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EDITORIAL

I have much pleasure in presenting no.1 of volume 2 of Business Spectrum, the bi-annual e-journal of IAA Midnapore Branch.This issue contains five articles which deal with diverse interesting topics.

The first article by Ms. Paulami Bharati and Dr. Sanjit Kumar Das entitled, "Contemporary Corporate Governance: In the Eye of Kautilya" discusses the philosophy of corporate governance as depicted in Arthasastra. They argue that the guidelines for governing the monarchy is equally applicable in successfully running a corporate sector in modern business context.

The second article is entitled, "E-Commerce in India: Issues and Remedies". It has been written by Prof. S. M. Imamul Haque and Md. Anisur Rahaman. In this article, the authors have given a detailed discussion on the evolution of E-commerce in India. They have considered issues related to E-commerce, particularly the technical and taxation related issues. They have also analysed the effectiveness of law in the present scenario of increasing cyber crimes.

The title of the third article is "Impact of Individual's Psychology in their Investment Pattern: An Empirical Inquest in Indian Context". It has been written by Dr. Pranam Dhar and Mr. Biswarup Dey. In this article, the authors have tried to discover the truth relating to the investors' psychology in India, specially the individual investors and their behaviour and the impact of the same in their investment pattern.

Dr. Anindita Chakraborty in the fourth article entitled, "Employees' Perception towards NPAs: A Comparative Study of Public Sector and Private Sector Banks" describes a self-assessment scale and investigates its reliability and validity for measuring employees' perception towards NPAs. She has undertaken a study taking a sample of 120 employees — 60 from public sector banks and 60 from private sector banks. She notes how employee perception differs between the public sector banks and the private sector banks.

The fifth article has been written by Dr. Debdas Rakshit and Mr. Saugata Chakraborty. The title of their article is "NPA Management of Rural Cooperative Banks of West Bengal: An Overview". In this article, the authors have tried to identify the factors responsible for the growth of NPAs in the cooperative banking sector in West Bengal. They have also analysed the NPA management system of West Bengal State Cooperative Bank.

In this context, I thank the paper writers and the members of the editorial board for their cooperation in bringing out this volume.

Jaydeb Sarkhel
Editor-in Chief

Employees' Perception towards NPAs: A Comparative Study of Public Sector and Private Sector Banks

*Dr. Anindita Chakraborty**

Abstract

Non-performing assets (NPAs) have been a threat for the banking sector of the world. The Indian economy is also affected by it largely because it has been detrimental to the performance of the Indian banks. This study was an attempted to identify the critical factors, which were responsible for the NPAs in banks. This paper describes a self-assessment scale, and investigates its reliability and validity for measuring employees' perception towards Non-performing Assets i.e. NPAs. Empirical data were collected from 120 employees of public and private sector banks of Gwalior. The study revealed that there were six prominent factors such as proclivity, endorsement, inexpertise, inept, intrusion and deliberately which in the perception of employees are responsible towards NPAs. The study further compared the perception of both the sector employees towards NPAs and revealed that there was significant difference their opinions.

Key words: Non-performing Assets, Employees' perception

Introduction

Over a decade Non-performing Assets (NPA) has emerged as an alarming threat to the banking industry in our country. At present an asset is "non-performing" if interest or instalments of principal due stay unpaid for more than 90 days. Arpita (2010) stated that "a bank can have NPA when a borrower, who is under a liability to pay to secured creditors, makes any default in repayment of secured debt or any instalment thereof, the account of borrower is classified as non-performing assets (NPA). NPAs cannot be used for any productive purposes because they reflect the application of scarce capital and credit funds."

Reserve Bank of India (RBI) defines NPA as:*An asset, including a leased asset, becomes nonperforming when it ceases to generate income for the bank. A 'non-performing asset' (NPA) is defined as a credit facility in respect of which the interest and/or installment of principal has remained 'past due' for a specified period of time (90 days, March 31, 2004 onwards).*

NPA in loan portfolio affect operational efficiency which in turn affects profitability, liquidity and solvency position of banks (Michael et al., 2006). In addition to the influence on profitability, liquidity and competitive functioning, NPA also affect the psychology of bankers in respect of their disposition of funds towards credit delivery and credit expansion. NPA generate a vicious effect on banking survival and growth, and if not managed properly leads to banking failures (Batra, 2003). Thus it not only affects liquidity and profitability, in addition posturing threat on quality of asset and continued existence of the banks. The level of NPAs is one of the drivers of financial stability and growth of the banking sector. But it was seen that NPAs are sending distressing signals on the sustainability of the affected banks.

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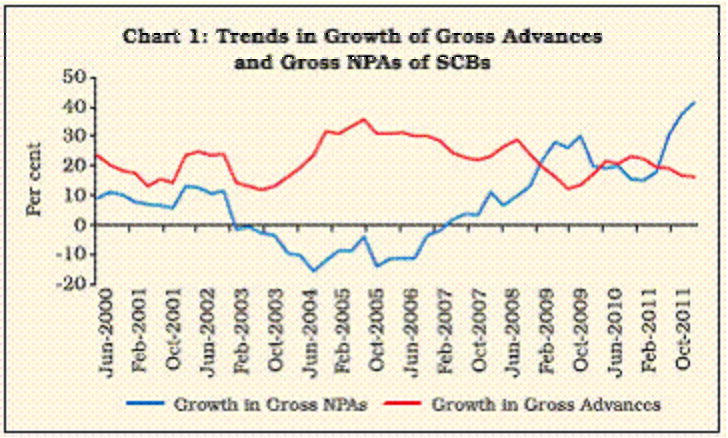
In the year 1991, the Government of India along with Reserve Bank of India appointed a committee under the Chairmanship of Sh. M. Narsimham to examine and give recommendation for Income Recognition, Asset Classification and Provisioning of loan assets of Banks and Financial Institutions. The Committee examined the issues and recommended that a policy of Income Recognition should be objective and based on record of recovery rather than on subjective considerations. On the basis of the recommendations of the Narsimhan Committee, RBI had issued guidelines to all Scheduled Commercial Banks on Income Recognition, Assets Classification and Provisioning in April, 1992 which have been modified from time to time by the RBI on the basis of experience gained and suggestions received from various quarters. The Prudential Norms for Income Recognition, Asset Classification and Provisioning have come into effect from the accounting year 31.03.1993. Correspondingly, separate guidelines were issued by the RBI on Prudential Norms to All India Financial Institutions (March, 1994), Non-Banking Financial Companies (June, 1994) and to Regional Rural banks in March, 1996. They have adopted these guidelines for the purpose of Income Recognition and Assets Classification from the accounting year 1995-96.

The severity of the problem is however acutely suffered by Nationalized Banks with growing trend of NPAs as shown in below figure. Although the banking sector remained robust with high capital adequacy, even though rising NPA levels emerged as a concern. The NPAs, however, are pro-cyclical in nature and a rise in the same may be a reflection of overall slowdown in the economy. The Reserve Bank has undertaken several initiatives like faster grievances redressal mechanism, facilitating better banking experience for the disabled and intra-bank transfer of deposit facility to benefit the common man. The positive results of the chain of measures affected under banking reforms by the Government of India and RBI in terms of the Narasimhan Committee Reports have somehow neutralized the ill effects of this surging threat. But despite various correctional steps administered to solve and end this problem, concrete results are still waiting. Thus NPAs are not only the concern of lenders but for the major section of the beneficiaries of the financial system, should equally get concerned in a serious way on what they can do to deal with the severity of the NPA problem of banks. Continued growth in NPA threatens the repayment capacity of the banks and erodes the confidence reposed by them in the banks. In fact high level of NPAs has an adverse impact on the financial strength of the banks who in the present era of globalisation, are required to conform to stringent International Standards.



Source: Reserve Bank of India

Rationale of the study

Although there is no connection between employees and Non-performing Assets but as Babalola (2009) has suggested "banking is a service industry, is fundamentally hinged on trust, sustained by attitude and managed by complex financial management skills and psychology of human relations" therefore it becomes necessary to know the perception of the employees of banks towards NPAs. The Employee Perception survey is an employee attitude survey that provides an important view of the organization - through the eyes of the employees. Moreover for a development process employee of an organization is a catalytic agent, who for a healthy banking system and most for a bank's growth. So his attitude will help us to cater the problems that are faced by the employees during handling the NPAs. The study further looks into the difference in the opinions of the employees of both the sectors.

This research will help to find the critical factors, which are responsible for the loans to go bad in the Indian commercial banking system. This research will be useful for bank employees or the loan managers as the degree of motivation, skills and efforts of individual can be easily evaluated.

Review of Literature

Dhanuskodi (2007) studied that banks play a very important role in the economic development of every country. They have control over a large part of the supply of money which is in circulation. Banks are the main stimulus of the economic progress of a country. In general there are several challenges confronting of commercial banks. The main challenge confronting the commercial bank is the disbursement of funds in quality assets (loans and advances), the research has attempted to study the Non-Performing Assets (NPAs) in Commercial Banks. In a prior study Barr et al. (1994) suggested that failing banks had often showed a level of bad loans. It has been indicated that such ailing banks are in no way near the best practice frontier. In fact a negative impact of bad loans on the efficiencies of the banks has been affected. Increase in non-performing loans tends to be followed by decrease in cost efficiency, suggesting an increase in monitoring expenses of banks.

Reddy (2002) in his study focuses on comparative study of Non-Performing Assets in India in the Global context - similarities and dissimilarities, remedial measures and concluded the importance of a sound understanding of the macroeconomic variables and systemic issues pertaining to banks and the economy for solving the NPA problem along with the criticality of a strong legal framework and legislative framework. Foreign experiences must be utilized along with a clear understanding of the local conditions to create a tailor made solution which is transparent and fair to all stakeholders. Kaur and Pasricha (2004) concluded a research on management of NPAs in Public sector banks over a 8 years period ending 2002 and show that gross NPA has registered a constant increase from 1995-2002.

In a statement Jalan (2001) stated that there are some internal factors leading to NPAs, the onus rests with the banks themselves. This calls for organizational restructuring, improvement in managerial efficiency, skill up gradation for proper assessment of creditworthiness and a change in the attitude of the banks towards legal action which is traditionally viewed as a measure of the last resort. These are the elements on the agenda of the second phase of reforms. Muniappan (2002) reported that the high level of NPAs in banks and financial institutions has been a matter of grave concern to the public as bank credit is the catalyst to the economic growth of the country and any bottleneck in the smooth flow of credit, can cause for mounting NPAs, and can create adverse consequences in the economy. Kundu (n.d) stated that banking sector reforms in India has progressed promptly on aspects like interest rate deregulation, reduction in statutory reserve requirements, prudential norms for interest rates, asset classification, income recognition and provisioning. But it could not able to match up with the pace which was expected from it. Bhaumik

and Piesse (2004) stated that the Indian banking sector witnessed more reforms than most other sectors of the Indian economy during the decades of 1990s. Interest rates have been deregulated, and entry into the banking sector has been liberalized. Similarly Reddy (2002) researched that financial sector reform in India and suggested that changes were required to tackle the NPA problem.

Vallabh (2007) explores an empirical approach to the analysis of Non-Performing Assets (NPAs) of public, private, and foreign sector banks in India. A model consisting of two types of factors, viz., macroeconomic factors and bank-specific parameters, is developed and the behavior of NPAs of the three categories of banks is observed. Chaudhuri (2005) stated that the "NPAs indicate asset quality of the balance sheet of a bank/institution and hence future income generating prospects. It also requires provisioning which has implications with respect to capital adequacy. Declining capital adequacy adversely affects shareholder value and restricts the ability of the bank/institution to access the capital market for additional equity to enhance capital adequacy. Thus, if a resolution strategy for recovery of dues from NPAs is not put in place quickly and efficiently, these assets would deteriorate in value over time and little value would be realized at the end, except may be its scrap value". Ramakumar (2007) focused on the NPAs which can be recovered through legal and regulatory recourses and is critical to the sustainability of banks. Thus, he suggested that to revise the various legislations and regulations that address the recovery of NPAs and evaluates their impact on recovery performance of banks.

Sanjeev (2007) attempted to identify the critical factors, which are responsible for the loans to go bad in the Indian commercial banking system. The study uses primary data collected from credit managers of banks operating in India. The study revealed that the external factors have a higher influence compared to the internal factors.

Objectives of the Study

- To evaluate the factors underlying employees' perception towards of NPAs in both private as well as in public sector banks.
- To compare the factors in both private and public sector banks.
- To open new vistas for further research.

Research Methodology

The study was exploratory in nature with total population of public and private sector bank employees. The total sample size was 120 individual respondents, which includes 60 public and 60 private sector bank employees. Non-probability convenience sampling technique was used to carry out the research and a self-design questionnaire was used for taking the responses of the employees. SPSS 16 and Microsoft Excel were used to analyze the data.

Tools Used for Data Analysis

- Item-to-Total Correlation was applied for checking the internal consistency. It is performed to check if any item in the set of tests is inconsistent with the averaged behaviour of the others, and thus can be discarded. The analysis is performed to purify the measure by eliminating 'irrelevant' items prior to determining the factors that represent the construct (Churchill, 1979).
- Cronbach alpha was applied for checking the reliability of the items. It is a measure of testing reliability of the questionnaire, that is, how closely related a set of items are as a group. A "high" value of alpha is often used as evidence that the items measure an underlying (or latent) construct.

- Factor analysis was applied for analyzing the underlying factors. Factor analysis is a statistical method used to describe variability among observed, correlated variables in terms of a potentially lower number of unobserved variables called factors.
- Z- Test was applied for making comparison between Private and Public sector bank employees.
- Z-test on factors was applied to see whether there is significant difference between the factors of NPAs in Private and Public banks.

Results and Discussions

- **Consistency**

To check the consistency, item-to-total correlation was calculated in respect of each item of the questionnaire. Correlation of every item with all items with all the items was measured and the value was compared with standard value of 0.177565 (self calculated). Where the computed value was found to be less than the standard value, that item was dropped and termed as inconsistent. The table 1 in the annexure showed that two items were dropped namely economic downturn and creditability.

- **Reliability test**

The reliability of questionnaire was calculated through Cronbach Alpha. The reliability value was found to be 0.800 as per table 2. Note that a reliability coefficient of .70 or higher is considered "acceptable" in most social science research situations (George and Mallery, 2003). This showed that the items of the questionnaire had quite high reliability.

Table 2: Reliability Statistics

Cronbach's Alpha	No. of Items
.800	18

- **Factor Analysis**

Factor Analysis was applied with the help of SPSS software on the raw scores of 120 items to find out the factors that contribute towards the study. The factors were calculated with the help of total variance explained. The six factors were calculated from the rotation sum of squared value loading which was the result of statistical software. These factors were explained below (see table 3):

1) **Proclivity:** This factor has emerged as the first important determinant of research with a total variance of 4.162. Major element consist this factor includes Duration (0.817), Type of loan (0.756), Loan amount (0.699), Business profile (0.447) and References (.113). During this research it was found that proclivity plays an important role for non-performing assets. While giving the loan the banker must give more emphasis on these basic informations otherwise it will cause a disaster.
2) **Endorsement:** This factor has emerged as the second most important determinant of research with a total variance of 1.771. Major items consist this factor are influence of Target-Oriented (0.698), Non-monitoring (0.637), Boom period (0.631) and Past track record (0.563). It was found that during this research endorsement plays a vital role. If the managers were target oriented they will give more loan without monitoring and seeing the past record of the customer.
3) **Inexpertise:** This factor has emerged as the third most important factor of research with total variance of 1.365. Major items consist these factors are influence of Penalties (0.724)

and Unskilled (0.589). During the research it was found that due to inexpertise activity non-performing assets has emerged.

4) **Inept:** This factor has emerged as the fourth most important factor of research with total variance of 1.306. Major items consist these factors are influence of Inefficiency (0.744), Lack of motivation (0.701) and processing fees (0.528). During this research it was found that non-performing assets occurred due to inept in the managers.
5) **Intrusion:** This factor has emerged as the fifth most important factor of research with total variance of 1.294. A major item consisting these factors are External environment (0738) and Collateral security (0.670). It was found that intrusion plays an important in the cause of non-performing assets. Burke (2006) investigated the relationship between bank interest rate margins and collateral for loans issued to new ventures. The results indicated that while provision of collateral initially reduces bank exposure to risk that beyond a point, the positive risk-wealth association gives rise to greater risk taking propensity among entrepreneurs and ultimately higher interest rates.
6) **Deliberately:** This factor has emerged as the last important factor of research with total variance of 1.100. Major items consist this factor are Willful default (0.732) and Incompetency (0.595). So it can be said that asset becomes non-performing due to deliberate activity of the managers because of their incompetency and lack of will to recover the loan from the customer.

- **Z -Test**

Z-test was applied to see whether there was significant difference between employees' perception towards NPAs in private and public banks. If value of Z is less than standard value, 1.96 at 5% level of significance, the null hypothesis is accepted.

Ho: There is no significant difference between employees' perception towards NPAs in private and public banks.

Table 4: Showing the Z-test results

Statistics	Private	Public
Mean	57.18333	65.91667
S.D.	7.766708	11.07339
Sample Size	60	60
S.E.	1.002678	
Z value	8.710011>1.96	

The null hypothesis was not accepted because the Z value (8.710011) (table 4) was above the tabulated value (1.96 at 5% level of significance). Therefore there was a significant difference between employees' perception towards NPAs in private and public sector banks.

- **Comparison of the Factors**

Further, the Z-test was applied to evaluate the significant difference among the factors, explored during factor analysis, private and public sector banks. If value of Z is less than standard value, 1.96 at 5% level of significance, the null hypothesis is accepted.

1. Proclivity

Ho_1: It states that there is no significant difference on the basis of proclivity of private and public banks.

Table 5.1: Z-test on proclivity

NPAs	Private	Public

Mean	15.83333	18.91667
S.D.	3.678461	7.166995
S.E.	1.010830	
Z value	2.96	

In the first factor Proclivity, the computed value of Z was 2.96 as per table 5.1, which was greater than the critical value 1.96, therefore there was a significant difference between the proclivity of private and public banks.

2. Endorsement

Ho_2: It states that there is no significant difference on the basis of Endorsement of private and public banks.

Table 5.2: Z-test on endorsement

NPAs	Private	Public
Mean	12.81667	15.48333
S.D.	2.896472	2.913974
S.E.	1.183197	
Z value	2.25	

In the second factor Endorsement, the computed value of Z was 2.25 as per table 5.2, which was greater than the critical value 1.96, therefore there was a significant difference between the Endorsement of private and public banks.

3. Inexpertise

Ho_3: It states that there is no significant difference on the basis of Inexpertise of private and public banks.

Table 5.3: Z-test on inexpertise

NPAs	Private	Public
Mean	6.483333	7.033333
S.D.	1.926547	1.991224
S.E.	0.357691	
Z value	1.5	

In the third factor Inexpertise, the computed value of Z was 1.5 as per table 5.3, which was less than the critical value 1.96; therefore there was no significant difference between the inexpertise of private and public banks.

4. Inept

Ho_4: It states that there is no significant difference on the basis of Inept of private and public banks.

Table 5.4: Z-test on inept

NPAs	Private	Public
Mean	9.316667	10.43333
S.D.	2.593941	2.757834
S.E.	0.488778	
Z value	2.28	

In the fourth factor Inept, the computed value of Z was 2.28 as per table 5.4, which was greater than the critical value 1.96; therefore there was a significant difference between the Inept of private and public banks.

5. Intrusion

Ho_5: It states that there is no significant difference on the basis of Intrusion of private and public banks.

Table 5.5: Z-test on intrusion

NPAs	Private	Public
Mean	6.466667	7.35
S.D.	1.431683	2.07344
S.E.	0.3253	
Z value	2.715	

In the fifth factor Intrusion, the computed value of Z was 2.715 as per table 5.5, which was greater than the critical value 1.96; therefore there was a significant difference between the Intrusion of private and public banks.

6. Deliberately

Ho_6: It states that there is no significant difference on the basis of deliberation of private and public banks.

