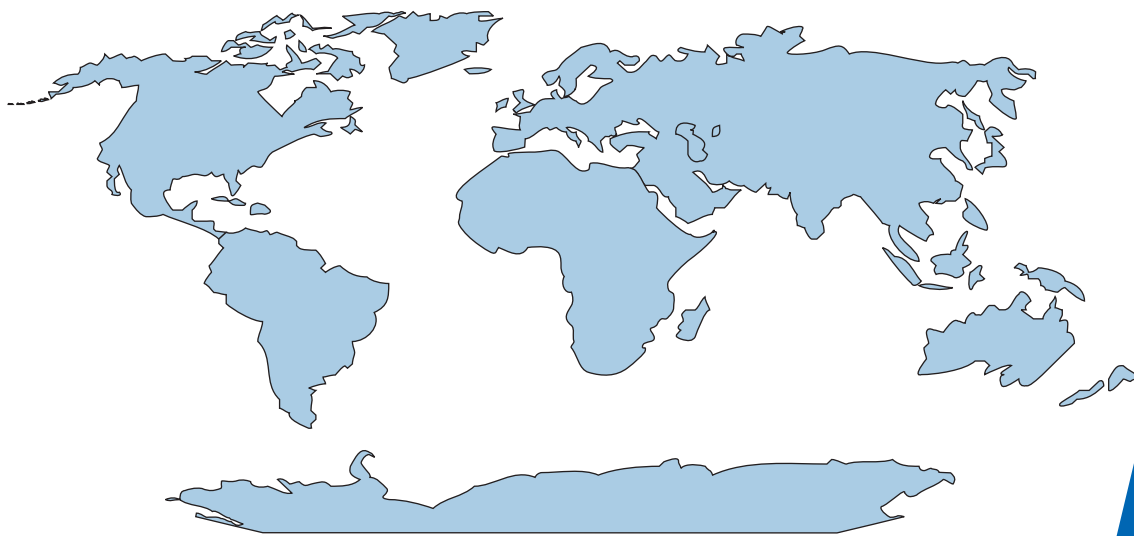


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**A CONCEPTUAL STUDY ON DIAMOND TRADING AND ITS IMPACT ON MONEY
LAUNDERING IN INDIA**

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ABSTRACT

Until 18th century India was the only source for diamonds but over a period of time the Indian mines were worn-out and diamonds became distant in nature. Until late 19th century with the discovery of several large diamonds on the De Beers property in South Africa that a substantial supply of diamonds was discovered. Diamond and diamond trade can be used in all stages of money laundering (placement, layering and integration). Diamonds can be both the vehicle to generate criminal profits as well as the vehicle to launder them. The report by the Financial Action Task Force (FATF) a Paris-based global body to set standards to combat money laundering says that India has reported incidences where diamond prices were overvalued for purposes of laundering. The report said as there were no set standards of diamond pricing in the country, agents were overvaluing the costly and prized gemstones. This paper discuss about the trading in diamond leading to the consequences of money laundering in India

Key words: Diamond trading, Money laundering

INTRODUCTION:

India has a heritage of world's most famous historical diamonds. It takes us back to the greathistoric period of Sikh, Persian and Mughal rulers who possessed Koh-I-Noor Diamond which was once considered the largest diamond in the world. Until some hundred years ago, diamonds were found only in India. The most important part of the history of diamonds has its roots in India. Until 18th century India had dominance over the global diamond industry, later new diamond deposits were discovered in Russia, Brazil, Australia and Africa, while the commercial potential of the Indian diamond deposits had been exhausted by the late 18th century. In the early nineteenth century Diamond trading was moved to Brazil and later to Southern Africa

History of diamond trading in India is started about 1000 years back were traditionally, diamonds would be transported across Arabia and traded to Jewish merchants, who, in turn, resold the diamonds in major European cities As the amount of diamond exchange increased, these exquisite gems came to be used as collateral for loans and payment for high-value items.

Today, India is home to the world's leading diamond cutting and polishing centre. A development that has only started recently. But apparently, the relationship India has with diamonds is much deeper and older

Money laundering (ML) referring to concealing of illegal money has laid its roots in diamond trading in India. According to the report by the Financial Action Task Force (FATF) India has reported instances where diamond prices were overvalued for purposes of laundering

To have a comprehensive paper, the theme of the paper is discussed in three parts. Part I explains about diamond trading in India Part II discuss about the money laundering in diamond trading and Part III explains about the FATF Recommendations which are recognised as the global anti-money laundering (AML)

LITERATURE REVIEW

(singh , January 2009)In his paper the researcher discusses about the concepts and process of money laundering pointing out the challenges and losses and is a kind of primer to money laundering. The paper also analyses the position of India in controlling money laundering keeping up with the mandate of international forum. To sum up the paper various problems and loopholes in implementation of the anti-money-laundering laws are discussed putting forth few humble suggestions to have a balanced anti-money-laundering regime.

As per the report of The report said that there were no set standards of diamond pricing in the country, agents were overvaluing the costly and prized gemstones, and even one such big instance is under the scanner of financial enforcement agencies. The report has been brought out with the aim to provide a general overview of the global diamond industry, the way it works and the characteristics of diamonds as merchandise, "through an anti-money laundering".

One more report of FATF says that Indian importers of diamonds, based in Surat and Mumbai, imported from Hong Kong and China by "grossly over-valuing these diamonds to USD 544.8631 per carat." India reported a relatively large number of cleaned cases (12) in which suspicious transaction reports were received (in connection with diamond trade). In these specific cases, Hong Kong, China is a destination for illegal cash flows related to the diamond trade

According to the debated document, in a number of suspect cases of diamond trafficking the funds were transferred to Belgium from accounts in Hong Kong, China, Israel, the United Arab Emirates (UAE), the US and India. In cases of suspicious money laundering through diamond trade, the money came from India, Israel and Switzerland to the UAE.

