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EDITORIAL

I am happy to present Vol-V, No.-1 , Jan-June2015 issue of *Business Spectrum,* the on-line journal of IAA Midnapore Branch. This issue contains six articles written by researchers and academicians covering divergent areas.

In his article entitled, "Goods and Services Tax (GST) in India: Challenges and Road Ahead" Anupam Parua discusses the hurdles coming in the way of introducing GST. He also considers certain areas of concern in the implementation of GST.

In their article, "The Relevance of Social Audit for Business Ameliorate" W endrilla Biswas and Jharna Dutta focus on how social audit plays a pivotal role in business growth and sustainability. The article shows how social audit acts as a means by which social impact and ethical behaviour of an organization in relation to those of its stakeholders can be assessed which helps to evaluate sustainability performance and enhances its brand equity in the society.

Amiya Kumar Nayak in his article, "Awareness of Villagers for Investment in the Life Insurance Companies- A Study" tries to find out the awareness of the rural people of East Midnapore district about life insurance. It also tries to identify the factors that motivate the people to take life insurance policies.

In their paper, "Health Insurance in India: A Study on its Emerging Growth Pattern and Trends", Pema Laha and Sukhada Gangopadhyay attempt to make a theoretical analysis on health insurance, analyze the emerging growth pattern and trends in the health insurance sector of India and discuss the opportunities and challenges associated with health insurance.

In his article," Performance of Regional Rural Banks in Paschim Medinipur District (2007-2012): A Comparative Exploration", Sibaram Chatterjee makes a study of performance evaluation and efficiency measurement of RRBs at branch level in post-amalgamation period. It also makes an attempt to compare the efficiency and productivity change in RRBs compared to those of State Bank of India and Vidyasagar Central Cooperative Bank.

Swapna Roychoudhury in her article, "Corporate Social Responsibility Reporting Practices – A Comparative Study on Some Selected Indian IT Companies" gives an overview of the concept of corporate social responsibility(CSR). She studies the CSR practices of companies in India in general and IT sector companies in particular. She

also tries to make an assessment of CSR reporting practices of the selected IT sector companies in their published annual reports,

Before I end, I must thank the paper writers, reviewers and the desk editors for their help in bringing out this issue of the Journal. On behalf of the board of editors I express my sincere regret for the inordinate delay in bringing out this issue of the Journal.

Jaydeb Sarkhel.

Goods and Services Tax (GST) in India: Challenges and Road Ahead

Dr. Anupam Parua[1]

Abstract

Removal of multiplicity and cascading effect in indirect taxation in the country is a matter of urgent necessity. To solve the problem, Goods and Services Tax is proposed to be implemented. But many hurdles are coming in the way. In one hand there are economic considerations like setting the 'Revenue Neutral Rate' in GST, providing compensation to States in the way of change over from the older system of indirect taxation to the newer system of GST, and exclusion of certain items like petroleum, alcohol, etc. from the ambit of GST. On the other hand there are the problems of political rivalry and settling political scores. In this light, it is worthwhile at this very important moment to point out certain areas of concerns in implementation of GST and also to have a close look at the Constitution (Amendment) Bills tabled by the previous government and the existing government to find out whether the political debate that we are witnessing right now have any serious essence in them or that these are merely narrow political rivalry at the cost of interest of common people.

Key words: *GST,* GSTN, Revenue Neutral Rate (RNR), Compensation for Revenue Loss.

1. Goods and Services Tax (GST) in India: Fundamentals

Goods and Services Tax (GST) is a single tax to subsume various indirect taxes prevailing in the country. Now we have multiplicity of indirect taxation both at the State and Central level. The basic principle governing GST is the existence of only one tax for supply of goods and service across the country. In the proposed GST structure there are two levels: State Level GST (SGST) and Central Level GST (CGST). After the coming into force of GST its SGST part would subsume State level taxes namely, VAT or Sales tax, Entertainment Tax, Luxury Tax, Taxes on lottery, betting and gambling, State Cesses and Surcharges in so far as they relate supply of

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goods and services and entry tax not in lieu of Octroi and its CGST part would subsume several Central level taxes, namely, Central Excise Duty, Additional Excise Duty, Excise Duty levied Under Medicinal and Toiletries Preparation Act, Service Tax, Additional Customs Duty, Special Additional Customs Duty (SAD), Surcharges and Cesses.

Here, one needs to understand the rationale of having dual GST. India is a federal country where the Centre and States have powers to impose and collect taxes on certain items (as per Seventh Schedule to the Constitution). Now while the Centre is empowered to tax services and goods upto the production stage, the States have the power to tax sale of goods and not provision of services. Thus the Centre is not empowered to levy tax on sale of goods and the States are not empowered to levy tax on supply of services. Thus the Constitution does not vest power either in the Central Government or State Governments to levy tax on supply of goods and services. Thus, the Constitution must be amended in such a way that Centre is empowered to impose tax on sale of goods and the States are empowered to impose tax on supply of services. That is why the Constitution (One Hundred and Fifteenth Amendment) Bill was place in 2011. The bill could not be passed and now the Constitution (One Hundred and Twenty Second Amendment) Bill was tabled in the year 2014 for the same reason.

In the matter of subsuming indirect taxes in GST the principles that are kept in mind are that taxes or levies to be subsumed should be primarily in the nature of indirect taxes either on supply of goods or on supply of services and that these taxes and levies are to form part of the transaction chain that commences with import or manufacture or production of goods or provision of services and ends on consumption of certain other goods and services. Transformation along this chain will result into value additions in phases. The aim of GST is to trap these value additions and impose tax on these value additions. Taxes, levies and fees which are not related to supply of goods and services should not be subsumed under GST. As the GST is basically a tax on value additions tax paid in previous phase should get adjusted in the tax payable in the later phase. This issue is considered in GST and a Input Tax Credit (ITC) System is also proposed. So tax paid as CGST in one phase can be adjusted as ITC in CGST payable in later phase and similar adjustment would be allowed for SGST. Cross utilization of ITC between CGST and SGST would not be allowed excepting for inter-state trade and commerce.

2. Goods and Services Tax (GST): Stated Advantages

If implemented the transformed indirect taxation in the form of GST is expected to fetch certain benefits. Some of these benefits are listed as follows:

- The cascading effect of CENVAT and service tax would be removed with a continuous chain of set-offs from producers' point to the retailers' point;
- Subsuming of many Central and State indirect taxes and phasing out of CST would reduce the net tax burden of tax on goods;
- Under GST there will a transparent and complete chain of set-offs which will help in widening the coverage of tax base and improve tax compliance;

- Lesser tax burden on goods and services would reduce the cost of locally manufactured goods and services which would increase the competitiveness of Indian goods and services in the international market and give boost to Indian exports;
- An uniform State GST threshold limit of Rs. 10 lakhs for both goods and services and Central GST threshold limit of Rs. 1.5 crores for goods and an equally high CGST threshold limit is envisaged in proposed GST bill wherein the existing threshold limit for State VAT in majority of States is set as Rs. 5 lakhs. This raising of threshold limit would auger well for the small entrepreneurs and traders;
- Under the GST regime the companies need not set up warehouses in many states and can operate from a regional or a central warehouse and hence the capital efficiency would improve.

3. GST in India: Uniform Goal but Different Approaches

Almost everybody in society or politics recognizes the importance of having a single and simple indirect tax structure and the necessity of removal of multiplicity and cascading effects in taxation. The need to have indirect tax on the basis of value addition was felt by everybody cutting across the political inclinations. Still such a regime is eluding us for so long. The previous attempt to have GST via the introduction of Bill no. 22 of 2011 failed. Then it was Congress-led UPA – II in power at the Centre and the BJP-led NDA was in opposition. Now the renewed effort is there to have GST in the country via the introduction of Bill No. 192 of 2104. And now the BJP-led NDA is in power and Congress is sitting in the opposition. In this light in it worthwhile to compare the two bills to sense whether the conflict is based mainly on politics or mainly on economic and financial considerations. Here we should assess whether these two bills are different in major issues or whether the later one is simply the 'old wine in a new bottle'.

3.1. Points of Convergence in Bill 192 of 2014 and Bill 22 of 2011:

After carefully perusing the two bills one can identify the points of similarities in both the bills. These are noted as follows:

(a) Insertion of new article 246A: This is a special provision in respect of goods and services tax in the country which gives the general concurrent power to state legislatures to make laws with respect to goods and services tax imposed by the Union and at the same time gives exclusive powers to Parliament to make laws with respect to goods and services tax where the supply of goods or of services or both takes place in the course of inter-state trade or commerce.

(b) Insertion of Article 269A: In line with the exclusive power of the parliament in relation to inter-state trade and commerce the new Article 269A provides that goods and services tax on supplies in the course of inter-state trade and commerce shall be levied and collected by the Government of India and such tax shall be apportioned between the Union and the States in the manner as

may be provided by Parliament by law on recommendation of the GST Council. At the same time the Parliament would formulate the principle for determining the place of supply, and when a supply of goods, or of services, or both takes place in the course of inter-state trade or commerce.

(c) Insertion of new Article 279A and formation of GST Council: The article provides for the constitution of a Goods and Services Tax Council (GST Council) by the President of India within sixty days from the commencement of the relevant Constitution Amendment Act. The council would be formed with the Union Finance Minister as the Chairperson, and the Union Minister of State in Charge of Revenue or Finance and the Minister in Charge of Finance and Taxation or any other Minister nominated by each State Government as the members. Vice-Chairman of the council would be chosen by the members amongst themselves.

(d) Recommendatory Powers of the GST Council: The recommendatory powers of the GST Council extend simultaneously to the Union and the states and cover the following aspects:

(i) the taxes, cesses and surcharges levied by the Union, the states and the local bodies which may be subsumed in the goods and services tax;

(ii) the goods and services that may be subjected to or exempted from the goods and services tax;

(iii) model Goods and Services Tax Laws, principles of levy, apportionment of Integrated Goods and Services tax and the principles that govern the place of supply;

(iv) the threshold limit of turnover below which goods and services may be exempted from goods and services tax;

(v) the rates goods and services tax;

(vi) any other matter relating to goods and services tax as the Council may decide.

(e) Concept of Harmonized National Market: Both the Bills provide that while discharging the functions conferred by this article, the Goods and Services tax Council shall be guided by the need for a harmonized structure of goods and services tax and for the development of a harmonized national market for goods and services. Though this concept is very much useful but it is not a new one as we can find the concept of Harmonised Commodity Description and Coding System in many indirect taxes now prevailing in the country.

(f) Excluded Items from GST: The major items that are proposed to be excluded from the list of items which would be outside the ambit of GST are petroleum crude, high speed diesel, motor spirit (commonly known as petrol), natural gas, aviation turbine fuel and tobacco and tobacco products. These exclusions were there in the 2011 Bill and these are there in the 2014 Bill.

(g) Transitional Provision and Power of the President to remove difficulties: Both the earlier Bill and the new Bill have given one year provisional period within which the state legislatures are to accommodate necessary amendments so as to remove any inconsistency with the provisions of the Constitution in the matter of implementation of GST in the country. Again, both the Bills have given a three years period for the President to exercise power to make such provisions, including adaptation or modification of any provision of the Constitution after accommodating necessary provisions to give effect to GST in the country, as appear to the President to be necessary or expedient for the purpose of removing difficulties.

3.2. Points of Divergence in Bill 192 of 2014 and Bill 22 of 2011:

Though the two bills are similar in certain points still there are certain points of dissimilarities in these two bills. These are as follows:

(a) Floor rate or Band of rates in GST: In respect of rates of goods and services tax there was no floor rate or bands of rates for goods and services tax in the earlier Bill (2011) which is there in the new Bill (2014).

(b) Special GST Rate: In the new Bill, recommendatory power of GST Council includes power to decide special rate or rates for a specified period to raise additional resources during any natural calamity or disaster. That provision was not there in the previous Bill (2011):

(c) Special Provisions for Certain States: In the new Bill (2014), recommendatory powers of GST Council also includes special provision with respect to the States of Arunachal Pradesh, Assam, Jammu and Kashmir, Manipur, Meghalaya, Mizoram, Nagaland, Skkim, Tripura, Himachal Pradesh and Uttarakhand (total 11 states). Such special provision was absent in the previous Bill (2011);

(d) Additional Tax on Inter-state Trade and Commerce: The new Bill (2014) provides for an additional tax on supply of goods, not exceeding one percent, in the course of inter-state trade and commerce shall be levied and collected by the Government of India for a period of two years or such other period as the GST Council may recommend and such tax shall be assigned to the states. Provision for such additional tax was not there in the earlier Bill (2011). The new Bill also provides that the net proceeds of additional tax on supply of goods in any financial year, except the proceeds attributable to the Union territories shall not form part of the Consolidated Fund of India and be deemed to have been assigned to the states from where the supply originates. In the matter of formulating principles for determining the place of origin from where the supply of goods take place in the course of inter-state trade and commerce the Parliament is given the necessary power under the new Bill. Again, the Government of India is given to authority to exempt any item of goods from the ambit of such additional tax.

(e) Date of Levy of GST on Petroleum etc.: In the new Bill (2014) power is given to GST Council to recommend the date on which the goods and services tax be levied on petroleum crude, high speed diesel, motor spirit (commonly known as petrol), natural gas and aviation turbine fuel.

(f) Methods of Taking Decisions: In the earlier Bill (2011) every decision of the GST Council taken at a meeting shall be with the consensus of all the members present at the meeting. But the new Bill (2014) provides that every decision of the Goods and Services Tax Council shall be taken at a meeting by a majority of not less than three-fourths of the weighted votes of the members present and voting in accordance with the principles that the vote of the Central Government shall have a weightage of one-third of the total votes cast and the votes of all State Governments taken together shall have a weightage of two-thirds of the total votes cast in that meeting.

(g) Resolution of Disputes: In the previous Bill the matte of settling the dispute was on a Dispute Settlement Authority (DSA) which may be established by the Parliament. As per that Bill, the reference of dispute or complaints to the DSA must come from the State Government or Government of India and the reference must be in respect of any deviation from the recommendations of GST Council that results into loss of revenue or effects on harmonized structure of goods and services tax in the country. But the new Bill (2014) placed dispute resolution under the domain of GST Council by providing that GST Council may decide about the modalities to resolve disputes arising out of its recommendation. The DSA envisaged in the earlier Bill designed to include one Judge of the Supreme Court or Chief Justice of a High Court (to be appointed by the President on the recommendation of Chief Justice of India and two other members who shall be persons of proven capacity and expertise in the field of law, economics or public affairs (to be appointed by the President on the recommendation of GST Council). Thus the earlier Bill was designed to include several persons from the society with varied interest area in the GST environment but the new Bill is very much restricted in this aspect.

4. Revenue Neutral Rate (RNR) in GST and Compensation for Revenue Loss: The Key Concern of the States

The term revenue neutral implies changes in the tax laws that result in no change in the amount of revenue coming into the government's coffer. Thus it can be taken as a taxing procedure that allows the government to still receive the same amount of money despite changes in tax laws.

In the past many government panels and independent experts put the revenue neutral rate for GST in the range of 12% to 20%, but Delhi based National Institute of Public Finance and Policy (NIPFP) which was asked to compute revenue neutral rate for GST calculated in to be 27%. NIPFP recommended a composite RNR of 26.68% for GST taking 2011-12 as the base year for its revenue projections but has been

asked to update it with the latest (2013-14) figures of economic output. The proposed tax rate consists of two components — 12.77% central GST or CGST and 13.91% state GST or SGST. The GST rate recommended by NIPFP is the same as the combined (marginal) central and state taxes on goods at present but it is lower than the combined central and state taxes on services of 28.5%, which would apply once the Finance Bill, 2015, is passed (The Financial Express: 11-04-2015).

