **:** During the course of the next year, what are the lowest sales figures you could expect? What are the highest? Break down your sales assumptions by product (or service) lines, starting with the worst-case scenario. The goal here is to get a handle on the worst possible situation. Then project sales under the best possible conditions, with all of your sales efforts succeeding and customers flocking to your door.

Forecast expenses **:** Identify all of the expenses that you'll incur to generate revenue under both the low and high sales projections you've made. Costs that—whatever your sales level—are present and remain fairly constant should be entered as fixed expenses. They may include such expenses as rent/mortgage payments, certain taxes, leased equipment payments, and basic telephone and utilities expenses. Expenses that increase and decrease with production are considered variable expenses. They may include cost of goods sold, cost of sales, advertising, labor, and variable utilities.

Compare and review "best" and "worst": Now that you've recorded both scenarios, create a "most likely" scenario by comparing the two. With this method, you will produce a more realistic forecast upon which you can make decisions.

Look at your profit level: Calculate profit before depreciation. You will have three potential profit figures: one low, one high, and one that is most likely. Next, calculate the depreciation of your fixed assets. (Depreciation involves the amortization of the cost of fixed assets over time.) Now discover your net profit before income taxes. Subtract "depreciation" from "profit before depreciation and income taxes" to arrive at your net profit before income taxes.

Conclusion

In nutshell, it is quite evident that a good cash management program is a very significant component of the overall financial management of a business. What is require for this by the firm is increasing the revenues, improving the control and superintendence of cash, increasing contacts with members of the financial community, and lowering the borrowing costs, while, at the same time, maintaining sufficiency of funds. ❒

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"Management by objectives works if you first think through your objectives. Ninety percent of the time you haven't."
— Peter Drucker

Review of the Economy 2011-12 Highlights

Dr. C. Rangarajan, Chairman, Economic Advisory Council to the Prime Minister released the document 'Review of the Economy 2011-12' today (February 22, 2012). **Following are the highlights of the document :**

Review of the Economy 2011-12

- The rate of growth in 2011-12 is now estimated at 7.1%, which is marginally higher than the projection of 6.9% as per the Advance Estimates (AE). The Council projects a slightly higher growth for agriculture and construction than the Advance Estimates.
- Investment activity has slowed down and as a result the Gross fixed Capital formation (GFCF) for 2011/12 has slipped to 29.3 per cent, a decline of almost 4 percentage points over the last four years.
- Global economic and financial conditions likely to remain under pressure during the year.
- Overall farm sector GDP growth for 2011/12 will average 3 per cent, riding high on record outputs for rice, wheat and strong trend growth in horticulture and animal husbandry.
- Mining and quarrying sector likely to report negative growth for 2011/12 on account of weak coal output growth, restrictions imposed on iron ore production, decline in natural gas production and negative growth in crude oil output.
- Electricity sector has performed well. It is expected to grow at 8.3 per cent during 2011/12.
- Manufacturing and construction have been sluggish during the first three quarters of 2011/12. This may show improvement in the last quarter. The overall growth rate will be 3.9 per cent and 6.2 per cent respectively.
- Strong growth in the services sector will continue with overall growth of 9.4 per cent for 2011/12. For the year as a whole the Balance of Payment (BoP) position will be tight, this clearly indicates the need to keep the Current Account Deficit (CAD) within limits.
    - CAD has weakened, averaging 3.6 per cent (annualized) of GDP in the first half of 2011/12.
    - CAD for the 2011/12 is projected to be 3.6 per cent.
- Headline inflation has shown decline since November 2011 and more strongly in January 2012. It is projected to be around 6.5 per cent at the end of March 2012. Policies-both monetary and other public policies seem to have had the desired effect.
- Sustained high food prices particularly on account of fruit, milk, eggs, meat & fish began to get passed into the price behaviour of manufactured goods.
- Year-on year inflation for manufactured goods rose from around 5 per cent in September 2010 to 8 per cent in September and October 2011.
- Expansion of the fiscal deficit beyond its budgeted estimate of 4.6 per cent of GDP -an area of concern. Government must strive to contain and improve the efficacy of subsidies. **Prospects for 2012/13**
- Economy is likely to grow in the range of 7.5 to 8 per cent. Mining and manufacturing are expected to show substantial improvement in 2012/13 over the previous year.
- Inflationary pressure will continue to ease through 2012/13 and will remain around 5-6 per cent for the year.
- Vigil to be kept on food prices-focus on production as well as rolling out of adequate food logistics network.
- Greater need to invest in the infrastructure for both capacity creation as well as operational performance in coal, power, roads and railways.
- Need to make adjustments on sale of refined petroleum products to reduce the huge burden of subsidy.
- In the year 2012/13 CAD is projected to be around 3.0 per cent of GDP.
- Efforts be made to keep the CAD between 2.0 and 2.5 per cent of GDP over the medium term.
- Capital inflows particularly in the form of equity must be encouraged along with improved domestic conditions for investment and growth.
- Government must effectively lay out a road map to achieve fiscal consolidation.
- Government borrowing programme must not affect the financing needs of the private sector.
- For the overall macroeconomic stability, attention must be paid to prices, exchange rate and fiscal balances.

The Institute thankfully acknowledges the above contribution of Shri B. D. Bose, Past President of the Institute.

India Corporate & Investor Meet

February 6, 2012 – The Park, Kolkata

To bring national focus on investor awareness and the role and contribution of the corporate sector in the Indian social and economic development, Ministry of Corporate Affairs has organized 'India Corporate and Investor Meet' during February 6, 2012 to February 11, 2012 in 5 cities. The first programme was held on February 06, 2012 at the Park, Kolkata with FICCI as the lead partner. The theme of the meet was "Corporate Growth, Governance and Inclusion".

Shri Sidharth Birla, Vice President, FICCI and Chairman, FICCI Corporate Laws Committee in his Welcome Address at the Inaugural Session said that FICCI had joined hands with the Ministry of Corporate Affairs, Govt. of India to organise the meet to focus on issues such as corporate governance, investor protection and balancing interests of all stakeholders — not just shareholders.

Shri Gaurav Swarup, Chairman, FICCI ERC in his Address pointed out that a strong and vibrant capital market is required to sustain the corporate sector's growth trajectory. Mr Swarup added that corporate leaders have an opportunity to redefine the role of the corporation and leverage their ability to improve the lives of people and communities for the better.

In his address Shri Sudhir Mital, IAS, Additional Secretary, MCA, highlighted the need for financial literacy for retail investors and added that though Indian savings account for nearly 37% of GDP only around 4% of savings go to Capital Markets. Shri Mital said that simplification of technical financial information, reasonable processes and role of intermediaries are critical in raising investor confidence.

Shri Partha Chatterjee, Hon'ble Minister, Department of Commerce & Industries, IT, IR&PE and Parliamentary Affairs, Govt. of West Bengal delivered the Keynote Address. Shri Chatterjee said that the State Government's vision was to position West Bengal as a destination where Governance means transparency, accountability and efficiency and where doing business is an easy and hassle free process.

Dr Veerappa Moily, Hon'ble Minister, MCA, Govt. of India in his Presidential Address highlighted the initiatives of MCA such as National Competition Policy, IFRS Adoption, XBRL Adoption, and National Corporate Governance Policy. Dr Moily added that the new Companies Bill's philosophy was to promote growth and not policing. Dr Moily pointed out that Second Generation Reforms based on efficiency, innovation and competition was crucial for sustaining India's growth story.

Inaugurating the meet, Chief Guest, Shri Pranab Mukherjee, Hon'ble Minister, Ministry of Finance, said that though inflation and growth are not always contradictory, efforts are needed to ease out the supply constraints and state governments have a very constructive and positive role to play in this regard. Mr Mukherjee added that the Government was willing and ready to extend helping hand to the corporate sector as the corporate sector has a major role in achieving high GDP and inclusive growth.

The inaugural session was followed by two technical sessions on investor related issues and corporate governance and social responsibility.

Addressing the first technical session on investor related issues Shri Jaideep Bhattacharya, Group President & Chief Marketing Officer, UTI Mutual Fund cited increased life expectancy, changed social structure, inflation and complex financial products as reasons for increased need for Financial Planning and Financial Literacy. Shri S V Krishnamohan, Regional Manager, SEBI highlighted SEBI's initiatives such as simplified regulations and offer documents, grievance redressal mechanisms online, capacity building through workshops in rural areas and introduction of financial education in schools in consultation with CBSE and Ministry of HRD. Speaking on RBI's initiatives, Shri. P K Jena, Chief General Manager, RBI pointed out banking activity outreach programmes through banking correspondents and banking facilitators. Mr Jena said that confidence in banking sector was built over time due to prioritization of interests of depositors. In his presentation Mr. Arup Mukherjee, Assistant Vice President, NSE highlighted the need for optimal asset allocation, risk versus return awareness in potential investors, and differentiated financial education for different segments of the population.

