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Editorial

This issue brings a focus on the developing world and India in particular. Sumati Varma's research links the growth of a developing nation with financial liberalisation and looks at seventeen countries including our own in order to draw a conclusion that could help the domestic financial sector. The other article authored by R. L. Hyderabad examines the market reaction to multiple buybacks in India. He suggests some further research for a better understanding of these decisions.

Given that our culture is necessarily different and requires various skills at the leadership or managerial level, Kiran Bedi, a well-known policewoman and Magsaysay Award winner, tells us of her five concepts, which embody a leader in her opinion: she encourages us to conduct a "self audit" in order to be successful.

The case study in this issue is of a very old and renowned company - Rallis India. Its existence can be retraced to the days of the British empire - from jute to fertilizers and pesticides, from London to Kolkata to Mumbai, this company suffered many challenges to finally improve and add activities.

Abiding interest in institution building has pervaded this volume - from Administration in various sectors (Government, Election Commission, to an NGO). Excellence too, is part of this journey, we believe, as Mr. Damodaran takes us through his experience and views for the benefit of the young.

Pradip Khandwalla, the institution builder par excellence, as an ex- IIM Ahmedabad Director, brings out the challenges before educational leaders and academics.

To bring this issue centered on institution building as it were, to a full circle, is N. Ravichandran's review of Nandan Nilekani's book published in November. Taking up the issues of national importance in terms of ideas should inspire us, citizens, to take up the challenges and implement in our spheres, the transformation that is suggested.

Abha Chatterjee

CAPITAL MOBILITY AND GROWTH IN THE DEVELOPING WORLD: AN EMPIRICAL INVESTIGATION

Sumati Varma

Abstract

This paper investigates the link between financial liberalisation and growth for a cross-section of seventeen developing countries, including India, empirically. Theoretically, capital account openness leads to growth through two main channels: increase in aggregate investment and an improvement in productivity and efficiency. Existing empirical evidence however, suggests that the link between capital account openness and economic growth is weak.

The paper uses a de jure measure of capital account convertibility, calculated as the proportion of capital flows to total flow of funds. The results find a positive association between financial openness and growth for some countries in the sample. However the investment effect is found to be weak or of no significance for the majority of the sample.

Keywords: Capital Flows, Financial Liberalisation, and Growth.

1. Introduction

Globalisation, liberalisation and integration are the buzzwords in policy and strategy in the last three decades as, financial linkages of developing economies with the global economy have significantly increased. Large parts of the developing world adopted policies of financial liberalisation leading to a change in the nature and magnitude of financial flows across the globe, and a concurrent increase in the incidence of banking, currency and financial crises as well.

The theoretical basis of financial liberalisation was the theory of financial repression first advocated by McKinnon (1973) and Shaw (1973). They asserted that financial repression allocates capital to inefficient use and therefore it traps developing countries in a low saving and low growth cycle. Outward oriented trade; realistic exchange rates and financial liberalisation were likely to ensure more successful adjustments to external imbalances and higher rates of economic growth in the developing world. This theory became the basis of the IMF- World Bank sponsored Structural Adjustment Programmes (SAP), which were adopted by large parts of the developing world. The focus of any SAP was to remove inherent structural distortions in an economy through financial liberalisation so as to have higher rates of growth and development.

The basic aim of this paper is to explore different facets of financial globalisation beginning with some semantics. It then explores the trends of financial flows to the developing world. The paper also examines the relationship between financial liberalisation and economic growth for a cross section of developing countries, including India.

2. Review of Literature

2.1 Measuring Financial Openness

The literature usually considers financial openness as synonymous with capital account openness and typically focuses on three aspects of financial openness: measures based on statute, based on actual capital flows and on asset prices. Measures of capital account openness based on statute are also known as de jure or rules based measures and are based on, and represent policies on capital account restrictions. The most commonly used de jure measure of openness is derived from information in the IMF's Annual Report on Exchange Arrangements and Exchange Restrictions, (AREAER). It is available for all IMF member countries from 1966 and is a dummy variable that takes a value of 1 if a country has capital account restrictions in a given year and 0 otherwise. However, it does not distinguish between different types of controls nor does it capture the difference in intensity of controls. Another de jure measure called SHARE measures openness as a variable reflecting the proportion of years in which countries had liberalised capital accounts. Quinn (1997) has constructed the most comprehensive cross-country indicator of capital account openness. He uses a 0 through 4 scales to classify openness, with a higher number implying a more open capital account.

These and other such rules based measures assume that restrictions on capital account are fully effective, and therefore represent the countries' true degree of financial openness. However studies have found that capital controls, especially in developing countries, have been of limited effectiveness as investors find ways of circumventing them. To this extent, these measures underestimate the degree of a country's financial openness.

De facto measures of openness are based on actual capital flows and measure a country's effective openness. This is analogous to using trade volumes as a measure of trade openness and helps to distinguish between different types of capital flows. This level of disaggregation allows us to more closely identify the different channels through which capital flows might affect economic growth, Kraay (1998) and Swank (1998). Since actual outflows and inflows are affected by a number of factors such as monetary, fiscal and exchange rate policies and the global economic and financial climate, and not merely by restrictions on capital flows, this measure is unlikely to be an informative indicator of the capital account regime. Besides this, capital flow data for some developing countries is incomplete and of poor quality as well.

A third alternative is to use portfolio and direct investment assets and liabilities as a per cent of GDP as a long run indicator of financial openness {Lane and Milesi-Ferretti (2001)}. Such a measure is a good indicator of openness at a point in time, but its value may fluctuate from year to year, since capital flows are endogenous and there can be large valuation adjustments due to, say a large swing in equity values.

2.2 Capital Account Openness and Growth

There is a large and growing literature that tests the potential benefits of capital account liberalisation through its influence on long run growth and development, by directly investigating the empirical relationship between capital account liberalisation and economic growth. Almost all of these studies augment a basic growth model that includes variables such as the level of schooling, investment, population growth and the level of GDP in the initial year with a measure of capital account liberalisation. The data are typically averaged over five, ten, or twenty years so that the data set is converted into either a cross-sectional data set or a panel data set. Distortions in the domestic economy such as information asymmetry and moral hazard are proxied through the use of measures of institutional development and policy environment such as the inflation rate and fiscal deficit.

Supporting Evidence of Capital Account Liberalisation on Growth

Wang (1990), develops a model in which international capital movements from the developed North to the developing South transfers technology and shows that liberalisation of the capital account leads to greater foreign direct investment leading to greater competition in which domestic firms try to be efficient. In the process domestic savings are more efficiently used. The rate of technological change is an increasing function of the amount of foreign capital operating in the South and of the extent to which technology in the advanced country exceeds it in the less developed country. It is shown that when the South shifts from autarky to free capital mobility, its steady state growth rate of per capita income also increases.

Obstfeld (1994), presents a simple model of global portfolio diversification that links growth and financial openness. The set up is a stylised development of the idea developed by Romer (1990) and Grossman and Helpman (1991). The model asserts that ongoing growth depends upon investments that supply specialized and hence inherently risky production inputs. Because risky technologies in the model have higher expected returns than safe ones, international asset trade, which allows each country to hold a globally diversified portfolio of risky investments, encourages all countries to shift from low return safe investments towards high return risky investments. Provided risky returns are imperfectly correlated across countries, and provided some risk free assets are initially held, a small rise in diversification opportunities always raises expected growth as well as national welfare. The key here is that financial liberalisation can enhance growth even in the absence of net capital inflow.

Quinn (1997), is one of the most comprehensive studies to identify a positive result between capital account liberalisation and growth. He uses a multivariate regression framework to determine the political and economic variables with which a change in international financial regulation is robustly associated. Quinn's study covers 58 countries over the period 1960 to 1989 and although his results suggest a significant effect of the change in capital account liberalisation on growth, it is difficult to distinguish the impact of current account and capital account liberalisation separately.

Klein and Olivei (1999), investigate the association between capital account liberalisation and growth in a cross sectional regression specification of 82 countries over the period 1986 to 1995. Their study first focuses on the role of capital account liberalisation on financial development and then considers the effect of financial development on growth. They conclude that the beneficial effects of capital account liberalisation can only be achieved in an environment in which there is institutional support for the changes brought about by the free flow of capital.

Edwards (2001), examines whether the relationship between capital mobility and growth is different for emerging and advanced economies and tests the impact of capital mobility on economic growth, where growth is estimated in terms of GDP growth and total factor productivity (TFP) growth.

Bekaert, Harvey and Lundblad (2001), examine the impact of stock market liberalisation on economic growth. Augmenting the standard set of growth model variables with their variable indicating stock market liberalisation, they maximise the time series content in their regression using a moving average panel data method. These results along with those of Quinn are the strongest evidence supporting the hypothesis that capital account liberalisation leads to growth.

O' Donnell (2001), examines the impact of capital account liberalisation using both IMF rules-bases measure and a quantitative based measure of financial openness. He found rules based measures, too coarse an indicator of capital account liberalisation, as it does not take into account the nature of different types of controls. Using quantitative measure, he finds that capital account liberalisation does seem to speed up economic growth. He also finds that benefits to all countries are not equal.

Chanda (2001), in his study also finds that the benefits of capital account liberalisation are different for different groups. He suggests that the impact may vary with the level of ethic and linguistic heterogeneity in the society, a proxy for the number of interest groups. In particular, he finds that capital controls lead to greater inefficiencies and lower growth among countries with a high degree of ethnic and linguistic heterogeneity.

Chinn and Ito (2002), examine the empirical relationship between capital controls and the financial development of credit and equity markets. The authors investigate a broader set of proxy measures of financial development, create and utilise a new index based on the IMF measures of exchange restrictions that incorporates a measure of the intensity of capital controls and examines the implications of institutional and legal factors. The study analyses the experiences of 105 countries over the period 1977-1997 and concludes that the rate of financial development, as measured by private credit creation and stock market activity, is linked to the existence of capital controls.

Klein (2003), offers robust empirical evidence that capital account openness contributes in an important way to economic growth for middle-income countries. He concludes that there is a need to carefully manage and sequence liberalisation, with appropriate controls, regulatory apparatus and macroeconomic framework.

2.3 Studies not supporting the Hypothesis that Liberalisation Promotes Growth

In a widely cited study Rodrik (1998) has cast doubts on the effects of capital account liberalisation on growth. In a sample that includes almost 100 countries, developing as well as developed, he finds no significant effect of capital account liberalisation, on the percentage change in real per capital income over the period 1975 to 1989 in growth regressions that also include initial per capita incomes, initial secondary-school enrolment rate, an index of the quality of government institutions and regional dummy variables. He also finds no relationship between capital account liberalisation and investment-to-income, nor between capital account liberalisation and inflation.

These results are broadly consistent with those of Kraay (1998), who undertakes a more comprehensive examination of the effect of capital account liberalisation on investment, growth and inflation. The study includes data from 117 countries over the period 1985-1997, and uses three different measures of financial market development and policy environment. His regressions take the form of cross sections, with one observation per country, where the dependant variable is the growth in output between 1985 and 1997. He uses both OLS and the instrumental variable approach, in which the capital account liberalisation variables are instrumented by their own past values.

3. Financial Liberalisation: Some Basic Stylised Facts

The literature often uses terms such as financial globalisation, financial deepening, financial liberalisation and financial integration interchangeably, although on close inspection differences are clearly discernable.

Financial liberalisation refers to a reduction in the role of the government and an increase in the role of the market, in allocating credit. The process of financial liberalisation is linked to the basic structure of the economy and requires reform in stages. It is a process that should be introduced in a phased manner, beginning with trade reform, moving on to a gradual opening of the financial sector including the adoption of current account convertibility and finally the removal of capital controls.

Financial globalisation, on the other hand is an aggregate concept that refers to rising global linkages through cross border financial flows. Financial integration refers to an individual country's linkages to international capital markets. Being closely related, increasing financial globalisation is often associated with rising financial integration on average. It may be concluded therefore that globalisation has been the direct result of financial liberalisation of economies, but financial integration may or may not be associated with liberalisation. A case in point is Latin America in the 1980's, which was de jure closed to financial flows but was in actual fact integrated with the rest of the world through the large amount of capital flight that actually took place.

Another important distinction is between the terms financial deepening and financial development. Financial deepening refers to an increase in the volume of credit being intermediated in financial markets, and is typically measured by indicators such as M2, credit to the private sector, or stock market capitalisation relative to GDP. Financial development should be thought of as a much broader concept reflecting improvements in the functioning of the financial sector. These include increased access to financial intermediation, greater diversification opportunities, improved information quality, and better incentives for prudent lending and monitoring.

Financial liberalisation and financial deepening are related terms but they are not equivalent. Financial deepening affects access to finance, while liberalisation affects the incentives with which credit is deployed. For example, during the 1970s and up to the early 1980s, Japan and France had financially deep markets that were highly repressed. Conversely, Great Britain in the late 1970s and several Latin American countries, including Peru, Argentina and Brazil in the 1990s had liberalised financial markets that were relatively shallow.

4. Theoretical Framework

The theoretical basis of capital account convertibility lies in the argument that free capital mobility allows the global economy to reap the efficiency gains created by specialisation in the production of financial services. It is an extension of the logic of the benefits of free trade which says that financial development can raise an economy's growth rate in two ways: by increasing the rate of capital accumulation and by spurring technological innovation {McKinnon (1973) and Shaw (1973)}.

Thus greater openness of the capital account has an impact on economic performance through two alternative channels:

- The first and most obvious one is through its effect on foreign savings and through them, on aggregate investment. Countries with a more open capital account will have, in principle, the ability to finance a larger current account deficit and thus increase the volume of foreign savings. If increases in foreign services are not reflected in a one to one decline in domestic savings, aggregate savings will be higher. This will allow higher investment and faster growth. This is known as the Investment Effect. Whether increased capital inflows and higher current deficits actually result in higher aggregate investment depends on the extent to which foreign savings crowd out domestic savings.

- The second channel through which capital mobility may affect economic performance refers to efficiency and productivity growth. The principle of free trade in goods and services is extended to trade in securities. Countries with fewer restrictions on capital mobility will, with other things given, tend to outperform countries that isolate themselves from global financial markets. The elimination of capital controls reduces an important distortion resulting in a higher return to investment and higher productivity growth. This is known as the Performance Effect.

There are both direct and indirect channels that help to enhance growth in developing countries. Some of these are as follows:

4.1 Direct Channels

- **Increased Domestic Savings** According to the "two gap" structural development literature {Chenery and Bruno (1962), McKinnon (1964)}, growth of an economy is limited not only by a country's ability to save, but also by foreign savings with which to buy necessary imported inputs. However, such capital flow must be supplementing in nature rather than crowding out domestic investment. Barro, Mankiw and Sala-I-Martin (1995) have also emphasised that domestic residents can finance in part or in full the physical capital by foreign savings which increases the rate of capital accumulation. An increase in the flow of capital from regions of abundance to regions of scarcity reduces the risk-free rate in developing countries and increases the return on capital in areas of abundance.

- **Reduction in cost of capital through diversification of risk** An increase in the opportunities to share risk help in its diversification. This in turn encourages firms to increase total investment, thereby increasing growth. As capital flows increase, the domestic stock market becomes more liquid, further reducing the equity risk premium and lowering the cost of raising capital for investment.

- **Transfer of technology and managerial know-how** Financially integrated economies attract a disproportionately large share of FDI inflows, generating technology spillovers and helping to pass on better management practices. These spillovers raise aggregate productivity and in turn boost economic growth.

- **Stimulation of domestic financial sector development** Joseph Schumpeter (1911) argued that the services provided by financial intermediaries (eg. mobilising savings, evaluating projects, managing risk and facilitating transactions) are essential for technological innovation and economic development. Authors such as Gurley and Shaw (1955), Goldsmith (1969), Patrick (1966), McKinnon (1973) have emphasized the role of financial intermediation in the process of economic growth and argued that the increased financialisation of assets is instrumental in promoting economic development. International portfolio flows increase the liquidity of domestic stock markets. Increased foreign ownership of domestic banks also generates a variety of other benefits such as access to international financial markets and improvement in the regulatory and supervisory framework of the domestic banking industry. Foreign banks also introduce a variety of new financial instruments and techniques and also foster technological improvements in domestic markets. The entry of foreign banks increases competition that improves the quality of domestic financial services and allocative efficiency.

4.2 Indirect Channels

- **Promotion of Specialisation.** In principle, financial globalisation plays a useful role by helping countries to engage in international risk sharing and reduce consumption volatility, indirectly encouraging specialisation and raising the growth rate.

- **Commitment to better economic policies** International financial integration increases productivity in an economy through its impact on the government's ability to credibly commit to a future course of policies. The disciplining role of financial integration changes the dynamics of domestic investment in an economy leading to a reallocation of capital towards more productive activities in response to changes in macroeconomic policies.

- **Signalling effect** A country's willingness to undertake financial integration would be interpreted as a signal towards more friendly policies towards foreign investment in the future. Bartolini and Drazen (1996) suggest that the removal of restrictions on capital outflows can, through its signalling role, lead to an increase in capital inflows.

However, the benefits of capital account openness rest on the premise of an efficient capital market, ignoring the presence of distortions such as information asymmetry, moral hazard and herding on the part of foreign investors. The destabilising effect of capital flows was first articulated by Diaz-Alejandro (1985). This has led to a growing body of work that highlights the role of moral hazard and explicit or implicit government guarantees in increasing the vulnerability of countries to financial crisis. McKinnon and Pill (1998).

5.1 Methodology

Since the first wave of financial liberalisation in the developing world began in the early 1970s, the empirical analysis in this paper is a time series analysis for seventeen developing economies for the period 1971 - 2005.

The paper estimates the association between capital account openness and growth in a linear regression framework. Since the data is in the form of a time series, the first step is to check stationarity of variables, to see if the mean and variance of the series is time independent over the sample. In all data, which is in the form of a time series, the first step is to determine if the variables are stationary in levels, or if a first or second order differencing is required to achieve stationarity. For this purpose a unit root test is done. This is known as testing the order of integration of variables. Various tests are available to test the order of integration of variables, including the Dickey Fuller (1979), Augmented Dickey Fuller (ADF), Phillips Perron (1988) and Durbin Watson (Sargan and Bhargava 1983) test. This paper uses the Dickey Fuller and Phillips Perron tests to test for the presence of unit roots and replaces non-stationary variables with the first difference of their values.

In principle, a greater openness of the capital account has an impact on economic performance through two alternative channels. The first one is the increase in foreign savings, and through them, on aggregate investment. Following Edwards (2001), this is called the

"Investment Effect". The second channel through which capital mobility may affect economic performance refers to efficiency and productivity growth. This is termed the "Performance Effect".

The standard model of economic growth explains the long-term trend in the potential output of an economy by breaking it down into two parts:

The first part can be explained by the growth in the inputs used in production. This is called Real GDP Growth (RGDPG).

Those parts of growth, which can be explained by improvements in the efficiency with these inputs, are used. The latter is called Total Factor Productivity (TFP) growth.

In this paper we examine the association between Capital Flows and Real GDP Growth

In order to test the hypothesis of the influence of openness on growth, the following model was estimated:

$$g_j = 0 + 1K_j + 2X_j + \varepsilon j \qquad (1)$$

Where g_j is average real GDP growth in country j during the period 1971 - 2005;

k_j is a measure of capital account openness in country j, or an indicator of the extent of capital account liberalisation between 1971 and 2005.

Capital account openness is measured by the variable $OPEN^+$, which is measured as the sum of total capital flows to total flow of funds. εj is the error term.

X_j are other variables that affect economic performance such as

INV^+ - The investment ratio during 1971-2005, proxied by the rate of gross fixed capital formation to GDP;

HUM^+ - A measure of human capital, taken to be the total mean years of education;

LRG^- - The log of real GDP per capita in 1971, which is taken to be a measure of initial economic activity. To the extent that the country's real income tends to converge, the coefficient of this variable is expected to be negative.

DEV^+ - A measure of the country's level of development taken to be the product of LRG and OPEN. If the coefficient of DEV is positive it indicates that the effect of capital account openness on growth increases with the level of development.

The superscript over the variable represents the expected obtainable sign.

5.2 Data Sources

Data for the study has been taken from various issues of The International Financial Statistics Yearbook, the Nehru and Dhareshwar dataset (1994) and The Penn World Tables (version 6).

6. Estimation and Results

The paper uses the OLS technique for estimating the linear relationship between capital account openness and growth. Therefore to obtain meaningful results the order of integration of variables had to be examined. Regression results are meaningful only if the order of integration of the dependant variable is greater than or equal to the order of integration of the independent variables. Results of the test and their critical values are reported in Tables 1 and 2. The tables show that two variables OPEN and HUM were found to be non-stationary for some countries in the sample. These were replaced with the first difference of their values.

Table 3 presents the main statistically significant findings of the estimation. The results show that there is a positive significant relationship between openness and growth for Argentina, Chile, Paraguay, Venezuela, Indonesia, Korea, Malaysia, Philippines and Thailand. Bolivia, Colombia, Ecuador and India have a positive relationship between openness and growth but the coefficient is insignificant. The results for Brazil, Mexico, Peru and Uruguay indicate a negative association of openness and growth.

The values of R2 indicate that over 50% variation in the dependant variable can be explained by the independent variables in the case of Mexico, Paraguay, Uruguay, Indonesia, Phillipines and Thailand.

The coefficient of INV however has a significant positive sign only for Paraguay, Indonesia, Malaysia and Philippines. The relationship is positive but insignificant for Argentina, Brazil, Colombia, Ecuador, Peru, Korea and Thailand. The results indicate a negative relationship for Bolivia, Chile, Mexico, Uruguay, Venezuela and India.

The "Investment Effect" therefore, does not seem to be a strong explanatory variable of growth for many countries in the sample. This is due to the fact that there is a smaller proportion of FDI compared to portfolio flows in the total inflow of capital for the time period of the study. Since it is FDI inflows that manifest themselves into investment, this is possibly the reason for the "Investment Effect" being less robust.

The coefficient of HUM has the expected sign and is significant for Colombia, Korea, Phillipines and Thailand. It is positive but insignificant for Argentina, Ecuador and Thailand and has a negative relationship for all other countries. The coefficient of LRG has the expected sign for Bolivia, Brazil, Mexico, and Korea. The convergence effect of real income is therefore visible only for the above countries in the sample.

The variable DEV is positive and significant for Mexico, Paraguay, Peru, Uruguay, and positive but insignificant for Colombia and Indonesia. The variable DEV has a negative but significant

relationship for Argentina, Venezuela, Korea, Malaysia, Philippines and Thailand. It is insignificant for the other countries in the sample. The results indicate an overall association between capital flows and growth for South East Asia.

Capital account openness has been less beneficial for countries of Latin America except a few such as Argentina, Chile Paraguay and Venezuela. A possible explanation for this is the fact that liberalisation attempts in Latin America were introduced amidst conditions of high inflation and fiscal deficits, eroding any possible benefits that foreign capital could have brought with it. As explained earlier, the low levels of FDI compared to portfolio flows are responsible for a less robust investment effect.

Table1: Testing For Unit Roots: Dickey Fuller Statistics

	Rgdpg	Open	Inv	Hum	Lrg	Dev
Argentina	-4.344*					
(1st diff)	-3.170**	-6.802*	-6.468*	-4.344*	-3.167**	
Bolivia	-4.376*	-3.555**	-5.693*	-3.877** (0LT)	-21.621* (0LT)	-3.528**
Brazil	-3.584**	-.3731*	-5.148*	-2.687**	-5.931*	-3.701**
Chile	-6.410*	-3.955*	-5.077*	-8.729*	-3.652**	-3.691**
Colombia	-3.539**	-3.019**	-4.253*	-0.788	-3.312**	-2.92***
Ecuador	-5.530*	-3.587**	-6.099*	-2.67***	-4.014*	-3.556**
Mexico	-20.052*	-3.193**	-6.020*	-2.102	-4.059*	-3.099**
Paraguay	-4.179*	-4.930*	-3.793*	-4.301*	-2.88***	-4.851*
Peru	-4.559*	-3.032**	-3.195**	-0.093	-3.672**	-3.077**
Uruguay	-3.493**	-3.978*	-0.835	-0.661	-3.201**	-4.010*
Venezuela	-8.890*	-4.040*	-5.389*	0.617	-6.888*	-4.054*
India	-4.158*	-7.137* (1stdif)	-5.367*	0.542	-3.525**	-7.209 (1st dif)
Indonesia	-5.826*	-6.227	-21.489*	-0.383	-4.25*	-6.236 (1st dif)
Korea	-4.040*	-11.976* (1st dif)	-3.869** (1LT)	0.060	-4.934*	-5.190*
Malaysia	-5.042*	-7.5* (1st dif)	-7.164*	-1.830	-2.79***	-6.951 (1st dif)
Philippines	-4.154*	-7.166 (1st dif)	-4.083*	-3.971 (3LT)	-3.796*	-5.773 (1st dif)
Thailand	-3.169**	-6.076 (1st dif)	-10.351*	-6.813*	-3.360**	-2.66*** (1L)

Critical values for zero lag: at 1% level of significance: 3.723 'dif' stands for difference

5% level of significance: 2.989 'L' indicates lag

10% level of significance: 2.625 'LT' indicates lag trend

* indicates stationarity at 1% level of significance

** indicates stationarity at 5% level of significance

*** indicates stationarity at 10% level of significance

Table 2: Testing For Unit Roots: Phillips Perron Statistics

	Rgdpg	Open	Inv	Hum	Lrg	Dev
Argentina	-8.512	-15.60**	-29.7***	-34.986*	-23.862*	-15.58**
Bolivia	-24.105*	-17.03**	-31.652*	-21.621 (0LT)	-21.630* (1LT)	-16.90**
Brazil	-18.733*	-18.995*	-28.110*	-6.453	-22.863*	-19.097*
Chile	-18.776*	-21.375*	-28.331*	-40.772*	-19.072*	-19.646*
Colombia	-18.491*	-14.73**	-23.225*	-1.010	-14.870*	-14.02**
Ecuador	-29.871*	-18.542*	-34.099*	-2.279	-21.622*	-18.419*
Mexico	-30.234*	-6.881	-22.882*	-4.950	-21.536*	-35.873 (1st dif)
Paraguay	-20.082*	-15.90**	-20.209*	-22.221*	-15.063*	-16.24**
Peru	-25.232*	-14.79**	-17.523*	-0.124	-19.352*	-15.10**
Uruguay	-14.05**	-21.260*	-5.115	-1.818	-15.7*	-21.551*
Venezuela	-33.135*	-21.738*	-30.058*	0.774	-23.528*	-33.135*
India	-22.614*	-11.4***	-29.506*	0.834	-16.908*	37.9* (1st dif)
Indonesia	-29.166*	-27.565* (1st dif)	-15.47**	-17.324*	-23.235*	-34.225 (1st dif)
Korea	-21.780*	-13.70**	-10.085	0.087	-28.329*	-14.53**
Malaysia	-28.123*	29.234 (1st dif)	-28.715*	-7.630	-13.996*	-10.3***
Philippines	-23.393*	-30.397 (1st dif)	-22.384*	-3.569	-19.166*	-32.027* (1st dif)
Thailand	-15.93**	-11.5***	-46.335*	-36.984*	-17.186*	-9.910

Critical values for zero lag: at 1% level of significance: -17.472 'dif' stands for difference

at 5% level of significance: -12.628 'L' indicates lag

at 10% level of significance: -10.280 'LT' indicates lag trend

* indicates stationarity at 1% level of significance

** indicates stationarity at 5% level of significance

*** indicates stationarity at 10% level of significance

Table 3: Capital Account Openness and Growth: Individual country results
Dependant Variable: Real GDP Growth (RGPG)

	OPEN	INV	HUM	LRG	DEV	CONST	R^2	Adj R^2	N
Argentina	.03209 (1.97)	.03070 (0.38)	7.792006 (0.80)	.000979 (0.17)	-.09193 (-2.70)	2.256617 (2.02)	0.3172	0.1750	35
Bolivia	.02599 (0.03)	-.54647 (-0.65)	-3.5722 (-1.11)	-.0053935 (-1.69)	-.06251 (-0.06)	1.93486 (1.20)	0.0483	-0.1606	35
Brazil	-.2206 (-1.42)	.12859 (0.01)	-70.8484 (-1.05)	-.005007 (-1.21)		13.69193 (1.04)	0.2544	0.1326	35
Chile	.08749 (1.44)	-.01203 (-0.25)	-.64828 (-0.88)	.0001915 (1.20)	-.09541 (-1.43)	0.044239 (0.24)	0.1386	-0.0408	35
Colombia	.00029 (0.15)	.09462 (1.00)	.5451637 (2.06)	.0003178 (2.74)	.02958 (0.32)	-.074388 (-1.26)	0.3462	0.2134	35
Ecuador	.02653 (0.10)	.48061 (0.31)	457.2412 (1.38)	.0378986 (1.10)	-.56859 (0.02)	-55.7413 (-1.36)	0.1065	-0.0055	35
Mexico	-.9284 (-2.12)	-0.0422 (-1.03)	-12.9628 (-1.79)	-.000271 (-0.96)	1.0432 (2.11)	1.834465 (1.77)	0.6436	0.5694	35
Paraguay	.00151 (8.34)	.07484 (2.64)	-.551887 (-2.22)	.0000933 (1.95)	.01258 (1.52)	.0169434 (1.90)	0.7344	0.5428	35
Peru	-.0962 (-1.76)	.00501 (0.05)	-.219299 (-0.43)	.0001706 (5.78)	.10948 (1.80)	.0108689 (0.11)	0.6146	0.2198	35
Uruguay	-.0728 (-1.63)	-.25297 (-2.80)	-.40539 (-0.88)	.0002007 (8.50)	.08455 (1.71)	.0132741 (0.15)	0.68	0.5839	35
Venezuela	.41196 (1.48)	-.00023 (-2.12)	-1.11529 (-1.28)	.0002545 (2.47)	-.46282 (-1.46)	.3130479 (1.48)	0.4129	0.2908	35
India	.00221 (1.12)	-.04282 (-0.48)	-.657634 (-1.95)	.0006966 (3.35)		.0802242 (1.56)	0.4454	0.3390	35
Indonesia	.0540 (2.00)	.00081 (3.92)	-.722955 (-1.30)	.0005043 (15.27)	.06814 (0.96)	.1122053 (1.60)	0.7861	0.6587	35
Korea	.02235 (1.34)	.06159 (0.65)	1.124795 (2.25)	-.000037 (-0.78)	-.02738 (-1.34)	-.102652 (-0.74)	0.3520	0.0423	35

	OPEN	INV	HUM	LRG	DEV	CONST	R^2	Adj R^2	N
Malaysia	.12118 (1.76)	.00034 (0.22)	.7586013 (0.58)	.0002689 (3.57)	-.13867 (-1.75)	-.090274 (-0.49)	0.4541	0.3031	35
Philippines	.12909 (1.43)	.07762 (2.36)	.8550774 (2.61)	.0002674 (2.64)	-.16283 (-1.43)	-1.07864 (-1.98)	0.5565	0.4292	35
Thailand	.02412 (1.39)	.00247 (1.44)	.2134033 (0.58)	.002087 (8.71)	-.02913 (-1.54)	.008762 (0.19)	0.6858	0.5941	35

7. Conclusion

This paper explores the link between capital account convertibility and growth for seventeen developing countries during the period 1971 - 2005. Using a de jure measure of capital account convertibility, calculated as the proportion of capital flows to total flow of funds the paper explores the association between capital account openness and Real GDP growth.