The state revenue neutral rate of 27% is assumed to be very high and would have inflationary impact. The Finance Minister put that revenue neutral rate to be a leak and not yet a seriously determined rate. But if we look at the rate of excise duty and VAT we can see that adding these two taxes we get 27% rate (12.5% for excise duty and 14.5% for VAT). So, if the GST is not lower than that rate it could not create any advantage in the market and then its reformative dent would be lost to a very good extent.

But the states feel this revenue neutral rate to be lower than what is proposed. "States are of the view that 27% is not enough and the empowered committee (of state finance ministers) is yet to approve this recommendation (made by NIPFP)," KM Mani, Kerala's finance minister who was recently made the chairman of the empowered committee, said.

On estimation of a revenue-neutral rate, the 14th Finance Commission has said: "There are several challenges and many unresolved issues. In the absence of clarity on the design of a GST and the final rate structure, we are unable to estimate revenue implications and quantify the amount of compensation in case of revenue loss to the states due to the introduction of GST."

One of the most contentious issues for the rollout of GST has been the compensation to be paid by the Centre to states. The Central Government via the Constitution (Amendment) Bill proposes to have 100% compensation for the States in first three years, 75% in the fourth year and 50% in the fifth year. But the States are demanding 100% compensation for the first five years. Now the 14th Finance Commission is admitting its inability to determine the loss of actual revenue incurred by the states and so, it could raise questions on the Centre's proposed compensation model (Business Standard: 25-02-2015).

5. GST and Politics

If we look at the two Bills concerning implementation of GST, namely Bill No. 22 of 2011 and Bill No. 192 of 2014, then we can easily identify that there is not much of difference in respect of essence of the two bills. Still when the previous bill was introduced in 2011 it was vehemently opposed by BJP and its allies. Now the new bill is placed by BJP-led government and it is time for Congress and its allies to settle score. As the topic of taxation of goods and services is a matter contained in the concurrent list, it is not sufficient to pass the bill in both houses of the Parliament rather the bill is to be passed by majority of State Governments. And here lies the importance of political will. This much needed political will is seemed to be absent.

In support of this view of lack of political will we can follow certain events in the recent past.

Keeping the government on tenterhooks on key reform measures like the Insurance Bill and Goods and Services Tax, the Congress party said there is "no blank cheque" on its support on these in Parliament as the "devil lies in the details". The party spokesperson Abhishek Singhvi described the proposed GST as "entirely a Congress baby" which it has in principle "no reason to jettison" but party's support was "subject to nitty grity". He, meanwhile, recalled that the passage of the GST Bill, when the UPA had brought it, was opposed tooth and nail by Prime Minister Narendra Modi, who was then the Gujarat Chief Minister. He said, "BJP's opposition to GST was irresponsible, petty and against public interest". He also accused BJP of "doublespeak" and having "selective amnesia" for raising the matter of disruptions in Parliament (PTI: 22-12-2014).

As an aftermath of Constitutional (One Hundred Twenty Second) Amendment Bill, 2014, the Central Government place the GST Bill in the Parliament on 24th April, 2015. Demanding that the bill is to be sent to the Standing Committee first and then to be placed in the Parliament for necessary approval, Congress President Ms. Sonia Gandhi and some other opposition parties walked out of the Parliament (Ananda Bazar Patrika: 25-04-2015). Sending any bill to the Standing Committee is a very popular tactics for delaying any matter for any length of time as the Standing Committee is empowered to take indefinite time to discuss and finalise any matter referred to it.

6. Concluding Remarks

That system like GST is needed cannot be questioned. But before making such a huge change over from older system of separate taxations to a newer system single tax needs careful consideration of economic matters, arranging for necessary infrastructure, etc. And for all these we require healthy relations between political parties, open-minded considerations of the economic matters etc. Unfortunately these are not present in enough quality. Still now we are concerned about settling the political scores and as such forget about developing necessary infrastructure to enable us to really implement the system. The prime mover of GST framework is the GST Network. But GSTN is currently facing a chicken-egg situation. It needs to get work right away in appointing a service provider and testing the system that will involve 6.5 million dealers in myriad intricate transactions. All this takes time, the luxury of which the GSTN does not appear to have since it has been April 1, 2016 as hard target. Yet it cannot be started until these issues are sorted out and the law passed; no IT company will sign on until there is clarity on these multiple fronts (Business Standard: 22-12-2014). If this goes on then we must be sure that there will be another set of setting deadlines and failure to comply the deadlines and nothing more.

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The Relevance of Social Audit for Business Ameliorate

Wendrila Biswas[1]
Jharna Dutta[2]

Abstract
Balancing social responsibility with business responsibility is imperative in this century. This era is marked by a couple of incidents of corruption, fraudulent leakage of natural resources, degradation of morale and ethics, mistrust and crisis of credibility. To boost the development and to keep a check on such corruption and misuse of shareholders' and stakeholders' resources, Social Audit is an unbeatable tool. Social Audit focuses on the social accountability and performance of the organization. It is a tool to show transparently how satisfactorily an organization is discharging its social responsibility. The paper focuses on how social audit play a pivotal role in business growth and sustainability. It shows how social audit act as a means by which social impact and ethical behaviour of an organization in relation to those of its stakeholders can be assessed which not only help to evaluate sustainability performance of the organization but also would enhance its brand equity in the society. The paper also highlights the relevance of social audit from the perspective of stakeholders whose verdict should also be taken into account in social audit plan. Thus, as a whole the paper gives a glimpse of the fact that how social audit ensures transparency, generates trust and harmony and creates an intrinsic value for strengthening organizations' improvement and act as a constant check on malfeasance.

Keywords: Social Audit, stakeholders, malfeasance, sustainability.

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1. Introduction

Business today has experienced a profound transformation. There were a couple of environmental and social issues which bolstered up in many countries during 1970s that caused to improve the corporate performance on those fronts. Companies today across the globe are beginning to assess their social performance. On the basis of that performance report they want to demonstrate and proclaim their commitment towards social responsibility. This assessment not only provides a survey of firms' ethical culture but also throws light on social responsibility activities related to environmental impact, consumer welfare, treatment of employees, sustainable development, relations to other stakeholders. The corporate honchos today are more particular to claim that their business contributes to the welfare of the society at large. But there is an acute need of assessment which can actually figure out the net contribution to society and how far the companies have lived up to their promise. It is very important for a company to find a concrete way to verify their importance, justify their activities and expenditures, and link them to organizational performance and effectiveness and what concern they actually have for their stakeholders. Here the role of social audit comes to play which act as a systematic review of monitoring the organizational happenings.

2. Concept of Social Audit

'Social audit may be defined as an examination of the social performance of a business enterprise towards the society. Social audit is conducted to assess how much is the contribution of business enterprise to the society. So, Social Audit is one which is done by an independent person in order to examine the expenditure incurred by the business enterprise towards social activities as well as the monetary value of the social benefits emerged out of such activities and also how entities are discouraging their social obligations for the protection of the environment – pollution-free environment'. (Basu, B.K.). Social audits are tools that companies can employ to identify and measure their progress of and challenges to stakeholders. It is essential for a business because it can increase attractiveness to investors, improves relationship with stakeholders, improves financial performance and enables a company to be transparent and accountable for their commitments and performance. It provides and objective approach for an organization that shows the commitment to improve its strategic planning and social issues.

3. Social Audit and Sustainability

'Auditing is a great tool for business to connect their suppliers and their customers' remarked Benjamin Gatland, Regional Manager at Partner Africa. Sally Uren of 'Forum for the Future' in the earlier plenary sessions emphasized social audit as an 'opportunity for value creation'. Every upstream and downstream industry through cognate development of technology, larger investment, sophisticated utilization of resources want to get the maximum – the profit out of it. These companies on the other hand contributes much to the up gradation of productive abilities of people concerned, tries to raise the level of living of common public, enhance employment as they say 'investment begets employment' and aims at maximizing value to society. But there must be a mechanism to gauge whether the business is alive to such responsibilities or to what extent they are striving to carry out such social

obligations. With the help of the reports of such audits the companies today are able to depict growth not only in terms of profit but also it help the organizations to place sustainable development at the core of their business decision and align their sustainability strategy with the business goals which shows concern for safety, environment and communities that percolates in their decisions to design, build and develop all projects. Social audit tries to evaluate the impact of such organizational activities on the social well being of people. That is what makes a business sustainable which can avoid creation of 'imperium in imperio'.

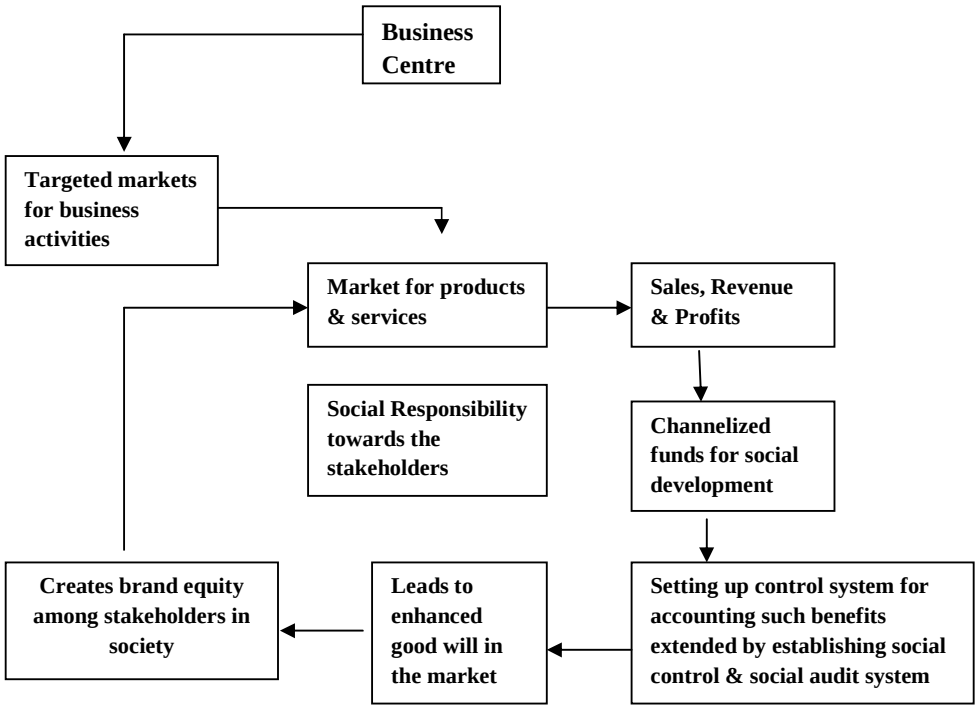
Companies who are looking to improve their business performance and create a long term shareholder value tries to monitor and evaluate their schemes, programmes and policies for the shareholders at large and tries to ensure efficient governance practices.

The following point throws light on how social audit help to achieve sustainability in business:

- Social Audit efforts delve deep into the physical, economical and sustainability aspects behind the operations in their connection with the past, present and future concerns.
- Social Audit brings out data for the management to compare its performance with reference to policies and objectives of the organization.
- Helps to enquire, evaluate and help make the organizations whatever changes are needed to ensure that the enterprise at least does not have a negative impact on local environment, communities and economies; preferably making a way for positive contribution.
- Increased visibility of Corporate Social Responsibility (CSR) have encouraged companies to conduct social audits to track a better account of their actions in wide range of areas such as HR, environmental policies, ethics and community involvement.
- It also indirectly improves the financial performance of companies as more suppliers and customers will be willing to trade with the company that has better approach towards the environment and society.

4. Social Audit and brand equity

The power of brand equity comes from the strength of brand knowledge within consumer mind. But today, standing in the era of globalization, enhancement of organization's brand equity depends on a larger scale on the social audit performed by the companies from time to time to create a brand extension and strong brand image.

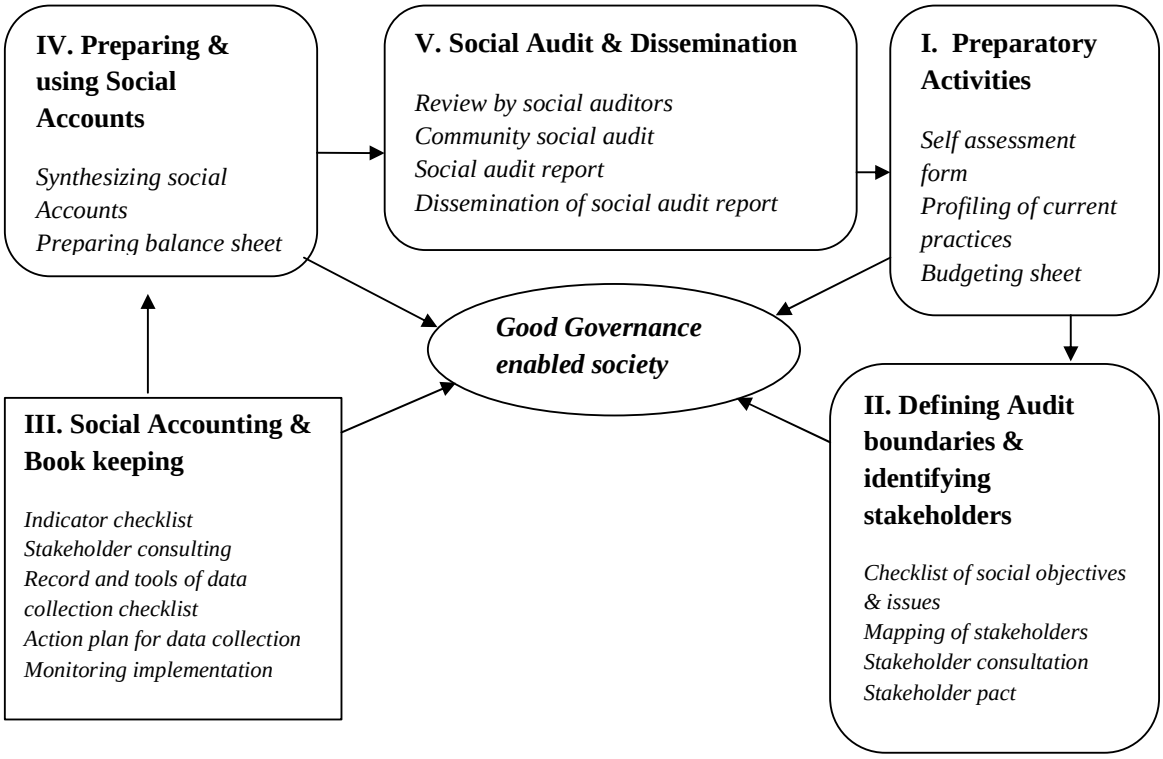


Source: *The Management Accountant Journal for CMAs, September 2012[Social Audit – A tool for Business turnaround and Social Inclusion– Manjunath, K.R.]*

The model shows that if an organization shows commitment towards their stakeholders who play a pivotal role in their businesses would help them enhance the equity in the society further increasing their business potential. Merely performing some social responsibility activities is not enough. It is essential to ensure controlling and close monitoring. A synergy should be created between the policies of the organization and its developmental schemes to ensure compliance between them. A social audit should ensure an efficient governance practice that would help create a value not only for the organization but also among the society at large. All these aspects together would define a sound brand equity which would create a long term sustained growth.

5. Social Audit Toolkit

There are certain aspects which operational audit neither financial audit can find out. With the help of social audit it would be possible to further reframe the practices and stick to better policies thereby improving the outcome of the organizations through efficiency in the employment of resources. It is a practical tool to identify, assess and give a report on the social performance of the organization. Values of the organization are much more reflected in the project or work that they conduct and tangible outcome that stakeholders measure. The diagram below shows the necessary tools which is organized in steps to focus on key principles of every department and thereby the organization as a whole.



