Contents

EDITORIAL

I take this opportunity to convey my greetings in advance for the Bengali New Year.

We are ready to present you another set of scholarly write-ups in this ninth issue of our Departmental Journal. In our constant endeavour to upgrade the quality in terms of both the technicality and the academic pursuit, we can perhaps claim this issue to be better than the best.

Of the eight articles included in this volume which cover a wide spectrum of opinions, one relating to a technical issue like "Defining goods for fiscal law" has been addressed by Mr. Sukumar Mukhopadhyay while Dr. Tapas Kumar Bose presented his research experience on a macro environmental issue of how to tackle the challenges posed by business-related environmental factors. Two industry-specific analyses — one by Mr. Santanu Kr. Ganguli on 'Leather Manufacturing' and the other by Dr. Debabrata Mitra on 'Insurance'– are currently very relevant. Trend of public expenditure in West Bengal has been studied by Mr. Sebak Kumar Jana jointly with Mr. Santanu Ghosh. 'True Investment' by Pradipta De is a conceptualization exercise. Technologically relevant topics of 'Computer Application in Accounting' and 'E-Commerce' authored by Mr. Sunil Kumar Gandhi and Mr. P. Hanumantha Rao respectively are also in consonance with the subjects newly included in the recently- introduced revised syllabus for the Master's course; it further needs special mention that these two articles along with that of Dr. Mitra have been included in the Students' Section of the Journal which indicates that these have been designed specially to serve the purpose of the students. It needs no reiteration that it conforms to a special provision in the Journal for a section earmarked for the students. Articles from the students are most welcomed in this section.

Before I leave, I sincerely acknowledge the cooperation received from the learned reviewers and the contributors and also hope to receive the same cooperation in future. No less thanks are due to my younger colleagues, specially Dr. Arindam Gupta, the Executive Editor, for their continuous efforts towards all-round improvement of the Journal. Thanks are definitely due to Mr. Sudipta Ghosh, our guest faculty, for his sincere help in proof correction. Dr. Jayabrata Chatterjee, the Proprietor of M/s Computer Point deserves credit for printing this issue of the Journal within a very short period.

It is believed that this volume too will be well accepted by the researchers, teachers, students, business executives, and professionals.

Midnapore
19 th March, 2004

Sd./ K.C.Paul
Editor-in -Chief

DEFINING GOODS FOR FISCAL LAW—NEED FOR AN ARTIFICIAL DEFINITION

*Sukumar Mukhopadhyay**

Abstract

It is advisible to introduce more and more of statutory definitions in the tariff to make controversies less and less in regard to identification of goods for the purpose of classification.

I have spent a lifetime in customs and excise distinguishing between rubber and resin, ash and dross, skelp and strip, paper and board and so on. I read technical books, consulted chemists, engineers, specialists and experts but finally got nowhere near the solution to the problem of properly distinguishing their identity until we started defining goods in the tariff itself. While devising the definitions we realised that natural definitions are very often illusory as technical books differ, understanding in different countries differ and finally new products also are being discovered by mixing several things with technological advance, which do not conform to any conventional standard. Without proper identification of goods it is very difficult to classify them either for charging duty or impose ban on import from the license point of view.

In the process of classification of goods in the tariffs of excise, customs and sales taxes and now in service tax, that is, all indirect taxes, it is of utmost importance that such terms are used which are not amenable to different interpretations. Experience shows that whenever there are many rates of duty and exemptions, the attempt of the taxpayers is to claim the lower rate of duty. The inevitable result is that they claim that the goods they are dealing with are the ones, which are exempted.

How does one define as simple a thing as vegetable for the purpose of tax? The question is relevant because vegetables are exempted from sales tax since millions of vegetable sellers on the road and on open land cannot be brought under the tax net. So the seller of coconut claimed that it is a vegetable. It went through several tribunals,

* Member, Central Board of Excise & Customs (Retired), A 403, Purvasha, Anandlok Housing Society, Mayur Vihar, Phase- I, Delhi-110091.

then the High Court and finally landed up at the Supreme Court. Between the three judges in the Supreme Court there was unanimity that it has to called a vegetable on the basis of how it was known in the market and not as how it was known in the botanical sense. But actually whether coconut was known as vegetable or as fruit was a matter of contention. While two judges said that it was not known as vegetable, the third was not so sure. But he agreed to the other two only on the ground that the burden of proof was on the taxpayer and he had not discharged it by proving that it was indeed known in the market as vegetable. So the Supreme Court held that it was not a vegetable[1]. This example shows that such a simple word, as vegetable is not so simple when it is taxable and is exempted. There are many examples of vegetables such as chilli; lemon[2], ginger[3], betel leaves[4] etc. where the cases were fought upto the Supreme Court and the decision of the apex court was that they were vegetables, (except the betel leaves) since they were known in the market as such. One of the leading judgements on vegetable was in Canada in 1951[5] where it was held that "the object of the Excise Tax Act is to raise revenue and for this purposes to class substances according to the general usage and known definitions of trade.... It is not the botanist's conception as to what constitute vegetable, which must govern the interpretation to be placed on the words, but rather what would ordinarily in matters of commerce in a country be included therein. Botanically oranges and lemons are berries, but otherwise no one would consider them so." So the above case establishes the supremacy of the market definition over the scientific definition.

Apart from vegetable there are other ex-pressions such as food (is biscuit food? is cold drink food?), fish (is prawn fish or insect?) and coal (is charcoal coal?) and so many others, which created controversy while tax was sought to be imposed. The reason is that the meaning in scientific books was different from the meaning in market parlance. In all such cases[6] the Supreme Court held that if there is a difference between the scientific meaning and the meaning in the market parlance, then the latter will prevail for the purpose of levying tax.

Aromatic chemical is an interesting example of difference between the scientific meaning and the meaning in market parlance. In chemistry all chemicals are aromatic or aliphatic depending on a closed or open ring formation. In market parlance however aromatic chemicals are those, which impart aroma in making perfume. It has nothing to do with ring formation. In fact many of the aromatic chemicals which are bought and sold for making perfumes are chemically aliphatic chemicals. So for the purpose of indirect taxes and licence restrictions (which is still there for export linked imports), the meaning in market parlance is relevant and not the chemical meaning.

While theoretically it is settled that we should go by the understanding in the market parlance, in practice it is not such a definitive solution. It is not clear what exactly is the market parlance in very many cases. There has been difference amongst the Supreme Court judges as whether a simple thing of daily use is known in market as vegetable or not, and coal or not and so on. Ultimately it depends on which lawyer leads better evidence or who is more eloquent on the theory of discharging the burden of proof. There is no market for so many things in India, which has a very restricted scope since imports had been limited for a long time. Understanding in the market parlance has led to a large number of litigations. Very lengthy judgements have been delivered but there have been recurrent controversies without any respite.

A solution has been attempted by incorporating definitions in the statute book itself. Once the statutory definition is there, it is binding on all concerned and there is no scope of controversy as to what is the market definition or scientific definition. This is makes it a worthwhile solution. We have to consider here how the definitions in the statutes can be made more realistic since some amount of artificial nature of the definitions is almost inevitable.

One of the reasons why the statutory definitions are to be artificial is that the products have in the recent times ceased to be natural but are artificial in the sense that they are mixtures of different products. Many products are made of mixtures such as rubber and resin, leather and rubber (leatheroid), wood and resin, textile and resin etc. Such products cannot be easily identified or defined and not in any case by any natural standard. Merely going by predominant use or predominant content by weight or value has its own problems since use is multiple and value cannot be apportioned in many cases. In such cases the uncertainty can be solved only by placing a definition in the statute book. For example textile fabric, on which plastic material has either been coated, laminated or covered, has been placed in the textile chapter (59) of the Central Excise Tariff. It is an artificial definition since such a product is not in the popular sense used as a textile. It is in fact neither fish nor foul, that is, neither textile nor resin. But it has been defined as textile for the purpose of tariff. There is no other way.

The other reason is that there are certain articles, which cannot be defined scientifically with an exactitude that is necessary for the market. In the market people know roughly what is stainless steel but how much of carbon or chromium content is necessary for calling it stainless steel could not be definitely agreed upon. So it has been defined that for the purpose of excise it should have the alloys upto a certain percentage. In fact steel items have all been defined very clearly because they cannot be defined scientifically as the percentages of contents vary in different books and the trade practices also vary widely in India. Steel has been a highly litigated subject in India in regard to excise matters. One can remember the bitterly fought and protracted case between TISCO and the Excise Department [7], which was won by the former in the Supreme Court. This was on the issue whether a particular product, which was produced by the TISCO, was skelp or strip. The Department lost and got stricture on the ground that there was no acceptable definition in any technical books or in the tariff. Skelp has now been defined with reference to width and nature of rolling and the problem is over. This definition is also artificial since it does not coincide with any trade understandings, which, in any case, widely differed. In fact the steel items such as bar, rod, coil, scrap have now been defined in the tariff so that the local ex-pressions such as patta, patti have been given a go-by and we are mercifully rid of all those court cases that used to hold up smooth functioning of the trade and industry.

There are some other commodities, which are extremely difficult to distinguish by scientific test either because the tests are possible by different methods and are too complicated or because the products are very marginally different. Distinguishing between rubber and resin has been a problem for a long time because the method of test could differ and was too complicated. I remember that when I sent samples to I.I.T. Kharagpur , it could not give any definitive answer. Now a specific definition of synthetic rubber has been laid down which has specified the method of test so that the alternative methods given in other technical books have been ruled out. The distinction between rubber and resin has been earlier a favourite hunting ground for litigants. No longer. The present definition is somewhat artificial since it indicates the exact nature of vulcanisation, additives, retardars, activators etc. Purely from the scientific point of view this may not be the only method but from the point of view of commercial certainty this much of fixed definition was necessary.

There are cases where the scientific books differ regarding the constants that make a product since the product varies from country to country as it is not a strictly scientific product. An example is of tallow, which is bovine fat. This product is often imported to India and it had to be distinguished from other animal fat due to the difference in duty and licence restrictions. Almost all the textbooks carry different standards for the value of the ingredients. If it was tallow by one standard, it was not by another. Though one could work out one common standard by taking the common values from all the books, any consignment which did not satisfy that common standard could not be called as not tallow since it would satisfy the standard of some other book. The solution was found in issuing a standard in the form of a public notice, which was acceptable for the trade, though the standard was artificial.

There are often instances of difference between a popular understanding of a geographical entity and what can be legally feasible. A classic example is that of India. India geographically means the landmass and not the attached sea. If that meaning was taken for customs purpose also the natural conclusion would be that the foreign ships would come very close to India and throw all the things they would like to smuggle to India. To make the Customs regulations work India has been statutorily defined as not only the geographical mass but also the territorial waters of India. The full bench of Bombay High Court held that it is this meaning of India, which is relevant for determining when an importation to this country is said to have taken place.[8]

We see from the above that statutory definitions whether natural or artificial are necessary to impart certainty to the identity of the goods. The Calcutta High Court examined the legality of the artificial nature of the statutory definitions and came to the conclusion that an artificial definition of cotton fabrics was permissible as long as the statutory definition contained that special meaning[9]. In effect the High Court upheld the legality of artificial definition.

Thus the legal position about the definitions comes to this that if there is a statutory definition, whether it is natural or whether it is artificial, that is binding on everybody. The question of other definitions does not arise. But if there is no statutory definition, the definition in the market parlance will prevail [10]. Maxwell enunciated this principle of preponderance of market parlance over scientific definition [11], (in case there is no statutory definition). He concluded that in dealing with matters relating to the general public, statutes are presumed to use words in their popular, rather than narrow legal sense. He gave the example that "five miles square" has to be taken in its popular, rather than strictly mathematical sense as an area of twenty-five square miles irrespective of whether it forms a geometrical figure or a square.

However the place of scientific definition comes as relevant under some circumstances namely the following: -

a. When there is no market for the goods and so no understanding in the market parlance. This arises when the goods are technical by nature.[12]
b. When there is no market for it as in the case of aluminium properzi rods.[13]
c. When market parlance is uncertain and inconclusive.

After considering all the above definitions we have also to put in the proper perspective the definitions as are available in the ISI specifications. They are not there to define the goods for the purpose of excise but to lay down the standards for goods manufactured or traded in India. They are also mostly scientific in nature. So they may generally be taken as part of scientific definition. So if there is a clear-cut definition in the market parlance then the ISI definition cannot be accepted if it is different. ISI definitions are no substitute for the market parlance but they can be taken into account for forming the correct position as the ISI committee consists not only of scientists but also of manufacturers and traders. So they can and should be looked at with a certain amount of credibility[14]. They in fact can be taken to represent the market understanding[15]. Ultimately the position is that in the absence of any other evidence, the ISI definition is not to be ignored and is to be depended upon.

The conclusion about the relative importance of different definitions is the following: - Defining goods is imperative for the purpose of imposing the correct amount of tax since there are different rates of taxes and there are also exemptions. To ward off controversies, statutory definitions have been introduced in many cases. They are binding even if they are artificial in nature. In fact they have to be artificial in many cases by the very nature of the goods that they are trying to define. When there is no statutory definition, we have to follow the definition in the market parlance.

If there is no clear definition in the market parlance then we have to follow the scientific definition. In the absence of any of the above definitions, to help in coming to the correct understanding in the market or to help in ascertaining the proper scientific definition, there is a place for the ISI definition also.

It is advisable to introduce more and more of statutory definitions in the tariff to make the controversies less and less in regard to identification of goods for the purpose of classification.

References

1. P.A.T.C.Nair v. State of Tamil Nadu AIR 1985 SC 1644.
2. M.Sahu R.Sahu v.S.T.O. Orissa AIR 1974 SC 390.
3. State of West Bengal v. AIR 1977 SC 1638.
4. Ramavatar Budhiprasad v.Asstt S.T.O AIR 1961 SC 1325.
5. Planters Nut Chocolate V.The King 1951 Canada Reports p. 122.
6. CST v. Jaswant Singh AIR 1967 SC 1454 and Indian Aluminium Cables v.UOI 1985 (1) SCC 284
7. Apar Pvt Ltd v. U.O.I. 1985(22)ELT 644 Bom
8. Saifuddin v. Asst Commissioner of Sales Tax 1976 (38)STC 463 (Cal).
9. Dunlop v.U.O.I. AIR 1977 SC 597 and Porritts and Spencer v. State of Haryana AIR 1979 SC 300.
10. Maxwell on Interpretation of Statutes 12th ed by P. St. J. Langen , p 81.
11. Advani-Orlikon V. U.O.I. 1981 (8) ELT 432 (Bom).
12. Indian Aluminium Cables Ltd v. U.O.I. 1985 (21) ELT 3 SC.
13. Empire Industries Ltd v. U.O.I. 1985 (20) ELT 179 (SC).
14. Arunachal Forests v.U.O.I 1993 (66)ELT 345 Goa.
15. Kirloskar Engines Ltd v. U.O.I 1995 (77) ELT 479 SC & National Sales Corporation v. C.C.Madras 1995 (78) ELT 653 SCS.

ENVIRONMENTAL CHARACTERISTICS AND MANAGERIAL CHALLENGE : SOME RESEARCH EVIDENCE IN INDIAN CONTEXT

*Tapas Kumar Bose**

Abstract

An understanding of the nature of contextual environment is one of the most important factors for the survival and success of organisations. Since a business organisation depends on the environment for supply of inputs and marketing of outputs, it must constantly interact with the later in an open adaptive fashion for the efficient conduct of its operations. In this context, the paper seeks to examine with empirical evidence the nature of the business environment in India and the challenges faced by the managers in the present era of dramatic change.

Introduction

Environment has a major impact on both the public sector and the private sector organisations. It provides the context as well as the raison dêtre for the creation, continuity, growth and development of organisations in every society. Environmental factors directly impinge on the key decision areas of the organisation such as goals, strategies, structure and technology. Obviously, the study of the environment is of paramount importance for the effective management of organisations. It is now widely recognised that the ability of an organisation to effectively interact with and adapt to the changing environment is one of the most critical criteria of its survival and success.

The primacy of the environment in the life of an organisation is unexceptionable. It is the fountainhead of all resources, opportunities and constraints — all of which profoundly influence the decision-making behaviour of organisations. A business organisation has to constantly interact with its environment for obtaining the necessary inputs, transforming them into value-added outputs and exchanging the same with the customers in the environment for monetary energy that enables it to repeat its cycle of operation on a continuing basis and survive as a going concern. The development of the systems theory as the modern school of management has dramatically brought into focus the vital exchange process that goes on forever be-

*Reader in Commerce, University of Burdwan, Burdwan-713104.

tween the organisation and its environment and the overwhelming dependence of the former on the latter for energy, information and matter. For maintaining a desirable level of efficiency and effectiveness, an organisation must, therefore, be responsive and sensitive to the changing complexion and requirements of the dynamic environment. Obviously, managers must develop a clear understanding of the concept, structure and nature of the contextual environment for the most efficient and effective accomplishment of goals.