OBJECTIVES OF THE STUDY

1. To know about diamond trading in India
2. To study the impact of diamond trading on money laundering
3. To study the measures undertaken by anti-money laundering

Part –I Diamond Trading In India

As it has already been mentioned in the introduction that the diamond trading has started around 1000 year back, recently it has gone through various changes. The main source of diamond could be found in South Africa initiated by Cecil Rhodes who started De Beers. This became a monopoly of diamond mining and sales.

How diamond traded?

India is giving Africa's diamonds a respectable polish. Diamonds are being sent into the city of Surat, where they are cut and polished, then sold to respectable firms.

Surat is the centre of the world's diamond cutting and polishing industry. Ninety-two percent of the world's diamonds are crafted here. Located 250 kilometres north of Mumbai, the city earned India US\$11 billion in exports last year. Thus the diamond trading will be done in India.

Part – II Diamond Trading Leading to Money Laundering

The various ways in which diamond trading has been done and how it leads to the money laundering has been cited below.

- Financing drug trafficking with diamonds and ML through retail level has intricate an organised criminal group that distributed drugs and controlled several low level (street-level) drug dealers. The higher placed distributor would distribute drugs to the street level dealer and receive *diamonds, gemstones and jewellery* as payment, as well as cash. Likewise, the street-level drug dealer traded drugs for diamond jewellery and then traded up to the higher placed drug dealer for more drugs and debt payments.
- According to investigative media reports, blood diamonds are smuggled into Surat in fishing boats. These are cut and polished in the diamond bazaars of this town, sold to reputed firms who then export the stones with a certification that they were not imported from conflict areas.
- Diamonds taken from large scale robberies, thefts and burglaries are sold to "second hand" dealers to include pawn shops, estate jewellery dealers and other high-end retail outlets.
- A diamond dealer has been arrested on organised crime charges allegedly laundering more than USD 100 000 in high-quality diamonds stolen by a local ring of thieves.
- Laundering proceeds of crime through purchase of diamonds and resale at wholesale prices to jewellers and to final customers through the internet
- ML through diamond dealers account and use of a diamond dealer account to transfer funds for third parties

Part – III Measures To Reduce Money Laundering

The following are the various measures as per FATF and the other recognised bodies to reduce the money laundering due to Diamond trading;

Building a better awareness: Criminals use creative schemes to exploit the diamond sector. Lack of awareness of ML risks associated with diamonds and the trade in diamonds could contribute to the risks of ML posed by the abuse of the trade. This lack of awareness amongst key players about their role in the process of fighting

illicit activities is a significant vulnerability, particularly since certain expertise is required to improve understanding and awareness. Understanding the ML risks associated with the trade in diamonds by government bodies and the private sector, including financial institutions, would assist in addressing this vulnerability and taking any needed steps to mitigate the risks.

Definition of a diamond dealer: There is no definition given by FATF of a dealer in precious stones(which includes a diamond dealer). This results in different national legislation and interpretation of diamond dealers. Pawn shops and retailers are often not seen as diamond dealers and there fore not under any national AML legislation and regulation. Consideration should be given to defining a dealer in precious stones including a diamond dealer, which could mitigate the risk of ML.

Enhancing transparency through cooperation with the private sector: Although the sector is specialised and there are barriers to entry, engagement with the private sector during this project has indicated that they are not unwilling or reluctant to cooperate. In general, AML authorities need a better understanding of legitimate commercial practices for diamonds as well as what they perceive as suspicious, and the measures taken to mitigate the risk

International co-operation: Difficulties in the international exchange of information and the use of tax havens are major obstacles in the detection and prosecution of ML through the trade in diamonds. Since the trade is multi-jurisdictional, involving several countries from mine to market, a multi-jurisdictional cooperation is required to investigate ML cases.

Regulatory level playing field: Given the international character of the trade in diamonds, it is important to encourage a level playing field for AML regulation. Where there are major discrepancies between jurisdictions, this may attract criminals to conduct their transactions in jurisdictions with low or no AML regulation on the diamonds trade. For a sector which is mainly based on trust and long-lasting partnerships, the application and enforcement of the AML legislation and the obligation of diamond dealers to collect identification documents from each client and report suspicious transactions, has a large impact on the competitiveness vis-à-vis diamond dealers in other countries who are not subject to similar obligations. This may have the adverse effect of diverting the diamonds trade to less regulated jurisdictions, generating higher levels of ML risks associated with the diamonds trade.

Indian intelligence officials say that blood diamonds will have to be identified before they enter Surat as once a rough diamond is polished it is impossible to trace its place of origin

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COMPLEXITY COSTS AND ITS EFFECTS ON ORGANIZATIONAL GROWTH IN EDIBLE OIL MANUFACTURERS IN KENYA.