Table 5.6: Z-test on inexpert

NPAs	Private	Public
Mean	6.266667	7.4
S.D.	1.614203	1.984687
S.E.	0.33027	
Z value	3.43	

In the sixth factor deliberately, the computed value of Z was 3.43 as per table 5.6, which was greater than the critical value 1.96; therefore there was a significant difference between the deliberation of private and public banks.

After conducting the Z-test on the factors it was found that there were significant differences in the opinions of public and private sector bankers and it was obvious from the amount of NPA both generate.

Conclusion

The present portfolio of banks is definitely a bane. It puts severe impact on the liquidity and profitability of the bank where it is out of proportion. It is needless to mention, that a lasting solution to the problem of NPAs can be achieved only with proper credit assessment and risk management mechanism. This paper is an attempt to find the employees perception towards the NPA and according to them what were the probable causes of having bad loans. It is necessary for the banking system to set prudential norms to minimize the problem of NPAs. The responsibility for containing the factors leading to NPAs rests with banks themselves. So it is necessary to know their view point regarding it.

The study reveals that there was overall significant difference as far as employees' perception towards NPAs of private and public banks is concerned. This study also showed that overall six factors were there in which out of five proclivity, endorsement, inept, intrusion, deliberately having significant difference between private and public sector banks perception. One factor i.e. inexpertise had no significant difference between private and public sector banks. Thus, the study of employees' perception towards NPAs showed that private bank employees as well as public bank employees both were equivalent in their perception towards NPAs but have different reasons of incurring it.

Therefore, it will be necessary for the banks to restructure their organizational setup, improvement in the managerial efficiency and skill upgradation for proper assessment of credit worthiness and then only the banks can avoid NPAs. The study further conclude that manager's motivation level, manpower, skills to appraise collateral, efforts to reduce costs, government and political intervention and budget constraints should also be given priority while giving loans to the customers. If the banks take care of these factors they can able to reduce NPAs.

Implications of the study

- With the help of data, the government can extend this research and make few changes in the credit policy of the bank.
- This study is a useful contribution towards the managers to evaluate the employee's perception towards NPAs, which will help them to increase their efficiency.

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Annexure

Table 1: Showing Item to Total Correlation

S.No.	Items	Correlation Value	Consistency/ Inconsistency	Dropped/ Accepted
1	Economic downturns	0.168857	Inconsistent	Dropped
2	External environment	0.352934	Consistent	Accepted
3	Willful default	0.402644	Consistent	Accepted
4	Collateral security	0.432964	Consistent	Accepted
5	Incompetency	0.528022	Consistent	Accepted
6	Inefficiency	0.451607	Consistent	Accepted
7	Unskilled	0.53992	Consistent	Accepted
8	Lack of motivation	0.430303	Consistent	Accepted
9	Penalties	0.386928	Consistent	Accepted
10	Target-oriented	0.473341	Consistent	Accepted
11	Non – monitoring	0.373634	Consistent	Accepted
12	Boom period	0.472002	Consistent	Accepted
13	Credibility	0.169639	Inconsistent	Dropped
14	Past track record	0.472591	Consistent	Accepted
15	Processing fees	0.509249	Consistent	Accepted
16	References	0.532153	Consistent	Accepted
17	Business profile	0.506626	Consistent	Accepted
18	Type of loan	0.508321	Consistent	Accepted
19	Duration	0.569853	Consistent	Accepted
20	Loan amount	0.606067	Consistent	Accepted

Table 3: Factor Analysis

Factor no.	Eigen Value		Variance of convergence	Loading
	Total Variance	% of Variance		
1) Proclivity	4.162	23.125	17 (Duration) 16 (Type of loan) 18 (Loan amount) 15 (Business profile) 14 (References)	.817 .756 .699 .447 .113
2) Endorsement	1.771	9.842	9 (Target-oriented) 10 (Non-monitoring) 11 (Boom period) 12 (Past track record)	.698 .637 .631 .563
3) Inexpertise	1.365	7.585	8 (Penalties) 6 (Unskilled)	.724 .589
4) Inept	1.306	7.253	5 (Inefficiency) 7 (Lack of motivation) 13 (Processing fees)	.744 .701 .528
5) Intrusion	1.294	7.190	1 (External environment) 3 (Collateral security)	.738 .670
6) Deliberately	1.100	6.109	2 (Willful default) 4 (Incompetency)	.732 .595

NPA Management of Rural Cooperative Banks of West Bengal: An Overview

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Abstract

NPAs reflect the performance of cooperative banks. A high level of NPAs suggests high probability of a large number of credit defaults that affect the profitability and net-worth of cooperative banks and also erodes the value of the asset. The NPA growth involves the necessities of provisions, which reduces the overall profits and weaken cooperative structure. The issue of Non Performing Assets of cooperative banks has been discussed at length for financial system of India. The problem of NPAs is not only affecting the cooperative banks but also the whole Indian economy. In fact high level of NPAs in cooperative banks is nothing but a reflection of the state of cooperative structure. The paper deals with understanding the magnitude of NPAs in cooperative bank and major causes for an account becoming non-performing in cooperative banks and concluding remarks.

Keywords:NPAs, cooperative banks, financial system

Background

A strong cooperative banking sector is important for successful country's economy. The failure of the cooperative banking sector may have an adverse impact on economy. Non -performing assets are one of the major concerns for cooperative banks in India. Non-performing Asset (NPA) has an alarming threat to the rural cooperative banking industry in our country sending distressing signals on the sustainability and endurability of the affected cooperative banks. Despite various steps administered to solve, desired results are eluding. It is a sweeping and all persistent bug confronted nationally on rural cooperative banking. The severity of the problem is however acutely suffered by Apex State Cooperative Banks, followed by the District Central Cooperative Banks (DCCBs)/ Central Cooperative Banks (CCBs), and the Primary Agricultural Cooperative Societies.

Granting of credit for priority sector is the prime duty of rural cooperative banking. Apart from raising resources through fresh deposits, borrowings and recycling of funds received back from borrowers constitute a major part of funding credit dispensation activity. Rural lending is generally encouraged because it has the effect of funds being transferred from the system to agricultural and allied service productive purposes, which results into rural growth. However rural lending also carries a risk called credit risk, which arises from the failure of borrowers' non payment. Non-recovery of loans along with interest forms a major hurdle in the process of agricultural credit cycle. Thus, these loan losses affect the cooperative bank's profitability on a large scale. Though complete elimination of such losses is not possible, but rural cooperative banks can always aim to keep th e losses at a low level.

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The Cooperative banking sector has traditionally been doing business by focusing mainly in the agricultural sector since its inception. Cooperative Banks need to be prudent enough in coming years to achieve significant increase in productivity, efficiency and profitability. The high level of NPAs of cooperative banks is adversely affecting the profitability, liquidity and solvency position of them. NPAs of cooperative banks should be brought down to the acceptable level. To create vibrant and competitive Cooperative banks their NPAs should be within acceptable level i.e. 3 percent of total asset.

The study draws its importance from the fact that most of the lending by the Cooperative sector is in the priority sector and the bank aims to create opportunity for a major part of rural population and urban population also. Thus the cooperative bank must put in place a strong NPA management system to maintain its viability along with providing credit to different sectors.

To remain competitive in banking sector The West Bengal State Cooperative Bank (WBSCB) has created a diversified loan portfolio but yet it maintains its focus on priority sector. It is proposed to study the NPAs of WBSCB for the following reasons:

- An apex cooperative bank in the state of West Bengal with a combination of two and three tier structure
- Its branches geographically spread both at rural and urban areas
- Investment in different sector
- Highest in priority sector lending amongst Cooperative Banks in West Bengal

This study is mainly dedicated to the purpose of finding out the NPA management of WBSCB and rural cooperative banks of West Bengal as a whole. WBSCB, being the apex organization in the Cooperative banking structure in the state, needs to have a sound NPA management system for effective functioning of the Cooperative banking sector of West Bengal. The study also aims at finding NPA level of DCCBs/CCBs of West Bengal because of the fact that proper functioning of these institutions is a prerogative for the apex Cooperative bank and below par performance could be a drag on the financials of the state Cooperative bank. Though these institutions are independent in operations but the performance has strong linkage with the apex institution and thus forms an important and crucial part for management of NPA at the state Cooperative bank. The final deliverables will include the detailed study report with full data, all the analysis and the insights gained from those data. The report to be provided will act as supporting input to the management for its decision making process and future reference, and will also provide scope for further study on this subject in future.

Literature Review

Several studies in the banking literature agree that banks' lending policy is a major driver of non-performing loans (McGoven, 1993,Christine 1995, Sergio, 1996, Bloem and Gorters, 2001). McGoven (1993) in the study of loan losses of US banks, argued that 'character' has historically been a paramount factor of credit and a major determinant in the decision to lend money. Macgoven refutes the idea of business cycle having a prominent influence on creation of non performing loans in banks and financial institutions. He supported the view that it is majorly banks' aggressive credit lending policy which drives the growth of non performing assets in their balance sheets. His views state that there are inadequate checks and screening before disbursement of loans which add to the woes of these banks. Bad debts as a consequence of recession alone is not empirically demonstrated [Sergio ,1996]. Ajit and Bangar (1998) present a tabulation of the performance of private sector banks viz-a-viz public sector banks over the period 1991 -1997, using a number of indicators: viz. profitability ratio, interest spread, capital adequacy ratio, and the net NPA ratio. The conclusion is that Indian private sector banks outperform public sector banks. Rajaraman Indira , Bhaumik Sumon and Bhatia Namita(1999) in their paper attempted to explain inter-bank variations in NPAs for the year 1996-97.They

stressed that no sustainable improvement in the performing efficiency of domestic banks is possible without prior improvement in the enforcement environment in difficult regions of the country. They also suggested that it is not foreign ownership in and of itself so much as the banking efficiency and technology correlates of the country of origin of the foreign bank which determine NPA performance in the Indian environment. The findings of the paper reveal that only bank-specific characteristics such as ownership or adherence to prudential norms do not suffice to explain inter-bank variability in NPAs but the region of operation matters. The operating environment matters particularly in the Indian context where there are externally-imposed compulsions on banks to enter into and operate in difficult regions. The environmental limits on bank operations cannot be tackled by reforms at bank-level alone. Pati A P Dr. (1999) conducted a study on Indian commercial banks and particularly of public sector banks and identified that the growing NPA is the key factor that affecting the profitability and viability of the banks .He also recommended some measures to improve recovery mechanism, improving credit management, the Asset Reconstruction Fund (ARF) option, writing off debt, new initiatives, etc. Bhattacharya (2001) on a study pointed out to the fact that in an increasing rate regime, quality borrowers would switch over to other avenues such as capital markets, internal accruals for their requirement of funds. Under such circumstances, banks would have no option but to dilute the quality of borrowers thereby increasing the probability of generation of NPAs. Bloem and Gorter (2001) recommended that a more or less predictable level of non-performing loans. Bloem and Gorter gave views that non performing loans could shoot up in the event of unpredictable incidents like sudden change in foreign exchange rates, volatility of export products and petroleum prices or the failure of a major company with large contribution to the economy of a nation. All of these could contribute to a loss in confidence which could aggravate the situation. Under extreme situations they say that there could be chances of financial sector getting derailed as a result of huge spurt in the growth of non performing loans. Rajaraman Indura and Vasishtha Garima (2002) in their study performed a panel regression on non-performing loans of commercial banks. They suggested that recapitalization of weak banks as recommended by Varma committee with operational restructuring may therefore not be the solution, since there is clearly a residual problem even after controlling for operating efficiency. Muniappan(2002) in his address on NPA cited out that the problem of NPAs is related to several internal and external factors like diversion of funds for expansion/ diversification/modernisation, taking up new projects, helping/promoting associate concerns, time/cost overruns during the project implementation stage, business (product, marketing, etc.) failure, inefficient management, strained labour relations, inappropriate technology/technical problems, product obsolescence, recession, non-payment in other countries, inputs/power shortage, price escalation, accidents and natural calamities etc. Rajaraman and Vasishtha (2002)) through their empirical study concluded that there exists bivariate correlation between the operating inefficiency and volume of non performing loans in the Indian public sector banks. The term 'lazy banking' is conceptualized by Mohan (2003) while looking on banks' investment portfolio and lending policy. Mohan(2003) also observed that lending rates of banks have not come down as much as deposit rates and interest rates on Government bonds. While banks have reduced their prime lending rates (PLRs) to some extent and are also extending sub-PLR loans, effective lending rates continue to remain high. This development has adverse systemic implications, especially in a country like India where interest cost as a proportion of sales of corporate are much higher as compared to many emerging economies. In a similar manner, largely from lenders' perspective, Das and Ghosh (2003) empirically examined non-performing loans of India's public sector banks in terms of various indicators such as asset size, credit growth and macroeconomic condition, and operating efficiency. Santi Gopal Maji et.al (2003) have studied the NPAs of the Khatra People's Cooperative bank Ltd, amount-wise, agewise, Loan head-wise and sector-wise classification of NPAs. They suggested a "Loan Recovery Policy" to keep contact with the borrowers at a regular interval for reminding them about their over dues. They also concluded that preparation of list of defaulters, organize recovery camps and file civil suits against defaulting borrowers would reduce the NPAs. Mohan(2003) observed that banks

were reluctant in reducing lending rates although deposit rates had come down by much higher proportion. This was leading to higher cost of debt in India as compared to other emerging economies. He stated that due to shorter maturity period for deposit liabilities when compared to loan periods on average induces higher risks of NPA being created in the balance sheets of the banks. He also conceptualized the term lazy banking in his works on Indian banking system referring to the credit lending policy of Indian banks which invariably increases the risk of non performing loans among the banks' loan portfolio. Reddy(2004) critically examined various issues pertaining to terms of credit of Indian banks and viewed that banks' lending policy could have crucial influence on nonperforming loans .A loan default is not entirely an irrational decision rather defaulter's probabilistic assessment of various costs and benefits of his decision'. He analysed factors like terms of credit which is essential is an aggregation of interest rates on loans and other financial products, risk management model and portfolio management practices. The paper made an attempt to provide a perspective to the cause of non performing loans through these factors. Also there was an analysis of the conventional practices in Indian credit system which involves fixed price and quantum of loan value, use of collateralized lending and restrictions on where the amount disbursed could be put into use. There was a general view that banks need to take a dynamic view and not restrict themselves to these conventions considering the changing economic situation in the country which in would actually help the banks to become much more robust and strong in terms of reducing toxic asset and this in turn would help the economy in the long run which depends a lot on the health and strength of financial institutions. Arun Y Dr. (2004) noted that the successful management assumes the right type and right amount of credit is to be given to the right type of client. She stressed that it is essential to enforce the Securitization Act, with more stringent provisions to realize the securities and personal assets of the defaulters. Mohan(2004) had cited higher operating costs as an underlying reason for rising NPAs level in public sector banks of India. The statistics that NPAs on account of priority sector lending may or may not confirm. There may be only a marginal difference in the NPAs of banks' lending to priority sector and the banks lending to private corporate sector. Against this background, the study suggests that given the deficiencies in these areas, it is imperative that banks need to be guided by fairness based on economic and financial decisions rather than system of conventions, if reform has to serve the meaningful purpose. Raul R.K. (2004) tried to identify the nature and consequential affect of the NPAs on the banking sector. He concluded that an appropriate set of substantial financial sector regulation clarity including changes in tax laws is imperative for the banking system to get rid off NPAs as well as for the QIBs to look forward to the investment opportunity. Meena Sharma(2005) in her study on NPA has talked about the detrimental effects of NPA on the society as providing capital support to banks with high NPA s is actually a burden on the public exchequer and hence is a cost to the society. She also says that high NPAs reduce earning base and puts much more pressure on the banks to maintain the required capital adequacy ratio. According to her "high level of NPA also leads to squeezing of interest spread". She mentions the need to create industry cells to cope with this menace. Bodla B.S. and Verma R(2007) attempted to find out the key determinants of profitability of Public Sector Banks in India based on step-wise multivariate regression model used on temporal data from 1991-92 to 2003-04. In the study they found that the variables such as non -interest income, operating expenses, provision and contingencies and spread have significant relationship with net profits. They suggested that for strengthening position the public sector banks must strive to greatly enhance efficiency through a control over shrinking spread, increasing non -interest income, and maximizing business per employee and per branch. Rajesham Ch and Rajender K (2008) pointed out that NPAs have negative impact on the productivity, achievement of capital adequacy level, funds deployment and mobilization policy, credibility of the banking system and overall economy. It is not wise to use Public Sector Banks as a means of accomplishing political objectives by lending to unviable projects, announcing loan melas and loan waiver schemes etc. The twin objectives of profitability and social welfare are mutually contrasting.

Objective of the Study:

The main objective of the paper is to analyze the followings of WBSCB and other rural cooperative banks of West Bengal:

- The trend of NPA on YoY basis and preparing a detailed analysis of the trends
- Comparison of NPA management of WBSCB with the District Central Cooperative Banks
- Trend analysis in the priority sector lending
- Generating insights from the trend analysis and using those insights to reach to a conclusion using which management can take decision on the future course of action
- Identifying factors responsible for the growth of NPAs
- Drawing conclusion and providing suggestion for improvement in reducing NPAs on the basis of findings and its business viability.

Database:

The study has been done using data for the period of twelve years from 1996-97 to 2007-08 for the West Bengal State Cooperative Bank. These data include the details of assets held by the bank. These assets have been classified into four categories such as standard, sub standard, doubtful assets and loss assets. The classification has been done as per Reserve Bank of India guidelines. All these data have been found from the annual reports of the bank for the past twelve years where all these data have been explicitly mentioned. The corresponding data for the central Cooperative banks and district central Cooperative banks which lie at the second tier of the Cooperative structure has also been taken but for a period of ten years from 1996-97 to 2005-06. Industry wise data have been used as well. These data are found in Reserve Bank of India database and are used to find a comparative picture of WBSCB with respect to the industry.

Methodology :

For trend analysis a three year moving average of the percentage of standard, substandard, loss and doubtful assets is plotted on graph to produce a graphical representation of the performance. The three year moving average of the NPA ratio is also found and plotted. Analysis is based on these graphs derived from the three year moving average data. The three year moving average helps to reduce the fluctuating trend and gives us a fair trend which fulfills the objective of the trend analysis. Correlation analysis is done with internal data of the bank and extended to external data as well.

A year on year trend analysis of priority sector has been carried out. A total loan is the sum of priority sector lending, nonfarm lending, farm and firm allied lending. While rising priority lending to support increasing agricultural activities is natural, increasing NPA is matter of concern and reflects poor asset management. The NPA as a proportion of total loan (**NPLA**) has been taken as independent variable. The impact of priority sector lending (**PILA**) is taken as a factor which is represented priority sector lending as a proportion of total loan. The impact of non priority sector lending (**NPILA**) is taken as a factor which is represented non priority sector lending as a proportion of total loan.

To find the impact of priority sector lending over the years the following regression model has been used :

$$NPLA_i = a * PILA_i + \beta * NPILA_i + e_i$$

Where α and β are the parameters to be estimated, ε_i error term, the subscription "i" refer to the year.

This is in determining the effects of priority sector lending on the generation of non performing assets or loans in the balance sheet of the bank. A variance analysis is also done on the data regarding asset quality of the bank. Through this ANOVA test it has been analyzed whether the variance among the various asset differed significantly or whether the variances were interlinked. This would actually give an indication about the existence of any chance forces which could cause the different asset quality to vary from one another. Chi-Square test has also

been applied to the non performing asset ratio of the apex bank and the central and district central Cooperative bank to ascertain how much the performances of these institutions are interlinked and hence would be generating a fair idea about the degree of association between the non performing assets of the state Cooperative bank and those of the central or district central Cooperative banks. All these calculations have been done using the ratio of respective asset class with respect to total loans disbursed by the bank. The trends as well as statistical tools have been applied on these ratios for the purpose of this study. The calculations have been carried out with the help of Microsoft Excel Sheets and represented in the form of tables. This would give a clear picture of whether the bank's performance is below par or is it performing better than other leading players in the Indian banking industry. By plotting the trends in the same graph it could also be ascertained if certain fluctuations of NPA percentages are bank specific or are they industry specific. To establish driving factors of non performing assets, correlation analysis using Pearson's coefficient has been used. Credit Deposit (CD) Ratio and priority sector lending has been taken as variables which have possible impact on non performing assets. Through correlation such relationship if it exists has been proved statistically.