Source: ***Centre for Good Governance (2005) Social Audit: A Toolkit, A guide for performance improvement and outcome measurement, Page 65]***

6. Stakeholders and Social Audit

Stakeholders play an important role as they influence and facilitate the functioning of different projects in the organization. Social audit uses participatory techniques to involve all stakeholders in improving the social performance of an organization. Stakeholders usually relate and correspond to each organization and accordingly they can be shareholders, customers, competitors, investors etc. The connectivity between the organization and stakeholders do form the core concept of social audit. Social audit mainly centers on them. Most of the information of social audit is obtained from stakeholders' interview, observations and suggestions which are gathered from questionnaires and help in framing audit planning. Stakeholders' analysis provides a foundation for social auditing. It is very essential to encompass the views of stakeholder's on service delivery. The following are the principles for identifying stakeholders.

a) ***Inclusivity*** – *It aims at including all the stakeholders who are affected or impacted.*
b) ***Relevance*** – *It focuses on stakeholders who have stakes in the project.*
c) ***Representative*** – *They are the representative of different segments of society both male and female.*
d) ***Balanced*** – *Aims at comprehensive assessment at all levels and not a particular community.*

It would be very useful in preparing a social audit plan when the involvement of different stakeholders is taken into account. The following table represents a framework for recording and identifying their stakes that act as a basis of forming audit conclusion.

Stakeholders Analysis Matrix				
Stakeholders group	Interest (s) at stake in relation to department /project programme	Effect of project on interest (s)	Stakeholders importance for success of the project U=Unknown 1=Little/No importance 2=Some importance 3=Moderate importance 4=Very important 5=Critical player	Degree of influence of the stakeholders over project U=Unknown 1=Little/No Influence 2=Some influence 3=Moderate influence 4=Significant influence

Source: ***The Chartered Accountant Journal, Vol. 62, No. 2, August 2013, 'Social Audit: An Indian Experience' by CA. Anandaraj Saha.***

7. Conclusion

As financial audit verifies how money is spent, social audit verifies how program and services are carried out with the goal of making them more reflective of social, environmental and community objectives. It is a way to document and hold company accountable for its social and ethical business practices. Social audit thus involves social accountability. In this era where crisis of credibility, confidence and trust persists, there is an acute need of social audit culture in every organization. Social audit provides strongest evidence for processes, financial and physical reporting, compliance verification, assurance against fraud, misuse of resources and assets. It aims at strengthening accountability and transparency which further helps the organization to plan the internal and external consequences of organization's social as well as commercial operations. Social audit not only evaluates and monitors the social performance of organizations but also helps to evaluate sustainability performance of a company using various performance indicators. Thus through social audit, the sustainability of the organization can be achieved which also act as a formal review of a company's endeavour in social responsibility. Social audit is not confined in the hands of the government and policy makers but goes beyond that. It should be conducted by every corporate house to ensure and

enhance brand equity of the organization in the society and for sustained growth and development. Thus a proper integration is required between functional audit and social audit that can synergize the performance of the organization and take corrective measures.

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Awareness of Villagers for investment in the Life Insurance Companies - A Study.

Amiya Kumar Nayak [1]

Abstract

Insurance is an agreement between two parties to compensate the unseen losses of the insured (policyholder who take the Insurance Policy) if such loss takes place in future. The story of insurance is probably as old as the story of mankind. At present Life Insurers in public sector in India is operated through only one entity, namely the Life Insurance Corporation of India. In addition to that, there are 23 other private sector life insurers, most of them joint ventures between Indian groups and global insurance giants. With a view of know the relative market share of different life insurance provider operating in rural areas of West Bengal the present study is conducted. The study is conducted in a rural area in Purba Medinipur District of West Bengal which is an industrially-backward district of the state. The study finds that LICI is far ahead than the other private sector life-insurance providers in terms of market share in value, market share in policy numbers and such other counts. It is also observed that male people of rural West Bengal gets priority over their female counterparts in terms of having policy in their names. The study recommends a closer nexus between the policy holders and agents of all the life insurance providers.

Key words: Insurance, Life Insurance, Open Economy.

1. Introduction

Insurance is an agreement between two parties to compensate the unseen losses of the insured (policyholder who take the Insurance Policy) if such loss takes place in future. Insurance is a form of management of a contingent and uncertain loss and an assurance to the insured to function their activity smoothly without any extra tension of future and uncertain loss.

Insurance may be defined as the equitable transfer of the risk of a loss from one party to another, in exchange for payment. It divides the loss of one party (Insured) to the entire process of insurance for the gain of different parties involved in it.

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The story of insurance is probably as old as the story of mankind. The same instinct that prompts modern businessmen today to secure themselves against loss and disaster existed in primitive men also. They too sought to avert the evil consequences of fire and flood and loss of life and were willing to make some sort of sacrifice in order to achieve security.

The first two decades of the twentieth century depicted a lot of growth in insurance business. From 44 companies with total business-of Rs.22.44 crore, it increases to 176 companies with total business of Rs.298 crore in 1938. During the growth of insurance companies many financially unsound concerns were also floated which failed miserably. The Insurance Act 1938 was the first legislation governing not only life insurance but also non-life insurance to provide strict state control over insurance business. The demand for nationalization of life insurance industry was made repeatedly in the past but it gathered momentum in 1944 when a bill to amend the Life Insurance Act 1938 was introduced in the Legislative Assembly. However, it was much later on the 19th of January, 1956, that life insurance in India was nationalized. About 154 Indian insurance companies, 16 non-Indian companies and 75 provident companies were operating in India at the time of nationalization. Nationalization was accomplished in two phases; at first the management of the companies was taken over through Ordinance, and later, the ownership was taken over by imposing a comprehensive bill. The Parliament of India passed the Life Insurance Corporation Act on the 19th of June 1956, and the Life Insurance Corporation of India was created on 1st September, 1956, with the objective of spreading life insurance much more widely and in particular to the rural areas with a view to reach all insurable persons in the country, providing them adequate financial cover at a reasonable cost.

The process of reopening of the Insurance sector had started with the introduction of liberalization of Indian economy in early 1990s which was followed even in the last decade. The Government of India has set up a committee under the chairmanship of R. N. Malhotra, the former Governor of RBI to propose recommendations for reforms in the Insurance Sector. The committee submitted its report in 1994. It recommended that the private sector be permitted to enter the insurance Industry. They recommended that foreign companies be allowed to enter by floating Indian companies, preferably a joint venture with Indian partner.

Following the recommendation of Malhotra Committee Report, 1999, the Insurance Regulatory and Development Authority (IRDA) was constituted as an autonomous body to regulate and develop the Insurance Industry. The IRDA was incorporated as a statutory body in April 2000.

The IRDA opened up market in August 2000 with the invitation for application for registration. Foreign Companies were allowed ownership up to 20%, The Authority has the power to frame regulation under Section 114A of the Insurance Act. 1938.

The insurance Sector is colossal one and is growing at a speedy rate of 15-20% p.a. together with banking services and about 7% to the country's GDP.

At present Life Insurers in Public Sector is operated through only one entity, namely the Life Insurance Corporation of India. In addition to that, there are 23 other private sector life insurers, most of them joint ventures between Indian groups and global insurance giants. These are Bajaj Allianz Life Insurance Co. Ltd, HDFC Standard Life Insurance Co.Ltd., SBI Life Insurance Co. Ltd., ICICI Prudential Life Insurance Co. Ltd., Reliance Life Insurance Co. Ltd., TATA AIA Life Insurance Co. Ltd., Sahara India Life Insurance Co. Ltd., NG Vaisya Life Insurance Co. Ltd. Max Life Insurance Co. Ltd., PNB Met Life Insurance Co. Ltd., Kotak Mahindra Old Mutual Life Insurance Co. Ltd., Aviva Life Insurance Co. Ltd., Shriram Life Insurance Co. Ltd., Bharati AXA Life Insurance Co. Ltd., Future Generali India Life Insurance Co. Ltd., IDBI Federal Life Insurance Co. Ltd., Canara HSBC Oriental Bank of Commerce Life Insurance Co. Ltd., AEGON Rligare Life Insurance Co. Ltd., DLF Premerica Life Insurance Co. Ltd., Star –Union Dai-ichi Life Insurance Co. Ltd., India First Life Insurance Co. Ltd., Birla Sun Life Insurance Co. Ltd. and Edlweiss Tokio Life Insurance Co. Ltd.

2.1. Objectives of the Study

The main objective of the study is to know the market share of the Life Insurance Corporation of India and the other private sector Life Insurance companies in the rural area of East Midnapore District. Other objectives are as follows:

a) To know awareness of the people about the life Insurance.
b) To identify the how many private Sector are operating in this area.
c) To identify the factor that motivates the people to take policy.
d) To understand the relationship of value of insurance policy and its policyholder's income.

2.2. Methodology of the Study

There are two sources of data, namely, primary source and secondary source. Present study is conducted with the use of both the sources of data that is primary data and secondary data. Primary data are collected through interview of the policy holders and also the agents of the respective companies as well as through the responses in connection with a questionnaire developed for this purpose. A sample of 40 policyholders and 10 agents of the different companies are selected for the study using random sampling method of different ages, qualifications and occupations. The study covers villages under No. 3 Bibekananda Anchal, which is situated in the Purba Medinipur District of West Bengal. The main sources of secondary data are published annual reports of the different life Insurance companies that are functioning in the selected area of the study. Collected data are presented through tables, charts and graphs and suitable statistical techniques are adopted for this purpose.

2.3. Limitation of the Study

While conducting the study we have to face many difficulties and adverse situation which are given below:

a) Financial constraint; b) Time constraints; c) Lack of interest in giving required responses to questions among policyholders as well as agents d) Unwillingness to furnish adequate and correct information to extract more meaningful

conclusions from the study; e) Limited sample size which acts as a deterrent in reaching more meaningful study results.

3. Overview of the Topic and Profile of the Sample Companies

3.1. Conceptual Framework

In accordance with Section 41 of the Insurance Act, 1938 no person shall allow or offer to allow, either directly or indirectly, as an inducement to any person to take or renew or continue an insurance in respect of any kind of risk relating to lives or property in India, any rebate of the whole or part of the commission payable or any rebate of the premium shown on the policy, nor shall any person taking out or renewing or continuing a policy accept any rebate, except such rebate as may be allowed in accordance with the published prospectuses or tables of the insurer: Any person making default in complying with the provisions of this section shall be punishable with fine which may extend to five hundred rupees.

Again, in accordance with Section 45 of the Insurance Act, 1938 no policy of life insurance effected before the commencement of this Act shall after the expiry of two years from the date of commencement of this Act and no policy of life insurance effected after the coming into force of this Act shall, after the expiry of two years from the date on which it was effected be called in question by an insurer on the ground that statement made in the proposal or in any report of a medical officer, or referee, or friend of the insured, or in any other document leading to the issue of the policy, was inaccurate or false, unless the insurer shows that such statement was on a material matter or suppressed facts which it was material to disclose and that it was fraudulently made by the policy-holder and that the policy-holder knew at the time of making it that the statement was false or that it suppressed facts which it was material to disclose:

Provided that nothing in this section shall prevent the insurer from calling for proof of age at any time if he is entitled to do so, and no policy shall be deemed to be called in question merely because the terms of the policy are adjusted on subsequent proof that the age of the life insured was incorrectly stated in the proposal.

3.2. Profile of the Selected Companies

3.2.1. Life Insurance Corporation of India (LIC): It is the largest insurance group and investment company in India. It is a state-owned entity wherein Government of India has 100% stake. LIC also funds close to 24.6% of the Indian Government's expenses. It has assets estimated of ₹13.25 trillion (US$240 billion). It was founded in 1956 with the merger of 245 insurance companies and provident societies (154 life insurance companies, 16 foreign companies & 75 provident companies). Headquartered in Mumbai, financial and commercial capital of India, the Life Insurance Corporation of India currently has 8 Zonal Offices and 113 Divisional Offices located in different parts of India, around 3500 Servicing Offices including 2048 Branches, 54 Customer Zones, 25 Metro Area Service Hubs and a number of Satellite Offices located in different cities and towns of India and has a network of 13,37,064 individual agents, 242 Corporate Agents, 79 Referral

Agents, 98 Brokers and 42 Banks (as on 31.3.2011) for soliciting life insurance business from the public.

3.2.2. Tata AIA Life Insurance Co. Ltd: It is Joint Venture Company (JVC) formed by TATA Sons and AIA Group Ltd. It was licensed to operate in India on 12th February, 2001arted operation on April 1, 2001. Tata Sons holds majority stake 74% and AIA holds 26%. Registered with Insurance Regulatory & Development Authority (IRDA) under the following Address and Registration Number: Tata AIA Life Insurance Company Ltd. (Regn.No.110) Registered & Corporate Office Address: 14th Floor, Tower A, Peninsula Business Park, Senapati Bapat Marg, Lower Parel, Mumbai 400013.

3.2.3. Future General Life Insurance Co. Ltd: Future Generali Life Insurance Co. Ltd was a joint venture between the India-based Future Group & the Italy-based Generali Group. It was incorporated on 4th September, 2007.

3.2.4. AVIVA Life Insurance Co. Ltd: AVIVA Life Insurance Co. Ltd was formed on May 2000.In April 2002 the company's shareholders voted to change the company name to "Aviva plc", an invented word derived from "viva", the Latin for 'life' and designed to be short, memorable and work worldwide. In April 2008 Aviva announced that it would adopt the "Aviva" name as its worldwide consumer-facing brand, and that the Norwich Union brand would be phased out in the United Kingdom Aviva's main activities are the provision of general and life insurance, long-term savings products and fund management services. The group has around 36,600 employees, £379 billion of assets under management and 43 million customers.

3.2.5. Bajaj Allianz Life Insurance Company Limited: The company was incorporated on 12th March 2001. It Started Operations on 3 rd August 2001. Bajaj Allianz Life Insurance is a union between Allianz SE, one of the largest Insurance Company and Bajaj Fiserv. Allianz SE is a leading insurance conglomerate globally and one of the largest asset managers in the world, managing assets worth over a Trillion (Over INR. 55, 00,000 Crores). Allianz SE has over 119 years of financial experience and is present in over 70countries around the world. At Bajaj Allianz Life Insurance, customer delight is our guiding principle. Our business philosophy is to ensure excellent insurance and investment solutions by offering customized products, supported by the best technology.

4. Profile of the Selected Area of Study

3No.Bibekananda Anchal was situated 5K.M east of Egra . Egra is an ancient town located in the Purba Midnapore district of the eastern state of India; It is situated on the Kolkata - Digha road. The coastal town of Digha is situated at a distance of 50 km. Egra is a sub divisional town. Being a popular religious destination, it is well connected to the other places in the district; the bus service from Egra to Digha, Ramnagar, Khajuri and Nandigram is frequent. No. 3 Bibeekananda Anchal is comprising 11 villeges and having population 23,000out of which Male is 11,400 and female is 11600. The people under BPL category 925 and job cardholders 2600.

5. Presentation of data: Analysis and Findings

Table-1: Total population strength sex wise

Details	Male	Female	total	Male (%)	Female (%)
11 Villages	11,400	11,600	23,000	49.56	50.44

Source: Anchal Office

Table-2: Statement showing name of the company and its agents who are functioning in this area.