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ABSTRACT

This paper's discussion concentrates on the fact that the concept "growth" is used both for "change in amount" and for the process that leads to that change in edible oil Manufacturers in Kenya. Today, estimation of production of edible oil is at 380,000 tones. This quantity constitutes about one-third of its annual demand, the rest is imported meaning that edible oil industry have the potential to grow as they exhaust the market. Firms in Edible oil industry have varied growth levels and yet there is market for their products. Firms can expand along different dimensions and show growth patterns overtime such as joint ventures, alliances, licensing, internationalization, diversification, integration but the general objectives of this study is to determine the levels of complexity in relation to coordination costs and how they affect firm growth. This paper takes the perspective of a closed-up nature that has a rich image especially when assessing organizational coordination costs in relations to the complexity of activities in that organization. The research used a survey design with both quantitative and qualitative research approaches. The study was based on purposive sampling for manufacturing firms and stratified sampling for respondents. The primary data was collected by use of questionnaire and yielded dichotomous answers. Secondary data was collected from the firm's annual financial statements, i.e. debt ratio, return on investment, profits retention ratio, liquidity ratio which formed the measurement for growth. This measurements were selected because they backtrack the proceedings of sales as the increase in sales necessitates increase in profits, return on investment, reduce debt ratio, on the basis of sales being a universal determinant of growth. The research analysis was based on correlation analysis that calculates path coefficients, simple correlations, indirect effects, and indirect effects, and total correlations. the study found that complexity costs were insignificant in influencing the growth of the oil manufacturing companies.

Key Words: Complexity costs, Modularity, Organization structure, interdependency of tasks.

BACKGROUND OF THE STUDY

The growth of edible oil market in India is explained by the growing population and rise in income of the Indian people. The increasing awareness about health benefits is also a major growth driver. The challenges the players in the market are facing are rising edible oil prices hindering the market growth (Research and Markets, 2012).

In the edible oil industry in Kenya, there are firms that have varied growth levels. Edible oil refineries in Kenya include companies such as Kapa Oil refineries, Bidco oil refineries, Menengai refineries and Unilever oil refineries, among others. These companies deal with production of cooking products, laundry soaps, detergents and personal care products. For example, Unilever sold its Kimbo Brand to Bidco Oil refineries. Bidco Oil refineries are the largest vegetable oil processing company (EPZ, 2005). Firm growth is a phenomenon where firms experience opening of new branches, departments, and increase in number of employees, high profit retention ratio and debt ratio.

Market transaction costs limits growth to most firms thus suggesting that integration costs rise with firm size.

Coordination costs and organization structure creates a central emphasis on the differences between firms. The way each firm carries out its activity systems create different demand for coordination; thus, the difference in growth strategies and structures used by firms in the same industry. Studies conducted, Nelson *et al.*, (2011); Allen (2001) suggest differences in firm structures, strategies and performance. In this paper, the premise is that value created when carrying out an activity in firm increase synergy or complementarities with the existing activities within the organization thus lowering coordination costs. Given this premise, firms must therefore coordinate activities to realize the value of synergies.

The paper is keen to ask the following question:

How does complexity costs affect organizational growth edible oil manufacturers in Kenya?

Organization structure should be designed to reduce the complexity of coordination. If complexity of coordination is not managed, the costs of coordination will increase thus affecting firm growth. Coordination capacity for any firm is directly related to rational management where supervisors intervene in the activities of the subordinates selectively each time coordination benefits are gained (Cover and Permuter,2007).

To achieve selective intervention, an organization structure helps to put together the selective intervention, to know when and where to act and the mechanism of intervention. The intervention selected can be based on scheduling, performance measurement, incentive contracts, job assignment, and asset ownership. Information processing squarely relies on the organization structure (Cooper and Wolfe, 2005). The same goes for communication and joint making of decisions within firms. Supervising units are assigned authority and decision rights by the organization structure (Rue and Byars, 2005). The authority rendered to supervising units enable them to set priorities to the subordinates when the subordinates think otherwise (Hart & Moore, 2005). With an organization structure present, multiple interdependent tasks can be grouped into divisions neutralizing the conflicting objectives within the divisions (Cover and Permuter,2007). An organization structure, especially hierarchical structure characterizes interdependence activities systems into complexity (degree of interdependencies) and compensability (distribution pattern of interdependencies). The argument is that the relationship between modularity and complexity is curvilinear. When complexity is moderate, coordination benefits are realized because it allows for more comprehensive decisions, because the interaction terms are moderate. However, when the system is complex, organizations have to modulate the activity system despite the possible interdependencies between units. The level of complexity determines the extent of decomposability. The more decomposed the activity system the more modular the organization structure (Gulanic and Eisenhardt, 2001). The coordination of interdependencies between units is enhanced by hierarchical organization structure. Therefore, the management of organizational structure and coordination should facilitate firm growth, yet still, firms in the same industry differ in growth (Rivkin, 2000).

It is argued in strategy literature that firms are able to attain firm growth due to their resources and capabilities which can be opportunistically used in new markets (Scott, 2007). Scholars have argued that firms that diversify into more related industries enjoy the benefits of synergies (Gomes and Livdan, 2004). This method directs a continuous growth for the firms until the benefits of efficient coordination diminish to zero. Firms can realize the potential efficient coordination if interdependences brought about by resource sharing between products are well managed. The resource sharing between products adds the need for more coordination. This may increase the marginal coordination costs which might outweigh marginal benefits. The firm will experience the impact of coordination costs if it has complex businesses. The relatedness of diversification in a complex business may cause the net benefit. Increasing costs of coordination can set a limit to firm growth (Rajan and Zingales, 2001).

1.2 STATEMENT OF THE PROBLEM

Coordination helps to improve the efficiency of operations by avoiding overlapping efforts and duplication of work. Coordination is a creative force which makes possible a total result which is greater than the sum of individual achievements. This is the synergetic effect of coordination. Coordination enables an organisation to reap optimum use of its resources (Densan and Myatt, 2008).

