Research & Scholastic Development Team
Symbiosis Institute Of Business Management (SIBM) Pune
Constituent of Symbiosis International University (SIU)
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020 39116088
www.sibm.edu

Symbiosis Institute of Business Management Pune

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RESEARCH AND SCHOLASTIC DEVELOPMENT TEAM


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Hakim Allanabanda


Kapil Parab


Raveendra Singh


Jaikishore Sharma


Mridula Muraleedharan


Niket Khaitan


Surabhi Vashisht

FACULTY

Prof Sanjay Bhale

Prof Shibashish Chakraborty

Prof Anil Kshatriya

Prof Deepika Pandita

COVER ART


Pranay Bhatt

Contact RSDT: 020-39116088, 9819882034, 9960555648

Mail: rsdt.sibm@gmail.com

CONTRIBUTORS


Aashish Gupta


Ankit Dhanuka


Ashwini Krishna


Gautam Arora


Herat Trivedi


Jimmie Tete


Krupesh Shevgaonkar


Kulin Shah


Lokesh Kashyap


Parvesh Tohan


Priyal Meena


Ranjit Mundu


Sahil Arora


Saurabh Agarwal


Sudipta Das


Yuvraj Karade

Director's Note

Dear Reader,

I have great pleasure in releasing the first issue of 'Beacon', a new initiative by the students of Symbiosis Institute of Business Management Pune. 'Beacon' is a compilation of the best management and research based articles written by our students in the current academic year 2010-11.

The issue comprises of articles from various facets of management viz. - strategy, finance, marketing, human resources and live projects to give the readers an in-depth insight into the work of the students.

We believe that research and management education are complementary activities. As business schools improve their research, perceptions among other academics and recruiters improve and student value to recruiters goes up.

A live project is an ideal launch pad for a student to implement management theories in the corporate world. Students provide valuable insights and inputs across categories and sectors to corporates using various primary and secondary research tools. To potential recruiters, it is a mode of identifying talent early and building on a mutually beneficial relationship. To the students, it is an invaluable experience in understanding the market and its modalities.

According to Carl Sagan, *"For most of human history we have searched for our place in the cosmos. Who are we? What are we? We find that we inhabit an insignificant planet of a hum-drum star lost in a galaxy tucked away in some forgotten corner of a universe."*

Beacon is SIBM's initiative to etch a distinctive mark in India's Management arena. I hope you find it to be an enjoyable as well as a learning experience.

Dr. Vivek Sane

Director, SIBM-Pune

Contents

Should the name Bajaj be delinked from Pulsar?

- Aditi Uppal

Introduction

Buying a motorbike is a complex buying decision process where the difference between brands and uncertainty in trying new brands is very high. A buyer has well identified needs and is well informed about the category.

The basic dilemma with a brand lies in creating a distinction between its products while retaining the notion of its origin. Bajaj's models traditionally reflect the image of its parent brand. It has historically been positioned as an economical, no-frills and simple motorbike, strongly reflecting Bajaj's core brand value and philosophy of a family vehicle, made for the common man all of which are summed up in the evergreen "Hamara Bajaj" slogan. Hero Honda motorbikes are all about modernity and excellence which strongly replicate its brand personality. Bajaj's product brands have been very successful in communicating the brand identity to its customers through a strong communication strategy. The cru*x* in Kapferer's words is that whichever model the customer buys, he / she will discover the objective and subjective attributes which go to make up the brand identity.

Time is an important factor too in establishing a brand. Pulsar and Discover, the best-selling models from Bajaj have managed to create strong equity for themselves since their launch. Titan and Fast Track followed the same path, earlier being under Tata's patronage but with time becoming independent brands.

Branding

Using the parent brand name as a prefix to every product name is nothing more than a technical-process connotation like Nescafe, Nestea, and Nesquick. The association is probably a requisite here because these are different products from the parent company in the beverage category. When Maggi was launched under the "Prepared dishes and Cooking Aids" category, it was established as an independent brand and not as Nestle Maggi (indeed, nowhere has Nestle been mentioned on Maggi's packaging or advertisements). Now it has variants like Maggi Cuppa Mania, Maggi Healthy Soups, Maggi Sauces, Maggi Pizza Mazza and the list goes on. Today Maggi has such strong brand equity that this brand name can be leveraged to launch chips or biscuits and people will buy them not because they are Nestle's products but because they are Maggi's. Nestle has been a strong follower of category centred brand strategy. In Beverages its prefix 'Nes' before every brand, for confectionary and milk products, Nestle has always been prefixed.

Bajaj is essentially treading the same path. It sold one million vehicles in the emerging 36 countries in Africa, Asia and Latin America on January 24 and the company is targeting a total of $1 billion in revenues from exports in fiscal 2011 according to Rakesh Sharma, CEO of Bajaj Auto International Business. This is clearly indicative of Bajaj's plans of making Pulsar and Discover independent global brands. This decision corroborates Mr. Rajiv Bajaj's decision to follow a five-brand strategy in the automobile sector.

It is analogous to General Motors not endorsing Chevrolet in Indian market but establishing it as an independent parent brand. There is no GM Chevrolet Beat or Spark or Cruz. Similarly, it is Audi A4, A5, Q6, Q7 etc and not Volkswagen Audi. It is not so much about the brand name being independent or endorsed by a parent but more about how a brand image is built and how its personality is communicated to the market.

Decoding brand strategy

A counter-argument could be posed using Tata's example stating that Tata endorses all its automobile brands and yet is able to maintain a hold in the passenger vehicles market. Tata Motors has maintained its market share at 14% over three years from 2008-2010. Nevertheless, it must be stated here that Tata is adopting a product development strategy as compared to Bajaj's market development strategy. Another counter-argument could arise in the form of Tata's independent brands like Trent, Taj, and Voltas as well as parent endorsed brands like Tata Chemicals, Tata Steel, Tata Ceramics, Tata Capital and more. What comes into consideration is the business sector and hence the type of buying decisions required by each product. FMCG giants P&G and HUL's products require habitual buying behaviour and both of them follow an independent brand strategy. Here, it should also be mentioned that for a product like salt which comes under the same type of buying decision, major salt players follow an independent brand strategy.

The best answer to this is that branding is not quite as important to salt as is how its trial is increased through pricing or promotion strategy or how well is it advertised by linking it either to an engaging issue or a personal situation or by triggering strong emotions with the product.

In case of products requiring variety seeking behaviour, an endorsement brand strategy is usually adopted; be it biscuits (Britannia Good Day, Britannia Tiger, Britannia 50-50, Britannia Nutri Choice, Britannia Marie Gold or Sunfeast Dark Fantasy, Sunfeast Golden Bakery, Sunfeast Marie Light, Sunfeast Glucose) or confectionary (Alpenliebe Candy, Alpenliebe Lollipops, Alpenliebe Creamfills, Alpenliebe Mangofillz). If so, the adoption of an independent strategy by market leaders in the chips or beverages (by and large, an impulse product in India) - Pepsi having Lays, Uncle Chips, Kurkure, Cheetos and Lehar goes against the grain of normal practice. In this case, to ensure that impulse buying products are successful and are selling, a three-pronged strategy is followed by companies. It involves dominating shelf space, avoiding stock-outs and sponsoring frequent reminder ads.

The brand name matters a lot in case of products that require complex buying behaviour during the decision making process where it is extremely important for the marketer to not only differentiate his brand's features and benefits vis-à-vis other competitors' brand but also to focus the buyer attention to the high standing of the parent company or of the product brand in question. For example in case of Tata, it is their image of trust and quality that is passed on to products which are bought infrequently and are expensive.

Conclusion

The endorsement brand policy is ideal when a firm is on an intensive growth policy. It is introducing new products for its existing customers and would be better off by presenting those products under the company brand name. For a firm like Bajaj which is on an extensive growth policy, it aims to increase its market share by acquiring new customers. Hence, it is wise to clearly distinguish products by assigning independent names.

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The Extent of Organizational Citizenship Behaviour in Various Industries

- Lokesh Kashyap, Jimmie Tete

Abstract

This research paper aims at finding the relation between the organizational citizenship behaviour practiced in various industries and the attrition rates in that particular industry. The extent to which the five basic behaviours of OCB – altruism, conscientiousness, sportsmanship, courtesy and civic virtue – are practices in industries has been captured and their relation with attrition trends has been studied. The study focuses on the young workforce (age group: 21-30) and the result that became evident after analysing the survey data was that OCB plays a minor role in determining the turnover intention of the employees.

Literature Review

According to Organ's (1988) definition, Organizational Citizenship Behaviour (OCB) represents "individual behaviour that is discretionary, not directly or explicitly recognized by the formal reward system, and in the aggregate promotes the efficient and effective functioning of the organization". The concept of OCB was originally conceived out of an interest in behavioural consequences of job satisfaction that were presumed to have important applications for organizational effectiveness. Job satisfaction has a relation with job content. Job content then plays a major role in determining the turnover intention. The OCBs are basically directed at:

Individuals: Altruism and Courtesy

Organization: Conscientiousness, Sportsmanship and Civic Virtue

Altruism: A class of helping behaviours aimed directly at specific persons

Courtesy: Treating others with respect

Conscientiousness: Explained sarcastically as a 'good soldier' or 'good citizen' syndrome of doing things that are 'right and proper' but for the sake of the system rather than specific persons

Sportsmanship: People do not complain and have a positive attitude

Civic Virtue: Employees responsibly participate in the political life of the organization

Research Methodology

Participants

Industries: IT (excluding ITES, BPO, KPO firms), Software, Engineering, FMCG, Education, Finance and Consulting

SIC codes have been used to distinguish different industries from each other (http://exim.indiamart.com/sic-codes). Indian SIC doesn't define IT and Software. Information Technology is the entire field of computers, networking, data distribution and anything else which has anything to do with the collection, processing and dissemination of information. Software Engineering is developing a specific sequence of instructions, called a program, to allow a computer to perform a certain task. They have been distinguished on the basis of the product that they offer. Since both of them show different kind of OCB behaviours. Rest of the industries complies with the norms.

Sample

To collect the data, the OCB surveys were distributed in various organizations. The participants were selected randomly and the final sample consisted of 207 Indian participants in varied job functions from the industries mentioned above. The participants were selected from different organizations since if taken from the same organization; they may show similarities in their responses as OCB is a group-level phenomenon.

The age group surveyed was between 21 and 30 and were working in different companies. The focus of research has been on the young workforce of India that is expected to play a major role in the coming decade.

Research

Hypothesis: With regards to the young workforce of India (age 21-30), OCB does not really play a major role in the turnover intention of employees.

Previous Work

There has been significant amount of research which shows that OCB is related to the work atmosphere in different organizations. Organ suggested that OCB could be one kind of criterion during performance appraisal and redefined OCB as "performance that supports the social and psychological environment in which the task performance takes place".

According to Wanous [2] the reason for job termination was solicited from both the worker and the employer, and was categorized as either voluntary or involuntary. The focus of this study is the former. Some related studies (Griffith, Hom, Gaertnes, 2000; Mertz & Campion, 1998; Mobehy, 1977) [3] hold that employees may leave when perceiving desirability such as job satisfaction or other job related attitudes and when better alternatives are provided.

Cheng-Wei Chen and Yu-Chen Wei [4] in their journal on "Relationship Behaviour between OCB and Turnover intention" speak that OCB is negatively related to turnover intention. According to Organ OCB developed from its conviction that job satisfaction affected people's willingness to help colleagues and work associates and their disposition to cooperate in varied and mundane forms to maintain organized structures that govern work. The employee's organizational commitment improves with better job satisfaction and is thus willing to make more effort to organization and perform more OCB at the same time (Yafang, Tsai, Department of Health Service Administration [5]).

Proof

From the above literature, it can be inferred that OCB is negatively related to turnover intention. The definition of Turnover Intention has been taken from 'The 7 Hidden Reasons for Employee Leave' by Leigh Branham.

The 7 reasons are as follows:

	Reasons	**OCB Behaviour**
Reason 1	The job or workplace was not as expected	Sportsmanship
Reason 2	Mismatch between job and person	
Reason 3	Too little coaching and feedback	Altruism
Reason 4	Too few growth and advancement opportunities	
Reason 5	Feeling devalued and unrecognized	Civic Virtues
Reason 6	Stress from overwork and work life imbalance	
Reason 7	Loss of trust and confidence in senior leaders	Courtesy

4 out of these 7 reasons are OCB dimensions. Thus it can be inferred that turnover intention is negatively related to OCB and positively related to 'Other Factors' that can be compensation, stress, external factors etc as seen in the table. Deterministically,

Turnover Intention = (K * Other Factors / OCB) where K represents a proportionality constant

The survey was done to check for the various OCB factors in the different industries:

The % has been as of those employees that showed maximum behaviour pertaining to the particular OCB.

- OCBI is OCB related to individual behaviour (altruism, courtesy)
- OCBO is OCB related to organization behaviour (conscientiousness, sportsmanship, civic virtue)

The results of the survey are as shown below:

Industry	**OCB Dimensions (% of employees showing such behaviour)**	**Y=OCBI, OCBO (average)**	**X=Attrition**
IT	Altruism = 46.3 Conscientiousness = 26 Sportsmanship = 1.85 Courtesy = 37 Civic Virtues = 31.5	OCBI = 41.65 OCBO = 19.78	23
Software	Altruism = 20 Conscientiousness = 25 Sportsmanship = 0 Courtesy = 35 Civic Virtues = 20	OCBI = 27.5 OCBO = 15	29
Consulting	Altruism = 55.5 Conscientiousness = 39	OCBI = 38.85 OCBO = 20.4	22

	Sportsmanship = 0 Courtesy = 22.2 Civic Virtues = 27.8		
Engineering	Altruism = 50 Conscientiousness = 33.3 Sportsmanship = 0 Courtesy = 50 Civic Virtues = 50	OCBI = 50 OCBO = 27.76	20
Finance	Altruism = 40 Conscientiousness = 30 Sportsmanship = 0 Courtesy = 50 Civic Virtues = 45	OCBI = 45 OCBO = 25	36
Research / Education	Altruism = 28.6 Conscientiousness = 28.6 Sportsmanship = 0 Courtesy = 7.14 Civic Virtues = 35.7	OCBI = 17.87 OCBO = 21.43	18
FMCG	Altruism = 43 Conscientiousness = 28.57 Sportsmanship = 0 Courtesy = 57 Civic Virtues = 28.57	OCBI = 50 OCBO = 19.04	17

The attrition rates have been taken from http://retention.naukrihub.com/attrition-rates-in-different-sectors.html (2007 data)

Pearson's correlation coefficient was used to find the correlation between the OCBI, OCBO and attrition rate of the different industries. It was found that:

1. There is a negative correlation between OCBI and attrition rate ($r=-0.3553$, $p<0.1$)
2. There is a negative correlation between OCBO and attrition rate ($r=-0.26$, $p<0.l$)

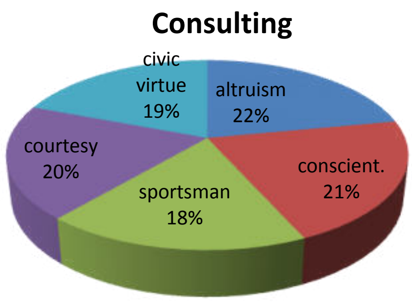
The values found are closer to 0 which shows that the correlation is not very strong. This can be further validated by observing the OCB mix in different industries. It shows that the mix is somewhat similar in each of the industries whereas the attrition rates are pretty dissimilar for the industries. This proves that OCB factors affect the turnover intention but not to a large extent.

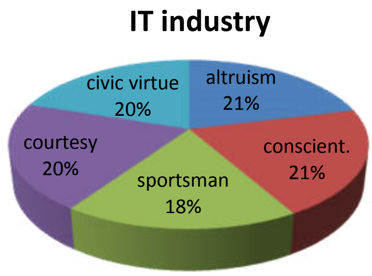
Mix of OCB in Indian Industries

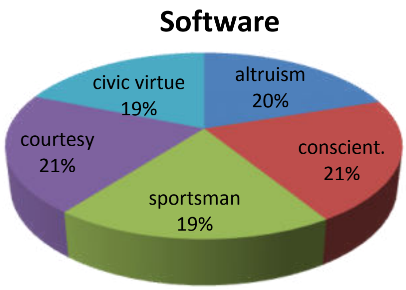
A plethora of industries are present within the geographical borders of India. The ever increasing young working population in India also aids in more development of the industries. For the purpose of this research, the industries outlined in the research methodology have been selected. The attrition rates for some of the above mentioned industries are alarmingly high and an in-depth research of the possible reasons for this high turnover rate of these industries will help improving the condition. Various approaches were adopted in order to find the relation between the OCB and high turnover intention.

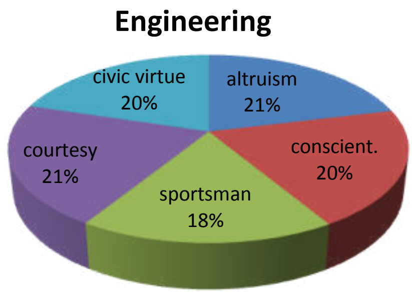
Approach 1

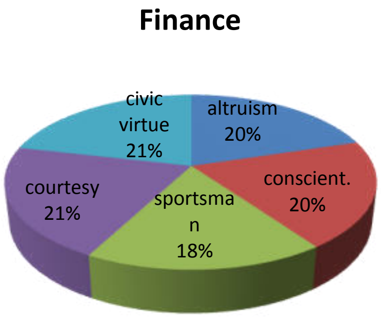
The 5 basic behaviours of OCB were mapped against the above mentioned industries. The percentage distribution of these behaviours was studied with respect to the industries.