Serial No.	Name of the Company	Total No. of Agents	% of agents	Remarks
1	Life Insurance Corporation of India (LICI)	15	32	Direct Co..
2	Bajaj Allienze Life Insurance Co.Ltd	06	13	Direct Co.
3	TATA AIA Life Insurance Co.Ltd	03	06	Direct Co.
4	Birla Sun Life Insurance Co.Ltd	03	06	Direct Co.
5	HDFC Standard Life Insurance Co.Ltd	02	04	Direct Co.
6	Sahara India Life Insurance Co. Ltd	10	20	Chain system
7	Reliance Life Insurance Co.Ltd	03	06	Direct Co.
8	Max Life Insurance Co.Ltd	06	13	Direct Co.
Total		48	100	

Source: Divisional Office of the Co.

It is found that the Life Insurance Corporation of India (LICI)'s agent captured 32% of total agent functioning in this locality where as other six private sector's agent capture 68%. So, it is clear that private sector's publicity and marketing are holding majority part.

Table-3: Statement of total policy value of each co. sold and premium for the period 01/04/2012-31/03/13

Serial No.	Name of the Company	No. of Policy holders	Policy value (Rs.)	Premium (Rs.)	No. of Policy holders (%)	Policy value (%)	Premium (%)
1	Life Insurance Corporation of India (LICI)	400	2,00,00,000	12,00,000	56	57	53
2	Bajaj Allienze Life Insurance Co.Ltd	150	75,00,000	5,25,000	21	20	23
3	TATA AIA Life Insurance	23	10,50,000	75,600	02	03	03

	Co.Ltd						
4	Birla Sun Life Insurance Co.Ltd	25	10,00,000	70,000	02	03	03
5	HDFC Standard Life Insurance Co.Ltd	20	11,00,000	75,000	02	04	03
6	Sahara India Life Insurance Co. Ltd	10	5,00,000	35,000	01	01	02
7	Reliance Life Insurance Co.Ltd	40	12,00,000	84,000	05	04	04
8	Max Life Insurance Co.Ltd	75	30,00,000	2,20,000	11	08	09
Total		718	3,53,50,000	22,84,600	100	100	100

Source: Agents of respective Co.

It shows that as per the number of policyholders Life Insurance Corporation of India (LICI0 holds 56% of the total market share where as other private sector holds only 44%.

Reason: As Life Insurance Corporation of India (LICI) is old as well as government sector, the people trusted more than private sectors.

It is found that as per the amount of policy of value Life Insurance Corporation of India (LICI) holds 57% of the total market share where as other private sector holds only 43%.

Reason: As Life Insurance Corporation of India (LICI) is old as well as government sector, the people trusted more than private sectors.

It is reflected that the amount of premium of Life Insurance Corporation of India (LICI) was collected 53% of the total premium collected during the period of 2012-2013. whereas other private sector collected only 46%.of total premium

Reason: Being the Private sector's amount of premium is higher than the Life Insurance Corporation of India (LICI)

Table-4: Statement showing Category-wise policyholders.

Sex/BPLand,J.H	Male	Female	BPL	Job cardholder (J.H)	**Total**
No. of Population	9,675	9800	925	2600	23,000
No. of	590	109	06	13	718

L.I.P.holders					
Per hundred (100)Person.	6.1	1.1	0.6	0.5	3.1

Source: Anchal office and Agents.

It depicts that only 3.1 person per thousand person hold the policy of life insurance for each hundred persons. Out of which Male are 6.1, Female are 1.1, BPL Category are 0.6 and job cardholder are 0.5, respectively.

Table-5: Statement showing Relationship of Policyholders and Agents.

Relationship	Your close relatives	your friends	your neighborhood	Unknown that is company's employee.	Total
No. of policyholders	16	14	08	02	40
%	40	35	20	05	100
Remaks	Motive and keep trust	Moderately motivate and trust	Less interested	No interested but situation bound to do	

6. Conclusions and Recommendations.

After collection of data and its analysis, the following conclusions can be drawn:

a) After privatization of life insurance sector the awareness about the life insurance has been spreading rapidly among the rural people.
b) After privatization of life insurance sector Agents of private sector is more than that of public sector insurance provider namely, Life Insurance Corporation of India (LICI).
c) In spite of privatization as well as increasing number of agents of private sectors , Life Insurance Corporation of India (LICI) holds lions share of the market due to its being Govt. organization as well as old known organization.
d) Insurance policies are mainly taken in the name of the male persons. In this context female persons are practically neglected.

The study also makes recommendations in the following lines:

a) Equity to be maintained for both male and female.
b) Agent should be more careful for providing regular service for payment of premium as well surrendering the policy when it is in need of the policyholder.
c) Agents should helps the policyholder for loan arrangement when they need such loan.
d) Govt. should provide life insurance policy to the BPL and Job cardholder with a minimum premium.

e) Agents should sell the non-market related products as well.

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Health Insurance in India: A Study on its Emerging Growth Pattern and Trends

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Abstract
Health status of a population is considered as an important economic indicator of development for India. But still India is way behind many fast developing countries such as China, Vietnam and Sri Lanka in health indicators. In case of government funded health care system, the quality and access of services has always remained major concern. Clearly there is an urgent need to increase access to healthcare services, protect families from high medical expenses at the time of illness. In India, there is needed to take some steps as well as shortcomings need to be addressed so that every poor or rich, urban or rural person should take advantage of health insurance scheme. This paper attempts to make the theoretical analysis on health insurance, analyze the emerging growth pattern and trends of health insurance sector in Indian context. It also gives special emphasis on the opportunities and challenges associated with health insurance and finally, to make some recommendation for accelerating the better health care services to every poor or rich, urban or rural person against high medical expenses.
Key words *- Health, Health Insurance Scheme, Health Care Services*

1. Introduction

Recently, health insurance has gained popularity in India as a tool to finance healthcare due to increasing rates of critical illness and diseases like blindness, deafness, Alzheimer's disease, kidney transplant, organ transplant, paralysis etc. It is both challenging and expensive to try to attain the goal of universal health coverage in a country where most of its people are unemployed or employed informally. Indian government has launched a series of social health insurance schemes to ensure better healthcare access to the middle and upper classes as well as the poor

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and other special populations and for providing financial protection against high medical expenses. Health insurance is a protection scheme to take care of health of a person and works it by buying a policy from a company or an insurance agent. Depending on the premium paid, the health insurance policy will pay specified amounts for the medical expenses incurred to overcome the health problem as well as provides security to human life which is of prime importance to any individual. In the non-life insurance industry, health insurance is the second largest segment in India. The industry is concentrated around 4 major public sector companies namely, New India Assurance, United India Insurance, National Insurance and Oriental Insurance. This industry is expected to grow at a CAGR of 37.2% from FY'2011 - FY'2016 with surging medical costs, rising population and increased awareness among consumers in the country.

2. Review of the Literature

An attempt is made to review some of the available literature carried out in India and abroad to look into the Health Insurance in India.

Mavalankar et al., (2000) examined that India has limited experience of health insurance. Given that government has liberalized the insurance industry, health insurance is going to develop rapidly in future. The study found that if health insurance is left to the private market it will only cover those which have substantial ability to pay. **Ellis, Alam, Gupta (2000)** in their study provided an overview of existing pattern of healthcare financing in India and developed elements of a prospectus of strategy for increasing the coverage and extent of health insurance for the formal sector in India and also highlighted the need for alternative finances, including provision for medical insurance at a much wider level. **Majumdar (2004)** examined that actuary has an essential role to play in transacting health insurance business for example in product design and premium rating. **Ahuja and Narang (2005)** provided an overview of existing forms and emerging trends in health insurance for low income segment in India and concluded that health insurance schemes have considerable scope of improvement for a country like India by providing appropriate incentives and bringing these under the regulatory ambit. According to **Bishnoi & Saharan (2007)** market trend and penetration level of health insurance business and the premium level and index of growth of health insurance business is continuously rising up in India. **Desai (2009)** observed that large majority of Indian population depend on the private sector, mostly in the form of out of pocket spending that accounts for more than 70% of all health spending in India. **Bawa and Ruchita (2011)** found that significant relationship exist between age, gender, education, occupation and income of the respondents and their willingness to pay for health insurance while no significant relationship was found between marital status and their willingness to pay for health insurance and also concluded the presence of key factors acting as barriers *(lack of funds, lack of willingness and awareness, lack of intermediaries, lack of reliability and lack of accessibility to services)* to subscription to health insurance.

3. Objective of the study

The objectives of present study are -

- to make the theoretical analysis on health insurance.
- to analyze the emerging growth pattern and trends, key challenges and opportunities associated with health insurance in Indian context.
- finally, to make some recommendation for accelerating the better access of health care services to every sections of the society and thereby pave the way for further study in the area.

4. Research Methodology

The study is based on secondary data. Secondary data were collected from several working papers on health insurance, articles published in reputed journals like IRDA Journal, Life Insurance Today, Insurance Times, Annual reports of IRDA.

5. Health Insurance - Theoretical Analysis

The term *health insurance* (popularly known as Medical Insurance or Mediclaim) connotes a form of insurance that pays for medical expenses. The concept of health insurance is new in India but its awareness is growing fast. Health insurance in India generally falls under the general insurance sector and covers the health risks that fall under the insurance norms.

The International Labour Organization (ILO) defines health insurance as *'the reduction or elimination of the uncertain risk of loss for the individual or household by combining a larger number of similarly exposed individuals or households who are included in a common fund that makes good the loss caused to any one member'.*

Table 1: Phases of Developments of Health Insurance in India

Phases	Milestone in Development
Pre - Independence	• **1912** - Health Insurance introduced when the first insurance act was passed. • **1947** - In 1947, the 'Bhore Committee Report'– make recommendations for the improvement of health care services in India. • **1948** - The central government introduced the employees' State Insurance Scheme (ESIS) for blue-collar workers employed in the private sector.
Nationalization	• **1954** - The Central Government Health Scheme (CGHS) for central government employees and for their families. • **1986** - Mediclaim was introduced and started by government insurance companies in 1986.
Liberalization	• **1999** - Marked the beginning of a new era for health insurance in the Indian context. • **2000** - IRDA since its incorporation in April, 2000 has fastidiously stuck to its schedule of framing regulations and the insurance sector was opened to private and foreign participation. • **2001** - First private health insurance product integrated with TPAs service was introduced. • **2003** - Introduction of Universal health Insurance Scheme (UHIS) for informal sector. It was a hospitalization indemnity product voluntarily

	purchased from any state-owned insurer at a heavily subsidized price. • **2006** - The Ministry of Health and Family Welfare has provided for National Rural Health Mission which account for strengthening public health facilities. • **2008-09** - Rashtriya Swasthya Bima Yojana (RSBY) was introduced by the Government of India, which covers all the Below Poverty Line families in the country.
***Source**: Compiled by authors from various sources*	

5.1. Categories of Health Insurance schemes

Social Health Insurance (SHI) - This is compulsory health insurance usually for the formal sector. Here the employees contribute through payroll deductions and the employers provide a grant and it is used to finance healthcare of the employees, their dependents and the rest of the population. Mediclaim, one of the popular health insurance cover offered by public sector company was introduced in the year 1986.

Table 2: Summary of the SHI schemes launched in India

Name of the Scheme	Year of Enactment	Target	Objective
i) The Employees' State insurance Scheme **(ESIS)**	1948	Employees with income < Rs. 15000/ month and dependents	To achieve universal health coverage
ii) The Central Government Health Scheme **(CGHS)**	1954	Government employees and families	To achieve universal health coverage
iii) Integrated Child Development Services **(ICDS)**	1975	Malnutrition children under age 6	To improve nutrition and health status to children
iv) Rashtriya Swasthya Bima Yojana **(RSBY)**	2009	The poor below the poverty line	To provide affordable healthcare to the poor
v) National Programme for the Health Care of the Elderly **(NPHCE)**	2011	Seniors	To provide the elderly an easy access to primary healthcare
Source: *Compiled by authors*			

Private Health Insurance (PHI) - It refers to insurance schemes that are financed through individual private health premiums which are often voluntary and risk rated. 'For-profit' insurance companies manage the funds. In low-income countries like India, they provide primary insurance cover, i.e. they insure hospitalizations. Asha Deep Plan II, Jeevan Asha Plan II, Jan Arogya policy, Raja Rajeshwari policy, Critical illness policy, Group health insurance policy are the schemes of such health insurance.

Community based Health Insurance (CHI) - It aimed primarily at the informal sector. In this insurance scheme, the local community takes the initiative in establishing a health insurance scheme usually to improve access to healthcare as well as protect

against high medical expenses. Self-Employed Women's Association (SEWA), The Mullur Milk Co-operative, Sewagram, Action for Community Organization, Rehabilitation and Development (ACCORD), Voluntary Health Services (VHS) are such health insurance schemes.

Employers' sponsored schemes - These schemes are offered by both the public sector and private sector employers. The benefits are provided by way of lump-sum-payments, reimbursement of employees' health expenditure incurred for outpatient care, hospitalization, fixed medical allowance on monthly or annual basis irrespective of actual expenses or coverage under group health insurance policies. The Railways, Defence and Security Forces, Plantation and Mining Sector run their own health services for employees and their families.

Table 3: Facilitators and Inhibitors of the Indian Health Insurance Market

Demand Facilitators	Supply Inhibitors
Individuals/Households • Rising income levels • Increasing health consciousness among literate populace • Willingness to spend on health and holistic well being	**Individuals/Households** • High cost to educate the unaware customer on need for risk cover • Low income and affordability, highly price sensitive market
Employers • Willingness to fund employee health insurance for associated productivity gains	**Data Mining** • Insufficient data on customer profile and disease incidence to enable right product pricing & development
Government / NGOs • Schemes for the poor like Rashtriya Swasthya Bima Yojana, Aarogyasri • Campaigns to increase awareness, micro-insurance initiatives	**Claims Management** • High claims ratio, often fraudulent • Inflationary pressure on medical treatment and related claims
Healthcare Providers • Launch of new hospital chains, expanding reach to smaller cities, new concepts like telemedicine	**Healthcare Providers** • Reach limited to large cities • Disparate services and accreditation creating bottlenecks in claims assessment and settlement
Regulations • Liberalization followed by de-tariffication of non-life insurance • Introduction of third party administrators	**Regulations** • Regulation of healthcare providers and cohesive partnership of insurance industry and providers
Source: *Accenture Research*	

5.2 Health Insurance claims settlement procedure

There are two ways by which health insurance claims are settled -

Cashless Hospitalization **-** It is a specialized service provided by an insurer wherein an individual is not required to pay the hospitalization expenses at the time of discharge from the concerned hospital. The settlement is done directly by the insurance company (or insurer). However, prior approval is a must from the TPA (Third Party Administrator) before availing the benefits under this option. For

availing cashless treatment (only at authorized network hospitals, the TPA has to be notified in advance *(for planned hospitalization)* or within the stipulated time limits *(for emergencies)*. The claim amount need to be approved by the TPA and the hospital settles the amount with the TPA or Insurer. It can be of two types such as -

i) Planned Hospitalization - Wherein the insured is aware of the hospitalization in advance. The duration may vary from case to case. It includes - *Full time normal delivery, Chemotherapy treatment for carcinoma (cancer), Cataract surgery, Removal of tonsils etc.*

ii) Emergency Hospitalization - It is a sudden hospitalization that may be either due to an emergency or due to unforeseen circumstances. It includes - *Road traffic accident, Heart attack, acute appendicitis etc.*

Medical Reimbursement - This facility can be availed at both the network and non-network hospitals. Under this procedure, the insured has to bear the entire expensed incurred during hospitalization. After getting discharged from hospital, the insured or policy holder can claim medical reimbursement. For availing benefits under this option, the insured has to approach the concerned TPA under which he or she is covered fill the requisite form and satisfy all the requirements as mentioned. It includes - *Submission of TPA card, policy paper, discharge summary, prescriptions, diagnostic laboratory reports, OPD treatment details etc.* A sum is granted as reimbursement for treatment expense.