The success of organized endeavour depends upon the quality of coordination. The quality of coordination is the crucial factor in the survival of an organisation and thus organizations need to benefit higher efficiency and economy from it (Blaneet *et al.*, 2007). The puzzle is that firms in this industry, operating in the same market environment have varied growth (KNBS, 2013). Could some of these firms that are recording low growth as shown in table 1.1 be experiencing the effects of coordination costs that hinder them to reap higher efficiency and economy? This thesis therefore sought to find out if coordination costs (complexity costs) were contributory factor in the varied growth of these firms.

1.4. RESEARCH QUESTION

How does complexity costs affect organizational growth in edible oil manufacturers in Kenya?

1.5 Hypotheses

H₀₁ – Complexity Costs do not affect Organizational growth

CRITIQUE OF THE EXISTING LITERATURE

2.1 Modularity Theory

Modularity theory emphasizes on organizational systems, when they can be decomposed into a number of components that can be mixed and matched in a number of configurations to create an interrelation fit for the best performance. In modularity, components should be able to connect, interact or exchange resources in some way by adhering to a standardized interface (Melissa, 2008). The systems are “loosely coupled” (Baldwin & Clark, 2006). Organizational systems become increasingly modular when they are in a loosely coupled form as opposed to tightly integrated, hierarchical structures. Loosely coupled form means that the flexibility is enhanced when it comes to activity switch. A good example is a manufacturing organization using a component such as contract manufacturing rather than in-house manufacturing. This means that the firm can switch between the contractors that perform different functions. The firm can contract specialized firms (modular) to undertake different functions (Schilling and Steensma, 2001).

Modularization in firms leads to the disaggregation of the hierarchical structure of governance. The firm is decomposed into small individual units (modules) to reduce complexity. Modularization generates a structure which modules strongly integrate interdependent tasks. These efforts involve a strong process-orientation whereby a complete service-provision process of a firm is split up into partial processes, which can be handled individually by cross-functional teams in the organizational units or modules (Singlekov, 2002). The link is that the paper seeks to find out the coordination involved in complexities and decomposability of firm activities which are the main components of the theory.

2.2 Criticism of Modularity Theory

Modularity theory is basically based on the assumption that modular systems must have access to narrow set of inputs that entail automatically as a defining property of a module, initially based on the functioning of human mind (Fodor, 2000). A given system accepts or is specialised to operate on only specific classes of information (Schilling and Steensma 2002). Given information of a system should not be influenced by processes or information other than their proper bottom-up inputs (Barret, 2005). He further argues that information accessibility can be wide but narrow processing thus modularity creating some ambiguity. What is important is to specify how information is accessed and how it is processed, including the input criteria that must be met for processing to occur.

A good example is when one can have central modules that have access to large information stores but process information in specialised ways (Batesman and Scott, 2007). Thus, information or activities integration is vital of which modularity does not consider. Activities in an organization cannot be isolated (Bachtel, 2003). They are advantageous given the functional demands on central system. They result into making decisions basing on the current happenings i.e. assessment etc. Systems are expected to change according to changing features in the global environment. Modularity scholars have often been equated inflexibility and plasticity (Buller and Hardcastle, 2000).

2.3 Structure based coordination in product development

When organizations are implementing a chosen strategy, they have variety of structural forms from which to choose from (Van Zandt, 2003). In this instance, research means how the organization has structured its roles and administrative mechanisms to integrate and control decision-making, resource flows and work activities in the organization.

The coordination between autonomous functional units (Scott and Davis, 2007), to facilitate coordination of functional decisions, work and resources, organizations require lateral linkage or structural coordination mechanisms. Most contemporary organizations divide work according to functional specialties which could be branches/units.

There are several kinds of lateral linkage mechanisms that firms use for the purposes of coordinating inter-functional tasks across firms activities as identified by (Hazard *et al.*, 2006).

3.0 MODEL SPECIFICATION

Path analysis’ aim is to provide estimates of the magnitude and significance of hypothesized causal connections between sets of variables.

Path analysis indicates that variables are merely correlated; no causal relations are assumed. The independent (X) variables are called exogenous variables. The dependent (Y) variables are called endogenous variables. A *path coefficient* indicates the direct effect of a variable assumed to be a cause on another variable assumed to be an effect (Cyprien and Kumar, 2011).

Path analysis can be represented in two ways: as an equation or in diagrammatic form. For the purpose of this study, an equation was used referred to as a structured equation, which was typically stated in its standardized form.

$$Z = f(P_{41}Z_1 + P_{42}Z_2 + P_{43}Z_3 + e_4)$$

In this structural equation, the direct causal effects were represented by the p coefficients, often called path coefficients or structural coefficients. These coefficients are analogous to standardized regression coefficients, β , resulting from multiple regression analysis Agresti & Finlay (2002) and their interpretation is similar. They are interpreted as the estimated change in dependent variable, expressed in standard deviation units, associated with one standard deviation change in each independent variable holding the other independent variables constant. Therefore this study used multiple regression method to determine the relationship of the variables. The subscript that accompany the path coefficients indicate the direction of causation with the first subscript indicating the variable being determined and the second indicating the direct cause (Dalkani *et al.*, 2011). The z's indicate the standardized raw score value on each variable. The residual term e_i , called the disturbance term in causal modeling represents the imposite effect of any other direct determinants of Z which have not been included into the causal model, plus any measurements error in Z (Anwamalik, 2007). The squared multiple correlation (R^2) for the structured equation, and the associated significance was required to determine the causal effect.