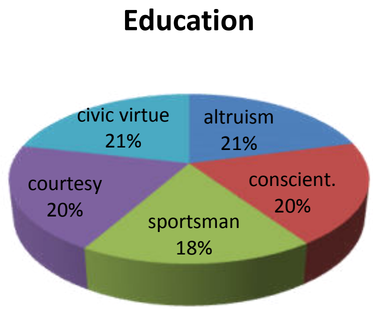












The data obtained from this hypothesis proved nothing substantial and hence it was rejected.

Approach 2

In this approach, the average scored obtained by all the 7 industries on each of the 5 behaviours was mapped.

Altruism		**Conscientiousness**	
IT	15.96	IT	15.46
Software	14.25	Software	15.25
Consultancy	16	Consultancy	15.44
Engineering	16.16	Engineering	15.44
Education	15.07	Education	14.07
Finance	15.6	Finance	15.3
FMCG	15.4	FMCG	15

The average scores obtained are from a total of 20, which is based on the survey questionnaire. Again, the average scores obtained were quite similar for all the industries. The average scored ranged from 14 to 16 in all the cases except for one, sportsmanship which ranged from 13 to 14. Nothing was evident from this approach too and hence it was rejected.

Approach 3

The percentage of positive scores for all the OCBs were compared against the industries. In order to remove the central tendency of 'replies', the answers with the response 3 were not considered and to remove the negative characteristics of the 'replies', the answers with the response 1 & 2 were also removed.

An average score of 17 or more was considered to be positive for this form of evaluation.

The metrics showed a significant change in the behaviour percentages of each of the behaviour for each of the industries.

	IT	Software	Consultancy	Engineering
Altruism	46.29	20.00	55.55	50
Conscientiousness	25.92	25.00	38.88	33.33
Sportsmanship	1.85	0.00	0	0
Courtesy	37.03	35.00	22.22	50
Civic Virtue	31.48	20.00	27.77	50

These statistics show varied results for different industries. Hence, we can assume that it is these different industries' culture which is the reason for such varied responses and apart from the OCBs, there are other factors which determine the turnover intention of employees.

Conclusion

Turnover intention for employees working in various industries is not governed by merely one factor. There are a lot of intricacies while deciding the reason for high attrition rate with industries. There are various factors which determine the level of attrition in an industry and the contribution of OCBs to it is pretty low.

OCBs play a very minor role in determining the turnover intention of employees as there are other factors which determine the same such as compensation and incentives rewarded. The introduction of globalization has brought MNC employee practices to the fore. These factors motivate the young workforce (21-30) and therefore the extent of OCB with attrition rate is limited.

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Analysis of Factors Influencing Two Wheeler Purchases by Women

- Ranjit Mundu, Herat Trivedi, Yuvraj Kurade

Introduction

India is the 2nd largest two wheeler market in the world, 4th largest commercial vehicle market in the world, the 11th largest passenger car market in the world and is expected to become the 7th largest by 2016 (Source: Society of Indian Automobile Manufacturers (SIAM)).

The two-wheeler industry in India has been in existence since 1955. It consists of three segments viz., scooters, motorcycles, and mopeds. Rising disposable income levels and greater penetration of personal credit schemes have resulted in higher demand for two-wheelers, especially motorcycles. However, with so many models to choose from, competition has become intense.

The advent of fuel efficient motorcycles in the Indian two-wheelers industry led to decline of scooters. However, over the last five years, it has made a recovery and is emerging as a niche segment targeted towards women commuters. One of the reasons for this is the increasing need of mobility for the women commuters especially in the urban areas is due to higher number of college going girls and greater participation of women in urban work force. The product itself has gone for a complete revamp and now this category mainly consists of gearless products. This segment is now dominated by Japanese manufacturers.

Presently, the geared scooters have almost been phased out and the non-geared scooters have begun to eat into the pie of motorbikes. Last fiscal, the two-wheeler market including motorbikes, scooters and mopeds grew by around 2.5% year-on-year to 7.4 million units in India. The scooter segment grew 10% to 1.2 million units. From the world's most populated bicycle cities, Pune is now becoming a two-wheeler haven.

Due to these changes in the two-wheeler market, it has become imperative to have a fresh perspective on the consumer's shifting patterns of purchase and to understand what the key buying factors are with respect to two wheelers specifically that of the urban female consumer. This research is based on the assumption that the male customer's requirements vary vastly from that of their female counterparts, the latter giving more importance to the ease of driving, manoeuvring etc. They are generally not averse to technology but prefer scooters tailor-made for them. Identifying these key factors influencing consumer buying behaviour for non-geared two wheelers in Pune amongst women forms the basis of this research.

Research Objectives

Primary Research Objective: To determine the key buying factors that women from Pune city consider while buying a two-wheeler.

The following is a detailed work-breakdown of the primary research objectives. The factors have been broadly defined as:

1. Design features
2. Utility features.
3. Other variables like age group, income level etc

Research Methodology

The sampling method used is convenience sampling from a sample size of 115 respondents in Pune city. External secondary data was collected from various reports regarding the two wheeler market in India and the prospects in Pune to get an insight into the psyche of female customers.

An in-depth interview was conducted with about 10 respondents to understand various attributes that are important for females for two wheelers. Pre-testing was done to refine the questionnaire for the survey research. Data was collected from candidates using questionnaires.

Method of Analysis

One of the measurement techniques in the questionnaire was the five point Likert scale._The full–profile approach or multi-factor evaluation method was used for collecting conjoint data in the questionnaire. The constant sum scale was also used during pretesting. A few questions which were of suggestive nature or had several opinions were kept open ended. Pre-testing of the questionnaire was done so that the flaws of would be removed in the final questionnaire. There has been use of Nominal, Ordinal and interval scales in the questionnaire. All statistical analysis was carried out using SPSS. Factor analysis was used to analyse various factors influencing the buying behaviour or the non-geared two wheelers amongst females. Cross-tabulation was done to determine the relation between those who owned a two wheeler and those who didn't and their family income. Conjoint analysis was used in identifying the important attributes, and also the most important levels of each attributes.

Findings and Recommendations

Carrying out a factor analysis using data obtained from questionnaire survey, the major factors that influence purchase of two wheelers were found to be:

- Physical Fitment
- Economy
- Comfort
- Durability

Carrying out a conjoint analysis using questionnaire survey, it was found that the two attributes that have the highest utilities are:

i) Style and ii) Comfort

From the survey it became evident that a majority (54%) of the sample respondents who own a two-wheeler are those who buy a new two-wheeler every 4-8 years. Majority (53%) of the respondents said they would prefer to purchase a black-cultured two wheeler, followed by silver, red and blue. The Exploratory research as well as tabulations showed a preference for a number of features. Around 55% of all the respondents preferred a two wheeler with enough space to store their helmet.

Women showed a striking preference to utilities like fog lights, rechargeable torch, umbrella holder, water bottle holder, mobile charger, manoeuvrability in parking, headlights designs, sleek structure, good pickup, convenient distance between seat and handle and feminine looks.

Detailed Findings

Part [A]: Tabulation (1)

Each question is treated separately here. Individuals or households who purchase two wheelers do it with a certain frequency. The table below shows the percentage frequency for the number of years in which individuals buy new two-wheelers. Nearly 54% of our sample respondents who own a two -wheeler buy a new two-wheeler every 4-8 years.

This means that there is a high possibility of repeat purchase. Manufacturers who strive to maintain a long-term relationship with their customers would acquire a competitive edge.

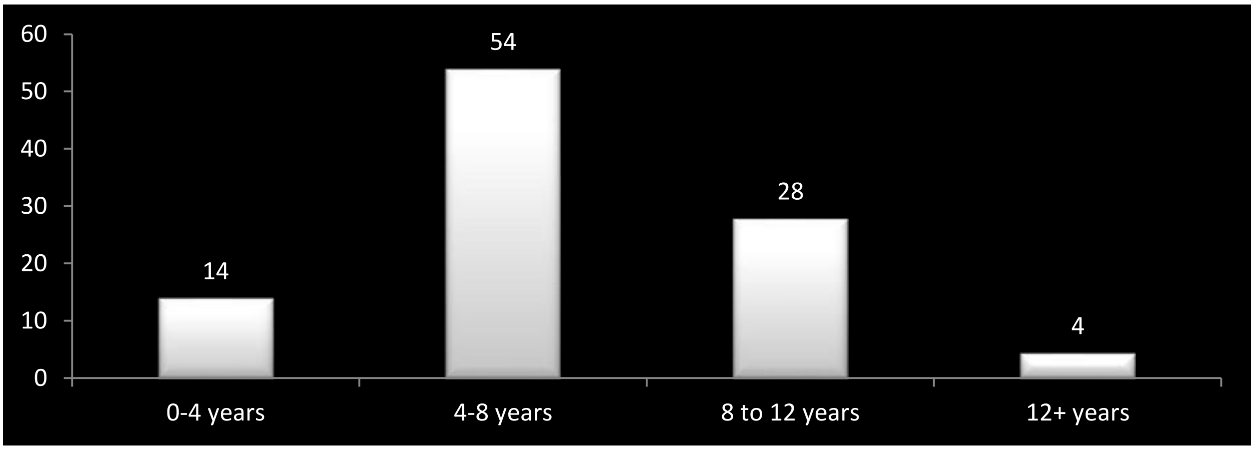

Figure 1: Frequency of purchase of two-wheeler

Tabulation (2)

The table below shows the preference for colour of vehicle. The respondents were asked an open-ended question regarding their preferred colour choice. Their responses were tabulated and a percentage-frequency distribution has been plotted as shown below. The table shows that 53% of all respondents show preference to a black-coloured two wheeler. This could play a critical role in advertisements. The least preferred colour was pink and accordingly highlighting the colour pink in advertisements can be curtailed.

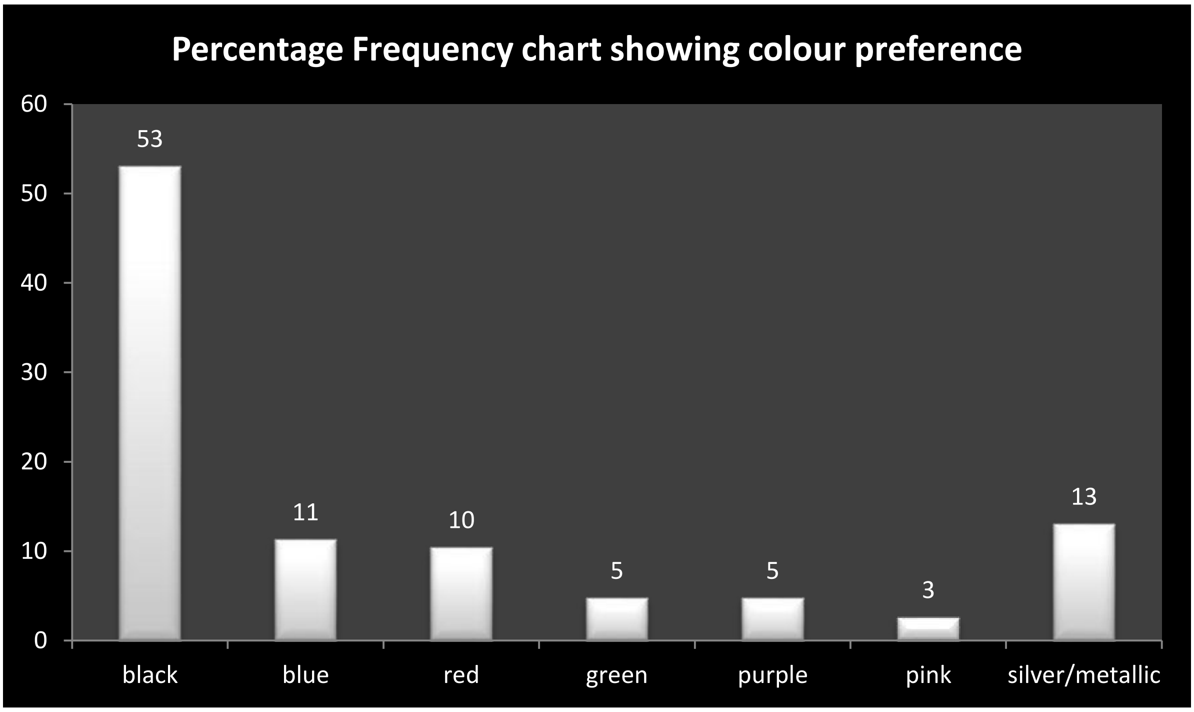

Figure 2: Percentage frequency chart showing colour preference

Tabulation (3)

This tabulation shows the frequency distribution of various features in a two-wheeler that females would prefer. Almost 55% of all our respondents wanted a two-wheeler which has enough space for storing a helmet. Many females wanted features like fog lights, rechargeable torch, umbrella holder and water bottle holder etc to be available in their two-wheelers. The presence of the said features in a two-wheeler makes it more attractive to a female buyer.

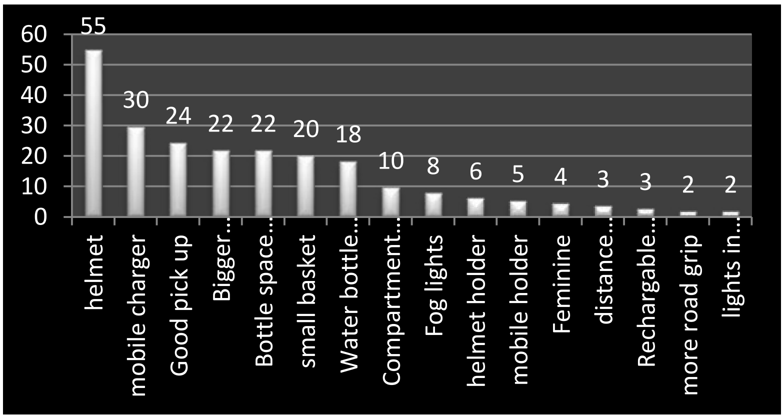

Figure 3: Features preferred by women in a two-wheeler

Tabulation (4): Cross Tabs

The cross-tabulation below shows the ownership of two wheelers versus the income level. Around 53% of the respondents were those whose annual income is in excess of Rs. 40,000 and who own a two wheeler. 18% of the respondents were those who do not own a two wheeler and whose income is less than Rs. 40,000.

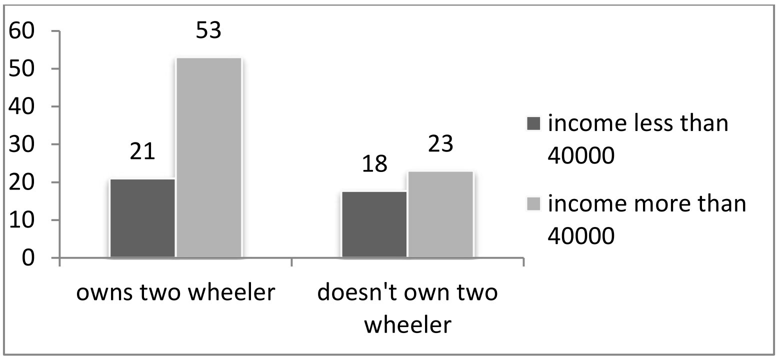

Figure 4: Two-Wheeler ownership

Rated Component Matrix

	Component		
	1	2	3
Style	.647	.431	.060
Weight	**.840**	.128	-.146
Power	-.651	.019	-.392
Mileage	.055	**.789**	.057
Price	.028	**.828**	-.120
Comfort	-.248	-.211	**.722**
LegSpace	.078	.107	**.721**
Height	**.811**	-.123	-.251

Extraction Method: Principal Component Analysis
Rotation Method: Varimax with Kaiser Normalization

Factor Analysis

As is evident from the Rotated Component Matrix Table, we see that variables weight and height have loadings of 0.840 and 0.811 respectively on factor 1. This suggests that factor 1 is a combination of these two variables. Therefore this factor can be interpreted as ‘Physical Fitment’.

For factor 2, we see that mileage and price have a high loading of 0.789 and 0.828 respectively indicating that factor 2 is a combination of these variables. These variables can be clubbed together to be called as ‘Economy’.

As for factor 3, we see that comfort and leg space have a high loading of 0.722 and 0.721 respectively, indicating that factor 3 is a combination of these two variables. These variables together can be called as 'Comfort'.

Factor Name	**Physical Fitment**	**Economy**	**Comfort**
Component variables	Weight	Mileage	Leg space
	Height	Price	Comfort (overall)

Cluster Analysis

Number of cases in each cluster

Cluster	1	42
	2	55
	3	18
Valid	115.000	
Missing	0.000	

Final Cluster Centres

	Cluster		
	1	2	3
REGR factor score 1 for analysis 2	.46247	-.32953	-.07220
REGR factor score 2 for analysis 2	1.02769	-.61707	-.51243
REGR factor score 3 for analysis 2	-.02496	-.55054	1.74043

Cluster 1

People belonging to this group prefer physical or personality fitment and perceive a vehicle on the basis of its height and weight. They may not be cautious spenders and may neglect the price and mileage of the vehicle. They are more interested in the suitability of the vehicle to one's self be it physique or appearance. Fitment of personality with the vehicle is an important criterion for these people. Additionally, they also look at a few other aspects such as power of the engine and fitment of style of the vehicle to their personality.

Cluster 2

The second cluster of people is the 'value for money' buyers or the buyers who prefer 'economy' purchases. They tend to accord more importance to the mileage and the price while giving little importance to the styling of the vehicle. Lesser importance might be given to some of the physical or technical features of the vehicle but the economic aspects such as mileage, maintenance costs and availability of accessories would be given consideration. The purchasing decision may amount to a trade-off between variables like price, mileage, brand or company image, reliability, style and durability.