Analysis:

The asset quality of WBSCB during the period of study has been tabulated in Table 1

The trend analysis of standard assets is being done for the period from 1996-1997 to 2007-2008(see Fig.1). The graphs show a consistent increase in the share of standard loans in the portfolio of loans for the West Bengal State Co-operative Bank Ltd. The 3 year moving average graph gives a clearer picture of the consistency in the trend of the share of standard loans. This can be explained through the facts .that there is bound to be some amount of fluctuation in the repayment of loan due to external conditions like strong harvest season , favourable monsoon. But overall the bank's performance has definitely improved considering an increase from 82% of standard loans in 1997 to 94 % of standard loans in 2008. Sill there remains some limitations as the growth has been tapering off in the previous few years with the bank finding it hard to bring standard loan proportion over 95 %.

Also if we see the absolute figures the amount of standard loans has increased from Rs. 4111.07 million in the financial year 1996-1997 to Rs. 20771.2 million in the financial year 2007-2008. This indicates strong future prospects for the bank and would grant some space to management for maneuvering especially tough economic times where liquidity is at premium.

There has been a consistent decrease in the share of sub standard loans in the total portfolio of loans as well during the period of study as per Fig.2. But there has been more fluctuation in the figures. This could be explained through the facts that loans keep moving in and out of sub standard category as overdue loans for short period of time are put into this category and these loans may move out with repayment of interests. Also there is considerable impact of extraneous factors as was in the case of Standard Loans.In absolute terms as well there has been a decrease from Rs 564.21 millions in 1996 -1997 to Rs.366.3 millions in 2007-2008 although total loan portfolio increased by more than four times during this same period of time. This speaks volumes of the management's ability to improve its loan recovery performance.

Doubtful loan (see Fig.3) has improved a lot over the years from 1997 to 2008 but there are signs which are definitely causing for concern. There has been a consistent improvement during the period 2000 to 2005 but since then performance has deteriorated. Doubtful loans have a high tendency to turn into losses and hence is worrying trend to the bank. The absolute value of doubtful loans has almost doubled from Rs.401 millions in 2005 to Rs.780 millions in 2008. These are indicators for the management to put measures in place to control this disturbing trend which could create a hole in the balance sheet of the bank.

The trend of the loss asset(*Fig.4*) using the 3 year moving average shows considerable improvement in the performance especially since 2002. The proportion of loss assets has been brought down from near 1% to below 0.3 % during this period of time. This gives a huge boost to the balance sheet as loss assets are the most toxic asset among the non performing assets for a bank. Consistent decrease in the proportion of this asset class brings out an improving recovery management process and a robust loan portfolio.

Still there remains room for improvement considering the fact that there has been an increase of more than 20% in loss assets in the year 2007-2008 whereas the increase in total loan portfolio has only been around 11% during the same financial year.

The 3 year moving average(*Fig.5*) of the share of non performing assets in the total loan portfolio has shown a consistent decreasing trend which definitely augurs well for the bank. Though the share is still higher than what could be said as a satisfactory level yet bringing it down from around 14% to around 5 % over a period of 12 years is a commendable achievement. As the bank tries to diversify its customer base and loan portfolio having its share of toxic assets within control is essential for implementation of any aggressive policy.But there has been an increase in non performing assets from Rs.969.3 million to Rs.1293.4 million in the previous financial year which is an alarming rise.

Performance of CCB/DCCB

Asset position of Central Cooperative Bank/District Central Cooperative Bank:

The loan portflio of the Central/District Central Cooperative Banks(**Fig.6)** had been deteriorating alarmingly duing the period 1998-2002. Since then there has been some amount of improvement in the asset quality yet, these figures are way behind the performance of the apex organisation. There has not been much of an improvement in the standard asset percentage in a period of ten years which should be a matter of concern and hence the rationale behind this study strengthens due to these figures.

The trend for the substandard assets in the Central/District Central Cooperative Banks(**Fig.7**) follow almost exactly the opposite direction of the Standard assets trend. This prrobably explains the nature of standard assets trend as well. Here again it's aparent that there has not been much of an improvement in the loan portfolio for the ten year period with regard to sub standard assets although the deterioration has been arrsted and the levels has been brought back to the level it was since NPA started featuring in the books of accounts. Another noteworthy point here is that the sub standard assets trend draws a fluctuating picture which makes drawing conclusions difficult though the moving average somewhat smooths out the curve. this leaves room for study to find out underlying causes for such variation of data year on year.

The trend for doubtful assets at the Central/District Central Cooperative Banks(Fig.8)show large amounts of fluctuaion and drawing conclusions with certainty becomes difficult. Yet it can be said that the doubtful assets show tendency to grow. So it clearly speaks about some amount of deterioration in the loan quality at Central/distrcit Central Cooperative Banks.

The graphs for the central Cooperative banks or district central Cooperative banks tend to be fluctuating(***Fig.10***) and hence its dificult to draw conclusive inference. The data has been fluctuating which might be due to macroeconomic factors. The noteworthy point here is that there has been almost negligible improvement of the NPA ratios in these organisations over this period. This shows that the performance of these organisations has not matched that of the apex organisation in regards to NPA management and loan recovery. This could become a drag on the performance of the apex state Cooperative banks as well because the apex bank financial performance depends upon organisations to a certain extent. Hence, it remains a matter of

concern for the management of WBSCB as well notwithstanding the fact that there could be forces beyond the control of management which influences the generation of NPA.

Table for observed NPA percentages of State Cooperative Bank and District Central Co-Operative/Central Banks:

Comparative representation of the NPA ratio at West Bengal State Cooperative Bank and the Central/District Central Cooperative Banks:

Chi square test for testing whether NPAs(Fig.11 **)** at West Bengal State Cooperative Bank is associated with the NPAs of the central/district central Cooperative banks or not:

The test data includes the NPA ratio for West Bengal State Cooperative Bank and the aggregate NPA ratio of all the central/district central Cooperative banks for the period of 1996-97 to 2005-06.

The test would give results based on which it can be stated that whether the NPAs at district Cooperative banks affect that of the apex Cooperative bank. Hypothesis taken for this test: The non performing assets of central/district central Cooperative banks in the state have a relationship with the non performing assets of the apex Cooperative bank i.e. WBSCB. Applying χ^2 test the test statistic or the value of χ^2 as found out is 11.6 .The table value of χ^2 at 5% confidence interval is 16.9 [d.f.9].Thus the calculated χ^2 is less than the value from the table. Hence the hypothesis is accepted and it can be stated with statistical evidence that the NPA from central/district central cooperative banks have relationship with the non performing assets of WBSCB.

Comparative representation of the standard assets percentage of the West Bengal State Cooperative Bank and the Central/District Central Cooperative Banks.

The ANOVA test has been done using the standard assets percentage of total loans(**Fig.12)** for the West Bengal State Cooperative Bank and the District/Central Cooperative Banks. The data for the period of ten years from 1996-97 to 2005-06.Hypothesis taken for the test is that there is no significant difference between the variance of the two sets of data i.e. the standard assets percentage of the apex bank and the second tier Cooperative institutions. The sum of squares of variation between samples as found out is 345.3 and the degrees of freedom between samples is 2-1=1 as there are two sets of samples. The sum of squares of variation within samples comes out to be 229.56 and the degree of freedom within sample is (10-1) + (10-1)=18 as the data relate to for a period of ten years. The calculated F value from this test comes out to be 27.08.The table value of F for v1=1and v2=18 at 5% level of significance comes out to be 4.4139.The calculated F value comes out to be much larger than the table value. Thus, the hypothesis that the variance of the two sets of data do not differ significantly gets rejected. Hence, the standard assets for the apex organization and central Cooperative banks come from different populations. This in essential means is that there is a wide difference between the loan quality of the apex Bank WBSCB and the DCCBs/CCBs.

This test results would give a clearer picture of the underlying causes behind such a difference in performance regarding management of non performing assets between the apex organization and the central/district central Cooperative banks.

Year Wise priority sector lending by West Bengal State Cooperative Bank:

The trend shows that priority sector lending(Fig. 13) has been consistently increasing. But the share of priority sector lending in the total loan portfolio has come down from 73% to near about 60% during this period of ten years.

Trend line for NPA ratio and Priority Sector lending percentage at West Bengal State Cooperative Bank:

The trend line of NPA ratio(Fig. 13) and that of priority sector lending move very much in tandem and NPA ratio tends to follow the trend of priority sector. This strenthens the cause for identifying priority sector lending as a key driver towards non performing assets in the West

Bengal Cooperative Bank as well.To find out the correlation between the priority sector lending and NPA ratio the Pearson Coefficient for correlation has been used.The Pearson Coefficient between NPA ratio and Priority sector lending is 0.643.The calculated Pearson coefficient shows that there remains significant level of correlation between priority sector lending and NPA ratio. Hence it can be stated with statsistical evidence that Priority sector lending does have significant impact on genration of non performing assets.

CD ratio has improved considerbaly especially after 2002 which shows increased deposit mobilization (see Table 7). The NPA Ratio though has reflected a consistent decreasing trend.
To find the correlation between CD ratio and NPA ratio Pearson Coefficient of Correlation has been used(**Fig. 15)**. The Pearson Coefficient as calculated between CD Ratio and NPA ratio comes out to be -0.347.Thus stastistics shows that there remains a negative correlation between CD ratio and NPA ratio though its far from being significant. Hence, CD ratio seems to have very little influence on the geenration of NPA yet a possible explanation for negative correlation could be that with better deposit mobilization the loan portfolio improves as most a considerbale fraction of the newer loans go to the non priority sector and also with higher lending NPA ratio improves as the denominator increses considerbaly.

Causes for Non Performing Assets of Rural Cooperative Banks of West Bengal

A strong cooperative banking sector is important for a stable banking sector. The failure of cooperative banking sector may have an adverse impact on other banks. The Indian cooperative banking system, which is operating under the dual control of State Government and Central Government, now faces the challenges of an open economy. Absence of sophisticated Asset Liability Management alongwith agricultural lending and social banking relegated profitability and competitiveness of cooperative banks. The net result was untenable NPAs and consequently a higher effective cost of cooperative banking services. One of the main causes of NPAs into rural cooperative banking sector is the directed loans system under which cooperative banks are required for a prescribed higher percentage of their credit to priority sectors.

Macro Perspective Behind NPAs :

Practical problems like debt waiver package offered by different Government for rural debt during 1989-90 and 2008 spoiled the habit of timely loan repayment. This type of incidents left a negative impression on the timely loan payer i.e. good loanee member. Government schemes like IRDP, PMRY,BSKB etc., failed on various grounds in meeting their objectives. The amount of loan granted under these schemes is sometimes unrecoverable due to political manipulation, misuse of funds and non-reliability of target audience of these sections. As the repayment of these kinds of loans was poor, the quality of banking assets deteriorated. The other reasons for an account becoming NPA is due to both internal and external. Internal causes are like loan taken for a particular reason but not used for that intention, project overruns, not timely recovery of receivables, excess capacities created on non -economic costs, business failures, willful defaults, siphoning of funds, fraud, disputes, management disputes, mis-appropriation of funds, poor credit appraisal of bank officials, lack of monitoring and follow-ups and delay in settlement of payments are the reasons for an account becoming NPA.
External causes are like long legal tangles, lack of sincere effort, scarcity of resources e.g. raw material, power etc., economic downturn, natural calamities like floods, irregular monsoon and Government policies.

Concluding Remarks

A strong apex cooperative bank is essential for the cooperative banking of the state. The poor NPA management of any cooperative banking in the state may have an adverse impact on other cooperative banks. Over the years, much has been talked about NPAs and the emphasis so far has been only on identification and quantification of NPAs rather than on ways to reduce and upgrade them.
The general perception is that due to high agricultural lending have led to higher NPAs. Managers of rural and semi-urban branches generally sanction these loans. In the changed context of new prudential norms and emphasis on quality lending and profitability, cooperative

banks should make it amply clear to potential borrowers that banks resources are meager and these are meant to finance viable ventures so that these are repaid in time and relevant to other needy borrowers for improving the economic lot of maximum number of households. Hence, adequate finance and timely disbursement, correct end use of funds and timely recovery of loans is absolutely necessary pre conditions for preventing or minimizing the incidence of new NPAs.

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Table1 1

YEAR	Value of Standard Asset (in millions)	Standard Asset as a percentage of total loan (%)	3 year moving average of Standard Asset as a percentage of total loan	Value of Sub Standard Asset (in millions)	Sub Standard Asset as a percentage of total loan (%)	3 year moving average of Sub Standard Asset as a percentage of total loan (%)	Value of Doubtful Assets (in millions)	Doubtful Assets as a percentage of total loans (%)	3 year moving average of Doubtful Assets as a percentage of total loans (%)	Value of Doubtful Assets (in millions)	Doubtful Assets as a percentage of total loans (%)	3 year moving average of Doubtful Assets as a percentage of total loan	Value of Loss Assets (in millions)	Loss Assets as a percentage of total loans (%)	3 year moving average of Loss Assets as a pe

			(%)									s (%)			rcentage of total loans (%)
96-97	4111.07	82.67		564.21	11.35		276.16	5.55		276.16	5.55		21.26	0.43	
97-98	5034.89	88.48		304.96	5.36		325.68	5.72		325.68	5.72		24.77	0.44	
98-99	5093.26	86.48	85.88	388.18	6.59	7.77	364.95	6.20	5.82	364.95	6.20	5.82	43.31	0.74	0.53
99-00	5619.13	87.52	87.49	316.37	4.93	5.63	429.91	6.70	6.21	429.91	6.70	6.21	54.69	0.85	0.67
00-01	6159.88	89.10	87.70	249.92	3.62	5.04	438.74	6.35	6.41	438.74	6.35	6.41	64.86	0.94	0.84
01-02	7911.55	92.48	89.70	228.79	2.67	3.74	353.72	4.13	5.73	353.72	4.13	5.73	61.04	0.71	0.83
200002-03	12798.62	94.72	92.10	287.23	2.13	2.81	349.99	2.59	4.36	349.99	2.59	4.36	75.76	0.56	0.74
0	1265	93.1	93.4	549.9	4.05	2.95	336.2	2.47	3.07	336.	2.47	3.07	1	0.7	0.

3-04	9.50	9	6	8			0			20			06.90	9	69
2004-05	16058.20	94.44	94.12	459.30	2.70	2.96	401.00	2.36	2.47	401.00	2.36	2.47	85.00	0.50	0.62
05-06	18662.10	95.04	94.22	397.10	2.02	2.92	517.09	2.63	2.49	517.09	2.63	2.49	66.50	0.34	0.54
06-07	18827.30	95.10	94.86	271.10	1.37	2.03	647.30	3.27	2.75	647.30	3.27	2.75	72.90	0.37	0.40
07-08	20771.20	94.14	94.76	366.30	1.66	1.68	780.20	3.54	3.15	780.20	3.54	3.15	88.40	0.40	0.37

Non Performing Assets *Table2*:

YEAR	Value of Non Performing Assets (in millions)	Non Performing Assets as a percentage of total loans (%)	3 year moving average of Non Performing Assets as a percentage of total loans (%)
1996-97	861.63	17.33	
1997-98	655.41	11.52	
1998-99	796.44	13.52	14.12
1999-00	800.97	12.48	12.51
2000-01	753.52	10.90	12.30
2001-02	643.55	7.52	10.30
2002-03	712.98	5.28	7.90
2003-04	924.70	6.81	6.54
2004-05	945.30	5.56	5.88
2005-06	974.70	4.96	5.78
2006-07	969.30	4.90	5.14

2007-08	1293.40	5.86	5.24

Fig.1

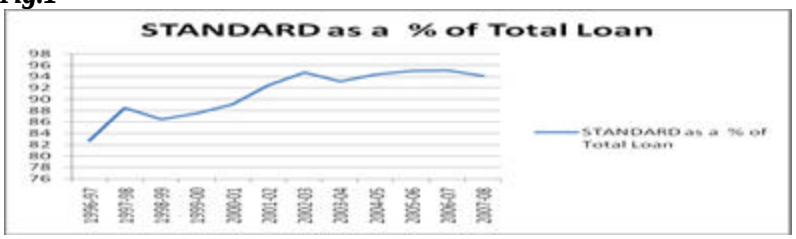


Fig.2

Fig.3

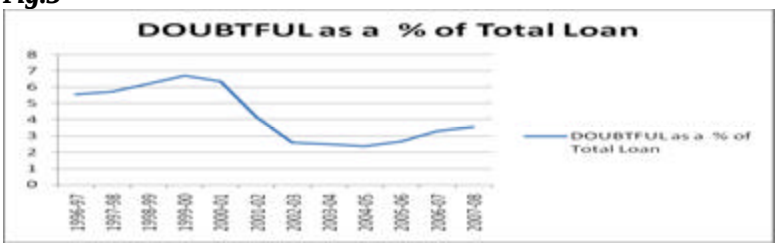


Fig.4

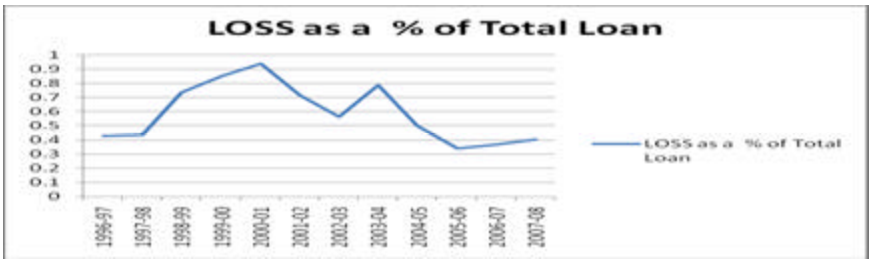


Fig.5

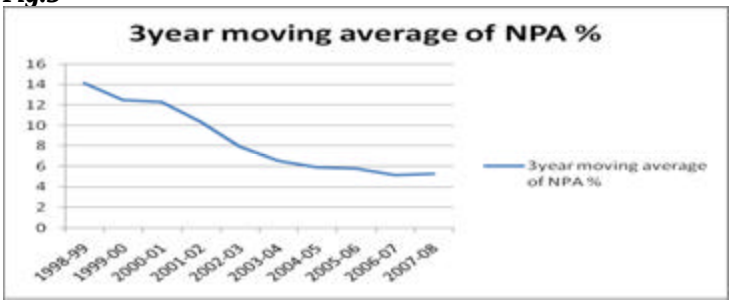


Table 3

YEAR	Value of Standard	Standard Ass	3 year moving	Value of Sub Standard	Sub Standard Asse	3 year moving avera	Value of Doubtful	Doubtful Assets as a	3 year mov	Value of Loss Asset	Loss Asset	3 year mo

	Asset (in millions)	et as a percentage of total loan (%)	average of Standard Asset as a percentage of total loan (%)	Asset (in millions)	t as a percentage of total loan (%)	ge of Sub Standard Asset as a percentage of total loan (%)	Assets (in millions)	percentage of total loans (%)	ing average of Doubtful Assets as a percentage of total loans (%)	s (in millions)	s as a percentage of total loans (%)	ving average of Loss Assets as a percentage of total loans (%)
96-97	4167.40	83.50		401.90	8.05		386.30	7.74		35.20	0.71	
97-98	4942.00	84.89		425.10	7.30		404.10	6.94		50.40	0.87	
98-99	5240.30	82.49	83.63	547.00	8.61	7.99	502.40	7.91	7.53	62.60	0.99	0.85
99-00	5292.80	81.93	83.11	659.70	10.21	8.71	436.10	6.75	7.20	71.50	1.11	0.99
00-01	7041.40	77.63	80.69	1093.60	12.06	10.29	842.20	9.29	7.98	93.00	1.03	1.04
01-02	9193.00	76.61	78.72	1576.50	13.14	11.80	1100.70	9.17	8.40	129.50	1.08	1.07
02-03	12457.80	84.98	79.74	1001.40	6.83	10.68	1077.30	7.35	8.60	123.70	0.84	0.98
03-04	11469.00	83.48	81.69	1111.90	8.09	9.35	974.40	7.09	7.87	182.70	1.33	1.08
04-05	13731.60	83.53	84.00	1025.60	6.24	7.05	1527.60	9.29	7.91	154.80	0.94	1.04
05-06	14911.60	82.01	83.01	1464.10	8.05	7.46	1680.10	9.24	8.54	127.20	0.70	0.99