The second technical session was on corporate governance and social responsibility. Shri B.K. Jhawar, Chairman Emeritus, Usha Martin Group made a presentation on a case study of CSR by Usha Martin group highlighting concepts such as 'Total Village Management' (TVM), 'Social Return on Intervention' and transition from Corporate Social Responsibility to Corporate Social Enterprise. Shri P. R. Ramesh, Chairman, Deloitte Haskins & Sells, India pointed out that to integrate corporate governance and corporate social responsibility integration there was a need for meaningful legislations, effective reporting, robust oversight mechanisms, rewards and recognitions and penalties. Shri. Siddhartha Datta, Partner, Amarchand & Mangaldas & Suresh A. Shroff & Co. spoke on issues such as corporate criminal liability and holding/ subsidiary structures, role of Parent Board on Subsidiary and the need for Chief Risk and Compliance Officer. Shri Rakesh Singh, Vice President, Institute of Cost Accountants of India pointed out the importance of long term valuation, ethical reporting and sustainable CSR practices.

In the Valedictory Session, Shri Roopen Roy, Managing Director, Deloitte & Touche Consulting India Pvt. Ltd made a summing up presentation highlighting the key points which emerged in the deliberations. Dr Veerappa Moily, Hon'ble Minister, MCA concluded the meet with his observations and way forward.

REGIONAL COST CONFERENCE, 2012

Theme : Inclusive Growth Through Industry & Infrastructure

***Organised by* :**

Durgapur Chapter of Cost Accountants
Eastern India Regional Council of
The Institute of Cost Accountants of India
(Set up by An Act of Parliament)

Date : 24th & 25th March, 2012
Venue : CMERI Auditorium, CMERI, Durgapur

Delegates Fees :

Company Sponsored	**:**	**Rs. 2500.00**
Member	**:**	**Rs. 1500.00**
Student	**:**	**Rs. 500.00**

Tariff :

Back Cover Outside	**:**	**Rs.**	**30,000.00**
Back & Front Cover Inside	**:**	**Rs.**	**25,000.00**
Special Page	**:**	**Rs.**	**10,000.00**
Full Page	**:**	**Rs.**	**5,000.00**
Half Page	**:**	**Rs.**	**3,000.00**
Banner	**:**	**Rs.**	**30,000.00**
Stall	**:**	**Rs.**	**30,000.00**
Lunch Sponsor	**:**	**Rs.**	**1,50,000.00**
Dinner Sponsor	**:**	**Rs.**	**1,50,000.00**
Memento Sponsor	**:**	**Rs.**	**1,50,000.00**
Conference Kits	**:**	**Rs.**	**1,00,000.00**

Request For Comments

Cost Accounting Standards Board, the standard-setting body of the Institute, has approved the release of Exposure Draft of Revised Cost Accounting Standard–2 on Capacity Determination (CAS–2). The proposed standard may be modified in light of comments received before being issued as a standard in final form.

Please submit your views/comments/suggestions on the proposed Exposure Draft, preferably by email, latest by March 26, 2012.

Comments should be addressed to :
The Secretary,
Cost Accounting Standards Board,
The Institute of Cost Accountants of India,
3, Institutional Area, Eodi Road
New Delhi-110003

Emailed responses should be sent to: casb@icwai.org

Copies of this exposure draft may be downloaded from the CASB website at http://www.casbicwai.org

Guidelines For Conversion of Cost Accountants' Firms (Partnership/Proprietary) Into Limited Liability Partnerships (LLPS)

In terms of Council decision dated 22nd January, 2012, the following guidelines for conversion of Cost Accountants firms into LLPs and constitution of separate LLPs by the practising Cost Accountants have been finalized. They are applicable for conversion of Cost Accountants' firms into LLPs or formation of new LLPs, by the members in practice of the Institute of Cost Accountants of India (ICAI) upon coming into force the provisions of the Cost and Works Accountants (Amendment) Act, 2011 (i.e. 1st February, 2012), subject to the provisions of the Limited Liability Partnership (LLP) Act, 2008 and Rules & Regulations framed thereunder :

(A) Conversion of Cost Accountant firms into LLPs

1. All the existing Cost Accountants' firms who want to convert themselves into LLPs are required to follow the provisions of Chapter-X of the LLP Act, 2008 read with Second Schedule to the said Act containing provisions of conversion from existing firms into LLP.
2. In terms of Rule 18(2) (xvi) of LLP Rules- 2009, if the proposed name of LLP includes the words 'Cost Accountant' or 'Cost Accountants', as the case may be, as part of the proposed name, the same shall be referred to ICAI by the Registrar of LLP and it shall be allowed by the Registrar only if the Secretary/Authorized Official of ICAI * approves it.
3. If the proposed name of LLP of Cost Accountant firm resembles with any other non- Cost Accountant entity, as per the naming Guidelines under LLP Act and its Rules, the proposed name of LLP of Cost Accountant firm may include the word 'Cost Accountant' or 'Cost Accountants', as the case may be in the name of the LLP itself and the Registrar LLP may allow the same name, subject to compliance to Rule 18(2) (xvi) of LLP Rules as referred above.
4. For the purpose of registration of LLP with ICAI under Regulation 108 of the Institute of Cost and Works Accountants Regulations, 1959, the partners of the firm shall apply, in ICAI Form of Application for Particulars of Offices and Firms, along with the copy of name registration, received from the Registrar of LLP and submit the same with the concerned Office of ICAI. The Form shall contain all the details of the offices and other particulars as called for, together with the signatures of all partners or authorized partner of the proposed LLP.
5. The names of the Cost Accountant firms registered with ICAI shall remain reserved for the partners, as one of the options for LLP names, subject to the provisions of LLP Act & Rules and Regulations framed there under.
6. The following guidelines relating to seniority and other criteria shall be followed for registration of LLP with ICAI:
   - (i) Where two similar or identical or nearly similar firm names (whether the partners of such firms are same or not) have applied for registration to ICAI, under the proposed LLP, only one such firm name who applied first shall be approved and remaining firm who has applied with ICAI, whether desires to convert into LLP or not, will have to change the firm name.
   - (ii) The name of the LLP may be like 'X & Co. LLP' or 'X & Associates LLP' or 'XYZ LLP' and no other suffix shall be approved and registered by ICAI.
   - (iii) The newly converted Cost Accountant LLP registered with ICAI shall be allowed to work only in terms of Section 2(2) of the Institute of Cost and Works Accountants Act, 1959 and for the objects of LLP to be incorporated as per Form-2 and Form 17 of the LLP Rules, 2009 or as per the LLP agreement and same shall be in the nature of Professional Services allowed under Section 2(2) of Cost and Works Accountants Act, 1959. LLP shall be subject to the same regulations, as if they were a partnership firm. Mere conversion into LLP does not give any privileges, which were not earlier with the Cost Accountant firms.
   - (iv) Inter se seniority among the firms shall be

given to LLP as per the existing policy of ICAI. In other words, LLPs shall carry the same seniority, as the firm shall otherwise have under the existing policy of ICAI. In case of merger of 2 LLPs, same rules are applicable as to firms merging shall apply.

(v) The non converted firms shall also remain on the same position of seniority in relation to converted LLPs, as the converted LLPs shall have the same inter-se seniority, as the firms had earlier to conversion.

7. These guidelines of conversion of Cost Accountant firms into LLP shall also be applicable to the conversion of proprietary firm into LLP, subject to the provisions of LLP Act & Rules and Regulations framed there under. The conversion of proprietary firm shall be by way of incorporation of new LLPs.

8. The registration number (with minimum 6 numbers) of LLP with ICAI, shall be the same Firm Registration Number (FRN) allotted to the firm before the conversion by ICAI, with the Regional Code like 'W' for Western, 'E' for Eastern, 'S' for Southern, 'N' for Northern.

9. Introduction of LLP, shall not affect the existing regulations in force as regards the name allotment to Cost Accountant firms.

10. The provisions of the Cost and Works Accountants Act, 1959, the Cost and Works Accountants Regulations, 1959 and Code of Ethics issued by ICAI shall be applicable to all partners jointly & severally, of the converted Cost Accountant firms into LLP.

11. The following Guidelines are subject to the clarification from Ministry of Corporate Affairs (MCA), Government of India, New Delhi:

(i) Wherever the existing partnership firm has been appointed as statutory auditor of any company, after following the due procedure under the Companies Act, 1956 and the said firm with the same partners is converted into/has formed LLP, then the same FRN will continue band the Board of Directors of the Company shall take on record the conversion/formation of the Cost Accountant firms into LLP and the n ew LLP shall be deemed to be the Auditor of the said company, for the said financial year, in terms of Section 58(4) of the LLP Act, 2008.

(ii) Wherever more than one partnership firm, with all the partners, desire to convert/form only one LLP, then in that case the name and FRN may be selected of only one of such firms, for the purpose of registration with ICAI and;

(a) The other such firms shall stand dissolved.

(b) Seniority shall be decided as per applicable rules of ICAI.