Growth index was used to measure growth. This enabled the researcher to use the model specified above through regression. Simple correlations determine relationships between independent factors and regression on dependent factor is used to obtain the direct effects in the form of partial regression coefficients (path coefficients), (Cyprien and Kumar, 2011)

Path analysis has its strength in the fact that errors associated with any single observation on the dependent variable are independent (i.e. not correlate with) errors associated with any other observation on the dependent variable. The independent variables are fixed (i.e. the same values of the independent variables would have to be used if the study were to be replicated. The independent variables are measured without error. The errors are not correlated with the independent variable and it is most suited for activities which are interdependent. The criticism of path analysis is that the variance of the residuals across all values of the independent variables is constant (i.e. homoscedasticity of the variance of the residuals). The valid causal inference requires a correct specification of the structural equation for the causal effects to be accurate and unbiased.

3.1 Hypothesis Testing

The intent of hypothesis testing is formally to examine two opposing conjectures (hypotheses), H_0 and H_1 . These two hypotheses are mutually exclusive and exhaustive so that one is true to the exclusion of the other. Evidence was accumulated through collection and analysis of sample information for the purpose of determining which of the two hypotheses was true and which of the two hypotheses was false. This study used the chi square tests to test the hypothesis of the study. The hypotheses were framed as shown below.

$$H_0: \mu_1 - \mu_2 = 0$$

$$H_1: \mu_1 - \mu_2 \neq 0$$

The chi square statistic and P-value were calculated using SPSS. The P- value was then used to make decisions on the null and alternative hypothesis. The following criterion was used in determining the hypothesis

$$P\text{-value} \leq \alpha \Rightarrow \text{Reject } H_0 \text{ at level } \alpha$$

$$P\text{-value} > \alpha \Rightarrow \text{Do not reject } H_0 \text{ at level } \alpha$$

The confidence level of the study was 95%, thus the level of significance (α) was 0.05

4.0 DATA ANALYSIS

Complexity cost

The researcher collected data from the oil manufacturing companies on complexity costs. The data was analysed using mean and standard deviation. The findings are shown in table 4.2.

Complexity cost

	Mean	Std. Dev
Organizational tasks are too many thus not completed on time	.41	.503
New employees are hired each time a new department is created	.45	.510
Many departments perform the same tasks	.36	.492
One supervisor has 10-25 people under him/her	.41	.503
Departments are complete in themselves, they do not supply inputs to one another	.36	.492
The structure in this organization is horizontal. Each individuals has a contribution to make	.68	.477
Tasks in the organization are performed by individuals and no teamwork.	.27	.456

The information presented in table 4.2 shows the findings on the complexity costs. From the findings, the respondents stated that complexity cost are minimal since organizational tasks were not too many and could be completed in time (M=0.41), creation of new departments did not necessarily warrant employment of new employees (M=0.45), there is minimal duplication of tasks (M=0.36) and supervisors were over so many people (M=0.41). Also the respondents pointed that departments were not compete in themselves and could supply inputs to one another (M=0.36) and that they performed tasks in the organization through team work (M=0.27).

However, the study findings indicate that one of the complexity cost is in the structure of their organizations which in most cases is horizontal and where each individual has contribution to make. This increases the time taken to make decisions and for each to agree to their colleague’s ideologies.

Coefficients

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	5.375	.524		10.259	.001
Log decomposability costs	.145	1.044	.024	.139	.896
Log complexity cost	1.464	.815	.304	1.798	.147
Log inter-unit cost	-7.803	2.009	-.711	-3.883	.018
Log span of control cost	-3.435	.723	-.775	-4.750	.009

The information contained in table 4.11 shows the results of the regression. According to the findings, inter-unit cost (p=0.018) and span of control costs (p=0.009) were statistically significant in influencing the growth of the oil manufacturing companies. The decomposability costs (p=0.896) and complexity costs (p=0.147) were not significant in predicting the growth of the oil manufacturing companies.

Since the decomposability costs and complexity costs were insignificant in predicting the outcome of the growth of the oil refineries, they were dropped from the model. The resultant model became:

$$\text{Growth} = 5.375 - 0.711 \text{Inter-unit costs} - 0.775 \text{ span of control costs}$$

This indicates that when all the factors are held constant, the growth (profits) of the oil manufacturing companies increased by 5.375 units. When all factors were held constant, a unit increase on inter-units costs decreased the profits by 0.711 units. Also when all the factors were held constant, a unit increase in the span of control costs decreased the growth (profits) of the oil manufacturing companies by 0.775 units. This indicates

that increase in the co-coordinating costs decrease the growth of the oil manufacturing companies and vice versa.

Hypothesis testing

Chi-square test between growth and complexity cost

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	40.000 ^a	36	.297
Likelihood Ratio	27.185	36	.855
Linear-by-Linear Association	.376	1	.540

A chi-square test was done to assess whether growth and complexity costs had any significant relationship. The p= value obtained was 0.297(P>0.05). This shows that there was no significant relationship between growth and complexity cost. Therefore, we fail to reject the null hypothesis that complexity costs do not affect organizational growth

5.1 DISCUSSIONS AND CONCLUSIONS

Examine complexity costs and its effects on organizational growth.

The complexity costs of a company are brought about by the high complex functions or levels or processes within a company. The study found that most of the oil manufacturing companies had low complexity costs due to interdependence of their functions and processes. Although the companies had low number of tasks and could be completed in time, newly created departments did not mandatory result to employment of new employees since the departments were highly inter-dependent thus decreasing complexity costs. This agrees with Ernest (2005) view that low interdependencies increase complexity costs of a company.

Also the companies had less number of supervisors since one supervisor could over see many employees. The departments in the oil manufacturing companies completed their tasks through inter-dependence and supplied inputs to one another. The finding also shows that most of the companies worked as a team and one entity. However, the study found that most of the companies had horizontal organizational structure where each individual had a chance to make a decision concerning the company. This increases the time taken to agree on a particular decision since the number of decision makers was many and their decisions and ideas were varied.