Non Performing Assets *Table 4*:

YEAR	Value of Non Performing Assets (in millions)	Non Performing Assets as a percentage of total loans (%)	3 year moving average of Non Performing Assets as a percentage of total loans (%)

1996-97	823.4	16.49835698	
1997-98	879.6	15.10924832	
1998-99	1112	17.50547046	16.37
1999-00	1167.3	18.06937973	16.89
2000-01	2028.8	22.36775374	19.31
2001-02	2806.7	23.38975141	21.28
2002-03	2202.4	15.02298741	20.26
2003-04	2269	16.51623235	18.31
2004-05	2708	16.47242025	16.00
2005-06	3271.4	17.99153055	16.99

Trend Analysis of the loan assets of the Central/District Central Cooperative Banks:

Fig. 6

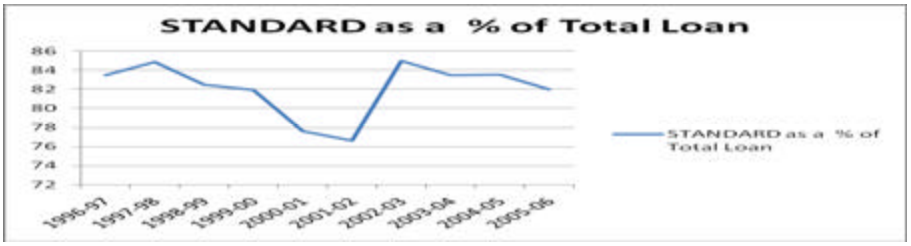


Fig.7

Fig.8

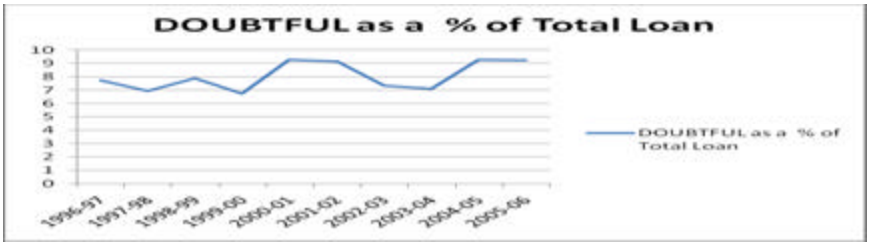


Fig.9

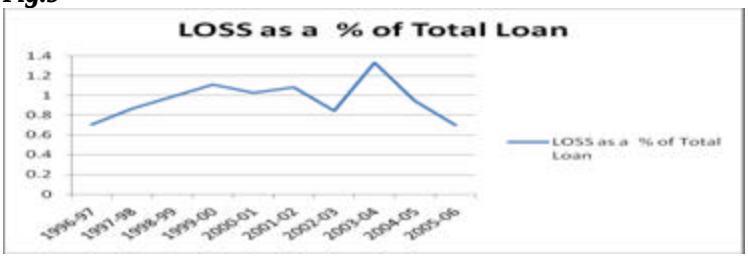


Fig.10

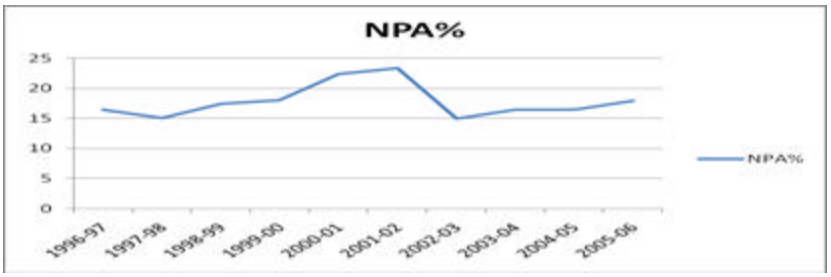


Table 5

YEAR	State Cooperative Bank (%)	Central Cooperative Bank/District Central Cooperative Banks (%)
1996-97	17.32	16.49
1997-98	11.52	15.11
1998-99	13.52	17.5
1999-00	12.48	18.07
2000-01	10.89	22.37
2001-02	7.52	23.39
2002-03	5.28	15.02
2003-04	6.8	16.52
2004-05	5.56	16.47
2005-06	4.96	17.99

Fig.11

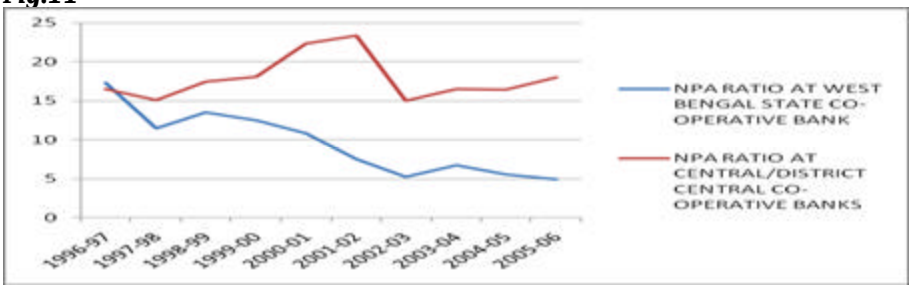


Fig.12

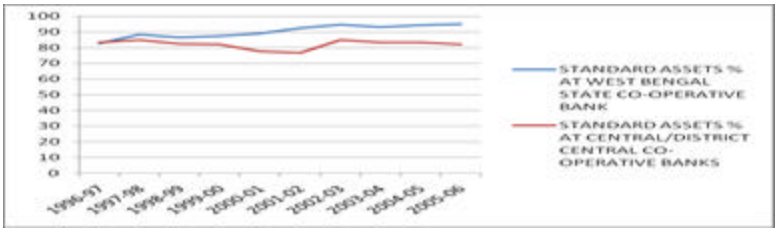


Table 6

YEAR	VALUE OF PRIORITY SECTOR LOANS(Rs. In millions)	PRIORITY SECTOR LENDING PERCENTAGE
1996-97	3672.1	73.85

1997-98	3915.5	68.81
1998-99	4130.5	70.13
1999-00	4640.1	72.27
2000-01	4980.2	72.04
2001-02	5657.2	66.13
2002-03	9442.2	69.88
2003-04	7638.5	56.23
2004-05	11643.5	68.48
2005-06	11908.8	60.65

Fig. 13

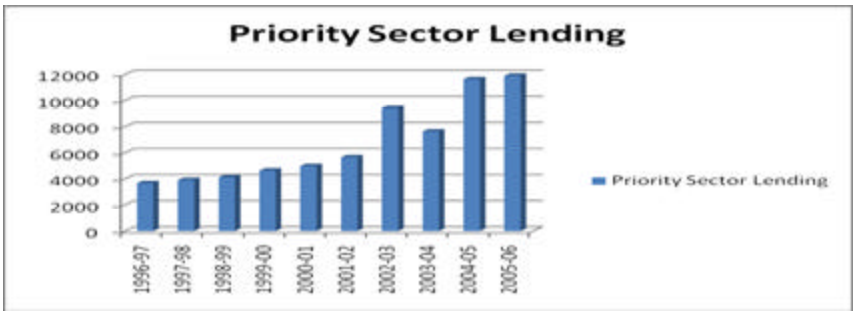


Fig. 14

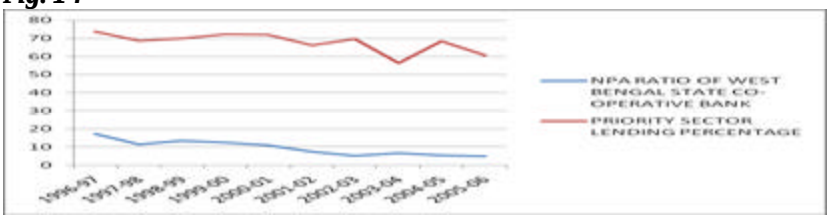
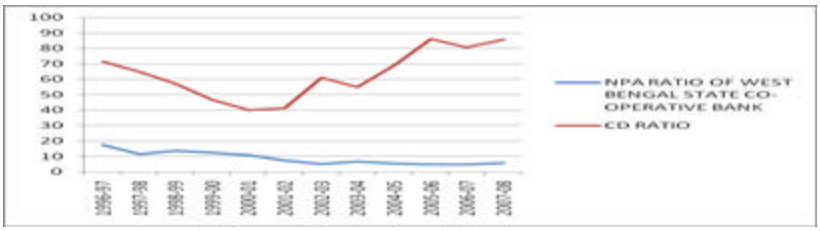


Table 7

YEAR	DEPOSITS (Rs. In millions)	CREDIT(Rs. In millions)	CD RATIO
1996-97	6976.4	4972.7	71.28
1997-98	8814.4	5690.3	64.56
1998-99	10309.7	5889.7	57.13
1999-00	13764.8	6420.1	46.64
2000-01	17336.9	6913.4	39.88
2001-02	20767.8	8555.1	41.19
2002-03	22172.9	13511.6	60.94
2003-04	24803.3	13584.2	54.77
2004-05	24701.1	17003.5	68.84
2005-06	22822.3	19636.8	86.04
2006-07	24530.6	19796.6	80.70
2007-08	25750.1	22064.6	85.69

Fig. 15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2005-06
2006-07
2007-08
NPA RATIO OF WEST BENGAL STATE CO-OPERATIVE BANK
CD RATIO

E-Commerce in India: Issues & Remedies

*Prof. S. M. Imamul Haque**

*Md Anisur Rahman***

Abstract

E-commerce is the use of electronic communications and digital information processing technology in business. It involves the buying and selling of goods and services over the online portals/ website which has formed virtual and digital marketplace. It involves online transactions, supply chain management, e-marketing, electronic data interchange, automated inventory management systems and automated data collection systems. Companies all over the world are finding e-commerce as the new platform for the business in the years to come.India has the fourth largest Internet users in the world so it is expected to come among the top 10 e-commerce hub by 2015. The Indian e-commerce market has recorded an impressive growth rate of 47% to over Rs.46,000 crore in the 2011 as compared to Rs.31,598 crore in 2010. This change is recorded mainly due to sustained growth of online travel industry.For the faster growth and smooth running of e-commerce it has become very important to have effective laws to cater the need of the time. There have always been threats in the processing of personal information due to phishing, spoofing, identity theft, fraudulent emails and viruses & malware attack. Other prominent issue is related to taxation on ecommerce transactions. E-commerce transaction raises several taxation issues, because it is completed in cyber space and there is an absence of national boundaries, and in some cases non-requirement of physical presence of goods & physical delivery. This makes traditional rules of taxation difficult to apply due to the level of disintermediation and untraceability of the path of transactions, The theme of the paper is the threats & challenges of e-commerce. Motive of this paper is to analyse the effectiveness of law in the present scenario of increasing cyber crime, identifying the shortcomings and find out the corrective means.

Keywords: e-commerce, e-business, digital market, cyber law, taxation

Introduction

E-commerce stands for electronic commerce and having relevance to trading in goods and services through the electronic medium, i.e. the Internet or phone. It has changed the face of retailing from physical market to the digital market. On the Internet, it remains associated with a website, which sells products or services directly from the site using a shopping cart or shopping basket system and with an online payment system. In fact, it is the application communication and information sharing technology among trading partners to the pursuit of business objectives. The term also refers to online stock, bond transactions, buying and downloading software without ever going to a store. This encompasses many kinds of activities and is not restricted only to purchasing goods and services electronically. It can involve electronic transactions, supply chain management, e-marketing, electronic data interchange, automated inventory management systems, and automated data collection systems.

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Advancement of technology has brought the libraries, entertainment venues, post offices, financial institutions etc. to a click of the mouse and in the pocket of customers. Customers can purchase anything from e-market by sitting comfortably in their rooms and gift it to someone sitting miles apart just by click of a mouse.

The tremendous growth of e-commerce in the last decade is seen due to power of the Internet to reach any part of the world holds great potential for enhancing international trade and boosting global economy. But doing business on the Internet also has risks and legal issues associated with it. The rapid pace of e-commerce development has challenged the legal system. Companies doing ecommerce always invent new business procedures and rules, which creates problem for the legal system in trying to adapt existing laws to fit new setting where it is simply unclear how these laws will apply. In the backdrop of these legal complexities, some countries across the globe have enacted e-commerce legislations and India is one of them.

Since ecommerce is related with the fast & free flow of business transactions across the boundaries, it is very important to have effective laws to prevent evasion of taxation and resolve other legal issues. For example, XYZ, a company in London, having its server in USA, may sell its products to customers in India or other countries. In such a situation, if you receive defective goods or if you regret having made the purchase, the question would arise as to which jurisdiction you can sue the company or claim damages or withdrawal respectively. The company, on the other hand, might find itself confronted with foreign laws, which he may not be aware of. Other issues are associated with the technical aspects related to threats created by using personal information on the Internet which may cause phishing, spoofing, identity theft, fraudulent emails and viruses & malware attack.

In the financial sectors as well, the impact of e-commerce has been seen. Most of the banks & financial institutions have gone online for transactions & trade within the norms of RBI and SEBI. For the financial transactions in e-commerce, e-payment gateway has been introduced and well known operators are ICICI, HDFC, Citibank, Amex are providing service by charging a nominal amount from the clients as service charge. Payment is accepted on e-commerce website from credit cards, debit cards I-banking, cash cards, cyber cash etc.

Benefits of E-Commerce

Ecommerce has grown rapidly in the last decade. Due to easy availability of Internet and configuration of mobile applications it has become easy to shop online. Availability of good inventory on the Internet, lots of choices, ease of selection, facility to compare the products and flexible mode of payment are the main reasons behind this drastic growth.

The four functions of e-commerce are:

(i) **Communication:** Direct interaction with the clients through email. If something new is introduced in the banking or financial institutions, they communicate the same to clients to make them aware about the new policies. If something special is introduced by an online portal like www.tradus.in, www.homeshop18.com, www.flipcart.com etc, it has been communicated to prospective clients.

(ii) **Process management:** It is about taking control of processes all the way to the customer. It is the capability to discover, design, deploy, execute, interact with, operate, optimize and analyze processes. And aims to integrate systems, automate routine activities, manage all phases of processes, deploy process seamlessly, and provide end-to-end visibility and control.

(iii) **Service management:** If financial sector and tourism sector is considered, these are nothing more than services. Customer support system also comes under services

management which includes multi-lingual phone support, live online chat service, social media monitoring, email handling, post query reporting

(iv) **Transaction capabilities:** This is one of the most important functions of the e-commerce which has made it successful. Transaction capabilities in terms of online payment as well as instant delivery of e-products like music, software, games, e-cards etc made it popular in a very short span of time.

Following are the benefits of e-commerce which are actually the reasons behind the growth of e-commerce:

To Consumers	To Organisation
Convenient Shopping	International Marketplace
Immediacy of result	Enable Reduced Inventories
24X7 Access	High Turnover
More Choices	Operational Cost Saving
Price Comparison	Business Efficiency
Improved Delivery	No time constraints
Competitive Advantage	

Categories of E-commerce

In e-commerce transactions and communication are processed between different parties, namely, consumer, business and government etc.. In every transaction two or more parties are involved. On the basis of various possible transactions these can be divided in the following categories:

	Business	Consumer	Government
Business	B2B	B2C	B2G
Consumer	C2B	C2C	C2G
Government	G2B	G2C	G2G

E-commerce in India

India is renowned in the digital world on account of its software exports and its software professionals. In the last couple of years there has been a distinct shift in the Indian IT world—both external and internal—from software towards electronic commerce. E-commerce in India encompasses three areas.

- Software exports: a good share of e-commerce earning comes from information technology business such as earning of Infosys, TCS, Wipro, HCL, IBM and many more organizations working in the same field. These companies gets software development contract from organizations working in various fields.
- Web-enabled services: this area mainly includes transcription services to call centers. For any website of any organization there is a need of some literature to tell emphatically about the organization, its vision, mission, goal, objectives, working style and organizational structures. These services are provided by specialized firm in the field. BPO (Business Process Outsourcing) and KPO (Knowledge Process Outsourcing) companies provide many of these kind of services.

- E-business and e-trade: there are many online stores which serve directly to the customers like e-bay.com, www.irctc.co.in, tradus.in, websites of travel agents (makemytrip.com, yatra.com, cleartrip.com, travelguru.com etc.). A study shows that apporx 50% of e-commerce transaction comes from online travel agents and Indian railways booking website. Online trading of shares and purchase of goods from online stores also contribute well.

Today E-commerce has become an integral part of our daily life. The Indian E-commerce portals provide facility for purchase of goods and services in different categories, e.g. apparel and accessories for men and women, health and beauty products, books and magazines, computers and peripherals, vehicles, software, consumer electronics, household appliances, jewelry, audio/video, entertainment, goods, gift articles, real estate etc. Following are the basic business and social areas which provide e-commerce facility:

1) Auto mobiles- On these sites we can buy and sell four wheelers and two-wheelers, new as well as used vehicles, online. These websites provide information for car review & research, online evaluation, technical specifications, insurance and finance for vehicle, e.g. www.truevalue.com

2) Stocks and shares - Most of the stock and share market deals have gone online now. Online buying/selling of stocks and shares, Market analysis and research, Company information, Comparison of companies, Research on Equity and Mutual Funds can be done by surfing on the Internet. Some players are indiainfoline.com, religare.com, motilaloswal.com etc

3) Real estate- They provide information on new properties as well as properties for resale. Allied services offered: Housing Finance, Insurance companies, Architects & Interior Designers, NRI services, Packers & Movers.

4) Travel & tourism - India has a rich history and heritage and e-commerce is instrumental, to a large extent, in selling India as a product. In India IRCTC covers 1/3 of total Indian e-commerce market size.

5) Gifts - In the bygone days, one had to plan what to gift a loved one, trudge across the gift shops, and browse for hours before purchasing a gift. But due to online stores it has become very easy to select and buy the gift, give address where it has to be delivered and the same will reach in time. The online available gifts are: Collectibles like paintings and sculptures, Luxury items like leather goods, perfumes, jewelry boxes, etc, household curios and carpets, etc, Toys & games, Chocolates, Flowers, Woodcraft & metal-craft.

6) Hobbies - The most popular hobbies from time immemorial are reading, music and films. Almost all the good publications have gone online. By visiting their portal, one can pick and pay for book and get a digital copy instantly.

7) Matrimony - It is said that marriages are made in heaven, but in the world of E-commerce they are made even on marriage portals. One can search for a suitable match on their websites by region of residence, religion or caste. Allied services for registered members: Astrological services, Information on Customs and Rituals, Legal issues, Health & Beauty, Fashion & Style, Wedding Planners.

8) Employment - There are many portals like www.Monsterindia.com, www.naukri.com, www.freshers.com, timesjobs.com, which are instrumental in providing job seekers with suitable employment at the click of a mouse. The service for job seekers is free and from employers they charge a nominal fee.

Facilitators of e-commerce in India

A. Information directories: The products and services are listed with appropriate sub-headings to make it easy for a serious information-seeker to find what he wants. Allied services provided by them: Message boards, chat rooms, forums, etc.

B. Banks:

1) Net banking/phone banking: This is an online banking facility available for savings account holders as well as current account holders. Some of the special Net banking services are: Demat accounts for sale/purchase of stocks and shares, Foreign Exchange services, Direct/Instant payment of bills on the account-holder's behalf, Financial Planning & advice, Electronic Funds Transfer, Loans to account-holders.

2) Credit/Debit Cards- Banks facilitate E-commerce by providing the most vital trade instrument, namely the Credit or Debit Card, without which E-commerce would be impossible.

Web portal Rediff Founder and CEO Ajit Balakrishnan said "e-commerce in India has not yet taken off in as big a way as it expected, but it hopes the government's commitment to creation of "back-hall" broadband infrastructure would give a fillip to online shopping in the country. The reasons for online shopping not catching on in the country are low credit card penetration and the high failure rate (50%) in the case of debit card transactions. Debit card-based e-commerce is possible, though there are challenges. Broadband connectivity between banks is just building in India. Unless the banks' telecom infrastructure is super, it can't be pulled off. There are 120 million Indians with debit-plus-ATM cards. He further mentions, there's also a TRAI plan to spend Rs 35,000 crore, we need to put weight behind it.", (Ref, ET, Sunday, Sep 18, 2011 at 2350 hrs IST).