(c) The Board of Directors of all the Companies, who have appointed all the erstwhile firms as Cost auditors, may take a declaration from the said LLP, with all the partners of all the erstwhile firms on record and the appointment as Cost auditors of all the erstwhile firms made under the Companies Act, 1956, shall be deemed to be in the name of the said LLP.

(B) Constitution of separate LLPs

12. All the members of ICAI in practice who want to constitute a separate LLP are required to follow the provisions of the LLP Act, 2008 read with the Rules framed there under.

13. In terms of Rule 18(2) (xvi) of LLP Rules- 2009, if the proposed name of LLP includes the words 'Cost Accountant' or 'Cost Accountants', as the case may be, as part of the proposed name, the same shall be referred to ICAI by Registrar of LLP and it shall be allowed by the Registrar only if the Secretary/Authorized Official of ICAI * approves it.

14. If the proposed name of LLP of Cost Accountant firm resembles with any other non- Cost Accountant entity, as per the naming Guidelines under LLP Act and its Rules, the proposed name of LLP of Cost Accountant firm may include the word 'Cost Accountant' or 'Cost Accountants', as the case may be in the name of the LLP itself and the Registrar LLP may allow the same name, subject to compliance to Rule 18(2) (xvi) of LLP Rules as referred above.

15. For the purpose of registration of LLP with ICAI under regulation 108 of the Cost and Works Accountants Regulations, 1959, the partners of the firm shall apply in the ICAI Form of Application

for Particulars of Offices and Firms along with the copy of name registration, received from the Registrar of LLP and submit the same with the concerned Office of the ICAI. This Form shall contain all details of the offices and other particulars as called for together with the signatures of all partners or authorized partner of the proposed LLP.

16. The following guidelines relating to seniority and other criteria shall be followed for registration of LLP with ICAI:
    (i) Where two similar or identical or nearly similar firm names (whether the partners of such firms are same or not) have applied for registration to ICAI, under the proposed LLP, only one such firm name who applied first shall be approved and remaining firm who has applied with ICAI, whether desires to convert into LLP or not, will have to change the firm name.
    (ii) The name of the LLP may be like 'X & Co. LLP' or 'X & Associates LLP' or 'XYZ LLP' and no other suffix shall be approved and registered by ICAI.
    (iii) The newly converted Cost Accountant LLP registered with ICAI shall be allowed to work only in terms of Section 2(2) of the Institute of Cost and Works Accountants Act, 1959 and for the objects of LLP to be incorporated as per Form-2 and Form 17 of the LLP Rules, 2009 or as per the LLP agreement and same shall be in the nature of Professional Services allowed under Section 2(2) of Cost and Works Accountants Act, 1959. LLP shall be subject to the same regulations, as if they were a partnership firm. Mere conversion into LLP does not give any privileges, which were not earlier with the Cost Accountant firms.
    (iv) Inter se seniority among the firms shall be given to LLP as per the existing policy of ICAI. In other words, LLPs shall carry the same seniority, as the firm shall otherwise have under the existing policy of ICAI. In case of merger of 2 LLPs, same rules are applicable as to firms merging shall apply.
    (v) The non converted firms shall also remain on the same position of seniority in relation to converted LLPs, as the converted LLPs shall have the same inter-se seniority, as the firms had earlier to conversion.
17. These guidelines of conversion of Cost Accountant firms into LLP shall also be applicable to the conversion of proprietary firm into LLP subject to the provisions of LLP Act, Rules and Regulations framed there under. The conversion of proprietary firm shall be by way of incorporation of new LLPs.
18. The registration number (with minimum 6 numbers) of LLP with ICAI, shall be like the Firm Registration Number being allotted to the firms by ICAI with the Regional Code like 'W' for Western, 'E' for Eastern, 'S' for Southern, 'N' for Northern.
19. Introduction of LLP, shall not affect the existing regulations in force as regards Name allotment to Cost Accountant firms.
20. The provisions of the Cost and Works Accountants Act, 1959, the Cost and Works Accountants Regulations, 1959 and Code of Ethics issued by ICAI shall be applicable to all partners jointly and severally, of the LLP.
21. In case of any dispute in respect of these guidelines, the same shall be referred to the Council of ICAI and the decision of the Council shall be final and binding on the members of the Institute.
22. For the purpose of any clarification regarding the approval and registration of proposed LLP with ICAI, the requests can be sent at the following address:

    Shri Kaushik Banerjee
    Director & Joint Secretary
    The Institute of Cost Accountants of India
    12, Sudder Street,
    Kolkata - 700 016.
    (*Shri Kaushik Banerjee, Director & Joint Secretary is the Authorized Official of ICAI)
23. These Guidelines shall come into force w.e.f. 1st February, 2012.

For Attention of Members

The provisions of The Cost and Works Accountants (Amendment) Act, 2011 have come into force with effect from 1st February, 2012, whereby the name of our Institute has been changed from The Institute of Cost and Works Accountants of India to "The Institute of Cost Accountants of India" and the Associate & Fellow Members of the Institute are now entitled to use the letters **"ACMA"** & **"FCMA"** after their names in place of **"AICWA"** & **"FICWA"** respectively.

Further, the practising members of our Institute can now enter into a Limited Liability Partnership, which has no company as its partner in accordance with the Limited Liability Partnership Act, 2008. In this connection, the two notifications published by the Central Government in the Gazette of India dated 13th January, 2012 and 30th January, 2012 are printed in this journal.

Further details are published in this journal and also uploaded on our website www.icwai.org .

For Attention of Members

The Council of the Institute has decided that the members of the Institute shall be permitted to use the letters "CMA" before their names after notification regarding the date of coming into force of the provisions of the Cost and Works Accountants (Amendment) Act, 2011 is published by the Central Government in the Gazette of India, wherein the Associate & Fellow Members are entitled to use the letters **"ACMA"** & **"FCMA"** respectively after their names.

Govt. Notification

Ministry of Corporate Affairs

Notification

New Delhi, the 6th February, 2012

G.S.R. 69 (E).—In exercise of the powers conferred by Section 29A of the Cost and Works Accountants Act, 1959 (23 of 1959), the Central Government, with effect from the date of publication in the Official Gazette, hereby makes the following amendments in the notification of the Government of India, Ministry of Corporate Affairs, published in the Gazette of India *vide* No. G.S.R. 1693(E), dated the 3rd October, 2007, namely :—

In the said notification under the opening paragraph, against the item numbers 1, 2, 3, 4 and 5, for the existing entries the following entries shall be substituted, namely :—

(1) Shri R. S. Sharma, Ex-Chariman, ONGC, A-1, 701, The World Spa (E), Sector 30, Gurgaon-122001 —Chairperson

(2) Shri Navrang Saini, Regional Director (Eastern Region), Ministry of Corporate Affairs, Kolkata-700 025 — Member

(3) Ms. Nandana Munshi, Pr. Director of Commercial Audit & ex-officio Member, Audit Board-1, Kolkata, No. 1, Council House Street, Kolkata-700 001 —Member

(4) Shri V. Kalyanaraman, Past President, Institute of Cost and Works Accountants of India —Member

(5) Shri Kunal Banerjee, Past President, Institute of Cost and Works Accountants of India —Member

[F. No. 2/23/2006-PI]

MANOJ KUMAR, Jt. Secy.

Govt. Notification

रजिस्ट्री सं०डी-एल०—(एन) 04/0007/2003—11

Registered No. DL.—(N)04/0007/2003—11

भारत का राजपत्र
The Gazette of India

असाधारण
EXTRAORDINARY
भाग II — खण्ड 1
Part II — Section 1
प्राधिकार से प्रकाशित
PUBLISHED BY AUTHORITY

10] नई दिल्ली, शुक्रवार, जनवरी 13, 2012/पौष 23, 1933 (शक)
No. 10] **NEW DELHI, FRIDAY, JANUARY 13, 2012/PAUSA 23, 1933 (SAKA)**

इस भाग में भिन्न पृष्ठ संख्या दी जाती है जिससे कि यह अलग संकलन के रूप में रखा जा सके।
Separate paging is given to this Part in order that it may be filed as a separate compilation.

MINISTRY OF LAW AND JUSTICE

(Legislative Department)

New Delhi, 13th January, 2012/Pausa 23, 1933 (Saka)

The following Act of Parliament received the assent of the President on the 12th January, 2012, and is hereby published for general information :—

THE COST AND WORKS ACCOUNTANTS (AMENDMENT) ACT, 2011

(No. 10 of 2012)

[12th January, 2012]

An Act further to amend the Cost and Works Accountants Act, 1959.

Be it enacted by Parliament in the Sixty-second Year of the Republic of India as follows :—

1. (i) This Act may be called the Cost and Works Accountants (Amendment) Act, 2011.

(2) It shall come into force on such date as the Central Government may, by notification in the Official Gazette, appoint.