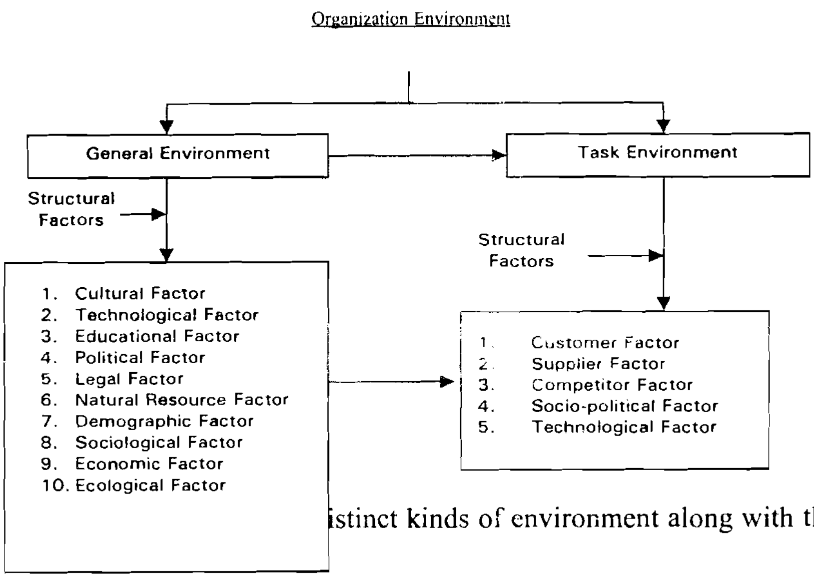
Organisational Environment : A Conceptual Paradigm

The term 'organisational environment' has no universal meaning. In the broadest sense, it refers to the aggregate of things, persons, conditions or influences that exist outside the boundary of an organisation. Strictly speaking, the whole of universe with its infinite variety of objects and conditions constitutes the environment of an organisation[1]. But it is neither practical nor useful to define organisational environment in terms of such a vast multitude of factors which are beyond the comprehension of most managers. In our opinion, the term should be defined technically to include only those extrinsic factors which are relevant to the decision-making processes of the organisation. This perspective is amply reflected in the views of Randolf and Blackburn that an organisation's environment includes factors that exist outside the formal boundaries of the organisation with potential to impact the organisation[2]. After carefully reviewing the existing definitions, we define organisational environment as a set of external factors which influence the decision-making behaviour of the organisation and with which it interacts for effective accomplishment of objectives. In concrete terms, this environment comprises factors like culture, technology, polity, economy, demography, sociology, ecology etc., which exert tremendous influence on the activities of the organisation throughout its existence. It should be mentioned in this connection that there is no fundamental difference between the organisational environment and the business environment except that the former is wider in scope and applicable to all organisations – business or non-business. When the concept of organisational environment is applied to business enterprises, it is known as the business environment.

Since the environment is a multivariate phenomenon, it is essential to determine the precise composition and the nature of the environment of a particular organisation. To this end, the most practical step would be to classify it into two kinds: (a) the general environment and (b) the task environment. The general environment is basically the same for all organisations, but the task environment is specific for every organisation. However, it is also possible to generalise the factors of the task environment to facilitate better understanding of its composition and significance.

The general environment usually consists of 10 factors such as the cultural, technological, educational, political, legal, natural resources, demographic, economic, sociological and ecological factors. Generally speaking, these factors indirectly influence all organisations — public or private, profit or non-profit. The task environment, on the other hand, includes a smaller set of 5 factors, namely, the customer, supplier, competitor, socio-political and technological factors. Since the general environment is very large and complex, the task environment has been directly derived from it in a shorter form to provide a more practical and rational basis for both day-to-day management as well as long-term decisions. The task environment is thus a part of the general environment which is also known as the societal or the macro environment. In our study, we have consistently followed the two-fold classification of environment based on the model of environmental taxonomy suggested by Kast and Rosenzweig[3]. This classification is widely followed in the literature of organisation theory and management and, in our opinion, is close to the reality. Figure 1 shows the taxonomy and structure of the organisational environment.

Figure 1: Taxonomy and Structure of Organisational Environment



istinct kinds of environment along with their respective components that constitute their basic structures. As is evident from the figure, the general environment is composed of ten factors and the task environment of five factors. The figure also makes it clear that the task environment has been derived from the general environment, of which it is but a part. Because of its large domain and numerous variables, general environment, more often than not, proves to be too complex and difficult for the managers to deal with in course of their busy schedule of activities. The task environment, being shorter and more precise, provides a more practical and rational basis for managerial decision-making.

An organisation has to interact with the factors of its specific task environment almost daily to carry out its operations. In other words, every organisation will have its own set of customers, suppliers, competitors, socio-political factors and technology with which it will engage in transactions for continuous exchange of energy and information for maintaining dynamic homeostasis or equilibrium with the environment. Without this equilibrium organisations move towards disorganisation and demise[4].

Environmental Characteristics : Review of Research Findings

The relationship between organisation and its environment depends to a great extent on the nature of the environment itself. The nature of the environment is best understood in terms of its important dimensions and characteristics. In organisational studies, an environmental dimension refers to a group of characteristics that represent a particular aspect of the environment. Major dimensions that have been identified so far through research studies are described as benign-hostile, stable-dynamic, and simple-complex. Each of these dimensions is in the nature of a continuum that represents many possibilities between the two opposite characteristics. However, for convenience of understanding we have defined each dimension of the environment in terms of two clearly stated characteristics. Such characteristics are also known as the dimensional characteristics and these are often used as the bases for designating different types of environment. Accordingly an environment may be called benign, hostile, stable, dynamic, simple or complex.

In a brilliant exposition on the nature of organisational environment in as early as 1958, March and Simon conceptualised it as benign or hostile[5]. According to them, the benign environment is one in which resources are abundant and market is buoyant. In contrast, the hostile environment is characterised by scarcity of resources and uncertainty of market demand. Following the theoretical model of March and Simon, Khandwalla conducted a research study in the USA in 1972 to identify the nature of the organisational environment. His study revealed that the nature of environment can be either friendly or hostile[6]. In 1979, Aldrich developed, almost on the same lines, an analytical model of environment which he preferred to call rich or lean environment[7]. In the final analysis, it transpires that benign or hostile, friendly or hostile and rich or lean environments, more or less point to the identical characteristics of the environment.

In more extensive studies, Burns and Stalker[8] found that industrial organisations operate either in stable or dynamic environment. They concluded that organisations using mechanistic systems are more appropriate for stable environment and organisations using organic systems are more effective in dynamic environment. Years later, Lawrence and Lorsch[9] conducted studies whose findings largely supported those of Burns and Stalker in the area of fitness between organisation structure and environmental nature. Finally, as an extension of the foregoing research studies, Duncan[10] developed a model which depicts the environment as static and simple, static and complex, dynamic and simple, and dynamic and complex. He observed in his study that the static and simple environment has the lowest amount of uncertainty and the dynamic and complex environment has the highest degree of uncertainty. He further clarified that the environmental certainty and uncertainty should be determined in terms of the availability of present information and predictability of future information about the elements of the task environment of an organisation. If the environment is predictable and sufficient information regarding it is available it is known as the environment with low uncertainty. If on the other hand, an environment is such that it is most difficult to predict and about which little information is available, it is called a highly uncertain environment. He concluded that organisations which operate in a dynamic environment always experience greater uncertainty than those operating in the static environment.

The findings of the foregoing studies provide a loud and clear message for the managers that there is no universally accepted management system or practice that can be construed as the best or the most desirable under all environmental conditions. In management literature, it is now an established fact that management principles and practices vary according to the prevailing environmental conditions and characteristics. It is, therefore, extremely important that managers accurately understand the nature of their environment and gather sufficient information about it for proper deployment of resources and effective formulation of objectives, policies and strategies.

Objectives of The Study

Objectives are the focal point for all activities, including research activities. They provide the destination towards which specific research activities are consciously directed[11]. In view of the crucial importance of the nature of environment to the effective management of organisations, this paper seeks to identify the characteristics of the environment of Indian public enterprises. The paper is essentially based on our wider study on different aspects of the environment of public enterprises in India. The precise objectives of this part of the study can be stated as follows:

1. To gain an understanding of the nature of the task environment of the public enterprise in terms of two sets of dimensional characteristics, such characteristics being stable and dynamic on the one side and simple and complex on the other.
2. To examine and find out if the dimensional characteristics in question are independent or related.
3. In the event of the environmental characteristics being found to be related, to enquire and determine the extent of association between dynamic and complex characteristics on the one hand and between stable and simple characteristics on the other through appropriate statistical technology.

Research Methodology

An explanation of research methodology is a vital part of any scientific enquiry. For conducting our study, we developed a well-designed methodology consisting of the statement of research problem, selection of sample companies, formulation of hypotheses and techniques of data collection and analysis. The research problem arises from the fact that public enterprises as business organisations are required to interact with and adapt to the changing environment for successful achievement of a variety of social and economic objectives. To our mind, the need for environmental interaction and adaptation has acquired greater significance in the face of increasing globalisation and liberalisation which are sure to bring in harder competition and tougher challenges than ever before. Therefore, a quality research study was needed to establish the structure and nature of environment, especially the task environment, of public enterprises in India.

The study is based on 14 selected companies drawn purposively from the population of 235 operating central public enterprises (as on 31.3.1999) under the purview of the Department of Public Enterprises, Ministry of Heavy Industries and Pubic Enterprises, Government of India. All these enterprises are organised as government companies and enlisted in the Fourth Schedule to the Rules of Procedure and Conduct of Business in Lok Sabha. The sample enterprises were selected from nine industries, including the core industries of steel, coal, petroleum, fertilizer and heavy engineering. The required data were collected through a structured questionnaire from 50 executives belonging to upper-middle and top levels of selected enterprises. Evidently, the data generated through the questionnaire are ordinal in nature and consist of perceived responses of the executives based on their best judgement. The data so collected have been carefully edited, analysed and interpreted with the help of suitable parametric and non-parametric statistical methods.

For the purpose of the study, the following null hypotheses were formulated:

1. That there is no significant relationship between the dimensional characteristics (i.e., stable-dynamic and simple-complex characteristics) of the environment of public enterprises.
2. That dynamic environment is not necessarily a complex environment and stable environment a simple one.

In the methodology section, it is also important to provide a conceptual clarification that for the purpose of our study we have taken two most important dimensions of the task environment of public enterprises. One is stable-dynamic and another is simple-complex. The stable-dynamic dimension is represented by two distinct characteristics of the task environment: the stable characteristic and the dynamic characteristic. The nature and type of the environment is usually identified in terms of its dominant characteristic. For example, an environment is said to be stable or static when it either does not change at all or changes slowly. But, the environment will be considered a dynamic one if it undergoes moderate or rapid changes. The environment will be taken as dynamic even if only one of its components is in a state of change. In this study, the terms stable environment and static environment have been used in the same sense without observing any distinction between them whatsoever.

Similarly, the simple-complex dimension of the environment is indicated by two prominent characteristics such as simple characteristic and complex characteristic. From the standpoint of its characteristics, a simple environment is defined as one which has a small number of components, each of which comprises a small number of identical factors. In contrast, the complex environment is defined as the one which has a large number of components, each of which, in its turn, has a variety of heterogeneous factors within it. The task environment would be treated as a complex one even if only one of its components has a variety of heterogeneous factors within it.

Nature of Business Environment in India : Some Empirical Evidence

The identification of the correct nature of the task environment is important as it has a significant impact on the formulation of goals, policies, strategies and structural design of an organisation. Accordingly, data were collected from selected public enterprises regarding the perceptions of managers about the characteristics of their environments. Table 1 shows the managerial perceptions about the characteristics of the task environments of Indian public enterprises in absolute and percentage terms.

Table 1: Classification of Managerial Perceptions about Characteristics of the Task Environment of Indian Public Enterprises

Managerial Preceptions of Environmental Characteristics	No of Observation	% of Total	Total No.of Observations
Respondents reporting stable environment	5	10	
Respondents reporting dynamic environment	45	90	50
Respondents reporting simple environment	5	10	
Respondents reporting complex environment	45	90	50
Respondents reporting stable and simple environment	2	4	
Respondents reporting stable and complex environment	3	6	
Respondents reporting dynamic and simple environment	3	6	
Respondents reporting dynamic and complex environment	42	84	50

Table 1 reveals that the overwhelming majority (90 per cent) of the respondents perceive their task environment to be dynamic. Only 10 percent of the respondents believe that their task environment is stable. Strange though it may seem, the respondents have expressed identical views about the simple and complex characteristics of the task environment of the public enterprise. It is evident from the table that 90 percent of the respondents share the view that the task environment is complex against only 10 percent perceiving the environment to be simple. Thus, it is clear that an overwhelming majority of the respondents provide evidence to the effect that the task environment of the public enterprise possesses the attributes of being dynamic and complex to a large measure.

From the point of view of the combination of characteristics, only 4 percent of the respondents report that the task environment is both stable and simple. Closely on the heels of this disclosure comes the information that 6 percent of the respondents have found their task environment to be stable and complex. An identical number of respondents have observed that the environment is both dynamic and simple. In sharp contrast, 84 percent of the respondents provide clear testimony to the effect that the task environment is both dynamic and complex.

The consistency in the perceptions of the respondents has encouraged us to carry out further analysis of data with a view to finding out if any statistically significant relationship exists between the characteristics of two broad dimensions of the task environment as also between the pairs of seemingly related characteristics. Table 2 presents data about the dimensional characteristics of the task environment in 2 × 2 contingency table for calculation of contingency coefficient which is an excellent measure of association between two sets of data pertaining to qualitative characteristics[12]. It should be emphasised in this connection that each dimension of the environment has two broad characteristics. As shown in Table 2, stable and dynamic characteristics form one dimension of the task environment, while simple and complex characteristics represent just another dimension. The data for Table 2 have been obtained from Table 1 which is based on the classification of original responses received.

Table 2: Data on the Dimensional Characteristics of the Task Environment in 2 × 2 Contingency Table for Direct Calculation of Contingency Coefficient

Dimensional Characteristics of Task Environment	Simple	Complex	Total	Contingency Coefficient (C)
Stable	2 (a_1)	3 (b_1)	5 (a_1+b_1)	+0.316
Dynamic	3 (a_2)	42 (b_2)	45 (a_2+b_2)	
Total	5 (a_1+a_2)	45 (b_1+b_2)	50 (n)	

From the data in Table 2, the Contingency Coefficient, symbolised by capital C, has been directly calculated by the following formula

$$C=\sqrt{\frac{[(a_1b_2)-(b_1a_2)]^2}{[(a_1+b_1)(a_2+b_2)(a_1+a_2)(b_1+b_2)]+[(a_1b_2)-(b_1a_2)]^2}}$$

The contingency coefficient (C) of 0.316 indicates that there is a moderately strong positive association between the characteristics of stable-dynamic and simple-complex dimensions of the task environment of public enterprise. This interpretation is based on the fact that C, like usual correlation coefficient, does not have the maximum value of 1. Its maximum value depends upon the number of rows and columns used for showing cell-frequencies in the contingency table[13]. For example, the maximum value of C in a 2 × 2 contingency table is 0.707. Given this stipulation, the obtained value of 0.316 for C statistic can be considered to be indicative of a moderately strong association between the two sets of environmental characteristics representing two dimensions of the task environment.

The magnitude of the contingency coefficient certainly gives an indication of the strength of association between two or more qualitative attributes. But it does not tell us whether the relationship is significant or not. For example, the contingency coefficient of 0.316 simply shows the magnitude of the association between the characteristics of two dimensions of the task environment. But, it gives no evidential information whether the obtained measure of association is significant or not. So, we have conscientiously decided to employ χ^2 statistic for testing the null hypothesis (H_0) with a view to determining the significance or insignificance of the observed value of C.

Table 3 shows the calculation of χ^2 value on the basis of the observed cell frequencies as given in Table 2. The χ^2 value has been calculated by the following formula:

$$\chi^2 = \sum \frac{(f_o - f_e)^2}{f_e}$$

Table 3: Data Relating to Observed Frequency and Expected Frequency in respect of the Dimensional Characteristics of the Task Environment for Calculation of χ^2 Value, the Cell Notations and Frequencies being based on Figures in Table 2

Cell Notation	Observed Frequency	Expected Frequency(f_e)	$(f_o - f_e)$	$(f_o - f_e)^2$	$\frac{(f_o - f_e)^2}{f_e}$
a_1	2	0.5	+ 1.5	2.25	4.500
b_1	3	4.5	- 1.5	2.25	0.500
a_2	3	4.5	- 1.5	2.25	0.500
b_2	42	40.5	+ 1.5	2.25	0.055
					Σ = 5.555

The null hypothesis (H_o) and alternative hypothesis (H_a) relating to the relationship between characteristics of static-dynamic and simple-complex dimensions of the task environment may be stated as follows:

Null hypothesis (H_o)	=	There is no relationship between characteristics of the dimensions of the task environment.
Alternative hypothesis (H_a)	=	There is relationship between the characteristics of the dimensions of the task environment.

Table 3 shows that the calculated value of χ^2 for 1 degree of freedom is 5.555. But, the table value of χ^2 for the same degree of freedom at 5 per cent level of significance is found to be 3.841. Since the calculated value of χ^2 is higher than the table value, the null hypothesis (H_o) is rejected. We can thus conclude that the dimensional characteristics of the task environment are not independent, but significantly related. The test also proves that the contingency coefficient of 0.316 as calculated directly from the contingency Table 2 is significant.[14]

From the evidence of significant association between the characteristics of the two dimensions of the task environment and also from the examination of the data, it seems logical to infer that there is a positive association between dynamic and complex characteristics on the one hand and between stable and simple characteristics on the other. In other words, the given pairs of characteristics appear to be related, and not independent. For understanding and measuring the magnitude of such association, we have calculated the coefficient of association between the dynamic and complex characteristics of the task environment on the basis of Yule's formulation. Table 4 presents data on the characteristics of the task environment for calculation of the coefficient of association between the stipulated characteristics.