Cluster 3

People belonging to this cluster generally prioritize overall comfort above all other factors. They may not be particularly inclined towards style or appearance. The major factors that these customers look for are driving comfort, stamina and physical condition after a long driving stint, ease of handling, lesser vibrations and noise, less weight, adequate leg space and additional space available in the vehicle to keep things. They are free spenders and measure quality for price. They may not necessarily give significant weightage to mileage, sturdiness, price or technical and physical features of the vehicle. They may also ignore the power, height and weight of the vehicle during their purchase decision.

Summary

The cluster analysis of this sample of respondents provides cues as to the possible segments which exist in the target population and also about the purchase criteria that are most likely to be considered.

Conjoint Analysis

To understand consumer utility levels for specific product attributes, conjoint analysis has been used. The product attributes and their levels considered are:

1. Engine Capacity (CC)
2. Mileage of vehicle (Km/l)
3. Price of the vehicle
4. Style of the vehicle (stylish = yes, not stylish = no)
5. Comfort of vehicle(yes if vehicle is comfortable, no if vehicle is not comfortable to use)
6. Storage space of vehicle

The level of each of these attributes is shown in the table below.

Conjoint analysis is a multivariate technique that captures the exact levels of utility that an individual customer puts on various attributes of the product offering. Through our survey, the best, second best and other combination of attributes have been identified.

Attributes	Level of Attribute	Estimated part worth	Range of part worth	Factor Importance
CC	**75**	0.512	0.485	7.546
	100	0.062		
	125	0.027		
Mileage of Vehicle Km/l	**35**	1.242	1.651	25.683
	45	2.461		
	55	0.810		
Price of Vehicle	**30**	0.011	0.021	0.327
	40	0.022		

Rs. '000	**50**	0.032		
Style	**style-y**	3.692	2.250	35.003
	style - n	1.442		
Comfort	**comfort - y**	3.287	2.003	31.165
	comfort - n	1.284		
Storage Space	**storage space-m**	0.067	0.018	0.275
	storage space-l	0.049		

Interpretation of Results

- The range of utility is highest for style of the vehicle.
- The highest individual utility for this attribute is at its 1st level – i.e. Style = Yes.
- The second most important attribute is the Comfort that the vehicle provides.

Combination Utilities

The best combination of utilities is 75 CC Vehicle, providing a mileage of 45kmpl, at a price of Rs. 50,000, and has the attributes of style, comfort and ample storage space.

Individual Attributes

The change in utilities in moving from one level to the next is the highest for mileage, style and comfort. Hence the manufacturer should focus on making a two-wheeler by focusing on its mileage, style and comfort.

Conclusion

Pune has the highest number of two-wheelers per square km in the country. Due to this factor it is also referred to as the 'two-wheeler' capital.

The results of the analysis reinforce many commonly held notions. Women tend to base their buying decision on the ease of handling of the vehicle. The weight and the height of a two wheeler are also given due importance. Also, the mileage and price are considered as important factors, especially for the population that has an annual income less than 40000. First time buyers are more affected by the price of the vehicle. Pune women also give importance to the comfort level that the vehicle offers them. Women from Pune city seek two-wheelers with a high mileage and good handling. Buyers are not too swayed by style and tend to prefer vehicles that offer a mileage greater than 45.

Modern-Day Distribution Channels

- Krupesh Shevgaonkar

Introduction

Today the number of channels available to a consumer has increased manifold. Traditional media such as newspapers, television and radio do not enjoy dedicated patronage. Two decades ago, the radio was probably the only facility available for most people to listen to songs. The scenario is different today. A CD can be purchased or a song can be downloaded from the internet. Nor is exposure limited to the World Wide Web. Marketing campaigns need to address consumers in all channels, if they are to really hit the target. Not only the decision on what channel to select, is becoming important, but also how to integrate the channels so that data flows seamlessly between them is also a very important decision. Companies are ever eager to use newer distribution channels to achieve the growth. This article introduces the importance of distribution channels and discusses notable examples of unique distribution channels. Project Shakti and E Choupal are two prominent examples. Given that they are well known, they are not elaborated upon here. Three of the four examples featured are from the Indian scenario and the fourth relates to a mobile grocery van in Philippines.

Why there is increasing focus on distribution channels?

Since most producers do not sell their goods directly to final users, the distribution channel becomes important. They design a multi-channel system to reach them. The design of a marketing channel, that acts as a strong interface can provide competitive advantage to a firm. In contrast, the absence of a good distribution network can be a major lacuna. Marketing channel decisions are the most critical ones facing the marketing management today. The complexity associated with them further gets compounded by the fact that channel systems take time to build, usually in years. Channel partners are not owned by the company in most cases. The sales force plays a crucial role in getting the best out of marketing channel. Integrating the efforts of channel partners and sales efforts within the whole marketing effort becomes crucial towards achieving organizational goals. The sales force is responsible towards optimizing the coverage efforts at minimum cost- a significant need during the slowdown.

Some Examples of Innovative Channels

Emami and Post office

Emami has tied up with the Department of Post to distribute its products. The pilot project has been initiated in Maharashtra. The President (Sales) of Emami's distribution arm, J.B. Marketing & Finance Ltd, Mr Hair Gupta, said that eventually the company wants to reach all the 1.05 lakh post offices across India. Besides, Emami will also use `e-Choupal' outlets - where a computer literate villager conducts trade on the net - across Madhya Pradesh and Uttar Pradesh to gain better access.

It is not out of place here to state that, earlier, the Department of Post tied up with the Oriental Insurance Company for distributing its products. So the postman will not only deliver the mail but also he sells insurance products.

Wipro and E-Seva

Wipro Consumer Care and Lighting (WCCL) has been using the Andhra Pradesh Government's e-Seva project which aims at enhancing the common man's interface with the Government. Coupled with traditional distribution methods, this approach allows WCCL to reach consumers who otherwise may not come to a retail point

Bancassurance

Bancassurance simply means selling of insurance products by banks. In this arrangement, insurance companies and banks undergo a tie-up, thereby allowing banks to sell the insurance products to its customers. This is a system in which a bank has a corporate agency with one insurance company to sell its products. By selling insurance policies bank earns a revenue stream apart from interest. It is called fee-based income. This income is purely risk free for the bank since the bank simply plays the role of an intermediary for sourcing business to the insurance company.

By successfully mining their customer databases, leveraging their reputation and distribution systems (branch, phone, and mail) to make appointments, and utilizing sales techniques and products tailored to the middle market, Indian banks are increasing the conversion rates of Insurance leads into sales and have increased sales productivity to a ratio which is more than enough to make Banc assurance a highly profitable proposition. The following are some of the strategic alliances the insurers have entered into to distribute their products.

S No	Insurer	Banks / Corporate Agencies
01	SBI Life	SBI branches and branches of its subsidiaries
02	ICICI Prudential	Allahabad Bank, Bank of India, Citibank, Federal Bank, Lord Krishna Bank, Punjab and Maharashtra Co-operative Banks
03	LIC of India	Corporation Bank, Oriental Bank of Commerce
04	Metlife	Karnataka Bank, Dhanalakshmi Bank, Jammu & Kashmir Bank

LIC is also exploring ways to rope in Regional Rural Banks (RRBs) across the country. Cross-selling could be another key strategy in selling insurance provided the restrictions on the functioning of corporate agencies are lifted. Once the curbs are removed, the market may see a wave of cross-selling. Royal Sundaram Alliance may offer household insurance with Sundaram Housing Finance and sell customers of Sundaram Finance Mutual Fund a whole range of insurance products. ICICI-Prudential and HDFC Standard will tie up with their parent companies to use their network.

Once the much-awaited Insurance Brokers Regulations comes into force, the industry is poised to change the way the insurance products are sold with the entry of brokers. While an insurance agent represents an insurance company and offers only the products of that company, an insurance broker is independent and represents a number of insurers. He can also compare the benefits of different policies and premiums to find the best coverage for the customer.

Hariyali Kisaan Bazaar: Developing Rural Businesses in India

Hariyali Kisaan Bazaar (HKB) is an innovative chain of rural agricultural supermarkets set up in India since 2002 by DCM Shriram Consolidated Ltd (DSCL).

HKB is an innovative effort aimed at empowering farmers and meeting the needs of rural households by providing access to agricultural products, services and retail. Established in the countryside, the stores offer:

- Quality inputs (fertilizers, seeds, pesticides, tools, veterinary products, animal feed, irrigation items, diesel, and petrol)
- Agronomic services with teams of extension workers and agronomists providing advice to customers
- Financial products (crop insurance, credit, banking, investments, money transfers)
- Access to output markets by helping farms produce buyback opportunities, commodity trading
- Information (weather forecasts, market prices, farmers' databases)

Each HKB centre caters to communities within a 25-30 km perimeter and impacts the life of about 20,000 households. HKB's business model is to provide targeted services to farmers in remote regions. As such, it is a pioneering project because it contributes to rural and agricultural development and food security while being a profitable business venture. It also reinforces the need for farming communities to have access to information and technology.

In June 2009, DSCL announced the plan to add 300 stores to the existing 300 by 2012. The group is currently present in eight states and is India's largest rural retail chain.

Kisaan Seva Kendra

Kisaan Seva Kendra is an award-winning retail outlet model pioneered by IndianOil to cater to the needs of customers in the rural segment. Today, KSK outlets have emerged as dominant players in the rural markets, riding on the rapid growth of upcoming second and third tier roads in the rural areas. KSK comes with a fresh perspective enabling dealers to tap the huge demand driven in by consumers there. In addition, non-fuel retail facilities like convenience stores have been added to the KSK to sell pesticides, vegetables, banking products and stationery items. IndianOil has tied up with Indo-Gulf for fertilisers, National Seeds Corporation for marketing seeds and agricultural inputs as well as alliances with

NABARD, Oriental Bank of Commerce and Bank of Baroda for banking products. Some KSK have installed internet kiosks, communication facilities, etc. Business alliances have been signed to market products from Dabur, Airtel, Tata Chemicals, Godavari Fertilisers, Gokulam Fertilisers, Hindustan Unilever and Godrej Agrovet. Other alliance partners are Emami for personal care products, Money Gram for money transfer, MILMA and OMFED for milk products, and Supplyco for convenience stores.

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The Role of HR in Employer Branding

- Parvesh Tohan

The past twenty years have seen the rise of the brand as a central concept in organizational and social life. Every organization has both an external and an internal brand. For decades, however businesses have focused almost exclusively on consumer or external branding. This situation is changing.

The importance of external branding in securing customer loyalty is well documented. We are now coming to appreciate how important internal branding can be. There is a fast growing body of research that clearly shows internal branding is an important driver of external brand success. What is not to be overlooked, however, is how internal branding helps to feed the employer-of-choice status that keeps the system in balance. Simply put, there is a direct link between how your employees perceive the company and how they help you to deliver your external brand promises. In other words, if they believe in you, they'll go to bat for you wholeheartedly. The only way to align their perceptions is to communicate your brand so your employees can understand and know that they share the underlying values.

"Why should I work here and why should I stay here?" A question that every company knows its employees have asked of themselves before joining the organization or will ask in the future. This question comes with other questions like: "How am I engaged; Can I use my creativity; Can I make mistakes; Will people guide me on behaviour; Do they listen, really listen; Can I think laterally and proactively; Do people respect me for what results I can bring or is the focus on form and compliance?". To answer these questions proactively, many initiatives are being taken by companies under the banner of an emerging concept "Employer Branding." For example, BMW, Apple and Google have all created brands that make it easier for these companies to recruit talented workers and to motivate their employees. These effects get into territory that is highly subjective, such as the emotional attractions of a workplace or a brand's motivational implications. This territory lies beyond the reach of ordinary economic analysis.

What is Employer Branding?

"Employer Branding is defined as all the operations carried out by a business to create and communicate its own identity to a target group com-posed of candidates and employees, so that the brand attracts and holds onto these subjects in line with the corporate culture and values."

Significance

The objective of continually strengthening the employer brand may provide a clear indication of what needs to be added or changed within the total rewards package. Then when it's time to implement something new, the strength of the internal brand may greatly assist in characterizing the initiative as being of value to the employees. This preconception of value not only opens the door to receptivity, it sustains an environment of interest and acceptance.

It is important to have employees that are enthusiastic about the company as a whole. They are the *best ambassadors* for any given organization, and the entire business community recognizes that happy people are productive people. Effective employer branding has been a relatively recent tactic to try and en-sure the connection between employer and employee remains a strong one, but trends suggest that it hasn't yet made a significant impact.

The danger is that employees feel betrayed. The brand they were sold before they came on board is at conflict with the reality, and so the result can be large parts of the workforce going through the motions at work without feeling any great obligation to an employer that mis-sold them a culture. This leads to rising attrition rates. Employees feel de-motivated when the management is unable to de-liver what was promised to them. The result is that more and more organizations are finding it hard to retain their talent pool. Figure 1 provides insights into rising attrition rates in the Indian IT Industry.

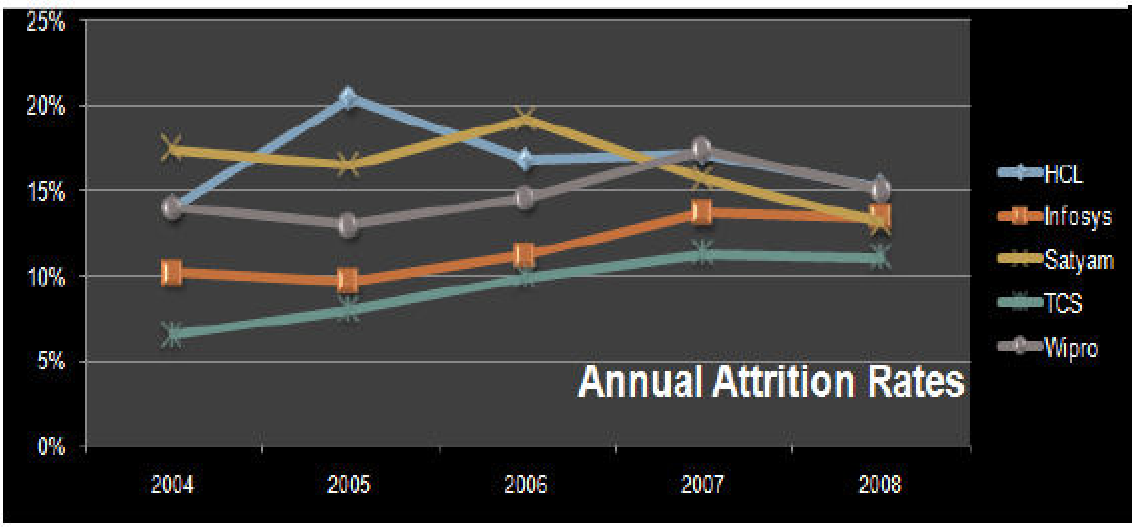

Figure 1: Annual Attrition Rates in IT Companies

Impact of a strong employer brand

1. Increased talent retention

2. Increased productivity

3. Increased internal promotion

4. Decreased recruitment costs

5. Robust succession plans at all levels of your organization

6. Brand advocates spreading the good word for your organization

The result of the above is the development of a framework between an organization's brand and the talent it can attract.

Differential Turnover ratio

Another impact of strong employer brand is decrease in Employee Turnover Ratio. The following data shows the employee turnover ratio of 50 Best Workplaces and the impact of ‘employer brand’ on the turnover ratio. In a human re-sources context, turnover or labour turnover is the rate at which an employer gains and loses employees.

Employer Branding

The concept of employer branding is a point where marketing strategy meets personnel management. With internal branding increasingly being accorded as much importance as external branding, the role of HR in making the internal brand is gaining greater significance.

When HR Comes into Picture

An article at SHRM India on “The Employer Brand - A Strategic Tool to Attract, Recruit and Retain Talent” highlights that HR uses the employer brand for three main reasons:

1) Organizational culture and employee fit
2) Positive outcomes for recruiting
3) Retaining talent with corporate values and a team-based culture3.

At its most effective, the employer brand is a long-term strategy with a transparent message that promotes the organization as an employer of choice. As an HR/Employer Branding specialist, one will work closely with the top management and the marketing department to develop and execute the company's personnel strategy. Many senior HR professionals said they were trying to make their organization an ‘employer of choice’ in the face of low unemployment and skills shortages.

HR has been in the backseat for many years (especially in third world countries), but is now increasingly playing a vital role in branding through various measures.

- Firstly, the past decade has seen unprecedented growth in the importance of corporate social responsibility (CSR) for investors, employees and other stakeholders where the HR professionals have taken a lead role.

- Second, HR professionals continue the search for credibility and strategic influence. Embracing the language and conceptual tools of brand power seems an obvious choice. This direction reflects continuity with earlier iterations of HR, for example with organizational development and cultural change.

- The third reason for the rise of the role of HR in employer branding is due to labour market conditions. Employability remains low and skills short-ages continue. Tight labour market conditions are combined with a tough trading environment. HR professionals are thus obliged to compete more fiercely with one another to recruit and retain effective staff, while also being severely constrained in the extent to which they can pay higher salaries in order to do so. A strong employer brand is being promoted as the key to winning this 'war for talent' by establishing organizations' unique selling points (USP) in employment terms.

- Fourth, recent years have seen an increased interest in promoting employee engagement. This includes attempts to recruit, socialize and retain a committed workforce. From a branding perspective, the recruitment proposition forms the basis for workplace satisfaction and identification with organizational goals and values. Interest in questions of identity, workplace roles and the management of human emotions and behaviour are taking centre stage, particularly in the service and retail sector where employees interface with customers and 'live the brand' through aesthetic or emotional labour. Under such an approach, HR policy and practice can influence who is employed, how they look, behave, speak, think and feel – particularly important in the realm of lifestyle brands.