The results clearly indicate a positive association between capital account openness and growth for South East Asia. Countries of Latin America have benefited less form capital account openness. There are several reasons for this.

Conventional wisdom has regularly pointed towards the need for macroeconomic preparedness of the receiving economy for capital flows to deliver their intended benefits. Since liberalisation in Latin American countries was introduced during conditions of high inflation and fiscal deficit, capital flows have been unable to translate into growth.

The study also finds that the expected growth benefit arising out of increased investment flows fail to materialise due to the dominance of portfolio and other short-term capital flows as compared to FDI. The dominance of "hot money" flows has however, been of short-term utility for the South East Asian economies, which experienced massive turnarounds and crisis later on.

This points to the need for adequate prudential supervision to ensure that capital flows are channelised into productive avenues. It also brings out the importance of temporary capital controls such as those used by Chile to prevent financial crisis due to sudden outflows of portfolio capital.

It is also understood that FDI as a form of capital inflow is preferred for its stability and the technology and skills embodied in it. However economies that receive these inflows need to be adequately equipped in terms of infrastructure to be able to use these skills and technology. This is indicative of the need of domestic financial sector development to enhance the absorptive capacity of capital inflows.

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Appendix A: Data

Country List

Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, India, Indonesia, Korea, Malaysia, Mexico, Paraguay, Peru, Philippines, Uruguay, Venezuela, Thailand.

1. **Variable List and Data Sources***

   GROWTH: RGDPG - Average real GDP growth

2. **OPEN***

   Total Capital flows to Total Flow of Funds

3. **INV = Investment***

   Gross fixed capital formation to GDP

4. **DEV = Development***

   LRGDPC**OPEN

   *(Source: IMF's International Financial Statistics)

5. HUM = Human

Total mean years of education

Source: Nehru and Dhareshwar dataset

6. LRG = LRGDPC

Log of real GDP per capita

Source: Penn World Tables, version 6

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MARKET REACTION TO MULTIPLE BUYBACKS IN INDIA

R. L. Hyderabad

Abstract

This paper examines the characteristics of share repurchasing firms and market reaction to multiple offers in India. The study finds limited offers of multiple repurchases. Only 30% of initial repurchasers return to the market with the offer of second share buyback with an average time gap of 1.64 years. Large firms with more variable operating income, lower MTB ratios and paying lower dividends are frequent repurchasers while small firms with stable operating income, higher MTB and payout ratios are infrequent repurchasers. Market reaction to multiple offers is in contradiction to signalling hypothesis predictions. The initial or infrequent repurchasers earn lower announcement day returns than frequent or subsequent repurchasers. Further, the overall Cumulative Abnormal Return (CAR) is negative in post-offer period indicating that all positive returns are realised in pre-offer period only. We conclude that rather than signalling hypothesis, market reaction to subsequent buybacks is better explained by free cash flow hypothesis.

Key words: Share Repurchases, Signalling, Multiple Buybacks, Average Abnormal Returns, and Cumulative Abnormal Returns.

1. Introduction

The extant literature available on share buybacks in UK and US is vast and wide. They have been thoroughly examined by various researchers in the West. Various aspects like motives, announcement returns and their determinants, post-offer operating performance, timing of buyback announcement, etc., have been analysed and examined. The increased interest of academia on buybacks is on account of increased use of share buybacks or share repurchases by companies in distributing cash amongst the stockholders. The dividends are now less preferred methods of returning cash as compared to share repurchases (Skinner, 2008). The expenditure on share repurchase programmes (relative to total earnings) increased from 4.8% in 1980 to 41.8% in 2000. Further, the share repurchases grew at an average annual rate of 26.1% over the period 1980-2000 while dividends grew at an average annual rate of 6.8% (Grullon and Michaely, 2004). According to Standard & Poor's, share repurchases of S&P 500 companies amounted to nearly EUR 400 bn. in 2007, which is more than double the amount of dividend payouts (Wolfgang et al. 2009).

The signalling hypothesis has been viewed as a basic explanation for the share repurchases (Vermaelen, 1981; Dann, 1981; Comment and Jarrell, 1991; D'Mello and Shroff, 2000; Ikenberry et al. 1995; Stephens and Weisbach 1998, etc). According to this hypothesis, manager's employ repurchases to reduce information asymmetry and signal their desire for improved market valuations. The announcement of premium buybacks conveys to the market the managers' confidence that the share is worth more than current market value

and also relating to the fundamentals or the future increase in cash flows of the firms. Jensen (1986), Grullon and Michaely (2004) and Lie (2004) support the agency theory as an explanation for the use of share buybacks by firms. Share repurchases redistributes cash flow from managers to shareholders and resolves the agency conflict over the use of excess funds. Jensen and Meckling (1976) argue that managers would have all incentives to over invest excess funds or consume them in the form of perquisites. The reduction in cash forces managers to resort to market borrowing or issue shares and subject them to market regulation. Kahle (2002), Chan et al. (2004), Babenko (2009), etc., find evidence to an alternate hypothesis that firms use buybacks to fund the exercisable stock options of executives and employees. Capital structure, taxes, dividend substitution, pre-empting hostile takeovers, etc., are other explanations given by the researchers.

Studies carried out in US and other countries find an average Cumulative Abnormal Return (CAR) of 2.5% to 3% around the date of announcement of buybacks (Comment and Jarrell, 1991; Ikenberry et al. 1995; Grullon and Michaely, 2002). The empirical research also indicates that open market repurchases (OMRs) are the popular methods of distributing cash as compared to fixed price tender offers (FPTs). Grullon and Ikenberry (2000) and Fairchild (2006) find that OMRs account for 90% of share buyback programmes in US.

Though value maximising properties of share buybacks are well documented, there are studies, which cast doubts over signalling power of repurchases carried through OMRs. Chan et al. (2006) conclude that OMRs are used to mislead market. OMRs are viewed as costless signalling mechanisms as firms are under no obligation to complete them. In fact, OMRs are rarely completed. On average, firms take three years to complete OMRs (Jagannathan and Stephens, 2003). Comment and Jarrell (1991) find a CAR of only 2.3% for OMRs as against 11% for FPTs.

2. Review of Literature

Relatively speaking, multiple repurchase offers have received less research interest in both US and India. Jagannathan and Stephens (2003) analyse motives and market reaction for a sample of 3,598 distinctive OMR multiple announcements. The study concludes that motives vary across multiple buybacks. Frequent repurchasers are much larger, have significantly less variation in operating income and adopt higher dividend payout ratios. The frequent repurchasing firms may be using regular repurchases as a substitute for increasing dividends, but are unlikely to be repurchasing shares because the firm is undervalued. Smaller firms with potentially high degrees of asymmetric information make infrequent repurchases. Infrequent repurchases tend to be preceded by relatively poor market performance, have more volatile operating income, and significantly lower institutional ownership and significantly higher managerial ownership. Further, infrequent repurchasers have lower market-to-book ratios, suggesting that they are more likely to be undervalued.

The market reactions to the repurchase announcements are consistent with these ideas; infrequent repurchases are greeted much more favourably than more frequent repurchases. The announcement of a first or infrequent repurchase programme is accompanied by

abnormal returns averaging about 3.4%; the subsequent repurchase programmes result in significantly lower abnormal returns. The average abnormal returns around the announcement of second and third repurchase programmes in five years are only 2% and 1.1% respectively.

Skjeltorp (2004) analyses the market reaction to share repurchases by Norwegian companies for 1998-2001 period and finds statistically significant two-day CAR of 0.88% for 100 companies announcing first repurchase. For subsequent repurchases, the CAR shows a decreasing trend. The CAR for second buyback of 81 companies is 0.39%. The CAR becomes negative when 22 Norwegian companies announce 10th buyback. Howe and Jain (2006) study share repurchase programmes of banks in US and find a CAR of 1.86% for first buyback, 2.15% for second buyback and 0.50% for third buyback, which is statistically insignificant.

India has few cases of buyback announcements and academic studies. Gupta (2006) finds significant CAR of 12.89% for 46 buybacks for 61-day event period. The announcement day average abnormal return (AAR) is 1.68%, significant at 1% level. Mohanty (2002) analyses 12 buybacks and finds an AAR of around 0.56% on the announcement day and an overall CAR of 11.26% for 61-day event period. Mishra (2005) finds that the positive announcement day returns are not sustained on long-term basis and market price in post-offer period falls to the pre-offer level. Kaur and Singh (2003) and Thirumalvalvan and Sunitha (2006) too analyse the market reaction to buybacks in India.

Gupta (2006) makes an attempt in his study to find the announcement returns for seven subsequent repurchases. He observes a decline in the AAR for -1, 0 and +1 days for five companies announcing second repurchase programme as compared to first repurchase announcement.

We feel a broad and scientific analysis of multiple offers of repurchases in India is conspicuous by its absence. The study fills this vacuum. Besides, repurchases should have a rationale and wealth effects. The first and other subsequent buybacks must benefit shareholders who stay back with the firm. A buyback, which benefits more the departing than staying shareholders, is an unfriendly shareholder action. An understanding on these lines is the basic lesson for managers before employing multiple offers. We feel our analysis would provide some valuable insights in framing a desirable payout policy.

3. Multiple offers of repurchases

In recent years, firms are repurchasing shares on a frequent or regular basis. We term such frequent announcements as multiple buybacks. This necessitates an understanding of the reasons for multiple offers and the extent of wealth generated, in the form of excess returns, by all these offers. Multiple offers may have varied motives. Market signalling can be a motive. However, it is unlikely that a firm could credibly signal that its stock is undervalued on a regular basis (Jagannathan and Stephens, 2003). Cash flow distribution may be another motive. The cash flow may be operating or non-operating. Jagannathan et al. (2000) find evidence that repurchasing firms link their repurchasing decisions to non-operating cash flow. They find that firms use regular and operating cash flows to pay

dividends and non-operating cash flows to announce repurchases. Therefore, it can be hypothesized that multiple offers may be used to payout non-operating cash flows generated on a regular basis. The success or failure of initial offer would also decide the firm's decision to announce multiple offers. Firms failing to buy the intended quantity of shares in first offers may be little hesitant to announce subsequent offers. On the other hand, those firms repurchasing more shares than originally announced initiate subsequent repurchase programmes or announce expansion of their existing programmes (Jagannathan et al., 2000). Multiple offers may be motivated by desire to finance the exercisable stock options. Studies show that the propensity of managers to repurchase shares increases with the incentives of their employees (Kahle, 2002; Chan, et al., 2004; Babenko, 2009, etc). The use of repurchases for stock options is viewed as anti-dilutive as compared to fresh issue of shares (Babenko, 2009). Some of the motives may be hidden and will become apparent in the long run. Several MNCs in India delisted their entities from bourses through a series of buyback offers (Muralidhar, 2002; Murthy, 2002). Notable among them are Phillips India Limited, BOSCH, Cadbury Limited, Oatis Elevators, etc.

Besides motives, multiple offers needs to be examined from wealth perspective. How do markets react to multiple offers? Do all announcements generate equal positive returns? Studies in US and other countries show that infrequent repurchasers earn higher returns than frequent repurchasers. Signalling ability decreases with the increase in number of offers. Subsequent offers may have less to signal than initial offers. We attribute this to reduced information asymmetry between managers and shareholders in subsequent offers. Information asymmetry exists because managers, being insiders, have better understanding of the firm's financials than investors and repurchases are used to convey this understanding. Frequent repurchasing reduces this gap to a considerable extent. The market will discount the managers' conviction that shares are undervalued. Even the free cash flow hypothesis would fail to hold good as the increased cash distributions may signal negatively. It may signal that the firm is matured and has no growth prospects.

The share buybacks in India are of recent phenomenon. The Companies Act, 1956 was amended in October, 1998 for permitting buyback of shares by Corporate India. Three new sections, namely, 77A, 77B, and 77AA, were added. The Securities and Exchange Board of India (SEBI) is the market regulator for buyback decisions of firms. As per SEBI's Status Report on buybacks, 149 offers of buybacks have been made in India till 31st March 2008. Several cases of multiple announcements have also been observed. We aim to find the characteristics of Indian firms announcing multiple offers and the return generated by such offers. Multiple offers may be completed either through OMR or FPT methods. Since signalling ability differs between the methods, we analyse returns generated method-wise also.

The remainder of the paper runs as follows: Section 3 reviews earlier literature while section 4 is used to explain the research methodology. We use section 5 to analyse the progress of buybacks in India and Section 6 to analyse the market reaction to repurchase announcements. Section 7 accounts for method-wise market reaction to multiple offers. Section-8 concludes.

4. Research Methodology

The SEBI's Status Report on Buybacks in India shows 149 offers till 31st March 2008. We use this official report in computing excess returns for multiple buybacks. A list of 79 announcements out of 149 has been selected for analysis of market reaction and the following two criteria are used for inclusion in the sample:

- Availability of public/media announcement date
- Price data for all trading days included in estimation and event periods.

The reconciliation of sample units with total announcements is provided in subsequent pages. The study uses market model for computing abnormal returns involved in buyback announcements. According to this model, the abnormal returns on a given trading day, t, for a given security, i, are computed by the following formula:

$$AR_{it} = R_{it} - \hat{\infty}_i - \hat{\beta}_i R_{mt} \quad (1)$$

Where AR_{it} is the abnormal return for firm/security *i* on day *t*; R_{it} is the return on security *i* on day *t*; R_{mt} is a proxy measure of the return on the market portfolio and $\hat{\infty}_i$ and $\hat{\beta}_i$ are OLS estimates of the market model parameters and are intercept and beta coefficients of security *i* respectively. We estimate the values of various parameters using the following equation:

$$R_{it} = \hat{\infty}_i + \hat{\beta}_i R_{mt} + \hat{\varepsilon}_{it} \quad (2)$$

R_{mt} is estimated using BSE-500 index as a proxy for market portfolio and $\hat{\varepsilon}_{it}$ is a statistical error having a zero value. Since BSE - 500 index was started only on 9th August 1999, we exclude all announcements made prior to this date. An estimation period of 200 days is used for predicting the parameters of market model. In addition to 41-day as event window, we use short-windows like 3-day, 5-day, 7-day, 11-day and 21-day. A 41-day event period includes 20 days before announcement (-20 days), announcement date (0) and 20 days subsequent to announcement date (+20 days).

The required information for the study was primarily accessed from CMIE Prowess database. Earlier, public or media announcement date was taken as announcement date. The adjusted daily closing share prices of sample offers are employed for computing excess announcement returns. (Appendix-1 gives the names of sample companies along with their media or public announcement dates)

The average abnormal return (AAR) on day *t* for all firms in the sample is given by the following formula:

$$AAR_t = \frac{\sum_{t=1}^{n} AR_{it}}{N} \quad \text{Where N is the number of firms in the sample} \quad (3)$$

The average daily returns are cumulated over the window period to compute cumulative abnormal return (CAR) using the following formula:

$$CAR = \sum_{t=-d}^{d} AAR_{it} \qquad (4)$$

Where -d; d represent the event or window period.

To test the null hypothesis that CAR on the announcement day is not equal to zero, the t-test is computed as given below:

$$t = \frac{CAR}{\hat{S}(CAR_t)} = \frac{\overline{CAR}}{\sqrt{N}\sum_{t=l}^{n}\hat{S}(CAR_t)} \qquad (5)$$

Where $\overline{CAR} = \frac{\sum_{t=id}^{d} CAR_t}{N}$ and $\hat{S}(CAR_t) = \sqrt{\sum_{t=-d}(CAR_t - \overline{CAR})^2}$

In addition to testing the significance of CAR, the study employs t-test or z-test values for judging the significance of daily average returns in 41-day window period. For this purpose, the study employs the approach used by Gupta (2006; 2008). The standard deviation of abnormal returns for the estimation period -220 days to -21 days has been computed. The Standardised Abnormal Returns (SAR) for each company is estimated by dividing abnormal returns of the event period, i.e., -20 to +20 by the standard deviation obtained. For the event day t, the Z-statistic for the AARs on N securities is calculated as:

$$Z_t = \sum_{t=l}^{N} SAR_{it} / \sqrt{N} \qquad (6)$$

The AAR and CAR are analysed in the study for:

- All buyback announcements of companies for which complete information is available
- First buybacks and subsequent buybacks
- Companies with only one buyback and companies with more than one buyback announcement
- First, second, third buyback, etc.
- Different methods of buyback employed in both first & subsequent buybacks

5. Progress of buybacks in India

5.1 Reconciliation of sample offers with total offers

Table 1: Information relating to total announcements and their reconciliation with sample size

I	Companies Completing Buyback	
	Fixed Price Tender Offers	29
	Open Market Repurchases	87
II	Companies advised not to Proceed	20
III	Buybacks withdrawn	08
IV	Companies yet to complete buybacks	05
	Total	149
	Sample Selected	79
I	Fixed Price Tender Offers - 20	
	Open Market Repurchases - 59	
II	Companies Advised not to Proceed	20
III	Buybacks withdrawn	08
IV	Listed on other stock exchanges	09
V	Estimation period being less than 200 days	22
VI	Price data not available	10
VII	Lack of announcement date	01
	Total	149

Source: SEBI's Status Report on Buybacks, March 2008

The list of 149 announcements includes 20 buybacks advised by SEBI 'not to proceed ahead for some technical reasons' and 8 are withdrawn offers (notably 2 buybacks of Reliance Industries Limited), leaving only 121 as effective announcements. Complete information is available in respect of 79 buybacks. 42 announcements are left out on account of non-availability of announcement dates and price data for estimation and/or event period, listing on other stock exchanges, non-availability of a broad-based proxy index prior to BSE-500 index, etc. A reduction in estimation period to 100 days saw an increase in sample size to 89 offers. However, for the robustness of the values of the parameters used in the market model, we dropped the idea of reducing estimation period and retained the earlier estimation period of 200 days and a sample size of 79.

Table 2: First and Subsequent Buybacks

Buybacks	Total	Sample	% of Sample to Total
First	107	47	43.93
Second	31	22	73.33
Third	07	06	75.00
Fourth	02	02	100.00
Fifth	01	01	100.00
Sixth	01	01	100.00
Total	149	79	53.20

Source: Computed from SEBI's Status Report, March 2008

There are 107 first-time buyback offers in India out of 149 total announcements made during October, 1998 and March, 2008. The subsequent buybacks are only 42, which include 31-second offers. We have almost two offers of second buyback for every seven initial offers. In other words, around 30% of initial repurchasers return to the market with second offers. The subsequent offers include seven offers of third buybacks and the ratio appears as one offer of third buyback for every four offers of second buyback. In other words, 25% of second-time repurchasers return with third buyback. This clearly shows buybacks are yet to make serious inroads into the corporate sector of India. In fact, Selan Exploration Technology Limited (SETL) and Godrej Consumer Products Limited (GCPL) are the only two companies announcing more than 3 buybacks in India. The GCPL has made 6 buyback offers. The sample size of 79 offers constitutes 53% of total offers and 66% of effective 121 offers. We include 44% of first offers; 68% of second offers; 88% of third offers and 100% of fourth, fifth and sixth offer.

Table 3: Classification of 79 sample buybacks into infrequent buybacks and frequent buybacks

I	Infrequent buybacks/Only one buyback	33
II	Frequent buybacks/More than one buyback	
	First	14
	Second	22
	Third	06
	Fourth	02
	Fifth	01
	Sixth	01
	Total	79

Source: Computed from SEBI's Status Report, March 2008

We define infrequent buybacks as one-time announcements. The frequent buybacks are those where first offer is followed by subsequent offers of buyback. The sample includes 33 infrequent/single announcements and 46 frequent/more than one announcement. The frequent buybacks include 14 first and 22 second offers. For difficulties stated already, every second offer does not have a first offer in the sample size.

5.2 Average time gap between various announcements

We compute the average time-gap between first and second offers and so on of frequent repurchasers by computing the time-gap between the two offer dates. This has been done to know how frequently Corporate India announces its subsequent offers.

Table 4: Average time gap in buyback announcements

	Average	Median
First and second buyback	598	473
Second and third buyback	549	449
Third and fourth buyback	338.5	338.5
Fourth and fifth buyback	184	184
Fifth and sixth buyback	169	169

Source: SEBI's Status Report, March 2008

The Indian companies, on average, take 1.64 years (598 days) to announce second buyback offer. However, this average time gap decreases with the increase in number of subsequent offers indicating that frequent repurchasers take a liking for further offers. The average time gap between second and third announcements is 1.5 years (549 days) while a fourth announcement is made within one year after the third announcement. Only GCPL has made six announcements in India and the company makes fifth and sixth announcements with a time gap of 6 months. Jagannathan and Stepehens (2003) find for US that firms that repurchase most frequently do so, on average, every 463 days (median of 370 days). Firms that repurchase only occasionally do so approximately every 794 days (median of 679 days), and firms that repurchase infrequently do so only about every 2,663 days (median of 2,471 days).

5.3 Quantum of buyback

The provisions of buyback offers in India permit companies to buy back 25% of the paid-up share capital in a given year. There is no bar on a company in announcing multiple offers in a year provided the 25% limit is not exceeded. Who would repurchase more shares - the frequent or infrequent repurchasers? Studies show that the infrequent repurchaers buy in large numbers than frequent repurchasers. The frequent repurchasers alternate share buybacks to dividends in distribution of cash and employ OMRs. For them buybacks are seen more as methods for absorbing the temporary shocks in cash flows

(Guay and Hardford, 2000). Skinner (2008) observes that firms increasingly use repurchases to absorb the variation in earnings. The motives of infrequent repurchasers are either to ward off imminent threat of takeovers or correct market under pricing by buying larger quantities of outstanding shares through FPTs. Jagannathan and Stephens (2003) find for their sample of US companies that infrequent repurchase programmes are significantly larger than the more frequent repurchase programmes; on average, firms that repurchase infrequently are seeking to acquire almost 8% of their outstanding stock, while firms that repurchase occasionally and frequently are seeking to acquire 7.1% and 6.7% of their outstanding stock respectively. Table 5 gives data relating to quantity of share buybacks in India:

Table 5: Quantum of buybacks in first and other buybacks

	Less than 10%	>10% but <15%	>15% but <20	> 20% but <25%	Total
First	44	19	07	14	84
Second	15	08	02	01	26
Third	05	---	--	02	07
Fourth	02	--	--	--	02
Fifth	01	--	--	--	01
Sixth	01	--	--	--	01
Total	68	27	09	17	121

Source: SEBI's Status Report, March 2008

The Indian evidence is contrary to the findings of Jagannathan and Stephens (2003) for US. Majority of frequent and infrequent repurchasers in India buy in smaller quantities. 56% of effective offers (121) buy less than 10%. Only 17 offers buy in the range of 20% and 25%; of them 14 offers are first-time offers. The SETL and GCPL bought less than 10% in subsequent buybacks.

Table 6: Quantum of buybacks by the sample offers

	Less than 10%	> 10% but <15%	> 15% but <20%	> 20% but <25%	Total
First	30	8	4	5	47
Second	16	5	1	-	22
Third	5	---	-	1	06
Fourth	2	-	-	-	02
Fifth	1	-	-	-	01
Sixth	1	-	-	-	01
Total	55	13	05	06	79

Source: SEBI's Status Report, March 2008

We find 79% of sample announcements buying less than 10% of outstanding stock. The frequent repurchasers are more in this category. Only six announcements, who are infrequent repurchasers, buy in the range of 20% and 25%.

Why do firms in India buy in smaller quantities? The firms that repurchase in smaller quantities are also dividend-paying firms (Jagannathan and Stepehens, 2003). Do Indian firms repurchase and pay dividends? An empirical research on this line is very much required. The smaller quantities of share buybacks point to certain characteristics of Corporate India. The Corporate India is yet to view buybacks as a significant part of firm's overall payout policy. We may view this sceptical approach to inhibiting provisions of buybacks in India. Some of these restrictions include prohibition on promoters from selling their holdings in open offers; ban on negotiated deals and treasury operations; physical destruction of securities within seven days of repurchase, etc. A relaxation in some of these norms would see an upswing in the quantum of buybacks.

5.4 Methods of buybacks employed

A buyback may be completed either through open market route or through tender offers. The SEBI permits other buyback methods also. The open market repurchases (OMRs) dominate the US buyback activity. Almost 90% of US buybacks are done through OMRs (Grullon and Ikenberry, 2000). Do buyback methods vary between frequent and infrequent repurchases? The infrequent repurchases are generally accomplished through FPTs while frequent repurchases are done through OMRs. For frequent repurchasers, the buyback is a substitution to dividend and would prefer to use less powerful and non-serious method of buyback, i.e., OMRs.

Table 7: Methods of buyback in sample

	OMRs	FPTs	Total
First	34 (72)	13 (28)	47 (100)
Second	16 (73)	06 (27)	22 (100)
Third	05 (83)	01 (17)	06 (100)
Fourth	02 (100)	--	02 (100)
Fifth	01 (100)	--	01 (100)
Sixth	01 (100)	--	01(100)
Total	59 (75)	20 (25)	79 (100)

Source: SEBI's Status Report, March 2008

The figures in parenthesis are percentages

OMRs account for 75% of total sample size considered by the present study. We observe OMRs dominating in both first and subsequent repurchases. The third, fourth, etc.,

repurchasers use only OMRs. This Indian evidence is in conformity with the US evidence. The dominance of OMRs generally points out that firms in India may be using buybacks more to distribute free cash flow than to correct market undervaluation. We are able to conclude like this because of the nature of OMRs and FPTs. OMRs are weak in signalling and are better employed in the world for cash flow distribution.