Table 4: Data on the Characteristics of the Dimensions of Task Environment in 2 × 2 Table for Measuring the Degree of Association (Q_{AB}) between Dynamic (A) and Complex (B) Characteristics

Characteristics of Task Environment	Complex (B)	Simple (β)	Total	Coefficient of Association between A & B
Dynamic (A)	42 (AB)	3 (Aβ)	45	
Stable (α)	3 (αB)	2 (αβ)	5	+ 0.806
Total	45	5	50	

In Table 4, dynamic characteristic of the environment is denoted by A and stable characteristic by α. Similarly, complex characteristic is denoted by B and simple characteristic by β. The cell-frequencies represent the actual observations of the respondents about the given characteristics of the task environment.

The coefficients of association between dynamic (A) and complex (B) characteristics has been calculated by the following formula that owes its origin to G. U. Yule[15]. The coefficient of association is symbolised by Q_{AB}.

$$Q_{AB} = \frac{(AB)(\alpha\beta) - (A\beta)(\alpha B)}{(AB)(\alpha\beta) + (A\beta)(\alpha B)} = \frac{(42x2) - (3x3)}{(42x2) + (3x3)} = + 0.806$$

The coefficient statistic of 0.806 amply demonstrates that there is a strong positive association between the dynamic and complex characteristics of the task environment. This implies that an environment, which is dynamic, tends to be complex one and vice versa. The finding has a far-reaching implication for the management of public enterprises in India. An enterprise operating in a dynamic environment should also brace up for the consequences of a complex environment. It may be pointed out in this connection that the convergence of dynamic and complex characteristics represents the most difficult environmental situation that calls for maximum efficiency in the allocation and utilisation of resources, continuous monitoring and analysis of relevant environmental information and greater thrust on strategic management[16]. The above finding also rejects out of hand our second hypothesis that the dynamic environment is not necessarily a complex environment and stable environment a simple one.

Statistically speaking, the evidence of strong positive association between dynamic and complex characteristics as shown in Table 4 signifies the existence of similar relationship between stable and simple characteristics. This is because of the fact that, since the observed data relating to the two pairs of characteristics in 2×2 contingency table are the same, the computation of coefficient of association between either pair would yield identical result. This means that the coefficient of association between stable and simple characteristics would be the same as demonstrated between dynamic and complex characteristics. The implication of this association is that a stable environment always tends to be simple and vice versa. However, the researcher feels that more investigations are needed before any conclusive generalisation on the environmental characteristics can be made.

Conclusion

Business environment is a multidimensional phenomenon having profound influence on the operations and performances of organisations. It is increasingly realised that the ability of a business organisation to interact with and adapt to the changing environment is the acid test of its survival and success[17]. Therefore, it is imperative for the managers not only to have a thorough knowledge of the nature and structure of their contextual environment but also the ability to develop methods and techniques for maintaining a dynamic fitness with it.

But, the increasing uncertainty of the environment precipitated by the forces of change, has rendered the managerial job of maintaining a steady relationship with the environment an extremely difficult task. There is in the world practically no environment which may be called static in the strict sense of the term. Even the conceptually formulated static environment is relative to the time with the passage of which it is bound to be dynamic. What is really worrying the world of management is not merely the change, but the rapid change, the complex change and the continuous change that is taking place in the areas of both general and task environments. Researchers and thinkers are strongly of the opinion that the current business environment is not only changing but also showing an unmistakable trend towards a turbulent situation which is characterised by drastic change, extreme unpredictability and high risk[18]. Toffler describes this change as "the roaring current of change, a current so powerful today that it overtures institutions, shifts our values and shrivels our roots"[19]. Evidently, organisations must learn to accept change and get ready to adapt to the fast-moving environment or else they can neither survive nor grow.

Business environment in India is currently passing through a state of rapid and complex change. Our own study on the environment of public enterprises reveals that the task environment in India is both dynamic and complex. The disclosure has a major impact on the management of such organisations to the effect that public enterprises and, perhaps private enterprises too, should adopt organic structures rather than mechanistic structures. But unfortunately, such enterprises in our country have been found to be saddled with mechanistic structures contrary to current management practice in developed countries[20]. The study has also found significant positive relationship between the dimensional characteristics of the task environment of a public enterprise. Further, the study has broken a new ground by disclosing the fact that there is a high degree of positive association between dynamic and complex characteristics as also between stable and simple characteristics. These findings will, hopefully, go a long way in creating an understanding about the nature of business environment in India and the challenges it has thrown up before the managers concerned. However, more empirical studies are required in the area of business environment to bring out its multifaceted dimensions and implications.

References and Notes

1. Bobbitt, Jr., H. Randolf, Breinholt, Robert H., Doctor, Robert H. and McNaul, James P. (1978), Organisational Behaviour, Prentice-Hall, Englewood Cliffs, pp. 424-25.
2. Randolph, W. Allan and Blackburn, Richard S. (1989), Managing Organisational Behaviour, Richard D. Irwin, Homewood, p. 609.
3. Kast, Fremont E. and Rosenzweig, James E. (1985), Organisation and Management, McGraw-Hill Book Company, Singapore, p. 136-37.
4. Hodge, B. J. and Anthony William P. (1979), Organisation Theory : An Environmental Approach, Allyn and Bacon, Boston, p. 73.
5. March, James G. and Simon Herbert A. (1958), Organisations, John Wiley &

Sons., New York, pp. 118-20.

6. Khandwalla, Pradip N. (1972), "Environment and Its Impact on the Organisation" in International Studies on Organisation, pp. 297-313; cited in Hall, Richard H. (1997) : Organisations : Structures, Processes and Outcomes, Prentice-Hall of India, New Delhi, p. 97.
7. Aldrich, Howard E. (1979), Organisational Environments, Prentice-Hall, Englewood Cliffs, pp. 53-70; cited in Hall, Ibid, p. 218.
8. Burns, Tom and Stalker G. M. (1970), Mechanistic and Organic Systems" in Dale Earnest (ed.) Readings in Management : Landmarks and New Frontiers, McGraw-Hill Book Company, pp. 216-20.
9. Bedeian, Arthur G. (1984), Organisation Theory and Analysis, The Dryden Press, Tokyo, pp. 192-97.
10. Bedeian, Ibid., pp. 185-86.
11. Hicks, Herbert G. and Gullett, Ray C. (1976), The Management of Organisations, McGraw-Hill, Tokyo, p. 242.
12. Freund, John E. and Williams Frank J. (1969), Modern Business Statistics, Prentice-Hall, Englewood Cliffs, pp. 333-35.
13. Croxton, Frederick E., Cowder, Dudley J. and Klein, Didney (1969): Applied General Statistics, Prentice-Hall of India Pvt. Ltd., New Delhi, pp. 417-418.

Note: The authors have drawn the attention of the users of statistics to the critical point that the maximum value of contingency coefficient (C) is less than 1. It is 0.707 for a 2 × 2 table, 0.816 for a 3×3 table and 0.949 for a 10×10 table. The maximum value of C can, however be easily claculated by the following formula :

$$M = \sqrt{\frac{n - 1}{n}}$$

Where , M = maximum value of C; n = number of columns or rows

14. Freund and Williams, op. cit., pp. 333-335.

Note : An interesting feature of χ^2 statistic is that it can be used to calculate the contingency coefficient (C). The formula in such a case will be as follows:

$$C = \sqrt{\frac{\chi^2}{\chi^2 - n}}$$

Where C= Contingency Coefficient;
n = number of total frequencies.

Taking the χ^2 value as 5.555 and n as 50, we can recalculate the value of C as under:

$$C = \sqrt{\frac{5.555}{5.555+50}} = \sqrt{\frac{5.555}{55.555}} = 0.316$$

The value of C is exactly the same as shown in Table 2 and obtained by the method of direct calculation. This proves the accuracy of both χ^2 statistic and contingency coefficient.

15. Goon, A. M., Gupta M. K. and Dasgupta B. (1993), Fundamentals of statistics, Vol\I, The world Press Pvt. Ltd., Calcutta, p. 312.
16. Gerloff, Edwin A. (1985), Organizational Theory and Design – A Strategic Approach For Management, McGraw-Hill Book Company, New York, pp. 64-68.
17. Hicks and Gullett, op.cit. p.62.
18. Bose, T. K. (1988), "Modern Organisations and their External Environment : A Study of their Relationship in Systems Perspective" in Silver Jubilee Commemorative Journal Volume, Department of Commerce, University of Burdwan, p. 149.
19. Toffler, Alvin (1970), Future Shock, Pan Books Ltd., London, p. 11.
20. Bose, T. K. (2001), Unpublished Ph.D. Dissertation entitled: "The Environment of Public Enterprises in India : A Study of its Structure, Nature and Implications for Effective Management", submitted to The University of Burdwan, Burdwan, p. 339.

PERFORMANCE AND FINANCIAL MANAGEMENT OF MEDIUM & SMALL LEATHER MANUFACTURING UNITS IN WEST BENGAL

*Santanu K. Ganguli**

Abstract

Small and medium leather manufacturing units in West Bengal located mainly on the eastern part of Kolkata are important foreign exchange earners of the state vis-à-vis the country. A significant part of the business particularly tanneries are owned by Muslims and Chinese (ethnic minorities). Empirical study based on primary data reveals - units are consistent in making profit but profitability has no relation with size. Inventory turnover ratio is significant 'profit driver' - high cash balance and insignificant growth of fixed asset point at short-term profit motive, cash hoarding tendency and over-all poor financial management of the units-being largely family-run.

Industry Overview

The Indian Leather Industry plays a significant role in the Indian economy as a whole for its capability of earning foreign currency through export, employment generation and growth.

In view of the tremendous growth potential of the leather and leather products particularly in recent years, there has been an increasing stress on its planned development aimed at optimum utilization of the available raw material (raw hide and skin being by-products of meat industry the supply of which is fairly in-elastic) for maximizing returns particularly from export.

The export of leather products increased from Rs.280 million in 1956-57 to Rs.920,000 million in 2001-02 registering a massive 320 times growth in less than five decades. In the 1991-92 export stood at Rs.30,760 million. Thus in the last decade itself export earning has tripled.

According to Leather Age (2003), some of the key-features of the Industry are as under:-

- Annual export value touches 2 billion US dollars ;

* Fellow of the Institute of Chartered Accountants of India, New Delhi, Guest Faculty, Indian Institute of Management Calcutta and Visiting Faculty, Globsyn Business School, Kolkata.

- Employs 2.5 million people mostly from weaker section and women folk ;
- Nearly 60-65% of the production is in the small/cottage sector ;
- Endowed with 14% of world live stock population ;
- High return on capital investment, i.e., ratio of turnover to capital employed
- Carries enormous potential for future growth (domestic as well as export) ;
- Some of the renowned international brands of leather products are sourced from India.

A Macro-Assessment Of West Bengal's Position In The Context Of Leather Industry Of India

Traditionally there are three major geographical locations, namely, Chennai(Formerly Madras) in Tamilnadu, Kanpur in Uttar Pradesh and Kolkata (Formerly Calcutta) in West Bengal where concentration of manufacturing units consisting of tanneries and other manufacturing units are found in maximum numbers. These locations are called 'clusters'. The leather products are mainly divided into :- i) finished leather, ii) footwear and foot wear components, iii) leather garments, iii) other leather goods and iv) saddlery and harness articles. West Bengal contributes about 15% in all India leather sector export basket and about 60% share of total exports from India in the category of 'other leather goods' which are mainly Leather Bags, Leather Wallets, Purses, Small Personal Leather Goods, Industrial and Other Work Gloves, all leather splits & combinations. The manufacturing units consisting of tanneries where raw-hide and skin are converted into finished leather and other units producing leather articles from finished leather are located in Kolkata in West Bengal. According to Mr. Nari Kalwani (2001) success of the state is the result of strong support of thousands of talented, skilled work force and hundreds of tanneries producing all latest international type finished leathers. Most committed scores of entrepreneurs have carved out in global leather goods map an envious position for the leather bags / Wallets sector of Kolkata offering to the frontline importers of the world their latest innovations for variety of end uses, wide range of seasonal variations in fashion colours, improved quality fittings etc.

According to him (Mr. Kalwani), the day is not far when the major global players in the above items will consider Kolkata the most bargain source for quality in competitive price with full proof assurance of shipment at short notice. ILPA

(Indian Leather Products Association) members are seriously taking measures for modernisation / reorientation of their set ups enlarging the production base, some also are diversifying to other more lucrative exportable leather items, engaging professionals and technical experts for customers' real satisfaction. Kolkata is to forge ahead for a giant stride in next 5 years with the commissioning of the Great Project of Govt. of West Bengal, the 1,100 acre Kolkata Leather Complex located at 20 km. south east of the city. About 200 to 300 tanneries relocating at the complex are expected to build modern set up with the finance help from Govt. of India under Tannery Modernisation Fund and technical assistance from Central Leather Research Institute (CLRI) for pollution control.

Table 1

Leather & Leather Products Exports From Eastern Region (Mainly From Kolkata) During 1997-98 To 2000-2001

[Rs. in Crores]

Export Items	1997-98	1998-99	1999-00	2000-01
Finished Leather	39.61	56.09	44.44	117.90
Leather Footwear	13.90	7.32	13.60	8.35
Footwear Components	30.58	5.88	5.29	9.71
Leather Garments	63.87	67.08	73.40	112.81
Leather Goods (incl. Leather Gloves)	699.35	1137.42	968.04	1131.45
Harness & Saddlery	nil	0.46	0.02	21.51
Non-Leather Footwear	nil	14.84	14.28	11.98
Total	847.31	1289.09	1119.07	1413.71

Despite a rosy picture portrayed by Mr. Kalwani the fact remains that West Bengal's contribution in the export kitty is only Rs.14,137 million out of total export of the country of Rs.92,000 million constituting a little over 15% of the total export. The above table shows that West Bengal's strength lies in export of 'leather goods' segment that consist of wallets, fancy leather bags, sofa-cover, miscellaneous small leather articles like mobile phone cover, belt etc. Out of total export of Rs.1,413 crores from West Bengal, a sum of Rs.700 crores constituting about 50% comes from the said category only. From an Indian point of view also, West Bengal occupies number one position constituting about 60% of total export in the category of 'leather goods' alone. But traditionally as well as even in to-day's context maximum use of leather is found in leather foot-wear. According to 'Report of Nation wide survey on Leather Product' by CLRI (1997), it is estimated that about 58% of finished leather is utilized in foot-wear – a segment where the presence of West Bengal in export is negligible compared to other two clusters (Chennai and Kanpur) despite the fact that the biggest and the oldest shoe factory of Bata (India) Limited (a multi national company the shares of which are traded in major stock exchanges) is located in South 24-Parganas district of West Bengal.

Features Of The Units Of The Industry In West Bengal

a) **Geographical Location & Concentration** :- The manufacturing units consisting of tanneries in West Bengal are located in the eastern part of the State Capital Kolkata. Specifically speaking the names of the places where concentration of tanneries are maximum are – Topsia, Tiljala and Tangra situated on the stretch of either sides of the Eastern Metropolitan By-pass from Park Circus to Science City. The concentration of other manufacturing units involved in producing leather goods from finished leather are also found in these areas though a few units are located in other parts of the city and greater Kolkata as well.

b) Size & Ownership :- The tanneries and other manufacturing units engaged in production of leather goods from finished leather are mostly in small scale and medium scale sector whether registered with the Directorate of small scale industries or not. Majority of the units particularly tanneries are owned by Chinese and Muslims – considered to be ethnic minorities. Though registration with Directorate of small scale industries is not compulsory, registration / approval with authorities like Municipal Corporation, labour and sales tax department etc in certain case is mandatory, but it has been found in the report (1990) of survey conducted by CLRI that some tanneries owned by Chinese are functioning without any formal registration or approval though they 'are fully mechanized and capable of turning out excellent finished leather'. However, such units have gone 'neither for bank finance nor export of finished leather nor import of raw hide' – according to the report.

c) **Workers** : The workers of the tanneries and manufacturing units constitute 'chamars' [persons who handle dead bodies to earn a living and occupy one of the lowest places in the social and religious scale of Hindus. So great is the depth of degradation of the classes in the eyes of the higher castes that to call a person chamar is the meanest of persons – Rowland N. L. Chandra (1905)], a significant part of the labour force comprises Muslims, schedule and backward classes of Bihar, Uttar Pradesh and Madhya Pradesh and Nepalese. Thus, this is an industry of West Bengal where we find a dominating presence of ethnic, religious and linguistic minorities in the ownership front. In the labour front as well we find dominance of lower Hindu caste – Chamars, religious minorities-Muslims, linguistic minorities-Biharis and Nepalese etc. These features are quite unique in the industrial scenario as a whole.

d) **Threat** : The tanneries create environmental pollution. In a public litigation suit filed in eighties, the Supreme Court of India ordered the tanneries to take appropriate steps for pollution control or else to close down. The West Bengal Government extended helping hand for developing a new leather complex with common effluent treatment plant in Bantala (South 24-Parganas), about 30 kms. away from Kolkata and appointed M/s Dalmia & Co. for development of the area comprising 1,100 acres of land with necessary amenities and infrastructure. After development the land will be transferred in plots to the tannery owners on BOT basis. The process is on. The tanneries have been ordered to relocate from Kolkata by October, 2002. The relocation was ordered by the apex court way back in 1997. According to the Industry sources the relocation shall affect the tanneries so much that a number of relatively smaller ones may be forced to go out of business having consequential social and economic fall-out. The tannery owners and workers have to resume working in a new environment after relocation. The owners are complaining that the proposed leather complex in Bantala still lacks many facilities, e.g., non-availability of central effluent treatment plant etc. In December 2002, the electricity connection of many tanneries in their present location were snapped so that the tanneries could no longer function in their present location. This created wide spread trouble in the locality disrupting the operation of the many units. However, with the tacit support of the West Bengal Government, operation is going on with the condition that the tanneries must relocate as soon as possible. Relocation involves a huge cost and may mean suspension of operation for some time. After relocation cost structure will undergo a radical change as a result of number of factors like higher transportation cost etc.