The complexity costs of the oil manufacturing companies are inversely related (r=0.062) with the organizational growth of the companies. Thus, the growth of the companies declined when the complexity costs increased and increased when complexity costs declined. Complexity costs were also inversely related with decomposability costs thus when complexity costs were increasing decomposability costs were decreasing. This could be due to the complementary nature of the two costs. The findings further shows that complexity cost was directly related with inter-unit and span of control costs indicating that all the three costs increased at the same time.

The regression analysis found that complexity costs had low influence on the growth of the oil manufacturing companies. The significance of the influence was found to be negligible and very insignificant. This was also confirmed by the chi square which tested the significance of the relationship and found no significance relationship between the growth of the oil manufacturing companies and complexity costs.

The complexity costs are negatively related with the profits of the companies, inter-unit costs and span of control costs implying that when any of the costs went up, the complexity costs were also high. This means that there is high dependence of the costs.

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A PRAGMATIC STUDY OF FRANCHISER -FRANCHISEE RELATIONSHIP IN MAHARASHTRA

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ABSTRACT

Franchising is often cited as being a highly effective business strategy, which can result in strong profits for both the franchisor and the franchisee. However, it is strongly influenced by the development of a successful franchise relationship. This study has undertaken in order to introduce some of the key issues which would be considered when examining a franchise relationship, and poses two research questions which should be addressed.

The empirical aim of this study was to investigate the relationships between relationship quality, cooperation and customer loyalty in franchising relationships in Maharashtra.

Key Words: Franchising, loyalty, and cooperation

INTRODUCTION

Franchising is a form of business arrangement which originated from France in the eighteenth-century. The term "franchising" is French, translating as "a granting of right" or "an exemption" (Williamson 1992).

The franchising of goods and services foreign to India is in its infancy. India is, however, one of the biggest franchising markets because of its large middle-class of 300 million who are not reserved about spending and because the population is entrepreneurial in character. In a highly diversified society, McDonald's is a success story despite its fare's differing from that of the rest of the world.

So far, franchise agreements are covered under two standard commercial laws: the Contract Act 1872 and the Specific Relief Act 1963, which provide for both specific enforcement of covenants in a contract and remedies in the form of damages for breach of contract.

While franchising practices have long been established, it is a difficult concept to define. Franchising does not fit comfortably within the limits of any single discipline or an area of management practice (Stanworth and Curran 1999). Franchising has been a center of focus of studies in various disciplines. In law, franchising is focused on the contractual arrangement perspective of the franchise relationships (Shannon 1982; Terry and Giugni 1995). In marketing economics, franchising is explored in relation to channel of distribution and marketing strategies (e.g., Anand and Stern 1985; Bush and Hunt 1982; Cadotte and Louis 1979; Dahlstrom and Nyggard 1999). In entrepreneurship, franchising relates to personal profiles and the innovative aspects of franchises (e.g., Caruana, Morris and Vella 1998). From an organizational theory perspective, franchising is focused in the area of human resource management and organizational structure (e.g., Allaire and Firsirotu 1984; Kaufman and Dant 1999; Sapienza, Smith and Gannon 1988). This has resulted in many different definitions depending on the area of focus (Elango and Fried 1997; Stanworth and Curran 1999; Withane 1991).

Recently, the heterogeneous nature of the franchise firms has gained recognition. Franchise firms are regarded as having different profiles based on their structure and strategies (Callum and Graham 1999; Carney and Gedajlovic 1991; Castrogiovanni et al. 1993; Floyd and Fenwick 1999; Lillis et al. 1976; Oxenfelt and Kelly 1968-1969).

However, a homogeneous view of the franchise firms has normally been used to investigate franchising success (e.g., Castrogiovanni et al. 1993; Castrogiovanni and Justis 2002; Kaufmann and Eroglu 1999). If franchise firms have progressed through different developmental stages, the propensity to investigate the franchise success rate as a homogenous population may not be appropriate. This leads to the first research question, which explores the impact of the stage of franchises on their relative success. The impact the developmental stage of a franchise has on its achievement on a successful franchise relationship could be very important.

HYPOTHESIS

- H1:* Relationship quality is positively correlated with cooperation
- H2:* Cooperation has no effect on customer loyalty

Sample size:

Out of the total franchise in India, six sectors and their 28 brands are selected and 400 employees of these franchise outlets shall be interviewed.

H₀₁. There is no cooperative relationship between franchisees and franchisors

Items for cooperation	Minimum	Maximum	Mean	Std. deviation
Any information that might help us will be provided to each other	1	7	5.03	1.26
We keep each other informed about events or changes that may affect us	1	7	4.99	1.12
In most aspects of this relationship, we are jointly responsible for getting things done	1	7	4.85	1.16
We treat problems that arise in the course of this relationship as a joint rather than individual responsibility	1	7	4.83	1.27
When some unexpected situation arises, we would rather work out a new deal than hold each other to the original terms of the contract	1	7	4.75	1.26
It is expected that we will be open to modify our agreement if unexpected events occur	1	7	4.56	1.33

The results of the franchisee ratings for cooperation are shown in above table. Six items were used to assess the cooperative franchising relationship between the franchisee and franchisor. The mean scores of cooperation were all higher than four. Therefore, the results indicate that there is a good cooperative relationship between franchisees and franchisors. Franchisees and franchisors tend to share essential information with each other, perceive joint responsible for getting things done and work mutually to treat problems within franchising relationships.