The Indian Scenario

Recent research polls have indicated that, in India, the top five competencies for knowledge, skills, abilities and other qualities needed by a senior HR leader to be successful are 1) Strategic thinking, 2) Effective communication, 3) Business knowledge, 4) HR knowledge, and 5) Leading change.

In addition, the polls reveal that the top five competencies for successful senior HR leaders in a global organization are 1) Global intelligence/global mind-set, 2) Strategic thinking, 3) Business knowledge, 4) Effective communication and 5) Cross-cultural intelligence.

If effectively marketed internally and externally, the employer brand in India has a strong value proposition, with core corporate values at its foundation.

India CSR Initiatives for Brand Recognition

In the clinical research sector in India, as companies become better established in the market-place, many are beginning to introduce CSR initiatives. Quintiles India is in the early stages of initiating CSR activities on a large scale, so it is too early to draw conclusions.

What might hold employer branding back?

An obvious problem may be overcoming management and/or employee resistance. There are important questions raised by the notion of expecting employees to live the brand. Is it ethical? Is it desirable?

Another problem is how to express one employer brand when operating with complex organizational forms. Sustaining a brand may prove difficult in diverse workforce settings, with strategic partnerships, joint operations and outsourcing.

Future Trajectory

Employer branding as we know it today will inevitably play a role in this process in more and more organizations. But surely we will also see HR man-agers borrowing and recasting other tried and tested tools from their colleagues in the marketing function. This will involve the HR function viewing employees and potential employees as ‘internal customers’ and doing what the Chartered Institute of Marketing sees as its profession’s core task: ‘anticipating, identifying and satisfying customer requirements’. Another set of marketing tools that are obvious candidates for HR adaptation are those that are deployed by companies to develop long-term relationships with their customers. Just as marketers seek to retain customers by adapting the products they offer to suit each stage of the typical consumer life cycle, so employers will use similar approaches to help retain staff.

Conclusion

Peaks and troughs in the popularity of employer branding are likely to be influenced by prevailing product and labour market conditions. However, the power of the brand in all its forms is likely to become even more deeply embedded in our cultural landscape.

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Banking Licenses to Corporates – Is it a Good Idea?

- Mridula Muraleedharan

The finance minister announced in his speech for the annual budget 2010-11 that the RBI may consider issuing fresh banking licenses to private players to help the Indian banking system grow in size and sophistication. The RBI floated a discussion paper on the issue because the banking sector involves high leverage and public money.

Indian Banking System – An Overview

Modern banking in India started with the establishment of a limited number of banks by British agency houses, which were largely confined to port centres for financing of trade. Indian enterprises entered this sector in the early twenties largely due to the Swadeshi movement. The economic power was concentrated in the hands of a privileged few and the needs of priority sectors were neglected. It was only after the establishment of five year plans that the banks changed their policies. Recognizing the importance of banking in an economy, the government introduced the scheme of 'social order' over banks in 1967 with a view to make banking an effective tool of economic development. July 1969 was a milestone in the history of Indian Banking system because 14 major commercial banks were nationalized. This was done to ensure that priority sectors like agriculture and small scale industries, which had been neglected until now, would get adequate credit flow. This also expanded the network of banks in rural and semi-urban areas.

As on March 2009, the Indian banking system comprises of

- 27 public sector banks
- 7 new private sector banks
- 15 old private sector banks
- 31 foreign banks
- 82 regional rural banks
- 4 local area banks
- 1721 urban co-operative banks
- 31 state co-operative banks
- 371 district central co-operative banks

The average population covered by a commercial bank branch in urban areas has decreased from 12300 in 2005 to 9400 in 2010 and in rural and semi-urban areas from 17200 in 2005 to 15900 in 2010. Though this represents impressive growth in terms of branch coverage, large segments of the Indian population still have no access to formal banking systems. So there is a need for more number of banks to promote financial inclusion.

Various opinion makers have expressed views about the desirability of permitting new banks (including local area banks), allowing conversion of NBFCs into banks and whether large industrial and business houses should be allowed to set up banks. A number of issues, however, bear consideration. These include:

Minimum Capital Requirements

The minimum capital requirement or promoters' contribution was Rs. 100 crore in 1993 and was later revised to Rs. 200 crore in 2001. Having a low minimum capital requirement may result in non-serious entities entering banking sector. It could also lead to banks running out of capital early leading to increased risk. In India, since licenses are given to only full-fledged financial institutions, adequate minimum capital requirement of Rs. 1000 crore may be necessary to ensure that the banks operate on a strong capital base. Such banks would be able to play a more meaningful role and would have the advantages of scale. Another option would be to prescribe a minimum capital requirement of Rs. 500 crore with a condition to raise the remaining amount within a period of time.

Caps on Promoter Share Holding

The 1993 and 2001 RBI guidelines on entry of new private sector banks sought to reduce the control of functions of banks by the promoters. In India, the promoters have been allowed to bring in higher stake (minimum of 40% of the paid-up capital of the bank) at the time of licensing of banks with a lock-in period of 5 years. For other significant shareholders, it is limited to maximum of 10%. The February 2005 Ownership and Governance (O & G) guidelines require promoters and other shareholders of the banks to divest/dilute their shareholding to a maximum level of 10% of the bank's share capital.

The main intention was to have a stable capital base, and strong professional management, but without any interference or control of management by the promoters. If this clause is maintained then large shareholdings by promoters in the initial stages would ensure promoter's stake in development of bank while the dilution requirement would bring down his control on the functions of the bank gradually. On the flip side the dilution requirement would be unattractive to promoters. The RBI has to strike a right balance in such a way that the dilution requirement would not lead to concentrated shareholdings which would be detrimental to the depositors' interest

Foreign Share Holding in New Banks

The 2001 guidelines on entry of new banks permitted NRIs to participate in primary equity of a new bank to the maximum extent of 40%. But for a foreign bank or finance company, it was restricted to 20%. In 2005 the GOI stated that the aggregate foreign investment from all sources (FDI, FII, and NRI) in private banks cannot exceed 74% of its paid up capital. Since the government is aiming at creating a strong domestic banking sector, it would be better if the investment by foreign players is capped at a suitably low level and locked in for an initial period of say 10 years to prevent sudden outflow of funds.

Eligibility of Promoters

Prior to nationalization of major commercial banks in 1969, the industrial and business houses, having control of the banks, diverted bulk of the bank advances to industry, while the needs of vital sectors like small-scale industry, agriculture and exports were neglected. The 2001 licensing guidelines prohibited promotion of new banks by industrial houses. However, individual companies, directly or indirectly connected with large industrial houses were permitted to acquire by way of strategic investment shares not exceeding 10% of the paid-up capital of the bank. One way of identifying eligible business houses would be to ensure that only those with sufficiently long and sound track record are allowed to promote banks. Also before issuing licenses, thorough checks on the back-ground of the promoters and top executives must be done. The regulator must ensure compliance with regulations and corporate governance standards. The benefits and risks of allowing corporates into banking are discussed next.

Benefits

Industrial houses are an important source of capital and management expertise. Apart from industrial and business houses, there may not be many entities that could bring in the capital required for banks. Business houses have already been permitted to operate in other financial services sectors, such as insurance companies, asset management companies etc. and are already competing with banks both on the assets and liabilities side. Their management expertise could be gainfully used to improve the banking sector. They also have a long history of building and nurturing new businesses in highly regulated sectors such as Telecom, Power, Automobiles, Defence, infrastructure projects etc.

Equity of large industrial and business houses is widely held and is accordingly subject to Companies laws, SEBI laws and regulations on transparency, disclosure and corporate governance.

Risks

Even though Industrial and business houses are already permitted in other areas of financial services, banks are special as they are highly leveraged fiduciary entities central to the monetary system. Banking, being highly leveraged business and dealing with public money, it makes sense to go the extra mile to avoid possible conflicts of interest. There is also a great risk of diverting the funds to liquidity constrained operations of the group. Further, as industrial and business groups are involved in various types of activities they may be able to rotate funds from one entity to another, which makes it difficult for the supervisors / regulators to trace source and utilization of funds. Major operations of the industrial and business group may not be well regulated which makes it difficult to assess the ‘fit and proper’ status of the industrial / business group.

Taking Over Regional Rural Banks

The government set up Regional Rural Banks In the early 1970s to address the issue of credit to priority sectors. They were owned by the central government, state government and sponsor bank in the ratio 10:3:7. However most of the RRBs underperformed. Presently there are just 82 RRBs in India. As an alternative, industrial houses could be allowed to take up some of the weaker RRBs. This would give them an opportunity to prove their competence in promoting banks as well as improving banking in the rural Bad Lands. Also in the case of RRBs, the effect of any negative externality would be limited.

Conclusion

That our country needs banking reforms, if it so to continue growing at a fast pace, is indisputable. The Government and the RBI have to introduce reforms quickly and manage the stability of the banking system at the same time. This is a tough balancing act to perform but there is no escaping this. The success of the move will lie in the ability of the regulatory bodies in ensuring that compliance is not only in letter, but also in principle.

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The Future of Inorganic Growth

- Aashish Gupta

Introduction

Sustainable growth has become a shibboleth in this rapidly changing economy. The idea is no longer marked by a mere desire to expand but has become a necessity for survival. In the wake of post 1991 reforms, there is a palpable aggressive flourish in the intentions of the Indian business honchos. The cumulative result of a series of such changes has made the private sector more aggressive with commercial enterprises looking to circumvent the time involved in achieving the so called economies of scale. Enter inorganic growth.

Inorganic growth is termed by many as a ticket to fast track growth as compared to organic growth which remains an empirically validated mechanism. Following the economic reforms, the metamorphosis within the Indian business scenario has led to a focus on “size and competence” as key drivers to face rising competition.

Mergers and Acquisitions

The three primary objectives behind every M&A transaction - Improving revenues and profitability, faster growth in scale, quicker time to market and acquisition of new technology or competence. As per the survey by consulting firm Grant Thornton, 33% had the motive of increasing revenues, while 28% were banking on economies of scale and quicker time to market, 22% wanted to acquire new technology, 11% for increasing market share and 3% for tax shields and investment savings. Whatever the intentions behind a merger or acquisition, the prediction of its success is a matter of intense debate and deliberation. In the US, the overall rate of failed mergers and acquisitions is estimated at between 74% and 83%.

As per a study by Amie J Devero, founder of The Devero group, on the failure of many an American acquisition of Caribbean companies he talks about two kinds of outlooks prevailing in the industry – viz. the integration outlook and the deal outlook. For those with a deal mentality, the point of the exercise is to close the deal for the best price and generate the highest stock value in the shortest amount of time. Those with an integration mentality see the process of acquisition as a long-term project that starts with due diligence and isn‘t over until the merger, including integration, is complete. This process may take several years, since the deal is just the initial stage of an acquisition; it is incomplete without an integration process which absorbs not only the operations of the acquired company but also the human resources along with the cultural aspects.

Research on M&A Effectiveness

When Yegen Associates, a fifty-year-old finance company was purchased, a culture shock awaited the acquiring company which a traditional, conservative banking approach. According to Louis Iorio, the VP of Yegen, the deal was made on the basis of analysis of historical data where all indicators pointed towards a ”go national” strategy to augment business. However, Yegen could not sustain the cultural disparity and perished in a period of

5 years. According to a study by American Management Association, one out of four executives leave within a quarter of the merger and 47% of the seniors managers do so within a year. In addition to it, the acquirer adds on to its liabilities from the acquired company. These glaring miscalculations are not the result of over-aggressiveness but a lack of significant research in the field that has made the business community nonchalant towards the post-merger effects.

Based on a study done by Surjit Kaur on corporate takeovers in India using eight financial ratios on 20 companies, studying pre-merger and post-merger effects for three consecutive years, it was concluded that both profitability and efficiency of targeted companies declined in the post-takeover period, but the change in post takeover performance was statistically insignificant. P L Beena (Towards understanding the merger wave in the Indian corporate sector – a comparative perspective) analysed the pre-merger and post-merger performance of a sample of 115 acquiring firms in the manufacturing sector in India, between 1995-2000, using a set of four financial ratios. The study could not find any evidence of improvement in the financial ratios during the post-merger period, as compared to the pre-merger period, for the acquiring firms. V Pawaskar (Effect of Mergers on Corporate Per-romance in India) analysed the pre-merger and post-merger operating performance of 36 acquiring firms during 1992-95, using profitability, growth, leverage, and liquidity, and found that the acquiring firms performed better than industry average in terms of profitability. Regression Analysis however, showed that there was no increase in the post-merger profits compared to the main competitors of the acquiring firms.

Going by recent research done by Pramod Mantravadi, Engagement Director, ISB and A Vidyadhar Reddy, Professor, Osmania University on pre-merger and post-merger effects across various sectors it was found that change in net profit margin was dependent on the type of industry. While Agri products, chemicals, textile, banking, finance, pharmaceutical companies registered a decline of 3.75%, 2.09%, 3.16%, 7.97%, 1.59% in net profit margin respectively, electrical equipment registered a meagre 0.09% increase. Overall there was a 2.73% decline in net profit margin. Although this data was taken only for a period of 3 years pre-merger and post-merger, the slow rate of recovery in profit margins is evident and therefore questions the very fact that companies consider organic growth to be a slower process ignoring its zero risk aspect.

Conclusion

There are exceptions like ICICI Bank and M&M which prefer organic growth over inorganic. Chanda Kochhar in one of the interviews said that their bank will prefer organic growth over expansion as many hidden liabilities could creep in along with cheap valuations of the troubled foreign banks. Taking into consideration the data from the research work and common beliefs in the industry, the credibility of acquisitions is yet to be proven and requires more research work.

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Strategic Analysis for Mahindra Navistar Engines

- Report by Raveendra Singh

Introduction

"A strategy delineates a territory in which a company seeks to be unique." - Michael Porter

As companies mature, they often face declining growth as innovation gives way to inertia. In order to achieve consistent levels of growth throughout their corporate lifetimes, companies must attend to existing businesses while still considering areas they can grow in the future, designing new strategies.

Mahindra Navistar Engines Private Ltd. (MNEPL) is a joint venture between Mahindra & Mahindra Limited (M&M) and Navistar International Corporation Inc. of USA and has set up manufacturing facilities at Chakan near Pune for production of Diesel Engines used for both on and off Highway applications.

The off highway applications where diesel engines see demand are varied, from agricultural machinery to captive power generation. The unorganized sector dominates the lower HP range and the higher HP range is dominated by a few players, with international tie-ups, boasting large market shares. Sales are mostly to OEMs and differentiation is on technology and maintenance.

Future demand is likely to be driven by increasing investments in agriculture, infrastructure and industrial growth. The power scenario in the country - unreliable, insufficient and erratic power supply from electricity boards is driving need for captive generation and hence engines. Dependence on the power generation segment accounts for 50 - 55% of the revenue of all major players.

This report is based on a project executed by the Research & Scholastic Development Team of SIBM Pune for Mahindra Navistar Engines Pvt. Ltd. The goal of the project was to complete a strategic analysis of demand for diesel engines in India and devise a strategy map for the company till the year 2020. The final report and presentation were submitted to the Managing Director of MNEPL and are now the property of MNEPL. We are only sharing the analysis, methodology and the process of preparing them.

The project team comprised of 11 students from SIBM Pune and 3 executives from MNEPL. The team studied various databases and market research reports to paint a picture of the engine industry in India. They coupled this analysis with the inputs from the MNEPL team and secondary research on various macro & micro indicators relevant to off highway equipment industry in India to arrive at a qualitative study framing a business scenario for Indian diesel engines market in 2020.

Methodology

It was clear that for a period as long as 10 years (2010-2020), the strategy of MNEPL would have to be evolving and changing as per the market scenario.

The findings indicated that three strategy horizons describe quite well how new ideas can become emerging opportunities which may ultimately become part of the core business, while other businesses drop away.

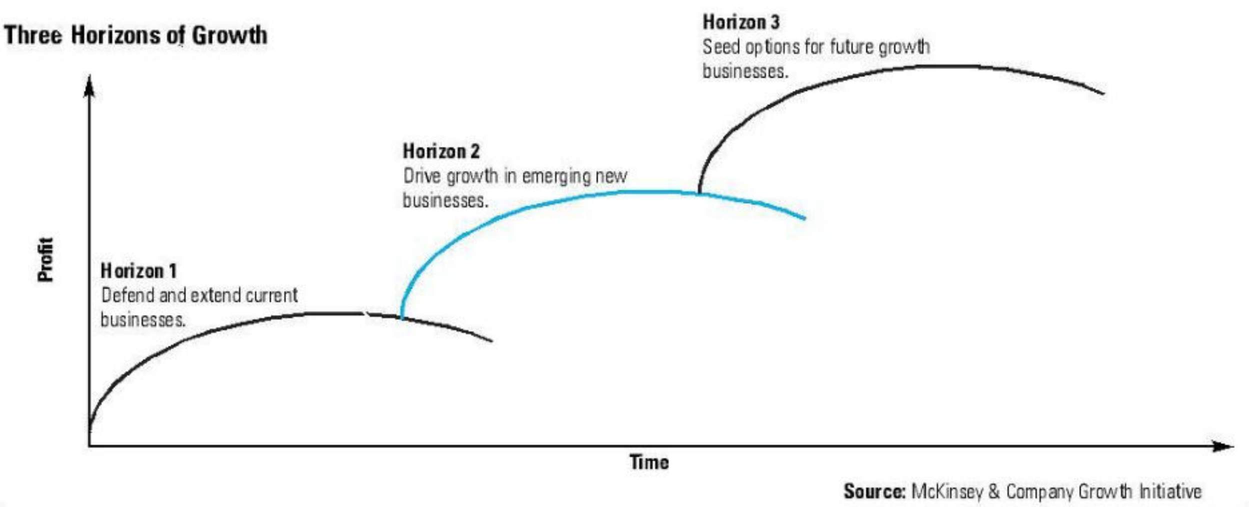
Horizon one represents those core businesses most readily identified with the company and those that provide the greatest profits and cash flow currently. Here the focus is on improving performance to maximize the remaining value. For MNEPL this is the diesel engine market for highway vehicles.