The Indian e-commerce market will gallop at an impressive growth rate of 47 per cent to over Rs 46,000 crore in the 2011 calendar year, a report said. "This growth is primarily driven by the online travel industry, which contributes 76 per cent to the total Internet commerce industry in India today," a report released by the Internet and Mobile Association of India (IAMAI) said. According to the study, around 7.4 million people in the country bought products over the Internet in 2009 (Ref, ET, Monday, Mar 21, 2011 at 1220 hrs IST).

Indian E-Commerce Market Size		
Year	Market Size (in Rs., Crore)	Growth Rate
2009	19688	
2010	31598	60%
2011	46520 (expected)	47%

TOP COUNTRIES WITH HIGHEST NUMBER OF INTERNET USERS

#	Country or Region	Population, 2011 Est	Internet Users Year 2000	Internet Users Latest Data	Penetration (% Popln)	World % Users
1	China	**1,336,718,015**	22,500,000	485,000,000	36.30%	23.00%
2	United States	**313,232,044**	95,354,000	245,000,000	78.20%	11.60%
3	India	**1,189,172,906**	5,000,000	100,000,000	8.40%	4.70%
4	Japan	**126,475,664**	47,080,000	99,182,000	78.40%	4.70%
5	Brazil	**203,429,773**	5,000,000	75,982,000	37.40%	3.60%
Total World – Users		**6,930,055,154**	360,985,492	2,110,765,810	30.50%	100.00 %

Source: http://www.Internetworldstats.com/top20.htm on 2nd Nov, 2011, Latest Data refers to data available till 30 June, 2011, (Est – Estimated, Popln – Population)

eBay India Head (Partnerships and Pop Culture) Deepa Thomas said. "India definitely will be among the Top 10 e-commerce hubs of the world by 2015 as it is the fourth largest Internet users in the world. Beyond metros, it needs to be better. Though India is witnessing many changes in 3G and broadband, there are issues with connectivity. India is still not as connected as it should be. Connectivity, broadband penetration in countries like the Philippines and Malaysia is good. Hence there is scope for e-commerce or online transactions", (Ref, ET, Tuesday, Oct 04, 2011 at 1517 hrs IST).

Issues Related to E-Commerce:

Everything which has advantages also has some disadvantages if not regulated properly. Same case is there with e-commerce as well. Issues related to e-commerce can be divided into two parts, first one is technical issues and second is issues related to taxation.

Technical Issues: Since e-commerce is related to computer, Internet and personal information, following technical issues generally occurs:

1. Active Contents: Active content refers to programs that are embedded transparently in web pages that cause action to occur. The best known active content forms are Java applets, ActiveX controls, JavaScript, and VBScript.
2. Malicious Codes: Computer viruses, worms and Trojan horses are examples of malicious code.
3. Communication Channel Threats: The Internet serves as the electronic chain linking a consumer to an e-commerce website.
4. Confidentiality threats: Breaching confidentiality on the Internet is not difficult. When one fills personal information and clicks the submit button, the information is sent to the web-server for processing.
5. Password hacking: Now a day, many software and hardware are available which can easily write and store the password in the system. The other way is to guess passwords.
6. Identity Theft: This is a crime that affects consumers at home, at work, in the shopping mall or online. FTC (the Federal Trade Commission) defines identity theft as the stealing of personal information to illegally obtain credit or medical care or to hide from the law.
7. Fraudulent activities: This is done by using personal information of an Internet user. Many people receives award winning emails in which sender asks for some money to process the amount.
8. Phishing & Spoofing: phishing is an attempt by scammers to troll the sea of online consumers in hopes of netting unsuspecting victims. Identity thieves send massive numbers of e-mails to Internet users that ask them to update the account information for their banks, credit cards or online payment service or popular shopping sites. The e-mail may assert that the recipient's account information has expired, been compromised or lost and that the account holder needs to immediately resend it to the company. Sometimes this fraudulent e-mail appears to have been sent from the domain of a legitimate bank, insurance agency, retailer or credit card company. In fact, the fraudster's identity has been hidden behind these credible sources, in a practice called "spoofing," which goes hand in hand with phishing.

Another technical issue which requires to be mentioned separately is associated with the intellectual property right (IPR). Some words are trademark of some business organization which can not be used by anyone for any purpose. WIPO (World Intellectual Property Right Organization) was created to take care of these kinds of issues. ICANN (Internet Corporation for Assigned Names and Numbers) is the organization which parently registers all the domain names. This organization should have list of all the trademarks and copyrighted words to avoid conflict. Two years ago this

kind of conflict arose when Tata & Sons filed a case against online travel portal www.makemytrip.com for using trade mark TATA in www.oktatabyebye.com. About one year ago MakeMyTriip.Com filed a case against MakeMyHoliday.Com for using some part of its trade mark makemytrip.

Taxation Related Issues: E-commerce is challenging the adequacy and fundamental validity of the principles of international taxation, such as physical presence, place of establishment, and valuation. Realising the potential of earning tax revenue from such sources, committees were formed to sort out the taxation issues. In India the High Powered Committee (HPC) was constituted by the Central Board of Direct Taxes.

Domestic Tax Issues: The HPC is of the view that domestic e-commerce does not raise new issues for direct taxation. If Indian taxation rules are out of sync with those followed internationally, it may encourage the evasion of tax by small players and migration of big business out of India. The Group is of the view that in order to reduce evasion, India should form rules, which are consistent with globally accepted norms. Also, when rules have been relaxed and liberalization allowed taking its own form, it has led to a constructive response from foreign parties. Creating a trust-based environment is better than creating a draconian legislation, since it will encourage multinationals to continue outsourcing work to India. An important illustration of the above fact is the liberalization of exchange controls. It is seen that the Indian as well as foreign investors have responded well to the liberalisation and there has been a higher foreign exchange inflow, which has been reflected in the current foreign exchange reserves. From nearly bankruptcy levels in 1989-90, India today boasts of US$ 57 billion reserves.

International Tax Issues: In the era of globalization, liberalization and e-commerce, companies are having different functionalities from different countries which create tax related issues. In order to address the issue on determination of residential status, the HPC has considered the concept of 'place of effective management'. The Report states that this concept has no real alternative and has to be used. The Group is of the view that the concept of 'place of effective management' is not used in the Indian tax laws and has a limited role to play in determining residential status while applying the tie-breaker rule. For example, acompany is treated as a resident of India for Indian tax purposes and taxed in India in respect of its worldwide income only if it is either incorporated under the laws of India or wholly managed from India. But in this case issue of double taxation arises. To solve this Double Taxation Avoidance Agreement ("DTAA") was introduced, according to this the residential status of a person would have to be determined in accordance with the domestic laws of respective countries. Thus, for the purposes of the said DTAA's, in order for a company to be resident in India, it would have to be either incorporated in India or controlled and managed wholly from India. Therefore, if only a fraction of the control and management lies in India, a company would not be regarded as an Indian resident company. Further, in the event that, a company is regarded as a resident under the domestic laws of both the member nations to aDTAA, then the residential status would be determined by its place of effective management. Thus, 'place of effective management' is a tie-breaker concept and comes into play only where dual residency exists. The issue of determination of the residential status is important, since, enterprises today are globally integrated and decision makers are located in different jurisdictions. The advancement of technology has enabled the key decision makers sitting in different jurisdictions to participate in the decision making process through video conferencing and other like facilities. Thus, it may so happen that a decision maker sitting in India could participate in control and management of a non-resident company. The HPC further states that where the 'place of effective management' concept cannot be applied the source rule of taxation should be applied. The Group feels that rather than

discarding the concept of 'place of effective management', the countries should endeavour to formulate effective rules for applying this test in the context of ecommerce.
As recognised by the HPC, in the case of cross border commerce, income derived by a person may be taxed in the source country "having connection with generation of income".

Reasons of the Formulation of Cyber Law in India
1. The arrival of Internet signaled the beginning of the rise of new and complex legal issues. All the existing laws in place in India were enacted way back keeping in mind the relevant political, social, economic, and cultural scenario of that relevant time ('50s). Nobody then could really visualize about the Internet. The coming of the Internet led to the emergence of numerous ticklish legal issues and problems which necessitated the enactment of Cyber laws.

2. The existing laws of India, even with the most benevolent and liberal interpretation, could not be interpreted in the light of the emerging cyberspace, to include all aspects relating to different activities in cyberspace.

3. None of the existing laws gave any legal validity or sanction to the activities in Cyberspace. Courts and judiciary in our country have been reluctant to grant judicial recognition to the legality of email in the absence of any specific law having been enacted by the Parliament. As such the need had arisen for Cyber-law.
4. Internet requires an enabling and supportive legal infrastructure in tune with the times. This legal infrastructure can only be given by the enactment of the relevant Cyber-law as the traditional laws have failed to grant the same. E-commerce, the biggest future of Internet business, can only be possible if necessary legal infrastructure compliments the same to enable its vibrant growth.
(Ref: http://cyberlaws.net/cyberindia/whycyberlaw.htm)
IT Act 2000 Vs IT (Amendment) Act 2008
The Information Technology Act was enacted in 2000 with a view to provide legal recognition to e-commerce and e-transactions, to facilitate e-governance and prevent computer-based crimes. The rapid increase in the use of Internet has led to a rise in the crimes like child pornography, cyber terrorism, publishing sexually explicit content in electronic form and video voyeurism. So, penal provisions were required to be included in the Information Technology Act, 2000.

The IT (Amendment) Act 2008 was passed by on December 23, 2008. The amendment rules pertaining to various sections such as procedure and safeguards for interception, monitoring and decryption of Information, blocking access of information by public and monitoring and collecting traffic data have also been notified. Besides monitoring and interception, the amended Act also deals with the appointment of Indian Computer Emergency Response Team (ICERT), which deals with computer security and situations arising from cyber attacks. The amendments to fight the cyber terrorism was made in so hurry that it might be proved a white elephant. Internet censorship cause blocking of public access to any information source which may causes losses in other terms. An example in this regard can be seen the blocking of more than 300 websites/ web-pages after the riots in Assam, Mumbai and Uttar Pradesh. Whereas other intellectuals argued that government should have used the same media to counter terrorism, hate speech.

From a corporate perspective, the most critical area expected to be addressed is that of confidential information, particularly in cross-border communications. Another problem in the Act lies in the differentiation between individuals and corporations, nationals and trans-nationals, and the distinct sphere of cyber terrorism, as all these cannot be clubbed under one umbrella. India is increasingly facing the problem of electronic, confidential information being pirated by employees.

According to Pavan Duggal, a practicing advocate in Supreme Court of India (Specialising in Cyberlaw) mentions that this amendment legislation goes extremely soft on cyber criminals. A legislation that chooses to encourage cyber criminals by lessening the quantum of punishment accorded to them under the existing law. Currently, the IT Act, 2000, has provided for punishment for various cyber offences ranging from three years to ten years. These are non-bailable offences where the accused is not entitled to bail as a matter of right. But the amendments to the IT Act have gone ahead and reduced the quantum of punishment. The offences of hacking, as defined under Section 66 of the existing Information Technology Act, 2000, have been completely deleted from the law book.

Conclusion & Suggestions

The e-commerce has taken the business world by a storm which has become the backbone for new economy, having huge potential and has changed the way business. It has advantages for both buyers as well as sellers and this positive situation is the main reason for its rise. As a coin has two faces, it also has some issues which can be sorted out with the improvement in technology and better legal frame work.

Based on the study, the following are the main findings and recommendations:

• E-commerce is associated with not only the technology but also with strategy and management.

• For e-commerce promotion of right information is required more than the hardware and physical infrastructure.

• A dynamic approach is required at the place of static approach for the digital economy. If it is about the modernization of transaction or communication process one would have to think accordingly and approach must be different from the traditional process.

• Creation of a policy and regulatory environment is essential for the smooth running and development of e-commerce.

• E-commerce in India includes broadly three areas, software exports, web-enabled services, & e-trade.

• Parallel to IT Act, Certifying and authentication authorities have to be fully operational to sort out the issues of security and payments. Banking laws and regulations thus need to be adjusted to the new formats and requirements so that electronic fund transfers and plastic money can work without any hassle and fraudulent activities.

• Future tax policy on e-commerce needs to ensure that it is consistent with the principles of international taxation; minimizes compliance costs; and is transparent, predictable, and with simple rules to follow.

• The development of education and training policies is required to produce effective manpower to meet with the needs of industry.

• Regulating the e-commerce and IT teaching shops needs to be addressed in order to ensure standards and coordination between government and private agencies.

• Developing countries need to prepare themselves for the future multilateral trade agenda which will necessarily include e-commerce.

• India has the potential to be the most prominent place of e-commerce due to being a 3rd largest place in terms of Internet usage.

• As India is the hub of KPO and BPO and popular for body shopping, India's main interest and focus area should be on the one hand to provide effective market access to its professionals and skilled labour force and on the other to bring about an agreed uniformity in the movement of capital and labour.

• India should continue to support the IPR regime while demanding representation on standard setting bodies such as ICANN. India should also ask for an easier and more affordable access to the arbitration mechanism at WIPO in the matter of disputes over domain names.

• India needs to prepare strategies to access the production and supply chains at various stages in the evolving paradigm of e-trade.

• It is required to formulate an effective law which can terrify the people indulged in cyber crime.
• Instead of giving due advantage to cyber criminals by liberalizing the law and drafting a criminal friendly law, it should be formulated for the safeguard of public and making their transactions hassle free by preventing the chances of data theft.
• Most important, if something related to cyber crime occurs, our cyber police should be capable enough to go to the root and find the culprits and get them punished and finally giving a breath of relaxation to the person who suffered.

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Impact of Individual's Psychology in Their Investment Pattern : An Empirical Inquest in Indian Context

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Abstract

"Save for better tomorrow" – These words represent the mantra of many of today's personal financial management professional. Bonds and Stocks are two important financial instruments in family investment decisions. As household income level increases the proportion of individuals owning stocks and bonds is also increasing rapidly. Many surveys or studies have already been done on behavior of individual investors based on different year's data obtained from the Survey of Consumer Finances, U.S. In a country like India the availability of the survey or data relating to individual investors is very rare. In this scenario, we have initiated an interesting, yet, risky venture, to unveil the truth relating to the investors' psychology in India, specially, the individual investors and their behavioural aspect and the impact of the same in their investment pattern.

Keywords : Behavioural Finance, Investment Pattern, Save, Bonds, Stocks.

Backdrop

"Save for better tomorrow" – These words represent the mantra of many of today's personal financial management professional (Muske & Winter, 2004). Bonds and Stocks are two important financial instruments in family investment decisions (Garman & Forgue, 1994). As household income level increases the proportion of individuals owning stocks and bonds is also increasing rapidly (Zhong & Xiao, 1995).

Many surveys or studies have already been done on behavior of individual investors based on different year's data obtained from the Survey of Consumer Finances, U.S. The Survey of Consumer Finances (SCF) is a survey of the balance sheet, pension, income, and other demographic characteristics of U.S. families conducted once in every three years. The U.S. Federal Reserve Board in cooperation with the U.S. Department of the Treasury sponsors the study.

In a country like India the availability of the survey or data relating to individual investors is very rare. The 'Handbook of Statistics on the Indian Securities Market' published by the Securities Exchange Board of India (SEBI) on March 26, 2010 is the most important secondary data source for this study.

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In this scenario, we have initiated an interesting, yet, risky venture, to unveil the truth relating to the investors' psychology in India, specially, the individual investors and their behavioural aspect and the impact of the same in their investment pattern.

Brief Review of the Available Literature

While searching for the appropriate research questions and while finding the ultimate research gap, we had to go through lots of literatures, Foreign and Indian, based on their availability.

The motivation for the present work was provided by Lucy X. Zhong and Jing Jian Xiao (1995) [1]. This article was based on the characteristics of individual bond and stock holders, using data from the 1989 Survey of Consumer Finances. Based on this work, the present research would like to concentrate on the individual investors of India.

Kaia kask (1987)[2] discusses value investing – a long-term investment strategy that is based on investing in stocks with relatively low fundamentals (most often with a low price-to-earning ratio) and finally yields a higher total rate of return from investing than other active strategies. The aim of the paper is to find in which way the excess return earned from value investing is influenced by investors' behaviour in the market and also by the organisational culture of value investing companies. The main research question asked within the paper is why the value investing strategy provides investors with relatively higher total return at lower risk than other investment strategies. The article provides evidence that the direct driver of the excess return from the value investing strategy is the behaviour of investors, while organisational culture has an indirect impact on the rate of return on investment through the performance level of value stock companies.

Daniel Kahneman (1988)[3] introduces useful distinctions among three approaches to the analysis of decisions. *Normative* analysis is concerned with the rational solution to the decision problem. It defines the ideal that actual decisions should strive to approximate. *Descriptive* analysis is concerned with the manner in which real people actually make decisions. *Prescriptive* analysis is concerned with practical advice and help that people could use to make more rational decisions. Financial advising is a prescriptive activity whose main objective should be to guide investors to make decisions that best serve their interests. To advise effectively, advisors must be guided by an accurate picture of the cognitive and emotional weaknesses of investors that relate to making investment decisions. The goal of learning about cognitive illusions and decision-making is to develop the skill of recognizing situations in which a particular error is likely. In such situations, as in the case of Exhibit 1, intuition cannot be trusted and it must be supplemented or replaced by more critical or analytical thinking – the equivalent of using a ruler to avoid a visual illusion. Providing timely warnings about the pitfalls of intuition should be one of the responsibilities of financial advisors. More generally, an ability to recognize situations in which one is likely to make large errors is a useful skill for any decision-maker. He concludes in his study with a checklist that advisors can use to measure their effectiveness at dealing with these biases.

According to **Nik Maheran Nik Muhammad (1989)**[4]**,** Behavioral finance models often rely on a concept of individual investors who are prone to judgment and decision-making errors. This article

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[3] **Daniel Kahneman (1988),** Aspects of Investor Psychology, Beliefs, preferences, and biases investment advisors should know about, taken from www.ssrn.com.

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provide brief introduction of behavioral finance, which encompasses research that drops the traditional assumptions of expected utility maximization with rational investors in efficient markets. He also reviews prior research and extensive evidence about how psychological biases affect investor behavior and prices. He found that the most common behavior that most investors do when making investment decision are (1) Investors often do not participate in all asset and security categories, (2) Individual investors exhibit loss-averse behavior, (3) Investors use past performance as an indicator of future performance in stock purchase decisions, (4) Investors trade too aggressively, (5) Investors behave on status quo, (6) Investors do not always form efficient portfolios, (7) Investors behave parallel to each other, and (8) Investors are influenced by historical high or low trading stocks. However, there are relatively low-cost measures to help investors make better choices and make the market more efficient. These involve regulations, investment education, and perhaps some efforts to standardize mutual fund advertising. Moreover, a case can be made for regulations to protect foolish investors by restricting their freedom of action of those that may prey upon them.

Rod Cross, Michael Grinfeld, Harbir Lamba & Tim Seaman (1990)[5] introduce a class of agent based market models founded upon simple descriptions of investor psychology. Agents are subject to various psychological tensions induced by market conditions, and endowed with a minimal `personality'. This personality consists of a threshold level for each of the tensions being modeled, and the agent reacts whenever a tension threshold is reached. They consider an elementary model including just two such tensions.

In the opinion of **Werner F.M. De Bondt (1990)**[6]**,** behavioural finance models often rely on a concept of noise traders who are prone to judgment and decision-making errors. What do noise traders do? He reviewed prior and present new survey evidence on the behaviour of small individual investors who manage their own equity portfolios. Many people (1) discover naive patterns in past price movements, (2) share popular models of value, (3) are not properly diversified, and (4) trade in suboptimal ways.

Boldea Bogdan Ion, Stanculescu Mircea & Boldea Costin-Radu (1991)[7]**,** in his study**,** determined a general behavior of a multi-agent model capable of describing the process of deliberation of an investors group which may repeatedly decide whether to buy or sell an asset. Each adaptive agent was modeled as a collection of strategies which is optimized by an evolutionary algorithm (EA). The paper investigates the implications and the effect of the learning process for the information strategies used by the agents in the process of deliberation of buy and sells order.