Purpose of the Study

The purpose of the study is to highlight the profitability and financial management of the units of the leather industry in the light of the peculiar features with regard to ownership pattern, geographical spread, problem of pollution and over-all socio-economic dynamics in which the units operate. In addition, the study endeavors to verify the following hypotheses :

H1 In terms of performance the units of the industry are profitable but profitability has no relation with the size of the units.

H2 Better the inventory and sundry debtor management in terms of turnover ratios, higher is the profitability,

Research Gap

All over the world there is a scarcity of regional level and industry specific research in the area of ownership structure, profitability and financial management though such research has tremendous implication in policy formulation and implementation. There are a comparative larger number of research papers available in respect of industries where we find widely held public limited companies having huge capital investment the shares of which are regularly traded in recognised stock exchanges, institutional participation in funding and finance etc because of ready availability of secondary data and comparatively easier access to primary data. But in case of industry where units are in small and medium scale sector, we hardly find any empirical research particularly in the area of profitability and finance as it is extremely difficult to get access to primary data and macro level secondary data that one may get is not considered to be sufficient to carry out research. However, this is not a strong ground for not undertaking research because units are in so called 'unorganised' sector. In fact, importance of research in these 'unorganised' sectors is more necessary for policy decision and implementation. In organised corporate sector having a huge capital base, fund is available through well regulated capital market, policies are easier to implement as necessary and reliable information is available through transparency because of adherence to a certain degree of corporate governance practice in terms of requirement of statutory bodies like DCA (Department of Company Affairs) and SEBI (Securities Exchange Board of India) etc. The small and medium sector–units are mostly family controlled, there is little or no separation between ownership and management leading to no accountability of the management, as such there is little or no reporting responsibility with regard to financial performance resulting in insufficient generation of data. The minimum data that are generated for tax purposes is not open to public viewing. There appears to exist a question mark with regard to reliability of data furnished by the small and medium scale units to the Government authorities for tax purposes. However, all these can not be strong grounds for not undertaking a research. Even imperfect data can act as a relevant pointer if used properly with due regard to the limitation of such data because many other fields of social research have similar problems - yet researchers find those areas interesting, arrive at reasonable conclusions having relevance in decision making process and their findings throw up areas of further research.

Methodology

The present study is in the nature of survey research. As revealed by study of CLRI, some of the units (tanneries) having mechanized production process is neither registered nor approved by any authority (ibid) coupled with the fact that there are many tiny units having insignificant level of operation, we may say that size of the population is unknown. However, in Bantala where proposed Calcutta Leather Complex (CLC) is being built for relocation of tanneries, 523 plots have been reserved for tanneries. As per the latest information available, only about 50% of the plots have been acquired. Moreover, a list of exporters available from Council for Leather Export (CLE), Indian Leather Producers Association(ILPA) have been used for the purpose of data collection. Primary data have been collected by personal visit from unit to unit in Topsia, Tiljala and Tangra where concentration of tanneries and other leather manufacturing units are maximum with the help of a questionnaire on random basis. Relevant cross-sectional data of 5 financial years (1997-98 to 2001-02) have been collected from audited accounts of the respondent units filed with the Registrar of companies in case of limited companies. In case of partnership firms and sole proprietary concerns, figures of 5 financial years (1997-98 to 2001-02) have been collected from the profit & loss accounts and balance sheet filed with the Income-Tax returns for assessment of income-tax. Year-wise number of respondents is given below.

Year	No. of Respondents
1997-98	25
1998-99	28
1999-00	27
2000-01	28
2001-02	31

Though response does not prima-facie appear to be satisfactory, but considering the nature, size, ownership pattern of the units and data generated there from, sample size is statistically sufficient to arrive at a logical conclusion. Altogether data of 139 firm-years have been analyzed.

Choice of Statistical Tools

a) For determining trend in overall performance of the sample units, we have computed trend in turn over, export vis-a-vis domestic, net total asset size, profitability ratios over a period of 5 years (1997-98 to 2001-02),

b) Multiple regression technique has been used with help of SPSS package to analyse the primary data collected for hypothesis testing.

Limitation

The results of the study suffer from following limitations:

a) <u>Bias In The Sample</u> : As pointed out that a number of units in the industry are not registered as such correct sample size is not known and in our study we find that out of 31 respondent sample units in 2001-02, 21 units are exporting units. The aggregate export turnover of these units alone constitutes about 10% of the total export turnover of leather and leather goods from West Bengal in the said year. The foreign exchange earned by the exporting units from export are normally routed through formal banking channel. The exporting units are required to get themselves registered with Directorate General of Foreign Trade (DGFT). Their accounts are required to be audited for claiming deduction in respect of profit from export business as per the requirement of the Income Tax Act,1961 besides any other audit they may be subjected to under the provisions of any other statute that may be in force. Only the bigger units that have direct or indirect access to the foreign markets can export their products. Though data has been sought to be collected from door to door visit to the manufacturing units located in Topsia, Tiljola and Tangra on random basis to avoid any bias in the sample, it may so happen that probably those units which are comparatively bigger and more organised appear to have responded and participated in our study.

b)Reliability : For the purpose of the study the financial data have been collected from the financial statements of the sample units consisting of balance sheet and profit and loss account submitted with the Registrar of companies and Income-tax department. The study may be affected by transactions that may have relevance but not specifically captured by the financial statements.

Profitability & Scope of Financial Management of Small Manufacturing Units-A Brief Review of Literature

As pointed out the manufacturing units of leather and leather products in West Bengal other than Bata (India) Limited are mostly small (whether registered with Directorate of small scale industry or not) and medium scale units as such a brief study of the findings of the previous researchers in respect of profitability and financial management of small and medium units are of relevance in our present study.

a) Profitability:-According to Storey, Keasey, Watson and Wynarczyk (1987), economic theory accords the central role in determining firm size. If profits increase with firm size then this provides an unambiguous incentive for further growth. If, however, profits decline with firm size the only incentive for growth is if these lower profits can be achieved with a higher degree of certainty.

A study of Keasey and Watson (1992) revealed that the small firm finance and asset structures were remarkably stable over time.

Whittington (1980) used standard deviation from the firm's average profitability, and from a time trend for the period found that the variability of the individual firm's profitability through the time decreases as the size of the firm increases within the same broad industry group, as well as across the firms.

A related issue is the persistency of profits through time. Singh and Whittington (1968) examined the relation between Average rates of return on Net Assets in the periods 1948-54 and 1954-60 for the populations of firms which continued over the whole 12 year period. They found that in every industry there was a fairly strong tendency for all firms to show a persistency of profits. The persistency of profits was greater than that found in growth.

b) Financing:- So far as financing decisions of the small firms is concerned Myers's (1984) pecking order theory finds strong support. As the small firms have little / no access to the organised secondary capital market their only source of long term finance is limited and comprises of the owner's equity, secured borrowing from scheduled banks and unsecured borrowing from the friends and relatives. Therefore, according to Cassar and Homes (2003) – profitable firms which have access to retained earning use these for firm financing rather than accessing outside sources. Moreover, since shares and financial claims of small businesses are not traded on any public exchanges, the regulatory framework applicable to small firms financial reporting is considerably less onerous and less vigorously enforced than is the case for widely held, publicly listed enterprises (Keasey and Watson,1988). This absence of information on value of firm restrains flow of outside fund in the form of debt or equity. An outside investor's security is related to firm's tangible assets and personal wealth of owner-cum-manager (Keasey and Watson,) (ibid). Empirical evidence from previous studies examining small and medium enterprises (SMEs) is consistent with pecking order arguments with leverage being found to be negatively related to profitability (Wijst and Thurik, 1993; Coleman and Cohn).

c) Evaluating Investment Decisions Through Discounted Cash Flow Techniques:- Keasey & Watson (*ibid.*) observe that the small firms:-

i) have difficulty in isolating cash flows pertaining to a project.

ii) lack necessary experience and expertise with the available technologies to project future cash flow.

iii) Find trouble in the issue of attempting to estimate future cash flows given the highly uncertain operating environment.

Bink and Keasey (1988) on a survey conducted found out that –small firms do conduct rough and ready pay-back calculation as part of their capital budgeting procedures but this is the limit of their financial sophistication.

[Remarks :- According to the author another problem the small firm faces in attempting to use the discounted cash flow approach to capital budgeting is in determining the cost of capital to use as a discount factor. There is a little doubt that most small firms have access to limited sources of capital. Perhaps in absence of reliable information as to cost of equity otherwise available to publicly traded shares through models like 'Capital Asset Pricing Model' etc. they have to fall back upon only bank rate as discounting factor.]

10. Leather - A Brief Review Of Literature

Hardly any literature is available showing empirical research on the performance, profitability and financial management of leather industry as a whole and particularly in West Bengal. Perhaps the main reason being - collecting primary financial data from units being mostly family controlled and that is too largely by the minority community (Chinese and Muslims) who inherently suffer from insecurity complex due to various imperfection in the society and system is in itself a daunting task. However, some research has been conducted on the social aspect of the industry and the community associated with it. The findings of those researches are of relevance for our present study. Leather making is considered as a 'degraded occupation'. According to Ellen Oxfeld (1993) – the status of Chinese as foreigners associated with a country that has been engaged in hostilities against India, combined with their association with a particularly degraded occupation lend a certain uniqueness to their role and give them even more of an outsider status than other migrants to Calcutta. According to her finding, unlike tanners of Madras, the Chinese have received 'no government assistance. Their primary sources of funding have been their families and community'.

The leather tanning and processing community is concentrated in the eastern corner of Kolkata adjacent to the city dump. Along with the Chinese tanning community the Indian residents of the areas that surround it (Tiljala, Tangra and Topsia) come primarily from the Chamar caste, a group traditionally considered untouchable, whose customary occupation was leather work (Bandyopadhyay, 1990). Nirmal Kumar Bose (1965) demonstrated that there was a tendency for groups of higher caste and class to be associated with the centre of the city, those of lower caste and class, with the periphery. The peripherality and isolation of the tanning district as well as association with an impure task remind us of the concept of 'un-touchability' used by Louis Dumont - observes Oxfeld (*ibid.*).

Thus, tanning (the fundamental process in the leather industry) is a degraded occupation, carried out by people considered to be lower caste or "pariah" who live in the periphery and do not form part of the mainstream. Though the leather technology institute (formerly Bengal Tanning Institute) of West Bengal is the oldest institution in leather technology and Professor B. M. Das – founder President of Central Leather Technology (CLRI) is a father-figure in leather technology hails from the state, presence of qualified leather technologists in tanneries and leather manufacturing units in the capacity of entrepreneurs is negligible. A study by CLRI (1990) reveals that 58 % of the tanning units in West Bengal do not employ any leather technologists. From literature survey it appears that principally due to social factors participation of 'intellectual capital' is negligible so far as the management of the units in the leather industry is concerned. Dr. M. S. Rajajce (1989) describing his experience on the leather manufacturing units in the South India observes that any successful industry depends on good 'management', but at present, in many aspects it is lacking in the field of leather industry. There is little distinction observed between 'ownership' and 'management'. There may be private partnerships but there must be professional management. Financial management is left to a petty accountant with the result there is financial mal-management as many studies by bank revealed. A detailed study by the Institute of Material Management, Ramani (1983) has shown that many tanneries including reputed tanneries have exceeded what is called 'Economic Order Quantity' in inventory management. The excess over the right, judicious level of holding of stocks has been by as much as 200 to 250%.

Findings on The Basis of Data Analysis

a) General : On the basis of data analysis of 31 respondent units for 5 year period spanning from 1997-98 to 2001-02, we observe that out of 31 units in 2001-02, 25 units were in existence in 1997-98, 3 new units came into existence in 1998-99. However, financial result of one of the units for 1999 –2000 could not be made available. 3 more new units came into being in 2001-02 itself.

b) Ownership & Management :

i.) The ownership pattern of the 31 respondent units is given below :-

Table 2

	Proprietary	Partnership	Pvt. Ltd.	Total
Muslim	6	—	2	8
Chinese	—	12	3	15
Others	4	1	3	8
Total	**10**	**13**	**8**	**31**

All the partners of the partnership firms are the members of the same family. In case of the private limited companies except in one case it has been observed all the members and directors are either members of the same family or have family ties in some form or other. In case of one private limited company one director was not only non-relative but found to be belonging to a member of different community. In case of one muslim family controlled unit, one director (being the head of the family) is leather technologist and in case of another unit belonging to 'Others' category (family controlled), one member director is textile technologist. Thus, over all in only two cases owners have been found to be professionally qualified.

c) Production & Turnover :

The manufacturing units are classified in the following manner so far as the production and turnover aspects are concerned :-

Table 3

	Tanneries [converting raw hide to finished leather]	**Tanneries-cum-Manufacturing Units** [converting raw hide to finished leather to leather products]	**Mfg. Units** [finished leather to leather products]	**Total**
Exporting Units	5	5	11	21
Non-Exporting Units	8	1	1	10
Total	13	6	12	31

From the above table, we find that there are total 21 exporting units. Out of 21 exporting units our study further reveals that 16 are 100% export units and 5 units have export turnover as well domestic sales.

Of the total tanning units converting raw hide to finished leather and also raw hide-to-finished leather – to leather goods totaling 19 (13 +6), 10 units employ leather technologists. Thus, roughly 50% of the tanning units do not employ any leather technologists.

It was observed that out of the 5 exporting tanneries- converting raw hide to finished leather shown in the table 3 above, 1 (one) unit is a 100% regular exporting unit from 1997-98, 1 (one) exported a part of the finished leather in 2000-01and 2002-02 and the remaining 3 (three) units exported a portion of finished leather for the first time in 2001-02.

The following table shows the share of export turnover to total turnover of all the sample units from 1997-98 to 2001-02 :-

Table 4

Year	Export Sales [%]	Domestic Sales [%]	Total Sales [%]
1997-98	72	28	100
1998-99	67	33	100
1999-00	71	29	100
2000-01	75	25	100
2001-02	78	22	100

Table 4 shows export of the sample units suffered certain degree of setback in 1998-99, but from 1999-00 there has been a slow but gradual rise in this front indicating that the sample units are concentrating on and using the available resources more for export than the domestic sales.

d) Performance in Terms of Profitability

The average of the Total Assets, Total Sales, PBT/Total Assets and PBT/ Total sales for 5 years from 1997-98 to 2001-02 of the respondent units is given below:-

Table 5

Year (1)	Total Assets (mean) (in lakhs)	Total Sales (mean) (in lakhs)	PBT/Total Assets (mean) (in lakhs)	PBT/Total Sales (mean) (in lakhs)
1997-98	288.93	386.85	13	10
1998-99	262.58	321.96	10	11
1999-00	288.23	372.64	09	10

2000-01	325.63	438.62	09	06
2001-02	339.15	496.97	05	08

From table 5, it is clear that though the average asset size of the sample units and average total sales have increased (except for 1998-99), profitability ratios both with respect to total assets and total turnover do not indicate the same trend. Apparently, from column (4) of table 5 it appears PBT/Total Assets has registered a decline and column (5) showing PBT / Total Sales does not indicate any specific trend. This observation leads us to verify first hypothesis –

H1: In terms of performance, the units of the industry are profitable but profitability has no relation with the size of the units.

We use regression techniques to test a relationship between size of the assets and profitability. Two forms of equation have been used.

$$P = a + b A + E$$

$$P = a + b \log A + E$$

Here, A denotes total asset size (independent variable) and P denotes profitability defined as PBT/Total Sales.

Profitability and size (in terms of total assets):-
Linear regression result is given below in table 6.

Table 6

Year	a	b	R^2	N	t-statistics
1997-98	.1012	7.849E-02	.012	25	-.524
1998-99	.123	-3.46E-05	.024	28	-.792
1999-00	9.666E-2	-2.48E-05	.008	27	-.450
2000-01	7.250E-02	-1.86E-05	.013	28	-.575
2001-02	8.797E-02	-2.25E-05	.010	31	-.544

Profitability and size (log model)

Table 7

Year	a	b	R^2	N	t-statistics
1997-98	.250	-3.37E-02	.154	25	-2.046*
1998-99	.149	-8.09E-03	.017	28	-.677
1999-00	.182	-2.00E-02	.040	27	-1.019
2000-01	.199	-2.74E-02	.170	28	-2.307**
2001-02	.171	-1.84E-02	.042	31	-1.113

*Significant at 1% level.
**Significant at 5% level.