Horizon two encompasses emerging opportunities, including rising entrepreneurial ventures likely to generate substantial profits in the future but that could require considerable investment. For MNEPL the off highway application of diesel engines is an opportunity present but not yet explored.

Horizon three contains ideas for profitable growth down the road—for instance, small ventures such as research projects, pilot programs, or minority stakes in new businesses.

Time, as noted on the x-axis suggests the cycle by which businesses and ventures move, over time, from horizon two to horizon one, or from horizon three to horizon two. The y-axis represents the growth in value that companies may achieve by attending to all three horizons simultaneously.

For MNEPL, the off highway application market for diesel engines present an equal if not greater monetary opportunity in the near to middle term.



Our approach to finding & estimating diesel engine demand currently and in the future was to use applications as a proxy. There were a number of industries that used applications requiring diesel engines. Therefore the project was further divided in two phases:

Phase I: Segment identification

Since off highway applications are a big market with varying applications, all possible market segments/industries where demand for these applications existed were identified. For horizon 1 & 2, we restricted ourselves to MNEPL's current diesel engine capacities i.e. 210 HP.

Phase II: Segment analysis

Each of these segments were analysed to create a demand forecast in the near (1 year), middle (3 years) and long term (5 years and beyond).

Findings

Phase I: The significant market segments identified along with applications are as below:

Market Segment	Applications		
Agriculture	Agricultural Tractors	Combine harvesters and seeders	Other agricultural equipment
	Self-propelled sprayers	Cherry pickers / orchard harvesters	
	Windrower tractors	Grain shifters	
Construction and Mining	Pavers	Bore / Drilling Rigs	Excavators
	Tampers/rammers	Rough terrain forklifts	Cranes
	Plate compactors	Underground mine loaders	Graders
	Off highway tractors	Trenchers	Dumpers/tenders
	Off highway trucks	Wheeled loaders	Crawler tractors
	Portable compressors	Wheeled dozers	Skid steer loaders
	Surfacing equipment	Scrapers	Rollers
	Backhoe loaders	Crushing / Processing equipment	Crawler dozers/ loaders/ tractors
	Underground mine vehicles	Other construction equipment	
General Industrial	Aerial lifts	Refrigeration AC	Concrete Pumping Equipment
	Forklifts	Concrete/industrial saw	Oil and gas processing equipment
	Sweepers/Scrubbers	Crushing equipment	Other General Industrial equipment
	Generator set/Welder	Signal Board	
Lawn and garden	Lawn and garden tractors	Commercial movers	Chippers/ Stump Grinders
	Rear engine riding mowers	Wood splitters	
Recreational Marine	Pleasure Cruisers	Pleasure Fishing Boats	Yachts / Motor Sailors
Power Generation	Prime power	Standby power	Marine auxiliary

Airport Service Equipment	Ground Power Unit (GPU)	Passenger Stairs	Catering / Service Truck
	Air conditioner / Heater unit	Belt loader	Lavatory truck; potable water truck
	Air starter unit	Baggage tug / tractor	Fuel hydrant truck
	Narrow body push out tractor	Cargo and container loader	Fuel tanker truck
	Wide body push out tractor	Cargo delivery	Maintenance Lift
	Passenger Buses	Bobtail truck	Miscellaneous Vehicles (Cars, Vans, Trucks)
	Forklift		
Commercial Marine	Charter vessels	Patrol boats	Commercial fishing boats & trawlers
	Ferries, tugs & barges		
Pumps & Compressors (Light Commercial Equipment)	Air compressor	Pump	Pressure Washer
	Hydro power unit	Gas compressor	Irrigation Pumps
Logging equipment	Chainsaws	Shredders	Fellers
	Skidders		

Phase II: Along with each segment identified, we had to come up with a unique set of indicators (economic or otherwise) that would enable the analysis of the segment in terms of growth and future prospects.

For e.g. the indicators we identified for the agricultural sector were:

- Extent of mechanization
- Use of tractors
- ROI from agriculture
- Production of cash crops
- Availability of credit
- Extent of contract farming
- Exports
- Raw material and labour costs
- Long term regulatory environment & policy framework

In addition we prepared a current and future industry scenario for the 10 segments identified which included:

- Market overview
- Porter's forces
- Market participants

- Top insights/features
- Growth drivers
- Key challenges
- SWOT analysis
- Unit Shipment & Revenue Forecasts

Conclusion & Learning

This project is an excellent example of the kind of real life strategy projects that the RSDT at SIBM Pune executes. The project was of short duration, tight deadlines and involved multiple reviews by the MNEPL team. It was completed successfully and the MNEPL team was pleased with our efforts. The team members got hands on experience in using various data sources for secondary research and were able to implement class room theories of industry & market analysis, SWOT analysis, demand forecasting and Porter's forces in a real life business situation successfully.

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Will PIIGS Spell Doom for the European Economic & Monetary Union

- Kulin Shah, Ankit Dhanuka

With Estonia adopting the Euro as its currency from the 1st of January 2011 and many others in the queue, the future of the European Union might not seem so uncertain. There is a need to understand why the European Economic & Monetary Union (EMU) member countries find themselves in this crisis now, in order to envisage and understand possible scenarios of the future.

The Boom Period

After decades of perseverance, the Euro was adopted on 1st January 1999 in the non-physical form and on 1st January 2002 in the Euro currency form by the member states after meeting the "Convergence Criteria" set out by the Maastricht Treaty.

Everything looked great for the member states and the Euro in the initial years. The Euro-zone was already a Free Trade Area with no restrictions on the movement of capital and limited restrictions on movement of labour. As there was no longer a need to exchange currencies, no exchange rate commissions and no need to insure against currency fluctuations the transaction costs between member states declined. Exchange rate stability assured lower interest rates as there was no need for risk premiums. Price inequalities of the same goods were reduced leading to a more efficient market. Prices and revenues became more stable leading to greater economic certainty. The loss of control over monetary policy seemed a small price to pay in comparison for the benefits. For once the world thought that there was a currency that had the potential to challenge the US Dollar as the global reserve currency.

From Boom to Bust

The world economy in general did exceedingly well in the years up to 2007 and the Euro-zone was no different. This was a period in which huge global imbalances were built up leading to a structural problem. In this period of economic boom many countries ran high fiscal deficits which seemed sustainable due to the high levels of growth. Some countries like Greece fudged their debt figures in order to make their debt positions "seem" sustainable. The sub-prime crisis in the US and the contagion effect across the globe brought these unsustainable models of growth crashing down.

Imbalances Leading to High Fiscal Deficits

Germany, the strongest country in the EMU, has benefited since the adoption of the Euro as the wage and cost levels in other countries with weaker currencies have gone up. Simultaneously Germany has determinedly cut its own cost and wage levels in its endeavour to become more competitive. As a result, Germany has taken away the demand from other countries in the EMU such as Greece, Spain, Portugal and Italy. Thus Germany developed a surplus within Europe at the expense of growing deficits in other EMU nations.

So now there is a situation where Greece has a fiscal deficit of 13.6% of GDP. Its public debt/GDP ratio is 115%, but may hit 140% by 2014 despite Portugal has a fiscal deficit of 9.4% GDP and public debt/GDP ratio is 77% while the corresponding figures for Spain are 11.2% and 64% respectively. Thus Greek, Portuguese and Spanish bonds have been downgraded recently. Italy has a high public debt/GDP ratio of 116%, but is among the seven biggest economies in the world and hopes to survive the crisis. At the same time this also means that if Italy fails it could have repercussions beyond imagination.

Defects in the EMU and Inappropriate Stimulus Packages

A major fundamental defect in the design of the EMU is that while there is a single currency and monetary policy, the fiscal policies of different countries are completely uncoordinated. During the growth phase this was overlooked, but this defect surfaced in the post 2008 period as different governments reacted differently in response to the recession.

Another fact that these PIIGS countries have realized is that Keynesian stimulus is not the solution to all slowdowns. Keynes suggested that government spending and tax cuts helped spur demand and hence growth. In an open economy the benefits of such a stimulus can leak out to other countries which are more competitive. The relatively uncompetitive and low-productivity PIIGS economies have suffered at the expense of more competitive economies like Germany.

The Greek economy depends heavily on tourism and has an uncompetitive industry. Portugal and Spain also have uncompetitive industries. Being a part of the EMU, these countries do not have the option of devaluing their currencies to increase competitiveness and boost exports, as was the case during the Asian crisis of the late nineties.

A strong case for fiscal prudence can be made with this crisis. Government policies should aim for low fiscal deficits in good times in order to have a cushion to offer a stimulus in bad times. The PIIGS countries are in trouble now as they ran high fiscal deficits in good times, and went for even bigger deficits to provide a stimulus. As a result, the stimulus packages have increased government debt without really achieving their aims.

The Bailout Package

Greece being in the most precarious situation becomes the focal point in this situation. In April 2010, Greece was bailed out by the IMF and the European Union, led by Germany to the tune of $150-billion. This ensured that Greece was able to meet its debt obligations without borrowing at high rates which would have surely put Greece in a debt trap.

Due to the size of the bailout package, Greece will not need to borrow again from private financial markets for three years. But this means that Greece will have to repay these loans back to the IMF, Germany and other EU countries in due course. Stringent austerity measures have been put in place in order to get Greece's fiscal deficit back on track. This means lower government spending and higher taxes. This will also mean a compromise on growth and eventually lower tax revenues for the Greek government. The fundamental problem of having an uncompetitive industry is not resolved and exchange rate devaluation is not possible. The bailout has succeeded in avoiding the immediate crunch but in the longer term, however, the numbers are still frightening. There is already a widespread public protest in lieu of the austerity measures and this could limit the options of the government even further. Hence, it looks inevitable that recovery in Greece will require a very large write-down of Greece's debts. If Greece defaults there will be a contagion effect with disastrous consequences. The exposure of other EU banks to Greek debt, which ac-cording to BIS totals $193 billion, is significant. If you take into account the risks of and exposures to other PIIGS economies and bonds then there could be a Europe-wide banking crisis. Germany and France have a high exposure to European bonds and thus one can understand the willingness of Germany and other EMU states to bail out Greece. If this continues, there is only one way for the Euro to go, and that's down.

Will countries leave the EMU?

Recently there has been speculation that Germany and Greece may exit the EMU and return to their respective currencies. Here the possibilities of such an eventuality are discussed. Under the current laws, it is not possible to expel a member nation. So it must be mentioned at the outset that unless the laws are changed, any member nation leaving the EMU must be a voluntary action.

If Greece exits the Euro, then it will be able to control its monetary policy. In this case they would be able to ease their financing problems substantially. The Greek central bank could print money and purchase government debt, bypassing the credit markets. Also, reintroducing its currency would allow Greece to then devalue it, which would stimulate external demand for Greek exports and spur economic growth.

Besides the fact that investor confidence would be at the lowest ebb, there are other practical problems with such a solution. If Greece has to de-value its currency, first it must circulate it. Nobody would want to hold a currency which is being reintroduced to devalue it. Therefore, the only way to get the currency circulating would be by force. Any such move is likely to trigger more protests from an already agitated public.

Another problem would be that Greece's debt is Euro denominated and a devaluation will make its debt repayments that much costlier. For an already insolvent nation this could be difficult to imagine especially as the benefits of such a move would take years to surface.

At the other end of the spectrum is Germany. Germany is a capital rich and highly productive nation which might feel that the other EMU nations are dragging it down with them. Germany has for long benefitted from this arrangement of having a single currency. Other nations within the EMU are unable to undercut German exports with currency depreciation. Germany's share of exports has increased in the Eurozone as well as in global markets.

Germany's decision on whether to abandon the Euro or not will depend on the potential liabilities that they would be exposed to. Germany would therefore not be leaving the EMU to save its economy or extricate itself from its own debts, but rather to avoid the financial burden of supporting the other highly indebted economies.

Greece is a relatively small economy and Germany bailed it out despite strong public opinion against it back home. Will Germany bail Greece out again if the need arises? What if a much larger economy like Spain defaults? The German policymakers must be wondering if all this is it. At some point they will feel that it's better to cut their losses rather than putting in more money to save another economy with high degree of uncertainty about the outcome.

If Germany exits the Euro then the Euro will plummet, and all the EMU member nations along with Germany would be paying for it. In this case many European banks are likely to default, and since many German banks own much of this debt they will also suffer.

Unlike Greece, Germany would be replacing a weaker and deteriorating currency with a strong and stable Deutschmark. Thus Germany is less likely to face a backlash. A significant portion of the German population is already in favour of abandoning the Euro.

What is likely to happen?

The Euro is as much about politics as it is about economics. It helped different countries of Europe unite despite the acrimony between some member states but demise of the Euro could spell doom for the continent. If nations leave the Euro it would be to devalue their currency. There would be a run on the banks and this crisis could well land up in a deep recession with highly indebted nations. This would result in high levels of unemployment and social unrest for years to come.

For Greece the situation looks gloomy. Leaving the Euro isn't a realistic option unless it is a well-designed and coordinated effort by the IMF, ECB and other EMU member nations. Only then will the revival of Greece be lasting and social fabric of the country will be restored.

At the same time though, the patience in Germany is wearing thin. If there isn't a substantial economic recovery across Europe, getting out of this mess is going to be difficult. And the signs are not very encouraging. So Germany will make a sincere effort to revive the Euro, and the Greek bailout probably gives them time to contemplate their next course of action without sending shocks in the Eurozone.

Germany could exit the Euro or stay on board depending on the recovery of other nations. If things get out of hand and Germany decides to abandon the Eurozone, then it would be due to the fact that the losses that it would suffer by exiting would be pale in comparison to the economic and political costs of remaining within the Eurozone and bailing out fiscally imprudent nations.

It looks unlikely that the EMU will survive in its current form. In the future one is likely to see a smaller EMU with more stringent regulations. It has also been observed that self-regulation of fiscal policies does not always work and some sort of central control over fiscal policies of member nations is also essential.

The debt situation in the US and UK is not comforting, and in the event of their fallout the situation in the Eurozone would look even more precarious. In this eventuality no scenario can be ruled out. Hopefully these countries will manage to get out of the mess they are in, and there will be a more stable and sustainable Eurozone.

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Enterprise Social Networking – Emerging trends and Impact of Social Networking on how we work

- Sudipta Das, Priyal Meena, Sahil Arora

Introduction

With over 500 million users on Facebook and 190 million on twitter, the social networking revolution that is underway is rather hard to miss. The concept of social networking has revolutionized almost every sphere of our daily lives and now it has begun to take roots in enterprises and the ways they function all over the world. Any social network is made up of fraternizing human beings. And with the advent and acceptance of web 2.0 tools, enterprise social networking is set to become the next big thing for the HR departments in almost all organizations. Almost all domains of HR that need to be dealt with whether or a daily basis or periodically can be in some way or the other made either simpler or easier to implement by use of such tools. Whether it is recruitment or employee engagement, learning and development or benefits review, everything can be looked at from an exciting new point of observation.

Nissan's Endeavour

Requirements of a specific skill, experience or knowledge in a project at a short notice can be addressed by social networking by floating the same on the enterprise portals. Accelerating speed-to-market and bringing new innovations to the forefront are critical success factors in today's competitive automotive industry. Nissan, recognizing that it needed to spark new ideas, foster collaboration among employees from different divisions around the globe, and reduce the time associated with making decisions, has begun to rollout an internal social networking site called N-Squared. Over the next several months, Nissan intends to connect 50,000 of its 180,000 employees worldwide through this platform.

The social networking site is designed to allow employees to create – and search on – individual profiles and blogs, form online communities and discussion groups and share documents and other files. Nissan believes these capabilities will allow individuals to more easily identify subject matter experts and bring them together to solve difficult problems and brainstorm new ideas.

The results of Nissan's initial pilot site of 1,000 employees have already demonstrated improvements in how work is accomplished across the organization. As one engineer reported, a decision about stereo systems was made in three days – far less than the one month it would have taken without using N-Squared.

Enterprise Social Networking

Enterprise social networking can definitely be used as a handy tool for facilitating attraction and retention of talent. Most modern organizations are moving towards a multi-cultural structure which promotes a culture of end to end free communication, expression of thought, encourages feedback and banks on continuous improvement. Social networks can be used as a platform to implement the above concept. Forums for providing feedback, necessary suggestions and maybe personal grievances can be put up on the social networks. This is would lessen the effort on part of the employees and can be made available to everyone across the board. Also, the head of a large organization or a department who may find it difficult to meet subordinates in person can set aside specific hours on the network to interact and understand the employees and their problems on a one to one basis.

The workplace of the 2010s will be one of unprecedented generational diversity. The youngest cohort in today's workplace—and the ones businesses need most to replace retiring baby boomers—is the millennial generation (b. 1981–2000). These digital natives grew up with computers, video games, and the Internet. Their relationship with technology provides them with not only useful skills but also a fundamentally networked view of organizations and a more informal approach to boundaries and relationships.

Millennials at work are not passive consumers of the technology that IT departments provide. A 2008 study by Symantec showed that younger workers are many times more likely to access social networks at work, use outside instant messaging services, download software to their business PCs, and other risky behaviours. Sixty-nine per cent said they used whatever technology they wanted to at work, and only 45 per cent said they "always adhered to IT policies," compared with 70 per cent of older workers. Employers that take a hard line on enforcing policies can win short-term battles over IT control and management, but risk losing the long-term war to recruit and retain next-generation talent that knows the value of social computing, both in their personal lives and at work.