Syed Tabassum Sultana (2010)[8]**,** opines in his study, that, Indian investor today have to endure sluggish economy, the steep market declines prompted by deteriorating revenues, alarming reports of scandals ranging from illegal corporate accounting practices like that of Satyam to insider trading to make investment decisions. She, in her study, while discussing the characteristics of the Indian

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individual investors along, makes an attempt to discover the relationship between a dependent variable i.e., Risk Tolerance level and independent variables such as Age, Gender of an individual investor on the basis of the survey. Indian investors are high income, well educated, salaried, and independent in making investment decisions and conservative investors. From the empirical study it was found that irrespective of gender, most of the investors (41%) are found have low risk tolerance level and many others (34%) have high risk tolerance level rather than moderate risk tolerance level. It is also found that there is a strong negative correlation between Age and Risk tolerance level of the investor. Television is the media that is largely influencing the investor's decisions. Hence, this study can facilitate the investment product designers to design products which can cater to the investors who are low risk tolerant.

Terrance Odean (1998)[9], in his study, tests the disposition effect, the tendency of investors to hold losing investments too long and sell winning investments too soon, by analyzing trading records for 10,000 accounts at a large discount brokerage house. These investors demonstrate a strong preference for realizing winners rather than losers. Their behavior does not appear to be motivated by a desire to rebalance portfolios, or to avoid the higher trading costs of low priced stocks. Nor is it justified by subsequent portfolio performance. For taxable investments, it is suboptimal and leads to lower after-tax returns. Tax-motivated selling is most evident in December.

Geoffrey Williams (2011)[10] provides an empirical analysis of the differences between socially responsible investors (SRI) and conventional investors in six countries. He showed that differences are seen more often in investor attitudes and behaviour rather than in other criteria such as demographics. SRI investors appear to care more about social criteria rather than financial and shareholder interests and are more likely to punish firms for poor social performance as consumers as well as in their investment choices. All investors believe that good corporate social performance leads to good financial performance but conventional investors do not appear to follow this through in their portfolios. Market context also appears to be important.

In the opinion of **Iqbal Mahmood, Habib Ahmad & Mansoor Anjum (2011)[11],** the behavioral finance has been recognized as an important area in the study of recent finance literature. Its implicit objective is to discover and remedy the deviations from the rational decision making in the investment process. They examined the role of various socioeconomic, demographic and attitudinal factors affecting the investment decision of investors in the market.
Based on the previous studies, factors that could influence holdings of bonds and stocks include three sets of variables – demographic characteristics, financial resources and socio-psychological variables. Socio-demographic variables included educational levels, age, gender, marital status, and race of the household head. Financial variables included the level of income, checking amount and savings amount. Five psychological variables were: expectation for economy, expectation for interest rates, expectation for family income, saving motives and financial planning horizon (Zhong & Xiao, 1995).

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[9] **Terrance Odean (1998)**, Are Investors Reluctant to Realize Their Losses? *The Journal of Finance*, Vol. 53, No. 5. (Oct., 1998), pp. 1775-1798. Stable URL: http://links.jstor.org/sici?sici=0022

[10] **Geoffrey Williams (2011),** Are socially responsible investors different from conventional investors? A comparison across six countries, European Journal of Social Sciences – Volume 20, Number 2

[11] **Iqbal Mahmood, Habib Ahmad & Mansoor Anjum (2011),** Behavioral Implications of Investors for Investments in the Stock Market, *International Islamic University, Islamabad, Pakistan.*

Age and stock holdings are positively related (Kreinin,1959). However, older investors have been found to be more conservative in their investment behavior (Baker & Haslem, 1974; Lease, Lewellen & Schlarbaum, 1974; Lewellwn, Lease & Schlarbaum, 1977). Male consumers were more likely than females to invest in real estates, common stocks, and corporate bonds, but females were more likely to own government bonds (Haynes & Helms, 1990). An earlier study indicated that females were more likely than males to emphasize the importance of expected dividend yield and price stability (Baker & Haslem, 1974).

There are various types of motivational issues and personality which are related to a specific individual and these will play an effective role in the savings and investment decisions related with each individual (Maslow, 1954).

As the risk factor is inseparable with the fuctions like investment or savings, hence it is necessary to understand the financial risk tolerance factors of an individual. The various risk tolerence factors associated with an individual play very important roles in his/her various financial decision makings (Hallahan, Faff & McKenzie, 2004).

Perceived saving motives were different in terms of the household's home ownership, marital status, number of children, life cycle stage, employment status, income, asset and debt categories, net worth, and the head's gender and education (Xiao & Noring, 1994).

Identification of the Research Gap

After swimming within a glimpse of above available literatures (keeping in mind the searching limitations), it becomes crystal clear, that, no compresensive study has yet been made which could throw a light on the impact of the individual's psychology on their investment pattern, especially in Indian context.

Design of the Present Study

There is a paucity of primary research in this area in India. So, this study will mainly be based on primary data collected through questionnaire, from the individuals with different religion, age, sex, marital status, income group, etc. This study would also use variables like the roles of trust and optimism (Guiso, Sapienza & Zingales, 2005) that have not been used in previous researches in India, which is a major contribution of this paper.

But, different other sources of secondary data which would be taken into consideration for this study will be - the various reports on household sectors investment generated by Reserve Bank of India, Ministry of Finance of Indian Government, etc. and also different official and non-official sources and obviously, different websites.

The objectives of the present study include the identification of factors affecting the individual's psychology for the purpose of investment. The study is exploratory or formulative in nature with an emphasis on discovery of insights and ideas. This study would mainly focus on primary sources of data. It also involves the empirical and qualitative testing to establish linkages and relationships between the different factors so as to ultimately lead to a proper model /framework that would provide an integrated framework for the research.

Keeping these objectives in mind, it is clear that both an exploratory / formulative and descriptive / diagnostic research design seemed most appropriate.

Objectives of the Present Study

This is an attempt to study the individual's psychology and their investment behavior. This study is concentrated for the country India only. This is also an attempt to examine the characteristics of individual bond and stock holders. This study will not only investigate which consumers hold bond

and stocks, but will also try to explore why they choose such instruments for the purpose of investment. The findings of the study will help the practitioners to provide better suggestions related with investment decisions to their clients. This study will help the personal financial counselors and planners to understand the socio-economic characteristics of the individual investors.

The main objectives of the study are –

1. ***To have an overview of the Investors' behavioral pattern in India. (to be explained in Chapter 2).***
2. ***To explain the various determinants of bond and stock ownership and the savings behavior of the individuals. (to be explained in Chapter 3)***
3. ***To link the investment and savings pattern of individuals to age, family structure, income pattern, and educational background of the individual. (to be explained in Chapter 4)***
4. ***To look at the roles played by psychological variables such as trust, optimism and risk aversion in investment decision making.(to be explained in Chapter 5)***
5. ***To test empirically, the role played by the above variables in the Investment Decisions of Individuals. (to be explained in Chapter 6)***
6. ***To provide with better and relevant suggestions related regarding the investment decisions to the clients of different financial services providers. (to be explained in Chapter 7)***

Proposed Methodology of the Present Study

Data Source

Quantitative data will be collected through filled-up structured questionnaires. The sample will be selected based on random sampling procedure.

Necessary data support will also be taken from various secondary sources of information, relevant books, journals, periodicals and websites, wherever necessary.

Period of Study

The primary data survey and the analysis will take into consideration almost two years of study period.

Method adopted for Sampling

The sample will be selected based on random sampling procedure. The target group would consist of Indian individual investors (both male and female) from different part of the country with different socio-cultural backgrounds, different age groups, different income groups, etc.

Tools for Analysis

The test for quantitative validity would be done through suitable statistical techniques like regression, chi-square, ANOVA etc. by using appropriate statistical software. Other relevant statistical tools and models may be deployed as deemed pertinent to the problem in hand.

Variable conceptualization

Based on the literature review, the variables and the items for the study would be conceptualized. The items would be pilot tested to arrive at the final questionnaire.

Based on previous studies, the variables to be included in the data analyses of this study are:

Dependent variables – the rupee values/the percentage of bond holdings and the rupee values/the percentage of stock holdings.
Independent variables –
a) *Socio-demographic variables*: educational levels, age, gender, marital status, and race of the household head.
b) *Financial variables*: the level of income, checking amount and savings amount.
c) *Psychological variables*: expectation for economy, expectation for interest rates, expectation for family income, saving motives, financial planning horizon, etc.

Respondent Characteristics
Table 1 shows that most of the respondents of this study, belong to the age group "Below 30 years". 35 respondents belong to the age group of "Below 30 years" which is almost 43% of the total sample size. If we consider the respondents belonging to the age group of "30 – 40 years" and the age group "Below 30 years" together, it can be seen that there are 46 respondents, which is almost 57% of the total sample size. Hence we can say that most of the respondents are young. Again the majority of the sample is "Male" which almost 83% of the total sample size is. 63% of the respondents are married. Married individuals generally bear more responsibility than their unmarried counterparts. Therefore it is quite expected that the investment of the married individuals are more than unmarried ones. 96% of the respondents are Hindus.

Table 1 shows that while most of the respondents are either Postgraduates or Graduates, few are Professionals (Doctor, Chartered Accountant or Engineer) as well. Further, it is interesting to note that most investors of this study can be said to possess higher education, and this factor will increase the reliability of the conclusions drawn about the matters under investigation. Most of the respondents are service holders (75.6%). Very few number of them are either self-employed, retired, businessmen, or engaged in cultivation. During the study, we find one respondent who is a student but still he has his own investment and his monthly income is between "Rs. 20,000 – Rs. 30,000 per month".

A large number of respondents belong to the individual monthly income bracket of Rs. 20,000 to Rs. 50,000, whereas in case of total monthly income of family, almost 55% of the respondents belong to the income level of "above Rs. 50,000". The total number of members in the family is either 3 or 4 in most of the cases. Almost in 79% of the cases, the total number of earning members in the family is either the respondent himself or the respondent and another person in the family.
The descriptive respondent characteristics are presented in Table 1.

Table 1: Demographics of the Sample Investor

Parameter	Number of Investors	Percentage
Gender		
Male	68	82.9
Female	14	17.1
Total	**82**	**100**
Age (in Years)		
Below 30	33	40.2
30 - 40	13	15.9
41 - 50	10	12.2

51 - 60	23	28
Above 60	3	3.7
Total	**82**	**100**
Marital Status		
Married	52	63.4
Unmarried	30	36.6
Total	**82**	**100**
Religion		
Hindu	79	96.3
Islam	2	3.6
Jain	1	0.1
Total	**82**	**100**
Educational Qualification		
Upto Class XII	3	3.6
Graduate	25	30.5
Post Graduate and above	54	65.9
Total	**82**	**100**
Occupation		
Service	62	75.6
Self employed	2	1.9
Retired	3	2.7
Business	8	9.8
Professional	6	7.3
Others	3	2.7
Total	**82**	**100**
Monthly Earnings of Individual (in Rs.)		
Upto Rs. 10,000	3	3.6
Rs. 10,001 - Rs. 20,000	11	13.4
Rs. 20,001 - Rs.30,000	17	20.7
Rs. 30,001 - Rs. 40,000	14	17.1
Rs. 40,001 - Rs. 50,000	24	29.3
Above Rs. 50,000	13	15.9
Total	**82**	**100**
Monthly Earnings of Family (in Rs.)		

Upto Rs. 10,000	2	2.5
Rs. 10,001 - Rs. 20,000	6	7.3
Rs. 20,001 - Rs.30,000	11	13.4
Rs. 30,001 - Rs. 40,000	7	8.5
Rs. 40,001 - Rs. 50,000	11	13.4
Above Rs. 50,000	45	54.9
Total	**82**	**100**
Total earning members in family		
Only 1 (Respondent)	34	41.5
1 person in addition to respondent	31	37.8
2 person in addition to respondent	10	12.2
3 person in addition to respondent	5	6.1
4 person in addition to respondent	1	1.2
More than5 person in addition to respondent	1	1.2
Total	**82**	**100**
Instruments of Investment		
Only Equity	11	
Equity & Debentures	9	
UTI Scheme	6	
Mutual Fund	31	
Fixed Deposit	38	
Only Bonds	2	
EPF/PPF	35	
LIC	69	
Chit Funds	1	
RDs PO	8	
NSS, NSC	19	
Pref Sh	2	
Comm. & Derivatives	1	
Real estate	12	
Others	5	
Reasons of Investment		
Safegaurd	66	
Hobby	4	
Financial Gain	20	
Learn	3	
Conversations		

Affiliate		
Investment related knowledge		
Very little	12	14.6
Little	21	25.6
Average	30	36.6
Sufficient	18	22
Great Deal	1	1.2
Total	**82**	**100**
Factors of Investment today		
Fundamental analysis	27	
Recommendations	39	
Past Performance	31	
Newspaper / T.V.	22	
Internet	9	
Personal Friend	21	
Colleagues	14	
Own Intuition	15	

Table 1 shows that respondents mostly consider factors like Recommendations, advice and forecasts from professional investors', 'The overall past performance of the market seen from a historical perspective', 'Information from the company as a basis for a fundamental analysis', 'Information from newspapers/T.V.', 'Discussion with personal friends', etc. before making any investment decision.

Most investors invest to safeguard their future and as investments have the potential for financial gain. Only a negligible number of investors choose the options 'It is your hobby' and 'You like to analyze problems, look for new constructions and learn'. No one opted for the options 'You like to participate in investment related conversations with others' and 'You like to affiliate with other investors'.

To decide the investment knowledge and experience of the investors, five options were provided to the respondents – 'I have very little knowledge/experience', 'I have little knowledge/experience', 'I have an average amount of knowledge/experience', 'I have sufficient knowledge/experience' and 'I have great deal of knowledge/experience'. Most of the respondents in this study, possess either little or average knowledge and experience of investment.

To know which of the following instruments investors have already invested in, we provided them with various investment instruments like – Only Equity, Equity & Debentures, UTI Scheme, Mutual Fund, Fixed Deposit, Only Bonds, EPF / PPF, LIC, Chit Funds, Recurring Deposits (RDs) in Post Office, IVP/NSS/NSC, Preference Shares, Commodities and Derivatives, Real estate and Others. From table 1 it can be clearly seen that for investors, insurance policies from LIC is the most preferred option. Apart from investment in LIC most of the investors invested in Mutual Funds,

Fixed Deposits, EPF/PPF and IVP/NSS/NSC. In terms of other options the responses from the respondents are moderate.

Detailed Analysis of the Collected Data

Now to analyze quantitatively to make this research more meaningful, first we have taken '% of equity' and '% of debt' as dependent variables. Percentage of equity denotes the proportion of investments in equity related instruments. Percentage of debt denotes the proportion of investments in fixed income instruments. Male dummy (1 = male, 0 = female), married dummy (1 = married, 0 = unmarried), trust dummy (1 = if individuals trust their bank official or broker, 0 = if they are either very careful in dealing with or they don't trust their bank official or broker), good things dummy (1 = if individuals are optimistic and believe that good things happen to them, 0 = if individuals are pessimistic and believe that good things never happen to them) are used as independent variables. To test if there is any significant difference between male and female, married and unmarried, individuals who trust other people and individuals who don't trust other people and optimistic investors and pessimistic investors with respect to dependent variables, we have used ANOVA methodology with SPSS software. The output from SPSS is given below.

Table 2: Comparative Descriptive Statistics between % of Equity and % of Debt (Male/Female Segregation)

		N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
						Lower Bound	Upper Bound		
% of Equity	Female	14	13.29	21.709	5.802	.75	25.82	0	60
	Male	68	8.65	15.990	1.939	4.78	12.52	0	70
	Total	82	9.44	17.035	1.881	5.70	13.18	0	70
% of Debt	Female	14	22.50	27.856	7.445	6.42	38.58	0	80
	Male	68	20.88	30.148	3.656	13.58	28.18	0	100
	Total	82	21.16	29.610	3.270	14.65	27.66	0	100

Table 3: ANNOVA between % of Equity and % of Debt (Groups Segregation)

		Sum of Squares	df	Mean Square	F	Sig.
% of Equity	Between Groups	249.809	1	249.809	.859	.357
	Within Groups	23256.387	80	290.705		
	Total	23506.195	81			
% of Debt	Between Groups	30.380	1	30.380	.034	.854
	Within Groups	70984.559	80	887.307		
	Total	71014.939	81			

In Table 3, the p-values are greater than 0.05. Hence we can state that there is no significant difference for "% in equity investment" as well as for "% in debt investment" between Gender (male and female).

Table 4: Comparative Descriptive Statistics between % of Equity and % of Debt (no good thing and good thing segregation)

	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Upper Bound		

% of Equity	Nogood things	9	4.44	8.819	2.940	-2.33	11.22	0	20
	Good things	73	10.05	17.729	2.075	5.92	14.19	0	70
	Total	82	9.44	17.035	1.881	5.70	13.18	0	70
% of Debt	Nogood things	9	17.22	25.874	8.625	-2.67	37.11	0	80
	Good things	73	21.64	30.162	3.530	14.61	28.68	0	100
	Total	82	21.16	29.610	3.270	14.65	27.66	0	100

Table 5: ANNOVA between % of Equity and % of Debt (Groups Segregation)

		Sum of Squares	df	Mean Square	F	Sig.
% of Equity	Between Groups	252.192	1	252.192	.868	.354
	Within Groups	23254.003	80	290.675		
	Total	23506.195	81			
% of Debt	Between Groups	156.644	1	156.644	.177	.675
	Within Groups	70858.295	80	885.729		
	Total	71014.939	81			

In Table 5, we can see that in this case also the p-values are greater than 0.05. Hence it can be stated that there is no significant difference for "% in equity investment" as well as for "% in debt investment" between individuals who are optimistic and individuals who are generally pessimistic.

Table 6: Comparative Descriptive Statistics between % of Equity and % of Debt (Trust/Don't Trust Segregation)

		N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
						Lower Bound	Upper Bound		
% of Equity	Dont trust	50	10.12	18.548	2.623	4.85	15.39	0	70
	Trust	32	8.38	14.580	2.577	3.12	13.63	0	60
	Total	82	9.44	17.035	1.881	5.70	13.18	0	70
% of Debt	Dont trust	50	17.90	26.994	3.817	10.23	25.57	0	100
	Trust	32	26.25	33.093	5.850	14.32	38.18	0	100
	Total	82	21.16	29.610	3.270	14.65	27.66	0	100

Table 7: ANNOVA between % of Equity and % of Debt (Groups Segregation)

		Sum of Squares	df	Mean Square	F	Sig.
% of Equity	Between Groups	59.415	1	59.415	.203	.654
	Within Groups	23446.780	80	293.085		

	Total	23506.195	81			
% of Debt	Between Groups	1360.439	1	1360.439	1.562	.215
	Within Groups	69654.500	80	870.681		
	Total	71014.939	81			

From Table 7, we can see that here also the p-values are greater than 0.05. Hence it can be stated that there is no significant difference for "% in equity investment" as well as for "% in debt investment" between individuals who trust other people and individuals who do not trust other people.

Table 8: Comparative Descriptive Statistics between % of Equity and % of Debt (Unmarried/Married Segregation)

		N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
						Lower Bound	Upper Bound		
% of Equity	Unmarried	30	8.03	16.175	2.953	1.99	14.07	0	70
	Married	52	10.25	17.616	2.443	5.35	15.15	0	60
	Total	82	9.44	17.035	1.881	5.70	13.18	0	70
% of Debt	Unmarried	30	15.50	25.439	4.645	6.00	25.00	0	100
	Married	52	24.42	31.540	4.374	15.64	33.20	0	100
	Total	82	21.16	29.610	3.270	14.65	27.66	0	100

Table 9: ANNOVA between % of Equity and % of Debt (Groups Segregation)

		Sum of Squares	df	Mean Square	F	Sig.
% of Equity	Between Groups	93.478	1	93.478	.319	.574
	Within Groups	23412.717	80	292.659		
	Total	23506.195	81			
% of Debt	Between Groups	1514.747	1	1514.747	1.744	.190
	Within Groups	69500.192	80	868.752		
	Total	71014.939	81			

In Table 9, we can see that p-values are greater than 0.05. Hence we can state that there is no significant difference for "% in equity investment" as well as for "% in debt investment" between married and unmarried individuals.