5.5 Characteristics of firms announcing frequent and infrequent repurchases

We present repurchasing firms characteristics in Table 8 by classifying firms into frequent and infrequent repurchasers. The detailed methodology is elaborated in the exhibit. We compiled all statistics from CMIE Prowess database for total assets, market-to-book value ratio (MTB ratio), total debt ratio, payout ratio, promoters and non-promoters holding and standard deviation of the ratio of operating profits to total assets. Jagannathan and Stephens (2003) make similar analysis for US infrequent and frequent repurchasers. They find frequent repurchasers are much larger, have significantly less variation in operating income and adopt higher payout ratio. These firms almost substitute dividends by repurchases and seldom announce repurchases for undervaluation reason. On the other hand, infrequent repurchases are motivated by undervaluation and are announced by smaller firms with high degrees of information asymmetry. The firms that repurchase infrequently have more volatile operating income; have significantly lower institutional ownership and significantly higher managerial ownership. Further, infrequent repurchasers have lower MTB ratios, suggesting that they are more likely to be undervalued.

Table 8: Characteristics of frequent and infrequent repurchasers

	Infrequent repurchases	Frequent repurchases
Total assets - prior to announcement year in Rs. Crores	961.70 (200.87)	2452.38 (243.59)
Market to book value ratio (times)	1.51 (0.41)	1.48 (0.58)
Total Debt Ratio (%)	40.96 (41.40)	38.81 (42.40)
Payout ratio (%)	44.43 (25.78)	19.48 (14.69)
Promoters' holding (%)	47.00 (48.83)	46.70 (47.58)
Non-promoters; holding	54.00 (51.17)	53.30 (52.42)
Standard deviation of Operating Profit	3.85 (2.87)	6.05 (3.39)

We use this table for identifying the firm characteristics around repurchase announcements. Both mean and median values are reported; medians are reported in parentheses. We compile all statistics from data obtained from CMIE Prowess Database. Total assets are the total assets in the year prior to the year of announcements (Year -1). The market-to-book ratio is the ratio of the market value of equity, given by the year-end price per share multiplied by the number of shares outstanding, to the book value of equity, which we calculate by multiplying the year-end book value per share by the number of shares outstanding. We define debt ratio as total debt divided by total assets. Promoters' holding and non-promoters' holding are the percentages of shares owned by promoters and non-promoters in Year -1. Payout ratio is the ratio of total equity dividend for the Year-1 divided by profits after tax in Year -1. The standard deviation of operating profits (PBIT) is the standard deviation of the ratio of operating profits (PBIT) to total assets measured over the 5-year from year -5 through Year -1.

The infrequent repurchasers are only 40% of the size of frequent repurchasers in India. In other words, frequent repurchasers are 2.5 times larger than infrequent repurchasers. The mean values of total assets for the infrequent and frequent repurchasing firms are Rs. 961.70 crore and Rs. 2,452.38 crore in the year prior to the announcement year (year -1) respectively. Jagannathan and Stephens (2003) find similarly for US repurchasing firms. They find that firms that repurchase frequently are about 30% larger than the firms that repurchase occasionally and occasional repurchasers are more than twice the size of the firms that repurchase infrequently.

Lintner (1956) argued that managers pay dividends out of long run, sustainable earnings. His model suggests that the dividend-paying firms are larger than non-dividend paying firms and have higher and more stable cash flows. Jagannathan and Stephens (2003) find evidence to Lintner model in their work. They find that most frequently repurchasing firms pay more dividends and have more stable operating income. Their evidence is also consistent with the findings of Jagannathan et al. (2000) who report that dividend paying firms have less variable income than repurchasing firms and may suggest that frequent repurchases are used as a substitute for dividends or dividend increases. Though Indian frequent repurchasers are larger firms, we did not find evidence to say that they also pay more dividends out of stable income. The average payout ratio is 19.48% for frequent repurchasers and 44.43% for infrequent repurchasers. Further, the frequent repurchasers have more variable operating income than infrequent or single share buyback companies. Even median value is higher for infrequent repurchasers. This may clearly indicate that Indian large firms are yet to employ share repurchases as substitutes.

The lower market valuation is one reason why some firms repurchase shares. Jagannathan and Stephens (2003) conclude that infrequent repurchases are more likely to be undervalued or at least more likely to be perceived as undervalued. They find a mean MTB ratio of 2.05 for infrequent repurchasers and 2.33 for firms repurchasing frequently. Compared to US firms, Indian frequent and infrequent repurchasers have lower MTB ratios. The MTB ratio of infrequent repurchasers is 1.51 and frequent repurchasers 1.48 times. We may conclude that both frequent and infrequent repurchasers in India have strong motive to buyback shares for undervaluation. The lower MTB ratio of Indian firms may also indicate

relative underperformance by Indian managers and/or market inefficiency.

The frequent repurchasers in India have more volatile operating incomes and pay lower dividends than infrequent repurchasers. Such firms may be paying lower dividends on account of uncertain operating income and use their large assets base to repurchase shares frequently for correcting market valuations and for other reasons. They may be repurchasing frequently out of excess non-operating cash flows. The higher dividend payout ratio of infrequent repurchasers may be explained to stable operating income and repurchase only when it has excess non-operating cash flows. We find evidence similar to Jagannathan et al. (2000) for infrequent repurchasers. They find that dividend-paying firms have more stable operating income and may repurchase to payout non-operating cash flows. An analysis of the composition of the asset-base and cash flows would throw a further light on Indian firms repurchase decisions.

Frequent and infrequent repurchasers may have alternative debt policies. The frequent repurchaser is a low-levered firm than infrequent firm and may use debt to reduce its bloated equity. Jagannathan and Stephens (2003) find evidence in support of this hypothesis. They find a lower debt ratio for most frequent repurchasers, although the differences are not statistically significant. The long-term debt to total assets ratio is 37.94% for frequent repurchasers and 32.63% for infrequent repurchasers and conclude that frequent repurchasers replace expensive equity by cheaper debt through repurchase announcements, i.e., a desire to move towards optimum debt-equity ratio. The total debt ratio for Indian firms is 38.81% for frequent repurchasers and 40.96% for infrequent repurchasers. We may restrain ourselves before commenting that Indian frequent repurchasers are low-levered firms and may be employing buybacks to achieve an optimum debt-equity mix. We feel a further research is warranted in this respect.

Ownership pattern would have different influencing behaviour on repurchasing firms. It is hypothesised that a firm having a greater percentage of institutional ownership is less likely to over invest in negative NPV projects. Such firms would be more frequent repurchasers. The watchful eyes of institutional investors would act as better governance mechanism. Jagannathan and Stephens (2003) find evidence in this respect. They find 50.92% of institutional ownership in frequent repurchasing firms and 37.71% in infrequent repurchasers. We analyse on similar lines for Indian repurchases using non-promoters' and promoters' holdings data and find no difference in promoters' holding between frequent and infrequent repurchasers. Since Indian firms are generally family-owned firms, we find a higher promoters' holding in both types of firms indicating Indian corporate governance problem is more of dominant versus minority shareholders than managers versus shareholders.

We conclude that Indian frequent repurchasing firms are larger firms with greater variation in operating income who would be announcing multiple repurchase plans for reasons including undervaluation. These firms are also low-levered and low-dividend paying firms. The infrequent repurchasing firms are small-size firms with lower variations in operating income. Being small in size, they face the greater degree of information asymmetry and announce repurchases to correct the presumed market undervaluation.

6. Analysis of Market Reaction

6.1 Announcement returns for overall sample

Table 9: AAR and CAR for 79 buybacks in 41-day window period

Days	AAR (%)	t-test	CAR (%)	% of Cos with +ve AAR
-20	0.23	0.88	0.23	54.43
-19	0.14	0.79	0.37	49.36
-18	-0.35	-0.39	0.02	41.77
-17	0.36	0.83	0.37	53.16
-16	-0.16	-0.44	0.21	46.83
-15	-0.18	0.06	0.04	44.30
-14	-0.18	-0.70	-0.14	44.30
-13	0.38	0.90	0.24	44.30
-12	0.15	0.87	0.39	45.56
-11	-0.50	-0.93	-0.10	36.70
-10	0.55	0.97	0.45	45.56
-9	0.35	1.01	0.80	45.56
-8	0.93	1.19	1.73	45.56
-7	0.62	1.43	2.35	46.83
-6	0.00	-0.57	2.35	44.30
-5	1.11	2.13**	3.46	55.69
-4	-0.43	-0.20	3.02	50.63
-3	0.31	0.55	3.33	48.10
-2	0.61	1.03	3.95	45.56
-1	0.40	0.43	4.35	45.56
0	2.73	6.28*	7.08	70.88
1	-0.18	-0.89	6.89	51.89
2	-0.84	-1.15	6.05	44.30
3	0.40	1.04	6.46	46.83
4	0.61	1.09	7.06	56.96
5	-0.21	-0.25	6.86	43.03

Days	AAR (%)	t-test	CAR (%)	% of Cos with +ve AAR
6	0.85	1.27	7.70	53.16
7	-0.77	-0.47	6.93	35.44
8	-0.10	-0.13	6.83	48.10
9	-0.91	-1.16	5.92	36.70
10	0.57	0.99	6.50	59.49
11	-0.43	-0.31	6.06	46.83
12	0.14	-0.16	6.20	46.83
13	0.30	0.07	6.50	40.50
14	-0.37	-0.56	6.13	40.50
15	-0.14	-0.22	5.99	48.10
16	-0.58	-1.10	5.40	44.30
17	-0.09	-0.25	5.31	48.10
18	0.63	1.37	5.95	54.43
19	-0.65	-1.64	5.30	40.50
20	0.60	1.25	5.90	53.16
Avg	0.14	0.36	3.91	
Std dev	0.65	1.30	2.76	
Sqrt	0.10	0.20	0.43	
t-test	1.68	1.79	9.07*	

*** and ** indicates significance level at 1% and 5% level respectively**

The announcement day (0 day) return for 79 buybacks is 2.73%, statistically significant at 1% level. The average abnormal return (AAR) tends to be negative in initial days prior to announcement date and becomes positive even before the announcement. The AAR is negative for majority of days after the announcement indicating that buyback euphoria is only a temporary phenomenon and fails to provide benefits over longer-time horizon.

The CAR on the announcement day is 7.08% while for the entire 41-day period it is 5.9%, significant at 1% level. The overall CAR falls by 1.18% in the post-offer period. The fall in CAR in post-offer period is attributed to negative movement in prices. The negative overall CAR in post-offer period is anathema to the signalling hypothesis, which predicts that the repurchase announcements are made to reverse the negative trend in market prices in pre-offer period. In other words, the signalling hypothesis predicts that all positive announcement returns are recorded in post-offer period than in pre-offer period. We find a contradictory result for India.

Vermaelen (1981) concludes that significant abnormal returns before the announcement can always be explained on the basis of information leakages or prior insider trading. Barclay and Clifford (1988) find the existence of insider trading in US as manager's use inside information to benefit at shareholders' expense. They find that bid-ask spreads widen when firms engage in a repurchase. Mohanty (2002) finds evidence for insider trading in pre-offer period for India. Subscribing Vermaelen's view, we suspect the insider-trading practices in India. The positive CAR in pre-offer period may also be attributed to listing norms of stock exchanges in India. These norms mandate companies to inform the concerned exchange, a week before, the date and agenda of the proposed board meeting where buyback decision would be considered. This particular norm may be playing a significant role in deciding the extent of CAR for Indian buybacks.

Since overall CAR decreases in post-offer period, we conclude that buybacks in India benefit only the short-term investor than the long-term investor. He who buys on -20th day and sells at the end of +20th day earns 5.9% for 41 days, an annualised return of 52%. On the other hand, an investor who buys on -10th day and sells on +6th day earns 7.25% (7.70% - 0.45%) for 16 days resulting into an annualised return of 156%. We also find how positive returns on the offer day are distributed among all the offers by computing percentage of positive AARs on the offer day to total offers and only 71% offers are showing positive AARs on the announcement day. This percent is the highest in the entire 41-day event period. For the remaining days it hovers in between 60% to 37%. This again proves that gains on account of buyback offers are not widely spread.

The results of our study are on higher side compared to US, UK, etc., studies. Vermaelen (1981) finds an abnormal return of 1% on the announcement day for OMRs; Ikenberry et al. (1995) find 3% and Grullon and Ikenberry (2000) 2.94%. Using UK data, Lasfer (2002) finds a CAR of 1.64%. Similarly, Rau and Vermaelen (2002) and Oswald and Young (2004) find a CAR of 1.14% and 1.95% respectively for UK companies. Li and McNally (2004) find 3.6% for Canadian buybacks for the period 1989-1992.

Gupta (2006) finds an AAR of 1.66% for 46 buybacks in India while this study finds an almost 3% average return. Mohanty (2002) finds an AAR of 0.56% for 12 buybacks on the announcement date. Thirumalvalavan and Sunitha (2006) find a CAR of 2.35% for a 5-day window period for a sample of 22 buybacks.

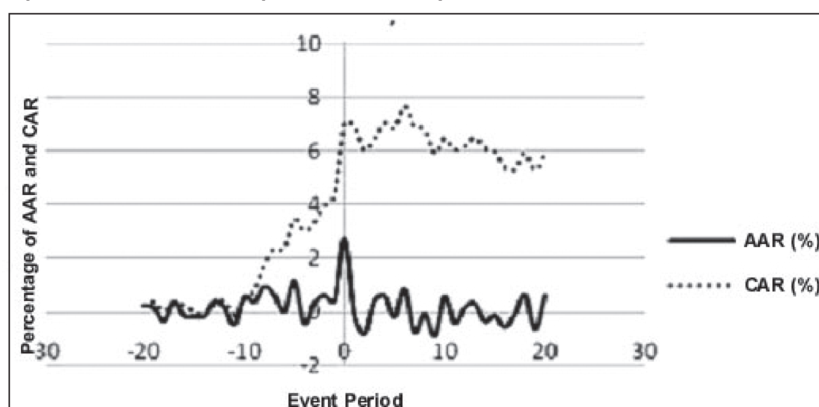

Fig. 1: Behaviour of AAR and CAR over 41-day window period

6.2 Announcement returns for first and subsequent buybacks

We subdivide the sample buyback offers into first/initial offers and subsequent offers. There are 47 first buybacks and 32 subsequent buybacks in the sample. We hypothesise that subsequent offers earn lower announcement day returns than initial offers.

Table 10: AAR and CAR for 41-day window period for all first and subsequent buybacks

Window Period	First Buyback (47)			Subsequent Buybacks (32)		
Days	**AAR (%)**	**t-test**	**CAR (%)**	**AAR (%)**	**t-test**	**CAR (%)**
-20	0.36	0.90	0.36	0.02	0.27	0.02
-19	-0.15	0.98	0.21	0.58	0.09	0.60
-18	-0.66	-0.93	-0.45	0.10	0.50	0.70
-17	0.66	1.01	0.21	-0.09	0.08	0.62
-16	-0.67	-0.82	-0.46	0.59	0.23	1.20
-15	-0.76	-0.33	-1.22	0.68	0.49	1.89
-14	-0.09	-0.01	-1.32	-0.30	-1.10	1.59
-13	0.14	0.96	-1.17	0.72	0.27	2.31
-12	0.03	-0.01	-1.15	0.34	1.41	2.65
-11	-0.49	-0.39	-1.63	-0.51	-0.95	2.14
-10	0.73	0.70	-0.90	0.29	0.76	2.43
-9	-0.10	0.06	-1.00	1.01	1.46	3.44
-8	1.89	2.62*	0.89	-0.47	-1.33	2.97
-7	0.55	0.93	1.43	0.73	1.14	3.70
-6	0.31	-0.39	1.74	-0.45	-0.45	3.25
-5	1.80	2.59*	3.54	0.09	0.15	3.34
-4	-0.80	-0.48	2.74	0.11	0.28	3.45
-3	0.38	0.40	3.11	0.21	0.46	3.66
-2	0.49	0.24	3.60	0.79	1.41	4.45
-1	0.67	0.57	4.27	0.08	-0.07	4.46
0	2.49	4.53*	6.76	3.09	4.37*	7.54
1	0.52	0.78	7.29	-1.22	-2.32**	6.32
2	-0.60	-0.74	6.69	-1.19	-0.89	5.13
3	0.64	1.43	7.33	0.06	-0.05	5.18

Window Period	First Buyback (47)			Subsequent Buybacks (32)		
Days	**AAR (%)**	**t-test**	**CAR (%)**	**AAR (%)**	**t-test**	**CAR (%)**
4	0.75	0.75	8.07	0.40	0.78	5.59
5	-1.05	-1.57	7.02	1.02	1.37	6.61
6	1.34	1.49	8.37	0.12	0.31	6.72
7	-1.47	-1.77	6.90	0.25	1.32	6.98
8	-0.27	-0.75	6.62	0.16	0.70	7.14
9	-1.17	-1.34	5.45	-0.52	-0.26	6.62
10	0.86	0.94	6.31	0.15	0.45	6.77
11	-0.85	-0.61	5.46	0.17	0.27	6.94
12	0.16	-0.59	5.62	0.12	0.46	7.06
13	1.03	1.45	6.65	-0.77	-1.60	6.29
14	-0.23	-0.03	6.42	-0.58	-0.88	5.70
15	-0.26	-0.30	6.16	0.03	-0.00	5.73
16	-0.91	-1.06	5.25	-0.10	-0.44	5.63
17	0.58	1.04	5.83	-1.08	-1.60	4.55
18	0.27	-0.20	6.10	1.16	2.43**	5.71
19	-0.53	-0.63	5.58	-0.83	-1.80	4.88
20	1.30	2.48**	6.87	-0.42	-0.98	4.47
Avg	0.17	0.34	3.65	0.11	0.16	4.30
Std dev	0.87	1.26	3.30	0.76	1.21	2.15
Sqrt	0.14	0.20	0.52	0.12	0.19	0.34
t-test	1.23	1.72	7.07	0.92	0.87	12.83*

*** and ** indicates significance level at 1% and 5% level respectively**

We find a higher AAR and CAR on the announcement day for subsequent buybacks than for first buybacks. This finding for Indian buybacks is contrary to US studies and rejects our hypothesis. The AAR on announcement for first buybacks is 2.49% while for subsequent buybacks it is 3.09%, both significant at 1% level. The announcement day CAR is 6.76% and 7.54% for first and subsequent announcements respectively. However, the trend is reversed on +1 day. The CAR of subsequent offers is 6.32%, lower than 7.29% noted for initial offers. For a 3-day interval (-1; 0; +1), initial offers are more profitable than subsequent. The 3-day overall CAR is 3.68% and 1.87% for initial and subsequent offers respectively. We observe wide fluctuations in CAR in post-offer period. The overall CAR for 41-day period is higher for initial offers (6.87%) than for subsequent offers (4.47%).

The 41-day overall CAR of initial offers is marginally (0.11%) higher than the announcement day CAR whereas for subsequent offers it falls by 3.07%. This signifies that subsequent offers record all their positive returns in pre-offer than in post-offer period and shows the existence of a greater degree of information leakage in subsequent than initial offers.

Further analysis of benefits from short-term and long-term investors' perspective shows that a short-term and more knowledgeable investor reaps more gains than a long-term and gullible investor. An investor who buys on -20th day and sells on +20th day, gains 61% in initial offers and 40% in subsequent offers on annual basis. On the other hand, an investor who buys on -10th day and sells on +6th day earns almost 200% in initial offers and 92% in subsequent offers on annual basis. This could point fingers at individuals who are privy to inside information gaining more than others.

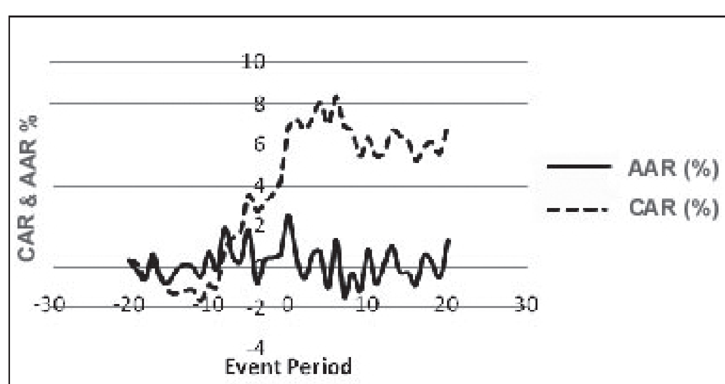

Fig. 2: Movement of AAR and CAR for the first buybacks over 41- day window period

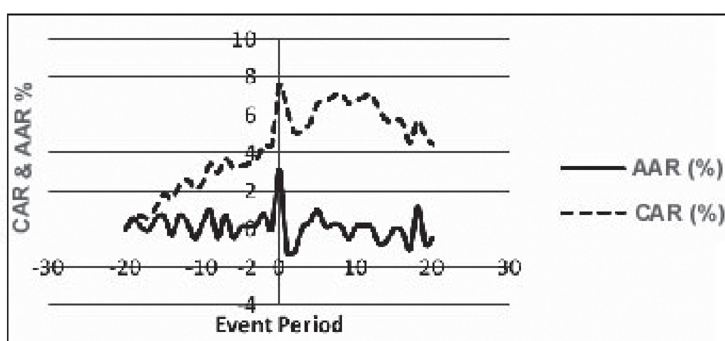

Fig. 3: Movement of AAR and CAR for the subsequent buybacks over 41- day window period

6.3 Announcements returns for infrequent and frequent buybacks

We have made a further classification of buybacks announcements into infrequent and frequent offers. Companies with single announcements are known as infrequent repurchasers and with more than one announcement as frequent repurchasers. The sample includes 33 infrequent and 46 frequent announcements. The frequent offers include 14 first and 32 subsequent buybacks.

Table 11: Returns involved in infrequent and frequent repurchase announcements

Days	Infrequent Repurchases (33)			Frequent Repurchases					
				First Buyback (14)			Subsequent Buyback (32)		
	AAR (%)	t-test	CAR (%)	AAR (%)	t-test	CAR (%)	AAR (%)	t-test	CAR (%)
-20	0.73	1.06	0.73	-0.50	0.02	-0.50	0.02	0.29	0.02
-19	-0.15	0.61	0.58	-0.16	0.86	-0.66	0.58	0.06	0.60
-18	-0.35	-0.82	0.21	-1.39	-0.44	-2.05	0.10	0.51	0.70
-17	0.72	1.27	0.95	0.51	-0.11	-1.54	-0.09	0.08	0.62
-16	-0.38	-0.64	0.57	-1.35	-0.52	-2.89	0.59	0.30	1.20
-15	-0.16	-0.05	0.40	-2.17	-0.53	-5.06	0.68	0.49	1.89
-14	0.00	-0.11	0.41	-0.32	0.14	-5.38	-0.30	-1.11	1.59
-13	0.03	1.04	0.44	0.40	0.17	-4.98	0.72	0.23	2.31
-12	-0.41	-0.51	0.03	1.05	0.76	-3.93	0.34	1.40	2.65
-11	-0.43	-0.48	-0.39	-0.62	0.02	-4.56	-0.51	-0.96	2.14
-10	0.94	0.98	0.55	0.24	-0.21	-4.31	0.29	0.67	2.43
-9	0.24	-0.25	0.78	-0.89	0.50	-5.21	1.01	1.51	3.44
-8	1.84	2.80*	2.62	2.00	0.51	-3.21	-0.47	-1.31	2.97
-7	0.52	1.01	3.14	0.61	0.16	-2.60	0.73	1.11	3.70
-6	-0.49	-1.33	2.65	2.21	1.32	-0.39	-0.45	-0.44	3.25
-5	1.06	2.06**	3.71	3.53	1.59	3.15	0.09	0.24	3.34
-4	-0.91	-0.52	2.80	-0.55	-0.09	2.60	0.11	0.24	3.45
-3	0.80	0.94	3.60	-0.63	-0.72	1.97	0.21	0.36	3.66
-2	0.22	0.23	3.82	1.12	0.09	3.09	0.79	1.37	4.45
-1	0.85	0.62	4.67	0.24	0.08	3.33	0.01	-0.02	4.46
0	2.47	4.27*	7.14	2.52	1.75	5.86	3.09	4.38*	7.54
1	0.64	0.87	7.78	0.26	0.09	6.11	-1.22	-2.34**	6.32
2	-0.74	-1.17	7.04	-0.26	0.44	5.85	-1.19	-0.89	5.13
3	0.93	1.08	7.97	-0.04	0.97	5.82	0.06	-0.08	5.18
4	-0.05	0.51	7.92	2.62	0.59	8.44	0.40	0.78	5.59

5	-0.79	-1.31	7.13	-1.65	-0.87	6.79	1.02	1.47	6.61
6	1.00	1.37	8.12	2.16	0.64	8.95	0.12	0.22	6.72
7	-0.96	-1.39	7.16	-2.67	-1.12	6.27	0.25	1.40	6.98
8	-0.36	-0.79	6.80	-0.06	-0.16	6.21	0.16	0.71	7.14
9	-0.75	-1.35	6.04	-2.16	-0.37	4.05	-0.52	-0.19	6.62
10	-0.21	-0.11	5.83	3.39	1.88	7.44	0.15	0.39	6.77
11	-0.48	-0.67	5.35	-1.71	-0.09	5.73	0.17	0.28	6.94
12	-0.01	-0.17	5.34	0.55	-0.83	6.28	0.12	0.44	7.06
13	0.55	1.19	5.89	2.14	0.82	8.42	-0.77	-1.63	6.29
14	-0.17	-0.16	5.72	-0.37	0.19	8.06	-0.58	-0.83	5.70
15	-0.02	0.02	5.71	-0.84	-0.57	7.22	0.03	0.04	5.73
16	-0.83	-0.69	4.88	-1.09	-0.88	6.13	-0.10	-0.45	5.63
17	0.50	0.88	5.38	0.76	0.55	6.89	-1.08	-1.64	4.55
18	0.21	-0.05	5.59	0.43	-0.28	7.31	1.16	2.40**	5.72
19	-0.06	0.02	5.53	-1.64	-1.19	5.68	-0.83	-1.81	4.88
20	0.90	1.79	6.44	2.23	1.80	7.90	-0.42	-1.035	4.47
Avg	0.16	0.29	4.07	0.19	0.17	2.64	0.11	0.16	4.30
Std dev	0.75	1.18	2.75	1.55	0.78	4.82	0.76	1.22	2.15
Sqrt	0.12	0.18	0.43	0.24	0.12	0.75	0.12	0.19	0.34
t-test	1.34	1.59	9.48*	0.80	1.38	3.51*	0.92	0.85	12.83

*** and ** indicates significance level at 1% and 5% level respectively**

The infrequent repurchases generate a return of 2.47% on the announcement day, lower than the return on frequent repurchases. The first buybacks of frequent repurchasers generates an announcement day return of 2.52% and subsequent offers a return of 3.09%, statistically significant at 1%. The overall CAR is higher for subsequent buybacks. The overall CAR decreases in post-offer period for infrequent repurchases and for subsequent offers of frequent repurchases.

These results are inconsistent with signalling hypothesis. Jagannathan and Stephens (2003) find a higher CAR for infrequent repurchases and a lower CAR for frequent repurchases. The subsequent buybacks have lower signalling strength than initial or first offers.

6.4 Announcement returns buyback-wise

Earlier analysis of returns clubs all offers of buyback into infrequent and frequent. Frequent offers include first and subsequent offers. Therefore, for better analysis of return, offers

are divided based upon the sequence of announcement, i.e., first, second, third, etc. We hypothesise that first offer of buyback will have a higher announcement day return than other offers. We present announcement returns for -1 to +1 days of the 41-day window in Table 12 and movement in overall CAR over several sub-periods of 41-day window period in Table 13.