From results (given in tables 6 and 7) of the cross sectional study of relationship between firm performance and size for aforesaid 5 years, there does not appear to be a strong relation between performance expressed in terms net profit ratio and size of the sample firms. The value of the R^2 (both under normal and log model) reveals that size does not appear to be a strong explaining factor for performance. Though there does not appear to have strong relation between net profit ratio and size of the firms, but at the same time what we observe from the raw data collected that - except in case of one particular unit for all the 5 years under our study and another unit for 2 consecutive years (1997-98 and 1998-99), all other sample units have persistently earned profit irrespective of size in all the years. The result in a way is consistent with the finding of Singh and Whittington *(ibid.)* in respect of small firms. On the basis of two-tailed test of aforesaid regression models and observation we find no reason to reject our hypothesis.

e) Financial Management

When we analyse the asset structure of the units we find dominance of current assets in the total assets. The following common-size Balance Sheet reveals the source of fund and asset structure of the sample units for 5 years:-

Table 8

	1997-98	1998-99	1999-00	2000-01	2001-02
Sources Of Fund					
Capital (includes retained earning by limited companies)	33.82	40.52	45.32	43.01	45.41
Bank Loan					
a) Long term (For fixed assets)	nil	nil	0.05	0.51	0.06
b) Working Capital (Cash Credit, packing credit)	14.85	16.20	21.12	23.76	24.41
Loan from others	0.95	1.20	1.03	2.34	1.83
Sundry Creditors & Provision	50.38	42.08	32.48	30.38	28.29
TOTAL	100.00	100.00	100.00	100.00	100.00

	1997-98	1998-99	1999-00	2000-01	2001-02
Application of Fund					
Fixed Assets (A)	**9.13**	**9.90**	**9.54**	**9.84**	**10.89**
(net of depreciation)					
Investment	2.20	2.87	3.53	4.63	5.72
Current Assets					
a) Inventory	62.91	61.27	47.98	41.26	37.92
b) Sundry Debtors	14.09	11.07	21.26	23.59	22.42
c) Cash & Bank	5.42	5.60	6.50	5.93	7.70
d) Loans & advances	5.89	8.86	10.65	14.14	15.30
Total (B)	**88.31**	**86.88**	**86.39**	**84.92**	**83.34**
Misc. Expenditure	0.09	0.08	0.06	0.04	0.05
P/L A/c (Dr. balance)	0.27	0.35	0.48	0.57	nil
TOTAL	100.00	100.00	100.00	100.00	100.00

From the above common sized statement with regard to sources of fund or financing, we find:-

a) between 1997-98 and 2001-02, share of net worth (capital) has registered a gradual increase of 33.82 % to 45.41% and bank finance for working capital has also increased from 14.85% to 24.41%, whereas current liabilities has decreased from 50.38% to 28.29% .

b) term loan is negligible.

Regarding application of fund or investment, we find:-

a) Share of fixed assets in the total assets structure is not so significant. (between 9.13% to 10.89% only).

b) though share of total current assets constitute above 83 % of the total assets in all the years, there is an overall slight declining trend in such assets but when we isolate inventory and sundry debtors (the most dominant items of the current asset composition) for further analysis, there is a sharp drop of share of inventory over 5 years (63% to 38%) coupled with considerable increase of sundry debtors during that period.

The above observations lead us to verify whether inventory turnover ratio and debtors' turnover ratio are the main 'profit drivers'. Thus –

H2: Better the inventory and sundry debtor management in terms of turnover ratios, higher is the profitability.

Again, we use regression technique to test the relationship of profitability with inventory turnover ratio and debtors turnover ratio.

$P = a + b_1 S + b_2 D + E$

S denotes inventory or stock turnover ratio (=Total sales/closing inventory).

D denotes debtors' turnover ratio (=Total sales/ closing debtors).

P denotes profitability and defined for this hypothesis as PBT /Total Assets.

The regression result is given in table 9.

Table 9

Variable	1997-98	1998-99	1999-00	2000-01	2001-02
a	.107	.103	8.451E-02	4.101E-02	3.248E-02
b_1	3.441E-04	2.748E-04	2.407E-03	6.931E-03	1.319E-02
t-statistics	5.230*	3.695*	1.215	8.770*	2.472*
b_2	-2.91E-04	-8.70E-04	5.137E-04	-1.872-04	5.533E-04
t-statistics	-.695	-.093	.257	-.265	.350
R^2	.626	.409	.066	.778	.253
N	**20**	**23**	**24**	**25**	**27**

*Significant at 5 % level.

From the result computed above it can be concluded that though inventory turnover ratio appears to be an explaining variable for profitability (except for 1999-00), debtors turnover is not.

We find inventory turnover in terms of number of days has suffered a setback in 2001-02 reflecting accumulation of stock of the exporters in particular attributable to global slowdown - an impact of post eleventh September phenomenon.

Average inventory holding period for 2001-02 was found to be 97 days compared to 61and 59 days of the immediate two preceding financial years – that is 2000-02 and 1999-2000 respectively. Table 8 reveals that combined share of total of inventory and sundry debtors has decreased from 77% (in 1997-98) to 60% (in 2001-02), whereas cash and bank balances have increased from 11% to 23 % with a meager increase of share of net fixed assets (1.76% only).

Findings & Conclusion

From the primary data gathered and analysed on the small and medium sized leather manufacturing units of West Bengal mainly located on the Eastern part of the city of Kolkata there is no doubt that despite various constraints faced by them, they are by and large consistent in earning profit over the years. A significant portion of the profit of the comparatively larger units is earned in convertible foreign exchange through export.

The units particularly tanneries are owned and managed mostly by the members of the same family. A very large number of the tanning units are owned and managed by the ethnic minorities ' Chinese' (to be specific Hakka Chinese) migrated into India since eighteenth century (mostly during and immediately after civil war in China in 1940s) and Muslims. Muslims were initially raw-hide suppliers. In their relative degree of success, and their lack of political power, the Calcutta Chinese resemble a type of social group referred to as ' pariah capitalists' (Hamilton 1978) or 'middleman minorities' (Bonacich and Modell 1980) by the sociologists. In backdrop of the fact that ownership structure of the tanning units is concentrated in the hands of minority, their success (though a limited one) in running profit making manufacturing units, their investment behaviour and financial management system in the backdrop of their social ethos and value system in an almost alien atmosphere by itself demands a special attention. The workers of the tanning district called 'chamars' (socially degraded) mostly hail from Bihar, Madhya Pradesh etc.. Some workers are also Nepalese.

In the backdrop of the above the study shows that out of 31 units 16 units are exporting units producing leather goods for the end users revealing - in order to capture export market it is probably a better idea to produce goods for ultimate consumption rather than being confined to producing only finished leather from raw hide. This will also promote cost saving through integrating production processes and thereby achieving economy of scale.

In the capital structure long-term loan from banks and financial institution is negligible, but in recent years bank has provided short-term finance particularly in the form of packing credit (to exporters) and cash credit. Share of bank finance has progressively increased in providing working capital from 14.45% in 1997-98 to 24.41% in 2001-02 with a reduction of current liability from 50.38% to 28.29%. Current ratio has been maintained over 2 since 1998-99 and in 2001-02 it rose to as high as 2.95. Thus, interest bearing bank finance has been progressively utilized more in financing current asset in place of non-interest bearing current liabilities. In fact in five years (1997-98 to 2001-02) total bank finance has more than doubled (245% increase). Though increase in bank finance indicates confidence of the bankers in the sample units, but at the same time lack of increase of fixed assets confirms that bank finance has been utilized in current assets. As per Chore Committee report (Report of the Working Group to review the System of Cash Credit, 1979), ideal current ratio should be 1.33. According to Bhattyacharya, Hrishikes (2002) – an efficient financial management aims at lowering the current ratio rather than increasing it. A current ratio of 2 or more is generally regarded by outside lenders and creditors to be a good measure of liquidity, but for a modern finance manager, a high current ratio blocks costly fund and consequently erodes profitability of the firm. This is precisely what appears to have happened in case of leather manufacturing units. Moreover, share of cash and bank balance in the asset structure has increased from 11% in 1997-98 to 23% in 2001-02. According to Bhattyacharya (ibid) – from a normative angle the ratio should not be more than 1.5% to 2 % under cash credit system of financing. So high a cash and bank balance ratio in the context of overall high current ratio (2.95) reflects poor working capital management and tendency of the owner-managers of the units to hoard cash, lack of willingness and intellectual capability to look beyond, invest innovatively, develop brand, capture market share and so on. Given the sociological background short-term profit motive (reflected in the fact that high inventory turnover is one of the significant 'profit drivers') appears to be the driving force behind the whole show. Further, their belief of ' personal craftsmanship' and 'sweet and blood' rather than technology and modern management theory as key to success is reflected in their financing and investment behaviour.

References

1. Bandyopadhyay, Raghab (1990). *'The Inheritors: Slum and Pavemebt Life in Calcutta. In Calcutta: The Living City,'* ed. Sukanta Chaudhuri, pp. 78-

87. Oxford University Press, Kolkata.

2. Bhattacharya, Hrishikesh (2002), *'Working Capital Management'*, Prentice-Hall of India, New Delhi.

3. Binks, M. and Keasey, K (1988) *'Small Firm Investment Behaviour and the Tax System'* A Report of Small Business Research Trust, London.

4. Bonachich, Edna, and Modell, John (1980), *'The Economic Basis of Ethnic Solidarity'*, Berkley , University of California Press.

5. Bose, Nirmal Kumar (1965) Calcutta: *'A premature Metropolis'*, Scientific American 213(September) 91-102.

6. Cassar, G, Holmes, S (2003), *'Accounting and Finance'* July 2003 ,pp 123-147,Australia

7. Central Leather Research Institute [CLRI] (1990), *'Report on Capacity Utilization and Scope for Modernization of Indian Tanning Industry'*, CLRI, Chennai, pp. 5, 17, 104, 125.

8. Chandra, Rowland N. L., (1975), *'A Monograph on Training And Working in Leather in the Province of Bengal'*, Navrang, New Delhi.

9. Hamilton, Gary (1978), *'Pariah Capitalism: A Paradox of Power and Dependence'*, Ethnic Groups 2: 1-15.

10. Kalwani, Nari (2001), 'Strategy of Leather Industry & Recent Global Challenges', *Journal of India Leather Technologists Association'*, India Leather Technologists Association, Kolkata, vol. LI, no.12, pp. 7-8.

11. Luthra, Y. K. (2003), 'Profile – The Indian Leather Industry', *Leather Age-Silver Jubilee Special Issue – January, 2003,* Leather Age, Kolkata, pp. 19-21.

12. Myers, S.C. (1984). 'The capital structure puzzle'. *Journal of Finance* 34(3), pp. 575-592.

13. Oxfeld, Ellen (1993) , *'Blood, Sweat And Mahjong , Family and Enterprise in an Overseas Chinese Community'*, Cornell University Press, New York, U.S.A.

14. Rajajee, Dr. M.S. (1989), '*Leather Industry With Special Reference to Exports From South India*', (Edited version of Ph.D. Thesis of S.V. University) pp. 75-77, Tirupati.

15. Ramani : *"Inventory Control for Leather Industries – A Study"* Indian Association of Material Management – Jan. 1983, pp-27-28, Madras.

16. Sing, A. and Whittington (1968), *Growth, Profitability and Valuation*, Cambridge University Press. London.
17. Storey, D., Keasy, K, Watson, R, Wynarczyk, P (1987) *'The Performance of Small Firms'*, Croom Helm Ltd. Kent.
18. Wittington, G (1980), 'The profitability and size of the U.K. Companies 1960-74', *Journal of Industrial Economics*, Vol. 28, no. 4, pp. 335-52.

TRENDS IN PUBLIC EXPENDITURE IN WEST BENGAL IN THE POST- REFORM PERIOD

*Sebak Kumar Jana**

*Santanu Ghosh***

Abstract

The state governments in India including the Government of West Bengal have been undergoing severe strain on the resource position in recent years. This paper attempts to portray the broad features and trends of the items of government expenditure in West Bengal in the post-reform era. The observations indicate some degree of imbalance in the expenditure pattern and an uncomfortable debt position of the state government.

Introduction

Since the early 1990s, with the launching of economic reforms and liberalization, the need and role of state in economic transformation have come under close scrutiny. It is being increasingly realized that the primary task of the state should be to act as a facilitator and provide basic services like primary health care, education, social security, apart from ensuring basic infrastructure and institutions, so that market can operate efficiently and equitably. In India, since the beginning of plan era the state had been shouldering a lot of responsibility in ushering in economic and social transformation. The governments (center and states), accordingly, had to intervene in a variety of spheres, which resulted in managing progressively larger (revenues and) expenditures. Over the years, the gap between revenues and expenditures, however, has widened both at the central and state levels, causing strain on the governments' financial health. The situation in the state of West Bengal is no exception and the West Bengal Government has been going through a very difficult budgetary time. In this brief exercise, an attempt has been made to present the trends in important budgetary variables in the 1990s and explain some of the factors responsible behind the sordid position of state finance. Let us first consider the expenditure side of the state budget.

* Lecturer, Dept. of Economics, Garhbeta College, Paschim Medinipur.

** Lecturer, Dept. of Economics, Presidency College, Kolkata.

Total Expenditure

Total expenditure of the state is made of two components namely capital expenditure and revenue expenditure. Revenue expenditure is on current items. On the other hand capital expenditure consists of mainly capital outlay on development projects, repayment of loans to the centre and loans and advances made by the states to others. Table-1 gives capital expenditure and revenue expenditure of the State in the post reform period. Revenue expenditure holds the major share with more than 80% of the total expenditure. It is seen that though the revenue expenditure shows downward trend in mid 1990s, it is again rising. In fact, it is observed that share of capital expenditure in total expenditure has remained roughly constant on an average (at around 15% level). Two points need to be emphasized here. First, from the long-run and development point-of-view, capital expenditure should receive priority over revenue expenditure; also, state of financial health may be judged by, among others, the government's ability to undertake capital expenditure. A greater proportion of capital expenditure can be taken as an indicator of relatively greater financial solvency. Second, one of the major factors behind high and mounting revenue expenditure is due to huge expenses on wages and salaries. The situation has aggravated, especially, after the implementation of the last Pay Commission awards at the state level.

Table 1
Components of Total Expenditure of the State

(Figures in Rs. Crore, Figures in the brackets indicate percentage share)

	Capital expenditure	Revenue expenditure	Total Expenditure
1991-92	866.81	5323.69	6190.5
	(14.00)	(86.0)	(100)
1992-93	982.72	5663.7	0646.42
	(14.92)	(85.21)	(100)
1993-94	1067.2	6905.8	7973
	(13.38)	(86.62)	(100)
1994-95	165.9	7630.7	9282.6
	(17.80)	(82.09)	(100)
1995-96	1882.6	8626.3	10508.9
	(17.91)	(82.09)	(100)
1996-97	2669.5	10362.4	13031.9

	(20.48)	(79.52)	(100)
1997-98	2234.7	11321.9	13556.6
	(16.48)	(83.52)	((100)
1998-99	2910.3	14242.9	17153.2
	(16.97)	(83.03)	(100)
1999-2000	3676.3	19455.3	23131.6
	(15.89)	(84.11)	(100)
2000-2001	3892.4	20652.2	24544.6
	(15.86)	(84.14)	(100)

Source: CMIE

Revenue Expenditure

The revenue expenditure of the State Government can be classified into three headings – development expenditure, non–development expenditure and others. Development expenditure is incurred for the development projects. Non-development expenditure is not connected with development projects. 'Others' consists of compensation and assignment to local bodies. As Table-2 reveals, the share of non-development expenditure has risen steadily in the 1990s and this is obviously not a healthy situation. In fact, as we have calculated, the exponential annual growth rates for development and non-development expenditure in West Bengal are respectively 14.3% and 18.3%. Several economists are arguing for immediate increase in development expenditure and curtailment of non-development expenditure (Chatterjee P.K. et al. 2003).

Table 2
Components of Revenue Expenditure

(Figures in Rs. Crore, Figures in the brackets indicate percentage share)

	Development Expenditure	Non-Development Expenditure	Others	Revenue Expenditure
1991-92	3401.32	1784.88	137.49	5323.69
	(63.89)	(33.53)	(2.58)	(100)
1992-93	3524.87	1969.51	169.32	5663.7
	(62.24)	(34.77)	(2.99)	(100)
1993-94	4287.70	2443.40	174.70	6905.8
	(62.09)	(35.38)	(2.53)	(100)

1994-95	4712.20	2713.10	205.40	7630.7
	(61.75)	(35.56)	(2.69)	(100)
1995-96	5195.60	3246.10	184.60	8626.3
	(60.23)	(37.63)	(2.14)	(100)
1996-97	6267.80	3914.00	178.60	10362.4
	(60.51)	(37.77)	(1.72)	(100)
1997-98	6445.40	4672.90	203.60	11321.9
	(56.93)	(41.27)	(1.80)	(100)
1998-99	8163.90	5873.70	205.30	14242.9
	(57.32)	(41.24)	(1.44)	(100)
1999-2000	11583.90	7594.60	276.80	19455.3
	(59.54)	(39.04)	(1.40)	(100)
2000-2001	11430.80	8957.00	264.40	20652.2
	(55.35)	(43.37)	(1.28)	(100)

Source: CMIE

Development Expenditure:

Development expenditure comprises of social services and economic services. Social services confer a positive advantage on the society in the sense that with the increase of this type of expenditure, the society is expected to be happier than before. Economic services are connected with various development projects. Large outlays on these projects will accelerate the economic development of the country. As is seen from Table-3 social services hold the major share of development expenditure with more than 60% of the total. Though in the late 1990s it had showed an upward trend, it had again stabilized around 64%.

Table 3
Components of Development Expenditure

(Figures in Rs. Crore, Figures in the brackets indicate percentage share)

	Economic Services	Social Services	Development Expenditure
1991-92	1171	2230.32	3401.32
	(34.43)	(65.57)	(100)
1992-93	1240	2284.87	352.87
	(35.18)	(64.82)	(100)
1993-94	1589.6	2698.1	4287.70
	(37.07)	(62.93)	(100)
1994-95	1667.4	3044.8	4712.20
	(35.38)	(64.62)	(100)

1995-96	1823.1	3375.5	5195.60
	(35.09)	(64.91)	(100)
1996-97	2201.9	4067.8	6269.80
	(35.12)	(64.88)	(100)
1997-98	2054.1	4391.3	6445.40
	(31.87)	(68.13)	(100)
1998-99	2524.1	5639.9	8163.90
	(30.92)	(69.08)	(100)
1999-2000	3226.5	8357.4	11583.90
	(27.87)	(72.15)	(100)
2000-2001	4116.5	7314.2	11430.80
	(36.01)	(63.99)	(100)

Source: CMIE

1. Social Services:

Social services include (i) education, sports and culture, (ii) medical and public health and (iii) others. 'Others' include housing and urban development, labour and employment, social security and welfare and other social and community services. As is evident from Table-4, education, sports and culture occupies the major share of the social services though its share has decreased in the late 1990s. Of the three major categories of social services, it is evident that medical and health as a group receives the lowest priority. Medical and health services and infrastructure in this field are now in shambles. In order to improve the quality of medical and health services, it is imperative that a greater proportion of funds is diverted to this sector (apart from initiating organizational changes).