2. In section 2 of the Cost and Works Accountants Act, 1959 (hereinafter referred to as the principal Act), —

(I) in sub-section (1),—

(i) after clause (e), the following clause shall be inserted, namely :—

'(*ea*) ''firm'' shall have the meaning assigned in clause (*n*) of sub-section (1) of section 2 of the Limited Liability Partnership Act, 2008; or

(ii) the sole proprietorship, registered with the Institute;

(II) in clause (*f*), for the words ''Institute of Cost and Works Accountants of India'', the words ''Institute of Cost Accountants of India'' shall be substituted;

(III) after clause (*fa*), the following clauses, shall be inserted, namely :—

(*fb*) ''partner'' shall have the meaning assigned to it in section 4 of the Indian Partnership Act, 1932 or in clause (*q*) of sub-section (*1*) of section 2 of the Limited Liability Partnership Act, 2008, as the case may be;

(*fc*) ''partnership'' means—

(A) a partnership as defined in section 4 of the Indian Partnership Act, 1932; or

(B) a limited liability partnership which has no company as its Partner;

(IV) after clause (*ia*), the following clause shall be inserted, namely :—

(*iaa*) ''sole proprietorship'' means an individual who engages himself in the practice of cost accountancy or offers to perform services referred to in clauses (ii) to (iv) of sub-section (2),,

(ii) in sub-section (2),—

(a) after the words ''in partnership with one or more members of the Institute in practice'', the words ''or in partnership with members of such other recognised professions as may be prescribed'' shall be inserted;

(b) in clause (i), for the words ''cost and works accountancy'', the words ''cost accountancy'' shall be substituted;

(c) in clause (ii), for the words ''certification of cost accounting and related statements or holds himself out to the public as a cost accountant in practice'', the words ''certification or auditing of cost accounting and related statements or holds himself out to the public as a cost accountant in practice'' shall be substituted.

3. In section 3 of the principal Act, in sub-section (1), for the words ''Institute of Cost and Works Accountants of India'', the words ''Institute of Cost Accountants of India'' shall be substituted.

4. In section 5 of the principal Act,—

(*a*) in sub-section (2),—

(i) for the letters ''AICWA'', letters ''ACMA'' shall be substitued.

(ii) for the words ''Institute of Cost and Works Accountants'', the words ''Institute of Cost Accountants of India'' shall be substituted;

(b) in sub-section (5),—

(i) for the letters ''FICWA'', the letters ''FCMA'' shall be substituted;

(ii) for the words ''Institute of Cost and Works Accountants'', the words ''Institute of Cost Accountants of India'' shall be substituted.

5. In section 22A of the principal Act, for the words ''Institute of Cost and Works Accountants of India'', the words ''Institute of Cost Accountants of India'' shall be substituted.

6. In section 25 of the principal Act, in sub-section (1), in clause (iii), for the words ''cost and works accountants'', the words ''cost accountants'' shall be substituted.

7. In section 26 of the principal Act, in sub-section (1), the following Explanation shall be inserted, namely :—

'Explanation.—For the removal of doubts, it is hereby declared that the ''company'' shall include any limited liability partnership which has company as its partner for the purposes of this section.'

8. In the First Schedule to the principal Act, in Part I, in item (7), for the words ''Institute of Cost Accountants of India'', the words ''Institute of Cost Accountants of India'' shall be substituted.

V. K. BHASIN
Secy. to the Govt. of India

रजिस्ट्री सं०डी-एल०—33004/99 Registered No. DL.—33004/99

भारत का राजपत्र
The Gazette of India

असाधारण
EXTRAORDINARY
भाग II — खण्ड 3 — उप-खण्ड (ii)
PART-II—Section 3—Sub-section (ii)
प्राधिकार से प्रकाशित
PUBLISHED BY AUTHORITY

सं. 167] नई दिल्ली, सोमवार, जनवरी 30, 2012/माघ 10, 1933
No. 167] **NEW DELHI, MONDAY, JANUARY 30, 2012/MAGHA 10, 1933**

NOTIFICATION

New Delhi, the 30th January, 2012

S.O. 191(E).—In exercise of the powers conferred by sub-section (2) of Section 1 of the Cost and Works Accountants (Amendment) Act, 2011 (No. 10 of 2012) the Central Government hereby appoints the 1st day of February, 2012 as the date on which the provision of the said Act shall come into force.

[F. No. 12/11/2011–P.I.]
Manoj Kumar, Jt. Secy.

GOVT. NOTIFICATION

Circular No 017 2012-Customs

F. No. 401/46/2008-Cus.lll
Government of India
Ministry of Finance
Department of Revenue
Central Board of Excise and Customs

North Block, Room No. 253-A,
New Delhi, the 5th January 2012.

To,

All Chief Commissioners of Customs / Customs (Prev.).
All Chief Commissioners of Customs & Central Excise.
All Commissioners of Customs / Customs (Prev.).
All Commissioners of Customs & Central Excise.

Subject : Refund of 4% Additional Duty of Customs (4% CVD) in terms of Notification No. 102/2007-Customs dated 14.09.2001-regarding.

Sir / Madam,

Your kind attention is invited to the Circular No. 18/2010-Customs dated 8th July, 2010), vide which Board has simplified procedure for sanction of refund of 4% SAD in case of ACP importers. Vide Para 4.1 (d) of the Circular No. 18/2010-Customs, dated 08.07.2010 it was provided that the amount of 4% CVD refund shall be sanctioned in full, on preliminary scrutiny of the documents and certificate of statutory auditor/Chartered Accountant, for correlating the payment of ST/VAT on the imported goods with the invoices of sale and also to the effect that the burden of 4% CVD has not been passed on by the importer to the buyer. However, as Para 6 of the said Circular only Charted Accountant can issue a certificate that incidence of burden of 4% CVD has not been passed on by the importer to the buyer.

2. Representations have been received in the Board for amending Para 6 of the said Circular to make it in consonance to Para 4.1 (d) ibid to enable Cost Accountants to issue the Certificates as statutory auditors for the purpose of refund of 4% CVD.

3. The matter has been examined in the Board. Board noted that the Circular No. 18/2010 - Customs dated 08.07.2010 disentitles Cost Accountants in regard to issue of requisite certificate though they may be statutory auditors of the importer. Board also observed that several States currently recognize Cost Accountants for purpose of VAT audit and it would be a hardship to trade already using statutory auditors/ Cost Accountants to get required certificate for amount of 4% refund from Chartered Accountants. Therefore, as a measure to facilitate the trade Board has approved the amendment of the Circular No. 18/2010 Customs dated 08.07.2010 so as to authorize Statutory Auditors/ Cost Accountants/ Chartered Accountants to issue a certificate, certifying that burden of 4% CVD has not been passed on by the importers to any other person.

4. Accordingly, para 4.1(d) and Para 6 of Board Circular No. 18/2011-Customs, dated 08.07.2010, stands modified to above extent.

5. Suitable Public Notices or standing orders may be issued to guide the trade / industry and officers.

(Vikas)

Under Secretary (Customs-IIIA/l)

GOVT. NOTIFICATION

F. No. 52/26/CAB-2010
Government of India
Ministry of Corporate Affairs
Cost Audit Branch

B-1 Wing, 2nd Floor,
Paryavaran Bhavan,
CGO Complex, Lodi Road,
New Delhi-110 003

Dated the 24th January, 2012

ORDER

In exercise of the powers conferred by sub-section (1) of section 233B of the Companies Act, 1956 (1 of 1956), the Central Government, being of the opinion that it is necessary to do so, hereby directs that all companies to which the Companies (Cost Accounting Records) Rules, 2011 apply, and which are engaged in the production, processing, manufacturing or mining of the following products/activities, including intermediate products and articles or allied products thereof, and wherein the aggregate value of the turnover made by the company from sale or supply of all its products/activities during the immediately preceding financial year exceeds hundred crore of rupees; or wherein the company's equity or debt securities are listed or are in the process of listing on any stock exchange, whether in India or outside India, shall get its cost accounting records, in respect of each of its financial yhear commencing on or after the 1st day of April, 2012, audited by a cost auditor who shall be, either a cost accountant or a firm of cost accountants, holding valid certificate of practice under the provisions of Cost and Works Accountants Act, 1959 (23 of 1959).

Sl. No.	Name of the Industry	Relevant Chapter Heading of the Central Excise Tariff Act, 1985
1.	Jute, cotton, silk, woolen or blended fibers/textiles	Chapters 50 to 63
2.	Edible oil seeds and Oils (incl. vanaspati)	Chapters 12 and 15
3.	Packaged food products	Chapters 2 to 25 (except Chapters 5, 6, 14, 23 and 24)
4.	Organic & Inorganic Chemicals	Chapters 28, 29, 32, 38 and 39
5.	Coal & Lignite	Chapter 27
6.	Mining & Metallurgy of ferrous & non-ferrous metals	Chapters 26 and 74 to 83 (expect Chapters 76 and 77)
7.	Tractors & other motor vehicles (incl. automotive components)	Chapters 84, 85 and 87
8.	Plantation Products	Chapters 8, 9, 21 and 40
9.	Engineering machinery (incl. electrical & electronic products)	Chapters 84 and 85

Notes :

1. (a) *Intermediate or final products and articles or allied products of above industries if included under any other Chapter of the Central Excise Tariff Act, 1985 not mentioned above shall also be covered under these orders.*

   (b) *Items falling under above Chapter reference exclude those products that have been already covered vide cost audit orders dated 2nd May 2011 and 30th June 2011.*

   (c) *Products falling under above Chapter references are to be considered against the respective industry as applicable.*

2. Every company to which these orders apply shall follow the revised procedure for appoinment of cost auditor as laid down vide Ministry of Corporate Affairs' General Circular No. 15/2011 dated 11th April 2011.