After doing the previous analyses, again we have taken "% of long term investment" and "% of short term investment" as dependent variables. Percentage of long term investment denotes the proportion of investments with horizon greater than 5 years. Percentage of short term investment denotes the proportion of investments with horizon less than 5 years. All the respondents of our sample did not provide clear information regarding these dependent variables; hence at the time of this analysis mentioned in the tables given below, we have considered a sample size of 59. Male dummy, married dummy, trust dummy and good things dummy are used as independent variables. To test if there is any significant difference between male and female, married and unmarried, individuals who trust and individuals who don't trust and optimism and pessimism of investors, we have used ANOVA methodology with SPSS software. The SPSS output is given below.

Table 10 : Comparative Descriptive Statistics between % of Equity and % of Debt (% of long term investment" and "% of short term investment Segregation)

		N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
						Lower Bound	Upper Bound		
percntlong	Female	53	54.70	31.107	4.273	46.12	63.27	0	100
	Male	6	89.17	12.416	5.069	76.14	102.20	75	100
	Total	59	58.20	31.484	4.099	50.00	66.41	0	100
percntshort	Female	53	25.15	23.992	3.296	18.54	31.76	0	100
	Male	6	10.83	12.416	5.069	-2.20	23.86	0	25
	Total	59	23.69	23.418	3.049	17.59	29.80	0	100

Table 11: ANNOVA between % of Equity and % of Debt (Groups Segregation)

ANOVA						
		Sum of Squares	df	Mean Square	F	Sig.
percntlong	Between Groups	6403.556	1	6403.556	7.144	.010
	Within Groups	51090.003	57	896.316		
	Total	57493.559	58			
percntshort	Between Groups	1104.883	1	1104.883	2.051	.158
	Within Groups	30703.626	57	538.660		
	Total	31808.508	58			

In Table 11, we can see that the p-value for between groups is less than 0.05, i.e. 0.010. Hence it can be suggested that there is a significant difference in the percentage of long term investment between Gender. Table 10 shows that the mean value of male investor (89.17) is more than the mean value of the female investor (54.70). Therefore it can be stated that male investors are much more interested in long term investment than female investors. Now in terms of short term investment as the p-value is greater than 0.05, hence there is no significant difference between Gender.

Table 12: Comparative Descriptive Statistics between % of Equity and % of Debt (Married/Unmarried Segregation)

		N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
						Lower Bound	Upper Bound		
percntlong	Unmarried	11	62.36	35.452	10.689	38.55	86.18	4	100
	Married	48	57.25	30.836	4.451	48.30	66.20	0	100
	Total	59	58.20	31.484	4.099	50.00	66.41	0	100
percntshort	Unmarried	11	16.18	23.353	7.041	.49	31.87	0	60
	Married	48	25.42	23.335	3.368	18.64	32.19	0	100
	Total	59	23.69	23.418	3.049	17.59	29.80	0	100

Table 13: ANNOVA between % of Equity and % of Debt (Groups Segregation)

		Sum of Squares	df	Mean Square	F	Sig.
percntlong	Between Groups	234.014	1	234.014	.233	.631
	Within Groups	57259.545	57	1004.553		
	Total	57493.559	58			
percntshort	Between Groups	763.205	1	763.205	1.401	.241
	Within Groups	31045.303	57	544.654		
	Total	31808.508	58			

In Table 13, we can see that the p-values are greater than 0.05. Hence there is no significant difference for long term investment as well as for short term investment between married and unmarried individuals.

Table 14: Comparative Descriptive Statistics between % of Equity and % of Debt (Trust/Not Trust Segregation)

Descriptives									
						95% Confidence Interval for Mean			
		N	Mean	Std. Deviation	Std. Error	Lower Bound	Upper Bound	Minimum	Maximum
percntlong	Not Trust	38	53.21	32.524	5.276	42.52	63.90	0	100
	Trust	21	67.24	28.012	6.113	54.49	79.99	0	100
	Total	59	58.20	31.484	4.099	50.00	66.41	0	100
percntshort	Not Trust	38	24.74	21.808	3.538	17.57	31.91	0	70
	Trust	21	21.81	26.547	5.793	9.73	33.89	0	100
	Total	59	23.69	23.418	3.049	17.59	29.80	0	100

Table 15: ANNOVA between % of Equity and % of Debt (Groups Segregation)

ANOVA						
		Sum of Squares	df	Mean Square	F	Sig.
percntlong	Between Groups	2661.434	1	2661.434	2.767	.102
	Within Groups	54832.125	57	961.967		
	Total	57493.559	58			
percntshort	Between Groups	115.902	1	115.902	.208	.650
	Within Groups	31692.607	57	556.011		
	Total	31808.508	58			

In Table 15, we can see that the p-values are greater than 0.05. Hence in this case also there is no significant difference for percentage in long term investment as well as for percentage in short term investment between individuals who trust other people and individuals who don't trust other people.

Table 16: Comparative Descriptive Statistics between % of Equity and % of Debt (Optimistic/Pesimistic Segregation)

Descriptives									
						95% Confidence Interval for Mean			
		N	Mean	Std. Deviation	Std. Error	Lower Bound	Upper Bound	Minimum	Maximum
percntlong	Not Good Things	9	36.56	32.431	10.810	11.63	61.48	0	80
	Good things	50	62.10	30.001	4.243	53.57	70.63	0	100
	Total	59	58.20	31.484	4.099	50.00	66.41	0	100
percntshort	Not Good Things	9	22.78	16.791	5.597	9.87	35.68	0	50
	Good things	50	23.86	24.555	3.473	16.88	30.84	0	100
	Total	59	23.69	23.418	3.049	17.59	29.80	0	100

Table 17 : ANNOVA between % of Equity and % of Debt (Groups Segregation)

		Sum of Squares	df	Mean Square	F	Sig.
percntlong	Between Groups	4976.837	1	4976.837	5.402	.024
	Within Groups	52516.722	57	921.346		
	Total	57493.559	58			
percntshort	Between Groups	8.933	1	8.933	.016	.900
	Within Groups	31799.576	57	557.887		
	Total	31808.508	58			

In Table 17, we can see that the p-value for long term investment between groups is less than 0.05, i.e. 0.024. Hence there is a significant difference for percentage in long term investment between individuals who are optimistic and individuals who are generally pessimistic. It can also be seen from Table 16 that the mean value of individuals who are optimistic (62.10) is more than the mean value of those individuals who are generally pessimistic (36.56). Therefore it can be stated that individuals who are optimistic are much more interested in long term investment than individuals who are generally pessimistic. In case of percentage in short term investment the p-value is greater than 0.05. Hence there is no significant difference for percentage in short term investment between individuals who are optimistic and individuals who are generally pessimistic.

The investors were also queried about few options which are applicable for them like “It is important to me that other people approve of the stocks that I buy”, “I identify with others by buying and/or selling the same stocks as they do”, “I get a feeling of belongingness by buying and/or selling the same stocks as others do”, “Before I buy or sell a stock, I often inform about this stock amongst family and friends” and “When I have little experience with a certain stock, I often ask friends or acquaintances about it”. Participants reported the objective of their investment in stocks by rating their agreement with statements that described different objectives of investment using a five-point Likert scale, where 1 = completely disagree, 2 = disagree, 3 = neither disagree nor agree, 4 = agree and 5 = completely agree.

Following Hoffmann, A. O. I, Von Eije, J. H., & Jager, A. (2006b), factor analysis was performed by using SPSS to identify the existence of a smaller number of underlying factors, and more general types of objectives that spanned more than one question. A factor analysis addresses the problem of analyzing the structure of the interrelationships (i.e. correlations) among a large number of variables (e.g., questionnaire responses) by defining a set of common underlying dimensions known as factors (Hairs et al., 1998: 90). These factors can subsequently be used to form a number of measured items (Hair et al., 1998: 579).

Principal Component Analysis (PCA) was used, performing Varimax rotation to facilitate the interpretation of the results.

A number of tests exist to determine the appropriateness of performing a factor analysis.

(1) First is the Kaiser-Meyer-Olkin Measure of Sampling Adequacy (MSA). The MSA quantifies the degree of intercorrelations among the variables and therefore the appropriateness of factor analysis. The MSA index ranges from 0 to 1, where a value of 1 indicates that each variable is perfectly predicted without error by the other variables (Hair et al., 1998:99). We found a test score of 0.631, which can be regarded as satisfactory (Kaiser, 1970; Kaiser, 1974).

(2) Second is Bartlett's test of sphericity. This test provides the statistical probability that the correlation matrix has significant correlations among at least some of the variables. For this test, we found a value of 94.712 with a significance of 0.00. These results also indicate the appropriateness of performing a factor analysis (Hair et al., 1998:99).

As a criterion for the number of factors to extract, the latent root criterion was used (Hair et al., 1998). The latent root criterion was set to extract factors with Eigenvalues above 1.00. As can be observed in the table below, this resulted in the extraction of two factors. The first factor, consisting of two items, was labeled 'socially oriented objectives'. The second factor, consisting two items, was labeled 'dependence oriented objectives'.

Table 18: KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.631
Bartlett's Test of Sphericity	Approx. Chi-Square	94.712
	df	10
	Sig.	.000

Table 19: Communalities

	Initial	Extraction
QUES1	1.000	.691
QUES2	1.000	.804
QUES3	1.000	.704
QUES4	1.000	.734
QUES5	1.000	.666
Extraction Method: Principal Component Analysis.		

Table 20: Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %

dimension0	1	2.404	48.071	48.071	2.404	48.071	48.071	1.842	36.836	36.836
	2	1.195	23.900	71.971	1.195	23.900	71.971	1.757	35.135	71.971
	3	.617	12.346	84.316						
	4	.526	10.523	94.840						
	5	.258	5.160	100.000						
Extraction Method: Principal Component Analysis.										

Table 21: Component Matrix[a]

	Component	
	1	2
QUES1	.494	-.669
QUES2	.824	-.354
QUES3	.838	-.045
QUES4	.548	.658
QUES5	.692	.433
Extraction Method: Principal Component Analysis.		
a. 2 components extracted.		

Table 22: Rotated Component Matrix[a]

	Component	
	1	2
QUES1	.817	-.152
QUES2	.844	.303
QUES3	.644	.538
QUES4	-.048	.855
QUES5	.211	.788
Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization.		
a. Rotation converged in 3 iterations.		

Findings, Conclusion and Recommendations

This study confirms the earlier findings with regard to the underlying factors that determine the investment decisions of individual investors in India. The findings generally suggest that in case of the individual investor, psychological factors do play a pivotal role.

This study reveals that male investors dominate the investment market in India. Most of the investors possess higher education like graduation and above. Investors in this study reported the need to safeguard their future and financial gain as the most important objectives. Their responses also confirm that they also strive to satisfy their social oriented objectives and dependence oriented objectives.

Investors are bounded in their rationality. This study once again establishes that most of them do not have sufficient knowledge and experience regarding investments. Investors, realizing that their personal knowledge and/or experience is insufficient to make correct decisions, may try to reduce the resulting feelings of uncertainty and come to a decision by deriving investment related information from knowledgeable others or observing the behavior of other investors in their social network.

This study reveals that investors mostly prefer avenues like Mutual Fund, Fixed Deposits, EPF/PPF and IVP/NSS/NSC to invest their funds next to LIC insurance policies, which is the most preferred investment avenue.
This study is also an attempt to examine the roles played by trust and optimism in investing. From the findings it is evident that individuals who are optimistic are more interested in long term investing than individuals who are generally pessimistic. Male investors are mostly longer term investors when compared to female investors. Individuals who trust other people and individuals who do not trust other people do not differ in their investment horizons.

However, we do not find evidence that trust, optimism, gender or marital status impacts the percentage of investment held in equity or percentage of investment held in debt.
This study has important implications for investment managers as it has come out with certain interesting facets of an individual investor.

Limitations of the Study

The nature of our survey, however, brings along a limitation of this study. The respondents of our survey were Indian investors. According to NCAER (National Council of Applied Economic Research), in 2009, of the 222 million households in India, the absolutely poor households (annual incomes below Rs. 45,000) accounted for only 15.6% of them or about 35 million (about 200 million Indians). Another 80 million households are in income levels of Rs. 45,000 – 90,000 per year (http://en.wikipedia.org/wiki/Poverty_in_India, last accessed in 30th November, 2010). In the country like India investment is still a luxury for most of the individuals.
This study illustrates the relevance of using theoretical insights and methods from fields such as consumer behavior and marketing research to explain and understand individual investor behavior. This study may be relevant for the professionals in the field, like e.g. investment consultants for developing marketing strategies, new investment products, as well as in the everyday contact with clients. We are very willing to continue our research in this specific area in the coming days with more number of respondents and with much more time. The difficulties we have faced during this study are not an excuse but we will try to learn from those factors and definitely take into consideration during our further research. The sample of this study was limited to individual investors. Future studies have to determine whether specific results of this study also hold for the behavior of professional investors.

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Contemporary Corporate Governance: In the Eye of Kautilya

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Abstract

In Arthasastra, Kautilya has provided guidelines for governing the monarchy of Mauryan Empire with special emphasis on maintaining strict public governance. According to him, attainment of good governance ensures that the objectives of the state are fulfilled and realized. It is evident that the state had exercised a strong control over the governance and every activity was monitored and controlled by the administration. Kautilya's view regarding governing a monarchy is equally applicable in successfully running a corporate sector in modern business context. A company following strict governance system and doing business in an ethical manner can easily win the confidence of the government, customers, employees and other stakeholders. Eventually these companies are better placed in the market in terms of brand value, equity value and market value having more advantages than its competitors. Well-defined and enforced corporate governance provides a structure that works for the benefit of every stakeholder of the company as well as the society.

Keywords: ***Arthasastra, Corporate Governance, Business World***

Introduction

The word `governance' has been used with different meanings in different parts of India during different times. In ancient India, there were many forms of governance in different periods in different region. Even within a given territory there were many kingdoms with different ways of governance. Basically governance was the directives through which the king or the authority tried to control the administration. In modern business world, the word 'governance' is termed as 'corporate governance' which is "the system by which companies are directed and controlled" (Cadbury Committee, 1992). It involves a set of relationships between a company's management, board of directors, shareholders and other stakeholders. Corporate governance involves the establishment of standard and process with appropriate checks and balances that enables the authority to discharge their legal responsibilities in such a manner which is beneficial to all the stakeholders. It includes the relationships among the many stakeholders involved and the goals for which the corporation is governed. In contemporary business corporations, the main external stakeholder groups are shareholders, debtors, creditors, suppliers, customers and communities affected by the corporation's activities. Internal stakeholders are the board of directors, executives and other employees. An ideal corporate governance system guarantees that an enterprise is directed and controlled in a responsible, professional and transparent manner with the purpose of safeguarding its long-term success. It is intended to increase the confidence of various stakeholders.

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One of the keys to successful corporate governance is the ability to understand and apply management principles and techniques efficiently and effectively. Managers must develop an in-depth knowledge of past and present models, theories and processes to manage intelligently. Contemporary management practice is pervasive in every aspect of human life within all types of organizations. There has been renewed interest in the corporate governance practices of modern corporations since 2001, particularly due to the high-profile collapses of a number of large corporations, most of which involved accounting fraud. Corporate scandals of various forms have affected public and political interest in many ways. Some of the notable scams are, of Satyam Computer Services, Harshad Mehta and Ketan Parekh Stock Market Scam, Rajat Gupta Scam etc. The scam of Satyam Computer Services was something that shattered the peace and tranquility of Indian investors and shareholder community beyond repair. Satyam was the biggest fraud in the corporate history to the tune of Rs. 14000 crore. The company's chairman Ramalingan Raju kept everyone in the dark for a decade by fudging the books of accounts for several years and inflating revenues and profit figures of Satyam. Finally, the company was taken over by the Tech Mahindra which has done wonderfully well to revive the brand Satyam. Harshad Mehta and Ketan Parekh stock market scam did not affect many people but there no way that the investor community could forget the unfortunate loss of Rs. 4000 crore. Harshad Mehta scam and over Rs. 1000 crore Ketan Parekh scam which eroded the shareholders wealth in form of big market jolt.

According to Mr. Narayana Murthy, the Chief Mentor of Infosys Technologies, the biggest problem faced by India today is poor quality of public governance. Effective public governance is must for all-round development of a country. Poor public governance leads to the downfall of the economy. This results in the emergence of many social evils. In recent past, management concepts and theories of the West have dominated the World and India is not an exception. These Western theories have been practiced irrespective of the traditional and cultural root and beliefs of the particular country. But management theories must be based on that particular country's traditional culture and values. Indian management system is focusing on the application of Western methods of management practices. There are basic differences in cultures and values of families in western countries in comparison to India. So, Indian management philosophy must be framed in such a manner so that it may adjust with the culture and values of the people. Here management concepts on some ancient treatise like Arthasastra may provide some important lessons in efficient and effective corporate management, in particular, corporate governance. The leaders and the leadership style are considered to be the key necessity for the state or the organization. Lord Sri Krishna has stressed on the importance of the leaders through Arjuna in Bhagwat Gita. Manusmriti states that when the world was without a king and the people ran aimlessly in all directions out of fear, the Lord emitted a king in order to guard the entire realm. The emphasis was on the governing the people and move them towards the right direction. Governance practices in Indian philosophy are rooted in the concept of dharma or virtue. Dharma designated those behaviours considered necessary for the maintenance of the natural order of things and it encompasses ideas such as duty, religion and everything that is correct and proper following the basic truth. From our ancient treatise we found that Indian philosophy basically reflects the individualistic approaches towards truth and self realization. Swami Vivekananda has also asserted that the basis of social and political system restore the goodness of man. There is a need to look through the ancient literatures and collect intelligent interpretation to apply effectively in the context of modern management.

In Arthasastra, public governance was given the priority. Kautilya, the writer of Arthasastra, gave a lot of importance in maintaining the standards of public governance in the Mauryan Empire. Kautilya believed that the happiness of a king lied in the happiness of his subjects. If his subjects were unhappy, the king could never be happy. According to Kautilya, attainment of good governance ensures that the objectives of the state are fulfilled and realized. This is possible through properly organized and guided administration. This principle is relevant even

today. A government is good, if it is administered well. The King and ministers were supposed to observe strict discipline. Kautilya recommended a strict code of conduct for administrators, ministers, public officers, traders, artisans etc. Kautilya has seriously considered the problem of corruption apprehended in every sphere of public life.

Objective

The roots of the present day human institutions lie deeply buried in the past. The same is true of a country's law and legal institutions. The legal system of a country at a given time is not the creation of one man or of one day; it represents the cumulative fruit of the endeavour, experience, thoughtful planning and patient labour of a large number of people through generations. To comprehend, understand and appreciate the present governance system adequately, it is necessary, therefore, to acquire background knowledge of the course of its growth and development. To explain 'why it is so', one has to penetrate deep into the past and take cognizance of the factors, stresses and strains which have molded and shaped legal development. To understand 'how it is so', one must appreciate the problems and the pitfalls which the administrators had to face in the past, and the manner in which they sought to deal with them. If we were to confine our attention exclusively to the law as it is, our understanding is bound to be deficient as it is not possible to appreciate its present ordering without some familiarity with its past. We would have a distorted picture of the nature of modern governance system if we were to take the stand that it began only today, or the day before yesterday. The truth is that the traditions of the past have made our modern system what it is, and still live on in it. Without a proper historical background, it may be difficult to appreciate as to why a particular feature of the system is as it is. The historical perspective throws light on the anomalies that exist here and there in the system. Therefore, we should concentrate on different perspectives of governance system in ancient India and gradual evolution of it till today.