Table 12: AAR on -1 to +1 days for all announcements

Days	I BB	II BB	III BB	IV BB	V BB	VI BB
-1	0.67	0.27	1.22	0.02	6.17	2.76
0	2.49	3.08	3.51	4.09	4.13	1.73
+1	0.52	-1.92	1.32	-0.54	-2.63	-0.02

Table 13: Movement of CAR for all buybacks in 41-day window

Days	I BB	II BB	III BB	IV BB	V BB	VI BB
-20; -11	-1.63	1.70	0.03	5.38	6.90	0.89
-10; -1	4.27	2.99	3.14	-7.83	10.74	4.49
0	6.76	7.27	6.67	1.65	21.77	-1.87
-1; +1	3.68	1.42	5.06	3.55	7.67	-1.04
-5; +5	5.28	2.68	5.21	1.76	17.16	-0.40
+1; +10	-0.35	-2.61	-0.75	4.64	11.46	6.13
+11; +20	0.56	-1.91	-4.58	-5.04	2.60	-0.96
+1; +20	0.11	-5.51	-4.24	-0.39	13.86	8.91
-1; +20	6.87	2.76	1.35	1.25	35.63	7.04
Average	3.65	3.48	2.43	1.52	22.00	1.94
Std dev	3.31	1.62	2.64	3.53	10.82	4.93
t-test	7.07*	13.81	5.91	2.75*	13.02*	2.52**

*** and ** indicates significance level at 1% and 5% level respectively**

The announcement day AAR has been positive for all buyback offers (Table -12). The second and other subsequent offers yield AAR greater than the first offer. There are positive returns both in -1 and +1 days. Exhibit -13 is useful to us in comparing announcement day CAR and overall CAR. Barring 5th and 6th announcements, overall CAR of first offers is higher than other subsequent offers. It is also lower than announcement day CAR indicating that positive returns are earned prior to the announcement of buyback decision. CAR is positive for all offers in -10 to -1 day pre-offer period as compared to +1 to +10 post-offer period. The overall CAR of all offers is statistically significant.

6.5 CAR for several window periods for first and subsequent buybacks

We employ several short-windows for better analysis of announcement returns for multiple offers. A 3-day window is a popular event window for measuring event returns (Gregory et al 2001). In addition, the study uses 5-day, 7-day, 11-day and 21-day event windows.

Table 14: Details relating to CAR for all these windows: Returns for first and subsequent buybacks over several windows

Window Periods	First Buybacks				Subsequent Buybacks			
	AAR on (0) day (%)	CAR on (0) day (%)	Overall CAR (%)	t-test	AAR on (0) day (%)	CAR on (0) day (%)	Overall CAR (%)	t-test
-1; +1	2.53	3.18	3.67	2.67*	2.75	2.69	1.65	1.78***
-2; +2	2.52	3.79	3.57	3.67*	2.74	3.25	1.01	2.89*
-3; +3	2.41	3.73	4.14	4.15*	2.75	3.42	1.36	3.28*
-5; +5	2.58	4.72	4.51	5.91*	2.74	3.58	2.73	4.20*
-10; +10	2.55	8.12	7.31	9.62*	2.79	4.68	3.74	8.58*
-20; +20	2.43	6.76	6.87	7.07*	3.09	7.54	4.47	12.83*

* and *** indicates significance level at 1% and 10% level respectively
Note: (0) day means announcement day

We find positive returns for all offers in all event windows. Though subsequent offers have higher AAR on the announcement day as compared to initial offers in all windows, the CAR of initial offers exceeds that of subsequent offers. Using announcement day AAR, we conclude that subsequent offers yield results in contravention to the predictions of signalling hypothesis. By and large, we find a lower overall CAR than the announcement day CAR, which again shows that returns from buyback offers to a considerable extent are influenced by listing disclosure norms and/or existence of insider trading.

7. Market reaction under different methods of buyback

An OMR differs from an FPT. An FPT is a buyback offer for a specific quantity of shares at a specific price. The offer price is generally at a premium to market price. It is well documented that the FPTs carry greater market signalling than OMRs. Chan et al. (2006) view FPTs to carry greater signalling and conclude that markets do not question the credibility of such programmes. Comment and Jarrell (1991) find 11% CAR for their sample FPTs as against 2.3% for OMRs.

The Indian companies employ OMRs more than FPTs. Nearly 2/3rd of buybacks are carried through OMRs.

Table 15: Market reaction to multiple buybacks classified by methods employed

Days	First Buybacks				Subsequent Buybacks			
	OMRs (34)		FPTs (13)		OMRs (25)		FPTs (7)	
	AAR (%)	CAR (%)	AAR (%)	CAR (%)	AAR (%)	CAR (%)	AAR (%)	CAR (%)
-20	-0.20	-0.20	1.84	1.84	0.07	0.07	-0.16	-0.16
-19	-0.28	-0.48	0.18	2.01	0.61	0.68	0.46	0.31
-18	-0.40	-0.88	-1.34	0.67	0.16	0.84	-0.10	0.21
-17	1.22	0.34	-0.81	-0.14	-0.17	0.67	0.21	0.41
-16	-0.92	-0.58	-0.02	-0.16	0.43	1.11	1.13	1.54
-15	-1.08	-1.66	0.07	-0.09	0.88	1.99	-0.02	1.52
-14	-0.23	-1.88	0.26	0.17	-0.36	1.63	-0.08	1.44
-13	0.65	-1.23	-1.18	-1.02	0.74	2.37	0.65	2.10
-12	-0.14	-1.38	0.47	-0.55	-0.02	2.35	1.63	3.73
-11	0.13	-1.24	-2.11	-2.66	-0.67	1.68	0.05	3.78
-10	0.13	-1.11	2.31	-0.35	0.06	1.74	1.12	4.90
-9	-0.16	-1.27	0.06	-0.29	1.51	3.25	-0.76	4.14
-8	2.01	0.74	1.55	1.26	-0.60	2.64	0.01	4.15
-7	0.68	1.43	0.18	1.45	0.68	3.32	0.93	5.08
-6	0.73	2.15	-0.77	0.67	-0.44	2.88	-0.51	4.57
-5	1.04	3.19	3.78	4.45	-0.93	1.95	3.75	8.32
-4	-0.38	2.81	-1.91	2.54	0.13	2.08	0.02	8.34
-3	0.58	3.40	-0.16	2.38	0.37	2.45	-0.37	7.96
-2	0.78	4.17	-0.26	2.12	0.88	3.33	0.50	8.47
-1	0.55	4.72	0.97	3.09	0.53	3.86	-1.87	6.60
0	2.29	7.01	3.01	6.10	3.30	7.16	2.32	8.93
1	0.41	7.42	0.83	6.93	-1.80	5.36	0.83	9.76
2	-0.57	6.85	-0.67	6.27	-1.45	3.90	-0.27	9.49

3	0.81	7.65	0.21	6.47	-0.21	3.69	1.02	10.51
4	0.65	8.31	0.99	7.46	0.58	4.27	-0.24	10.28
5	-0.81	7.49	-1.66	5.80	1.08	5.36	0.80	11.07
6	1.14	8.63	1.86	7.67	0.23	5.58	-0.28	10.79
7	-1.77	6.87	-0.70	6.96	0.21	5.80	0.40	11.20
8	-0.23	6.64	-0.38	6.59	0.19	5.98	0.05	11.25
9	-1.44	5.20	-0.48	6.11	-0.75	5.24	0.31	11.55
10	1.20	6.39	-0.01	6.10	0.09	5.33	0.34	11.90
11	-0.77	5.62	-1.05	5.05	0.09	5.41	0.49	12.39
12	0.12	5.74	0.27	5.32	0.18	5.60	-0.11	12.28
13	1.48	7.21	-0.15	5.17	-0.92	4.68	-0.25	12.04
14	-0.34	6.87	0.07	5.24	-0.59	4.08	-0.54	11.50
15	-0.12	6.75	-0.62	4.62	-0.04	4.04	0.27	11.76
16	-0.49	6.26	-2.02	2.60	0.02	4.06	-0.55	11.22
17	0.36	6.62	1.16	3.77	-1.45	2.61	0.27	11.49
18	0.16	6.77	0.58	4.35	1.44	4.05	0.19	11.68
19	-0.56	6.21	-0.45	3.89	-1.00	3.05	-0.24	11.44
20	1.39	7.60	1.07	4.96	-0.42	2.63	-0.43	11.01
Avg	0.19	3.78	0.12	3.29	0.06	3.38	0.27	7.58
Std dev	0.89	3.57	1.28	2.80	0.91	1.71	0.90	4.23
Sqrt	0.14	0.56	0.20	0.44	0.14	0.27	0.14	0.66
t-test	1.34	6.80*	0.60	7.53*	0.45	12.66*	1.91	11.47

*** and ** indicates significance level at 1% and 5% level respective**

The sample includes 59 OMRs and 20 FPTs. OMRs include 34 and 25 first and subsequent offers respectively. On the other hand, there are 13 and 7 first and subsequent FPT announcements respectively in the sample. We observe positive announcement returns for all offers under both the methods. The AAR on the announcement day hovers around 2.29% to 3.3% and is higher for subsequent offers than for initial offers. The 41-day CAR of first offers of OMRs is 7.60%, higher than 2.63% observed for subsequent OMRs whereas the 41-day CAR for first FPTs is 4.96% and for subsequent FPTs it is 11.02%.

We observe a positive CAR even before the announcement for both initial and subsequent OMRs and FPTs. The CAR is positive from - 8th day onwards in initial OMRs and FPTs but is positive for all - 20days for subsequent OMRs and FPTs.

7.1 Market Reaction under different windows for OMRs and FPTs

Since short window yields results more consistent with signalling hypothesis, we employ several short-windows for analysis of announcement returns for OMRs and FPTs.

There are no negative returns on the announcement day for Indian OMRs and FPTs in any window period. The announcement day AAR is in the range of 2.5% to 3% for both OMRs and FPTs. We find contrasting announcement day and overall CAR results for initial and subsequent OMRs and FPTs. The subsequent OMRs have higher AAR and lower overall CAR than first OMRs while the initial FPTs have higher AAR and lower overall CAR than subsequent FPTs. The overall CAR is by and large lower than announcement day CAR in majority cases of OMRs and FPTs, raising a concern relating to source of these gains.

Table 16: Returns involved in multiple offers distributed by methods over several windows

Window	OMRs							
	First Buybacks (34)				Subsequent Buybacks (25)			
Periods	AAR on (0) day (%)	CAR on (0) day (%)	Overall CAR (%)	t-test	AAR on (0) day (%)	CAR on (0) day (%)	Overall CAR (%)	t-test
-1; +1	2.32	2.84	3.22	2.60	2.79	3.23	1.68	2.21
-2; +2	2.31	3.75	3.45	4.29	2.78	3.86	0.83	2.94
-3; +3	2.15	3.70	4.30	4.71	2.79	4.26	1.15	3.47
-5; +5	2.32	4.39	4.48	5.35	2.78	3.41	1.62	1.61
-10; +10	2.35	7.79	6.95	8.67	2.84	4.45	2.33	6.92
-20; +20	2.29	7.01	7.60	6.80	3.30	7.16	2.63	12.66
	FPTs							
	First Buybacks (13)				Subsequent Buybacks (07)			
1; +1	3.09	4.08	4.85	2.81	2.59	0.73	1.56	0.14
-2; +2	3.08	3.87	3.89	2.72	2.59	1.04	1.63	1.08
-3; +3	3.08	3.82	3.73	2.96	2.58	0.41	2.09	0.44
-5; +5	3.09	5.58	4.58	6.97	2.61	4.21	6.68	9.79
-10; +10	3.10	8.99	8.24	12.02	2.61	5.51	8.81	8.55
-20; +20	3.01	6.10	4.96	7.53	2.32	8.93	11.02	11.47

*** and ** indicates significance level at 1% and 5% level respectively**

8. Conclusion

The Corporate India has limited cases of multiple offers. Only two offers of second buyback are made for every seven offers of first buyback, i.e., 30% of initial repurchasers return to the market with a second offer in a time-gap of 1.64 years. We find that frequent repurchasers are larger firms with lower payout ratio. However, such firms have more variable income than infrequent repurchasers. The infrequent repurchasers are small firms, holding only 40% of assets held by the frequent buyers and have more stable operating incomes. The MTB ratio for Indian firms is relatively lower than US firms as computed by Jagannathan and Stephens (2003) in their study. In other words, relatively speaking both frequent and infrequent repurchasing firms in India are undervalued and may have a strong motive to repurchase shares for undervaluation.

Besides undervaluation, the repurchasing decisions of Indian firms may be attributed to excess cash flow or non-operating income as analysis reveals that frequent repurchasers pay lower dividends due to higher variable operating income while infrequent repurchasers pay higher dividends out of stable operating income. This may be the reason why subsequent or frequent repurchasers earn higher announcement returns than initial or infrequent repurchasers. Market appreciates the distribution of cash flows that otherwise could be wasted in the form of perquisites or investment in negative NPV projects. Analysis of cash flows and Tobin's - q ratio would throw a light on whether Indian firms are really using free cash flow.

The market reaction to buyback offers, in general, has been positive. The announcement day return is 2.73%, comparable to the studies on buybacks in US and other countries. The returns involved in multiple offers are inconsistent with the predictions of signalling hypothesis. The announcement day returns are higher for frequent or subsequent offers than for infrequent or initial offers. However, the overall CAR is lower than the announcement day CAR. This truth holds well for frequent and infrequent repurchases and in all event periods and in both OMRs and FPTs. This peculiar behaviour of CAR in India is in abhorrence to the signalling hypothesis and points fingers at much feared information leakage or insider trading. Earlier studies both in India and US attribute this positive CAR in pre-offer period to insider trading.

The listing norms in India mandate companies to inform, a week before, the date and agenda of proposed board meeting. We feel SEBI is required to modify the listing norm and companies may be asked to intimate only the date and not the agenda of the proposed board meeting. The particular listing norm is benefiting only the informed or insider or short-term investor at the expense of uninformed and long-term investor. Unethical practices of insider trading needs to be curbed to repose investors' confidence in the process.

Buybacks are a part of overall financial policy of the firm. A firm's financial policy is expected to generate shareholders value. The policy may be either raising capital in equity and debt forms or returning surplus funds in dividend and share repurchase forms. The share repurchase, may be first announcement or subsequent announcements. The use of

subsequent repurchase is not in shareholders' interest if returns are either lower or negative. The financial executive must justify the use of subsequent buybacks and corporate board has an important duty to perform in this respect. The boards must insist on adequate explanation for use of subsequent repurchases.

In India, multiple repurchases are used to delist firms. Many MNCs and other Indian firms - MICO Industries, Selan Exploration Limited, Godrej Consumer Products Limited, etc., - have employed subsequent repurchases to reduce public holdings and improve promoters holding. Such an intention acts against the interest of minority holders and in developing the equity cult in the society. Multiple offers buybacks are desirable to return non-operating or free cash flow and buybacks for any other purpose can be viewed as shareholder unfriendly action.

A further research into dividend policy of share repurchasing firms in India is necessary as majority of Indian firms buyback in lower quantities. Firms which repurchase in smaller quantities are also dividend-paying firms. Do Indian firms repurchase and pay dividends or substitute repurchases for dividends? The Indian firms repurchase frequently in spite of higher variability in operating income. Analysis of motives for such frequent repurchases and sources of cash flows employed is a useful exercise. The influence of debt policy, composition of board and institutional investors' shareholding percentage on repurchase policy needs to be examined for better understanding of frequent repurchase decisions.

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Appendix 1: Media or Public Announcement Dates

Sl. No	Name of the Company	Media / Public
1	Aarti Drugs	09.12.2002
2	Abbott India Ltd 1st BB	18.04.2002
3	Abbott India Ltd 2nd BB	26.08.2006
4	ACE Software Ltd	01.10.2003
5	Addi Ind Ltd	14.11.2002
6	Advani-Oerlikon Ltd	23.01.2002
7	Apollo Fin Ltd	27.12.2004
8	Avery India Ltd 1st BB	09.03.2004
9	Avery India Ltd 2nd BB	10.06.2004
10	Bhagyanagar M Ltd 3rd BB	29.08.2001
11	Blue Star Ltd	05.02.2002
12	Bombay Dy MFT Co. Ltd 1st BB	29.08.2001
13	Bombay D MFT Co. Ltd 2nd BB	28.10.2002
14	Britannia Ind Ltd 1st BB	28.08.2001
15	Britannia Ind Ltd 2nd BB	26.08.2002

Sl. No	Name of the Company	Media / Public
16	Britannia Ind Ltd 3rd BB	09.06.2004
17	Chordia Food Pr Ltd	02.09.2002
18	DIL Ltd	19.03.2005
19	Exide Ind Ltd	26.12.2001
20	FDC Ltd	26.12.2001
21	Fineline Cir Ltd 1st BB	17.05.2003
22	Fineline Cir Ltd 2nd BB	30.08.2004
23	Finolex Cables Ltd 3rd BB	24.04.2002
24	Finolex Ind Ltd 1st BB	11.04.2001
25	Finolex Ind Ltd 2nd BB	31.07.2002
26	G G Dandekar M W Ltd	18.01.2002
27	GCPL 2nd BB	05.08.2002
28	GCPL 3rd BB	16.01.2003
29	GCPL 4th BB	23.10.2003
30	GCPL 5th BB	27.04.2004
31	GCPL 6th BB	16.10.2004
32	GE Shipping Co. Ltd 1st BB	01.11.2000

Sl. No	Name of the Company	Media / Public
33	GE Shipping Co. Ltd 2nd BB	11.08.2001
34	GSK Healthcare Ltd	02.12.2004
35	Heritage Foods (I) Ltd	16.01.2002
36	Hindalco Industries Ltd	30.01.2002
37	ICI India Ltd	18.07.2006
38	Indiabulls Ltd	28.10.2005
39	Indian hume-pipe Co Ltd	20.08.2002
40	Indian Resorts Hotels Ltd	29.01.2002
41	Jay Shree Tea Ltd 2nd BB	24.05.2001
42	John Fowler (I) Ltd 2nd BB	22.10.2001
43	Kesoram Ind Ltd 2nd BB	28.04.2000
44	M/s GSK Pharmace Ltd	15.03.2005
45	Madura Coats Ltd	24.01.2001
46	Manugraph Ind Ltd	15.10.2001
47	Mastek Ltd	20.05.2004
48	MICO Ltd 2nd BB	04.11.2000
49	MICO Ltd 3rd BB	07.12.2001
50	Natco Pharma Ltd	06.09.2006
51	OCL (I) Ltd 1st BB	26.09.2001
52	OCL (I) Ltd 2nd BB	20.01.2003
53	Prime Sec Ltd 2nd BB	30.06.2005
54	Punjab Com Ltd	22.10.2003
55	Raymond Ltd	06.01.2001
56	Reliance Ind Ltd 3rd BB	27.12.2004
57	Revathi Eq Ltd	29.06.2006

Sl. No	Name of the Company	Media / Public
58	Selan Ex Tech Ltd 2nd BB	26.03.2001
59	Selan Ex Tech Ltd 3rd BB	01.04.2002
60	Selan Ex Tech Ltd 4th BB	11.05.2003
61	Siemens (I) Ltd	18.06.2001
62	Solitaire M Tools Ltd 1st BB	01.08.2002
63	SRF Ltd	28.06.2006
64	Sun Pharmace Ltd 1st BB	31.12.2002
65	Sun Pharmace Ltd 2nd BB	22.04.2004
66	Titanor Comp Ltd	02.05.2003
67	Tube Invest of India Ltd	09.10.2002
68	Venky's (India) Ltd	11.09.2002
69	Winsome Yarns Ltd 1st BB	30.06.2001
70	Winsome Yarns Ltd 2nd BB	18.04.2002
71	Gujarat Ambuja Exports Ltd	05.04.2007
72	Ace Software Exports Ltd 2nd BB	21.04.2007
73	MRO-TEK Ltd	01.04.2007
74	ICI India Ltd 2nd BB	26.07.2007
75	GTL Ltd	10.08.2007
76	Hindustan Unilever Ltd	29.07.2007
77	Apollo Finvest (I) Ltd 2nd BB	23.10.2007
78	Madras Cements Ltd	11.02.2008
79	Reliance Energy Ltd 2nd BB	05.03.2008

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Dr. Raju L. Hyderabad is Professor **in the Department of Studies in Commerce, Karnatak University,** Dharwad. His area of specialisation is **Finance and Accounts.**

VIEW POINT
INTERFACE WITH KIRAN BEDI: LEADERSHIP CONCEPTS

DR. KIRAN BEDI needs almost no introduction to the people of India for many of whom she has been a role model and an inspiration. Kiran Bedi, Ph. D, is India's first and highest ranking (retired in 2007) woman officer who joined the Indian Police Service in 1972. Her experience and expertise include more than 35 years of tough, innovative and welfare policing.

She has worked with the United Nations as the Police Advisor to the Secretary General, in the Department of Peace Keeping Operations. She has represented India at the United Nations, in International forums on crime prevention, drug abuse, police and prison reforms as well as women's issues. Recipient of the prestigious Ramon Magsaysay Award (also called the Asian Nobel Prize), and several other decorations, she is a sought after speaker on social, professional and leadership issues. Kiran Bedi has been voted as India's most admired woman and fifth amongst all Indians.

The same held true at IIM Indore, when, as she walked into the seminar hall, the entire audience stood as one to applaud her and just as quickly quietened down when she stepped up to speak.

Kiran Bedi:

It's good to be here at IIM Indore. This is the first time I've been invited to the IIM Indore, which only makes it more special. I do not plan to lecture you or bore you with long-winded speeches. I am glad to see so many of you are continuing your education, in spite of the jobs you hold. It is encouraging to know that the young professionals of today are eager to increase and enhance their knowledge. That would be my first piece of advice to all of you present here - Continue to grow educationally.

In all my years on the force, I have continued to learn and study. I chose not to be content with the level of education I held when I entered the police force, but instead I chose to study and increase my store of knowledge. I chose not to fall into the age-old trap of telling myself that I was satisfied with what I knew and that I didn't really need to learn new things. Believing that is a convenient lie which all of us tell ourselves at one time or the other. Unfortunately, what we don't realize is that none of us know how much time we have left. And if we do not use what time we have to its fullest potential, then we are guilty of indifference. Indifference to the greatest and the most deadly gift we have been given - Time. Which is why my second piece of advice to all of you is that you would continue to add value to time. Use it while you still have it. Squeeze every last

bit of time you have in a day and use it to enrich and empower yourselves with knowledge that education provides.

In connection with this line of thought, I would like to leave you with five concepts that I came up with on my way here.

The first of which is:

Learning to do as opposed to Learning to be:

From the time we take our first steps, we set out to learn how to do. We learn new things and put them into practice almost immediately. But how many of us, I wonder, have learnt how to be? How many of us know how to or even what it means just to simply be? We've all heard the phrase "Be Yourself", at one time or the other in our lives. Oversimplified, that is exactly what learning to be means. When you learn who you are truly meant to be and when your foundations are laid in solid rock, "who you are", will stand the test of time, unlike sand castles built on the seashore.

The second point I would like you to reflect on is:

Physiological Fear versus psychological fear:

In the days of the early man, life was pretty simple. All he had to do was walk out of his cave and bash the first sabre tooth tiger or woolly mammoth he came across, over its head so he could take it home to his family. The only thing he would have worried about, would have been the little problem of how on earth he was going to bash some gigantic or ferocious creature's head in, without ending up as the said creature's evening meal. In my opinion the fears people face today are just as real as the fear the early man felt while facing a tiger. While the fears we face today might not be visible, they still have vicious razor sharp claws that more often than not, rip us emotionally to shreds. It is much easier to fight what we fear if it has a shape, a name or a face. But to fight things we can't see, like rejection, or condemnation or even emotional abuse, is to fight blind. These dangers are in some ways far more violent than having a knife at your throat. Psychological fears stunt your emotions, destroy your confidence and self-esteem and scar you for life. So, as we face our physical fears, let us meet our psychological fears with weapons such as, the courage of conviction and the power of knowledge.

The third point I would like to put before you is:

Physical nutrition, Vis a Vis Mental nutrition:

I never cease to be astonished at the plethora of ads that promote food in all its glorious variety. You have ads that tell you how fast and strong you'll grow if you only make a certain health drink your choice, or how easy it is to cook noodles in two minutes etcetera. I do wonder, however, at how many of us make an effort to feed the mind of a child - and not with junk. Why don't we nurture a child's mind the same way we do his body? Why don't we take the time to introduce new avenues of thought, give the child new

horizons to pursue, instead of leaving the mental development to teachers in school and then demanding that the child perform excellently? When you nurture the mind of a child, you develop his ability to ask questions, to dream big and above all, you give him the power of imagination. You give him something; no one and no circumstance can ever take away.

The fourth concept is:

The power of the sword versus the power of love:

During my stint as the Inspector General of Prisons, Tihar jail (Delhi) I instituted a number of reforms in the management of the prison, and initiated a number of measures such as detoxification programs, yoga, vipassana meditation, redressing of complaints by prisoners and literacy programs. I did this because I believed the power of compassion would be more effective in bringing about change - for the better - in the lives of the prisoners. It certainly seemed a better idea than throwing my weight around and showing everybody I was the boss just because I could. Had I done something like that, I would shortly have lost all sense of integrity and humanity. Does this mean I was soft on them? No.I chose to show them tough love. Tough love is just that. Tough. But at the same time it is compassionate and forgiving. To punish and use brute force is an easier option, but tough love extracts a price and can only be practised when one is willing to believe in it.

The last concept I would like to leave with you is,

The need for a new world:

This generation is the generation of change. The one that will stride off into the unknown, armed with knowledge, with truth and the ability to apply it. Altering behaviour - the world's and their own. It is from this kind of generation that a new world will arise. A generation of 'change makers', who aren't afraid to self, audit themselves and who won't compromise with the essentials of life, but will meet each challenge head on. New human beings for a new world.

I believe that the people present here at IIM Indore, will be part of this new world. As I leave you with these thoughts or concepts, call it what you will, I hope it settles into your sub consciousness and that you will be able to pull it out of yourselves when you stand in need of it.

Once again, may I say what a joy and an honour it is to have been invited here to speak to all of you, and to know that perhaps in some small way, my efforts here have contributed to that change.

CASE STUDY
RALLIS INDIA: THE TURNAROUND STORY

Contents

Introduction

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Rallis goes downhill

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Record losses

Section 3: The turnaround story

The first steps

The turnaround plan

The impact

Maintaining the momentum

Indore Management Journal gratefully acknowledges the permission to reprint this article, by **Tata Management Training Centre (TMTC).**

Extensive interviews and research were undertaken by **B. Bowonder and Shambhu Kumar.**

Introduction

Rallis India is one of India's leading agrochemical companies, with a comprehensive portfolio of crop protection chemicals, seed varieties and specialty plant nutrients. It has an extensive nationwide distribution system supported by an efficient marketing and sales team. The company has marketing alliances with several multinational agro-chemical companies, including FMC, Nihon Nohyaku, DuPont, Syngenta, Makhteshim Agan and Bayer CropScience.

Rallis India's business has been through steep highs and lows in the last 10-15 years. The company's fortunes have yo-yoed up and down, its range of business areas have widened and narrowed dramatically, and it has experienced significant changes in its economic environment. Internally, it has faced diverse issues and problems such as spiralling wages, under-productivity, competition from imports and multinational companies (MNCs), from the '80s onwards. In the post-liberalisation economy, Rallis's businesses underwent strong pushes and pulls, culminating in a phase of heavy losses in 2000-03.

To combat the downward trend and turn itself around, the company explored different avenues to sustain itself, such as a focus on the core business of agrochemicals, balance sheet restructuring, divestment of non-core businesses, sale of non-performing assets and working capital management. The strategies were successful; the company has been making profits and exhibiting steady growth since 2003-04.

Says Rajiv Dubey, Managing Director of the company during 2001 to 2003, the company's loss making years, "Business processes and organisational structures are necessary, but they are not enough. In the long run, it is the human will and spirit that breathes life into the organisation." According to Mr. Dubey, the turnaround story of Rallis is "a story of commitment and the drive to succeed" that has been written and lived by the company's 2,300 employees.

Section I: The backdrop

Rallis: Empire and after

The history of Rallis can be traced back to the days of the empire, when a company called Ralli and Petrocochino was established in 1823 in London with operations at five different locations - Tabriz, Constantinople, Marseilles, London and Manchester. In 1851, Pandias Stephan Ralli, head of the Ralli Brothers firm, decided to go into the business in India. The firm began its Indian operations by buying full-pressed jute bales from press owners in Kolkata. The jute business earned millions of rupees in revenue for the firm and continued to retain its edge until the 1900s.

In 1861, during the American Civil War, the firm established a unit called Ralli Brothers in Bombay (now Mumbai), under the management of Pandias Theodore Ralli and Ambrose Theodore Ralli. The firm of Ralli Brothers grew rapidly until 1866 when the market experienced a cotton crisis. That year, it was reconstituted under a strong management established in London, and with its sights set on Indian trade.

In 1882-83, Ralli Brothers began trading in opium from Bengal, a trade in which they retained leadership until the sub-continent was partitioned in 1947. In 1902, the firm moved south to begin business in Pondicherry and Madras. It then entered the groundnut business and extended operations to Gujarat and Kathiawar. In 1929 came the American economic crash that led to a world currency crisis. The stagnation in the world economy and the inflated value of the rupee dealt a severe blow to India's exports and to Ralli Brothers. Subsequently, the firm was converted into a private limited company under the name of Ralli Brothers.