For Attention of Practising Members

Guidelines for Renewal of Certificate of Practice

The members of the Institute holding Certificate of Practice having validity upto 31st March, 2012 are requested to comply with the following guidelines for renewal of their Certificate of Practice:

1. The following changes consequent to amendment of the Cost and Works Accountants Regulations, 1959 vide Notification dated 4th February, 2011 published in the Gazette of India may be noted:

- The validity of a Certificate of Practice (COP) henceforth would be for the period 1st April to 31st March every year unless it is cancelled under the provisions of the Cost and Works Accountants Act and Regulations, 1959 as amended.
- The Certificate of Practice issued shall automatically be renewed subject to submission of prescribed Form M-3 and payment of renewal fee and annual membership fee.
- From the year 2011-12 onwards, no renewal Certificate of Practice would be issued. However, the members concerned may download the renewal status from the Institute's website www.icwai.org.

2. It may please be noted that under Section 6 of the Cost and Works Accountants Act, 1959, both the **Annual Membership Fee** and **Fee for Renewal of Certificate of Practice** falls due on 1st April each year.

3. Special attention is invited to the fact that the validity of a Certificate of Practice expires on **31st March** each year unless it is renewed on or before the date of expiry in terms of amended Regulation 10 of the Cost and Works Accountants Regulations, 1959. Hence, a member shall be required to renew his certificate before 31st March every year from the year 2012.

4. It may please be noted that mere payment of fees alone will not be sufficient for renewal of Certificate of Practice. Application in prescribed Form M-3 for renewal of Certificate of Practice duly filled in and signed on **both sides is absolute necessary.** Soft copy of prescribed Form M-3 for Renewal of Certificate of Practice can be downloaded from Institute's website www.icwai.org.

5. It is also essential to furnish a certificate from the employer in the following form or in a form as near thereto as possible if the practising member has undertaken any employment or there has been a change in employment:

"Shri ………………………………………………is employed
as (designation)……………………………………..in (name of
Organisation)…………………………………….and he is permitted ,
notwithstanding anything contained in the terms of his employment,
to engage himself in the practice of profession of Cost Accountancy
in his spare time in addition to his regular salaried employment with us.

Signature of Employers
under seal of Organisation"

6. In order to enhance professional competence and evolve a systematic mechanism to update knowledge of members in practice, a scheme of Continuing Education Programme (CEP) was introduced by the Institute and the same is mandatory in accordance with proviso to sub-regulation (1) of Regulation 10 of the Cost and Works Accountants Regulations, 1959, as amended, whereby no Certificate of Practice and renewal thereof shall be issued unless a member has undergone minimum number of hours of such training to be undergone every year or such block of years or such other alternative conditions as may be determined by the Council by notification from time to time.

As per the said scheme, the following should be complied with:

(i) The member should undergo minimum mandatory training of 10 hours per year.

(ii) The certificate of attendance for training will have to be enclosed with the application for renewal of Certificate of Practice.

The detailed guidelines in this connection are available on Institute's website www.icwai.org.

The requirement specified above does not apply to a member in practice who has attained the age of 65 years as on 1st April, 2012.

Hence, all practicing members are requested to send their application for renewal of Certificate of Practice for the year 2012-13 along with other requirements as indicated herein above immediately and latest within 31st March, 2012.

Other Relevant Issues for Renewal of COP valid upto 31st March, 2013 :

- Application for renewal of Certificate of Practice upto **31st March, 2013** has to be made in the prescribed Form M-3 for Renewal of Certificate of Practice duly filled in and signed on both sides together with Renewal Certificate of Practice fee for Rs. 1000/- and all other dues to the Institute on account of annual membership fees and entrance fees.
- The annual membership for Associate and Fellow Members are 800/- and Rs. 1500/- respectively. The entrance fee for Associate and Fellow Members are Rs. 1000/- each payable at a time at the time of application for admission.
- The fees may be paid by Demand Draft/Pay Order/Cheque payable at Kolkata if remitted by post to the Headquarters of the Institute. In case remittance is made through an outstation cheque, Rs.30/- is to be included towards bank charges. The fees may also be paid directly by cash at the Headquarters or by Cash/Demand Draft/Pay Order/ Cheque at the Regional Councils or Chapters of the Institute.
- Certificate of Practice renewed upto 31st March, 2012 shall have validity till that date. Practising members concerned may send their application for renewal of the same in prescribed manner within 31st March, 2012.
- Further, the credit hours for Continuing Education Programme (CEP) for renewal of Certificate of Practice upto 31st March, 2012 shall be considered upto 31st March, 2012.

Request For Comments

Cost Audit and Assurance Standards Board of the Institute has approved the release of Exposure Draft of Cost Audit and Assurance Standard on Audit Documentation (CAAS - 340). The proposed standard may be modified in light of comments received before being issued as a standard in final form.

Please submit your views / comments / suggestions on the proposed Exposure Draft, preferably by email, latest by April 6, 2012.

Comments should be addressed to :
The Secretary,
Cost Audit and Assurance Standards Board,
The Institute of Cost Accountants of India,
3, Institutional Area, Lodi Road
New Delhi- 110003

Emailed responses should be sent to: technical@icwai.org

Copies of this exposure draft may be downloaded from the Institute website at http://www.icwai.org

FOR ATTENTION OF MEMBERS

The fees payable by the members of the Institute have been revised by the Council with effect from 1st April, 2012 from the financial year 2012-2013 onwards as follows :

Category of fees	Amount Payable
Associate Entrance Fee	Rs. 1,000/-
Associate Membership Fee	Rs. 800/- p.a.
Fellow Entrance Fee	Rs. 1,000/-
Fellow Membership Fee	Rs. 1,500/- p.a.
Certificate of Practice Fee	Rs. 1,000/- p.a.

The fees payable by the retired members entitled to pay at reduced rate in pursuance of Regulation 7 (4) of the Cost and Works Accountants Regulations, 1959 with effect from 1st April, 2012 from the financial year 2012-2013 onwards shall be as follows :

Category of fees	Amount (Rs.)
Associate Membership Fee	Rs. 200/- p.a.
Fellow Membership Fee	Rs. 375/- p.a.

Cancellation of Registration under Regulation 25(1) of CWA ACT, 1959

Registration Numbers Cancelled

For June 2012 Examination

Up to

ERS/003664

NRS/005703 (except 5161-225, 5283-5305, 5324-5393, 5402-5700)

SRS/0011913, WRS/007780, RSW/078536, RAF/005860

Re—Registration

The students whose Registration Numbers have been cancelled (inclusive of the students registered up to 31st December 2004) as above but desire to take the Institute's Examination in June 2012 must apply for DE-NOVO Registration and on being Registered DE-NOVO, Exemption from individual subject(s) at Intermediate/Final Examination of the Institute secured under their former Registration, if any, will be treated as per prevalent Rules.

For De-NOVO Registration, a candidate shall have to apply to Director of Studies in prescribed Form (which can be had either from the Institute's H.Q. at Kolkata or from the concerned Regional Offices on payment of Rs. 5/-) along with a remittance of Rs. 2000/- only as Registration Fee through Demand Draft drawn in favour of The ICWA of India, payable at Kolkata.

Wishing you a very happy and prosperous New Year.

Date : 21st December 2011

Arnab Chakraborty
Director of Studies

Request For Comments

Cost Audit and Assurance Standards Board of the Institute has approved the release of Exposure Draft of Cost Audit and Assurance Standard on Planning an Audit of Cost Statements (CAAS - 320). The proposed standard may be modified in light of comments received before being issued as a standard in final form.

Please submit your views / comments / suggestions on the proposed Exposure Draft, preferably by email, latest by March 31, 2012.

Comments should be addressed to :
The Secretary,
Cost Audit and Assurance Standards Board,
The Institute of Cost Accountants of India,
3, Institutional Area, Lodi Road
New Delhi- 110003

Emailed responses should be sent to : technical@icwai.org

Copies of this exposure draft may be downloaded from the Institute website at http://www.icwai.org

Request For Comments

Cost Accounting Standards Board, the standard-setting body of the Institute, has approved the release of Exposure Draft of Guidance Note on Cost Accounting Standard on Employee Cost (CAS - 7). The proposed ED Guidance Note may be modified in light of comments received before being issued in final form.

Please submit your views / comments / suggestions on the proposed Guidance Note, preferably by email, latest by March 31, 2012.