To help Millennials reach their full potential, companies need to find ways to support their networked learning styles. This means giving them access to people and data in context, at the moment when they need the knowledge to make a difference in an operational process or customer engagement.

EA People

Electronic Arts (EA), headquartered in Redwood City, California, is a global leader in interactive entertainment software. The majority of their customers and employees are part of the Millennial and Generation X demographics (age 25–40), so they tend to be heavy users of social computing in their personal and professional lives.

To better enable their employees to achieve a healthy balance between their personal and professional lives (a core job satisfaction criteria for Millennials), Electronic Arts created EA People, an internal social networking site built on the SharePoint My Site, which provides the familiar features of a Web 2.0 social network within the umbrella of the enterprise. Employees can customize their own site by selecting one of the master templates that reflect EA's major games and by adding SharePoint Web Parts like photo libraries. There is even a Facebook Web Part that uses Facebook's Web API to enable secure interchange with the outside system.

EA employees tend to work mostly with people from their team, so it can be challenging for a developer to find other developers on different teams to help with a problem. Because everyone on EA People has a My Site, it is faster and easier for employees to find the right resource exactly when they need it.

EA also recognizes the importance of recognition to these new Millennials and created a Web Part to aggregate all the contributions the user has made on articles and blogs so employees can get recognition for their contributions. This aids in the motivation and retention of a productive group of workers who value the opportunity to express themselves and make an impact at work using the technologies they know from their outside lives.

Increasing Participation

Another major aspect that enterprise social networking can handle is the training design and schedule. Busy professionals within the organization can make use of portal based counseling to determine the training modules available to them and thereafter fix their timings to suit their daily schedule. In some cases, it can be applied to impart the training to multiple participants via the social network using various media aids. It goes without saying that the social network can also be employed as a warehouse for storing knowledge being transferred between the departments and will be at the disposal of all employees.

The entire purpose of the social network would fail if the network doesn't have employees alive and kicking on the same. To make this tool effective in practice, a lot needs to be done in terms of generating employee interest. Encouraging them to be a part of the social network and thereafter contribute to the same, in any big or small way they can is a must. One way could be to invite them to share their thoughts through opinionated articles or blogs on the social network. Judging by the level and quality of activity on the social network, an employee can be adjudged as "networker of the month". Another way could be to invite them to forms groups based on common interests such as music or photography. Or simply allow them to contact one another to go and get a cup of coffee or maybe share lunch. It can prove to be a huge boost to team building while involving employees at the same time.

Pfizer, the world's largest research-based biomedical and pharmaceutical company, has been using Enterprise 2.0 technologies for two years. Building upon an internal, shared knowledge repository used by a small group of research scientists, the company now has an internal 'Pfizerpedia' application (similar to Wikipedia) available to all employees. Its popularity has grown and it is fast becoming an on-line resource of first preference for R&D employees, seeking knowledge pertinent to their job role. This internal wiki, visible to all, has over 4500 pages, of which 3300 pages have received at least 1000 hits each. There have been a total of 10,956,000 page views, and 79,400 page edits since Pfizerpedia was established. John Castledine, the Director of Learning and Development for Pfizer's Global Research and Development Division, reflected on Pfizerpedia's growing prominence as a learning tool: "For organizations that need to create and nurture an innovative culture, the development of an internal 'wiki' site can be an important element. It is certainly the case at Pfizer, where increasing evidence points towards the usefulness of Pfizerpedia in enabling our employees to share and access knowledge more quickly than before. The ability to publish freely attributed information on line can help overcome any tendencies that may exist towards 'silo protectionism' or a bureaucratic approval process." There are, however, important challenges, not least of which is dealing with the ramifications of allowing organisation-wide access to new 'bottom-up' collaboration tools such as Pfizerpedia, which may be viewed as an opportunity for HR/OD professionals to make an important contribution to organisational learning in the company.

John Castledine suggested

"There can be little doubt that for an organisation to encourage the adoption of enterprise 2.0 there must be a perceived overall benefit in doing so. To achieve sustainable change, it is vital that these benefits are presented from the frame-of-reference of the key stakeholders. We can partner closely with IT colleagues to help achieve this goal. For example: information overload is a major concern for most colleagues. Hence without understanding RSS feeds, blogs become yet more websites to add to your favourites list. Similarly, wikis and social bookmarking (tags) offer welcomed options to reduce email traffic within teams.

Conclusion

The data collected and generated over time through these enterprise social networks will definitely help in making strategic decisions regarding the major HR issues and will also point out various trends that might be in the pipeline regarding employee environment and the work scene. Unpopular policies and decisions can be easily singled out, by gathering opinions from social networks, along with suggestions or replacements for the same.

Social networking does bring with itself some basics impediments as well. For one thing, the most laborious employees may not find time to engage themselves on the network. Also, extreme use of the network may cause the human element to go missing in some critical processes. All said and done, developing strong ties involve time and emotional intensity, couples with intimacy and reciprocation. And that cannot be replaced by any number of social networks.

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Correlation between US GDP Growth Rate and Indian IT Domestic Stocks

- Hakim Allanabanda, Ashwini Krishna

Introduction

The Indian IT/ITES sector has shown robust growth in the last few years. This to a large extent is attributed to the export of IT/ITES to the US and other developed economies. The major component of revenues of Indian IT sector comes from the export of services. The US is the major importer of services. US companies have been outsourcing many activities to Indian companies, and this trend has grown over the last few years.

The domestic contribution to overall IT revenue is comparatively lower standing at 33.9% in 2009 while the dominant exports segment contributes the remainder. While this is expected to grow at a CAGR of 16% by 2014 (Gartner), the exports segment even at its present levels will continue to dominate the overall share in this decade. According to NASSCOM, Indian IT exports are anticipated to attain USD 175 billion by 2020, out of which the domestic sector will account for USD 50 billion in earnings.

This has led many analysts to believe that the Indian IT sector is dependent on overseas markets and the general economic condition in the US. When the US economy is on a downside, it is natural that companies will pull back on their budgets and hence software contracts coming to Indian IT companies will reduce in value. Besides, the revenue streams of IT companies are dependent to a large extent on the prevalent exchange rate. Thus, the share prices are also dependant on other factors such as exchange rate, domestic capital market sentiment and economic conditions.

Objective

The objective of this study is to find out if there is any relationship between the GDP growth rate of the US and the movement of domestic IT company stocks. The time periods for analysis are 2000 and 2008-09 during which the performance of domestic IT stocks during this time vis-à-vis the American economy are analysed. Some companies have a higher share of their revenues from the USA. As a result, the second objective is to find out if the correlation between the GDP growth rate of the US and the movement of domestic IT company stocks is proportionate to their revenue share.

Methodology

Source of Data: Bloomberg

Stocks Considered: For the analysis, a number of IT stocks have been chosen to reflect the IT sector in the country. A gamut of large cap and mid cap companies has been chosen since such a representation of stocks will correctly describe the behaviour of the IT industry in India vis-à-vis the US GDP. 8 stocks have been considered for the analysis. The stocks comprise

- Infosys Technologies Limited
- Tata Consultancy Services
- Wipro
- HCL Technologies
- Mastek
- Satyam Computers
- Mphasis
- Tech Mahindra

Sample Size: The stock prices and the GDP values were taken from 01/01/2000. For the companies listed subsequent to this date, the prices from the time of listing are taken.

The share prices considered have been adjusted for bonuses, splits, warrants and other actions that have taken place in the concerned period.

The values are taken for the last 10 years keeping in mind the importance of the last decade. The first half of the decade (2000-2001) saw the culmination of the dot com bubble and the foundation of a group of new IT based companies. The second half of the decade (2008-09) saw the US staring at the worst recession since the Great Depression of the 1930s.

Steps followed:

- Daily closing prices of these stocks were taken. The quarterly averages of the 8 stocks were calculated. From the above the percentage change, Q-o-Q was computed.
- Similarly, Q-o-Q growth rates of the US GDP were computed.
- This provided two sets of data: the percentage change in the GDP and the percentage change in stock price.
- Firstly, the degree of correlation was found out between each stock and the US GDP. Secondly, a regression model was adopted to study the relationship between US GDP (independent variable) and stock price (dependent variable). Here again, the US GDP was the predictor variable and stock price was the dependent variable.
- From the above a regression equation was obtained. Further, the R-square values, SS (sum of squares) and the mean sum of squares (MSE) were computed.
- Next, the F-value and the corresponding p-value were computed using hypothesis testing.
- To test significance, the p-value is analysed. If the p-value is less than the confidence interval, we reject null hypothesis. If the p-value is greater than the confidence value, the relationship between the two variables (GDP growth rate and stock price) is significant.
- The F-test is considered here as it is a probabilistic measure of the significance of a regression. For the purposes of this study, the relationship between the GDP and stock price needs to be analysed. The T-test can also be employed to study the relationship.

Appendix

Sample of Data Used

TCS		
	Average price	% change
Q3 2004	251.689	-
Q4 2004	298.255	18.50%
Q1 2005	338.611	13.53%
Q2 2005	313.661	-7.37%
Q3 2005	337.206	7.51%
Q4 2005	383.300	13.67%
Q1 2006	431.343	12.53%
Q2 2006	459.723	6.58%
Q3 2006	485.739	5.66%
Q4 2006	556.692	14.61%

Infosys		
	Average price	% change
Q3 2004	770.3515152	17.96%
Q4 2004	980.2185714	27.24%
Q1 2005	1057.22918	7.86%
Q2 2005	1071.481538	1.35%
Q3 2005	1167.422857	8.95%
Q4 2005	1369.563636	17.32%
Q1 2006	1438.355246	5.02%
Q2 2006	1512.095397	5.13%
Q3 2006	1725.512188	14.11%
Q4 2006	2128.393548	23.35%

Wipro		
	Average price	% change
Q1 2000	524.4681967	-
Q2 2000	304.5469355	-41.93%
Q3 2000	280.3653968	-7.94%
Q4 2000	248.6874603	-11.30%
Q1 2001	237.9836508	-4.30%
Q2 2001	149.968871	-36.98%
Q3 2001	134.4814286	-10.33%
Q4 2001	138.9680625	3.34%
Q1 2002	167.4616129	20.50%
Q2 2002	159.315	-4.86%
Q3 2002	126.1151563	-20.84%
Q4 2002	150.48	19.32%

HCL		
	Average price	% change
Q1 2000	524.5365455	-
Q2 2000	351.4479032	-33.00%
Q3 2000	287.0920635	-18.31%
Q4 2000	295.3204762	2.87%
Q1 2001	278.4142857	-5.72%
Q2 2001	184.7443548	-33.64%
Q3 2001	117.3009524	-36.51%
Q4 2001	127.7315	8.89%
Q1 2002	134.4017742	5.22%
Q2 2002	116.789375	-13.10%
Q3 2002	104.2215625	-10.76%
Q4 2002	91.8952459	-11.83%

Mastek		
	Average price	% change
Q1 2000	1104.43	-
Q2 2000	555.57	-49.7%
Q3 2000	540.10	-2.78%
Q4 2000	324.06	-40%
Q1 2001	89.31	-72.44%
Q2 2001	53.83	-0.18
Q3 2001	44.01	0.45
Q4 2001	63.70	1.36
Q1 2002	150.42	0.16
Q2 2002	173.89	0.10

Satyam Computers		
	Average price	% change
Q1 2000	409.27	-
Q2 2000	310.7787	-24%
Q3 2000	273.5211	-12%
Q4 2000	182.6329	-33%
Q1 2001	165.8221	-9%
Q2 2001	107.9822	-35%
Q3 2001	79.14159	-27%
Q4 2001	89.73556	13%
Q1 2002	138.3229	54%
Q2 2002	122.4267	-11%

Tech Mahindra		
	Average price	% change
Q3 2006	565.136	-
Q4 2006	1039.194	84%
Q1 2007	1615.053	55%
Q2 2007	1483.133	-8%
Q3 2007	1326.385	-11%
Q4 2007	1166.554	-12%
Q1 2008	773.2871	-34%
Q2 2008	827.6645	7%
Q3 2008	726.5766	-12%
Q4 2008	334.0226	-54%
Q1 2009	250.3621	-25%
Q2 2009	481.2484	92%
Q3 2009	841.146	75%
Q4 2009	964.7669	15%
Q1 2010	966.4266	0%
Q2 2010	744.6532	-23%

Mphasis		
	Average price	% change
Q3 2006	166.53934	-10%
Q4 2006	243.80492	46%
Q1 2007	287.01885	18%
Q2 2007	307.99098	7%
Q3 2007	287.57541	-7%
Q4 2007	287.67459	0%
Q1 2008	236.57623	-18%
Q2 2008	229.7377	-3%
Q3 2008	216.24016	-6%
Q4 2008	163.46557	-24%
Q1 2009	164.31148	1%
Q2 2009	286.92951	75%
Q3 2009	512.46393	79%
Q4 2009	692.06475	35%
Q1 2010	691.43934	0%
Q2 2010	621.2459	-10%

US GDP		
	GDP	% change
Q1 2000	11043	1.1
Q2 2000	11258.5	8
Q3 2000	11267.9	0.3
Q4 2000	11334.5	2.4
Q1 2001	11297.2	-1.3
Q2 2001	11371.3	2.6
Q3 2001	11340.1	-1.1
Q4 2001	11380.1	1.4
Q1 2002	11477.9	3.5
Q2 2002	11538.8	2.1
Q3 2002	11596.4	2
Q4 2002	11598.8	0.1

Analysis of Results

Period 1: Q2 2001-Q4 2002

Significance: The IT bubble was a speculative bubble covering roughly the period 1995–2000. The dot-com bubble burst numerically on March 10, 2000 when the technology heavy NASDAQ Composite index peaked at 5,048.62. One possible cause for the collapse of this was the massive, multi-billion dollar sell orders for major bellwether high tech stocks. Another reason may have been accelerated business spending in preparation for the Y2K switchover. Once the New Year had passed without any compatibility incident, businesses found themselves with all the equipment they needed for some time, and business spending quickly declined. Hiring freezes, layoffs and consolidations followed in several industries especially in the dot-com sector. Also, in 2001, the 9-11 attacks had a significant economic impact on the United States and world markets.

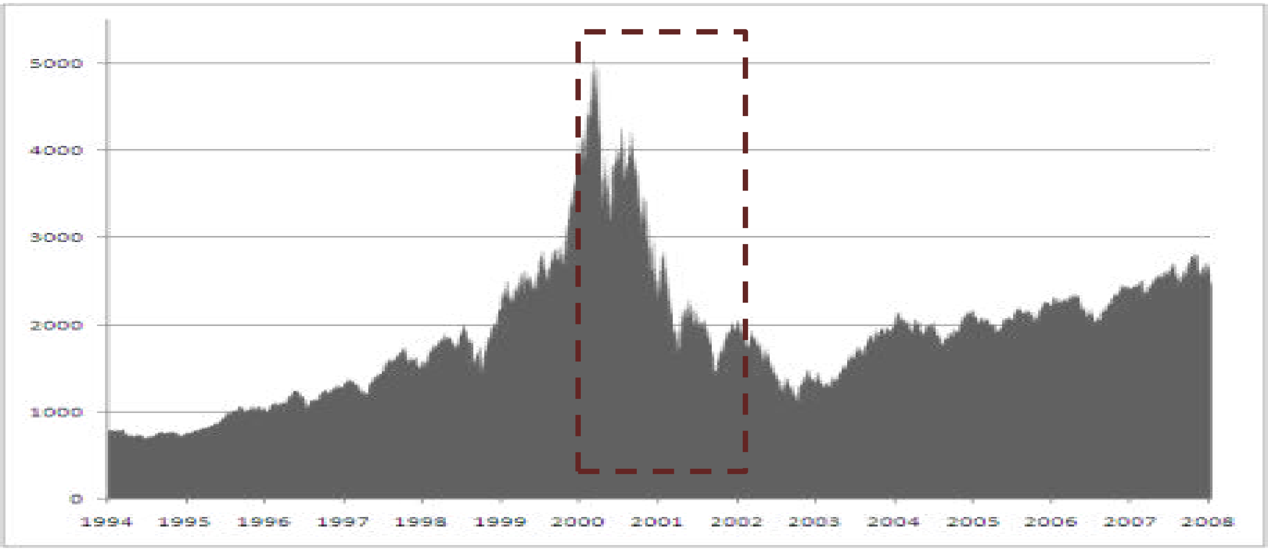


Figure 1: NASDAQ Composite index from 1994-2008

The Correlation $_{(\text{Infosys, US GDP})}$ factor is - **0.123,** which indicates a low degree of co-relation. In this period the highest degree of correlation is that of Wipro, which is to the tune of **-0.483.** Another company having a significant correlation factor is Mastek (**-0.319**). Also, HCL shows a correlation factor of **-.0139**. The lowest correlation factor is displayed by the erstwhile Satyam Computer services (Mahindra Satyam today) at **-0.011** followed by Mphasis at **-0.016**.

Almost all the companies show negative correlation with the US GDP. The following are the inferences we get from the data:

The NASDAQ collapsed by more than 50% but the same was not totally reflected in the movement of the US GDP. Shares prices of almost all the Indian IT stocks discussed here plummeted. The negative correlation shows that the price of the stocks went up when the GDP of US was slowly rising. This shows that the stocks moved in tandem with the NASDAQ index. From the results it is apparent that the IT stocks tended to move more in tandem with the NASDAQ and other world indices than the US GDP numbers. The correlation between Wipro and the GDP index is strikingly negative in comparison to the others. In the analysis that followed, it was found that Wipro relied heavily on the US for the bulk of its business during 2001 with a 64% contribution to revenues. The company also derived 30% of its revenue from the then hard hit telecommunications sector. It can be surmised that Wipro was more affected because of its heavy exposure to telecom sector and the US market.