Late in the year of 1931, Ralli Brothers closed down its operations in India after 80 years of existence. The business passed into the hands of Argenti and Co, who were agents for the firm. Rallis was reborn in India on August 23, 1948 under a George Euthymopoulo who was the Chairman and Managing Director. The manufacture of fertilisers and pesticides marked the beginning of the company's foray into agrochemicals. In 1951, the company went public and its shares were oversubscribed.

In 1955, the Rallis head office was shifted from Kolkata to Mumbai. A 50:50 joint venture was established in India for selling Wolf portable electric tools. In 1957, Rallis took up the entire holding in Rallifan and acquired the whole of the WT Suren /TCF equity. From 1958 to 1961, the company made higher profits each year. Manufacturing of single super phosphate was started.

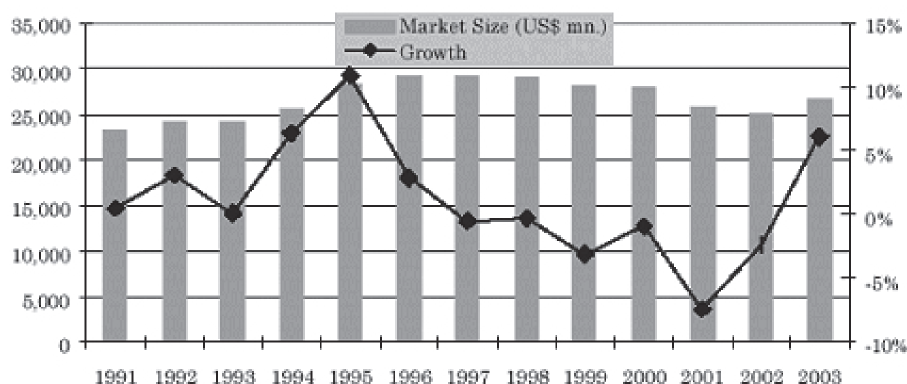
In June 1962, Fisons and Tatas became the Chief Shareholders of Rallis India. During the year 1962-63, fertilisers and pesticides became a full-fledged division. In August 1981, the company's era of cotton trading came to an end. The company then ventured into engineering and pharmaceuticals. A pharmaceutical factory was established in Ankleshwar with a licence to produce five new drugs. By the end of the '80s, overheads were spiralling upwards due to higher wages and several factories that were under-productive. The pharma and engineering businesses began to lose heavily. From 1990-94, the company refocused its activities, by shedding all its engineering businesses, selling its share in Boeringer Mannheim and shutting down all its pharma formulation factories.

This historical sketch of Rallis provides the reasons for its wide product spread, and also an understanding of why it chased too many businesses without developing a strong central core.

The global pesticide industry

Agrochemicals are a cyclical industry requiring an enormous amount of understanding to manage the complexities involved. The global market for chemical pesticides and other agrochemicals was estimated at around $26.71 billion in 2003, with a growth rate of 6.2 per cent. Of this, herbicides comprised 44 per cent, followed by insecticides (27 per cent), fungicides (20 per cent), and others (9 per cent). Since 1990, when the world market stood at $23.17 billion, the industry had grown at a low annual average rate of 1.1 per cent. In 2003, market conditions turned more positive mainly because of unfavourable climatic conditions that affected north European countries, Canada, India, Australia and many parts of Asia. The major factors that affected the market were a general increase in commodity

prices, recovery from drought in Canada, India, Australia and Asia, the 2002 Farm Act in the US and the mid-term common agricultural policy (CAP) reform in the European Union (EU) that gave farmers greater security on incomes.



Complied by INGRES

Fig. 1: Global pesticide market, showing size and growth rate

Ups and downs: The last decade has seen the market for chemical pesticides undergoing rapid changes (see Fig 1). The drop in the market can be explained partly by changes in crop prices, greater efficiencies in the use of pesticides, improvements in pest management practices and technology, increased adoption of genetically modified crops, and Integrated Pest Management (IPM) techniques aimed at reducing pesticide use.

The global agrochemicals market is estimated to have recorded positive growth during 2004 and recovered from the impact of unfavourable factors that affected the market earlier. Normal weather conditions benefited agrochemical usage, and economic recovery continued to revive the agricultural economy. In Asia, while deficit rainfall conditions affected demand, the Chinese government called for increased grain production and started paying subsidies direct to cereal farmers.

Land is key: There is a boom expected in the global pesticide market and new insecticides, herbicides and fungicides are being introduced, alongside conscious efforts to minimise hazards to human beings and the environment. World population is steadily increasing along with demand for food; the most important factor that affects the viability of meeting increasing food requirements is availability of arable land. Due to an increase in population levels, the level of arable or cultivable land has been going down in terms of both quality and quantity (see Fig 2). The quantum of arable land available per capita in 1995 was 0.27 hectares. It is estimated that by 2025 the availability will be only 0.21 hectares. In such a situation, agrochemicals will play a major role in increasing the productivity of land.

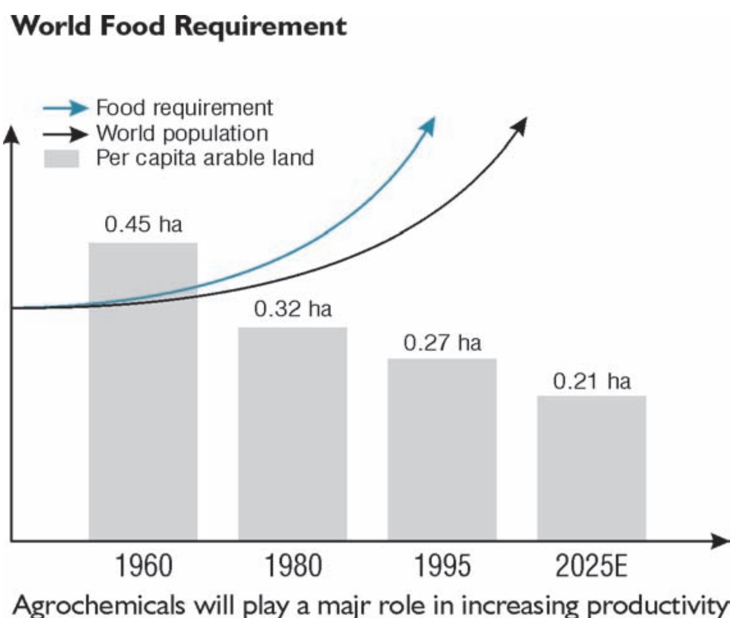


Fig. 2: Relationship between population, food requirement and availability of arable land

Tough competition: The industry has seen a fair amount of competition in the last decade with several major companies consolidating for strategic reasons - to achieve a competitive edge over others, ease of market entry, gaining technological advantages, acquiring market share etc.

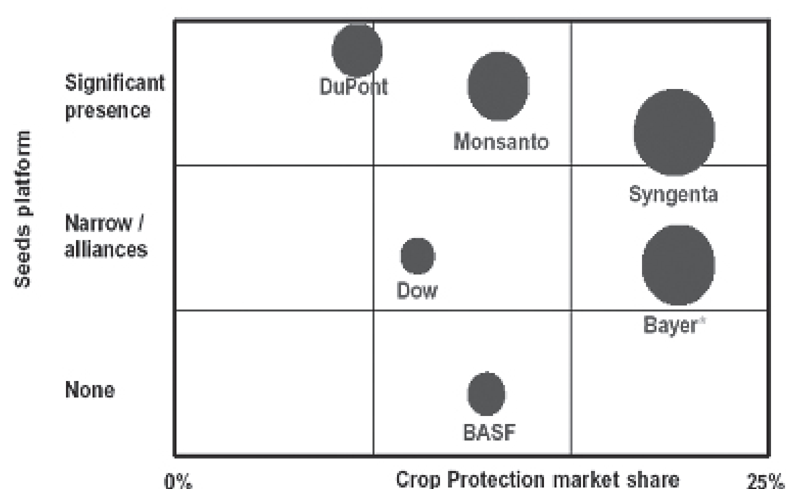
The six major consolidated companies are DuPont, Monsanto, Syngenta, Dow, Bayer and BASF which together had 73 per cent market share in 2002, 81 per cent in 2003, and 77 per cent in 2004.

- Syngenta had the major market share after overtaking Bayer as market leader. Between them they controlled 37 per cent of all agrochemical sales.
- During 2000-04 Bayer grew by 172 per cent, through the takeover of Aventis and entry into genetically modified technology. In the same period, Syngenta grew by 2 per cent.
- BASF grew by 86 per cent (due to high sales of fungicide and insecticides, entry in to Latin America and takeover of Fipronil) during the same period.
- The sales of Monsanto dropped during this period because of its focus on genetically modified products and seeds.

An analysis of the major players in the agrochemicals sector can be seen in Fig 3. All the major companies pruned their portfolios to avoid cost of re-registration (all pesticides have to be registered with a committee before they are approved for use). For example: BASF cut its list of actives from 300 to 170 during 2000-04; Syngenta had only 17 actives worth US $100 million each by 2006.

Seeds fuel growth: All the six major companies were into the seeds business and genetically modified technology.

- Monsanto bought Seminis and became the largest seed company in the world.
- Syngenta's genetically modified crops accounted for 3 per cent of sales, with other seeds accounting for an additional 16 per cent of sales.
- DuPont bought Pioneer Hibred.
- BASF and Dow expanded into the seeds market.



*pro forma, post remedies,

Source: Philips McDougall, Syngenta

Fig. 3: Analysis of major agrochemicals companies showing market share for pesticides and dependence on seeds business in 2004

Looking at the industry from the Rallis perspective, the major players in the global pesticides industry were consolidating businesses and this had an enormous impact on the way they competed. Rallis was not ready to face this level of tough competition, as it had no patented products of its own. It depended upon selling formulations based on active principles introduced by the global players.

The Indian pesticide industry

The Indian pesticides and agrochemical sector had estimated revenues of Rs. 40 billion during 2003-04. The same year, the sector also exported a considerable amount of production, amounting to about Rs.17.46 billion, representing 0.8 per cent of India's total exports. The industry was fragmented with about 30-40 large manufacturers and around 600 formulators. The organised sector comprised of multinational corporations and Indian players. Some of

the major international players in India were Monsanto, Bayer and Syngenta while domestic companies were United Phosphorus, Excel Industries and Rallis India.

Domestic vs. MNC: Historically, Indian players in the pesticides and agrochemicals market have focused on marketing generic and off-patent products, whereas the multinationals have focused on high-end specialty products. Indian companies, playing to their basic strength i.e. low cost operations, have focused on applied research, which includes developing processes to manufacture off-patent products, determining more effective methods of delivering existing products and new formulations of generic products. Generally speaking, Indian manufacturers lack the financial and technical resources to undertake basic research.

On the other hand, MNCs have dominated the market for patented products. They have the advantage of a developed research and development (R&D) pipeline and superior financial resources. Inspite of the threat from sales of generic products, MNCs have introduced quite a few of their top-selling global products in the Indian market. Monsanto, for instance, holds Indian registrations for almost the entire set of its global brands. In India, MNCs have tried to guard against the cyclicality of the domestic market, by identifying and sticking to niche categories, crops and markets. They have worked to strengthen the linkages with farmers through extension and advisory services. Many MNCs in India have entered into supply arrangements with their base country to take advantage of the low costs in manufacturing from India-based facilities.

The competition is not limited to MNCs alone. Two factors - the not-so-heavy capital-intensive nature of the industry and the government policy of encouraging the small-scale sector - have led to intense competition in the sector. Distribution reach, new product launches, and ability to extend credit to the farmers are the factors that have influenced sales.

Geography plays a role: The Indian crop protection or agrochemicals market is cyclical and dependent upon many factors, such as the quantum and distribution of monsoon, acreages under various crops and pest intensities during the season. Some of the main disadvantages of the crop protection market have been the limitation of product range and geographical diversity.

Recent years have seen some encouraging developments in the field - almost total self reliance with imports constituting less than 5 per cent of the total consumption of about 70, 000 tonnes per annum; indigenous development of several new products and processes; and penetration into overseas markets with exports already having touched a level of about Rs. 17.46 billion (see Table 2). However, there is still a long way to go with Indian per capita consumption, which is very low (475g per hectare) as compared to developed countries like USA (3kg per hectare) and Japan (11.8kg per hectare).

India is still a large potential market for agrochemicals and pesticides. The country has a geographical area of 328.73 million hectares; of which reported area for land use is 306.04 million hectares. Figures for 2004 show that the net area cultivated is about 142.60 million hectares i.e., about 46.6 per cent of the total reported area. Since nearly 50 million hectares

are sown more than once, the cropping intensity works out to 135 per cent. Forests account for about 68.97 million hectares i.e., 22.5 per cent of the total reported land area. Also nearly 13.97 million hectares are cultivable wastelands and 9.91 million hectares are fallow lands. Only about 30 per cent of the total cropped area is irrigated; the remaining area is rain fed. Available statistics show that only about 66 per cent of the gross cropped area is under food crops; the rest is used for non-food crops. Exports of products such as textiles, fruits and vegetables are expected to increase with the growth of Indian agriculture and the demand for agrochemicals.

Markets: There are new trends in the marketing of agricultural products at the consumer level - environmental changes, consumer's expectations, consumer awareness as also government norms are constraints upon the extensive use of, as well as the quality of agrochemicals used. These trends are being seen worldwide and impact the sales of agricultural products.

Table 1: Indian agriculture scenario in 2004

	Global Production (MT)	Indian Production (MT)	Share	Rank
• Rice	600	95	15%	2nd
• Wheat	600	75	12.5%	2nd
• Vegetables	600	90	15%	2nd
• Fruits	400	45	10%	2nd
• Milk	600	90	12.5%	1st

In India, the agrochemicals industry shows some key aspects:

- India has a large agricultural economy, which uses agrochemicals, yet the average consumption rate is very low (half of world average).
- Market size is of the order of 100,000 metric tonne with an annual growth rate of 10 per cent per annum. Consumption varies depending on crop and region.
- Cotton and rice are the two major pesticide-consuming crops, accounting for more than 65 per cent of the market.
- There are two types of producers: Technical (about 40 enterprises), and formulators (above 500 enterprises).

Table 2: India's exports of crop protection chemicals, by value and volume

FY	2000	2001	2002	2003	2004 (9M)	2005
Value-Rs. million						
Insecticides	8,942	10,853	12,197	13,305	14,562	10,751
Fungicides	463	684	722	814	1,362	1,558
Herbicides/Weedicides	276	443	381	436	424	383
Others	370	173	264	320	1,107	718
Total	**10,050**	**12,153**	**13,565**	**14,875**	**17,456**	**13,410**
Volume-MT						
Insecticides	31,156	36,162	37,816	42,978	49,072	35,255
Fungicides	4,451	6,536	7,515	7,682	12,083	10,568
Herbicides/Weedicides	2,598	3,234	2,237	2,093	3,032	2,641
Others	2,446	1,997	2,517	2,940	4,794	3,601
Total	**40,651**	**47,929**	**50,085**	**55,693**	**68,981**	**52,066**

Synthetic pesticides: Farmers have been practising pest management ever since the first man discovered how to grow crops. It was only in the middle of the 20th century that the pesticide properties of synthetic chemicals were discovered, resulting in a transformation of agricultural practices. For example, the chemical dichlorodiphenyltrichloroethane (better known as DDT) was discovered to be an insecticide and was used widely in agriculture and for public health programmes. Soon, other insecticides, herbicides and fungicides were developed. Their large-scale usage in farming in industrialised countries, led to large increases in production.

The importance of pesticides and other crop protection agrochemicals in India derives from the fact that that we are an agrarian society. Agriculture is the backbone of the Indian economy and contributes 20 per cent of India's GDP.

At present, around 200 pesticides have been registered in India. A registration committee (RC) has been constituted under Section 5 of the Insecticides Act, 1968, whose function is to register pesticides after scrutinising the formula, verifying claims of usefulness and safety to human beings and animals, specifying precautions against poisoning and so on. The committee has evolved exhaustive guidelines / data requirements to assess the efficacy and safety aspects of these chemicals.

The evolution of Indian pesticides can be traced back to the 1980s. Prior to that, the awareness and acceptance for the use of agrochemicals was not very significant. Until the early 1990s, the Indian agrochemical industry showed poor growth. The trend of using agrochemicals and pesticides for higher yields took hold from the mid 1990s onwards, i.e.,

in the post liberalisation period. There was constant growth for nearly a decade, up to 1998, due to the change in economic policies and governmental efforts to encourage use of agrochemicals and pesticides in order to improve the quality and production of the nation's agro products. Thereafter, the period from 1998-1999 onwards (after the WTO / IPR commitment) showed a lot of turbulence for the pesticides business (see Fig 4).

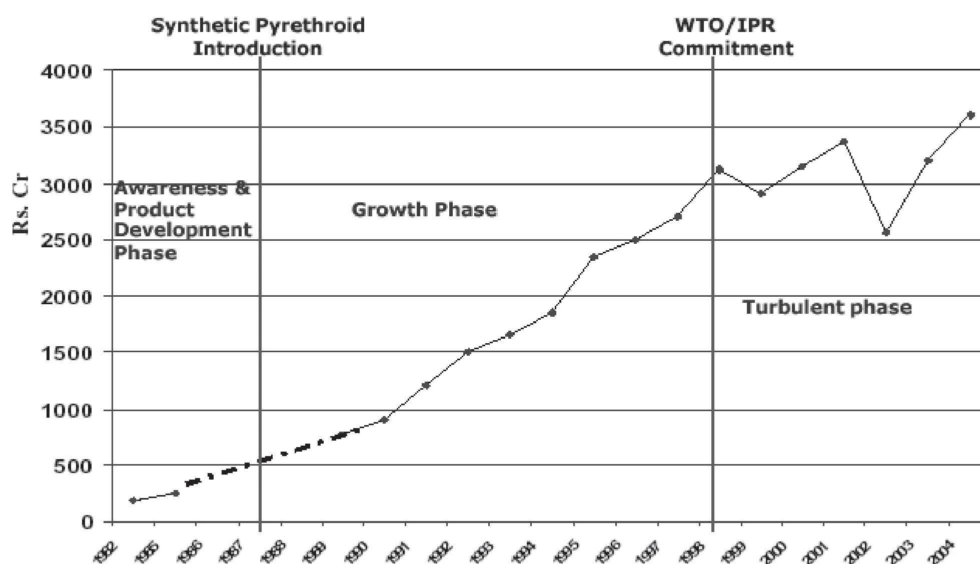


Fig. 4: Trends in pesticide consumption in India

Market shares:

In India, market shares of agrochemical products vary depending upon many factors. One important factor is the company's approach towards the market and end consumers. Companies practise different strategies that can be categorised as follows:

- New product and technology oriented: Syngenta, Bayer, BASF, DOW and DuPont
- Market access oriented: Rallis, Pesticide India and Nagarjuna
- Low-cost production and export oriented: UPL, Excel, Gharda and Meghmani

The Indian market is changing, with domestic manufacturers (small and major companies) improving their share of the market. In 2004-05, multinationals held a market share of 55 per cent, large Indian companies held 30 per cent, and small formulators 15 per cent (see Fig 5). It is estimated that in the future the market share of MNCs will come down.

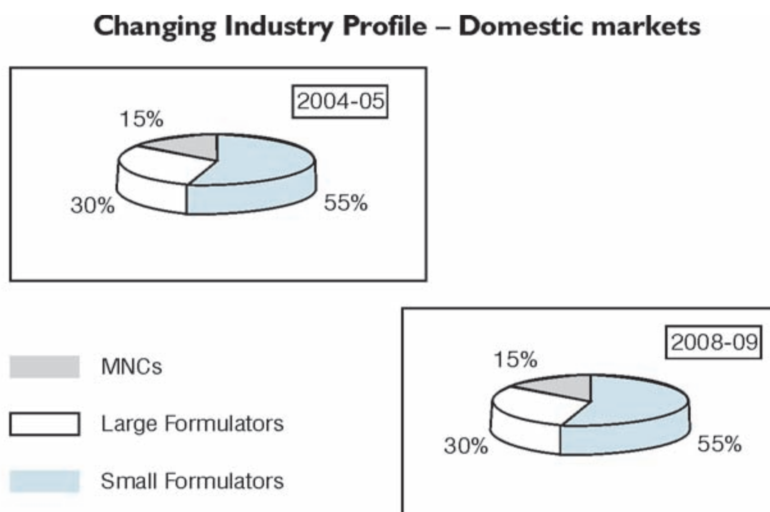


Fig. 5: Market shares of MNCs and Indian companies

Section 2: The Rallis India story

Rallis India's main areas of business are product development, manufacture and marketing of crop protection and crop nutrient agrochemicals - solid and liquid pesticides, fertilisers, leather chemicals, etc. Other activities include the manufacture and sale of pharmaceutical products including tanning materials, and services like farming management services, tolling manufacturing and sponsored research. The company's largest and most profitable business is the agro-business segment, which is engaged in the development, manufacture and marketing of pesticides.

In the domestic market, Rallis India holds a fairly strong position. The company has several advantages, among which are branding capabilities and distribution reach throughout the Indian market. It holds a product portfolio that is customised to the requirements of the land and crops in India. It also has an extensive distribution channel that is supported by initiatives such as the jeep campaign, farmer meetings, etc. Rallis has a near accurate knowledge of Indian farm requirements and farmers' needs and expectations. Plus, as a Tata company, it holds credibility in the Indian market.

R&D: Rallis India has invested heavily in research and development activities. Within the sponsored research sector, the Rallis research centre (RRC) caters to the growing needs of the agrochemical industry. This centre conducts studies on bio-efficacy, residue analysis, analytical and product chemistry, ecotoxicology and regulatory toxicology for in-house needs as well as sponsors from across the world. By regularly developing new products, it has given Indian farmers top-of-the-line eco-friendly agricultural products.

Strong branding: Rallis India has a wide range of insecticides, fungicides and herbicides, which have been designed to suit Indian crops, with emphasis on rice, cotton and vegetables. Some of Rallis's popular products are fungicides such as Contaf, Contaf Plus, Master and

Fujione; weedicides such as Fateh, Tata Metri, and Tata Panida; and insecticides such as Daksh, Tata Mida, Reeva, Asataf, Manik, etc. Rogor, an old Rallis brand of insecticide, is still one of the strongest brands in the country.

Product range: Rallis's seed portfolio covers cereals, oilseeds and fibre crops. The company produces and markets several hybrid varieties of maize, paddy, wheat, cotton and mustard. Its fertiliser portfolio of imported 100 per cent water-soluble specialty fertilisers provides all-important nutrients required by plants. These are highly suited for foliar spray and fertilisation through micro irrigation. The company also supplies a range of essential micronutrients for a wide range of crops and soil. Rallis manufactures mineral supplement products such as phosphoryl, which is used in the poultry industry and for livestock.

Table 3: Rallis's strengths in comparison with other Indian companies, 2004

	R&D		Production		Marketing			
Company	**Chemistry**	**Development**	**Tech**	**Cost**	**Portfolio**	**Field**	**Distribution**	**Company**
Gharda	5	3	4	5	4	1	3	3
UPL	4	3	4	4	5	2	2	2
Excel	3	2	4	4	2	3	3	3
Cheminova	3	2	4	4	3	2	3	2
Indofil	2	3	3	3	2	3	2	3
Nagarjuna	3	3	3	3	3	2	3	2
Rallis	3	5	4	3	5	4	4	5

1 = Very Weak, 5 = Very Strong

The ratings are internal estimates with Indian perspective

Table 4: Rallis's strengths in comparison with multinational companies, 2004

	R&D		Production		Marketing			
Company	**Chemistry**	**Development**	**Tech**	**Cost**	**Portfolio**	**Field**	**Distribution**	**Company**
Bayer	5	4	5	3	5	4	4	4
Syngenta	5	4	5	4	4	5	3	4
BASF	4	3	4	3	2	3	2	3
DOW	4	2	2	2	2	2	3	3
DuPont	4	3	2	2	2	3	3	3
Rallis	3	5	4	3	5	4	4	5

1 = Very Weak, 5 = Very Strong

The ratings are internal estimates with Indian perspective

Turbulent times

Rallis in the mid 1990s: Post liberalisation, Rallis India had gained substantial proficiency in the designing and commissioning of chemical plants, with the agrochemicals division entering the field of project exports. The engineering business, as well as the shareholdings in the engineering subsidiaries, was sold off. In the same period, the new facility at Aurangabad started operating and the pharmaceutical division diversified into ayurvedic products. Rallis India went in for a merger with Accumax Ltd and a subsidiary company, Ahura Consultants & Investments, was also brought under the same entity. The company's commercial paper was awarded an A1+ rating by the credit rating agency ICRA.

New businesses: The mid 1990s period was when agrochemicals performed well and the company introduced a range of other agro products. Rallis successfully introduced quality hybrid seeds in collaboration with Cargill Seeds of USA and Bejo Zaden of the Netherlands. The company's pharmaceutical division was also growing at a decent pace. Rallis India signed a long-term agreement with Phytopharm Plc, a British drug group, to develop products based on medicinal plant extracts. In the late 1990s, Rallis India went into a marketing alliance with the world's largest producer of fertilisers, Norsk Hydro of Netherlands, for marketing specialty fertilisers.

It developed a 600-acre farm near Nashik in Maharashtra with technical collaboration from the Mitsubishi Corporation of Japan. The company was also in the process of developing ventures with farmers, with plans to introduce international irrigation and sericulture techniques to improve yields. It set up a new company called Rallis Farm Management Services to provide advisory and technical services in the agri-sector.

The impact of the Indian government's economic liberalisation policies on India's chemical industry has been positive; the industry grew to a size of $28 billion in 1993. It constitutes more than 6 per cent of India's GDP and is a major exporter of agrochemicals, pharmaceuticals and specialty chemicals.

Threats: With liberalisation, import duties on chemicals have come down significantly, though in a gradual manner. On January 1, 1995, the World Trade Organization (WTO) came into existence. India was a signatory to the agreement, and became a member of the WTO from its inception. In the chemicals sector, products have been imported in a big way and have out-priced Indian products to such an extent that if Indian manufacturers are not able to compete with them on price and quality, they will have to shut shop. This has been a major threat to the Indian industry, and therefore to the employment situation. Another more direct threat lies in the entry of MNC players into the Indian market. Structural changes in government regulations and taxes have also had a major impact on the industry. Small players in the domestic market have proved to be equally competitive in the marketplace.

The late 1990s

The impact of economic liberalisation on Rallis India showed in a decrease in its revenue

growth rates from 27 per cent in 1995 to 4 per cent in 1998. To combat this, the company decided to diversify its product portfolio and venture into a number of new businesses.

- Rallis entered the animal healthcare business to focus on feed additives, preventive care and therapeutic segments.
- Based on its performance, Rallis was highly rated by the credit rating agency ICRA.
- The company posted net sales of Rs. 12,061.2 million and a net profit of Rs. 230.3 million in 1997-98, and declared a dividend of 50 per cent for the year.
- Rallis increased its market share to 13 per cent in pesticides. It marketed herbicides under a joint marketing agreement signed with Monsanto Chemicals in July 1998. The same year, it reopened the pesticides facility at Lote Parashuram in Maharashtra (which had temporarily stopped production due to insufficient effluent treatment facilities).
- One tenth of its people were involved in R&D activities by mid 1998.
- It set up Rallis Farm Management Services (RFMS) under which it offered services for improvement of yields, seed procurement, soil fertility, agro economy, farm management and financing to small and medium sized companies, farm owners and agriculturists in October 1998. RFMS offered its seed procurement services to the Dutch company Bejo.
- Rallis India had to borrow heavily as the disbursements of the subsidy on fertilisers were delayed in 1998.
- The company acquired Oriental Seritech in November 1998. Oriental, previously owned by Tata Industries, was the world's largest integrated silk producer and pioneer of the bivoltine silk technology in India. Rallis undertook research in farming and production of silk yarn through Oriental Seritech.
- It acquired another Tata company, Oriental Floratech (which grew roses and carnations for export to Europe, Middle East and the Far East).
- Rallis brought most of its agro businesses under a single entity in the subsequent year.
- In a move to consolidate its herbicide range, Rallis became the general co-distributor for Monsanto USA in March 1999 and marketed its entire range of products.
- Rallis took up a 40 per cent stake in Caps of Zimbabwe for a consideration of Rs. 500 million and launched an ayurvedic range of products in Zimbabwe. Later during the year, Exim bank acquired a 10 per cent stake in Caps.
- Rallis entered into an alliance with Kenko of Japan, introduced a series of ayurveda-based products and operated as the marketing agency of several firms, including Madras Fertilisers, Cargill and Norsk Hydro.