Comments should be addressed to :
The Secretary,
Cost Accounting Standards Board,
The Institute of Cost Accountants of India,
3, Institutional Area, Eodi Road,
New Delhi-110003

Emailed responses should be sent to: casb@icwai.org

Copies of this draft Guidance Note may be downloaded from the CASB website at http://www.casbicwai.org

The Management Accountant — April, 2012 will be a special issue on

'COST ACCOUNTING MODELS FOR PRICING'.

Articles, views and opinions on the topic are solicited from readers along with their passport size photographs to make it a special issue to read and preserve. Those interested may send in their write-ups by e-mail to rnj.rajendra@icwai.org, followed by hard copy to the Research & Journal Department, 12, Sudder Street, Kolkata-700 016 to reach by 8th March, 2012.

Request For Comments

Cost Audit and Assurance Standards Board of the Institute has approved the release of Exposure Draft of Cost Audit and Assurance Standard on Planning an Audit of Cost Statements (CAAS–320). The proposed standard may be modified in light of comments received before being issued as a standard infinal form.

Please submit your views/comments/suggestions on the proposed Exposure Draft, preferably by email, latest by March 31, 2012.

Comments should be addressed to :
The Secretary,
Cost Audit and Assurance Standards Board,
The Institute of Cost Accountants of India,
3, Institutional Area, Lodi Road
New Delhi - 110003
Email : technical@icwai.org

Request for Comments

Cost Accounting Standards Board, the standard-setting body of the Institute, has approved the release of Exposure Draft of Revised Cost Accounting Standard 2 on Capacity Determination (CAS 2). The proposed standard may be modified in light of comments received before being issued as a standard in final form.

Please submit your views/comments/suggestions on the proposed Exposure.

Draft, preferably by email, latest by March 26, 2012.

Comments should be addressed to :
The Secretary
Cost Accounting Standards Board
The Institute of Cost Accountants of India
3, Institutional Area, Lodi Road
New Delhi 110 003

The Management Accountant — May, 2012 will be a special issue on

'ARMS LENGTH PRICING : ROLE OF CMA's'.

Articles, views and opinions on the topic are solicited from readers along with their passport size photographs to make it a special issue to read and preserve. Those interested may send in their write-ups by e-mail to rnj.rajendra@icwai.org, followed by hard copy to the Research & Journal Department, 12, Sudder Street, Kolkata-700 016 to reach by 8th April, 2012.

Examination — June 2012

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

(Statutory Body Under An Act of Parliament)

Examination Time Table & Programme – June 2012

Programme for Syllabus 2008

Day, Date & Time	Intermediate 09.30 A.M. to 12.30 P.M.	Final 02.00 P.M. to 05.00 P.M.	Foundation 02.00 P.M. to 05.00 P.M.
Monday 11th June, 2012	Financial Accounting	Capital Market Analysis & Corporate Laws	
Tuesday 12th June, 2012	———	Financial Management & International Finance	
Wednesday 13th June, 2012	Commercial and Industrial Laws & Auditing	Management Accounting– Strategic Management	
Thursday 14th June, 2012	Applied Direct Taxation	Indirect & Direct– Tax Management	
Friday 15th June, 2012	Cost & Management Accounting	Management Accounting– Enterprise Performance Management	Organisation and Management Fundamentals
Saturday 16th June, 2012	———	Advanced Financial Accounting & Reporting	Accounting
Sunday 17th June, 2012	Operation Management and Information Systems	Cost Audit & Operational Audit	Economics and Business Fundamentals
Monday 18th June, 2012	Applied Indirect Taxation	Business Valuation Management	Business Mathematics and Statistics Fundamentals

Examination Fees

Group (s)	Final Examination	Intermediate Examination	Foundation Course Examination	Management Accountancy Examination
One Group (Inland Centres) (Overseas Centres)	₹ 1250/- US $ 100	₹ 1000/- US $ 90	₹ 1000/- US $ 60	Per Group ₹ 2500/-
Two Groups (Inland Centres) (Overseas Centres)	₹ 2250/- US $ 100	Rs. 1600/- US $ 90		

1. (a) Application Forms for Foundation Course, Intermediate and Final Examinations are available from Institute's Headquarters at 12, Sudder Street, Kolkata, Regional Councils and Chapters of the Institute on payment of ₹ 50/- per form. In case of overseas candidates, forms are available at Institute's Headquarters only on payment of US $ 10 per form.
   (b) Students can also download the Examination Form from ICAI Website at www.icwai.org. In case of downloaded form ₹ 50/- should be added extra towards the cost of the form.
   (c) Students can also submit the form online.
2. **Last date for receipt of Examination Application Forms without late fees is 10th April, 2012** and with late fees of **₹ 300/-** is **20th April, 2012**.
3. Examination fees to be paid through **Bank Demand Draft** of requisite fees drawn in favour of "**The Institute of Cost Accountants of India**" and payable at Kolkata.
4. Students may submit their Examination Application Forms along with the fees at ICAI, 12 Sudder Street, Kolkata – 700016 or Regional Offices or Chapter Offices. Any query can be sent to Sr. Director (Examination) at H.Q.
5. **Finance Act 2011, involving Assessment Year 2012-2013 will be applicable for the subjects Applied Direct Taxation (Intermediate), Applied Indirect Taxation (Intermediate) and Indirect & Direct – Tax Management (Final) for the purpose of June 2012 term of Examination under Revised Syllabus 2008**.
6. **Examination Centres:** Agartala, Ahmedabad, Akurdi, Allahabad, Asansol, Aurangabad, Bangalore, Baroda, Berhampur(Ganjam), Bhilai, Bhopal, Bhubaneswar, Bilaspur, Bokaro, Calicut, Chandigarh, Chennai, Coimbatore, Cuttack, Dehradun, Delhi, Dhanbad, Durgapur, Ernakulam, Faridabad, Ghaziabad, Guwahati, Hardwar, Howrah, Hyderabad, Indore, Jaipur, Jabbalpur, Jalandhar, Jammu, Jamshedpur, Jodhpur, Kalyan, Kannur, Kanpur, Kolhapur, Kolkata, Kota, Kottayam, Lucknow, Ludhiana, Madurai, Mangalore, Mumbai, Mysore, Nagpur, Naihati, Nasik, Nellore, Neyveli, Noida, Panaji (Goa), Patiala, Patna, Pondicherry, Pune, Rajahmundry, Ranchi, Rourkela, Salem, Shillong, Solapur, Surat, Thrissur, Tiruchirapalli, Tirunelveli, Trivandrum, Udaipur, Vapi, Vashi, Vellore, Vijayawada, Vindhyanagar, Waltair and Overseas Centres at Dubai and Muscat.
7. **A candidate who is completing all conditions will only be allowed to appear for examination**.
8. **Probable date of publication of result : Foundation – 2nd August 2012 and Inter & Final – 22nd August 2012.**

C. Bose
Sr. Director (Examinations)

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

(Statuory Body Under An Act of Parliament)

Examination Time Table & Programme – June 2012

Certificate in Accounting Technicians (CAT)

Day & Date	Time	Competency Level Part - II
Monday, 11th June 2012	09.30 A.M. to 12.30 P.M.	Financial Accounting
Wednesday, 13th June 2012	09.30 A.M. to 12.30 P.M.	Applied Statutory Compliance

Examination Fees

INLAND CENTRES	Competency Level Part – II	₹ 730/-

1. Application Forms for CAT Examination can be down loaded from Institute's website **www.icwai.org** and filed **online** also.
2. Last date of receipt of Examination Application Forms without late fee is **10th April, 2012** and with late fee of ₹100/- is **20th April, 2012**.
3. Examination Fees to be paid through Bank Draft of requisite fees drawn in favour of "**The Institute of Cost Accountants of India**" payable at **New Delhi**.
4. Students will send their Examination Application Forms along with the fees to Directorate of CAT at "CMA Bhawan", 3, Institutional Area, Lodi Road, New Delhi – 110003.
5. Examination Centres **:** Agartala, Ahmedabad, Akurdi, Allahabad, Alwar (Rajasthan), Asansol, Aurangabad, Bangalore, Baroda, Berhampur(Ganjam), Bhilai, Bhopal, Bhubaneswar, Bilaspur, Bokaro, Calicut, Chandigarh, Chennai, Coimbatore, Cuttack, Dehradun, Delhi, Dhanbad, Durgapur, Ernakulam, Faridabad, Ghaziabad, Guwahati, Hardwar, Howrah, Hyderabad, Indore, Jaipur, Jabalpur, Jalandhar, Jammu, Jamshedpur, Jodhpur, Kalyan, Kannur, Kanpur, Kolhapur, Kolkata, Kota, Kottayam, Lucknow, Ludhiana, Madurai, Mangalore, Mumbai, Mysore, Nagpur, Naihati, Nasik, Nellore, Neyveli, Noida, Palampur (H.P.), Panaji (Goa), Patiala, Patna, Pondicherry, Pune, Rajahmundry, Ranchi, Raigarh(Chattisgarh), Rourkela, Salem, Shillong, Solapur, Srinagar, Surat, Sahajahanpur, Thrissur, Tiruchirapalli, Tirunelveli, Trivandrum, Udaipur, Vapi, Vashi, Vellore, Vijayawada, Vindhyanagar, and Waltair.
6. A candidate who is fulfilling all conditions will only be allowed to appear for examination.
7. Probable date of publication of result: Competency Level Part – II is 22nd August, 2012.