H₂: Cooperation has no effect on customer loyalty

Items for loyalty	Minimum	Maximum	Mean	Std. Deviation
If you were to continue your business, how likely is it that you would continue the relationship with your franchisor?	1	6	6.04	1.52
If another person asked your advice, how likely is it that you would recommend your franchisor?	1	6	5.86	1.57

Franchisees' loyalty was also measured on a seven-point Likert scale ranging from "Strongly unlikely" (1) to "Strongly likely" (7). This scale indicates the degree to which franchisees are likely or unlikely to continue the contractual relationship with their franchisor and to recommend the franchise system to others. The results of the franchisee ratings for loyalty are shown in above Table. Two items were used to assess the franchisees' loyalty within the franchise relationship. Most franchisees stated a high level of loyalty to their franchisor. The mean scores of franchisees' loyalty to their franchisor were all higher than four. Therefore, the results indicate that franchisees have high intentions to continue the franchising relationship with their franchisor. Additionally, the results indicate that franchisees principally would recommend their franchisor to others.

CONCLUSIONS

The empirical aim of this study was to investigate the relationships between relationship quality, cooperation and customer loyalty in franchising relationships in Maharashtra. Based on the results of this study, there are significantly associated relationships between relationship quality, cooperative relationships between franchisors and franchisees and franchisees' loyalty. Relationship quality (trust, commitment and satisfaction) is an important predictor of cooperation in franchising relationships. With a close relationship between franchisees and franchisors, the level of cooperation could increase. Relationship quality is also an important predictor of franchisees' loyalty. While franchisees have a great relationship with their franchisor, franchisees might have high levels of loyalty to continue the collaboration. Furthermore, cooperation between franchisees and franchisors will have a positive effect on franchisees' loyalty. Once franchisees and franchisors have a highly cooperative franchising relationship, franchisees would have higher loyalty to their franchisor. Consequently, relationship quality, cooperation and loyalty are indispensable factors that could influence a successful long-term franchising relationship. It is essential for both franchisors and franchisees to build and maintain a steady franchising relationship to maintain competitiveness in the market.

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A SYSTEMATIC STUDY OF DISASTER MANAGEMENT AND STRATEGIC PLANNING WITH REFERENCE TO INDIA

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ABSTRACT

‘A Stitch in Time Saves Nine’ the English proverb rightly underlines the work and need of Disaster Management and Strategic Planning for any kind of hazard that leads to destruction with regards to life and property.

World trends of past decades indicate that high rise in loss of life and property is more a result of disasters. Developing countries with low income, poor and underprivileged communities are hit the hardest by the disasters. For nations to grow and develop in a balanced and systematic manner Disaster Management and Planning is the need of the hour. Disaster Management involves a continuous and integrated process of planning, organising, directing, coordinating and implementing measures among various stakeholders and departments. Management and Planning depends upon the civic infrastructure and resistance of society to the impacts of disasters.

The objective of this review paper is to understand disaster management and planning with reference to India. Being a developing country, India has faced number of hazards over the past that has led to loss of life as well as economic damages due to various disasters. High magnitude and suddenness of disasters are thus associated with socio, economic and environmental impacts within the country. Review of Disaster Management in India has indicated the need for a paradigm shift from Post- Disaster to Pre- Disaster Management and Planning strategies which can help in developing and nullifying the impacts of disasters. Indian government also needs to consider mitigation and prevention as the main part of the developmental strategies. India in collaboration with International programmes is working towards mitigation strategies that are cost- effective as compared to relief and rehabilitation processes of disasters.

As incidences of disasters lies beyond human control but vulnerabilities are controllable through proper management and planning. Success of any disaster management plan and strategy largely depends upon the involvement of the communities at the grass root and other levels of development.

Keywords: *Disaster, India, Management, Planning, Strategy, Structure*

1 INTRODUCTION

The Earths forces can sometimes go beyond their general nature and turn into a natural hazard. Natural hazards have existed from our very inception of the earth but unplanned population growth (natural and migrated), urbanization, development of infrastructure, instability and overburdening of high rise buildings along flood plains, hill slopes and coastal areas has exacerbated the conditions of a disaster. Humans are thus mostly the underlying cause of using geography and nature in a sense of different activities and land-use patterns which convert these natural hazards into natural disasters, *ZumBrunnen C.(2012)*. Disaster thus disrupts administrative, social, economic, ecological aspects, creating a negative impact on the environment, humans and their infrastructure. It is rightly mentioned by some that ‘Disasters are a Humanitarian Issue rather than one of Development’.

The scale and intensity at which disasters are occurring in today’s world is indicative of Disaster Management (DM) to be included in development and decision making processes of all nations. This requires Strategic Management and Planning to be the core of all Disaster Risk Reduction programmes and policies related to prevention, mitigation, response and rehabilitation to develop disaster resilient societies. Disaster Management is no longer work of one agency but is multi- dimensional in its structure especially in a country like India.