- It signed a contract with FMC in August 1999 for producing and marketing some of FMC's agrochemical products. The next year, it entered into marketing alliances with the Dabur group and Sanat Products to distribute herbal over-the-counter products in Africa and Sri Lanka.

By the end of the decade, Rallis had grown manifold. It had explored new ventures to earn revenues and divested its non-profitable businesses, tie-ups and collaborations. Whenever there was a slow-down in the industry, Rallis shielded itself from a drop in volumes by introducing new products. The company changed its focus to rice, vegetables, pulses and plantations, and launched new pesticides (Koranda and Marshal) in 1999-2000. Rallis Farm Management Services trained farmers across the country on good farm management practices. It set up an interactive website (www.rallikisan.com) targeted at farmers, to create awareness about Rallis products and generate more interactions with the company. Rallis India along with Tata Chemicals set up the Tata Kisan Kendras (TTK) in 1999; these were one-stop shops that leased farm equipment, provided high-yielding seeds and advised farmers on crop selection, rotation and disease prevention methods.

Rallis goes downhill

With stiff competition in the marketplace and growth rates slowing dramatically, Rallis began to feel the pressure on its bottom line. It incurred a loss of Rs. 255.8 million on sales of Rs.10, 889 million for 2000-01. Rajiv Dubey had joined the company as CEO in August 2000, with a mandate to improve the company's bottom line, which showed sluggish growth due to unfavourable market conditions. The immediate objective was to achieve effectiveness and efficiency of resources utilisation, and increase profitability. Mr. Dubey formed teams in all the divisions, including pesticides, fertilisers and seeds, with the help of Tata Strategic Management Group (TSMG), to make field survey reports.

This initiative helped in identifying and evaluating the business environment, strategic issues, and the company's strengths and areas for improvement, opportunities and growth prospects. The study also helped the company focus on crisis areas such as inefficient asset utilisation, share value, weak customer orientation, and approach to people-related problems, and lack of transparency.

In 2001, four external consultants were taken on board to help restructure the company's operations, namely Accenture, Renoir Consultancy, Eicher Consultancy Services and TSMG. Accenture worked on the shop floor to enhance productivity and improve supply chain management. Renoir was brought in to strengthen sales and distribution channels across India. Eicher worked closely with the company on the organisational restructuring model and in human resources related activities. TSMG had been working with Rallis on its long-term strategy development.

Restructuring of Rallis

With problem areas highlighted by the study, the management realised that the company needed a strategic plan that had to be implemented and continuously monitored. The

implementation, monitoring and controlling of the plan needed to be based on a framework that would direct strategies towards the goals of restructuring. The management decided to use the Tata Business Excellence Model (TBEM) that has been adapted from the well-known Malcolm Baldrige methodology. The model was implemented under the aegis of Tata Quality Management Services (TQMS), a Tata organisation mandated to help Tata companies achieve their business objectives through specific processes that would focus on revitalising product or business portfolios, improve finance or cash management, and achieve economy throughout the value chain. There were various plans under TBEM which were area-specific, such as

- TBEM Safal (Strategic actions for absolute leadership) for sales and marketing
- TBEM Prerna (Propelling Rallis towards excellent results now and always) for manufacturing
- TBEM Pragati (People related actions for growth and achievement through transformation and involvement) for human resource (HR) development

Changes at all levels: All these plans played a major role in restructuring the company. Under TBEM Safal, the entire sales and marketing function was restructured and systems set up for distribution, depot management and proactive selling. Costs were reduced to a large extent and the decision-making process was made more systematic and less intuitive. This resulted in lower discounts, promotion costs, debtors and bad debts along with higher volumes and improved sales mix.

TBEM Prerna focused on minimising manufacturing costs through processes such as yield improvement, solvent substitution, procurement logistics, etc that could lead to major savings every year. New products and ideas were no longer taken up in haste; instead they were evaluated on specific criteria - opportunity, feasibility, capability and commercial viability - before any investment in R&D.

The company's HR initiatives focused on communication, de-layering and empowerment. Mr. Dubey, the CEO, held the view that no initiative, regardless of its merit, could succeed without the enthusiastic participation of the people in the company. A platform was created where employees could come forward with new ideas and suggestions on improvement of products, services and processes. These ideas were evaluated and implemented and the proposers were rewarded, thus increasing employee involvement. The restructuring exercise also included reducing the work force.

Another unique HR initiative was 'Manthan' where Rallis concentrated on building relationships with its people. This was a series of two-day, large-scale, interactive meetings held at different locations, where senior management met all categories of stakeholders, including workers, customers, channel partners, suppliers, competitors and shareholders. The objective was to communicate the strategies and action plans, and track any difficulties or concerns. The Manthan initiative led to the start of the 4-S movement (Sampark-Sambandh-Samruddhi-Santushti).

Improving efficiencies: Rallis's restructuring exercise was aimed at reducing debts and emphasising long-term economic value addition and return on capital investments. The company also went through a phase of mergers, disinvestments, closure of non-performing units and financial restructuring. The pharma division was sold for Rs. 420 million to Shreya Impex, part of the Moscow-based Shreya Corp. Exiting the pharma business brought down debts from Rs. 4,256 million to Rs. 3,401 million and working capital requirement from Rs. 3,353 million to Rs. 2,786 million. It had already exited from its cement and paints businesses and cut staff at the managerial level, and suspended operations of two subsidiaries, Oriental Seritech and Pazchem, to check losses.

In 2001, Rallis merged five of its wholly owned subsidiaries - Ralchem, Rallis Finance and Investment Co, Rallis Hybrid Seeds, Rallis Farm Management Services and Sankhya Garments - with itself so as to bring all agriculture related businesses under one roof. The company had a 15 per cent market share in the crop protection business but faced stiff competition from companies like the newly formed Syngenta India and MNC Aventis Crop Science. In the same year Tata Consultancy Services bought a 22-acre property located at Andheri, Mumbai from Rallis for Rs.1, 330 million.

With restructuring and related initiatives, Rallis posted a net profit of Rs. 203.6 million for Q1 2001. At the time, it had the largest distribution network in India with 4,000 dealers and 30,000 retailers. Rallis entered into an alliance with ICICI and Hindustan Lever Ltd (HLL) to help farmers in Madhya Pradesh and Haryana grow and sell wheat (for wheat flour) and basmati rice for export. Rallis and ICICI also tied up with the retail chains like Food World, Nilgiris and juice producer Sunsip for contract farming of fruits and vegetables in Karnataka in 2001.

The restructuring exercise made full use of information technology to facilitate communication both within and without the company, as well as through the launch of the company website. SAP implementation and improving the management information system were other major initiatives started at this time.

Record losses

In spite of the restructuring exercise started in 2000, Rallis showed a shocking loss of Rs. 773 million on a turnover of Rs. 8,851 million in the year 2002-03. Though some internal processes had improved, others had not, especially processes relating to customer management. Management started playing the blame game, with one group of the opinion that there was too much focus on market without adequate process and control systems and the other maintaining that there was too much focus on processes and too little on the market.

In an interview, Venkat Sohoni who took over as Managing Director of Rallis in 2003, explained the reasons for the company's poor performance:

- Production was in excess of demand. The company was saddled with unsold stock, large outstanding from the market and high working capital requirements. There was

no proper forecasting of demand or planning of production.

- Higher interest costs and continuing expenses were detrimental to the profit and loss account. Not enough attention was paid to receivables. Credibility with banks was very low. Because of the poor cash flow, treasury was under immense pressure. Resource allocation was erratic.
- Though the company had around 4,000 dealers, co-ordination was poor and there was no proper policy for handling of expired stock. Expired stock levels were relatively high and dealers returned stock whenever they wished. The strategy for selecting distributors was not very clear.
- Plant capacity utilisation was low, quality of the product was not uniform, inventory level was high and maintenance was poor.
- The procurement team did not have enough bargaining power.
- The sales staff did not understand sales strategy.
- Attrition rate was very high. Management professionals were highly frustrated.
- The company did not have regular reviews to ensure coordination of all the functions.
- The company had no IT platform. Even the data on quarterly performance was produced late. There was poor information assimilation and collection of data took much longer because it was not organised properly.
- The board did not work coherently and there were severe differences among the directors. Corporate governance was completely neglected.
- Internal audit system was weak. There were cliques operating and in the absence of internal audits no corrective measures were taken. There was delay in consolidating the accounts.

Section 3: The turnaround story

The Rallis India business story can be categorised into four stages:

- Decline (covered earlier)
- Response initiation phase (started August 2003)
- Transition towards turnaround
- Turnaround

This section covers the next three stages of Rallis business history, from 2003 onwards.

The first steps

Rallis' huge losses in the previous years came as a shock to the business community mainly because the company was an old and well-established concern. The losses (of the order of Rs. 1,000 million including that of the six subsidiaries) made it imperative for the company to re-examine its future. The Tatas had a 48 per cent equity stake in the company. Tata Sons Executive Director R. Gopalakrishnan took over as chairman of Rallis in 2003. When Managing Director R. Dubey resigned with effect from July 12, 2003, Mr. Gopalakrishnan took up the challenge of putting Rallis India back on track. He had a clear plan in mind and a timeframe for the turnaround. Most important, the company needed a new chief, one who could take an objective view of the business.

In August 2003, the Rallis board approved the appointment of Venkat S. Sohoni as the new Managing Director. Mr. Sohoni had over 28 years of experience in the agrochemicals and pharmaceutical business, having worked with companies such as California-based Biosys, Novartis and Pharmacia.

In the meantime, Mr. Gopalakrishnan put in motion a series of initiatives to:

- Restructure the business and business processes
- Raise additional long-term funds to ensure the sustainability of the business
- Bring down costs and reduce losses
- Reduce borrowings and interest outflows
- Downsize the workforce
- Hive off some non-performing assets

The logic behind these initiatives was to first stop the company from bleeding losses, and then put corrective actions in place that would help to rebuild credibility within and outside the system. Rallis India was a prominent Tata Enterprise with Tata Sons holding 48 per cent stake. One of Mr. Sohoni's first tasks was to visit all the sites and explain to stakeholders that Rallis was as focused on people as it was on results. This message created an enormous amount of credibility amongst the employees and motivated them to work towards enhancing performance and reducing losses.

The turnaround plan

The turnaround of Rallis India is the outcome of planning, restructuring, corrective actions and initiatives, and the strategic alignment of all these efforts towards long-term business profitability and sustainability. At that point, Rallis' restructuring package required additional funds of as much as Rs.1, 000-2,000 million. Tata Sons, with a 48 per cent stake, was willing to invest in the company. Tata Sons subscribed to preference shares of Rallis thus injecting Rs. 880 million into Rallis in 2003 to reduce its high interest loans. J. M. Morgan

Stanley of Mumbai was appointed to work out the restructuring package. The package incorporated a three-step process for affecting a turnaround:

- Large scale cost reduction measures
- Increasing focus on the pesticide business
- Restoring the company's cash-flow

Having taken over as managing director on August 11, 2003, V. S. Sohoni prepared a new business plan that was approved in October 2003. The business plan envisaged alignment of the company with its proposed business goals. The initiatives taken by the Rallis senior management to push the company out of its turbulent phase can be graphically represented as a turnaround wheel (see Fig. 10).

The plan envisaged the following initiatives:

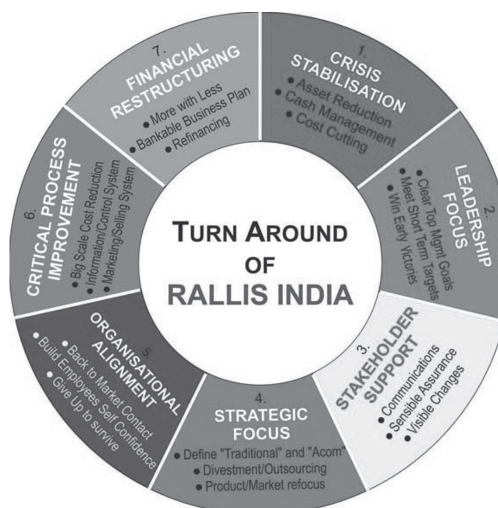


Fig. 6: The wheel shows Rallis turnaround strategies

1. Concentration on core business of agrochemicals

Rallis had been a leader in the domestic agrochemicals market for more than a decade until the merger of Bayer and Aventis. It had a number of strengths that could be leveraged for growth:

- Product portfolio
- Distribution reach
- Tata-Rallis image
- Knowledge of the Indian farmers
- Branding capabilities

Manufacturing: Rallis had its own research and development centres that worked to continuously improve manufacturing processes of important pesticides and intermediates by de-bottlenecking, improving throughput and reducing load.

Marketing: A new element in the marketing plan was to use innovative packaging for the agrochemicals to make it a key differentiator from the competition. Another marketing thrust was to start a series of farmer-centric activities to interact with customers directly. Earlier this had been left to retailers and distributors who were the main contact points for customers. These activities included focused farmer contact based on route plans, large farmer-centric campaigns, intensifying farmer meetings and setting up farmer help lines - all of which were aimed at conveying the benefits of Rallis products and emphasising the distinctiveness of the offerings. This initiative had two advantages - it helped Rallis understand customers while also educating them.

The third major initiative was innovative media usage. A series of ads were launched to enhance Rallis's brand image. The ads used an innovative concept (Dr. Vishwas) in advertorials that built credibility by sending the message that Dr. Vishwas could provide solutions to all pest related problems. This improved customer perception and confidence.

2. Financial restructuring

The financial health of Rallis had been poor due to several reasons:

- High interest outflow: There was a huge amount of liabilities and the effective rate of interest was 17-18 per cent. In 2002-03, Rallis India had an interest burden of Rs. 415 million.
- High inventory: Rs.1, 324.1 million.
- High level of receivables: The company had 4,000 dealers but no systematic collecting system; receivables were worth Rs. 2,433 million on a turnover of Rs. 8,851 million.

Rallis took several steps to improve its finances. The company's high interest convertible debentures were converted into preference shares. It acquired letters of comfort from Tata companies. It was able to raise a long-term loan for Rs. 750 million which was utilised to reduce outstanding expensive loans, resulting in a steep reduction in the interest cost which in turn reduced the cash outflow, a significant reduction of debtors and lower borrowings (Rs.1,200 million). The issue of preference shares worth Rs. 880 million resulted in a better debt: equity ratio. In 2004, Rallis was ranked 6th in Business India's Super 100 listing of companies on the basis of return on capital employed (ROCE). This was a dramatic rise from the previous year when its rank was 219th. Rallis's ROCE was 18.4 per cent in 2004 whereas in 2003 it had been a negative 17.48 per cent on consolidated basis.

3. Divestment of non-core businesses

The company took the decision to hive off the several non-core businesses that had been picked up over the years - such as gelatin, farm management services and knowledge management services - and to focus only on pesticides and agrochemicals. Rallis India sold the gelatin business to Sterling Biotech for Rs. 470 million in an all-cash deal. Farm related activities were sold to Tata Chemicals. Rallis decided to transfer the knowledge services business, which included the R&D centre at Bangalore, to another Tata Company Advinus Therapeutics. In the case of seeds, Rallis changed its business model: from being a pure seed distributor it moved to products with higher margins which were identified, sourced, developed and established under the Rallis brand name.

4. Sale of non-performing assets

Ralli House, a prestigious business house in South Mumbai, was sold for Rs. 560 million. The Rallis plant in Punjab and the regional office at Kolkata were sold. The receipts of the sales were used to reduce the company's liabilities.

5. Better working capital management

In the year 2002-03 Rallis carried inventory worth Rs. 1,320 million; by the next year this was brought down to Rs. 1,040 million. Similarly, sundry debtors were reduced from Rs. 2,430 million to Rs. 1,720 million. These steps helped reduce the pressure on working capital, the requirement for which was brought down from Rs. 2,114 million to Rs. 1,768 million. Rallis had a large number of dealers most of whom were merely stocking products rather than generating sales. The company realigned its dealer network and reduced the number of dealers from 4,000 to 1,500 and focused on dealers for pesticides. Rallis India recorded a growth of 39 per cent in sales of pesticides in Q2 2004 as compared to Q2 2003. The reduction in dealers had synergistic effects. It reduced inventory, made monitoring of stock movement comparatively easy, and positively impacted dealer morale and motivation.

6. Strategic alliances to strengthen the product portfolio

Rallis needed a broader, more balanced portfolio of product offerings and it also needed to improve plant capacity utilisation. For this, it entered into marketing pacts with international companies like Syngenta, Bayer and DuPont that strengthened its product portfolio, and manufactured chemicals and pesticide products for Syngenta, Bayer, DuPont, Dow Chemicals and FMC Corp. Rallis signed an agreement with DuPont for co-marketing of insecticides for bollworm. The company achieved about 30 per cent of its turnover through contract manufacturing and marketing of products of five multinational companies. These products - mainly insecticides, herbicides, and fungicides - were marketed overseas under the brand name of the multinational companies and were sold under the Rallis brand name in India. In 2003-04 Rallis generated over 90 per cent of its turnover from the pesticides business.

7. Limiting the number of factories

Rallis had too many formulation factories spread across India, resulting in a low capacity utilisation figure. Rallis decided to close down some of the facilities.

8. Developing a performance driven culture

Rallis had a weak performance assessment system where the links between business performance and individual performance measures were poorly correlated. To inculcate a performance driven culture, the leadership designed a performance management system with appraisal processes, adoption of Tata Leadership Practices, talent identification, rewards and recognition schemes, etc. Rallis also developed Innogate, an initiative that encouraged people to generate, capture and implement new ideas in marketing and production. The system, aimed at inspiring innovation, also enhanced the organisation's capability to share knowledge and ensured proper recognition of idea originators. The performance driven culture strategy had several prongs:

Firstly, the performance assessment system was made robust. Goal setting, alignment and cascading were done at all levels. A midterm review of appraisals was introduced. The performance assessment system involved key result areas (KRAs), competencies, employee development and objective feedback. The second pillar of the performance management system was an easily measurable and transparent appraisal process. A five point rating scale was used. KRAs were given 100 per cent weight age and stretch goals were introduced. This was followed by an increase in variable performance pay that was directly linked to measurable performance. This system brought in considerable accountability, objectivity and performance orientation.

9. Focus on communication through implementation of SAP

Rallis India, as a part of the project Saransh has developed business intelligence tools with the help of Microsoft. It has replaced its legacy enterprise resource planning (ERP) systems with SAP to make the company fit for e-business. Rallis is planning to integrate various applications to reduce cost and eliminate intermediaries.

To sum up, Rallis managed to turn its business around due to implementation of a series of measures aimed at sustainability:

- Rationalisation of the product portfolio
  - Reverse engineering to create new formulation by leveraging R&D
  - Alliance with multinationals so that product portfolio is complete at the market end
  - Improving the distribution system so that stocks are available when required

- Cost reduction in every possible process
    - Rationalisation of manufacturing units and improving capacity utilisation
    - Interest cost rationalisation
    - Fixed and variable cost reduction targets
    - Working capital rationalisation
- Rationalisation of distribution system
    - Dealer network rationalisation, to ensure that the dealers are committed
    - Increasing reach and penetration through demonstrations and customer awareness

The impact

One year later, for the financial year 2003-04, Rallis India reported a net profit of Rs. 255.5 million on net sales of Rs. 4,892 million (see Fig 7 and 8). Its debt-equity ratio was down to 2.3 from 8.6 the previous year. The budget and fiscal measures announced by the government of India for the year 2004-05 were favourable for agri businesses like Rallis. The budget had provisions for increasing agricultural credit over the next three years (2004-07), steps to improve produce markets and to promote agri business.

The next year was even better. The Rallis board recommended a dividend of 10 per cent, after a gap of three years, when the company posted a net profit of Rs. 341.6 million on revenue of Rs. 5,937.8 million in 2004-05. That year Rallis India earned 20 per cent of its revenue from exports and announced a growth of 41 per cent percent in pesticide sales in Q3 2005 Rallis furthered improved its product portfolio through reverse engineering and alliances. Its borrowings decreased by 44.4 per cent to Rs. 1, 385.3 million. Forex earnings grew by 21.79 per cent and debt-equity ratio fell below the unity mark to 1.0. The company had spent Rs.120 million for migration from SAP 4.7 R3 to mySAP ERP solution. It appointed Ernst&Young as consultants for its IT purchases. The main benefits that the company derived from technology were application integration, seamless connectivity and more online access.

By now, Rallis was firmly on track, both growth wise and performance wise. In 2005-06, it showed a net profit of Rs. 425.3 million (26.95 per cent higher than previous year) on net sales of Rs. 5,916.3 million.

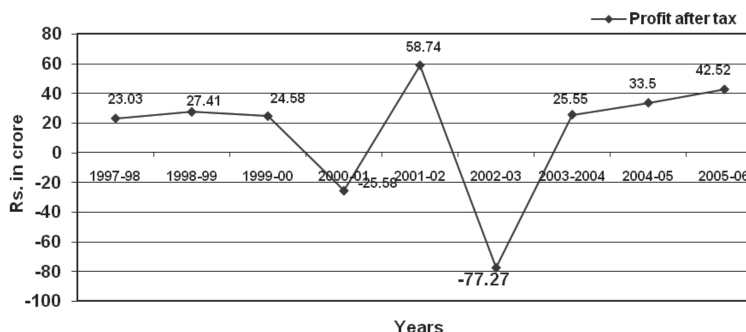


Fig. 7: Trend in Rallis India's profit after tax figures

Maintaining the momentum

When the turnaround was initiated in 2003, Rallis had prepared a business plan projecting revenues of Rs. 5,500 million, gross contribution of Rs. 1,960 million and expenses of Rs. 1,620 million in 2004-05. By the middle of the financial year, it became obvious that the company was performing much better than expected. This was clear validation that Rallis was back on track and its people and systems were operating well. Accordingly, the targets in the business plan were stretched: the revenue target was revised to Rs. 5,930 million and expenses were slashed by another Rs. 60 million. The profit before tax (PBT) had been projected at Rs. 340 million and was revised to Rs. 390 million. The stretched targets were achieved.

Rallis continued to do well beyond 2005 by sustaining the momentum of its growth. The next year, in 2005-06 revenues reached a figure of Rs. 6,300 million. Cost reduction was one of the major pillars of the turnaround strategy. So loans were reduced by Rs. 230 million and interest cost by Rs. 60.8 million in 2005-2006. The trend in borrowings has declined considerably too less than Rs. 150 million per annum. Both profit before tax and profit after tax continue to rise (see Fig 7and 8).

Sustainable growth: The momentum generated by the steps taken in 2003 is continuing; more important, through systems, process and monitoring, this momentum has been made sustainable.

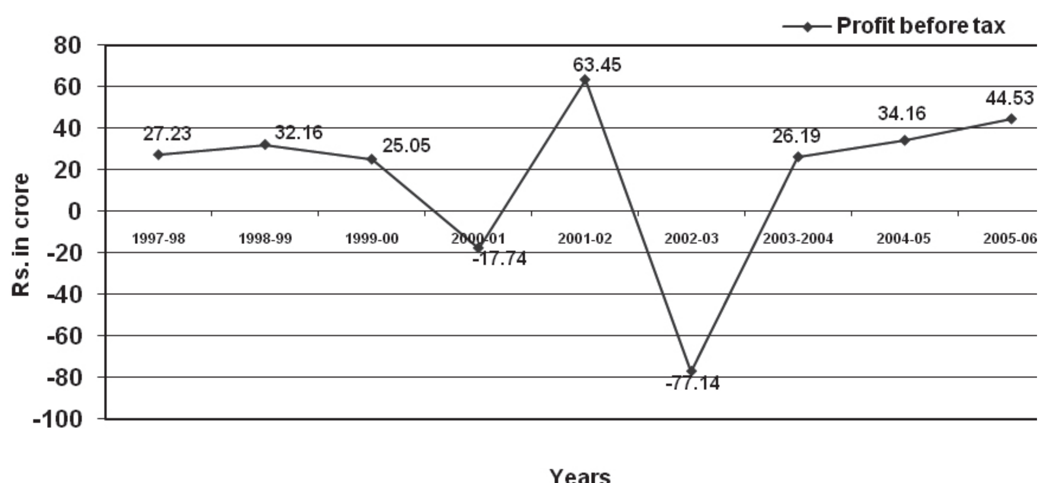


Fig. 8: Trend in Rallis India's profit before tax figures

Rallis has achieved these results through seamless functioning of finance, marketing, sales, manufacturing and administration departments. The commitment shown by the management towards the turnaround strategy was just as strong a factor as were the other initiatives - cost reduction, sale of non-performing assets, performance management, alliances, marketing strategy, enhancement of customer interactions, rationalisation of distribution system, pruning of the dealer network. All these helped make Rallis a healthy organisation.

After announcing the 2005-2006 results, V. S. Sohoni made a presentation showing the

improvement in several financial parameters, such as earnings per share, which reached a peak in 2006. The Rallis turnaround has resulted in increasing stakeholder satisfaction on several parameters: Profit before tax, debt: equity ratio, earnings per share, and minimum borrowing.

New growth areas

From a long-term perspective, Rallis has improved its product portfolio and introduction of new products, beyond the alliances it has signed. A series of new product launched have been planned for the coming years. Of the 200 molecules generated by R&D, four lead molecules have been confirmed. This is an example of innovation in the company; the four new molecules have been registered, out of which two molecules have already gone into commercial applications.

To get into new value added activities, Rallis plans to strengthen its operations in cottonseeds, as it expects a sizeable turnover to come from the seeds business. The BT Cotton market size is expected to almost double, and acreage under legally grown BT Cotton crops to rise almost six fold by 2009-2010. Rallis has already introduced BT Cotton seeds to its portfolio. The company has increased exports by 21 per cent, to reach a figure of Rs. 1,530 million in 2005-2006.

The next phase that Rallis went through was consolidation, where gains were consolidated and changes were rigorously implemented.

Rallis has turned around on every front, i.e., with a 360-degree perspective. Every part of its business has attempted to improve, which in turn has increased its growth momentum.

Perspectives

EXCELLENCE IN ADMINISTRATION

M. N. Buch

A few years ago, the first words in the National Academy of Administration were 'Administration is the art of anticipating the unanticipated'. In 1970, I spent a whole year in posting, since my Chief Minister was annoyed with me. I was the director of tribal and urban welfare. I was in the service but quite without a job, till my CM's wife got jaundice. I suddenly had my hands full. He set me the task of doing something about the water sanitisation at Bhopal in spite of the fact that I headed around 14 departments in Bhopal at the same time. So it was that the unanticipated put me on this job.

In business, you have a very clear mandate before you. When you join a company, it has certain business objectives. Accountability in the ultimate analysis is the success that you bring to the company, which is quantifiable. But in administration it is not so. I wish it were. You are given a whole mass of people. For example: an officer in charge of a district, whether an I.A.S. or an I.P.S servant, has to deal with every issue in proper perspective, where he alone cannot be the decision maker. In a democracy, no one person can be a decision maker. The decisions have to be taken collectively. Democracy works on the basis of the interest of various groups and the number of compromises that must be made. This is the reality of administration in India.

In a comparison made between India and China, they said of 'The Bombay Worli Bandra Sea Link', that had it been China they would have constructed five such bridges, in an equal number of years. China's administration is I think much better than India's. We have built five of the largest dams in the world, which on the flip side, have displaced 30 lakh people. In India the NBA has been able to prevent the completion of dams over a large number of years, over this single issue. While I disagree with the NBA, Medha Patkar has been able to awaken our conscience to one requirement. Those who have to do without when a development project comes up so that others may benefit, must also be a part of the benefit. China does not have that philosophy. And in the long run, I am not sure if our system will be better than China's. These are the questions that you must ask yourself and answer honestly. There will be a lot of people who will question us as to what we think is wrong with China's policy. At least they have been able to build those bridges. This is where we usually leave the questions open to the people to answer. After all there is a difference between dictatorship and democracy.

Having said that, I want to go one step further. This does not mean that administration in India will always be chaotic. India has a first rate administrative system. And I could give you an example of this. When Hurricane Katrina hit the USA, their entire system collapsed. They still have not been able to bring full rehabilitation. What is our system in India? Even with a single flood, we reach there with creaking machines and systems. Ours was the first Naval ship to reach Sumatra, before the Americans could mobilise themselves. My own theory is that in India we could live quite happily in a perpetual state

of crises. It is the routine, which we cannot handle. We still have a reasonably working functioning system. We cannot handle the routine, but if there is a crisis we all come out on top.