6. Emerging Growth Pattern and Trends of Health Insurance

According to recent news report health insurance continues fastest growing segment with annual growth rate of 25%. As per **Table 4** shown below deals with the growth pattern of public and private sector health insurance players in India from financial year 2006-07 to 2011-12. In 2006-07 public and private sector health insurers experienced a growth of 17.95% and 182.55% whereas, Reliance emerged as the topper with 686.17% growth and ICICI ranked second with 168.10%. In 2008-09 the public sector contributed 24.19 % growth and 35.51% was contributed by private sector health insurance sector. In 2010-11, the growth of private health insurance sector was 41.11% with an increase of 23.21% over the previous year that is to say, 2009-10. In 2011-12 the overall growth was fallen by 31.44% whereas private and public sector also registered fall of 19.05% and 12.39% respectively. The growth rate of private sector shows a remarkable progress and performance in private health insurance sector over public sector.

Table 4: Growth Pattern of Health Insurance Players in India (in %)

A. Under Public Sector Health Insurance Company						
	Year					
Name of the Company	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**
New India Insurance	14.34	58.03	12.11	14.49	28.43	17.33
Oriental Insurance	23.30	23.42	30.32	49.06	25.13	-0.48
National Insurance	13.20	105.54	24.72	26.17	45.92	34.20
United India Insurance	20.97	59.90	29.61	39.45	33.86	32.72
TOTAL	**17.95**	**61.70**	**24.19**	**32.29**	**33.33**	**20.94**
B. Under Private Sector Health Insurance Company						
	Year					
Name of the Company	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**
Royal Sundaram	92.62	11.45	5.38	9.61	24.31	40.97
Tata AIG	48.10	51.95	14.56	5.63	32.75	24.35
Reliance	686.17	307.17	12.77	-23.18	6.50	-11.40
IFFCO-TOKIO	38.32	58.60	23.65	16.47	7.70	-8.18
ICICI Lombard	168.10	20.20	16.62	-11.62	47.17	11.72
Bajaj Allianz	62.00	53.70	36.49	-11.03	14.92	27.54
Apollo DKV	N.A.	N.A.	139.10	139.43	154.45	69.46
TOTAL	**182.55**	**83.85**	**35.51**	**17.90**	**41.11**	**22.06**
Source: *irda.gov.in*						

As per **Table 5** during 2013-14, the gross health insurance premium collected by non-life insurance companies was Rs. 17,495 crore. It is 13.21% more when compared to previous year's gross health insurance premium of Rs. 15,453 crore. The four public sector non-life insurance companies continue to contribute a major share of health insurance premium at 62% and continue to be at the same level over the last four years. While private sector non-life insurers contribute 26% of the gross health insurance premium, the remaining 12% has been contributed by stand-alone health insurance companies.

Table 5: Trends in Health Insurance Premium in India over the past four years
(Rs. in crores) (% age of market share)

Insurers	**Year**			
	2010-11	**2011-12**	**2012-13**	**2013-14**
Public Sector Non- Life Insurers	6689 (61%)	8015 (61%)	9580 (62%)	10841 (62%)
Private Sector Non-Life Insurers	2850 (26%)	3446 (27%)	4205 (27%)	4482 (26%)
Standalone Health Insurers	1491 (13%)	1608 (12%)	1668 (11%)	2172 (12%)
TOTAL Non- Life Industry	**11,030**	**13,069**	**15,453**	**17,495**
Source: *IRDA Annual Report (2013-14)*				

As per **Table 6** shown below, during the year 2013-14, the non-life insurance industry has issued around 1 crore health insurance policies which covered a total population of 21.63 crore. While Government sponsored health insurance policies have contributed 72% of the total number of persons covered, the commercial health insurance policies had contributed the balance 28% of all persons covered during

2013-14. Over the last four years, the number of persons covered under Health insurance has seen moderate decline mainly due to decrease in number of persons covered under Government health insurance schemes.

Table 6: Number of Policies issued and Persons covered *(in Lakh)*

No. of Persons covered under	Year			
	2010-11	**2011-12**	**2012-13**	**2013-14**
Government	1891	1612	1494	1553
Group *(Other than Govt.)*	226	300	343	337
Individual	419	206	236	273
TOTAL	**2536**	**2118**	**2073**	**2163**
Source: *IRDA Annual Report (2013-14)*				

Among the various channels of distribution, individual agents contribute a 35% major share of health insurance premium. While brokers contribute 24% of health insurance premium, direct sales–other than online contributes 32% of gross premium as shown in **Table 7**.

Table 7: Channel wise distribution of health insurance policies (2013-14)

Name of the Channel	Premium Individual Policies	Premium Group Policies	Total Business (Individual + Group)
Brokers	4%	39%	24%
Corporate Agent - Banks	6%	2%	4%
Corporate Agent - Other than Banks	8%	1%	4%
Direct Sale - Online	2%	0%	1%
Direct Sale - Other than Online	8%	48%	32%
Individual Agents	72%	10%	35%
TOTAL	**100%**	**100%**	**100%**
Source: *IRDA Annual Report (2013-14)*			

One of the major concerns of health insurance segment has been the consistently high Incurred Claims Ratio (ICR) reported by the segment, which stood at over 90% for the past three years thereby making the sector highly unprofitable. The net ICR was 94% in 2011-12 and 2012-13 and 97% in 2013-14 as shown in **Table 8.**

Table 8: Trend in Incurred Claims Ratio *(in %)*

Net Incurred Claims Ratio under	Year		
	2011-12	**2012-13**	**2013-14**
Government	90%	87%	93%
Group *(Other than Govt.)*	100%	104%	110%
Individual	85%	83%	83%
TOTAL	**94%**	**94%**	**97%**
Source: *IRDA Annual Report (2013-14)*			

7. Key Challenges

i) Affordability and accessibility chasm, ii) High variation in quality of services, iii) Medical health insurance penetration, iv) Associated social facilities, v) Absence of

regulatory and standardized operating procedures and finally, vi) Lifestyle changes are the key challenges of health insurance in India.

8. Opportunities

i) New virtualized ways of working - New business models of delivering care are evolving via virtualization of processes and business models with consumer-centric mobility paradigms are gaining ground.

ii) Participation of private players **-** Currently, PHIs accounts for about 5% of the covered population, this can increase to around 30% by the year 2020. The key is to devise products and services to cover out-of-pocket expenses, primarily due to outpatient services and inadequate coverage.

iii) Integration of players and standardization of care delivery **-** The emerging healthcare models will see closer integration of players to penetrate the semi-urban and rural sectors. Health insurance and Pharma players are likely to drive the evolution of an integrated healthcare model with increased transparency and accountability.

iv) ***Create awareness and differentiation*** - Effective campaigns highlighting the differences between health and financial security are necessary to highlight the need for the health insurance among the population.

v) Increasing use of technology in care delivery - Healthcare delivery and remote healthcare paradigms are set for major technology transformation. Technology will find new avenues in broker channels, wellness, and self-health management.

Table 9: Regulatory status of selected health care financing schemes in India

Health Financing Scheme	Legal Regime	Regulator
i) Private Commercial Health Insurance	Commercial laws, insurance Act. 1938 and IRDA Act. 1999 and Regulation	IRDA
ii) Public Sector Insurance Companies a) Commercial Competitive b) Subsidized non-competitive	Own Acts and Insurance Act.1938	a) IRDA b) Central Govt., Ministry of Finance *(Subsidies)*
iii) ESIS (Social security schemes that include finance and provision of healthcare)	Own Acts	Ministry of Labour
iv) Corporate self health insurance	Commercial laws	Unregulated
v) Community based health insurance	Associations law, Cooperative law	Unregulated subsidies by the Ministry of Finance entails hidden regulations.
vi) Exempted Schemes (Calcutta Hospital and Nursing Home benefit association)	Own legal status not affected by the Insurance Nationalisation Act.	IRDA
Source: *Compiled by authors*		

9. Recommendations

i) The need for introducing health insurance initiatives for people below poverty line, especially the slum dwellers who have to be accorded a higher priority.
ii) Voluntary health insurance for rural, hilly and tribal people needs to be given an immediate and serious trial.
iii) Preventive and promotive services are to be included in all service provider activities in the ambit of health insurance system in order to reduce the morbidity burden or indirectly reducing overall costs.
iv) Minimum 'waiting' or 'qualifying period' period should be encouraged for availing health scheme benefits offered under health insurance cover, particularly for more expensive hospital inpatient services.
v) IRDA should be more effective and should concentrate on accessibility, quality and affordability dimensions of the health insurance sector.
vi) Agencies such as state health system, Indian medical association and TPAs should form a composite monitoring network for professional regulation of health insurance in India.

10. Conclusion

Health insurance in India cannot be examined in a vacuum as its success depends on many factors such as the health services infrastructure, financial and economic ecosystems and government regulations and support. Health insurers in India currently face many challenges, including poor awareness, low product acceptance and uncertain business profitability. There is demand for new products in the health insurance market with optimal pricing, preventive care, out-patient coverage and long term care needs to be addressed with utmost flexibility in options such as continuity/renew-ability and portability. To consider both supply and demand side financing models to deliver healthcare in the country as a progressive step, Government can provide a comprehensive health insurance cover to all citizens of the country towards strengthening public healthcare delivery system through initiatives like NRHM, free medicines etc. However, to make this a reality, Government will have to take a decision regarding making health insurance mandatory and more effective in phased manner.

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Performance of Regional Rural Banks in Paschim Medinipur District (2007-2012): A Comparative Exploration

Sibaram Chatterjee[1]

Abstract

The Government of India introduced economic and financial sector reforms in general and banking sector reforms in particular to improve the performance of the Indian banks. The main motive of the reforms was to improve the operational efficiency of the banks to further enhance their productivity and profitability. The present study makes an attempt to find out the impact of ownership structure on the productivity growth (TFP) of these three banks, namely RRBs, VCCB and SBI using econometric techniques such as Data Envelopment Analysis (DEA) and Malmquist Productivity Index (MPI) taking 2007 to 2012 as the study period. Study results show that RRBs have serious scale inefficiency problem and they are persistently operating at an increasing return to scale whereas VCCB and SBI aer operating at either decreasing return to scale or constant return to scale. It is also found that performance of RRBs is not significantly better than that of VCCB.

Key words *– Banking, RRBs, Co-operative Banks, Data Envelopment Analysis, Malmquist Productivity Index.*

1. Introduction

The Government of India introduced economic and financial sector reforms in general and banking sector reforms in particular to improve the performance of the Indian banks. The first phase of banking sector reform was introduced in 1991 after the recommendation of Narasimham Committee. It focused on the reduction in Statutory Liquidity Ratio and Cash Reserve Ratio, deregulation of interest rates, transparent guidelines or norms for entry and exit of private sector banks, direct access of public sector banks into capital markets, liberalization of branch licensing policy, setting up of Debt Recovery Tribunals, asset classification and provisioning, income recognition, formation of Asset Reconstruction Fund. While the second

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Narasimham Committee (1997) recommended the merger of strong units of banks and adaptation of 'narrow banking' concept to rehabilitate weak banks.

The main motive of the reforms was to improve the operational efficiency of the banks to further enhance their productivity and profitability. However, financial sector reforms in the early 1990s have brought about fierce competition in the banking sector. The financial crisis in emerging market economies in the mid-1990s has clearly exposed the dangers of a bank's excessive reliance on the traditional business activities. Stone *et al.* (2000) have particularly pointed out the lack of proper diversification of the loan portfolio as a key catalyst of bank distress after financial deregulation. Eventually, the structure of banking markets of emerging economies has been shaped by the policies that encourage the provision of financial services to specific sectors of economies on the fringe of economic development. As a consequence, the universal banking model, which allows banks to combine a wide range of financial activities, including commercial banking, investment banking and insurance, has emerged as a desirable structure of a financial institution[3]. Such diversifications of activities have been leading to a blurring of line across different financial institutions and have been facilitated by relatively liberal laws as regards banking and securities business. Thus, enhanced profitability, productivity and operational efficiency through proper product mix or diversification have become essential for growth and survival of any bank. Obviously Regional Rural Banks (RRBs) are not beyond this track.

Almost since inception, RRBs with a rural focus are suffering from serious problems, namely, high risk due to exposure to the rural poor people, escalating losses due to non-viable level of operations in branches located at resource-poor areas, switch over to narrow investment banking as a turn-over strategy. In the ensuing years, RRBs have to face tight competition with other commercial banks for their growth and survival irrespective of the fact that their very role in the society required a special status and a different set of policies. Thus, the productivity, profitability and operational efficiency of RRBs have become the key issues which enable them to function as an effective and efficient institution of rural credit.

Productivity and efficiency have become burning issues in the era of banking sector reforms and have enjoyed a great deal of interest among researchers studying performance analysis. The banking performance is commonly measured by using different financial ratios. Yeh (1996) has observed that the major drawback of this method is its dependence on benchmark ratios, which could be arbitrary and may mislead an analysist. Further, Sherman and Gold (1985) have noted that the financial ratios do not capture the long term performance and many aspects of performance such as, operations, marketing and financing. Amandeep (1991) considered eleven factors which reflect different dimensions of banking operations and hence affect the banking profitability. Kaushik (1995) has evaluated productivity and profitability of Indian banks during 1973 to 1997 by using nine indicators and concluded that the social obligation is not a major drag on profitability of the banks. Bhatia and Verma (1998) have made an attempt to determine empirically the factors influencing profitability of public sector banks in India by applying multiple regression

technique. Their study reveals that priority sector advances, fixed / current deposit ratio and establishment expenses influence the profitability of public sector banks negatively. Das and Ghosh (2005) have argued that there is a strong effect of ownership on bank's performance.

In recent times, there is a trend towards measuring banks' performance using frontier analysis technique, which includes parametric and non-parametric approach. Sathye (2001) assessed the efficiency of banks in India, using Data Envelopment Analysis (DEA). He used two models to show how efficiency scores vary with change in inputs and outputs. Sayuri and Shrai (2002) assessed the impact of deregulation by examining the changes in performance of banking sector in post-reform era by applying DEA. The study has concluded that the performance of the public sector bank has improved in the second half of the 1990's. Jackson and Fethi (2000) have evaluated the technical efficiency of individual Turkish banks, using DEA methodology and investigated the determinants of efficiency by using Tobit model. Cingi and Tarin (2000) have examined the efficiency and productivity change in Turkish Commercial banks, using DEA and DEA-based Malmquest Total Factor Productivity Index. Ashish and Batra (2012) empirically explored the productivity changes of Indian banking industry during the post liberalization period (2006-2011) by applying a non-parametric Malmquist Productivity Index (MPI). Results showed that during the study period, Indian banking industry experienced stagnation in technological progress. The group-wise analysis showed no significant difference among the banks. Further, scale inefficiency seems to be the main reason for overall inefficiency in the banking industry.

Most of the earlier studies have measured the performance of Indian banks at a macro level. Many of them have examined various issues relating to the performance of Indian banks, particularly that of the nationalized banks, but none of these studies have examined exclusively the performance of RRB so far at branch level. There is no prominent work which has been so far carried out on the performance evaluation and efficiency measurement of RRBs at the branch level, specifically in the backward districts in the state of West Bengal. The present study is an attempt to analysis the efficiency and total factor productivity growth of RRBs at branch based micro-level in post-amalgamation period. The present study also makes an attempt to compare the efficiency and productivity change (Total Factor Productivity Growth) over the years of RRBs with those of State Bank of India and Co-Operative bank (Vidyasagar Central Co-Operative Bank Ltd VCCB, a leading co-operative bank in the sample district) at district level which has also not been touched in the earlier studies. The three banks, namely RRBs, VCC bank and SBI are completely different in respect of ownership structure. The present study makes an attempt to find out the impact of ownership structure on the productivity growth (TFP) of these three banks, which has been left out in the earlier studies.