Table 4
Components of social services
(Figures in Rs. Crore, Figures in the brackets indicate percentage share)

	Education, Sports, Culture	Medical, Health	Others	Social Services
1991-92	1322.79	389.44	518.09	2230.32
	(59.31)	(17.46)	(23.23)	(100)
1992-93	1374.44	427.87	482.56	2284.87
	(60.15)	(18.71)	(21.12)	(100)
1993-94	1633.4	506.9	557.8	2698.1
	(60.54)	(18.79)	(20.67)	(100)
1994-95	1779.4	526.2	739.2	3044.8
	(58.44)	(17.28)	(24.28)	(100)

1995-96	1956.9	526.5	889.1	3372.5
	(58.03)	(15.62)	(26.36)	(100)
1996-97	2420.1	620.1	1027.6	4067.8
	(59.49)	(15.25)	(19.26)	(100)
1997-98	2530.3	669	1192	4391.3
	(57.62)	(15.24)	(27.14)	(100)
1998-99	3023.5	982.4	1634	5639.9
	(53.61)	(17.42)	(28.97)	(100)
1999-2000	4957.6	1103.3	2296.5	8357.4
	(59.32)	(13.20)	(27.48)	(100)
2000-2001	3693.7	1223.8	2396.7	7314.2
	(50.50)	(16.73)	(32.77)	(100)

Source: CMIE

1.2 Economic Services:

Economic services consist of agriculture and allied activities, rural development, industry and mineral, transport and communication, general economic services and others. Others include special areas programme, irrigation and flood control, energy, science, technology and environment.

A glance at Table-5 reveals an important feature regarding the allocation of expenditure within different heads of economic services. While agriculture and rural development account for a substantial share of expenditure, industry in the state receives a much lower priority. On the other hand, the share of transport and communication in total government expenditure has remained roughly same. Also, while the combined share of agriculture and rural development has declined from around 60% in the early 1990s, to nearly 40%, in the late 1990s, it is the category "others" which has gained relatively more in terms of percentage share of allocation. The scope of earning revenues might be greater through industry and infrastructure (e.g., transport and communication) than through agriculture and allied activities. While states like Andhra, Maharashtra, Gujarat have marched ahead in industrial and infrastructure development, West Bengal has failed to accord due priority to these sectors.

Table 5

Components of Economic Services

(Figures in Rs. Crore, Figures in the brackets indicate percentage share)

	Agriculture and Allied Activities	Rural Development	Industry & Minerals	Transport & Comm	General Economic	Others	Economic Services
1991-92	376.05	329.07	49.33	134.36	20.75	261.44	1171
	(32.11)	(28.10)	(4.21)	(11.48)	(1.77)	(22.33)	(100)
1992-93	401.66	363.86	62.45	141.9	21.48	248.65	1240
	(32.39)	(29.34)	(5.04)	(11.44)	(1.73)	(20.05)	(100)
1993-94	477.4	495.6	75.4	174.7	25.1	341.4	1589.6
	(30.03)	(31.18)	(4.74)	(10.99)	(1.58)	(21.48)	(100)
1994-95	396.7	553.4	101.5	211.5	31	373.3	1667.4
	(23.79)	(33.19)	(6.09)	(12.68)	(1.86)	(22.39)	(100)
1995-96	440.6	564.1	105.7	250.7	30.4	431.6	1823.1
	(24.17)	(30.94)	(5.80)	(13.75)	(1.67)	(23.67)	(100)
1996-97	518.7	714	106	257.6	36.9	568.7	2201.9
	(23.56)	(32.43)	(4.81)	(11.70)	(1.67)	(25.83)	(100)
1997-98	522.1	592.5	105.1	241.7	39.7	553	2054.1
	(25.42)	(28.84)	(5.12)	(11.77)	(1.93)	(26.92)	(100)
1998-99	697.2	733.4	118.2	284.3	57.6	633.4	2524.1
	(27.62)	(29.06)	(4.68)	(11.27)	(2.28)	(25.09)	(100)
1999-00	932.4	767.3	154.2	425.0	80.5	8671	3226.1
	(28.90)	(23.78)	(4.78)	(13.17)	(2.49)	(26.88)	(100)
2000-01	1002.2	819.3	339.5	525.1	132.7	1297.7	4116.5
	(24.35)	(19.90)	(8.25)	(12.76)	(3.22)	(31.52)	(100)

source: CMIE

2. Non-Development Expenditure:

We now come to non-development expenditure which consists of (i) organs of state including parliament and state legislature, administration of justice and elections, (ii) fiscal services including collection of taxes on income, expenditure, property, capital transaction, commodities and services, (iii) Interest payment and servicing of debt, (iv) administrative services including police, jails, public works, and other administrative services and (v) pensions and miscellaneous general services.

A disturbing aspect with respect to non-development expenditure, as revealed by Table-6, is the proportion of interest payments; in fact this proportion is not only very high, but also has increased quite appreciably between 1990-91 and 2000-2001. Volume of interest payments depends, among others, on the magnitude of outstanding loan as well as the interest rate. A high volume of expenditure on account of interest payments often indicates high-indebtedness. The magnitude of interest payments or debt servicing may be a pointer to both the reason behind and the nature of the financial crisis. It is also interesting to note that while the proportion of spending on administrative purposes has declined rather sharply, the share of spending on pensions has risen rather substantially, especially since the mid 1990s onwards. Large employment generation in the past and large scale nationalization, coupled with bonanza in the form of the last Pay Commission's recommendation at the state level, have contributed to soaring expenses on pensions, an item of expenditure which has no current productivity.

Table 6

Proportionate Composition of Non Development Expenditure

	Organs of State	Fiscal Services	Interest	Administrative	Pension	Total
1990-91	3.01	8.93	40.55	35.28	12.23	100
1995-96	3.65	6.33	49.79	25.72	14.51	100
1997-98	2.89	5.62	51.57	22.72	17.20	100
1998-99	2.35	6.64	50.22	23.34	17.45	100
1999-2000	2.60	5.15	51.91	20.47	19.87	100
2000-01	1.80	4.60	54.95	18.47	20.18	100

Source: Statistical Abstract, Government of West Bengal

Capital Expenditure

Part of capital expenditure consists of capital outlay on such development projects as multi purpose river valley schemes, irrigation and navigation, schemes of agricultural research and development, power projects, road transport, buildings, water works, industrial development etc. The other parts of capital expenditure are discharge of internal debt, repayment of loans to the centre, loans and advances made by the states to others.

From Table-7, we observe that the share of development expenditure in total capital expenditure remained more or less stagnant in the 1990s. On the other hand, share of expenditure on account of loans and advances has increased, while the proportion under repayment of loans has declined. The situation portrayed by Table-6 and Table-7 is, to some extent, a piquant one. While on one side we observe a steadily mounting proportion of interest expenditure (in non-development expenditure), on another side we notice a fall in the proportion of expenditure due to repayment of loans. It would be interesting to investigate further this diametrically opposite trend and also explore the issue whether it is an indicator of financial bankruptcy of the state government.

Table 7
Components of Capital Expenditure

(Figures in Rs. Crore, Figures in the bracket indicate percentage share)

	Development Expenditure	Non-Development Expenditure	Discharge of Int.Debt	Repayment of loans	Loans & Advances	Capital Expenditure
1991-92	302.96	9.92	28.35	287.67	237.91	866.81
	(34.95)	(1.14)	(3.27)	(33.19)	(27.45)	(100)
1992-93	253.11	10.61	47.88	337.41	333.71	982.72
	(25.76)	(1.08)	(4.87)	(34.33)	(33.96)	(100)
1993-94	390.10	11.90	43.60	311.60	310	1067.20
	(36.55)	(1.12)	(4.08)	(29.20)	(29.05)	(100)
1994-95	756.90	13.60	44.10	287.40	549.90	1651.90
	(45.82)	(0.82)	(2.67)	(17.40)	(33.29)	(100)
1995-96	1132.70	31.60	15.6	320.2	382.6	1882.70
	(60.16)	(1.68)	(0.83)	(17.01)	(20.32)	(100)

Source: CMIE

Total Debt or Outstanding Liabilities

The volume and composition of debt incurred by a government may serve as an indicator of the status of financial health of the government. It is imperative, therefore, before drawing curtain, to take a quick look at the debt position of the Government of West Bengal during the 1990s. Total public debt of the state is made of three components – (i) Internal debt comprising of (a) current market loans and compensation and other bonds, (b) ways and means advances from the Reserve Bank of India, and (c) loans from banks and other institutions; (ii) Loans and advances from the central government - loans and advances from the central government for both Plan and non-Plan purposes. (iii) Provident funds etc. including State Provident Funds, trusts and endowments etc. The debt position of West Bengal is shown in the Table 8. For the lack of data we have skipped provident fund item from the calculation.

It will not affect significantly the total debt position because it comprises a very small proportion of the total debt.

Table 8
Total Public Debt of West Bengal
(Figures in Rs. Crore)

	Loans & Advances	Internal Debt	Outstanding liabilities
1991-92	931.89	310.45	1242.34
1992-93	936.93	310.94	1247.87
1993-94	1196.7	379.2	1575.9
1994-95	1839.9	433	2272.9
1995-96	2018.7	479.7	2498.4
1996-97	2498.1	583	3081.1
1997-98	3607	631.6	4238.6
1998-99	5402.8	902.7	6305.5
1999-2000	6130.9	2379.7	8510.6
2000-01	7589	3289.7	10878.7

Source: CMIE & RBI

Debt-SDP Ratio:-

The common practice in analyzing the burden of public debt is to look at the debt-SDP ratio. It has been calculated as the total debt as a percentage of net SDP at factor cost. The Table- 9 reveals that there is an upward trend in the debt-SDP ratio for all the states. But the increase is much steeper for West Bengal. Not only that in 2000-01 it is much higher compared to other states.

Table 9
Debt-SDP Ratio
(In percentages)

	Andhra Pradesh	Karnataka	Maharashtra	West Bengal
1991-92	3.45	2.67	2.68	3.41
1992-93	3.59	2.99	1.81	3.22
1993-94	3.79	2.53	1.73	3.26
1994-95	3.47	3.50	1.75	4.22
1995-96	3.20	2.25	1.76	3.72
1996-97	2.87	2.42	2.33	4.14
1997-98	3.78	2.47	2.61	4.73
1998-99	4.83	3.07	2.93	5.94
1999-2000	5.63	3.52	3.13	7.24
2000-01	-	4.06	2.71	8.47

Source: Our own calculation

Per Capita Debt:-

We have tried to judge the indebtedness of the state and its relative position in the country in terms of per capita debt figure also. We have calculated per capita debt for four major states – Andhra Pradesh, Karnataka, Maharashtra and West Bengal. Per capita debt is calculated as the total debt/ total population. The results in the table reveal that per capita debt has risen very steeply in West Bengal compared to three other states. Moreover it is much higher than the other states.

Table 10
Per Capita Debt

(Figures in Rs.)

	Andhra	Karnataka	Maharashtra	West Bengal
1991-92	188.24	158.73	223.37	182.49
1992-93	209.69	190.89	184.47	180.34
1993-94	286.63	201.28	214.67	224.07
1994-95	289.37	300.36	236.40	317.96
1995-96	327.98	234.83	288.99	343.87
1996-97	329.82	289.04	418.32	417.23
1997-98	451.89	316.45	504.63	564.71
1998-99	683.82	482.20	606.72	826.53
1999-2000	844.42	595.90	719.06	1097.58
2000-01	1142.16	740.73	653.40	1380.35

Source: Our own calculation

So we find that both in terms of Debt-SDP ratio and per capita debt, the state's position is not very encouraging vis-à-vis some other major and progressive states.

Conclusion

In this brief exercise, we have attempted to portray the broad features and trends of the items of expenditure of the Government of West Bengal. We have noticed some degree of imbalance in the expenditure pattern, with non-development and directly unproductive expenditures accounting a major share of expenses. The debt position of the state has also been found to be uncomfortable and in terms of indebtedness, the state's performance in comparison with major advanced states is not very satisfactory. However in this exercise we have confined ourselves, due to time and space constraints, to only one side of the government's budget, viz. expenditure side. In order to investigate fully the ailments plaguing the state's finance and the causes behind the ailments, one needs to take a closer look at both expenditure and income sides, as well as undertake a rigorous statistical and / or econometric exercise. The present paper has only furnished a snapshot view and we intend to conduct a more in-depth and rigorous analysis at some later date.

References

1. CMIE Statistics, Various issues.
2. Government of West Bengal, Economic Review, Various issues.
3. Government of West Bengal, Statistical Abstract, Various issues.
4. Reserve Bank of India, Handbook of Statistics on Indian Economy (2001).
5. Government of India, Census of India, Provisional Population Totals, Registrar General and Census Commissioner, India (2001).
6. Sundharam K.P.M. and Andley K.K. (2003), Public Finance – Theory and Practice, S. Chand & Company Ltd., New Delhi.
7. Shome Parthasarathi (2001), India's Fiscal Matters, Oxford University Press, New Delhi.
8. Chatterjee P. K. et al. (2003), Government Finance in Indian States: Patterns, Trends and Socio Economic Fall Out, Artha Beekshan, Vol. 12, No.1.

TRUE INVESTMENT

*Pradipta De**

Abstract

With the recent acceleration of sensex when retail investors are trying to get the entrance in the stock market again, it is often seen that the investment without any fundamental rule can never be construed as value investing. It is always advisable to go for some extent intensive study in the companies' profile and basics that will lead to safe return to the investors. The aim of this article is to keep aware of the potential investors of some fundamental investment tenets and their appraisal.

Introduction

It is interesting to see almost everyday that the Sensex is moving every to reach new heights towards the top and retail investors are flocking to the market. Situation is always favourable for the industry as well as the operators in both the secondary market and the primary market which was not so far almost a decade.

Observation

From the stand point of secondary market, safety margin has an utmost importance. Selling at maximum price and buying at lowest price is difficult to assess, almost impossible because of market risk and uncertainty that largely depends on variation of lots of factors. Apart from the external forces like political, social etc. potential investors should not forget the tenets of successful investing. While 'return of the money' can be the essence of long term investment rule, 'return on the money' should be the tune of the short term plan.

Of course the study of companies' annual accounts demands primary attention, the industry pattern, its' growth and potentiality should be analyzed with due caution.So choice should not be the industry that was not forward including at least during the last 5 years because of its attaining at the saturation or maturity. For an investment proposal of 5/6 years, a particular industry shall have its own life cycle.

---

* Marketing Executive, Berger Paints Ltd., Guahati, Assam.

So identifying the stage of the life cycle is important.

If selection of industry is done, selection of specific company comes into force on next. As stated balance sheet analysis is safe that neglect the short term ups and downs of stock bubbles in the market which may be the acts of speculators.

Quality of promoters who run the business need to be observed, also to be seen if it is governed by establishment management with proven track of managing companies. It mostly brings an intangible corporate image which is most valuable and separates the business from other entrants.

Placing the mind on the financial aspects, investors should look into the asset-liability strength or position rather than existing profitability or sales growth and even the cash inflows.

Return on Net Worth is the best analysis and always better than Return on Capital Employed as interest is also to be taken as food of the business like other operating expenses. Moreover, lender cannot have the owning status. So the management's efficiency through utilization of loan capital should form part of the owner's credibility. It is the leverage (financial liverage) that speaks about the efficiency of loan capital through interest burden.

Flow of cash within the business is indeed a good indicator of business potential but not the last. There is always a threat of losing market in case of intense collection concentration when close competitors are ready to avail the competitive advantages. The good ratio of current liability to cash inflow comparable with prevailing industry norm is desirable and it has to be linked with working capital requirements. A high safety margin in cash is not worthwhile as its' greater benefit cannot be seen (through bank return) compared with loss of competitive advantages. So a substantial increase in cash inflow cannot be compromised with decline in EBITDA and Net Profit.

Investors should always avoid the companies generating cash flow but eating up by capex as it is a worrying sign for the investors (shareholders) because nothing will be there for them.

Debt capital has a dual role. For a new company at the growing stage presence of debt is inevitable and worthy also due to its' inherent advantage from taxation angle. So it is economical and necessary for gaining the leverage benefits. But the company which has already touched its maturity stage, marginal debt is always safe from investment stand point. However, some extent debt is always beneficial. The magnitude may depend on the cash flow pattern and brand strength.

Once again concentrating on the historical past and industry pattern of the selective company, one can safely ignore the technical tips above. For example TISCO stock was moving around 60 – 70 INR range few years but it turned back to 450 INR range at present with the recent sensex rise. Market analyst expect TISCO at its old strength at around 700 INR or like during post election period. However, for investors it is nothing but the corporate image that is defected by historical background of TISCO management efficiency. So buying these scrips is always to be backed by long term investment outlook.

But it is always advisable to book profit during the mid periods fluctuation. It is fact that there should not be any sentiment attached to a stock. If the price rise is sharp without the support of the fundamentals, it should be disposed off immediately even if such investment makes a loss. It is better to protect the higher loss to protect the higher gain because soon these scrips will show a more steady decline. It is not against the philosophy of long term investment rather it is an intermediary correction to justify the long term investment.