And to this again, I want to take up the Bombay example of November 26, 2008. In Moscow last year, the Chechian rebels took over. The Russian army stormed this theatre and ended up with 283 people killed. In the Bombay incident, we did lose a 100 odd people, but by handling this step-by-step, we probably saved a 100 more lives. Yes, there was an intelligence failure. The terrorists landed at Nariman Point and not at any other creek. It is true that the command structure did not come up well. But the individual efforts that were made. Omble, the Asst. Sub Inspector who actually captured the terrorist and took 5 bullets in his chest, managed to save thousands of lives. He was unarmed.

So, the Bombay case shows that there were a large number of people from the lower to higher-level administration who did their job well. The NSG did their jobs well. They could have gone in and turned it into another Russian case, but instead they saved lives. They are handling floods, terrorists, even Naxals, well. Take the Lalgarh case. We did not go there with guns blazing and with tanks full. The police cleared the area village by village with very few casualties. Would you not call this an example of excellence by the police? The Pakistani army experienced huge losses in the Waziristan episode. There is no militancy in Kashmir, which cannot be taken care of in five minutes. The Indian Army and the Police have decided not to use any heavy weapons or artillery. They would take casualties, but in no way would they look at Kashmiri citizens as their enemies. The Police have lost 118 men in this process. This is because our philosophy is one of step-by-step action and not of action that escalates from the tenth degree at the beginning. This is a great achievement of the IAS, which we must not overlook.

In business, we anticipate what the business needs etc. And on that basis plan a production model, which is fairly linear for a predictable period of time. For example in the Government, if we have to launch a project and you have the Congress Government in power, and in the next elections, a new Government comes up and says 'Let's get rid of this. We have other priorities'. The model gets dumped. Or sometimes, the people who have least benefited or are annoyed at a particular model oppose the model the Government has to listen to them. This is the type of situation you have to face. You learn to improvise. It becomes absolutely important for the government officer to do this.

The skill of an administrator comes into play in critical situations like the removing of a mosque or a temple, which obstructs the construction of a road. I have three simple mantras for bringing about excellence in the Government administration. The first is this - The government servant must know his job. When I joined the IAS, the collector of my district sent his staff on leave. I assumed all the duties, right from the patwaari to the clerk and I will never forget how much it taught me. So let me reiterate - you must know your job. Secondly, you must be amenable to suggestions. Unfortunately, the IAS officers of this country think they hold all the wisdom of the earth. Accept the fact that you may not have all the best ideas in this world. Third and lastly, you must be accessible. It is only when you talk to people with an open mind, that you find out what is what. This, according

to me, is a way of bringing about excellence in the government. Let me end with one last thought. Excellence does not come because of outstanding individuals. Excellence comes when people demand it from the government. The secrets to Government Excellence are the people in this country. The secret to Government Excellence is you.

Author's Profile

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The author is currently **Chairman of the National Centre for Human Settlements and Environment** at Bhopal. He is also **Chairman of the Board of Governors of the Atal Bihari Vajpayee - Indian Institute of Information Technology and Management,** Gwalior. He has won the **UNEPA Award for Desertification Control** in 1994-95, the **Agha Khan Award** for Architecture in 1998 and the **Man of Vision Award** by the Hindustan Times in 2003.

MANAGING TIME - CREATING WEALTH

M. Damodaran

Knowledge, which derives from experience and not from formal education, is not something that the audience is usually very comfortable with, even if they have the best academic qualifications. Experience is not the mistake you make, but it is what you learn from your mistakes, that counts as experience.

I am resisting the temptation of sharing my story or rather my "experiences" with you. Life with all it's ups and downs can teach you just as much as Harvard could. I could tell you about my struggles or what to do with inadequate resources and hope that you would learn not to make the mistakes I did and to put into practice the useful things I learnt. If you find my words aren't making sense, please ignore me. You must not allow your brains to be crowded by idle thoughts and vain ideas. This reminds me of a letter written by a certain Indian, to Gandhi. As he and Jawaharlal Lal Nehru read it they discovered that it was a shockingly vindictive letter. He read it, took out the pin of the attached the ten-page letter and threw the pages into the wastebasket. Similarly, get rid of thoughts and ideas that might be used to cause hurt and hold on to what is good to start the journey of excellence.

A few years ago, I was invited to a function where then, as now, I was speaking on excellence, to the audience larger and older than this. This is how I have defined Excellence: "It is the effort to build the gap between your potential and excellence". God in his infinite wisdom has created all of us with different qualities, potential and capabilities. He did not believe that every creation must have identical attributes. Some have fewer, others have more, and some need to work harder than others and so on and so forth. The physical, mental and other attributes vary. Excellence has nothing to do with the kind of marks you receive in an examination or whether ten people got more marks than you or two people got less.

Have you done as well, as you can justifiably expect yourself to do? If an answer to this question is an unambiguous YES, then it does not matter what the rest of the world does or says. Why is this important? It is important, because when we start looking at where our contemporaries stand compared to us, and then decide whether we are failures and successes in life, we begin on the wrong foot. For we judge ourselves within a frame of reference, which will never do justice to our potential. It will quite certainly bring adversity on yourself and at the end of the two years; you would start realising that you have not been true to yourselves or to those who invested their time and effort in bringing you to where you are today.

You are lucky to be young at a point in time where India has realised after a number of years it is going to lead the nations towards development, not just in the context of growth rate, financial growth, savings rate, technological and managerial resources, but also in terms of values, and cultural strength, which the country draws upon in difficult times. All this has given India a window of opportunity, to reach and remain in a position of leadership and to lead the efforts of human kind in charting out the progress of the universe. You are going to spend these years in an institute that will equip you to play a leadership role in whatever job you choose, and in the society you live in. You could not have written it better, were you scriptwriting your life.

That said, it does not mean that one should sit back and smile about how lucky one is. This comes with a responsibility that arises from a recognition that you are going to shape not your own destiny, but also the national and international destiny. In order to do that, one would have to equip oneself with the tools of the trade. One has to have the behavioural traits that are required. Various positions of leadership should be understood and tolerance of others' opinions to be understood, and there can and will be disagreements to be accepted. A former manager of mine once said, "it is possible to disagree without being disagreeable. There is a way to state your dissent without creating discord to state your point of view, to be assertive rather than aggressive, to be respectful rather than pointlessly reverential". This is what the youth today can and must do.

Fast forward to the last scene of your life. Imagine, that you have left this world, or are about to leave and somebody is writing your obituary. What is it that you would want him/her to write? Ask yourself that question, because, once you know what you want people to write about you after you are gone, it is for you to script that obituary. It is difficult, I've tried it a number of times. Tell yourself, that it is not important what people say to your face; what is important is what they say about you behind your back. Do what you would like to be known for after you are gone, not what you would see in the year or now. Look at it differently and live your life in a manner in which you will make a lasting impact on the lives, societies, and living standards around you. Be a leader in the effort of the progress around you.

Like in games of chess, too often we find good people who wait for others to make a move, people, who let us say, play as black pieces. Then there are those, who play as white pieces, make moves themselves and set the pace of the game. But perhaps, the real winners are those who rewrite the rules of the game. Not the ones who react to change, but those who influence change. That is what one's education is going to equip one for. If you see yourselves, as good black players, who respond to other's moves, you are being less than fair to the talent that brought you to this institute. And that is one thing that I want you to continuously churn in your mind. Because you must set the agenda for change. You must be the scriptwriters, the ones who set the agenda, who determine the nature of change, the pace at which the change takes place. This reminds me of Shakespeare. The advice that Polonius gave to his son Legatees, "This above all to thine own self be true. And it must follow, as the night the day, thou canst not then be false to any man."

Be true to yourself. If you play games with yourself, you will clearly play games with the rest of the world, but the rest of the world may not be as unintelligent as to understand what you are playing at. It is important to recognise who you are, be who you are and stay who you are. And ensure that your authenticity, influences the rest of the world. If you start living in the world of make believe and start believing that others also subscribe to it, clearly you have embarked on the wrong journey.

As the Chief Secretary of State Government, I had young officers coming to me, and out of the 20 officers who came to me in four years, 16 officers were from The Indian Institutes of Management. Why they chose a career in the Civil Services over multinationals, is what baffles me even today. They chose to serve society. What I noticed, among the traits they showed at the workplace, was that they were better organised. By virtue of their education in management, they had trained themselves to look for alternatives rather than taking whatever came in their way first. To weigh alternatives, and to choose the best in the given circumstances, is what you are being trained for by the excellent faculty members and the way you are made to work in groups.

I believe that sometimes, management graduates pride themselves on being better multi-taskers than others. When you pass an exam as difficult as CAT, and come to an institute like this, it becomes easy to tell yourselves you have nothing left to prove to anyone. And when that feeds your system, you start practicing that belief and when that gets reinforcement, when that gets into your bloodstream, what happens is that you tend to look at others as lesser beings. As people, less equipped to deal with the challenges of work and life. And this gives rise to what I call as an Educational Caste System. I have seen this before. Therefore, the challenge for each one of us is to say, "This is but one milestone in a long journey". Life is a marathon race and not a sprint. You might be past a certain marker, after an x number of laps have been run, but the tape is not yet visible. It will come years from now. Therefore don't look at those who are not a part of this educational system, as being lesser human beings.

Let me relate this to time management if I can. This is what I once asked a young man "How do you think your management education has equipped you to deal with the challenges of life?" This was his reply "We are among the best managers of time. As time is a limited resource for every individual, be it young or old, it is a resource that is wasting away. If you are trained to use it better, you clearly have an advantage. We, as products of top management schools, are better equipped at time management than others are." I knew his family and so I asked him: "Are you aware of what your mother accomplishes after she wakes up and before she leaves for work?" He got a paper and pencil to write down what his mother must have done. One by one, we listed all those activities that his mother had probably done. I then asked him, "Will you in your life, ever be able to do what she has done - every day of the week, year after year, unfailingly, untiringly, uncomplainingly, and do it expecting no reward and no thanks?" That was the last time we discussed how management institutions equip people. I urge you to do this exercise. It has helped to ground oneself fairly quickly and to look ahead to other challenges. This brings me to the next point. Never ever reach the stage where you think that the only persons you can

learn from people in positions that are supposedly superior. I have learnt a lot from my peon and driver. Today, I can say this fearlessly, especially in an academic environment that I learnt more from those two, than from my bosses and colleagues. Those two gentlemen were people who gave willingly of whatever knowledge they had. In retrospect, it was a good thing that I learnt to take them seriously. Hearing and listening are two different things. I implemented to an extent to what they said, with reasonable success.

In future, when you run one of the largest multinationals in this world, never consider yourself bigger than the person, who might be doing the most menial of jobs. Their feet are planted firmly on the ground. They can see things that you cannot see, because you have by then put between you and reality the filter of several layers of hierarchy, which will prevent the movement of information. One of the failures of leaders, whether in political, administrative or corporate areas are that they do not allow information to travel to them and believe that by virtue of the positions, they hold all the repositories. I have learnt over the time, to take advice irrespective of a person's age or position because all of that is immaterial. Advice is advice. Don't take it just because someone gives it to you. Evaluate it. But don't refuse to evaluate it, because the source of advice, is less educated or younger than you or someone you believe is not competent enough to be worthy of giving advice.

As a young boy, I used to play chess and once had a suspended game, which would be continued the next day. Unable to solve it at home during night, I threw the pieces away, when my mother came. She did not know anything about chess, except that it had black and white pieces. As I dejectedly said, "I have lost", she replied "But your opponent has not won. If your opponent has not won, you have not lost yet." Lessons can come from anywhere. Be ready to absorb when it comes to learning. Be positive. Those who are positive are the ones who succeed more often than not. There was a quotable quote in Reader's digest, "No man is entirely useless. The worst of them can serve as a horrible example". Enron is an example of that. Learn to look for strengths. In the organisations that I have helped to reconstruct, what helped me was a set of two principles, which are - one - every organisation has strengths and weaknesses like any other human being and - two - what helps, is building on the strengths and not on the weaknesses.

Let me end with this. In one of Shakespeare's plays "Anthony and Cleopatra", the two male protagonists, hostile - face each other and Anthony the older of the two offers Octavious a drink and says, "Be a child of the time". Octavious retorts, "Possess time. Let time not dictate what you do. You must dictate what is the content of that time". If you can do that, you will script your time as well as destiny.

Author's Profile

The author was the former **Chairman** of the '**Securities and Exchange Board of India' (SEBI)** and was also the **Chairman and Managing Director of the 'Industrial Development Bank of India'.** At present he is the Chief Representative and Advisor for ING in India and also serving as a **'Board Member in the Audit Committee of Mahindra Satyam'.**

BUILDING INSTITUTIONS

J. M. Lyngdoh

Institutions are so many and so varied viz. ephemeral, permanent, statal, non-statal, constitutional, non-constitutional and so on, and with such different functions and objectives, that the subject does not meaningfully lend itself to generalisation. So, I will talk to you about the institution I know best i.e., the Election Commission of India, which is both a statal and a constitutional institution.

Post-independence, the Indian federation chose to have its governments at the Centre and in the States elected within a universal suffrage - parliamentary democracy dispensation. The elections could have been conducted by the government as in UK, USA and most of the countries of Western Europe. But the constituent Assembly which drafted the Indian constitution was aware of cheating, such as leaving communities out of the electoral roll or impersonation, even with the limited experience of elections under the Government of India Act 1919. And thus, it was paranoid about the possibility of elections being hijacked by the political executive or party in power that it provided in the constitution for the creation of a permanent Election Commission with plenary powers, sheltered from interference by courts during elections, and a Chief Election Commissioner removable only by impeachment in parliament - in other words, for a permanent, powerful and independent Election Commission.

The Commission's functions were to prepare and revise electoral rolls and superintend, direct and control elections to parliament, state legislatures and the offices of the President and Vice-President of India. Its unvarying objective was to provide free and fair elections. How has the Election Commission performed these near- 60 years? With all its limitations, it has grown to be the most respected public institution in the land, and by and large has measured up to expectations. I hope to describe to you how it has got there, particularly on how it has become so independent.

The Election Commission grew up in one of these unobtrusive hutments auxiliary to the Central Secretariat of Lutyen's New Delhi. Taking advantage of a spurt in official building activity to house the new ministries and offices of independent India, the Election Commission found space in what is now knows as Nirvachan Sadan on Ashoka road. But it was with other offices earlier, which were evicted once it had enough power to do so.

In its minority the Commission was just a sibling of the ministry of law, given barely enough money to run its household, and required to take sanction even to serve tea to visiting foreign delegations. Then CEC (Chief Election Commission) Seshan, who had been Cabinet Secretary and was used to bullying the tribe of secretaries to the Government of India,

wrested from the authorities the same financial powers as enjoyed by the Supreme Court. From then onwards the funds also came plentifully. However, the Election Commission budget is still voted.

Article 324 (2) stipulates that the Chief Election Commissioner is to be appointed by the President, subject to provisions of any law made by parliament on that behalf. But the political executive, while it has appointed as CEC some outstanding persons like Sukumar Sen of the ICS, has intentionally left a loophole to secure pliant CECs by making sure that no such law is passed in the parliament. So, the President continues to appoint CECs on the recommendation of the Union Council of Ministers. Yet curiously - perhaps because of the hurly-burly of elections, the clash of egos, and the need for credible elections in order to be able to govern such a large and diverse country- most of the CECs have been quite independent. Contrary to what the media would have us believe, the Election Commission is not just about Seshan and me and how we fought the government. There were earlier and equally prominent conflicts between the Chief Election Commissioner and the political executive. In 1981, H.N. Bahuguna, who had left the Congress and sought to prove that he could win an election on his own, stood as an independent candidate in the Garhwal parliamentary constituency. Indira Gandhi, vindictive and determined that he should lose, suddenly flooded the constituency with Haryana policemen, that even the Collector and SP were taken by surprise. Shakdher, the then CEC, declared the election null and void on the ground that excess police force was there to overawe the electorate and rig the election. He made the frenzied politicians wait, and had the elections the following year, by which time things had cooled down. Much to Indira Gandhi's annoyance Bahuguna won the election. Shakdher was also an innovator who teamed with the Electronics Corporation of India to bring out the 'Electronic Voting Machine'. The machine had to be run experimentally in some election or other after it had been proved technologically. Shakdher had written to Indira Gandhi to amend the Representation of the people Act 1951 to allow the use of EVMs as an alternative to ballot papers and boxes, to which she had turned a deaf ear. After a decent interval, 50 EVMs were used in the Paravur bye-election of Kerala in 1982.

Another CEC, Peri-Sastri clashed with Rajiv Gandhi over the Haryana assembly elections in 1987. President Zail Singh, whom Rajiv Gandhi could not stomach, planned to stand for re-election as President. According to schedule, the Haryana elections were to have preceded the Presidential Elections, and the congress was expected to get a drubbing in Haryana. This would have been to Zail Singh's advantage, since he would have got some support from the new MLAs of Haryana. Rajiv Gandhi determined to deprive Zail Singh of any support from Haryana asked the CEC to have the Presidential Election before the Haryana elections. But Peri-Sastri stood his ground and got the Haryana elections done first. This was despite personal harassment in terms of the government's trying to find fault with his property and income tax returns. After people like Shakdher and Peri-Sastri, the Election Commission started fixing the dates of elections in consultation with all the stakeholders, instead of taking dates from the government.

Status-wise, until the Election Commissioners (Conditions of Service) Act 1991, the CEC was just equivalent to a Secretary to the Government of India. The 1991 legislation was tailor-made for Seshan who, as Cabinet Secretary earlier, was already in the pay scale of

a judge of the Supreme Court. The Act formalised the pay parity while adding the perks of a Supreme Court judge. It also fixed the CEC's tenure at 6 years subject to his retiring at 65. But the CEC's status was not an important issue. As I have mentioned already, the CEC had asserted his independence even when he was equivalent to a Secretary in the Government of India.

The Election Commission consists of some 300 functionaries in Delhi. For country-wide general elections the requirement of polling officials alone is over 3 million. It would have been absurd to have the Commission appoint millions of officers just to conduct elections. Quite rightly therefore, the Election Commission conducts elections using the services of state government employees, but considers them on deputation to itself and subject to its discipline. However, the Commission has had to improvise in order to enable the impartiality of state government officers on poll duty. Polling officers are selected at random by the computer for different polling stations. In very difficult circumstances, as in Kashmir 2002, polling personnel have also been brought in from other states. Senior field officers showing partisan leanings or with a questionable background have been transferred by the Commission prior to elections. But the Commission's primary grip on the administrative apparatus of the state government is secured through the Chief Electoral Officer. He is a senior Secretary-level officer of the state government on long-term deputation to the Election Commission, and owing loyalty to the Commission rather than the State Government. Initially, the state government in consultation with the Election Commission appointed the CEO. Later, it was just the other way around after a trial of strength between the two institutions.

But how do you conduct credible elections without a sizeable police force and senior officers to act as observers? The union and state governments maintained it was their prerogative and not the Commission's to decide what forces and officers were needed. The Commission's position was, give us what we need for, we conduct no more elections. Fortunately the Supreme Court intervened and asked the Government of India to comply.

The problem did not end with securing services of reliable personnel to conduct the elections. There was a big hole in the electoral legislation viz. the Representation of the People Act 1951. The Act does not contain any chapter on political parties whereas it is they that compete in the elections and come to power. In a country with so much illiteracy, political parties in the elections have had to be identified with different symbols. The Commission has had to evolve objective criteria for deciding, from time to time, which parties would be considered national parties, regional parties and local parties. A national party would get one symbol for the whole country, a regional party one symbol for a region, and a local party one symbol for the state in which it was located. The codification of the criteria for the reservation and allotment of symbols and the recognition of different categories of political parties was consolidated in the Election Symbols (Reservation and Allotment) Order 1968. Later this order included the registration of political parties, registration being made a precondition for getting recognised and obtaining a symbol.

The Commission also had to virtually sub-legislate to secure reasonable conduct from political parties, particularly those in power, during the elections. This was necessary because the law is only aimed at individual offenders, and not corporate entities. Left to itself, the

government of the day would have enormous advantages over the opposition while fighting an election-misusing public fund, misusing the police force etc. So, the Election Commission evolved a code of conduct for all political parties, its essential focus being to reduce the government of the day to the level of its competitors, to the extent possible. So, no misuse of government funds for advertisements, no new schemes and projects, no patronage appointments and so on. Ministers electioneering can do so only as ordinary citizens in private vehicles, cannot use government rest houses unless by turn (other parties are allowed to use the same facilities). Local officers, particularly the Collector and SP are not allowed to call on the minister while the code of conduct is in force. The use of government planes is especially prohibited; politicians of all levels now hire private helicopters. The code of conduct is now informally recognised by all courts, many politicians have contested it and not succeeded.

Whenever elections are mentioned people also talk of electoral reforms, because they are frustrated that reforms do not happen. Electoral reforms usually involve corrective legislation, which the politicians have been steadfastly resisting. The useful electoral reforms, which have been introduced have all, come from the Election Commission. I have mentioned many of them so far, such as creating reliable electoral machinery in the field, sub-legislation regarding political parties etc. I have also mentioned the technological change made by introducing Electronic Voting Machines. The other technological aspects are ID cards and computerisation of electoral rolls.

You have heard of the affidavit, which every candidate now has to file, regarding his assets and liabilities, involvement in criminal cases, qualifications etc. The first affidavit was the work of the Commission acting on its own. Subsequently, civil society and the Supreme Court refined it.

So much is spoken about state financing of elections. The Commission realised that in modern day elections the highest expenditure is on media coverage. So it had been giving free time on Doordarshan and All India Radio to political parties, the time allotted to each depending on whether they were national or regional parties, which in turn is determined by their share of the votes polled in the previous election at the national or regional level.

The Commission's improvisations in difficult circumstances have eventually become electoral reforms. In the 2002, Jammu and Kashmir elections, the Commission soon perceived that the main obstacle to good elections was ex-militants. Ex-militants surrender without conditions, become the property of the police, and are used for various purposes from combating militants, to bumping off people the police ask them to, or providing fodder for fake encounters. In fact, the Commission found them used for threatening opposition candidates too and from preventing them from campaigning. The crowning irony was that an ex-militant also eliminated the then Jammu and Kashmir Home Minister. The trouble was some ex-militants were with the State Government and others with the army, and both denied having any. It was left to the Commission to make its own exhaustive inquiries to get the names of the ex-militants and the details of their handlers. Ultimately, they were all confined to barracks. So the Commission assumed policing of the most dangerous kind in circumstances where the Government of India and State Government were helping the party in power.

There is also the useful precedent of using diplomats in Delhi as informal observers in elections. They are much more understanding and perceptive than formal foreign observers.

The Commission's hunger for innovations and improvements has continued till the present. The Bihar assembly elections of 2005 were the best in the State in recent times. 50,000 non-bailable warrants were issued against criminals. Special software was created to detect similar names in the electoral roll and delete duplicates. To prevent booth capturing, results of past elections were studied, and the polling that stations that showed 80% voting (very unlikely to have been genuine with averages round about 50%) they were brought to the special attention of polling parties and observers.

The UP assembly elections in 2007 were equally impressive. Sex ratios of polling stations were compared with the district ratios to unearth female voters. Polling stations with a substantial number of migrant labour voters were singled out, with specific details circulated to the polling staff and observers to prevent the kind of impersonation traditional in these polling stations. There was also a vulnerability mapping of areas usually experiencing the intimidation of weaker section voters. Here again the observers and polling parties were alerted.

In the 2009 general election the Commission had appointed booth-level officers i.e. officers responsible for the fidelity of the electoral rolls of their booths, throughout the country. Vulnerability mapping was extended to the whole country. There was a countrywide mapping of communication assets-mobile phones, landline phones, high frequency and very high frequency communication, satellite phones etc. to achieve connectivity to polling stations. Logistics wise the Railway Board provided special trains for the transport of polling staff and security forces. There was also an arrangement with the Indian Air Force and Air India to fly over Bangladesh carrying personnel and material. 1,40,000 micro observers were posted in selected polling stations to observe the proceedings from within. Ramps and Braille-enabled EVMs were used for physically challenged voters.

Nevertheless, the old bete noires of the Election Commission remain. Limitless expenditure, the bribing of voters, criminality, and the restricted freedom to vote in ever-larger parts of the country, particularly those affected by militancy. This by itself is a topic worthy of a full chapter.

I would like to end by referring to Frank Vibert in 'The Rise of the Unelected' in which he shows that in Western democracies the political executive has realised that it has neither the time nor the inclination to handle complicated matters, and has therefore found it convenient to farm out these activities to an increasing number of bodies of unelected experts. One can see the same trend in India. The most outstanding of these is the Central Information Commission, which has made inroads into the secrecy surrounding judges' personal assets. Institution building, which is the subject of this talk, is going to be of increasing relevance in the future of this country.

Author's Profile

The author is the former **Chief Election Commissioner of India** (June 14, 2001 to February 7, 2004 and was awarded the **'Ramon Magsaysay Award'** for Government Service in 2003.

BUILDING MEMBERSHIP-BASED ORGANISATIONS OF INFORMAL WOMEN WORKERS

Mirai Chatterjee

I am very pleased to be here at IIM, Indore on the occasion of Foundation Day. Indore is special, as it was here that Smt. Manorama Joshi founded SEWA Indore. Over twenty-three years it has grown into a five-lakh strong union, SEWA Madhya Pradesh and Manoramaben has passed the baton on to our young colleague, Shikhaben.

Today, I will be focusing on building membership-based organisations and institutions of the poor, particularly of women workers in the informal economy.

The Self-Employed Women's Association (SEWA) is a national union of over 12 - 11 lakh women workers engaged in the informal economy. Over 93% of the Indian workforce is informal - with no fixed employer-employee relationship, if at all. About 40 crore workers are estimated to be informal.

94% of our female workforce in India is informal. At SEWA, we prefer to call them "self-employed", according to them the recognition that is their due. Our members are - manual labourers and service providers like agricultural labourers and construction workers, street vendors, home-based workers like those rolling bidis, agarbatties, papads and making a whole range of everyday products, and also small producers like salt workers and artisans.

Our members are poor but economically very active. In fact, the informal economy accounts for more than 60% of GDP and 47% of all our exports. Thus, this is a significant, growing and vibrant segment of our economy. It is also the vast majority.

Among the informal workers, women are the poorest and most vulnerable. They are often engaged in hazardous work that no one else will do. Their health and overall well-being is frequently affected, and yet, as their very survival depends on work and income, they take whatever they can get.

Indeed, their lives are a quest for work and income, and with at least some measure of social security like health care, child care, insurance, housing and pension. If they have some work and social security, they are able to move out of poverty and towards self-reliance.

The world of SEWA has been the world of our poor, hard-working and vulnerable sisters. As we organised women into their own union, we recognised the need for our own organisations and institutions. The very act of registering the Self-Employed Women's

Association itself was based on the need to develop appropriate organisations for poor women workers, as we saw that their world of work was very different from that of mill workers and other organised labour.

In 1972, SEWA was founded by Elaben Bhatt - the first such union of self-employed women workers in the country. As Elaben worked in the mohallas and chaalis of Ahmedabad, she realised the need for such institutions. This was in part due to the fact that multiple needs like access to credit and child care emerged. A union form of organisation was not able to address all the diverse needs of the poor. We also saw that building our own membership-based organisations would help to further organise and strengthen our SEWA sisters. They would be "empowered". Their collective strength and bargaining power would be enhanced through building their own institutions.

Furthermore, we saw that there was a dearth or absence of institutions serving the needs of the poor in our country. A case in point was the banks. Our members needed a safe haven for their savings, and access to credit. They needed to be freed from the clutches of money-lenders. But who would entertain their requests? Was anyone ready to believe that women were bankable forty years ago?

As few banks would have us as customers, it was the women who advised us that starting our own SEWA Bank was the best option. They contributed Rs. 10 each of their hard-earned savings towards share capital and readily agreed to serve as Directors of the Bank's Board. Convincing the RBI officer to provide them with a license by learning to sign their names overnight, they founded their own bank with Rs. 40,000 share capital. Today 3,50,000 women are depositors and SEWA Bank's working capital has crossed Rs. 100 Crores. It is totally self-financing and sustainable. It does not depend on outside funding.

Similarly, when our dais and local health workers were not getting the recognition that was their due from their own communities, and the outside world, SEWA organised them into their own cooperative, Lok Swasthya. Today 800 dais are its share-holders and its area of operations has expanded to the whole of Gujarat. These women provide their services for a modest fee - in cash or in kind - and have finally been recognised by the government and their own communities. They have expanded the range of their health services and take training to strengthen the quality of their care.