During this period, there is very low correlation between the Indian IT stocks and the US GDP growth.

Period 2: Q1 2008-Q4 2009

Significance:

This period holds significance due to unforeseen situations in the world markets. This period had large implications due to the sub-prime crisis which marred the stock markets worldwide. The US GDP was in recession and entered negative growth rates. The companies have a positive correlation with the US GDP. This is in tune with observations which show a large drop in the US GDP vis-à-vis stock prices. HCL has the highest degree of correlation at **0.599**, followed by TCS (**0.573**), Wipro (**0.550**), Infosys (**0.490**), TechMahindra (**0.419**) and Mphasis (**0.396**). Mastek has the lowest correlation at **0.007**.

Satyam Computer Services was not considered for this particular analysis as the stock price variation was attributed to reasons beyond the scope of this analysis.

During this period, the US was in one of its worst phases of economic turmoil. Due to domestic reasons and the coupling of the US and Indian economies, the Indian rupee was under pressure vis-à-vis the US dollar. The Dollar appreciated with relation to the rupee during the same time. This to an extent nullified the effect of plunging dollar revenues of these companies when considered in rupee terms. Mastek shows interesting behaviour with a very low correlation factor of 0.007. Mastek shows virtually no relation with the US GDP data. Also, revenues were not affected when compared to that of other companies.

Overall

Period 3: Q1 2000-Q2 2010

When the overall period from 2000 to 2010 is considered, it can be seen that there is a large range of correlation factors between the stocks and the US GDP. The highest correlation is seen with TCS at **0.526** while the lowest is with Mastek at **0.007**. The correlation factors of other companies are Infosys (**0.243**), HCL (**0.346**), Satyam Computer Services (**0.407**), TechMahindra (**0.371**), Wipro (**0.177**) and Mphasis (**0.142**).

Analysis indicates that in the long term, the US GDP and the prices of IT stocks tend to move in tandem. Companies servicing a large number of clients from the US and those that have a large share of their revenues coming from the US have a higher correlation factor. This to a large extent reinforces the idea that the IT industry in India is in a large way dependant on the US market.

Infosys:

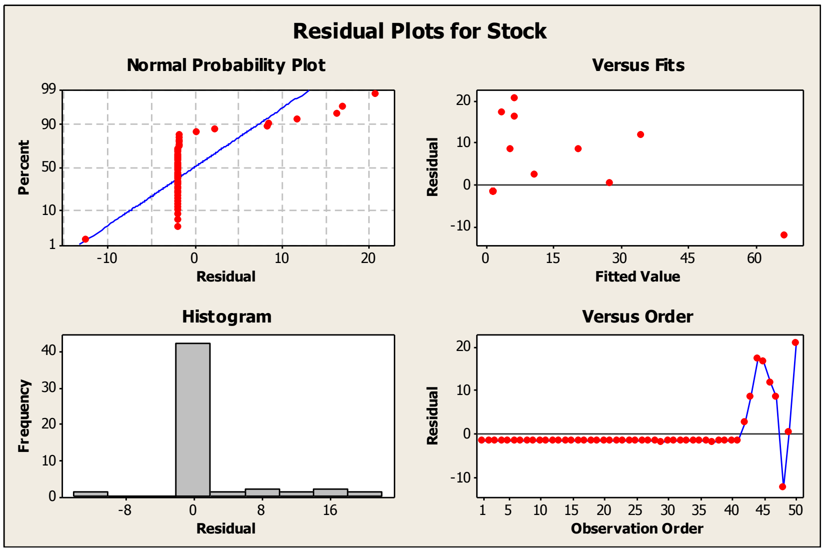
The regression equation is stock = 1.80 + 0.342 GDP

Predictor	Coefficient	SE Coefficient	T	P
Constant	1.7962	0.8445	2.13	0.039
GDP	0.34155	0.02548	13.40	0.000

S = 5.71001 R-Sq = 78.9% R-Square (adj) = 78.5%

Analysis of Variance

Source	DF	SS	MS	F	P
Regression	1	5858.8	5858.8	179.69	0.000
Residual Error	48	1565.0	32.6		
Total	49	7423.8			



TCS:

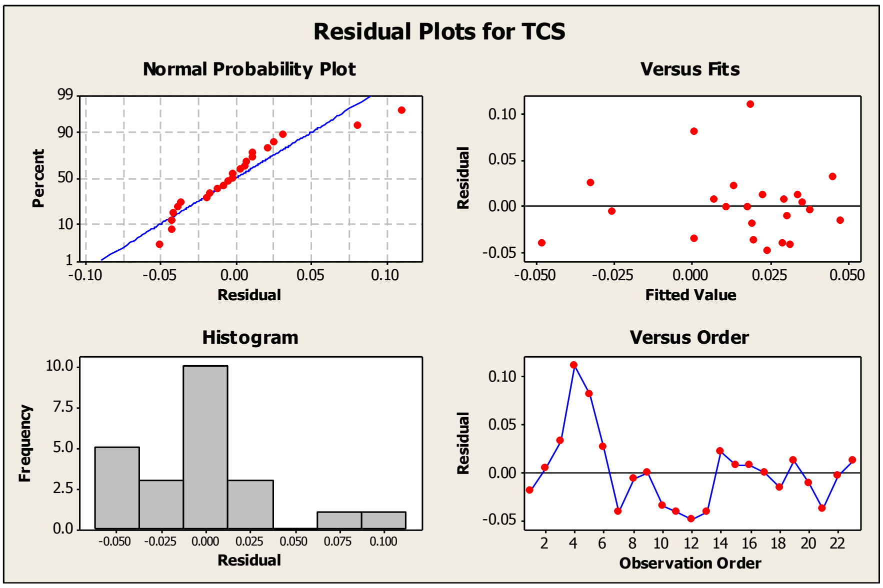
The regression equation is TCS = 0.00659 + 12.6 GDP

Predictor	Coefficient	SE Coefficient	T	P
Constant	0.006593	0.008919	0.74	0.468
GDP	12.579	4.413	2.85	0.010

S = 0.0395840 R-Sq = 27.9% R-Square (adj) = 24.5%

Analysis of Variance

Source	DF	SS	MS	F	P
Regression	1	0.012731	0.012731	8.13	0.010
Residual Error	21	0.032905	0.001567		
Total	22	0.04563			



Wipro:

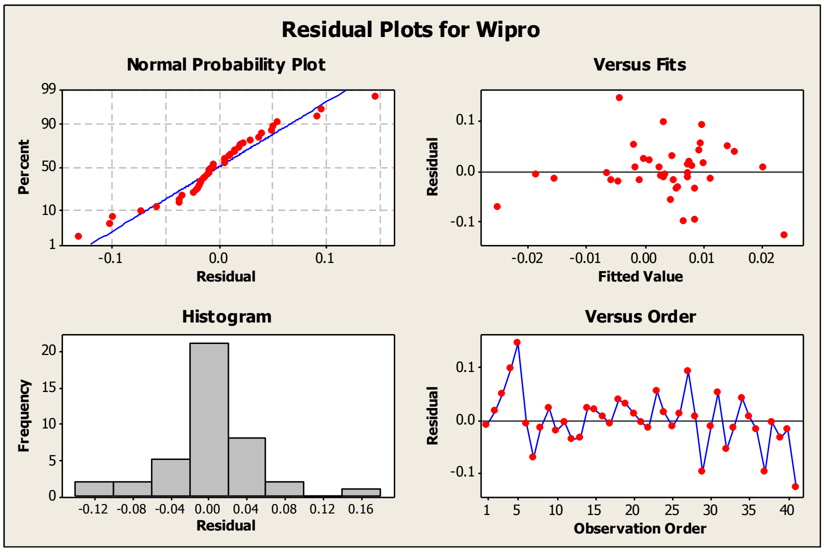
The regression equation is Wipro = - 0.00197 + 5.31 GDP

Predictor	Coefficient	SE Coefficient	T	P
Constant	-0.001973	0.009582	-0.21	0.838
GDP	5.315	4.709	1.13	0.266

S = 0.0517662   R-Sq = 3.2%   R-Sq(adj) = 0.7%

Analysis of Variance

Source	DF	SS	MS	F	P
Regression	1	0.003414	0.003414	1.27	0.266
Residual Error	39	0.104510	0.002680		
Total	40	0.107924			



HCL:

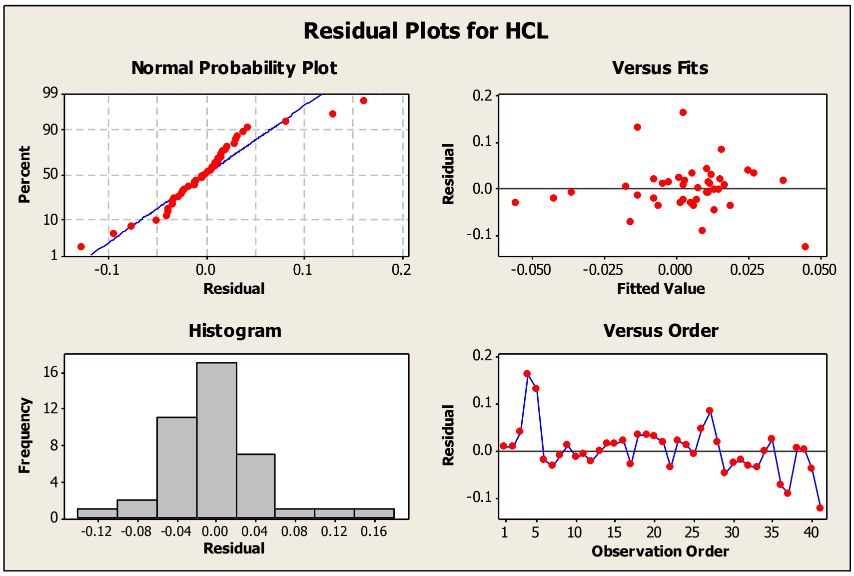
The regression equation is HCL = - 0.00838 + 10.9 GDP

Predictor	Coefficient	SE Coefficient	T	P
Constant	-0.008380	0.009508	-0.88	0.384
GDP	10.866	4.673	2.33	0.025

S = 0.0513685   R-Sq = 12.2%   R-Sq(adj) = 9.9%

Analysis of Variance

Source	DF	SS	MS	F	P
Regression	1	0.014270	0.014270	5.41	0.025
Residual Error	39	0.102910	0.002639		
Total	40	0.117180			



MASTEK:

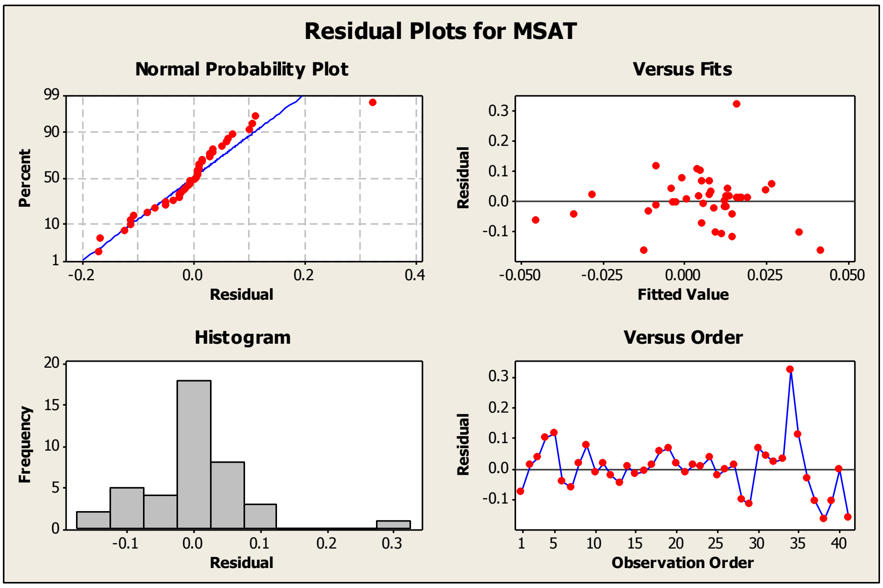
The regression equation is MSAT = - 0.0043 + 9.44 GDP

Predictor	Coefficient	SE Coefficient	T	P
Constant	-0.00433	0.01590	-0.27	0.787
GDP	9.437	7.815	1.21	0.234

S = 0.0859120   R-Sq = 3.6%   R-Sq(adj) = 1.1%

Analysis of Variance

Source	DF	SS	MS	F	P
Regression	1	0.010763	0.010763	1.46	0.234
Residual Error	39	0.287854	0.007381		
Total	40	0.298617			



Satyam Computer Services:

The regression equation is SCS = - 0.0161 + 15.8 GDP

Predictor	Coefficient	SE Coefficient	T	P
Constant	-0.01614	0.01143	-1.41	0.166
GDP	15.769	5.618	2.81	0.008

S = 0.0617605   R-Sq = 16.8%   R-Sq(adj) = 14.7%

Analysis of Variance

Source	DF	SS	MS	F	P
Regression	1	0.030052	0.030052	7.88	0.008
Residual Error	39	0.148760	0.003814		
Total	40	0.178812			

Tech Mahindra:

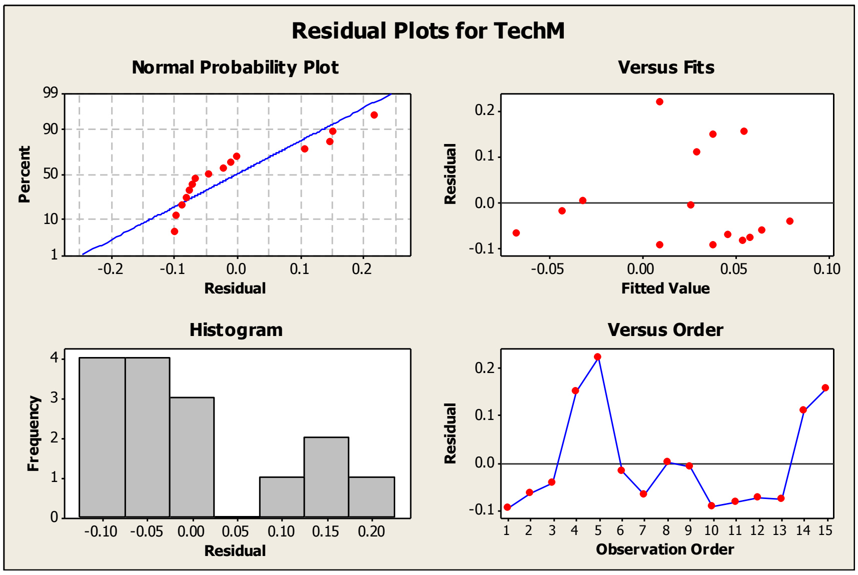
The regression equation is TechM = 0.0191 + 19.8 GDP

Predictor	Coefficient	SE Coefficient	T	P
Constant	0.01905	0.02841	0.67	0.514
GDP	19.78	13.65	1.45	0.171

S = 0.108921   R-Sq = 13.9%   R-Sq(adj) = 7.3%

Analysis of Variance

Source	DF	SS	MS	F	P
Regression	1	0.02491	0.02491	2.10	0.171
Residual Error	13	0.15423	0.01186		
Total	14	0.17914			



Mphasis:

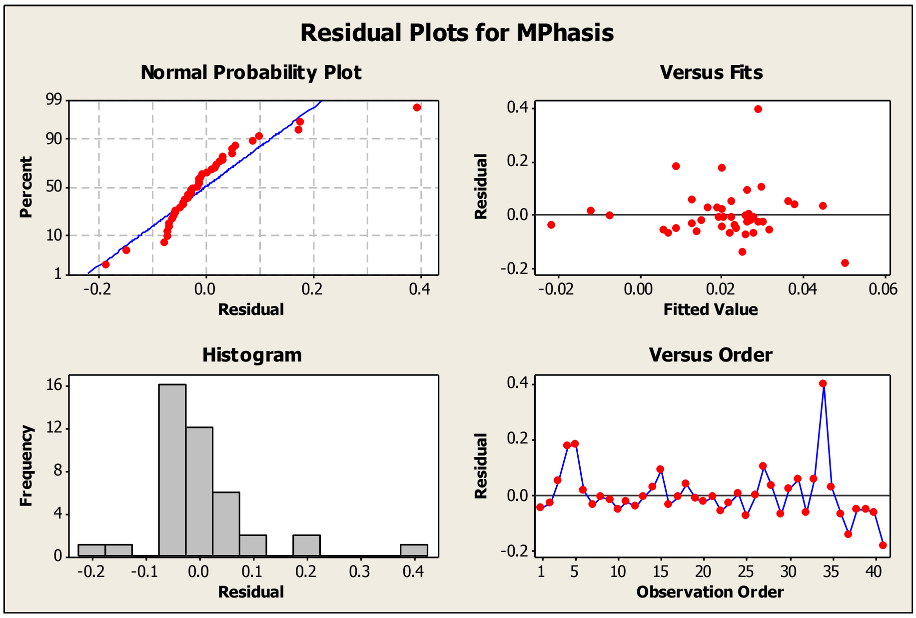
The regression equation is MPhasis = 0.0126 + 7.79 GDP

Predictor	Coefficient	SE Coefficient	T	P
Constant	0.01256	0.01759	0.71	0.479
GDP	7.795	8.645	0.90	0.373

S = 0.0950350   R-Sq = 2.0%   R-Sq(adj) = 0.0%

Analysis of Variance

Source	DF	SS	MS	F	P
Regression	1	0.007342	0.007342	0.81	0.373
Residual Error	39	0.352234	0.009032		
Total	40	0.359577			



Analysis of Tests of Inference

To further analyse the results, hypothesis testing was used. The hypothesis deals with the degree to which it can be stated that there is a significant relationship between the growth of the US GDP and that of Indian IT stocks.