The rest of the paper is divided into four sections. Section II is devoted to methodological treatment for assessment of efficiency and total factor productivity growth. Section III represents the sample frame and data sources. Section IV deals

with the analysis and interpretation of results relating to the efficiency and productivity change. Section V concludes.

2. Methodological Treatment

2.1. DEA: A Technique of Efficiency Measurement

Efficiency relates to how well a bank employs its resources relative to the existing production possibilities frontier or relative to the current best practice of the bank and how a bank simultaneously minimizes cost and maximizes revenue, based on an existing level of production technology (Tandon, 2003). Thus, efficiency compares the observed ratio of inputs to outputs for a firm against an optimal one which constitutes the efficient frontier.[4] The overall efficiency of a firm consists of two components, namely, technical efficiency, which reflects the ability of a firm to obtain maximal output from a given set of inputs and allocative efficiency, which reflects the ability of a firm to use the inputs in optimal proportions, given their respective prices. Technical efficiency can be decomposed into pure technical efficiency and scale efficiency. Pure technical efficiency measures the management performance in maximizing output. Scale efficiency reflects whether a decision making unit (DMU) is operating at the optimal scale size. There would be scale inefficiencies if the firm is operating at any other scale size (Avkiran, 1999).

The measurement of efficiency is a relative assessment of a firm against an efficient frontier. In frontier analysis, the DMUs, *i.e.*, the bank branches of the cooperative bank under study, having better performance relative to a particular standard are separated from those having relatively poor performance. Such line of separation is marked either by applying a non-parametric or parametric frontier analysis. Both approaches are useful in assessing efficiency of a DMU as well as productivity change over the period and identifying the factors responsible for the productivity change. Parametric techniques require an explicit specification of a production function but non- parametric techniques do not have such requirement. The main reason for the selection of DEA, a non-parametric approach, is that it permits for variations found in data to be assessed (Alam, 2001). It does not impose any form specification on the production function. It does not require prior knowledge of the functional form of the frontier, error and inefficiency structures (Isik and Hassan, 2003).

DEA, introduced by Charnes, Cooper and Rhodes (1978), is a mathematical technique used to form the efficient production frontier for estimating the efficiency of a DMU. The purpose of DEA is to construct a non-parametric envelopment frontier over the data points such that all observed points lie on or below the production frontier, *i.e.,* no observed point lies beyond the frontier. DMUs lying on the frontier are assigned an efficiency score of 1, considered as fully efficient, while those lying below the frontier are assigned scores of zero and below one and are said to be relatively inefficient as compared to the bench mark DMU.

Efficiency itself is capable of being defined by both output orientated and input orientated models. Output oriented model addresses the question how much output can be feasibly enhanced by keeping the given level of input as constant. On the other hand, the input orientation looks at how much input can be feasibly reduced to

produce the same level of output. The output and input orientated measures will only provide equivalent results of technical efficiency when constant return to scale exists, but will be unequal when increasing or decreasing return to scale is present (Fare and Lovell, 1978). In many DEA studies, analysts have tended to select input orientated model because in most DMUs, input quantities seem to be the primary variables (Coelli, 1996).

The DEA-based efficiency measurement is based on two assumptions, namely, constant return to scale (CRS) and variable return to scale (VRS). The constant return to scale assumption represents the technology using a unit isoquant (Farrell, 1957). Assume, there are data on K inputs and M outputs of each of N bank branches of RRBs or DMUs. For the ith DMU these are represented by the vectors x_i and y_i respectively. The K x N input matrix, X and the M x N output matrix, Y represent the data of all N DMUs.

Using linear programming input orientated CRS model can be derived as:

$$\min_{\theta,\lambda} \theta$$

Sub to –

$$-y_i + Y\lambda \geq 0,$$

$$\theta x_i - X\lambda \geq 0, \ \lambda \geq 0, \qquad \text{Equation (1).}$$

Where, θ, the efficiency score for the ith DMU, is a scalar and λ is a N x 1 vector of constant. The linear programming problem must be solved N times, once for each DMU in the sample. A value of θ is then obtained for each DMU.
The CRS assumption is only appropriate when all DMUs are operating at an optimal scale. But imperfect competition, constraints on finance etc. may cause a DMU to be not operating at optimal scale. The use of CRS specification, when all DMUs are not operating at the optimal scale, will result in measure of technical efficiency, which is confounded by scale efficiencies (SE). CRS model does not differentiate between pure technical inefficiencies and inefficiencies due to non constant (increasing or decreasing) return to scale effect. The use of VRS specification will permit the calculation of technical efficiency devoid of these SE effects (Coelli, 1996).

The assumption of CRS model can be relaxed by adding the convexity constraint $N1' \lambda = 1$ to equation (1), which defines a technical efficiency score for each DMU under VRS assumption (Banker, Charnes and Cooper, 1984).
The model under VRS assumption is as follows:

$$\min_{\theta,\lambda} \theta$$

Sub to –

$$-y_i + Y\lambda \geq 0,$$

$$\theta x_i - X\lambda \geq 0,$$

$$N1' \lambda = 1, \lambda \geq 0, \qquad \text{Equation (02)}$$

Where, N1 is an N x 1 vector of ones. This approach forms a convex hull of intersecting planes which envelope the data points more tightly than the CRS conical hull and thus provides technical efficiency scores which are greater than or equal to those obtained using CRS model.

This model decomposes the overall technical efficiency, *i.e.*, technical efficiency scores obtained from a CRS DEA, into pure technical efficiency and scale efficiency. This may be done by conducting both a CRS and a VRS DEA upon the same data. If there is a difference in the two scores for a particular DMU, then this indicates that the DMU has scale inefficiency and that scale inefficiency can be calculated from the difference between the VRS TE score and the CRS TE score. Scale efficiency is the ratio of CRS TE to VRS TE.

In equation form,

Overall technical efficiency = Pure technical efficiency x Scale efficiency

In this study, the input orientated variable return to scale DEA model has been used to measure technical efficiency, decomposed into pure technical efficiency and scale efficiency.

2.2. *Malmquist Productivity Index: A Technique of Assessing Productivity Change*

The productivity is defined as the rate of transformation of inputs to outputs or simply the ratio of outputs over inputs (Coelli *et al.,* 1998). To increase productivity, a DMU has to either maximize outputs for a given level of inputs or minimize inputs for a given level of outputs. Sometimes, both productivity and efficiency terms are interchangeably used. But there is a sharp difference between the two. Productivity enhancement basically depends on two sources, namely technological progress and production efficiency. In terms of the production frontier that reflects the maximum output attainable from each input level or simply as the current production technology, technological progress is seen as shifts (not necessarily parallel shifts) in the production frontier over time due to technological innovation (Coelli *et al.,* 1998). This must be distinguished from technical efficiency gain that indicates the distance of an observed production away from the production frontier. Fully efficient DMUs are located on the production frontier. Hence, a movement closer to the production frontier indicates improving efficiency. But increased efficiency from one period to another does not necessarily indicate higher productivity since the production technology may have changed. Similarly, improved productivity does not indicate a corresponding improvement in efficiency if the production frontier has shifted but the relative distance from the new frontier remains same as the previous distance from the previous production frontier.

In this study, total factor productivity growth (TFP) has been calculated by using the Malmquist Productivity Index (MPI), as introduced by Caves *et al.* (1982) and developed by Fare *et al.* (1994). The MPI can be computed by using only quantitative data for both inputs and outputs alone and is expressed as the ratio of distance

functions. Distance functions are function representations of multiple-output and multiple-input technology that require only data on quantities without the need to specify behavioural objectives such as cost minimization or profit maximization (Avkiran, 2000). Distance functions can either be input or output orientated. An input distance function defines the production technology by referring to the maximum contraction of the input vector given an output vector. By contrast, the output distance function seeks maximum expansion of the output vector given to the input vector.

When there is panel data, DEA-like linear programs and 'Malmquist Total Factor Productivity Index' may be used to assess productivity changes, and to decompose this productivity growth into two components *viz.*, technological change and technical efficiency change. Following Fare *et al.* (1994), the output oriented Malmquist Productivity Index has been used for the present study. They specified an output based Malmquist Productivity Change Index as:

$$m_0(Y_{t+1}, X_{t+1}, Y_t, X_t) = \sqrt{\frac{d_0^t(X_{t+1}, Y_{t+1})}{d_0^t(X_t, Y_t)}} X \sqrt{\frac{d_0^{t+1}(X_{t+1}, Y_{t+1})}{d_0^{t+1}(X_t, Y_t)}} \quad \text{……Equation (03)}$$

Where, m_0 is the productivity of the production point (x_{t+1}, y_{t+1}) relative to the production point (x_t, y_t). A value greater than one indicates positive total factor productivity growth from period t to period t+1. Fare *et al.* (1992) specified that m_0>1 indicates productivity gain; m_0<1 indicates productivity loss; and m_0=1 means no change in productivity from time t to t+1. To solve equation (3) four component distance functions, which involve four linear programming problems (similar to those conducted in calculating technical efficiency measures) be formulated. The VRS or CRS option has no influence on the Malmquist DEA because both are used to calculate the various distance functions used to construct the Malmquist indices (Coelli, 1996). The output orientated four LP models for formulating four distance functions (assuming CRS technology) are:

$$[d_o^t(x_t, y_t)]^{-1} = \max_{\theta,\lambda} \theta,$$

Sub to $-\theta y_{it} + Y_t \lambda \geq 0,$

$x_{it} - X_t \lambda \geq 0,$

$\lambda \geq 0,$……Equation (a)

$$[d_0^{t+1}(x_{t+1}, y_{t+1})]^{-1} = \max_{\theta,\lambda} \theta,$$

Sub to $-\theta y_{i,t+1} + Y_{t+1} \lambda \geq 0,$

$x_{i,t+1} - X_{t+1} \lambda \geq 0,$

$\lambda \geq 0,$……..Equation (b)

$$[d_o^t(x_{t+1}, y_{t+1})]^{-1} = \max_{\theta,\lambda} \theta,$$

Sub to $-\theta\, y_{i,t+1} + Y_t\, \lambda \geq 0,$

$x_{i,t+1} - X_t\, \lambda \geq 0,$

$\lambda \geq 0,$……..Equation (c)

$$[d_0^{t+1}(x_t, y_t)]^{-1} = \max_{\theta,\lambda} \theta,$$

Sub to $-\theta\, y_{it} + Y_{t+1}\, \lambda \geq 0,$

$x_{it} - X_{t+1}\, \lambda \geq 0,$

$\lambda \geq 0,$……Equation (d)

The above four LP equations must be calculated for each firm in the sample.
A same way of presenting this index as cited in Equation (03) is as follow:

$$m_j(y_{t+1}, x_{t+1}, y_t, x_t) =$$

$$\frac{d_0^{t+1}(X_{t+1}, Y_{t+1})}{d_0^t(X_t, Y_t)} \times \sqrt{\frac{d_0^t(X_{t+1}, Y_{t+1})}{d_0^{t+1}(X_{t+1}, Y_{t+1})} \times \frac{d_0^t(X_t, Y_t)}{d_0^{t+1}(X_t, Y_t)}}$$

Or

2.3. Malmquist Productivity Index (MPI) = Change in technical efficiency (EFFCH) x Technological change (TECH)

The first component (EFFCH) on the right hand side represents change in technical efficiency. This factor shows the change of the relative position of the observed unit and the frontier between time t and t+1. The second factor (TECH) that is the square root term represents technological change. The value of TECH greater than unity means technological progress that is the expansion of the frontier; the value of TECH less than one symbolizes technological regress, i.e. the contraction of the frontier.

EFFCH can be further decomposed into two parts: one is pure technical efficiency change and other is scale efficiency change. Therefore, total productivity change and its components can be determined in a successive period of time with the help of the following equation:

Productivity Change = Pure Technical Efficiency Change x *Scale Efficiency Change* x *Technological Change*

Specification of Input and Output Variables

There is no unanimity among the previous studies over the choice of input and output variables for the purpose of DEA based efficiency and productivity analysis of the banks. DEA is a flexible technique and produces efficiency scores that are

different when alternative sets of input and output are considered. Banks are typically multi-input and multi-output firms. Since many of the financial services are jointly produced and prices are typically assigned to a bundle of financial services, specification of 'input' and 'output' is a difficult task. Additionally, banks may not be homogeneous with respect to the types of outputs actually produced. In view of these complexities, four approaches have come to dominate the studies on banking input-output specification, namely, production approach, intermediation approach, operating (income-based) approach and more recently modern approach (Berger and Humphrey, 1992). Since introduction of financial sector reforms, banking industries have been forced to shift their focus from social banking to a more efficient and profit oriented banking through more and more concentration on maximization of income and minimization of cost. In view of these changing circumstances in banking sector, the present study considers the operating approach (or income-based approach), taking interest expenses and non-interest expenses as input variables and interest income and non-interest income as output variables, which could be justified in post reforms era.

3. Sample and Data source

On the basis of a number of socio economic indicators, districts of West Bengal are segregated into two groups: relatively developed districts and relatively backward districts (Das, 2011). In the present study, Paschim Medinipur has been purposively selected from the group of backward districts. Since 1976, Mallyabhum Gramin Bank was working as a leading Regional Rural Bank in Paschim Medinipur. On 21st February 2007, due to restructuring of the RRBs this bank became Bangiya Gramin Bikash bank. At present it has 37 branches working in this district. The present study deals with the branch wise performance evaluation of RRBs of post amalgamation period. So the study period has been restricted to 2007 to 2012. Relevant branch wise data have been collected from the regional office of RRBs of Paschim Medinipur district for the said period. Subsequently, in this study balanced panel data consists of yearly observations for 37 branches between 2007 and 2012, 37 for each year and 222 (37x6) in total. In order to make a district level overall performance comparison of RRBs with that of State Bank of India and Vidyasagar Central Co-Operative Bank Ltd, data (compiled by the District Regional Office) has been collected from the regional office of the respective banks of Paschim Medinipur. DEAP software (Version 2.1)[5] has been used for analyzing the efficiency and productivity scores.

4. Analysis and Results

Inter-Branch Efficiency Analysis

The study first reports the year wise inter-branch overall efficiency variation (TE) and its' constituents namely, Pure technical efficiency (PTE) and scale efficiency (SE) of RRBs under the DEA methodology for the study period 2007 to 2012.

Descriptive statistics on the status of branch wise overall technical efficiency scores (TE) of RRBs and its' constituents, *viz.*, pure technical efficiency (PTE) and scale efficiency (SE) are presented by year in Table 1. Thereafter, the overall technical efficiency scores and its' constituents, *viz.*, pure technical efficiency and scale

efficiency of RRBs vis-à-vis State Bank of India and Vidyasagar Central Co-Operative Bank Ltd at district level have also been reported in the study.

The empirical finding reveals that the average overall technical efficiency scores of all the RRBs, working in this district is highest in the year 2010 (76.2%), indicating a 23.8% potential reduction in input utilization for the bank as a whole, followed by 2012 (74.3%). RRB occupies the lowest percentage of average over all technical efficiency score (31.5%) in the year 2009, followed by 2007 (66.2%). The reason for overall technical inefficiencies of the first three years (i.e. 2007-2009) can be attributed to scale inefficiencies and for the last three years (i.e. 2010-2011), pure technical inefficiencies i.e. management inefficiencies is responsible for this. The results also indicate that the RRBs have more serious scale inefficiency problem in the year 2009, i.e. average 54.6% (100-45.4), which results in lower overall technical efficiency. Scale efficiency scores provide the information about whether a particular branch is operating at the optimal scale or not, but it does not indicate the specific area where it is scale inefficient.