These are but two examples of many at SEWA. In fact, we have built more than 3000 small, medium and large organisations of the poor. They are all membership-based organisations or MBOs. The organisations and institutions we have developed are:

- Unions - a national union, SEWA, and several others in different states: Gujarat, Madhya Pradesh, Delhi, Bihar and Kerala.

- Co-operatives - more than 100 producers co-operatives, credit, service and traders' co-operatives. In Gujarat these have formed their own state-level federation of women's co-operatives.

- Associations - of village-based savings and credit Self-Help Groups (SHGs) at district level.

- Companies - of artisans like embroiderers, small producers and construction workers.

Apart from SEWA and SEWA Bank with over 12 lakh members and 3,50,000 depositors respectively, as mentioned earlier, we have a wide range of organisations including VimoSEWA or SEWA Insurance with 1,25,000 members, Unnat Bazaar or our artisans organisation with 20,000 women, our co-operative federation of 90,000 members and then village-based SHGs with 15 to 25 members.

Each of these organisations has an elected board or committee of women who are both the owner and users. They run these organisations through their boards, hold regular meetings, maintain minutes and books of accounts, and have regular audits. They also develop a team of staff persons led by one or more mangers. In sum, they do whatever it takes to build, lead and develop their organisations, as other organisations in the formal economy do.

In the course of helping our sisters develop their organisations, we have identified several important needs of such institutions. Some of these are:

- Capacity-building
  - to run meetings, maintain minutes, in book-keeping and accounts;
  - for managing these organisations and marketing their products;
  - technical training, including in information and technology;
  - for leadership
- Working capital
  - to both start up and develop their businesses and/or services.
- Linkages
  - for marketing, marketing research, design development, capacity-building, research, risk-sharing, and with a whole range of agencies, government and private, local, national and international.
- Policies and regulation
  - creating an enabling environment by developing favourable policies and laws (like the one by RBI permitting SEWA Bank to start branches in other places), and removing restrictions to growth (like the capital requirement we hope IRDA will reduce for micro insurance).

Unfortunately, these needs are still not being addressed adequately. There has been considerable change in the attitudes and investments in organisations of the poor. It is widely acknowledged, for example, that the poor, and especially women, are both bankable and

insurable. Investments in both these financial services have increased appreciably. Still, much more investment, inputs and risk sharing with organisations of poor women are required.

Building membership-based organisations of poor women workers-some lessons learned

In the course of building organisations of women workers, there have been many challenges and lessons learnt. I will highlight some of these today.

- The poor need organisations and institutions, which both reflect and are responsive to their needs. In particular, the poor, and especially women, need institutions that help them stand firm in the market, in the economy and society.

- The institutions of the poor need to be as "close" to them as possible - physically, as well as socially and culturally. Work, employment and services need to be available at people's doorsteps, and at their convenience and in a manner that suits them.

  Ownership is crucial - people need to feel that the organisations are their's and that they have a say in how these are run. In a rapidly democratising India, this is a genuine aspiration and need of all people, including women, who have hitherto been excluded.

- When poor women run, own and use their own membership-based organisations, both grow and develop - individual women and their organisations. Women emerge from poverty and move towards self-reliance. And at the same time, their organisations become viable.

- Running their own organisation builds leadership and management skills, and results in their "empowerment". They become leaders in their communities. Often they are asked by their communities to stand for elected office - sarpanches, municipal councillors and even as state legislators.

- Special efforts are required to fill in the gaps in the needs of institutions of the poor. These need to include capacity-building, working capital, essential linkages and enabling policies, regulations and legislation.

  These gaps in knowledge, skills, attitudes and investments should be addressed in ways appropriate to the poor, and in a holistic and integrated manner. Providing some inputs, without others, will have limited impact.

- Leadership development and cadre building are essential. Developing models of leadership based on democratic functioning - collective decision-making, consensus-building, transparency and promoting leadership of subsequent cadres of local people, and especially women - is required, if organisations are to grow and

flourish.

- Small and medium-sized institutions seem to be more workable from the point of view of the poor - or federations of these at district, state and national level. In this way, leadership and management by a wider range of people is possible, thus building a strong democratic base.

  In the cases of financial institutions like SEWA Bank and VimoSEWA, the large size helps to cushion risk and builds solidarity and trust, all essential for such financial organisations.

  From a practical viewpoint, in small and medium-sized organisations, services and inputs reach the poor faster - the "pipe-lines" are shorter!

- Such institutions build solidarity and strengthen communities. They lead to greater cohesion of our diverse citizens, as all creeds and communities are bound together in constructive action that benefits all. It is also peace-building, promotes plurality and builds on the richness of each other's strengths and traditions.

Organising informal women workers, building on their immense strengths and insights, and helping them create and develop their own institutions has been a tremendously rich journey. It is fraught with challenges - but none of them insurmountable! With faith and commitment to the poor and their institutions, there is much that we can do and learn together.

Author's Profile

Mirai Chatterjee
Mirai Chatterjee is the **Director of Social Security** at SEWA. She is responsible for SEWA's Health Care, Child Care and Insurance programs. She is currently Chairperson of the National Insurance VimoSEWA Cooperative Ltd and of Lok Swasthya, health cooperative. Ms. Chatterjee has a B.A. from Harvard University in History and Science and a **Masters from Johns Hopkins University's School of Public Health, U.S.A.**

INSIGHTS
AN INTERVIEW WITH PRADIP KHANDWALLA

Professor Pradip N. Khandwalla (PK) has been the Director of IIM Ahmedabad. His qualifications read: B.Com. (Hons) from Bombay University (1960), CA (1964), MBA (Wharton School, University of Pennsylvania, 1966), MSIA (1968) and Ph.D. in industrial administration (Carnegie-Mellon University, 1970). Now a management consultant and trainer, he brings a fresh change in the way corporate governance is perceived. He talks about creativity, goodness and ethics in the field of management in an interview with Professor Abha Chatterjee (AC), Faculty, IIM Indore.

AC: What do you think one needs to do to attain the kind of stature you have as an academician?

PK: Every individual has to develop oneself, given the context of goal, aspiration and also interest. Some people can be outstanding trainers but not good teachers or researchers, while some may be exceptional at research but not at training. It is a question of choice and interest. In my case, it was the yearning for research. The intense curiosity to find out things was an important factor. It is not just restricted to Management, I am interested in finding out all manner of things; be it Astronomy or Astrology and a fair amount of intelligence which I won't be modest about it, although of course many people have more intelligence than I. Added to this was the concern that whatever I do, should in some way be helpful to the country as a whole. My upbringing has been in a very nationalist family. This played a role in my returning from North America after 10 long years. In my early years, the concern for the society had guided my work implicitly while later it was in a more explicit way.

AC: You have written some books. Would you tell us about them?

PK: My latest book is on how corporations can be outstanding performers and also have a very real sense of CSR and Ethics. Another work of mine is on how to revitalize the governance of a country; it came out in 1999. Both of the works are influenced somewhat by the concern for society in the larger context. In the last two years, I have been asked by a couple of the Prime Minister's Task Forces, to write monographs on various commissions and projects. One of them was for the Mohali Commission and the other was for Bihar, which was based on one of my earlier works. This project had a larger concern attached to it. You are supposed to design a state to increase its performance level. The criteria relevant here are not restricted to profitability; they also extend to accountability to people, use of resources, and quality of public service.

AC: Would you tell us about your book on social development…

PK: I was not the author and had only helped to edit it. Today, we have practical knowledge about Organisational Behaviour & Sciences. A lot of research has also been carried out on it. Nevertheless, so far it has been used primarily at the corporate level. 'How do you improve relationships?' 'How do you have a better design of organisation?' These are the types of questions often answered. The same information base can be applied in a much more extensive way. There was an international conference at IMA; the concept I tried to propagate was of strategic organisation, strategic group and strategic individuals. Strategic organisations are those that either have a national mission, for example; the planning commission, or those, that like public enterprises, promote economic and social development. Trained local catalytic groups like NGOs are also examples of strategic organisations. The idea was that if we could engage strategic organisations in the development mechanism, the impact on society would be larger. As educators if we could do more research on strategic groups the impact would be substantial, even in the context of a developing nation. Right now much of the work we are doing is going to companies where it is least needed. The companies are already well managed. Research is primarily being used to increase business performances. Such were the issues discussed in the international conference.

AC: Did something concrete come out of the discussion?

PK: We launched a book series on strategic organisations, three to four volumes were published and some courses were developed with plans to carry out further research. The impact was somehow not as effective as was expected. It was an idea that was presented, to turn it into a major movement. One needs to devote a lot of time to the whole concept; perhaps a period of 10 years or more. I, being primarily an academician, was interested in carrying out research and teaching. For those who were interested, the platform was open.

AC: What do you believe could help in doing better and more meaningful research in context of the economy?

PK: Creativity can make your research go further than it would otherwise. In context of satellite powers the resources are scarce. Creativity is a less tapped resource. If you take a look at the planning commission, all they talk about is producing a certain amount of food grains. Say for example, if they had produced 200 million tonnes in the last five years, they would set a target of 250 million tonnes for the next five years. The fundamental question of whether you really need more is not asked; it is assumed that there is a need for it. There can be options like producing vitamins or nutrients in pill form that can supplement the food grain to a certain extent. What is the nutritional content of a pound of food grains? It may be one-tenth, or one-twentieth with the rest holding no value, and the way we cook it, the nutritional part is often destroyed. But we are fixated with the notion of producing more. Take steel for example. We are increasing our production capacity without really figuring out the current and future requirements. What if steel becomes obsolete tomorrow?

Polymer is much stronger than steel and it is also usable. Then why do you need steel? "Could polymer be used in place of steel?" is the vital question. The automobile industry is another case - Obama is stressing on environmentally friendly cars; Toyota resisted it all these years. Tomorrow if we go in for battery operated cars then what will happen to all the huge plants and machinery. The notion of zero based thinking, would then throw up innovative ideas. Somebody said that you have to think smart. This is quite missing in our society.

AC: Can it be taught?

PK: It is a habit of the mind, like how one learns to brush one's teeth. It starts from childhood, so if you can make a child come up with multiple ways of looking at things, then the child becomes creative. Creativity is not only a gift of God, one has to turn it into a habit.

AC: What do you think as educators we could do, since imagination is not taught or practised? How do you go about building it into a habit?

PK: I am a little pessimistic about the education system that we have. In our country, most of the rural schools are poorly funded and the students there are poorly taught. Often the students have little to no interest, in academics. This is a serious concern and the system needs to be improved drastically. There are Alternatives, which could be considered, for example; we could have distance education through electronic media. We do not have even one good children's TV channel today that is completely focused on children. Today, India already has 300 million phones, mobile service bases and in the next five years the numbers will quite possibly go up. So it is in the case of computers. We are moving into the age of extensive information linkages. This is a great opportunity for us to mount an educational effort through audio-visual means. In the future, we could have a centralised studio college where India's best teachers could make a contribution.

AC: Going back to your past, what was it that made you change your profession from a Chartered Accountant to a Professor of Organisational Behaviour and Sciences?

PK: When I was a Chartered Accountancy student, I used to wonder what were the reasons behind the figures; some companies would have higher profit margins, while some would have lower ones. It was partly because; some companies were not playing for profit. Another reason was because of the management. My curiosity made me ask 'why' and not 'how'. 'How' is a technical question, whereas 'why' is a philosophical question - an exploration. I think, if we can inculcate this in children, then there would be more thinkers. What we are doing today is producing technology. What if it becomes obsolete in a few years? Instead, when we train thinkers in management education, the results are more encouraging in the long run. If the students' only interest is in the getting of good grades, writing a thesis and getting a job, then they will be programmed in such a way, as not to be able to think for themselves.

AC: I have been teaching for more than twenty-five years. When I joined teaching six years ago, the participants used to read, were more well read-read too. Nowadays, it is not like that. Is it the way we teach or is it a general trend?

PK: All the IIMs in the race for the toppers end up having good students. This is always a limited number. But that's not how we should judge a human talent. If you add to it the other attributes that are important like leadership quality, goodness, ethics.

AC: How do you measure goodness and ethics?

PK: It is mainly about being aware of the fact that there are many dimensions to being outstanding, only one of which is performance. In our system, performance is what we define as the capacity to answer questions, which have definite answers. But much of life is not like that. Often, the people selected, are those who are good at making choices between two variables. In real life, most problems do not have one perfect solution. The higher you go the more difficult it becomes to differentiate the best from the rest of the lot. You need people who have the capacity to come up with really good solutions. If you look at leadership as the main criteria, then you have to devise tests, which capture the essence of a good decision. There are some interesting results of research on this. IQ is highly correlated with tests like CAT. The correlation is 0.5-0.6. What I am trying to say is that if you choose the top 5%, then you are eliminating somewhere around 70 % of the most creative minds. It is a huge price to pay. So, why is it that we are so hung up on CAT? CAT has a high cut off point. It does not make sense at all. At IIM we have SC/ST who came with 50 percent cut off versus the usual 90 percent. Most of them are able to complete the programme. CAT is not a good instrument if you use it at that cut off; you are probably cutting off people who are very good in other ways. If you use it to make a broad cut-off - like 50 percent - then it is acceptable. Many business schools are coming up and schools from abroad are also setting up their educational operations here. At this point, one has to decide who the good students are: Students who are good at academics and score high in CAT? If the answer is yes, then one will get plenty of such type of students. But they are not necessarily the best talent available.

AC: IIM Ahmedadabad did have a policy of including people from different streams…

PK: That is true, because, basically it had the same criteria. For example, we were going to have some B.Com students, so, what happened was that in the group of B.Com students, one looked for students with the best academic qualification, CAT scores, and so on, so forth. But we should probe more; look a lot deeper than all those tests, to determine who the best students are.

AC: Will this be the theme of your next book? What would be the subject of your writing?

PK: The book I am writing now is on Indian Governance. It has drawn on global innovation in governance all over the world and its suitability in the Indian context, as well as, the innovations that have been done in India. I will try to make some proposal, based

on the findings. It is called New Public Management: A New Approach to Governance. It started 34 to 40 years back in the UK and the US, in response to very heavy budgetary deficits and public perception on effective government. The then Prime Minister, Margaret Thatcher came onto the scene and stripped a number of things to identify false professionalism, so that changes were made within the system. The success she attained was carved out with the help of around 130 Executive Agencies, as they are called. They are a part of the government, but are not headed by bureaucrats. Selected professionals within the public sector or from outside were appointed to carry out the task. They were selected on a contractual basis and were mandated to receive at least one-third of their pay in terms of performance indicators, which meant that if you were a public sector agency and you had some operation to execute, then you were encouraged to advertise. In which case, your own team, as well as an outside team either from the public sector or from the private would apply for the contract. The best team would get the contract and the winning team would have to absorb the current team. This competitive system ensured that the public got the best value for money. They also had and still have something called the Citizens Charter. It is a public pronouncement by each executive agency on what the public can expect from the agencies and if those are not fulfilled, then their grievances are addressed. Apart from this they have developed 1800 different indicators of performance for all these agencies. For example: The Employment agency - when there is a single indicator of finding jobs for people who are unemployed then the agency will take the easiest route. They will look for qualified people and help them get placed somewhere. To guard against this, they are given specific targets. Such as, not only must a certain number of people be given jobs at a specific cost but they are also expected to place physically challenged people, at the same time. Further more, they are also instructed to place certain people who have been out of a job for the last six months. This policy is to help the disadvantaged people in the economy. This way they are able to come up with the performance indicators, which capture the essence of public policy and which will be accessed every year.

AC: So, has that been successful?

PK: To a great extent, yes, it has, and that is what I have proposed in my writing. The interesting point is that there is a lot of similarity between the Central Corporate Public Sector in our country, (like BHEL, HMT) and the Executive Agencies abroad. One of the similarities is the way of selecting the managing group. Selected professionals head the public enterprises of the Central Government. There is a public enterprise selection board, which does the selection. At least three or four other professional full-time Directors are selected - Directors of Marketing, Operations, Finance, and Personnel, plus the Chairman Managing Director. Then there are three to four independent directors. Out of them one or two are political appointments but the remaining are professionals. I have served on the boards of NTPC, Bharat Petroleum and Bank of Baroda. In all of them, there was a system of professional management. In public sector banks there is a system of having one Director who acts as the representative of workers and one who acts as the representative of the officers. On the whole, the management is fairly professional. There are times when

there is interference, but I would say that in the three public sectors that I have seen, interference was minimal at the operational level. We have another public sector in India, which is owned by the state government. Each state has 40-50 such enterprises. These are managed in a very different way. The Managing Director is an IAS Officer, with the Chairman being a politician from the ruling party. Both have no domain expertise. The independent directors are very few and are also quite easily influenced by the politician. There was a study of the performance in the central and state owned enterprises. It was found, that after liberalisation the aggregate net profits of central owned units were growing at a rate of 15% per annum compounded annually, whereas, the state owned units were incurring losses at the same rate. The difference is clearly due to the professional management of the centre owned enterprise. That is why the Executive Agency concept is worth pushing. It would give us the same result it gave countries like Britain, Canada, Japan, New Zealand, Singapore and Thailand.

AC: Did it work in Japan and Thailand?

PK: Reasonably well. We don't have many assessment studies, but whatever I have seen suggests that they are all bringing the desired results. In Britain, of course there is a regular assessment. So, there are a lot of things we can do without changing the Constitution. We can learn from other countries and adapt some of their ideas to help change our circumstances for the better.

AC: Do you think the Right to Information (RTI) is addressing these issues?

PK: RTI is a very powerful tool for transparency. But it is not an effective management tool. You may come to know that so much money is wasted because of the use of RTI, but then what? We criticise and at the most, go to court and file a case. But the system continues as it is. Two to three years down the line there will probably be similar reports. We are not talking of systemic changes but of the isolated cases. Systemic changes, like performance management systems, or stakeholder management of government bodies, if implemented, will fetch a better result. One has to have competent professionals too. It must also be ensured that the professionals get their due remuneration. Even if the base salary is of that of the public sector then ensure that the rest has variable components, so the person can earn more if he performs well. IT is another very powerful tool to reduce corruption. It has been seen in Karnataka and elsewhere. Land records for example had a corruption rate of 90 % before the records were computerised. But after the whole system was IT enabled it was cut down drastically. I believe, such interesting and effective innovations, which have been tried around the world, if applied, can result in much better governance.

Author's Profile

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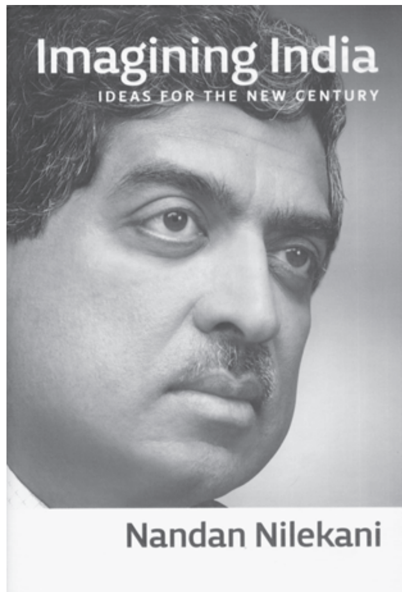
Abha Chatterjee is a faculty in the area of **General Mangement** at **IIM Indore.** She teaches **Business Communication and Ethics.**

Book Review

IMAGINING INDIA: IDEAS FOR THE NEW CENTURY

N. Ravichandran



Nilekani, Nandan (2008). *Imagining India: Ideas for the New Century:* The Penguin Books India. Price - Rs. 699 (Hardback) Rs. 399 (Paperback).

Nandan Nilekani's book on Imagining India is an important landmark in finding strategies between the tension between India and Bharat. Even though the book does not define its audience and readers, it is a useful book for academicians, administrators, policy planners, entrepreneurs and enlightened citizens who are socially sensitive. The book can also be used as an explicit handbook for meaningful problem analysis and policy debate.

Imagining India presents a refreshing view of describing and addressing issues of national importance. This book provides a different view point of looking at problems and issues in the Indian context from a traditional perspective of addressing issues based on caste, religion and region. It is built on the core philosophy of issues related to education, employment generation, security and safety of the citizens, health care related issues and a quality life. According to the author, these issues are relevant and critical to every citizen in the country irrespective of his caste and religion. In this sense, the book is built on the strong foundation, which will lead to a secular outlook in identifying and addressing issues related to India and its transformation to a developed country.

The book is organised in four parts. Part I - briefly describes the ideas/concepts that has gone through a radical transformation in the Indian context. The second part of the book briefly presents a whole range of ideas/concepts, which are accepted by the Indian public in general but are not yet fully settled. The third part of the book deals with concepts where the discussion is alive among the India public. The last and final part of the book deals with the ideas/concepts, which in the opinion of the author, could induce and generate serious discussion in the near future to decide and determine the policy options for the development agenda.

The book is based on an interesting logic, which holds the potential for India as a developed nation. The author acknowledges the fact that economic growth is important in the context of India evolving as a developed nation. The two pillars of growth include expanding access to resources (physical, infrastructural and conceptual) and allowing access to opportunity. According to the author (as it is widely known), the young largely middle class and a vibrant democracy in India are important attractions of this country. According to the author, the

transformation of India into a developed nation would be a function of our ability to reorient ourselves from business-oriented reforms to market oriented reforms.

In the remaining part of the critique of this book, we briefly summarise the ideas discussed in various categories. We do not intend to get a discussion or how these themes have been dealt with in the book. We invite the reader to do on his own, at his pace depending on his taste and curiosity.

Ideas that have arrived:

- Once India was considered to be a country suffering from population burden. Significant amount of administrative resources have been spent in managing the population growth. Today, the Indian population and its significant middle class are seen as an asset for consumption - lead growth. In the Chinese experience of single child norm has its own implications in terms of skewed over aged population. While the disparity in the population growth is varied between different states (in the North and the South), the large Indian population is clearly emerging as an advantage for India, in the near term.

- **Entrepreneurs:** As a nation, we have rapidly moved from Government control licence raj to a private sector lead wealth creation model. India as a country has started recognising the role of entrepreneurs in the national building agenda. There is a growing healthy respect for entrepreneurs.

- **English as a language:** What was seen at one point of time as a symbol of elitism, the English language, has evolved as a medium of instruction in the common language that connects people from various states. It is interesting to note the struggle this country went through in terms of the political process, which lead to a double language formula. The Indian Constitution is written in English (which could be a matter of pride?).

- **Role of computers:** Computers once considered to be a substitute of labour has been accepted as a tool to improve productivity and facilitate growth. The public reservation system implemented by Indian Railways is an important milestone in acknowledging the role of computers in improving our quality of life. A large number of e-governance projects initiated point towards a direction in which the technology is likely to be used most often. In short, IT as an enabler for economic growth has been fully recognised by this country.

- **Connecting to the world:** India has gone through the full cycle of being a dominant partner in world trade to an isolated economy as a consequence of self-reliance. Over a period of time, global investment in India is driven by the talent available and the market opportunities available in the country. Even though, the economic connectivity to India and the rest of the world has a long way to go, slowly but surely, India is economically connecting to the rest of the world.

- **Democracy:** According to the author, British rule laid the foundation of democracy. Even though our democracy is driven by caste, religion and regional considerations, the emergence of the Election Commission and the subsequent electoral reforms have firmly instilled routed the democratic way in this country.

Ideas in progress:

- **Schools:** While our education policy is focused on schools not students, we have created several schools with a centralised process. School is still seen as a business opportunity by the private sector. Our Government spends significant amount of money with no clear impact. The accountability of teachers towards the taught is neither monitored nor factored in. The mid-day meal scheme, a revolutionary policy, encourages children from certain social strata to go to school. The involvement of government in managing local schools is debated widely, but it will happen. The larger issue is how to build student friendly schools in this country…

- **City and slums:** The development of our cities has been characterised by poor planning supported by dated regulatory environment. Land (both in urban and rural areas) is identified as a critical resource. Out cities, over a period of time, have become centres of crowd pulling resulting in an enormous burden on the existing infrastructure (with no addition) in the cities. The ITO, BPO industries are adding to this - chaos and confusion. As a consequence, living in the city is expensive. A large number of population live in sub-optimal, unacceptable conditions.

- **Infrastructure:** There has been very little focus on infrastructure projects post-independence in India leading to poor infrastructure development in this country. In addition, land has been a rare commodity. The golden quadrilateral is not only unique, but bespeaks a quantum leap in the existing infrastructure. The need for a string of seaports and a network of airports is recognised as a critical need for infrastructure development. However, implementation has not been at the required pace. Telephone connections have become a reality. The future of low cost airlines is unclear. As a country of political agenda has moved from roti, kapda, makan to pani, sadak and bijilee. Our elections are based on performance - rather than emotions.

- **Emerging single market:** Regionalisation in India is slowly fading away, but the process needs to accelerate and the implications have to be studied well. Employability, job opportunities, education would minimize the differential in growth rates in various regions. To become a developed nation we should pilot the country towards single consolidated market rather than a large number of pockets of excellence, in isolation.

Ideas to be debated:

- **Economic reforms:** Our economic reforms are not yet complete. They have been predominantly business oriented. The reforms should be routed to a market orientation. Usually, in the Indian context passion and anger precede the logic.

- **Job Opportunities:** Employment and employability would be crucial issues to be addressed by the country in the near future. The agriculture sector has its own limitations. We require innovative approaches to create more jobs. There is a limitation to the jobs that can be created by the State. Hope is based on private investment and entrepreneurship. Education leading to employability would be the key driver in this exercise.

- **Universities:** Our universities need to evolve as Institutions of learning. Instead of advising politician and proposing policy options they become a centre of politics. The quality of university education needs dramatic improvement. The regulator's role should be redefined. Several universities have been started with public investment with very little accountability. The Institution-Industry interface is poor. The research and development are separate institutions and completely insulated from the universities. Private institutions have been started with hope but their impact is varied.

Ideas yet to emerge:

- **ICT in India:** IT is a great enabler, it simplifies processes, and it should be leveraged to deliver quality products and services to the common man. While several e-governance projects are launched, the implementation, progress and impact have been slow. Our land records have been poorly kept. One of the significant applications could be computerisation of records. While our accomplishment in this area would be significant, the future will see more IT and communication enabled services and products.

- **Changing epidemics:** India was known as a poor country. From this status it has moved on to a country, which has dealt with life style diseases. The primary health care network is extensive. However, the impact in the reach is not impressive. Cost of care is neither regulated nor affordable to large segment of operations. The emerging paradigm is preventive care (by Yoga and exercise). The country needs to evolve and launch an impact making public health care policy.

- **Social insecurities:** With joint families giving away to nuclear families, managing old age population is going to be a formidable challenge. Insurance and management of pension funds would be the key enablers in providing secured life for the aged population. According to the author, part of this problem can be resolved by market driven reforms.

- **Environmental issues:** India needs to address issues related to sources of energy. The efforts related to managing and controlling pollution is formidable. The challenges include managing water resources, air pollution control, cleaning of rivers and addressing the energy needs of the country. Preserving forests is going to be another challenging task. India will spend a significant amount of time and energy in managing the climatic conditions.

What is in this book? 'Imagining India' is a portfolio of well-researched, well-known ideas, documented in detail. This is not necessarily interesting to read, thanks to the narrative style of the author. While the book does not contain new ideas (most of these ideas and concepts have been discussed and talked about in the public places with various levels of detail), the unique feature of the book is that it does not provide a solution to several problems addressed in the book. The real strength of the book is that it provides a platform for citizens to debate and discuss policy options, which are critical in transforming India to a developed nation.

Message from the book: The subtle message in this book includes the idea that India should move towards market-oriented reforms. It should rapidly evolve as a single large consolidated market for consumption and employability. Rapid transformation towards private ownership of business would accelerate the growth agenda of the country. India needs to encourage entrepreneurship, leverage ICT and connect to the global market to re-establish its pre-eminent position in trade. Investment in education and knowledge creation would be a pre-requisite in creating an awakened India. Rapid promotion and progress of infrastructure would accelerate the economic reforms in the country. In order to enhance the quality of life, the concerns of the poor should be addressed urgently. Pollution and environmental related issues would need greater attention and investment. The India democracy should be strengthened and protected to make this country as a worthwhile part of the planet to live.

Author's Profile

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N. Ravichandran graduated from **Indian Institute of Technology Madras** in 1980 with specialisation in Applied Probability. He joined **Indian institute of Management Ahmedabad** as faculty in Production and Quantitative Methods Area in 1980.

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