There is a great deal of similarity in the governance structures of the ancient kingdoms and modern corporations as is evident from our ancient text and scriptures. Kautilya's Arthasastra maintains that for good governance, all administrators, including the king is considered servants of the people. Good governance and stability are completely linked. There is stability if leaders are responsive, accountable and removable. These tenets hold good even today. Kautilya's idea of governing a state is very similar to the present day's concept of managing a business. According to Kautilya, "*The king, the minister, the country, the fortified city, the treasury, the army, and the ally are the constituent element of the state*" (6.1.1). Similarly there are seven pillars of modern corporate sector: viz. the leader, the manager, the market & customer, the head office, the treasury, the team and the consultants. Kautilya has suggested that the state shall control all activities of governance. According to Kautilya, the state has to play the role of facilitator, regulator and protector. Kautilya has directed that a king (may be identified as a leader or CEO in the context of organization) should play a welfare nature of state with a key role in the protection and promotion of the economic and social well-being of its citizens (*arthamulau hi dharmakamaviti*). Under the above perspective the objectives of the paper are:

(i) To analysis corporate culture in the ancient India
(ii) To understand the philosophies of corporate governance as depicted in Arthasastra
(iii) To assess the relevance of Arthasastra in contemporary business world

Methodology

In this paper an attempt has been made to explore the philosophy of corporate governance from an ancient Indian perspective with reference to Kautilya's Arthasastra. The insights of corporate governance provided in the study is basically enshrined on Indian context, some of these ideas can be applied universally. This paper is based on qualitative research methodology by interpretation and understanding of ancient literatures and religious texts. It is commonly used in contemporary philosophy to study and interpretation of the ancient treatise. Kautilya wrote his Arthasastra in Sanskrit language which is one of the oldest languages in the world. Sanskrit has influenced many other languages in Europe and also in Asia. Arthasastra was written for the

purpose of managing a kingdom or a country. For example, in explaining the Arthasastra in the context of management, the term *rajya* (state) is interpreted to the organization, the raja or king is the leader or the Chief Executive Officer (CEO), *amatya* or *mantri* (ministers) are the managers of various departments such as finance, marketing, human resources and operations, *kosh* refers to finances, *danda* the administrative or the management system.

Corporate Culture in Ancient India

Cooperation is a social instinct exists in human nature. The spirit of cooperation plays an important role in developing the human civilization. From the most primitive period, in all ages and countries, the concept of cooperation exists in social, political, religious and economic life. The huge economic and social activities, throughout the world mostly depend on cooperation among individual and groups. The spirit of cooperation was an important feature in almost all activities in ancient India. In political, social, religious and economic life, we find the presence of this spirit through *jati* (caste), *samgha* (community of Buddhist monk), *sreni* (guild), and *gana* (political cooperation).

Ever since the ancient times human beings lived and survived as a society. The trait of co-operation has contributed more than anything else to the present highly developed stage of civilisation. The decline in the Indian society during and after the medieval age owes a lot to the unorganized fragmented society. But the things were quite different in the past, knows as golden age of Indian Civilization. The harmonious cooperation between various sections of the society, in political, social and religious matters was remarkable. The system of s*hodash sanskars* devised by the *rishis* was a perfect mode of psychological conditioning for appropriate nurturing, development and orientation of these tendencies. Thus, almost every family was producing divinely refined personalities and every sphere of knowledge and development – ranging from the science of spirituality to the science of matter, agriculture to literature, health and education to religion and culture etc, was blessed by excellent talents. That was the time when India was recognized as a universal guide, super civilized and enlightened nation. The treasure of knowledge and all round prosperity here had attracted people from all corners of the globe. This land was like the best place of pilgrimage and a global centre of excellence for the whole world. The principle of "*vasudhaiva kutumbakam*" – treating the whole world as a single large family, was adopted in every walk of life. In the ancient times, the *sadhus* and *brahmins* (sages and saintly scholars) used to devote their lives for selfless service of the society. Whole world was like a family for them. The *sadhus* and *brahmins* of the ancient Indian society used to constantly tour around different parts of the country for the noble purpose of social welfare and development via educating the people through the multi-disciplinary system of religion. An altruist service of this kind is needed for lasting peace and progress in modern human society as well. Actually this is the ideal kind of *sanyasa* (literally meaning renunciation of worldly attachments for holy purposes) that could be easily adopted by people who have fulfilled their responsibilities towards their dependents.

During the ancient Vedic period, the corporate activity was present in the economic life through class concept. *Brahmans, Kshatriyas, Vaishyas* and *Sudras* in human society are the manifestation of different activities with cooperation. *Sattigumba Jataka* (Vol. IV p 430) mentions "The *Jataka* stories refer to a village of 500 robbers with an elder at their bead. Such organization of robbers was met by counter organization of traders of which, reference is made in a number of *Jataka* stories" (*Jarudapana Jataka*, Vol II, p 294). In earlier Indian history there was the existence of organizations of mercantile class. *Sresthi* refers to the headman of a guild which has been referred in the Vedic literatures. In the post Vedic period, the corporate activity was a common feature in the economic life of the people. Men following similar means of livelihood usually formed cooperation for getting certain benefits. Agriculture, trade, cattle rearing etc. by the *vaishyas* is some sort of definite organization at that period. *Sreni* denote the cooperation of traders belonging to the same or different caste but followed the same type of activities. In the *Muga-Pakkha Jataka* we find "the king while going out in full splendor of state is said to have

assembled the four castes, the eighteen guilds, and his whole army" (*Jataka* VI, p 427). These guilds were workers of wood, metal, stone, leather, ivory workers, jewelers, cultivators, dyers, weavers, potters etc. In early Dharma-Sutras (5th Century BC to 3rd Century BC), Gautam Dharma Sutra quoted that "cultivators, traders, herdsmen, money lenders and artisans to lay down rules for their respective classes. The king shall give the legal decisions after having learned the (state of) affairs from those who (in each class) have authority (to speak)". Their spokesman has the right to represent his class in the royal court. Some verses in Mahabharata enjoin upon a king to avail him of *srenivala* which refers to a class of fighting forces. Ramayana also refers to *sayodhasreni* which refers the military aspect of the guild. Dharmasutra (2nd Century BC to 4th Century AD) refers that "If a man belonging to a corporation inhabiting a village or a district (*grama-desa-samgha*), after swearing to an agreement breaks it through avarice (the king) shall banish him from his realm".

The examination reveals that business people on the Indian subcontinent utilized the corporate form from a very early period. The corporate form (e.g., the *sreni*) was being used in India from at least 800 B.C. and perhaps even earlier, and was in more or less continuous use until the advent of the Islamic invasions around 1000 A.D. In fact, the use of the *sreni* in Ancient India was widespread including virtually every kind of business, political and municipal activity. Along with the family-run business and individually owned business enterprises, Ancient India possessed a number of other forms of engaging in business or collective activity, including the *gana, pani, puga, vrata, samgha, nigama,* and *sreni*. *Gana* and *samgha* appear to refer to political and religious entities. The *puga* and *vrata* to entities with members that often had economic motivations, but were also residents of an entire town or village devoted to a profession. *Nigama* and *sreni* refer most often to economic organizations of merchants, craftspeople and artisans, and perhaps even para-military entities. Finally, the *pani* is often interpreted as representing a group of merchants traveling in a caravan to trade their commodities. Of these the *sreni*, *nigama* and *pani* are the ones most frequently engaged in economic activities. The origin of the *sreni* is shrouded in the mists of Ancient Indian history. The earliest Indian writings do make references to organizational forms. The Rig Veda makes reference to the *pani* (akin to a partnership amongst traders for trade caravans) and the Mahabharata to the *sreni.*

Current archaeological thinking suggests that the earliest settlements in the Indian Subcontinent was during the 8000 B.C. to 7000 B.C. Excavations at Mehrgarh (near Quetta, Pakistan) and neighbouring sites provide evidence of a fertile region and inhabitants engaged in farming, herding and keeping animals, and various crafts, as well as inhabitants who possessed special skills. The Indus River Valley (e.g., Harrappa and Mohenjodaro) civilizations flourished during 1900 B.C. to 1500 B.C. Excavations suggest that there was a resource rich, fertile and heavily populated area which was considerably larger than its contemporaries (e.g., Egypt and Mesopotamia). The Indus area civilizations were highly developed with advanced city planning and water management systems far ahead of contemporary civilizations. Moreover, residents of the Indus area were actively engaged in trade with each other and had connection with the west (both by land and sea). The relative peace in the region makes travel safer for traders and opens up new markets for trade. The localization of craft and industry to certain parts of the city might enhance group cohesion, increase productivity and make training of new recruits a bit easier. In light of all these factors, trade was active, substantial and growing which suggests the demand for collective efforts and to protect traders travelling long distances.

Kautilya, the great Indian philosopher and statesman and the writer of Arthasastra was the Prime Minister of Chandragupta Maurya. In Arthasastra, Kautilya has provided guidelines for governing the monarchy, for good rule by the king. The primary objective was to increase the monarchy's wealth and that of his realm. Kautilya did not distinguish between the wealth of the sovereign and his subjects. Kautilya described three types of political system namely rule making, rule application and rule adjudication. He has recognized that diplomacy is an important tool for the helm of the state affairs. Kautilya has mentioned "A king who understands

the true implication of diplomacy conquers the whole". According to Jha & Jha (1999), "Many modern concept of management underline much of Kautilya's discussion in Arthasastra. Good governance was one of his central concerns and Kautilya gave much attention to agent-and-principle problems and asymmetry of information in relation to the public administration".

In proposing rules and practices by which the king will rule successfully, Kautilya recognizes that good governance is the most important vehicle for increasing the wealth of the monarchy as well as that of his subjects. According to Kautilya's view, the King can rule properly to govern like a concern father. He should make sure that individuals are not exploited by the fraudulent and unethical practices of the traders. Kautilya has opined that a king should not have any self-interest, happiness and joy for himself. His satisfaction lies in the welfare and happiness of his people, i.e. he has to submerge his personality into the larger personality of his people (*Prajasukhe sukham rajnah, Prajanam cha hite hitam; Natmapriyam hitam rajnah, Prajanam tu priyam hitam*) or the welfare of the many and the happiness of the many (*Bahujana sukhaya bahujana hitayacha*). In fact, this concept of happiness of many stakeholders needs to be integrated with the areas of corporate management.

Philosophy of Corporate Governance in Arthasastra

Kautilya has suggested that the State should control almost all activities of governance. While the individual merchants were free to continue their trading activities, they had to comply with the rules laid down by the State. Kautilya had appointed superintendents for almost every activity included in governance. They included superintendents for weights and measures, trade and commerce, agriculture, mining, prosecutions, gems and jewels, horses, elephants, cows, tolls, storehouses, forest produce, armory, weaving, ships, liquor, infantry, passports, etc. Thus, it is very much evident that the State exercised a strong control over the governance. However, it has to be noted that the State only acted as a regulatory body and did not interfere in the day to day affairs of the public. In theory, the State had absolute control over economic activities. However in practice, it encouraged all types of private professions too. It was recognized that the wealth of the State was dependent on the wealth of the public. Though the State played a supervisory role, Kautilya did not feel the need to interfere in the planning and decision making aspects of commerce. The government of Kautilya's conception is engaged in a series of social welfare activities. In fact, during the period of Kautilya, social welfare was the primary concern of the religious corporations, village and municipal communities, craft guilds and caste assemblies. Thus the concept of today's welfare state was evident in the Mauryan administration. Kautilya has asserted "*Philosophy is ever thought of as the lamp of all sciences, as the means of all actions (and) as the support of all laws (and duties*)" (1.3.12). The root of any business remains in its philosophy and it is also important to maintain ethical standards in every respect. The values are the lighthouse, which provide proper direction at the difficult time of business.

An integral part of an effective corporate governance regime includes provisions for civil or criminal prosecution of individuals who conduct unethical or illegal acts in the name of the enterprise. It comes as no surprise that corporate governance was first practiced by Kautilya. Kautilya suggests that good governance should avoid extreme decisions and extreme actions. Soft actions (*Sam, Dam*) and harsh actions (*Dand, Bhed*) should be taken accordingly. Kautilya opines in a most modern way - 'Sovereignty is practicable only with the cooperation of others and all administrative measures are to be taken after proper deliberations.' The King and ministers were supposed to observe strict discipline. Kautilya has recommended a strict code of conduct for himself and for his administrators. Kautilya has seriously considered the problem of corruption. He has listed, in the Arthasastra, about forty ways of embezzling government funds. However, Kautilya was very practical about the problem of corruption. This code of conduct is useful and applicable to modern executives. Even two and a half thousand years ago, Kautilya laid stress on capping at a quarter of the revenue, the salaries of the King and his officials. For

good governance, all administrators, including the King, were considered servants of the people. They were paid for the service rendered and not for their ownership of anything.

In Arthasastra, public governance was the priority of the author. Kautilya has admitted that some degree of corruption and malpractices would always exist, and sometimes its identification becomes impossible. According to Kautilya, '*Just as fish moving inside water can not be known when drinking water, even so officers appointed for carrying out works can not be known when appropriating money*'(2.9.27). In the same breath Kautilya has mentioned that '*Just as it is not possible not to taste honey or poison placed on the surface of the tongue, even so it is not possible for one dealing with the money of the king not to taste the money in however small quantity*' (2.9.27). Through these words Kautilya probably has tried to mean that the there is every possibilities of existence of dishonest royal official. He has also mentioned that '*It is not possible to know even the path of birds flying in the sky, but not the ways of officers moving with their intentions concealed*' (2.9.27). It is very much relevant today as we often see the instances like insider trading, corporate bribe and other scams by the responsible officers. Kautilya has seriously considered the problem of corruption rampant in every sphere of public life. Therefore, Kautilya imposed strict ethical guidelines and code of conduct for state officers, traders, artisans, professionals, farmers, goldsmiths and for every section of the people, even for the king, in order to create a strong public governance system.

In Arthasastra, we find the term '*anityam*' that implies that the officers were frequently transferred from one department to another. This concept is very popular in today's business world. The officers are transferred from one department to another department or from one office to another office on regular basis so that they may not be swayed by malpractices developed locally and with the vested interest group. Kautilya has mentioned "*He should cause the treasury and the army to be collected in one place in the fortified city, in charge of trustworthy men*" (5.6.7). By this statement Kautilya has tried to mean that the leader should control the finance and run it by his trustworthy men. Treasury must be situated in the head office from where it can be monitored and controlled. Army means the employees who are capable of delivering the service to the organization. For proper administration, in every organization there are some trustworthy people placed in the key positions. In modern businesses these people are the Chairman, Vice Chairman, CEOs, CFOs, COOs, Board members etc. who plays a very important role in the administrative and management set up like royal officers of the king. Kautilya was of the belief that people should be given rights and responsibilities such that they actively participate in the maintenance of the kingdom. Kautilya has mentioned that "*Control over the senses, which are motioned by training in the sciences, should be secured giving up lust (kaam), anger (krodha), greed (lobha), pride (mana), arrogance (madh) and overexcitement (harsha)*" (1.6.1). He has mentioned that the role of a leader is very critical because he has to take varieties of decisions considering different types of complexities in day to day business. The leader must have a close look after the persons around him and he must set himself as an example to the followers.

Kautilya further has mentioned that the king has to take the help of *danda* (punishment) for good governance and protection of his subjects. With the help of *danda*, the ruler is to prevent might from proving right and to enable the week to hold their own against the strong (1.4.16). Kautilya has provided an administrative mechanism where *danda* in different degrees has been used for contravention of rules and regulations. For example; the penalty for unstamped weights was 27 *panas* and a quarter. For traders, who by conspiring sell goods at higher price, the fine was one thousand *panas*. If a labourer does not do the job after receiving the wage, the fine would have been 12 *panas* and detention till the work was done (2.13.66). But Kautilya has confirmed that the use of *danda* requires great care. An unjust or improper use of the power by the ruler might lead to serious consequences, the most serious being a revolt (*kopa*) of the subjects against the ruler (3.1.42). In the present day context, the corporate authorities have to

consider many legal, social and political issues before giving any punishment to any of the employees; otherwise the future of the concern may be uncertain as we often see the incidents of strikes, lockouts, closure etc.

The king or the leader, in addition to learning of different subjects must be able to exercise control over his senses (*indriyajaya*), and keep his passions in check. He should adjust his conduct in respect of the three goals of *dharma, artha* and *kama*. Whatever advices that had been given to a king by Kautilya should be applicable to a leader of an organization. Kautilya has mentioned "*Only, the king, behaving in this manner, obtains heaven, otherwise hell*" (3.7.38). According to him, every king should follow a strict code of conduct and fulfill certain duties and responsibilities. Kautilya has emphasized that the king or the leader has the most important role in governing a monarchy or administering an organization. He advises, "*Just as an elephant, blinded by intoxication and mounted by an intoxicated driver, crushes whatever it finds, so the king, not possessed of the eye of science, and blind, has risen to destroy the citizens and the country people*" (1.14.7). The leader of the organization should not be intoxicated by his power and position; otherwise the organization may be destroyed.

Relevance of Arthasastra in Contemporary Business World

Over many centuries India has absorbed managerial ideas and practices from around the world. Early records of trade, from 4500 B.C. to 300 B.C., not only indicate international economic and political links, but also the ideas of social and public administration. The world's first management book, titled 'Arthasastra' written nearly two thousand four hundred years back, codified many aspects of human resource practices in Ancient India. "This treatise presented notions of the financial administration of the state, guiding principles for trade and commerce, as well as the management of people. These ideas were to be embedded in organizational thinking for centuries" (Rangarajan 1992). The substitution of the state with the corporation, the king with the CEO or the board of a corporation, and the subjects with the shareholders, bring out the quintessence of corporate governance. The concept of corporate governance is the belief that public good should be ahead of private good and that the corporation's resources cannot be used for personal benefit. Kautilya's fourfold duties of a king enshrined in Arthasastra are: *Raksha* – literally means protection, in the business context it can be equated with the risk management aspect. *Vriddhi* – literally means growth, in the corporate context it can be equated to stakeholder value enhancement. *Palana* – literally means maintenance/compliance, in the business context it can be equated to compliance of the law in letter and spirit. *Yogakshema* – literally means well being and in Kautilya's Arthasastra it is used in context of a social security system. "Chanakya was a great statesman as well as a great scholar. He played a dominating role in the formation and functioning of the Mauryan Empire. Subsequently under his guidance, growth with stability was attained in the empire with the help of strong administration and governance system. Arthasastra consists of detailed analysis of different aspects of ancient Indian economy" Jha & Jha (1997). There is great deal on relevance and similarities of corporate governance policies in the modern or contemporary world because good governance and stability are completely linked.

Kautilya has stressed on the importance of fair trade practices. In the Arthasastra, emphasis has been given both on fraud prevention as well as fraud detection. Kautilya had listed several ways by which funds are misappropriated. He laid down fines for adulteration and supply of goods of an inferior quality, not paying of duty, unethical transaction, etc. and violation of any law of trade and business. Kautilya realized that the role of the State was to ensure that the consumers were not cheated. Standard weights and measuring devices were used and in case of violating of any law fines were imposed. Kautilya prescribed the ethical guidelines regarding selling and purchasing, fixation of selling price. Arthasastra prescribed how much to pay the merchants, artisans, craftsmen and goldsmiths. Kautilya's views on trade are extremely relevant even in the present era of globalized commerce and trade. There is no autonomous mechanism that will ensure that a nation would benefit from trade in the absence of very strict rules and regulations.

In the business context it can be equated to corporate social responsibility. Kautilya asserts "A king can reign only with the help of others; one wheel alone does not move a chariot. Therefore, a king should appoint advisors (as counsellors and ministers) and listen to their advice". Kautilya has emphasized on the imperatives of the king and his counsellors acting in concert. Cohesion is the key to the successful functioning of a board or a company.

Conclusion

Arthasastra provides valuable guideline for good governance system. It contains useful insights about governing a monarchy which is very similar to managing an undertaking. These insights were only independently discovered by Western thinkers in the eighteenth century. As for the specific social and economic system that Kautilya outlines and provides advice about, he would be the first to agree that his advice is relative to his time. Therefore, Arthasastra should be assessed in its historical context. In the era of globalization and liberalization, corporate sectors, all over the world are undergoing through various complexities. At this outset it is really necessary to look back to some ancient treatise like Arthasastra and take few lessons to solve the problems today's corporate sectors are facing. The present system might be benefited with the time-tested and age-old experiences recorded in Arthasastra.

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