Table: 02 illustrate the return to scale characteristic of different branches of RRBs in the district under study. The analysis shows that out of 37 branches of RRB, average 28 branches (76%) are persistently operating at an increasing return to scale over the study period. This may be due to relatively stronger rural based business background and introduction of information technology, like core banking system which helps them to take advantages of technological innovations and productive opportunities rapidly.

In order to make a district level comparison among the efficiency of RRBs, VCC bank and SBI, operating in the study area, year wise overall technical efficiency scores of different banks under the DEA methodology have been calculated for the study period 2007 to 2012. Descriptive statistics relating to overall efficiency scores of the said banks are presented by year in Table 03:

Table 03 shows that SBI has the highest average overall technical efficiency (100%), followed by RRBs (94.4%) and VCC bank (89.6%) over the entire sample period. Fisher's t-test has been used to examine whether the efficiency of RRBs is significantly greater than that of VCC bank in Paschim Medinipur district or not. Although there appears to be a difference in the absolute value of efficiency but these differences are not found to statistically significant. For 6 sample observations (years) (as exhibited in Table 04), the hypothesis is accepted resulting in a conclusion that the efficiency of RRBs is not significantly greater than that of VCC bank. The decomposition of overall technical efficiency scores for RRBs and VCC bank further suggests that the scale inefficiency is exclusively only reason for the overall inefficiency of these banks.

DEA is a flexible technique and produces efficiency scores that are different when alternative sets of inputs and outputs are used. In the present study, prices of inputs (interest and non-interest expenses) as the input variables have been used. In this model, State Bank of India appears to be more efficient in generating return and reducing cost (interest expenses and non-interest expenses) as compared to RRBs

and VCC bank. This means that there are inefficiencies in accelerating income and reducing costs among RRBs and VCC banks, which need to remedy to achieve increased efficiency. The relatively lower scores for RRBs and VCC banks, as compared to SBI in this study could be because these banks are in the expansion phase and could have higher amount of fixed assets employed which have yet to start generating return.

Table 5 illustrates the returns to scale characteristic of the three banks under study. The empirical results show that only RRBs are operating persistently either at increasing or at constant return to scale and in contrast to this both SBI and VCC bank are operating either at decreasing or at constant return to scale.

Total Factor Productivity Change and its Components:

Table No 06, Table No 07 and Table No 08 show the Malmquist TFP index and its constituents for each category of bank by year.

The empirical results show that SBI registered an average annual growth rate of 9.2% over the sample period, followed by 7.2%% by RRBs and 2.4% by VCC bank. The time pattern of TFP growth of RRBs reveals that for the first two years i.e. between 2008 and 2009 there was a regression in TFP index but high rising trend in TFP growth occurred in 2010, followed by a regression in the year 2011. In 2012, it again began to improve. TFP growth of RRBs reached its peak point in the year 2010. The time pattern of TFP growth of VCC bank reveals that this bank reached its peak growth point in the year 2011, scoring a TFP growth index 1.969, followed by 2008 (1.552). There was a regression in TFP growth of VCC bank, occurred in 2009 and 2010, followed by a high rise in 2011. In 2012, it again got regression momentum. For the first two years i.e. 2008 and 2009 there was a decline trend in TFP index but reached its peak point in 2010 (23.2%), followed by a regression in TFP growth occurred in 2011 (1.022) and 1.019 in 2012.

Looking at the components in TFP growth, it can be inferred that the majority of growth has come from technological progress. The average growth due to technological progress of SBI is 9.2%, followed by RRBs (7.2%) and VCC bank (3.5%). TFP growth is very much dependent upon the technology growth throughout the entire study period, which signifies the importance of technology change in overall productivity growth. In this study, it may also be observed that in case of RRBs, efficiency change and technology change are positively related with each other. The calculated Pearson correlation coefficient (r) is 0.534. For VCC bank, the calculated Pearson correlation coefficient (r) between efficiency change and technology change is 0.985, i.e. positively highly correlated and significant at 1% level. But, for SBI, irrespective of technological progress, efficiency change is constant.

Ownership wise analysis shows that the average annual growth rate registered by RRBs, VCC banks and SBI is 7.2%, 2.4% and 9.2% respectively. Although there is a difference in the absolute growth values but these differences are not found to statistically significant as evident from Table 10, resulting in a conclusion that so far as ownership structure is concerned, there is no significant difference in TFP growth

across three banks under study. This finding is in conformity with the earlier research findings made by Mohan and Ray, 2004; Ashis Kumar and Vikas Batra (2012). Table 10 represents t-statistic test for difference in annual growth of TFP across banks having different ownership structure.

5. Conclusions

The present study empirically explores the branch wise efficiency measurement of RRBs, working in the district of Paschim Medinipur, of post amalgamation period by applying DEA methodology. The study makes an attempt to quantify the productivity change (Total Factor Productivity Growth) of the three banks over the years and also ascertain its constituents by applying a non-parametric Malmquist Productivity Index (MPI) method. This methodology helps in exploring the different performance measures *viz.,* productivity growth, technological change, technical efficiency change, management efficiency change and scale efficiency change for the study period. The study also makes a district level overall comparison of efficiency scores and productivity growth, obtained by RRBs with that of State Bank of India and Vidyasagar Central Co-Operative Bank Ltd. The present study also concentrates on finding out the impact of ownership structure on the productivity growth (TFP) of these three banks under study. In specifying the variables input-output, the operating approach (or income-based approach) is chosen, which could be justified in post reforms era.

The empirical finding reveals that the average over all technical efficiency score of all the branches of RRBs, working in this district is highest in the year 2010 (76.2%), indicating a 23.8% potential reduction in input utilization for the bank as a whole, followed by 2012 (74.3%). The results also indicate that the RRBs have more serious scale inefficiency problem in the year 2009, which results in lower overall technical efficiency. The analysis also shows that out of 37 branches of RRB, average 28 branches (76%) are persistently operating at an increasing return to scale over the study period. The study observes that SBI has the highest average overall technical efficiency (100%), followed by RRBs (94.4%) and VCC bank (89.6%) over the entire sample period. The study concludes that the efficiency of RRBs is not significantly greater than that of VCC bank. The decomposition of overall technical efficiency scores for RRBs and VCC bank further suggests that the scale inefficiency is exclusively only reason for the overall inefficiency of these banks. The empirical results also point out that only RRBs are operating persistently either at increasing or at constant return to scale and in contrast to this both SBI as well as VCC bank are persistently operating either at decreasing or at constant return to scale.

So far as productivity growth is concerned, the study finds out that SBI registered an average annual growth rate of 9.2% over the sample period, followed by 7.2%% by RRBs and 2.4% by VCC bank. Looking at the components in TFP growth, it can be inferred that the majority of growth has come from technological progress. The study observes that in case of RRBs and VCC bank (except SBI), efficiency change and technology changes are positively related with each other. The Malmquist TFP index results also display that average annual TFP growth is almost similar (not

statistically significant) irrespective of ownership structure across three banks over the entire sample period.

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Table 01: Descriptive Statistics on Branch Wise Efficiency Scores (TE) and its' Components of RRBs by Year:

Years	Geo Mean			Max			Min			SD		
	TE	PTE	SE	TE	PTE	SE	TE	PTE	SE	TE	PTE	SE
2007	0.662	0.829	0.798	1	1	1	0.167	0.367	0.389	0.25	0.17	0.18
2008	0.668	0.852	0.784	1	1	1	0.171	0.412	0.224	0.19	0.12	0.16
2009	0.315	0.693	0.454	1	1	1	0.027	0.393	0.059	0.33	0.20	0.32
2010	0.762	0.835	0.913	1	1	1	0.461	0.554	0.474	0.17	0.15	0.11
2011	0.728	0.833	0.873	1	1	1	0.136	0.559	0.235	0.19	0.15	0.16

Table 02: Return to Scale of Different Branches of RRBs

Year	Branches of RRBs		
	IRS	**CRS**	**DRS**
2007	27	07	03
2008	32	03	02
2009	31	06	00
2010	26	09	02
2011	22	09	06
2012	30	04	03
Average	28 (76%)	6.33 (17%)	2.67 (7%)

Table 03: Descriptive statistics

Bank Year	Overall Technical Efficiency (CRSTE)								
	RRB			**VCC**			**SBI**		
	TE	**PTE**	**SE**	**TE**	**PTE**	**SE**	**TE**	**PTE**	**SE**
2007	1	1	1	0.839	1	.839	1	1	1
2008	0.937	1	0.937	1	1	1	1	1	1
2009	0.737	1	0.737	1	1	1	1	1	1
2010	1	1	1	0.740	1	0.740	1	1	1
2011	0.99	1	0.99	1	1	1	1	1	1
2012	1	1	1	0.797	1	0.797	1	1	1
Mean	0.944	1	0.944	0.896	1	0.896	1	1	1

Table 04: Testing of Hypotheses in relation to Efficiency Comparison

Alternative Hypothesis (H_1)	**Test Statistic**	**d.f**	**Calculated Value**	**Null Hypothesis H_0 Accepted/Rejected**
Efficiency of RRBs is significantly greater than that of VCC bank	t-test	10	0.746	Accepted

Table 05: Return to Scale of Three Banks

Year	RRB	VCC	SBI
2007	CRS	DRS	CRS
2008	IRS	DRS	DRS
2009	IRS	DRS	DRS
2010	CRS	DRS	CRS
2011	IRS	CRS	CRS
2012	CRS	DRS	CRS

Table 06: TFP Growth and its' Components of RRBs, 2008-2012

Years	Effch	Techch	Pech	Sech	TFPch
2008	0.937	1.165	1	0.937	1.091
2009	0.787	1.022	1	0.787	0.805
2010	1.356	1.228	1	1.356	1.666
2011	0.99	0.870	1	0.990	0.861
2012	1.010	1.111	1	1.010	1.123
Geo Mean	1	1.072	1	1	1.072

Table No 07: TFP Growth and its' Components of VCC bank, 2008-2012

Years	Effch	Techch	Pech	Sech	TFPch
2008	1.192	1.302	1	1.192	1.552
2009	1	0.980	1	1	0.980
2010	0.740	0.725	1	0.740	0.536
2011	1.352	1.457	1	1.352	1.969
2012	0.797	0.881	1	0.797	0.702
Geo Mean	0.99	1.035	1	0.990	1.024

Table 08: TFP Growth and its Components of SBI, 2008-2012

Years	Effch	Techch	Pech	Sech	TFPch
2008	1	1.190	1	1	1.190
2009	1	1.018	1	1	1.018
2010	1	1.232	1	1	1.232
2011	1	1.022	1	1	1.022
2012	1	1.019	1	1	1.019
Geo Mean	1	1.092	1	1	1.092

Table 09: TFP Growth and its Components, Mean of All Farms Mean, 2008-12

	Effch	Techch	Pech	Sech	TFPch
Mean of All Farms Mean	0.997	1.066	1	0.997	1.062

Table 10: t- Statistic Test for Difference in Annual Growth of TFP across Banks

	Mean	t-Statistics (RRBs vs VCC)	t-Statistics (RRBs Vs SBI)	t- Statistics (VCC vs SBI)
RRBs	1.072	0.1523	0.12445	0.2434
VCC	1.024	No significant difference in TFP growth across three banks under study.		

Corporate Social Responsibility from the Viewpoint of Indian IT Sector Companies

Swapna Roychowdhury[1]

Abstract
Corporate Social Responsibility (CSR) is a mechanism to address social and environmental issues and has gathered momentum in the last few decades. It is fulfilling a role wider than your strict economic role or acting as a corporate citizen. Globalization has brought not only industries and consumers closer, but also business philosophies. While the cost of being socially responsible may be significant, the cost of not practicing CSR may be far greater as witnessed through consumer boycotts, shareholder activism and the general public protests. In this light the present paper tries to focus light on the CSR practices by the companies in India in general and the Information Technology companies in India in particular.
Key words – *CSR, Information Technology.*

1. Introduction

Corporate Social Responsibility (CSR) is a mechanism to address social and environmental issues and has gathered momentum in the last few decades. CSR has been otherwise defined as "fulfilling a role wider than your strict economic role" or "acting as a corporate citizen". At Canon, we view CSR as a true effort to influence society in a manner that earns the trust and respect of stakeholders and society. For example, Cannon India is proud to partner with UNICEF 'Awaaz Do' campaign in promoting the Right to Education in India.

Globalization has brought not only industries and consumers closer, but also business philosophies. While the cost of being socially responsible may be significant, the cost of not practicing CSR may be far greater as witnessed by consumer boycotts, shareholder activism and the general public protests.

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The World Business Council for Sustainable Development defined CSR as "the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large". Thus, the meaning of CSR is two fold. On one hand, it exhibits the ethical behaviour that an organization exhibits towards its internal and external stakeholders (customers as well as employees). On the other hand, it donates the responsibility of an organization towards the environment and society in which it operates.

According to Carroll, "CSR encompasses the economic, legal, ethical and discretionary (philanthropic) expectations that society has of organization at a given point of time".

CSR is about business giving back to society. CSR definition by Business for Social Responsibility is "operating a business in a manner that meets or exceeds the ethical, legal, commercial and public expectations that society has of business".

CSR is not a common term and there is "no size fits all". It is a container concept which encompasses many different ecological, social and economic issues. Several Indian companies talk about Triple P (People, Planet and Profit).

Often the "Strategy of Benchmarking" is used by companies to compete with their respective industries in CSR policy, implementation and effectiveness. Benchmarking involves reviewing competitor CSR initiatives, as well as measuring and evaluating the impact that those policies have on society and the environment and how customers perceive competitor CSR strategy.

2. Literature Review

A good review of corporate social responsibility literature is available in Gray (2002), Mathews (1993), Owen (2008) and Parker (2005). Belal and Momin (2009) provides a review in the context of emerging economies. Corporate social responsibility theories can be classified under the following categories:

- Decision Usefulness Theory
- Agency Theory
- Legitimacy Theory
- Stakeholder Theory

Decision usefulness theory of corporate social responsibility suggests that social and environmental disclosures are having decision significance to financial stakeholders (Belkaoui, 1984; Bengamin and Stanga, 1977; Blacconiere and Northcut, 1997; Epstein and Freedman, 1994; Firth, 1984; Graham et al, 2000; Richardson and Welker, 2001).

Agency theory, on the other hand, posits that voluntary disclosure (including social and environmental disclosure) helps a firm to reduce agency costs or prevents occurrence of future agency costs that could arise in the form of regulation (Belkaoui and Karpik, 1989; Mak, 1991; Ness and Mirza, 1991). Positive accounting theory

propounded by Watts and Zimmerman (1986) also support agency theory perspective.

According to legitimacy theory, a firm's social responsibility actions stem from the principle of legitimacy i.e. from a desire to maintain credibility and status as a responsible societal actor. From this perspective, a firm should report CSR activities to manage reputation and to legitimate its actions (Abbott and Monsen, 1979; Deegan, 2002; Guthrie and Parker, 1989; Hogner, 1982; Milne and Patten, 2002; Mobus, 2005; Roberts, 1992; Wilmshurst and Frost, 2000). According to some authors (Gray et al, 1995; Hooghiemstra, 2000), legitimacy theory provides most powerful insights into CSR disclosure. Many empirical studies provide evidence that firms do use voluntary reporting through annual reports as a strategic tool to manage their legitimacy (Campbell, 2000; Deegan and Rankin, 1996; Hutchings and Taylor, 2000; Nasi et al, 1997).