C. Bose
Sr. Director (Examinations)

REGIONS & CHAPTERS NEWS

WIRC

Pune Chapter of Cost Accountants (PCCA)

Adherence to CAS issued by the Institute is now mandatory and in light of the recent introduction of Cost Accounting Record Rules 2011 and Cost Audit Report Rules 2011, its importance has grown manifold. The Institute expects its members to deliberate on such exposure drafts and give their valuable inputs. Pune Chapter considering this as a commitment to professional development organized a CEP on 19th January 2012 to discuss the Exposure Draft on CAS-14 on Pollution Control Costs for the benefit of its Members.

Present in the programme were Shri Dhananjay Joshi, former President of the Institute, Shri S. R. Bhargave Council Member, Shri Pramod Dube, Chairman of the chapter and other members. The comments from the members present were noted and discussed in the light of various requirements under the record and audit rules. The areas where a consensus was reached about modifying certain terminology/phrasing in the proposed ED were finalized and it was decided to submit the same for the Institute's consideration. A large number of members were present in the programme.

Surat-South Gujarat Chapter (SSGCCA)

The Surat-South Gujarat Chapter of Cost Accountants organized two day workshop on 21st & 22nd January 2012 at Auditorium, Commerce Bhavan, K. P. Commerce College Campus, Surat. Shri V. S. Datey was the Expert faculty.

In the inaugural speech Shri J. T. Parmar, Secretary of Surat South Gujarat Chapter welcomed the students and advised them to take full benefit of the workshop. Shri V. S. Datey dealt with Indirect Taxes and VAT on the first day and presented the complex topics in his own lucid style. At the end of the function Dr. Heena Oza, Chairperson of the Chapter gave vote of thanks. More than 250 students from Surat-South Gujarat Chapter attended the workshop.

SIRC

Hyderabad Chapter of Cost Accountants (HCCA)

The inauguration of Hyderabad Centre of Excellence was held on 22nd January, 2012 by Shri M. Gopalakrishnan, President. The Council Members, Regional Council Members, Committee Members of Hyderabad Chapter, Chairman of Vijayawada & Nellore Chapters, and also about 100 members and 40 students participated in this programme.

Thrissur Chapter of Cost Accountants (TCCA)

The Thrissur Chapter of Cost Accountants organised a Members' Meet on 29th of January, 2012, as part of its New Year celebrations. The Chairman of the Chapter, Shri A.P. Madhu made a presentation on the latest developments on the Cost Audit front, highlighting the enhanced opportunities for our members who are already in practice and those who are desirous of becoming practitioners. Shri K.V. Anil, a member in practice, presented a paper on "Knowledge Management, e-Learning and Governance". This was followed by a panel discussion, wherein senior and junior members alike shared their experiences on the job and it was a very lively session, with free interchange of ideas especially beneficial to the younger generation of Management Accountants. The members of the Chapter have decided to make this a regular affair in the years to come.

Trivandrum Chapter of Cost Accountants (TCCA)

The TCCA organized a debate on "Allowing FDI up to 50% in Multi Brand Retail—whether it is good or bad" as part of their Professional development activities. The moderators were Shri S. Ramachandran, practicing Cost Accountant and Shri V.A. Sasidharan Nair, Sr. Vice President HLL Life Care Ltd. The debate was very interactive and a large number of members participated in the debate.

Shri S.Hariharasubramanian, Chairman of the Chapter proposed vote of thanks.

EIRC

Cuttack-Bhubaneswar Chapter of Cost Accountants (CBCCA)

The Cuttack-Bhubaneswar Chapter organized a one day workshop on 29th January 2012 on "New Framework For Maintenance of Cost Records & Cost Audit". Present in the workshop were Shri Chandra Wadhwa, past president of the Institute, Shri S.C. Mohanty, Council Member, Shri S.K. Sahoo, Secretary, EIRC, Shri S.P. Padhi, RCM and other distinguished guests. The speakers highlighted various changes in Cost Audit provisions spelt out by MCA, Govt. of India.

Shri N. Sahoo, Chairman of the Chapter deliberated the welcome and keynote address and Shri S.B. samal, Secretary of the Chapter extended vote of thanks. The workshop was attended by about 72 participants from various public and private sectors and made it a great success.

Hazaribagh Chapter of Cost accountants (HCCA)

A seminar was organized by HCCA on 1st February 2012 on DTC Bill and GST. Shri Mrityunjay Acharjee, a senior Cost accountant from Kolkata was the resource person and elaborated various provisions and issues relating to the subject. The welcome address was given by Shri Raj Kamal Prasad Singh; Chairman of the Chapter and Shri Radhey Shyam, Secretary addressed the audience and discussed the scope of Cost accountancy in career building. The seminar was well attended by Cost Accountants, Chartered Accountants, members and students as well as a good number of representatives from business community.

Inauguration of Institute of Cost Accountants of India Foundation Course at Hindustan Aeronautics Ltd.

Hindustan Aeronautics Ltd (HAL), Koraput Division extended their wings by opening a new centre of Foundation Course in Aeronautics, Commerce & Arts College, Sunabeda, Odisha. A total of 23 students have registered for the Foundation course in its 1st batch 2011-12. This has been a great endeavour by HAL in bringing the course in the remotely located tribal belt of Odisha.

NIRC

Noida Chapter of Cost Accountants (NCCA)

Noida Chapter of The Institute of Cost Accountants of India organized a seminar on "Investor Awareness on Financial Markets" on 9th February 2012 at Noida, Chapter. The programme was organized jointly in association with Bombay Stock Exchange (BSE) and Wellindia Group, Noida.

Shri Rakesh Singh, Vice President of the Institute & Chief Guest in the Seminar spoke about the need for safeguarding the interests of Investors. He stated that the Institute of Cost Accountants of India has organized many such programmes in various cities across India for the benefit of common public. He briefed the participants about various developments in costing profession in last one year and requested members to contribute to nation building process through their professional contribution. Shri B.L. Jain, Chairman, NIRC stressed the significance of investor protection for "Aam Aadmi" so that the society at large is benefitted.

Shri Suraj Prakash Chairman, Noida Chapter, while welcoming the guests spoke about the objectives of the seminar. He also told that initially businesses and companies were family owned with family capital and explained how over the period businesses have grown in sizes requiring public participation in equity capital of the companies. He highlighted that keeping in view the size of businesses; it is economically not feasible to run companies without public money in the form of equity debt. He further stated that this led to the need for protecting the interests of common public investors for which Govt has over the period taken various steps like creation of capital market regulator (SEBI), investor grievance redressal mechanism etc. He opined that this seminar is aimed at creating awareness among investors about their rights and precautions to be taken while making investments.

Shri Hemant Mamtani, Executive Director, well known equity expert and Head Equity Research at Wellindia group & Shri. Harbinder Singh Sokhi, Equity experts from BSE were key speakers in the Seminar and gave presentation on various aspects of investor protection and awareness about trading in stock markets.

More than 150 persons participated in the seminar.

Jaipur Chapter of Cost Accountants (JCCA)

The Foundation stone for centre of excellence was laid by Dr. Mahesh Joshi, Member of Parliament, Jaipur Constituency, on 4th February, 2012 at Jaipur Chapter of Cost Accountants.

On this occasion, Shri Rakesh Singh Vice President, Shri H.K. Goel, Council Member, Shri B.L .Jain, chairman NIRC, Shri Vijender Sharma, Secretary, NIRC and Management committee members of Udaipur, Jodhpur & Kota were also present. The Program started with welcome speech by Dr. Ashok Jain, Chairman Jaipur Chapter. On this Occasion Dr. Mahesh Joshi stated that Cost & Management Accountants are playing important role for providing best quality products to the consumers in today's competitive world & they are the important part of the high level management.

Dear Sirs,

I was able to read the recent Interview of SAFA President Shri A.N. Raman regarding Cost Accounting Profession in Transition. The view points of Shri A.N.R are not only relevant to Cost Management accounting profession in SAFA countries but also have great importance at the global level where new changes are going on due to proposed mergers of Accounting and Management accounting bodies or starting of Joint degrees. The proposed mergers of accounting bodies in Canada and proposed Joint degree of CPA(US) and CIMA (UK) is creating a gap in Cost and Management accounting profession and it's developments in last 50 years. Shri ANR correctly mentioned that our most of the resources in terms of actions and thinking are spent on name change issue. Due to resolving of our name issue at this point we should put our resources to take the lead around the globe with our knowledge developed in last 50 years particularly in Cost Audit thru (Cost compe-tency management audit for organizations). The proposed mergers between accounting bodies in North America and Europe is an outcome of recent downturns going on in respective economies shifting of manufacturing activities to BRIC countries, and to develop some safeguards for respective niche market in which the same accounting bodies operate. Similar to IMA at this point (We compete with China on manufacturing activities still China is not able develop an Independent body of knowledge for Cost and Management accounting) The Institute should come up with Independent viewpoints as a leader to guide world about uniqueness of Cost and management accounting profession.