End

For example, as a steady investment selection of Colgate Palmolive may be justified. In the long run high corporate image as well brand image pays. It paid a high price for acquisition of Cibaca toothbrush in late 90's and faced hard core threat from HLL and few local market holders like Ajanta and Anchor. Colgate had to increase its advertisement expenses significantly and margins were under intense pressure due to aggressive pricing from its' competitors. For the past 3 years sales hardly kept up with the pace of inflation and profitability remained stagnant. For the past four quarters Colgate is slowly reducing the advertising expenses. Colgate has reduced 30% of its advertisement expenses during the first quarter of the last financial year when it became able to reduce its price by 17% on an average to take care of its' competition and accelerate its volume of acceleration. It resulted loss of market share of the local players, despite the fact that this was no interruption from other market leaders. With the pace of steady profitability it has vastly improved its' Return on Net Worth to 32% in 2002-03. It may be very safe and potential investment even in the context of the presence of other market leaders.

OPENING UP OF INSURANCE SECTOR – WILL IT BE POSSIBLE FOR LICI TO KEEP INTACT ITS MARKET SHARE ?

*Debabrata Mitra**

Abstract

The insurance sector has a history in India. It began in the early years of the 19th Century. The first legal enactment was made in 1870. The first Indian Insurance Act was passed in 1938 and nationalised in 1956 (i.e., 29.02. 1956). However, the sector was once again thrown open to the private sector in December 1999, followed by establishment of Insurance Regulatory and Development Authority (IRDA) in April 2000.

The entry of these private players put a serious challenge to the LICI. In order to combat these challenges LICI has also adopted different new strategies. The present study is intended to analyse the (i) strategies adopted by different insurance companies after opening up of insurance market; (ii) position of different companies in regard to their market shares after two years of opening up of this sector; and (iii) to predict to some extent about the trend of future insurance market in India.

Introduction

It is known to all of us that Government of India constituted a Committee under the Chairmanship of Late R.N. Malhotra, Ex-Governor of Reserve Bank of India for the purposes of bringing reforms in the insurance sector of our country. The Union Finance Minister in his budget speech declared the constitution of that Committee on the 29th day of February 1992. The Committee submitted its report to the Finance Minister in the first week of January 1994. It recommended for a number of changes in the insurance sector of our country. It recommended for privatisation of Indian insurance market and also privatisation of LICI and GICI. It advocated for establishment of an independent insurance regulatory authority for the purposes of controlling the insurance sector of our country. The Insurance Regulatory Authority (IRA) was subsequently redesignated as Insurance Regulatory and Development Authority (IRDA). On December 1999, IRDA Bill was passed in the Lok Sabha. On January 5, 2000 President of India gave assent to the above Bill. With this assent of the President of India, the insurance sector has been opened up in India. With this

* Reader, Department of Commerce, University of North Bengal, Darjeeling.

opening up of insurance sector a lot of private insurance companies have started operating in the insurance market.

Strategies Adopted By Different Insurance Companies

Before opening up of the insurance sector, life insurance was mainly used as a tax saver tool with insurance wrapped around it. But really insurance must offer an optimal balance between protection and savings. And that's a formula, like ICICI Prudential, the new insurers have cottoned on to. ICICI Prudential have offered a wide range of products ranging from traditional term endowments and money back policies to contemporary whole life and pension plans. Max New York Life, for example, has eleven products and nine riders that can be customised to make more than 250 different combinations and Tata-AIG has eight products with six riders. The underlying idea behind this flexibility is to cover as many customers as possible. The strategy adopted by ICICI Prudential is to go for life-stage segmentation so that opportunities to up sell products can be tapped. Birla Sun Life has so far focussed early on unit-linked insurance instead of "me too" products such as term assurance. HDFC Standard Life, on the other hand, gets almost half of its business from term assurance plans, where the sum assured is large but premiums are very low. Max New York Life has mainly concentrated on selling whole life policies because it has thought that whole life policies offer the right balance between protection and savings. Some private insurance companies are being more selective in terms of the risk. As for example, OM KOTAK offers upto 30 percent cheaper premium rates on term policies for non-smokers and women. This company feels that the term insurance itself is not a highly popular product unless some innovative features are added with it. Now the different strategies adopted by different private insurers may be put at a glance :

Name of the Company	Different Strategy
1. ICICI Prudential	1. Mass market appeal and wide product mix
2. Max New York Life and HDFC Standard Life	2. Whole life and term plans
3. Birla Sun Life	3. Mainly focus on unit linked plans
4. SBI Life	4. Offering built around banking products
5. AMP Sanmar	5. Focus on SEC B & C towns

Market Share of Different Players

With the opening up of the insurance sector private life insurers started to operate in the insurance market of our country. Within two years from the opening up of life insurance sector, the new players have became successful to capture nearly 9 percent of the total insurance market in terms of premium income and nearly 33 percent of the pension products market. ICICI Prudential is the leader among the private insurers. ICICI Prudential has sold 3.5 lakh of policies till date and managed to collect 365 crores of premium income in the last financial year which is nearly a 200 percent jump over the previous year. Birla Sun Life is also not far lagging behind. It has also earned a premium income of Rs. 170 crores in the year 2002-2003 and HDFC Standard Life earned Rs. 133 crores as premium income in the previous year. In total, these private life insurers earned a total premium income of Rs. 1021 crores in the last year ending March 2003. A total picture may be depicted as under:

Name of the Insurance Company	Premium earned (Rs. In Crores)	No. of Policies Issued
LIC OF INDIA	9688.87	2,45,29,946
ICICI PRUDENTIAL	364.9	2,46,827
BIRLA SUN LIFE	170.0	1,45,000
HDFC STANDARD LIFE	132.7	1,42,857
MAX NEW YORK LIFE	76.8	1,43,000
SBI LIFE INSURANCE	72.8	18,000
TATA AIG LIFE INSURANCE	59.8	91,500
ALLIANZ BAJAJ LIFE	53.8	69,656
OM KATAK MAHINDRA	34.0	36,836
ING VYSYA	17.0	25,000
AVIVA LIFE	25.0	20,000
AMP SANMAR	8.25	16,000
MET LIFE	4.04	8,686

Figures are for April 2002 to March 2003

Sources : IRDA, LIC.

But the interesting aspect is that if we go analysing the share of private insurers in the total insurance market of our country, we will see that their share is very scanty till date. If we consider a period from April 2002 to December 2002 then we will see that so far as individual new life business is concerned LIC did a business of Rs. 2790.38 crores which is 91% of the total business whereas in total all private insurers did a business of Rs. 285.29 crores which is 9% of the total individual new life business in the above mentioned period. So far as the position in respect of individual pension business is concerned the position of private insurers are a bit better. For the period from April 2002 to December 2002. LICI did a business of 82.76 crores which was around 67% of the total business, whereas in total all private insurers did a business of Rs. 39.95 crores which was 33% of the total individual pension business in the above mentioned period.

However, in the insurance business market-share may not be the real paramcter of growth for insurance companies. According to Satwalekar of HDFC Standard, "If you are long-term player, you will not kill yourself for market share". Actually composition of policies sold and risk assumed on balance sheets of these companies are very much crucial.

Conclusion

From the above discussion, it is clear that after a period of nearly two years from getting the license to transact insurance business in our country the private insurers have not become very much successful in grasping the market share of LICI. But LICI must not feel complacent for that. It should always concentrate on offering better product better services for its customers. For example, just for the purposes of maintaining its supremacy, LIC has undertaken a lot of measures, e.g., almost cent percent computerisation of its manual work, introduction of "Customer Relationship Management" for building up the loyalty of its policy holders, ensuring guaranteed return on many of its policies even in the regime where interest rate is falling very rapidly, connecting all the offices through satellite, offering policy holders to deposit premium in any branch office located in the country, establishment of grievance cell for giving utmost priority to the grievances of its customers etc. It must concentrate on strengthening its customer relationship management as introduced by it a few years back. The interference of the central government on its day-to-day activities should be reduced considerably. Last but not the least, LICI should try to widen its periphery of business from urban and semi-urban areas to the rural areas of our country.

If the above prescribed measures are not thoroughly initiated by LICI then it must have to suffer a serious setback within a few years because private players may adopt some unique devices to capture the majority share of Indian insurance market. LICI must keep in mind the adverse comment made by Mr. Anand Rao Vithoba Adsul, the Union Minister of State for Finance on its financial health, which was recently published in the Business Standard. If the financial health of this monolithic giant really deteriorates then it will have a far-reaching effect on the economic health of our country.

References

1. *Business Today*, 2003, June 8.
2. *Business Standard*, 2003, June 18.
3. Diwan, M.G., 1994, The Malhotra Committee Aftermath, *Dnyananjyoti*, Vol. II, No. I, June.
4. From Policyholders into Valuable Clients, CRM Department, Central Office, LICI, Mumbai.
5. Gopala Krishnan, S.,2001, Insurance Sector – Risk Management, *The Chartered Accountant*, January, pp. 15-23.
6. *Chartered Financial Analyst*, 1999, Insurance in India, Need for Stuctural Adjustment, , May , pp. 45-47.
7. *The Economic Times*, 1998, Insurance Reform Will Result in Fund Outflow, December.
8. Jha, R.N., 1995, Globalization of World Insurance Markets, *Yogakshema*, February 1995, pp. 5-7.
9. Kumar Dharmendra (ed.), 1991, Tryst With Trust : The LIC Story, Life Insurance Corporation, Vakil and Sons, Bombay, 1991.
10. Parera Russell, I.,2001, Privatization of Insurance, *The Chartered Accountant*, January , pp. 24-26.
11. Sonig, H.O., 2001, The IRDA – Challenges of Privatization, *The Chartered Accountant*, January , pp. 11-14.

AN OUTLINE OF COMPUTER BASICS ANDCOMPUTER APPLICATION IN ACCOUNTING & AUDITING

*Sunil Kumar Gandhi**

Abstract

The computer is fast becoming an essential part of human life and its application is rising very rapidly due to its unique characteristics like speed, accuracy, versatility, low cost etc.. It has already made substantial inroads into business firms in our country. But unfortunately the university system in our country is lagging behind in preparing the students to match the requirements of the business world in the area of accounting and finance.

This article attempts to give a sketch of basic ideas of computer system and its application in the area of accounting and auditing. I hope it will be beneficial to the students of Commerce and Management.

Computer Basics

1. What is Computer?

Nowadays, Computers are called **data processors**, because these are involved mainly in data processing rather than in computational job. The name 'Computer' signifies its historical role.

2. Components of a Computer:

- Hardware - Physical Components.
- Software - Written instructions to the Computer (with the help of computer language) to perform a job.
- Firmware - Fixed written instructions embedded in a circuit. Characteristics of both Hardware and Software are present here. Example- ROM or BIOS (Basic Input Output System).

* Head, Department of Commerce, University of Kalyani, Kalyani, West Bengal

3. Internal Components of a Computer :

- Mother Board with numerous circuits
- Central Processing Unit (CPU) containing Control Unit, Arithmetic Logical Unit (ALU), Cache Memory & Registers.
- Memory (RAM/ROM)
- Disk Drive(Hard Disk/Flopy Disk/Compact Disk).
- Power Supplier.

4. Comparison between functions of a human brain and corresponding function of computer peripherals:

FUNCTIONS	HUMAN	COMPUTER
Controlling function	Brain	Control Unit of CPU
Logical function	Brain	ALU of CPU
Primary memory	Brain	RAM
Secondary memory	Brain	Disks/Hard copy
Intelligence/Rationality	Brain	NIL

5. Types of Computers with example:

- Digital - Mainframe, Mini, Workstations, Desktop, Laptop, Palmtop, Super etc.
- Analog - Telephone, Electric Meter, Mileage Meter, Voltage Stabilizer etc.
- Hybrid (Mixture of digital and analog) – Robot.

6. Generations of a Computer:

GENERATION	TYPE	TECHNOLOGY	PERIOD
Pre First Generation	Non-electronic	Manual & Mechanical	Before 1943
First Generation	Electronic	Vacuum Tubes	1943-1955
Second Generation	Electronic	Transistors	1956-1965
Third Generation	Electronic	Integrated Circuits (SSI/MSI)	1966-1975
Fourth Generation	Electronic	Do (LSI/VLSI)	1976 onward
Fifth Generation	?	Artificial Intelligence	Yet to come

Notes:

1. Transistors are semiconductors, made of germanium, silicon etc.
2. SSI = Small Scale Integration (i.e. about 20 transistors embedded on a silicon chip)
   MSI= Medium Scale Integration (about 100 transistors embedded on a silicon chip)

LSI= Large Scale Integration (about 10,000 transistors embedded on a silicon chip)
VLSI= Very Large Scale Integration (about 100,000 transistors on a silicon chip)

7. BIT and Bytes:

The number system accepted by Computer is the *Binary Number System* with two bits 0 and 1. These are called Binary digIT or BIT.

Bytes (or Characters) are 8-bit code used to represent a character, by which all alphabets, numerical, symbols etc. are converted into 8 bits ASCII (American Standard Code for Information Interchange). For Indian language it is ISCII.

8. Data Size:

Data size is expressed in number of bytes, for example:
KB= Kilo Bytes (10^3 bytes)
MB= Mega Bytes (10^6 bytes)
GB= Giga Bytes (10^9 bytes)
TB= Tera Bytes (10^{12} bytes)
PB= Peta Bytes (10^{15} bytes)

9. Speed of a Computer:

- CPU clock speed is expressed in Megahertz (MHz = 10^6 cycles per second), Gigahertzh (GHz = 10^9 cycles per second) etc. It is the speed at which the CPU is fed with electromagnetic wave per second. The frequency of the wavelength determines the *baud rate* (bits per second) at which the Receiver and Transmitter of the CPU receives or transmits a series of bits.
- CPU task performance speed: Time for performing a single arithmetic operation is expressed in microseconds (10^{-6} of a second), nanoseconds (10^{-9} of a second), picoseconds (10^{-12} of a second) and even less than that.

10. Computer Memory:

A. Primary Memory:

- Random Access Memory (RAM)- It is also called Main Memory. It is a *dynamic* type memory and is volatile, slower and cheaper. It is large in size.
- Cache Memory - A high-speed temporary memory that acts as a buffer for the speed mismatch between the Main Memory (RAM) and the CPU. It

helps to speed up computations. It is a *static* type memory and is volatile, high-speed and costly. It is small in size. The cache memories are again of two types based on location – (i) on-chip cache memory (Level-1), and (ii) external cache memory (Level-2).

- Read Only Memory (ROM) – Programmed data, that are of fixed type and don't require change, are permanently written on a chip through circuits. One can only read from it. It is a non-volatile memory. ROM is essential only at the time of booting the computer.

B. Secondary Memory – All types of disks (HD, FD, CD, DVD etc.) and hard copies.

11. Types of Software (or Programs):

- System Software- It acts as a middleman between the Hardware and the Application software. Examples- DOS, WINDOWS, UNIX, LINUX, OS/2, VAX/VMS, Mac O/S etc.
- Application Software- Software designed for application in a specific area. Example- Word processor, Spreadsheet, Database, Accounting, DTP, Graphics, CAD/CAM etc.

12. Computer Languages for writing Programs:

- Low Level Language: These are machine dependent and are of two types:-
  (i) Machine Language: Written in Binary codes. Therefore it is directly understood by the computer and requires no translator.
  (ii) Assembly Language: For writing this language, Symbols are used instead of Binary codes. The computer does not understand these symbols. A translator program known as *Assembler*, translates the Assembly Language into Machine Language.
- High Level Language: This language is machine independent. English words and mathematical symbols are used to write this language. The translator program, called *Compiler*, translates the High Level Language into Machine Language. Example- BASIC, COBOL, FORTRAN, C, JAVA etc.

13. Steps in Computer booting process:

- Power switched on

- Control Unit of the CPU is activated and in turn it activates ROM (or BIOS)
- ROM performs two functions:
  - Does Power On Self-Test (POST) through which it checks whether all the input/output devices are in position. If those are OK, gives a single beep sound and moves to the next step. If anything is wrong, it gives series of beeps that are different for different types of problem.
  - Loads the System Software files (i.e. MSDOS.SYS, SYSINIT, COMMAND.COM, IO.SYS etc.) into the Upper Memory of the RAM from the boot disk. The Lower Memory is reserved for Application Software and thus makes the computer ready for opening and using the Application Software.

Use of computers in accounting and audit

1. In financial accounting:

- Word Processor- For preparation of financial reports, typing of the Final Accounts including Notes on Accounts and Schedules. For an Accountant it is general-purpose software.
- Electronic Spreadsheet- This software was invented keeping in mind the problems being faced by Accountants. In fact it is very much helpful for Accountants. It can be utilised for the following purposes-
  i) Any type of calculation with the help of own generated formula.
  ii) Sorting of Data.
  iii) Preparation of Trial Balance, Final Accounts etc.
  iv) Preparation of Tables like Fixed Asset Schedule and other Schedules.
  v) Preparation of Charts like Bar Chart, Line Chart, Pie Chart etc.
  vi) Calculation of - NPV, IRR, Present Value, Future Value, Equated Monthly Installment (EMI) payable against a loan, Capital portion and the interest portion of EMI, Depreciation based on different methods by using various *Financial Functions* supported by the Spreadsheet.
- Database (RDBMS)- It can be utilised for the following purposes-
  i) To build up voluminous structured database. For example- data related Inventory, Employee, Debtors, Creditors, Shareholders, Deben-

ture holders can be stored in Database.

ii) Manipulate stored data in various ways, with the help of Commands.

iii) To generate various reports by developing Programs. Database software acts as a platform to develop different types of Programs. Programs may be developed for preparation of, Pay Sheet, List of Slow-moving/non-moving stock, Aging list of Debtors and Creditors, List of unpaid dividends, List of Debenture holders whose redemption is due etc.