Under the stakeholder theory, a firm is not only responsible to the owners or providers of debt capital, but also is responsible to all stakeholders who are affected by the activities of the firm. Providing of information by managers is viewed as discretionary act to manage or manipulate most powerful stakeholders groups (shareholders, debt holders, employees, consumers, regulatory authorities and NGOs) (Gray et al, 1996; Roberts, 1992; Ullmann, 1985).

Cerf's (1961) study on US corporate reporting is considered to be the pioneering work that led to succession of studies in numerous countries (Oyelere et al, 2003). Examples of some early empirical studies include Buzby (1975), Singhvi (1968), Singhvi and Desai (1971). These studies mainly deal with comprehensiveness and/ or quality of disclosure in the annual reports.

Debacles like Enron and Worldcom did cause a slew of critiques against the CSR initiatives but these critiques were largely ill founded (Stoll, 2007). Many theorists have also argued about the economic impact of CSR, some relating it positively with the profit (Adenekan, 2007; Joyner and Payne, 2002) and some feeling that no such relationship exists (Aupperle et al, 1985). Bird et al, 2007 studied that the market is influenced by the independent CSR activities and also by the totality of these activities and the gains can be in terms of economic performance or social performance (Cottrill, 1990). CSR and corporate reputation are the two sides of the same coin (Hillenbrand and Money, 2007) and hence generates several benefits like improved financial performance, lower operating costs, enhanced brand image and reputation, increased sales and customer loyalty, product safety, material recycleability and greater use of renewable resources etc.

In the Indian context, there are a few studies, but most of such studies deal with volume and extent of social and environmental disclosure. One of the earliest studies on CSR reporting by public sector companies is that of Singh and Ahuja (1983). The studies of Batra (1996) and Hedge et al (1997) are in the context of CSR practice of one specific Indian public sector company viz., Steel Authority of India Limited.

Some other Indian studies are Banerjee (2001), Maheswari (1993), Paul and Pal (2001) and Pramanik et al (2007).

In a 1987 empirical study by Khan and Atkinson it was found that a large percentage of the Indian executives studies agreed that CSR was relevant to business and felt that business had responsibility not only to the shareholders and employees but also to customers, suppliers, society and to the state. Both the Indian and UK respondents felt that CSR eventually promotes "a better relationship between industry and people, a good work environment, enhanced customer relationships and enhanced corporate image of the company".

In a study of German and UK companies, it was found that the largest corporations project CSR as a comprehensive, sustainable business strategy and recognizes the business-society interdependence (Silberhorn and Warren, 2007). Govt's CSR public policies and the relationships between Government, businesses and civil society stakeholders have also known to impact the CSR initiatives (Albareda, Lozano, Ysa, 2007). It was also observed that large firms are more likely to identify relevant stakeholders and meet their CSR requirements through specific and formal CSR strategies (Perrini, Russo and Teucati, 2007). Firms with a high value for social responsibility are much more likely to engage in traditional kinds of plans for social strategy. The use of social strategy depends upon the presence of specific configurations of industry environment, resources and values (Husted and Allen, 2007).

3. Objectives

The basic objectives of our study are:

(i) to give a brief overview of CSR.
(ii) to study CSR practices of India in general and selected IT sector companies in particular.
(iii) to make an assessment of corporate social responsibility reporting practices of the selected IT sector companies in their published annual report.

4. Methodology

The present study is both explorative and empirical in nature. The explorative part examines the background, need and an overall view of corporate social responsibility. For the analytical part, a humble attempt has been made to analyze and review the current trends of CSR practices of the selected Indian IT companies. For this we would depend on secondary data obtained from the published annual report for the year 2011-12. The time frame was selected to capture the latest trends and developments of corporate social responsibility reporting practices. Data obtained from secondary sources- published annual reports and various books, journals, articles and company websites were also referred for the purpose of this study.

5. Selection of Sample IT Sector Companies

Since, the concept of CSR has gained prominence from all avenues, the present study tends to explore the current reporting practices of CSR in the annual reports of the IT sector companies. In my analysis, the top 10 IT companies out of the top 1000 companies have been selected.

The sample for this case study comprises of the top 10 IT companies in India, which have been selected on the basis of their revenue generation. They are Infosys Technologies Ltd., Satyam Computer Services Ltd., NIIT Ltd., Wipro Ltd., CMC Ltd., TCS Ltd., TATA Infotech Ltd., HCL Infosystem Ltd., PCS Technology Ltd., Zenith Infotech Ltd. The published annual reports of the above companies have been selected for the period 2011-12 to make an assessment of the current trends of corporate social reporting practices of the above 10 companies.

6. List of Items of Corporate Social Responsibility Reporting Practices

The list of corporate social responsibility reporting items in India have been scanned with respect to 8 items of voluntary disclosures as shown below. The list of items of voluntary corporate social reporting practices has been arranged in dictionary order to locate any item on a random basis. In the table below, a two-point scale has been used where the rank/ scale 1 represent disclosures made and 0 stands for non-disclosures relating to the referred items in the annual reports. List of items of corporate social responsibility reporting practices are:

- Community Involvement (e.g. development of local communities, corporate citizenship activities, support of disaster-stricken areas)
- Conservation of Energy
- Fair Operating Practice (e.g. risk management and compliance, fair competition, managing CSR, managing CSR in the supply chain, protection of intellectual property, information of security management etc.)
- Health & Safety Measures
- Human Resources
- Prevention of Pollution
- Products
- Sustainable Management of Natural Resources

7. Comparative Study of IT Sector Companies

Sl. No.	**Year Of Annual Report: 2011-12**					
	Items of Disclosure	**Name of Sample Companies**				
		INFOSYS Technologies Ltd.	***Satyam Computer Services Ltd.***	***NIIT Ltd.***	***Wipro Ltd.***	***CMC Ltd.***
1.	Community Involvement	1	1	0	1	1
2.	Conservation of Energy	1	1	1	0	1
3.	Fair Operating	1	1	1	1	1

	Practice					
4.	Health & Safety Measures	1	0	0	1	0
5.	Human Resources	1	1	1	1	1
6.	Prevention of Pollution	1	0	0	1	0
7.	Products	1	1	1	1	1
8.	Sustainable Management of Natural Resources	1	0	0	1	0

Sl. No.	**Year Of Annual Report: 2011-12**					
	Items of Disclosure	**Name Of Sample Companies:**				
		TCS Ltd.	***TATA Infotech Ltd.***	***HCL Infosys Ltd.***	***PCS Technology Ltd..***	***ZENITH Infotech Ltd.***
1.	Community Involvement	1	1	1	0	0
2.	Conservation of Energy	1	1	1	0	0
3.	Fair Operating Practice	1	1	1	1	1
4.	Health & Safety Measures	1	1	1	0	0
5.	Human Resources	1	1	1	1	1
6.	Prevention of Pollution	1	0	0	0	0
7.	Products	1	1	1	0	0
8.	Sustainable Management of Natural Resources	1	1	1	0	0

"For benefits of globalization and technology to reach the poor, the private sector, philanthropic institutions and committed individuals should cooperate and establish partnerships with the government institution. This would lift millions of our people out of poverty, provide them with opportunities and make them participate in the process and progress of globalization". – N. R. Narayana Murthy, Chairman and Chief Mentor, Infosys Technologies Ltd.

NIIT IS QUALITY AND VALUE:
Each of us will ensure that in any association with society, Society benefits substantially more than:

A) What society gives to us.
B) What society would gain from any other similar associations.

We will meet any and every commitment made to society Irrespective of any cost that may have to be incurred. We will ensure our profitability, long term growth and Financial stability, through the process of delivering the best, being seen as the best and being the best. We will be fair in all our dealings and Promote high standards of business ethics. (Source:- NIIT Ltd.)

OZONE was initiated in 2003 at Infosys to promote and manage environmental issues and employee health and safety. The OZONE initiatives achieved by Infosys are:

- *Awareness:* Equipped employees and trainees with an understanding on the environment, health and safety policy of Infosys and led to their taking responsibility through pledging their support for the initiative.
- *Water:* Water is recycled and reused.
- *Paper:* Goal is to reduce consumption of paper.
- *Energy:* Solar water heaters are used to reduce energy consumption. Energy saved is energy generated. Efforts are made to procure electricity via renewable technologies such as wind, mini-hydro and solar.
- *Carbon Emissions:* Renewable energy is one of the effective tools and target is to reduce energy-related greenhouse gas emissions in the near future.
- *Waste management:* Practices have been undertaken on waste segregation and disposal of solid waste. The usage of plastic and thermocol has been reduced by 90% in the campuses. Food waste is sent to the piggeries.
- *E-waste:* Though there is no legislation in India on e-waste, Infosys adheres to the Hazardous Waste (Management and Handling) Rules. Recently, a guideline on e-waste has been released by the Central Pollution Control Board (CPCB) which has been approved by the Ministry of Environment and Forests. E-waste at Infosys is sent to recycles who have valid approvals / consents from the local Pollution Control Board and CPCB.

Biodiversity is the foundation of life on earth and one of the pillars of sustainable development. The conservation and sustainable use of biodiversity is an essential element of the strategy at Infosys. Most of the campus has large green tracts of land. Besides ornamental trees, they are committed to grow aromatic, aquatic, fruit

bearing and medicinal plants. There is also use of organic fertilizer for landscaping requirements. Infosys have taken the climate change challenge very seriously and have set up a dedicated Green Team that is working toward sustainable development.

The Health Assessment and Lifestyle Enrichment Plan (HALE) initiative at Infosys focuses on increasing the emotional value-add of the employees, by optimizing their health, quality of life and work environment. The goal is to ensure healthy and happy employees who will be more productive and in the long term, add to their competitive edge in business.

At TCS Ltd., CSR is aligned with the Tata tradition of creating wealth in the community with a twin focus on Education and Society. CSR in TCS continues around the "3-Generation" approach of philanthropy, stakeholder engagement and the use of the company's core competencies to address societal problems. TCS won global recognition for its CSR activities as the winner of the Golden Peacock Global Award for CSR, leading other international corporates. TCS also won the same award at the national level at a competition organized by the Institute of Directors.

"Maitree" an association of employees and their families across the globe, is a key vehicle of CSR within the organization. Maitree has conducted Right to Information Act Awareness sessions, HIV / AIDS Awareness sessions and Environment Awareness outings for the employees as well as the community. Green Audits to check consumption of paper, water and electricity at various TCS offices and has promoted vermicomposting, rain water harvesting and paper recycling. Similar operations are undertaken by HCL Infosystems Ltd. and they operate through Mindia.

'We at HCL believe in & are very proud of the "Indian" mind. In our special way, we salute the prowess of the "India Mind" and that's how "Mindia" has come into being'. In today's world, perpetually evolving technologies and increasing competition define the global market space. The company is also continuously and successfully developing innovative measures for conservation of energy, creating environmental awareness among customers and other policies of CSR.

Findings of the study reveal that Infosys Technologies Ltd. and TCS Ltd. have disclosed voluntarily maximum number of corporate social reporting items. Infosys have disclosed elaborately and extensively CSR covering nearly 2 pages and TCS Ltd. in nearly a page. All the different parameters of CSR were covered – rural development, health care, education, conservation of energy, sustainable management of natural resources etc. Satyam Foundation of Satyam Computer Services Ltd., Infosys Foundation of Infosys Technologies Ltd. are exemplary instances of the philanthropic commitment of the corporate sector in India. Inspite of the profits they make, these foundations are aiming at uplifting of the poor and enhancing the standard of life in the rural sector. Companies like Infosys, TCS,

Wipro have been imbibing the case of social good in their operations for decades long before CSR became a popular cause.

All the sample companies have disclosed fair operating practices and human resources. Prevention of pollution have been disclosed separately only by Infosys, TCS & Wipro Ltd. NIIT have disclosed conservation of energy, fair operating practice, human resources and products as far as CSR is concerned. Zenith Infotech & PCS Technology Ltd. are relatively small companies and have not disclosed CSR except for fair operating practices and human resources. Sustainable management of natural resources like rain water harvesting, recycling of paper etc. have not been disclosed separately by CMC Ltd., NIIT Ltd., Satyam, Zenith Infotech & PCS Technology Ltd.

7. Findings & Conclusion

7.1. Summary of Findings

- It discusses corporate social responsibility as a strategic move that organizations can incorporate in their overall business strategy, thereby achieving better all-round performance.
- Even much before the use of CSR became a global concern, India was aware of CSR due to the efforts of organizations such as TATA, Infosys etc.
- IT companies like TCS and Wipro have developed software to help teachers and children in schools across India to further the cause of education.
- Several foundations run by corporate houses like Infosys, Satyam etc plan to devise a common strategy to ensure transparency in their social and community development operations.
- Most companies tend to give to charities than make long-term development commitments. "When a company voluntarily opens up for self-evaluation, it creates value for shareholders when competing with other companies", said Parul Soni, associate director of KPMG's Aid and Development Services.
- Today, besides generating profits and employment, the corporate sector is expected to stretch beyond commercial motives and address a wide range of social concerns like education, health care, rural upliftment, child development, housing and natural environment amongst others. With the accelerating pace of globalization and increasing competition, it becomes inevitable for companies to have clearly defined business practices with a sound focus on public interest. In recent years, the concept of corporate social responsibility has gained prominence from all avenues. All the sample companies have disclosed CSR in their annual reports, some put more stress than others.
- Non-mandatory disclosures on health & safety measures, an aspect of CSR have not been highlighted by CMC, NIIT, Satyam, Zenith Infotech & PCS Technologies Ltd. However, the Health, Safety & Environment (HSE) policy of Infosys is *"Infosys as a corporate citizen is committed to demonstrating a high standard of environmental protection, sharing of best practices and provision of a safe and healthy work place". This involves: (a) Conservation of resources; (b) Prevention*

of pollution; (c) Adherence to all applicable legislations; (d) Eliminating accidents, occupational illnesses and injuries at work.

- Many empirical findings suggested that a large array of advantages could arise for companies who voluntarily disclose human resource information. A team of competent, devoted and motivated employees can convert a sick concern to a successful one whereas incompetent and unmotivated personnel may squander away the existing physical and financial resources, leading the concern to bankruptcy. All the sample IT sector companies have vividly disclosed human resource information in their annual reports.
- The Ministry of Corporate Affairs has notified that companies will have to spend 2% of their three year average net profit on CSR activities from 1st April 2015. The enactment of this Act will make India, the only country mandate CSR spending through a statutory route.

7.2. Conclusion

The concept of CSR has gained prominence from all avenues. Organizations must realize that government alone will not be able to get success in its endeavour to uplift the downtrodden of society. The societal marketing of corporates has evolved into the concept of corporate social responsibility. CSR is a holistic concept and hence individuals and companies interpret it in their own meaning. Many of the leading corporations across the world had realized the importance of being associated with socially relevant causes as a means of promoting their brands. It stems from the desire to do good and get self satisfaction in return as well as societal obligation of business.

The robust growth of the Indian economy after the economic liberalization in the 1990's has induced massive changes in the IT sector. Presently, nearly all leading corporates in India are involved in CSR programs in areas like education, health care, livelihood creation, skill development and empowerment of weaker sections of society. Notable efforts have come from Infosys, TCS, Wipro among others. Although corporate India is involved in CSR activities, the Central Govt. is working on a framework for qualifying the CSR initiatives of companies to promote them further. IT sector companies all over the world are realizing their stake in the society and engaging in various social and environmental activities. The need of the hour is to formulate effective CSR policies and adopt various instruments according to the company history, objectives and its relationship with various stakeholders so that CSR can be best implemented towards its goals – sustained environment, social and economic growth.

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