Null Hypothesis: H_0= No Significant relationship at the confidence interval

Alternate Hypothesis H_a= Significant Relationship at the confidence interval

A lower p-value signifies a stronger confidence interval required to the alternate hypothesis.

Company	**Infosys**	**TCS**	**Wipro**	**HCL**	**Satyam**	**Mastek**	**Tech Mahindra**	**Mphasis**
P-Value	0.000	0.010	0.266	0.025	0.008	0.234	0.171	0.373
Confidence interval to accept alternate hypothesis	**100%**	**90%**	**74.4%**	**97.5%**	**99.2%**	**76.6%**	**82.9%**	**62.7%**

Keeping the overall movement of the stock prices and the US GDP numbers the following can be inferred (For R-Square values, refer to the inference sheet):

a. A regression model can be built for predicting the price of Infosys stock price using the US GDP. This model should be able to predict changes upto an extent of 78.9%.
b. A regression model can be built between Wipro price and US GDP which will predict changes up to 3.2%. This indicates that the US GDP might not be a very good predictor of the price of the Wipro stock.
c. A regression model can be built between TCS price and US GDP which will predict changes up to 27.9%
d. A regression model can be built between HCL price and US GDP which will predict changes up to 12.2%
e. A regression model can be built between Mastek price and US GDP which will predict changes up to 27.9%
f. A regression model can be built between TechMahindra price and US GDP which will predict changes up to 13.9%
g. A regression model can be built between Satyam price and US GDP which will predict changes up to 16.8%
h. A regression model can be built between Mphasis price and US GDP which will predict changes up to 2.0%

A closer examination reveals that there is a lag of two quarters between the US GDP growth numbers and the stock prices of Indian IT stocks. The US GDP growth seems to be having a creeping effect on the Indian IT stocks where any movement in the US GDP is reflected in the IT stock prices after about two quarters.

Conclusion

Based on the analysis, it can be concluded that there is very low degree of correlation between Indian IT stocks and US GDP growth. Keeping in mind the 2008 crisis, it must be stated that a crisis that has worldwide repercussions has an immediate and lasting impact on almost all stocks across all the bourses. This explains the greater degree of correlation between IT stocks and US GDP growth during the same period. The period of 2001 proves that the stocks which had a high correlation were affected in a major way by the technology dotcom burst in that period. Further, over the last few months since 2008, it has been observed that the US GDP has shown sluggish growth. Despite this, stocks of IT companies have zoomed ahead in the same period.

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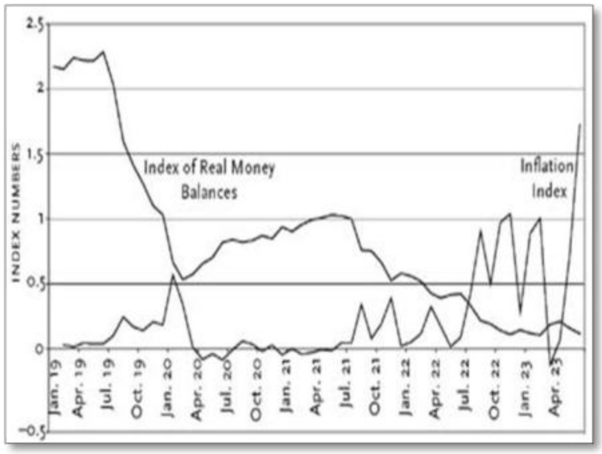
The Years of Hyperinflation

- Saurabh Agarwal & Gautam Arora

While inflation means a sustained increase in the price levels, hyperinflation is characterised by very high inflation, a condition in which prices increase rapidly and the currency loses its value. As per Cagan's definition a country is in hyperinflation when the month-on-month inflation rate is greater than 50% or yearly inflation rate is greater than 1000%. The world has seen some terrible bouts of hyperinflation throughout the 20th century and this article aims to put light on some of them besides discussing the recent decade long hyperinflation in Zimbabwe.

Hyperinflation in Germany & Hungary

After being badly devastated after WWI Germany had to pay reparations to the Allies in the form of gold and foreign currency starting in the year 1921. The reparations demanded were far in excess of the country's gold and forex reserves. With crippled industrial sector and annexation of the Ruhr province (Germany's most industrialized region) by the allies, the only way to out was raising taxes. Unwilling to further burden the displaced people, the government started printing money in huge amounts in order to pay reparation charges to Allies and salaries to the striking workers in Ruhr. The foreign investors lost confidence in the 'Mark' and pulled out their investments from Germany, rapidly depreciating the 'Mark' and causing high levels of inflation.



(Source: www.econlib.org)

This marked the beginning of the hyperinflation era in Germany where prices rose quicker than people could spend their money. The price of a meal was higher by the time one finished it and hence restaurants stopped printing menu. The worthless German Mark was used as toilet paper when monthly inflation topped 30,000%.

Hungary, the only country to have faced 2 hyperinflationary episodes within a span of 20 years (post WWI and II) suffered from it for the same reasons as those of Germany. The second episode of hyperinflation post World War II (1945-56) was the worst of the two when the government printed the 100 million billion 'Pengo' denominated note with monthly inflation topping at 12.95 quadrillion per cent (the highest recorded in history) and the prices of basic commodities doubling every 15.6 hours.

It is evident from these examples that a period of hyperinflation is always preceded by a major increase in the supply of money and hence is purely a monetary phenomenon. It occurs when the monetary and fiscal authorities of a country regularly issue large quantities of money to pay for the majority portion of government expenditures.

Zimbabwe (1997 – 2000)

History

Zimbabwe (earlier Rhodesia) a British colony which gained independence in the year 1980 was known as the "bread-basket" of Africa. It had one of the most sophisticated water delivery systems in Southern Africa and was a thriving economy with agriculture being the backbone strong enough to feed all of its seven million people and even export to the rest of the world.

Around 70% of the Zimbabwe's vast farmlands were owned by about 4,500 white farmers and employed some 350,000 black workers who produced cash crops such as tobacco and cotton. The farms also provided money for local schools and clinics and the economic future looked bright for the fledgling democracy of Zimbabwe. While Zimbabwe's white-owned farms thrived some 840,000 black farmers were crowded into eroded and over-farmed land unconnected to the irrigation grid, producing corn, groundnuts, and other staples. This land was without title, and squabbling over land rights between villagers was rampant. Independent Zimbabwe's first elected Prime Minister (and the President till date) was Robert Mugabe belonging to the Zimbabwe African National Union (ZANU). Mugabe, hailed as national hero, had reneged on a number of promises and the country began to spiral out of control which threatened his stay at the top.

Causes of Hyperinflation

Economic Excesses

Mugabe sought to implement some populist measures in order to win back lost support but only at the expense of the country's economic health. In August 1997, he made huge unbudgeted gratuity payments to approximately 60,000 war veterans amounting to almost 3% of GDP. The situation worsened in September 1998, when Zimbabwe incurred huge military spending due to its involvement in Congo's civil war. Concerns over the precarious fiscal position caused World Bank to withdraw a USD 62.5m standing credit line in 1997. Government efforts to accommodate the gratuities payment through tax increases did not materialize as countrywide protests orchestrated by the trade unions forced the government to backpedal and resort to monetization of the transaction.

Land Reforms

To further his populist agenda, Mugabe in November 1997, announced plans to

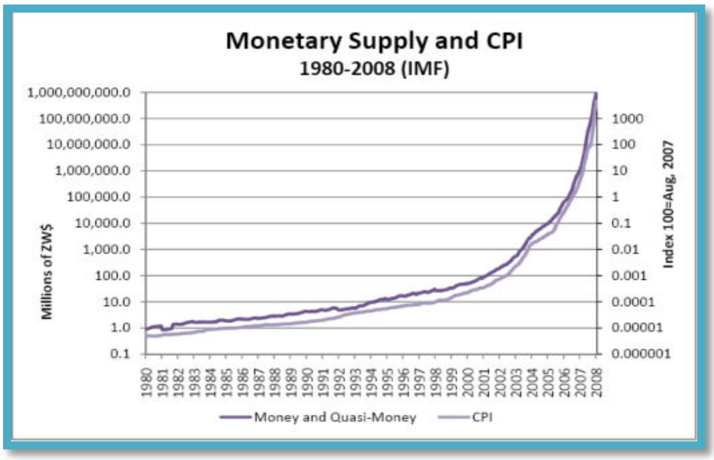
Zimbabwe – At Independence

- GDP growth: 2.5%
- Public debt: 57% of GDP
- Unemployment Rate: 8%
- Inflation: 13.7%
- Central bank discount rate: 4.5%
- Current Account Balance: -2.3% of GDP

(Source: World Bank 1981)

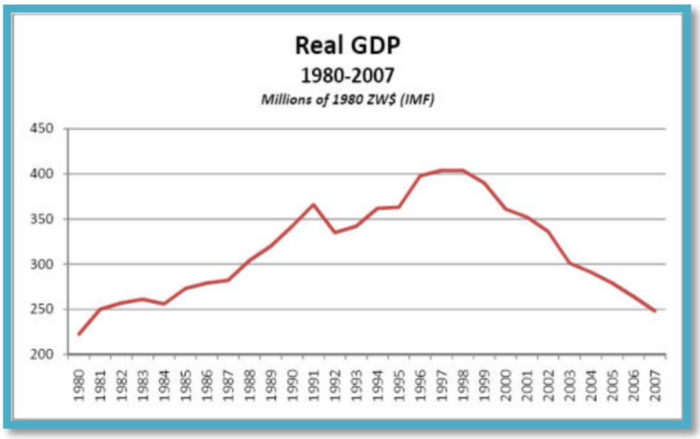
compulsorily acquire white-owned commercial farms and redistribute them to black farm workers. War veterans invaded white-owned farms leaving 3900 white farmers landless by March 2003. The new settlers neither had the seeds, fertilizer, tools, machinery or expertise to farm the land productively nor did they have the land title deeds to avail of bank loans in order to buy what they needed. The land was left fallow and two million black farm workers lost not only income but the community services such as schools, health clinics and housing that commercial farms provided.

As a result of the upheavals on the farms, agricultural output fell dramatically from the level of 18% of GDP in 2000 to 14% of GDP in 2002. Maize production significantly fell in 2000 and the hardest hit was tobacco, Zimbabwe's major foreign exchange earner; with production falling by 25% in October 2002. The major driver of inflation in this period was the shrinkage in aggregate supply sparked by the fall in agriculture which then spread to other sectors of the economy. The shrinkage in aggregate supply triggered price increases which ignited the price-wage spiral. The government could not service its multilateral debts obligations and the World Bank suspended any further lending to Zimbabwe due to non-payment of over six months. The EU also imposed sanctions on account of deteriorating social conditions caused by rampant corruption and public oppression. Inflation in this period was that of a cost-push nature due to continually increasing raw material prices.



Quasi-Fiscal Measures

By December 2003 inflation stood at 263% y-o-y basis. The interest rate reached a peak of 5,242% annually in March 2004 from about 20% in December 1997. The high interest rates and an increasingly depreciating exchange rate put tremendous pressure on domestic producers and exporters and in a move to bail out the ailing industries, the central bank started engaging in quasi-fiscal activities. At the height of these quasi-fiscal activities, money (M1) was increasing at the rate of 66,659% annually in 2007 and this fed to demand pull inflation during this period. The ravaging inflation stood at over 1000%, meaning that the people



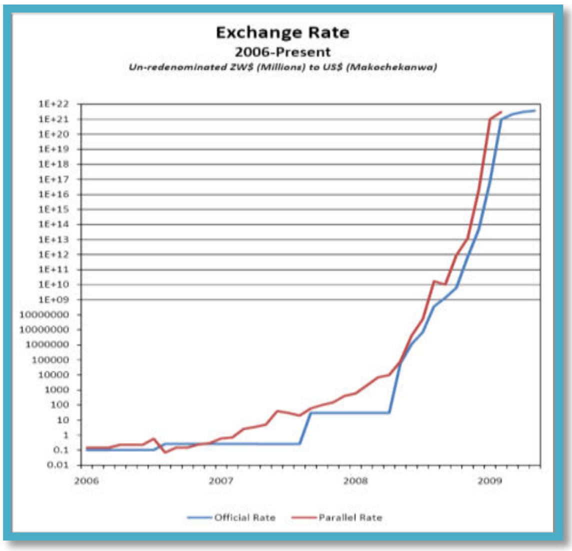
had to carry large sums of currency to conduct the simplest of transactions. Zimbabwe formally entered hyperinflation in March 2007 when inflation reached 50.54% m-o-m and 2,200% y-o-y.

Impact on the Economy

- Financial investors fled the country, concerned that other businesses may go the way of the farms, with foreign direct investment falling 99% between 1998 and 2001
- Weakened investor perception of the precarious fiscal position resulted in concerted runs against the currency and stock market crash
- Export proceeds from tobacco, Zimbabwe's main cash crop declined from $612m in 1999 to $321m in 2003 greatly reducing the country's Forex reserves
- The prices of agricultural inputs (fuel, fertilizer, and other agrochemicals) rose significantly as a result of currency depreciation, which also led to shortages of fuel and electricity

Monetizing the Fiscal Deficit

- Drop in export revenues caused the Mugabe government to aggressively print money- print ZW$30B in the year 2000, hoping to use the newly-minted money to purchase foreign currency to pay the IMF arrears, as well as to fund massive amounts of government spending. This money printing spree endlessly continued causing hyperinflation the likes of which hadn't been seen since Weimar Germany in the 1920s.
- The quantity theory of money as well as common sense tells us that the result of this excess printing with GDP in decline was that the value of the Zimbabwean dollar (ZW$) collapsed exponentially. As a result, the cost of living skyrocketed in tandem with the monetary supply increasing by a factor of 2,152,473,377.841% since January 2000. (For comparison, the US States CPI increased 126.69% since January of 2000).



- In November 2008, prices were doubled every 24 hours and instead of using newspapers for fire kindling, residents used the abundance of worthless banknotes.
- As a result of increasingly worthless bills, government has been printing ever larger denominations from ZW$ 2 bill in 1980 to ZW$ 10,000,000 bill in Jan 2008 – at the time insufficient to buy a hamburger in a Harare restaurant. The worst was reached in Jan 2009 when the government printed ZW$ 100,000,000,000,000 bill, the world's first which was worth about US$30 at the time of issue – a stark contrast to the USD1.59 the ZW$ was worth at independence.

Thriving Black Market

A parallel economy ran alongside Zimbabwe's official one and was manned by young money changers who had all sorts of foreign currency in every possible denomination even when the Reserve Bank of Zimbabwe's coffers were empty. In a contrary opinion the parallel currency trade kept the economy going when it should have imploded long back and its existence had therefore averted widespread popular unrest. While the formal banking system continued to use an official exchange rate pegged at 250 ZWD to 1USD, on the illegal parallel market the USD was worth up to 100,000 or 150,000 ZW$, an astonishing difference which made precise comparisons redundant. The Reserve Bank governor Gideon Gono once described the thriving black market trade in foreign currency as Zimbabwe's own "World Bank".

Revaluation of Zimbabwean Dollar (ZW$)

- In August 2006, Mugabe's government undertook the first of several redenomination of the ZW$, removing three zeroes: ZW$1,000 was now ZW$1.
- In July 2008, the government redenominated the dollar once again, this time removing 10 zeroes, followed by the removal of another 12 zeroes seven months later.

Multicurrency System – Zimbabwe's answer to hyperinflation

In Feb 2009, hyperinflation led to abandonment of the ZW$ and the authorities established a multicurrency system under which transactions in hard foreign currencies were authorized, payments of taxes were mandatory in foreign exchange, and the exchange system largely was liberalized. Use of the Zimbabwe dollar as domestic currency has been discontinued until 2012.

Zimbabwe – Today

- GDP growth: -14.4%
- Public debt: 282.6% of GDP
- Unemployment Rate: 95%
- Inflation: 14.9 billion %
- Central bank discount rate: 675%
- Current Account Balance: -22.4% of GDP
- Population below poverty line: 68%
- HIV/Aids affected: 15.3%

(Source: CIA)

While five foreign currencies have been granted official status, the USD has become the principal currency. Today four-fifths of all noncash transactions including wage payments, stock exchange trading, banking system and the Reserve Bank of Zimbabwe's (RBZ) accounting; all occurs in USD. The Rand is also prevalent in the south of the country with wider circulation prevented by South Africa's capital account controls.

The multicurrency system provided significant benefits, in particular fostering the re-monetization of the economy, enforcement of fiscal discipline by precluding inflationary financing of the budget, and bringing greater transparency in pricing and accounting. As a result, the price levels in USD declined during 2009, while the economy started to recover.

The multicurrency system also poses a number of challenges like exposure to USD/Rand exchange rate, shortages of small-denomination USD banknotes and coins and the loss of seigniorage (the revenue the government earns from printing new money). Inflation is a form of taxation in which the government gains at the expense of those who hold money while its value is declining. So many economists consider hyperinflation as a very large taxation scheme.

Conclusion

All this talk about thousands of percentages of inflation and billion dollar currency notes sound very unrealistic to citizens living countries with stable monetary conditions. The recent crisis has thrown up some very startling facts of debt laden economies in the US and Europe. A scenario like that in Zimbabwe could be a reality in US if the economy's exports do not gather pace and fed continues to live beyond its means by printing dollars.

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