- Accounting Software- These are tailor-made software for preparation of

  i) Trial Balance,
  ii) Profit and Loss Account,
  iii) Balance Sheet,
  iv) Inventory Records,
  v) Bank Reconciliation Statement,
  vi) Funds Flow Statement,
  vii) Ratio Analysis etc.

The above statements are prepared automatically, once the journal entries are passed.

2. In financial audit:

- Test of Controls (or Compliance Test)- Tests are performed to obtain evidence about the reliability and effectiveness of the EDP internal control system:

  a) General EDP control-
    i) Organisation control
    ii) System development control
    iii) Access control
    iv) Hardware control
    v) File retention and protection control
    vi) Error correction control.

  b) Application control-
    i) Input control
    ii) Process control
    iii) Output control

- Substantive Test- These tests are performed to obtain audit evidence for detecting material misstatements in the financial statements.

CAATs (Computer Assisted Audit Techniques)

For performing of both the tests (i.e. Compliance test & Substantive test), auditors use the computer itself by applying special techniques. These are called CAATs (Computer Assisted Audit Techniques). Examples of CAATs are-

a) Test Data – Test Data are generated by the auditor and injected into the system and the output is monitored and measured to check compliance with controls.

b) General Audit Software (GAS)- All auditors in a computerized environment use GAS, which is a set of computer programs specially developed for performing substantive test. (Note- Tally is partially an Audit Software).

References:

1. Rajaraman,V., (2001), *Fundamentals of Computers*, Prentice Hall of India, New Delhi.
2. Sinha,P.K., (1992), *Computer Fundamentals*, BPB Publications, New Delhi.
3. Mohan, P.(2003), *Information Technology And Its Application in Business*, Himalaya Publishing House, Mumbai.
4. Nandy, A., (2004), *Numerical Analysis Using Microsoft Excel*, Narosa Publishing House, New Delhi.
5. Bhatia Mohan ,(2002), *Auditing in a Computerised Environment,* Tata McGraw-Hill, New Delhi.
6. Gupta Kamal,(1999), *Contemporary Auditing,* Tata McGraw-Hill, New Delhi.

E-COMMERCE - A CHANGING SCENARIO IN BUSINESS

*P. Hanumantha Rao**

Abstract

E-Commerce means buying and selling of goods and service over internet. E-Commerce provides an excellent opportunity to expand the market of a product, not only within the geographical area of a country, but also beyond its boundaries. But, it also suffers from some drawbacks which has become a hindrance as far its growth and popularity are concerned. However, it is expected that E-Commerce will soon overcome these problems and will definitely gain the importance which it deserves.

Introduction

During last one decade or so, business environment has undergone several changes. One of the most significant changes is that business now-a days have become more computers dependent. All activities, from planning to buying and selling, require the use of computer. The emergence of Internet and E- commerce has increased this dependence to a large extent. During this period, we have seen many changes like privatization, globalization, etc. But e-commerce has its own separate impact on the business environment.

In this new century, the Internet is expected to bring about unprecedented changes in the society. Spanning the entire globe and crossing all the boundaries, the net has refined the method of communication. Work study, education, entertainment, trade and commerce. The Internet is the World's largest network. Internet consists of an incredible number of participants, connected machines, software programs and a massive quantity of information spread over the world. Internet can be as millions of people constantly communicating with each other about various topics. Internet is the foundation of e-commerce. Internet provides the communication opportunity which is the starting point of electronic commerce.

Electronic-Commerce is the fast emerging technology which is redefining the traditional way of Commerce. E-Commerce may be defined as buying and selling of

* Guest Teacher, Department of Commerce with Farm Management,
Vidyasagar University, Medinipur

goods and services over the Internet. The application of the concept of E-Commerce helps to conduct the Traditional Commerce through new way of interchanging and processing information.

Types of E-Commerce

There are basically two types of E-commerce, such as,

(i) Business-to-Business Commerce:-This type includes the commercial activities required within an organization. There are a number of internal transactions which can be carried on using E-Commerce.

(ii) Business-to-Consumer Commerce :- All the companies have to, first of all, purchase raw materials from suppliers, After converting them into finished goods , they sell them to the final customers. So, they have transactions with both suppliers and customers.The business –to –consumer commerce enable the business organization to carry on such types of transaction.

The concept of E-Commerce is so interesting in the sense that one does not have to go to the market place to buy the necessary thing. Rather,he can do it by just sitting before his personal computer in his home. One can orders for necessarycommodity by going to the web-site of the particular company and he can have the delivery of the good after making necessary payment through his credit card.

There are several reasons for e-commerce to gain importance over the traditional way of commerce. One of the main objective of business has always been to expand market for its product. Traditional way of commerce has limited capacity as for as the expanding of the market is concered. But the concept of e-commerce has the capacity to overcome such limitation as it has the network of entire globe. The major advantages of E-Commarce can be stated as follows:-

1. Form the business point of view, it is possible to reach to the wider range of consumers. This can be done by advertisement of their products on the web sites and thereby attracting the consumer towards their product.

2. From the consumer point of view, they can search the products of their liking easily by just looking on different websites. Once they can select the products of their liking,they can buy it by placing the order and transferring the required amount

through his credit card.
3. E- Commerces enable the business activities to go beyond the boundaries of the country and this bring the entire community together through business activities.
4. E-Commerce will increase competitiveness in the international market and thus it will bring the best products before the consumers.
5. E-Commerce will help a country to earn foreign exchange provided that the country is capable to meet international taste and demand.

Despite above advantages, e-commerce cannot be said to be fully free from all defects. Like all good thing, it too has some disadvantages. The major disadvantages can be stated bellow:-
1. To make the full advantages of e-commerce, one must have sufficient knowledge of computer. There are some underdeveloped countries in world where majority of population is still deprived of basic education. In such countries, it is a big ask if we want them to be computer literate.
2. The biggest problem, as far as the implementation of e-commerce, is security. Here, security means prevention of the destruction of information and unauthorized availability of the information.
3. Another problem relating to e-commerce is that the buyer does not have the opportunity to see the quality of the good personally. He has to just rely on the information furnished on the web-site. So,if he pays the money and then found the product defective, he can do little. Though, this type of problem may not arise with reputed concerns.

Due to the above problems, mainly security problem, the concept of e-commerce did not gain the recognition and importance which was expected and which it deserves. However, some solution to security problem has been worked out and some work is still going on. But before coming to these solution, one must know what these security problems are and what worries they will bring.

Security problem and their solution

In the environment where trasactions are entered into on the basic of paper document, it is virtually impossible to alter the papers without leaving any evidence and also the payment amount on the cheque cannot be modified without leaving any indication. But while trading on electronic document, not only changes can be made to the document without leaving a visible sign, but rather they can be modified in such a manner to make them appear as bonafide transaction. Security necessarily implies guard against :-

1.Destruction of information and

2.Unauthorized availability of information.

There are three categories of information which can be theft. They are :-

1. **Customer Information** :- The theft of the personal information such as name, age, address and phone no. are not big worry. But sensitive information such as financial records or medical records can be used for the purpose of fraud or black-mail.

2. **Corporate Information :-** There may be some competitor or dishonest employee who may be looking for the opportunities to get unauthorized access of the corporate information to harm the company. So, it is high risk to place these information on the web sites.

3.**Seller Information :-** During the course of transaction, it is quite natural to get some sensitive information about seller such as marketing strategies, production techniques etc. If these informations get into the hands of rival traders, they may take the full advantages of these information to harm the company.

The solution to the above security problems are based on cryptographic techniques. It provides a means for identifying sellers, authenticating message contents, preventing unauthorized ownership of message and protecting privacy. Cryptography consists of encryption and decryption.

Encryption is a technique which makes the information unreadable to the unauthorized persons. In other words, it means encoding information into an unreadable form to ensure privacy. In addition to ensuring privacy, it satisfies also other security needs such as:-

1. **Authentication :** It means it verifies not only the identity of the sender but also verifies whether any alteration has been made to the original message.
2. **Identification :** It means verifying whether the sender of the message is really the one who they claim to be.

3. Non-repudiation : It means preventing the unauthorized ownership of message.

4. Privacy : It means keeping information out of the reach of outsiders.

On the other hand, Decryption means reversing encryption to make the information readable once again. A simple example of encryption may be such as shifting the position of the alphabets by a fixed no. of position . For example, if we want to shift the position of the alphabets to next two positions, it would look as follows :

Original Character	Changed Character
A	C
B	D
C	E
:	:
X	Z
Y	A
Z	B

According to the above scheme, the text "**MY INFORMATION**" would be read as "**OA KPHQTOCVKQP**" which would not be easy to an outsider to understand. However, this method of encryption also has some disadvantages such as :-

i) The sender and receiver of message must agree upon the same secret coding system.

ii) If there are a large no. of businessman with whom transactions are to be made, then it would be difficult task to develop so many secret coding system.

Future of E-Commerce

Though there are some clouds of uncertainty around E-Commerce, yet E-Commerce seems to have a very bright future. Specially, the consumer to business E-Commerce will surely increase in near future. Moreover, E-Commerce will get momentum if it will no longer need the use of computer and can be extended to other electronic devices such as Television, Automated Teller Machine etc.

REPORTS OF THE RAPPORTEUR OF THE NATIONAL SEMINAR ON "BUSINESS ENVIRONMENT - THE CHANGING SCENARIO"

*Malancha Gupta**

A national seminar was organized by the Department of Commerce with Farm Management, Vidyasagar University, Medinipur on 14th February, 2004. The theme of the seminar has been BUSINESS ENVIRONMENT - THE CHANGING SCENARIO. The seminar was inaugurated by Prof. Swapan Kr. Pramanick, Vice Chancellor,Vidyasagar University. The Chairperson of the technical session was Dr. Bhabatosh Banerjee, Professor of Commerce and Dean, Faculty of Commerce and Management, University of Calcutta, Kolkata (formerly, Visiting Professor of Accounting, Rutgers University, New Jersey, USA). The key-note speaker was Dr. D.V. Ramana, Professor, Accounting and Finance Area, Xavier Institute of Management, Bhubaneswar. The Co-Chairperson was Prof. D.P. Pande, Retired Professor, Dept. of Commerce with Farm Mangement, Vidyasagar University. Prof. Amit Kr. Mallik, Vice Chancellor, University of Burdwan was the special guest on the occasion.

At the introduction, the chairman pointed out that current business environment in India is highly influenced by globalization, privatization and liberalization. These forces have brought in new opportunities as well as new threats for Indian business. He also stressed on the need of adapting to these changes for our own survival.

Dr. D.V. Ramana, the key note speaker, addressed our role in the changing business environment. According to him, all of us are directly and indirectly related to several organization as a student, customer, employee, member and advisor. We have to understand the nature of these organizations as well as the nature of the changes taking place in those organizations. Then we should find out our role in keeping these organizations efficient and effective. He also recommended that instead

* Guest Teacher, Dept. of Commerce with Farm Management, Vidyasagar University, Medinipur

of going after the glamour of IT sector, more attention should be given to manufacturing and agricultural sectors. Dr. T.K. Bose, Reader, Dept. of Commerce,University of Burdwan, Burdwan in his paper "Environmental Characteristics and Managerial Challenge : Some Research Evidence in Indian Context," explained that organisational environment is a set of external factors which influence the decision making behaviour of the organisation and with which it interacts for effective accomplishment of objectives. When the concept of organisational environment is applied to business enterprises, it is known as the business environment. His empirical study shows that majority of respondents provide evidence to the effect that the enviornment of the public enterprise possesses the attributes of being dynamic and complex to a large measure.

Mr. Debashis Kundu, City College of Commerce and Business Administration, Kolkata, in his paper "Transformation of the Indian Businesss Landscape" said that the transformation of the Indian business environment encompasses the entire gamut of economic, social, legal, technological and ecological sectors of the economy. The GDP growth rate has crossed the Hindu rate of growth, leading to a quantum jump in per capita income and reducing the number of families living below the poverty line. Indian society is becoming more liberal, modern and is ready to experiment with the new products and ideas. The foundation for technical supremacy is being laid down by various governmental and non-governmental research institutes. The government today believes to be a partner of the industry. The economy grew by 8.4% in the second quarter of 2003.

Prof. M. Mushtaque Ahmad, Chairman, Dept. of Commerce and Dean, Faculty of Commerce, Aligarh Muslim University, Aligarh, Dr. Nawab Ali Khan, Reader, Dept. of Commerce, Aligarh Muslim University, Dr. Mahammad Yameen, Lecturer, Dept. of Commerce, Aligarh Muslim University, Aligarh, in their paper "Changing Scemario of India's Foreign Trade under WTO Regime" (Presented by Dr. Mahammad Yameen) said that WTO with all its functionaries would have tremendous impact on the foreign trade of the member countries as well as of India. The paper has also examined the environmental policy and the Fifth Ministerial which is expected to deal with the negotiations in respect of labour standards, competition policy, investment, governmental procurement and trade facilitation.

Dr. Irfan Ahmad, Lecturer, Dept. of Commerce, Aligarh Muslim University, Aligarh, in his paper "Emerging Trends in India's Foreign Trade under the globalized regime" said that Indian industries are required to adapt to right technology and new business strategies for surviving in global competitive market. This paper suggested how India's foreign trade could be further expanded in the phase of stiff competition through which Indian economy is passing under globalized regime.

Mr. Sankar Prasad Dutta, Research Scholar, Dept. of Commerce, University of Burdwan, Burdwan, in his paper "Economic Reforms: The Driving Forces of Change in the Indian Business Environment" explained the economic reforms initiated in India in the field of fiscal policy, public sector policy and social policy. These reforms brought about dramatic changes in the Indian business environment and directed it towards globalization and stabilization. These reforms have both positive and negative aspects. Indian business enterprises should reformulate their business strategies according to the requirements of market economy in the globalized environment.

Mr. Kaushik Mandal, Lecturer, Chandannagore Computech Academy, Chandannagore and Guest Lecturer, Dept. of Business Administration, University of Burdwan, Burdwan, Mr. Pradip Kumar Samanta, Lecturer, Dept. of Commerce, A.K.P.C. Mahavidyalaya, Bengai, Hooghly and Mr. Partha Sarkar, Lecturer in HRM, University of Burdwan, Burdwan in their paper "Sustainability *vis-a-vis* changing environment of Indian Pharmaceutical Companies: In search of an appropriate strategy" (presented by Mr. Kaushik Mandal) explained the environmental changes that are taking place in the concept of Indian pharmaceutical companies. The technological factor and legal factor appear to be very important in this regard. The paper examined the nature of relationship between profit after tax and R&D expenditure of different Indian pharmaceutical companies. It provides some strategic responses that especially small and medium pharmaceutical companies are required to make for long term survival in the changed environment.

Mr. Samir Ghosh, Lecturer, Dept. of Commerce with Farm Management, Vidyasagar University, Midnapore and Mr. P. Hanumantha Rao, Guest Teacher, Dept. of Commerce with Farm Management, Vidyasagar University, Midnapore in their paper "Business Environment and Globalization" (presented by Mr. P. Hanumantha Rao) discussed the effect of enviornmental factors like technological, political, social and global factors on the Indian business. The paper analyzed the consequences of globalization in business. Increasing globalization poses its own challenges to trading countries and each country should use suitable business policies to cope with increasing globalization.

Dr. Arindam Gupta, Reader & Head, Dept. of Commerce with Farm Management, Vidyasagar University, Midnapore and Mr. Debashis Kundu, City College of Commerce and Business Administration, Kolkata in their paper "Indian Capital Market Environment - An insight" (presented by both in part) discussed the expansion of Indian capital market which is the result of the introduction of many innovative financial instruments in the primary market and the introduction of automated trading, paperless shares and derivative products in the secondary market. This paper suggests that both the government and its regulatory agency, SEBI should work together to bring back the confidence of the retail investors into the capital market.

Dr. Sharmistha Banerjee, Lecturer, Dept. of Business Management, University of Calcutta, Kolkata & Ms. Paramita Chakravarty, Lecturer in Commerce, The Bhawanipur Education Society College, Kolkata in their paper "Effect of Branding on Herbal Personal Care Products : A case study of 'Ayush' " (presented by Ms. Paramita Chakravarty) proposed to evaluate the effect of branding on herbal personal care products. The paper is based on a survey of consumers in the 20-25 year age group from different socio-economic background in Kolkata and suburbs. The survey findings are expected to reflect the environment consciousness of the customers.

Mr.Niranjan Mandal, Lecturer in Commerce, Dr. B.N. Dutta Smriti Mahavidyalaya, Hatgobindapur, Burdwan and Md. Salauddin Khan, Lecturer in Economics, B.N. Dutta Smriti Mahavidyalaya, Hatgobindapur, Burdwan in their paper "Business Environment - An Overview of Some Issues" (presented by Mr. Niranjan Mandal) discussed about the socio-economic and legal environment and their effect on organization's decision making functions. It discussed about some measures to overcome the problems associated with negative spillover effects or negative externalities. According to him, the main source of externality problems is approptiate assignment of legal property rights. If property rights are clearly defined, all other problems will automatically be removed.

Before closure of the session, Dr. Arindam Gupta, the Organizing Secretary, proposed a hearty vote of thanks to the Chairman, Co-Chairman, key-note speaker, the paper writers and the participants.