The Value addition thru our centre of excellence and newly form Board of advance studies should not be limited to SAFA or Asian countries but to this part of world where we can also explore and set the platform to carry out projects related to various areas by advance studies Directorate, knowledge partner and third party cost competitive course provider for various different bodies operating in Canada.

Source :

1. An interview with SAFA Pesident done in Dec 2011 and published in January 2012 of Industrial Economist today linked below http://www.industrialeconomist.com/curr/17.html

2. IMA Response to recent Changes due to proposed mergers of Accounting Institutions http://www.multibriefs. com/briefs/ima/IMA_holds high_standards_for MA.htm 3. President Feb 2012 Communique http://www.icwai.org/icwainew/institute-presi-msg.asp

Have a nice cost effective day !

With Best regards

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Dear Sirs,

It was enlightening to read the cost management practices followed by a few award winning companies in the December 2011 issue of The Management Accountant.

However, the coverage of the practices was very brief. As this is a topic of great interest, I request that a detailed account of these practices be published in the forthcoming issues of the journal.

With warm regards

Ravinder Kumar Arora
M/6423

Tulsian's Select Accounting Standards

By CA (Dr.) P. C. Tulsian &
CA Bharat Tulsian

S. Chand and Company Ltd.
New Delhi 110 055
Revised Edition 2012
Price Rs. 150.00

With the advent of the International Financial Reporting Standards (IFRS) issued by the International Accounting Standard Board (IASB), Accounting Standards have assumed greater significance. IFRS also encompasses the International Accounting Standards (IAS) issued by the International Accounting Standard Committee (IASC). In India, the Central Government by notification has constituted the National Advisory Committee on Accounting Standards (NACAS) to advise on the formulation of accounting policies and accounting standards for adoption by companies under the Companies Act. Globally, the momentum is towards convergence of Accounting Standards with the IFRS. But there are some key issues, divergence in some areas like Construction Accounting, constraints that need to be addressed before convergence can take place. Banks are not comfortable with AS 9 (that talks of Revenue Recognition). To fall in line with IFRs, technical preparation is required—both from the industry and the professionals. There should not be any conceptual differences.

In such a scenario, understanding the need and background for introduction of various accounting standards mandated by the Institute of Chartered Accountants of India, their applicability or non-applicability to various entities, is all the more necessary for a harmonious implementation of accounting policies. This is what the book under review sets out to achieve. It is designed for the students of CA and ICAI, as also the professional members of both the Institutes. It is both compact and comprehensive in coverage. Touching upon the fundamental accounting concepts viz. Going Concern, Consistency and Accrual, it proceeds to delve upon 18 Accounting Standards out of the 32 Standards issued by the Council of the Institute of Chartered Accountants of India so far, technically speaking only 31, as AS 8 has been withdrawn consequent to the issuance of AS 26 on ''Intangible Assets''.

Each chapter takes up one Accounting Standard and presents in a lucid style the various aspects relevant to the Standard like the accounting policies, applicability or non-applicability to enterprises, disclosure requirements with practical illustrations and solutions for the problems that were asked in the recent professional examinations. The information is presented in a tabular format for better understanding with headers and key words highlighted to attract the attention of the reader. IFRS follows : 'FAIR VALUE' approach as against 'Historical Cost' prevalent here. This also has ben discussed in fair measure in the book.

The Accounting Standards picked up by the authors have a lot of relevance in the present day context, for instance AS 11 — the Effects of Changes in Foreign Exchange Rates. There are reports that the implemen-tation of AS 11 may be deferred given the intense pressure that is being brought on the government by those who have taken foreign currency loan and are facing the burden of inflated liabilities in the wake of sharp depreciation of the Indian Rupee against the dollar and the precedence already available, where the Government had, during the financial meltdown in 2008, postponed the implementation 2012.

Chapters on AS4—Contingencies and Events Occurring After the Balance Sheet Date, AS 5—Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies, AS 20—Earnings Per Share, and AS 29—Provisions, Contigent Liabilities and Contingent Assets, need special mention for their exhaustive coverage by way of journal entries, working notes, guidelines on understanding the intricacies of each standard, various types of heads and various interpretations of the provisions for better understanding. Repeated references to the requirements of an accounting standard from the compendium of accounting standards brought out by the ICAI not only enhances the comfort level of the user in terms of authenticity but also helps memorize the guidelines effectively.

All this and a lot more is covered in this competitively priced book that students and professionals should find of immense use.

M. S. Vaidyanathan
ACMA, ACS
Sr. Manager, Indian Bank

Glimpses of First Convocation and Annual Award Function held on 1st March 2012 at Kolkata

Lighting the Sacred Lamp

Students with the dignitaries

Glimpses of First Convocation and Annual Award Function held on 1st March 2012 at Kolkata

Students with the dignitaries

Students with the dignitaries

Shri M. Gopalakrishnan, President inaugurating Hyderabad Centre of Excellence at Hyderabad on 22.01.2012. Also seen are Shri Rakesh Singh, Vice President (on the left), Shri A. Om Prakash, Council Member (standing next to Shri Singh) Shri A.S. Durga Prasad, Council Member (standing extreme right) & other officials.

Shri Rakesh Singh, Vice President addressing the gathering at the Investors Awareness Programme organised by Noida Chapter on 9.02.12 at Noida Chapter. Seen (L to R) are Shri N.V.V. Chalapathi Rao, Secretary, Noida Chapter, Shri Harbinder Singh, Equity Expert from BSE, & Shri Suraj Prakash, Chairman Noida Chapter.

Shri M. Gopalakrishnan, President addressing the Media, along with Rwandan High Commissioner His Excellency Williams NKURUNZIZA, during Oral Coaching Inauguration at SIRC, Chennai. Also seen are Shri. B.R.Prabakar, Chairman, SIRC (on the extreme left) &Shri G.V.S. Subramaniam - Vice Chairman, SIRC (on the right).

Shri Rakesh Singh, Vice President, delivering speech at 'India Corporate & Investor Meet' held at park Hotel Kolkata on 6.02.12.. Also seen are Shri S. Datta, partner, Amarchand & Mangaldas, Shri P.R. Ramesh, Chairman, Deloitte Haskins & Sells and Shri B.K. Jhawar, Chairman Emeritus of Usha Martin Group.

MOU with Food Corporation of India (FCI) being signed at FCI, New Delhi on 28.02.12. Seen (L to R) Shri A.K. kapoor, Advisor, Ministry of Food, GOI, Shri B.S. Mohapatra, ED (Finance), FCI, Mr. Siraj Hussain, CMD, FCI & Shri M. Gopalakrishnan, President of the Institute.

Shri M. Gopalakrishnan, President and Mr. Siraj Hussain, CMD, Food Corporation of India (FCI) at the signing of the MOU at New Delhi on 28.02.12.

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Smt. Aruna Soman Council Member, offering bouquet to Dr. M. Veerappa Moily, Hon'ble Minister, MCA, Govt of India at the India Corporate & Investor meet held at Y.B. Chavan Centre, Mumbai on 22.02.12.

Annual seminar 2011-12 organized by the Asansol Chapter of Cost Accountants at Bharati Bhaban, Burnpur. Shri M. Gopalakrishnan, President standing next to Shri Moloy Ghatak, Hon'ble Minister of Law & Justice, Govt. of WB. Also seen are Shri Rakesh Singh, Vice President, Shri T.C.A. Srinivasa Prasad and Shri Manas Kumar Thakur, Council Members, Shri Saswata Dasgupta, Chairman, EIRC, RCM's & other dignitaries.

Participants along with Shri Hari Krishan Goel, Council Member & Chairman, CEP Committee, of the Residential programme on 'Management of Taxation and Recent Trends in Financial Management' held during 14-17 February, 2012 at Srinagar, J&K.

Shri Moloy Ghatak, Hon'ble Minister of Law & Justice, Govt. of WB being presented with a bouquet by Shri M. Gopalakrishnan, President While Shri Rakesh Singh, Vice President looks on at the Annual seminar 2011-12 organized by the Asansol Chapter of Cost Accountants at Bharati Bhaban, Burnpur.

Mr. Richard F. Chambers, President & CEO, Institute of Internal Auditors and other officials at a meeting with President and Vice President of the Institute. Sitting (L to R) Shri Rakesh Singh, Vice President, Mr. Dennis K. Beran, Chairman of the Board, Shri M. Gopalakrishnan, President, Mr. Richard F. Chambers, President & CEO, IIA. Standing (R to L) M. Hal A. Garyn, Vice President, IIA, Shri Anil Bhandari, President, IIA-India, Shri Ravi Harihara Iyer, Secretary, IIA-India and senior officers of the Institute.

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