1.1 Definition and Meaning

The degree of disaster and its effects increases or decreases depending on the following:-

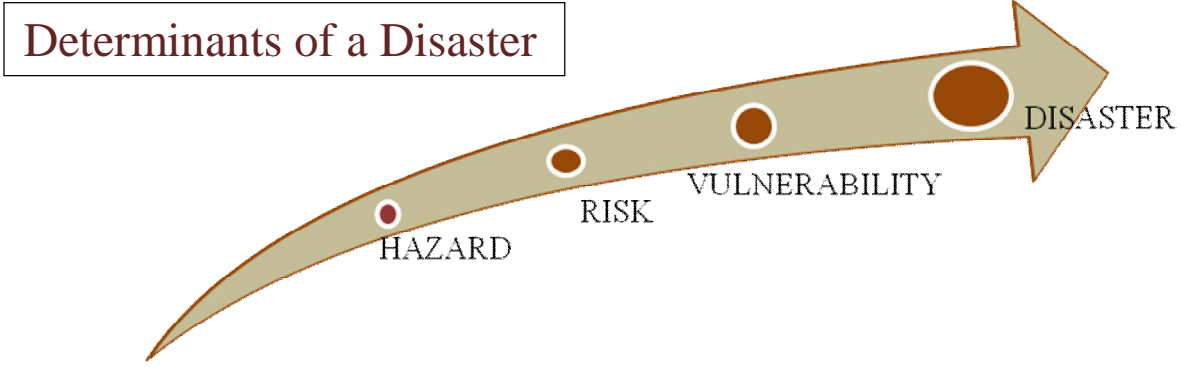


Figure 1

Hazard term is derived from two languages – French word ‘hasard’ and Arabic ‘al- zahr’ meaning ‘chance’ or ‘luck’. It implies to all that is dangerous to life, health, property and environment. Hazard is dormant, armed or active and can be of five types i.e. physical, biological, chemical, radiation and psychological. *Davis, Lee (2010)*

Risk is a measure of expected losses due to a hazard. Risk= likelihood x consequences or it can also be stated as Risk= Hazard x Vulnerability (-) capacity. *DeolankarVivek (2010)*.

Vulnerability is derived from the latin word ‘vulnerabilis, meaning ‘to wound’. So it is the measure of damage and disruption that can take place in an area or a community.

Disaster is derived from the French word ‘desastre’ which is formed from ‘des’ and ‘aster’ and ‘disastro’ the old Italian word both meaning ‘bad or evil star’. **Disaster** is thus the origin of these words. It means a sudden calamitous event causing extensive death and destruction. *United Nations*

Hence **HAZARD + RISK+ VULNERABILITY = DISASTER**

Strategy originated from the Greek word ‘Strategos’ which means ‘general ship’, i.e. directing military forces. ‘Stratos’ means ‘army’ and ‘Ago’ means ‘to lead’. Thus it is the art of the general. Later strategy term become a common term for long- term planning or policy making by various organisations.

1.2 Types of Disaster

Disasters can be classified into Natural and Manmade depending upon their mode of occurrence as shown in figure 2:

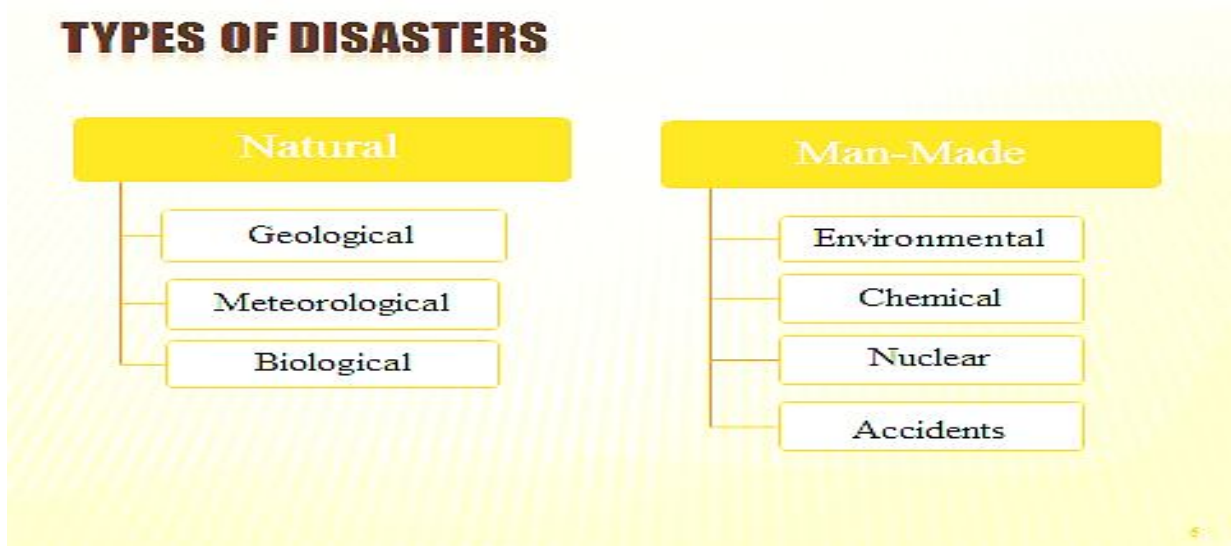


Figure 2

NATURAL DISASTERS consist of:

- Geological - Earthquakes, Volcanic Eruption, Tsunami, Landslides, Natural Forest Fires
- Meteorological – Cyclones, Floods, Drought, Cloudburst, Avalanche. Landslides can also occur here due to rain or cloudburst as in case of Uttarakhand (June 2013)
- Biological-This type of disasters include both human and animal epidemics like famines, pest attacks, food poisoning.

MANMADE DISASTERS refer to:

- Environmental Disasters - like Pollution, Deforestation, Desertification, Pest Infection
- Chemical Disasters occur as a result of chemical spills or leakages. The best example here is that of the Bhopal Gas Tragedy that took place in India in 1984 where approximately around 2000 people died and about 62.58% of the total population of the city suffered from inhalation of toxicity.
- Nuclear Disasters as term relates deals with use of nuclear material and nuclear reactors; best example is of Chernobyl in Russia in 1986.
- Accidents that involve large scale loss of life and property are also considered as disasters. All forms of accidents of road, rail, air or water; oil spills; bomb blasts; urban fires or man induced forest fires, mine flooding and roof collapsing form part of this category of disaster.

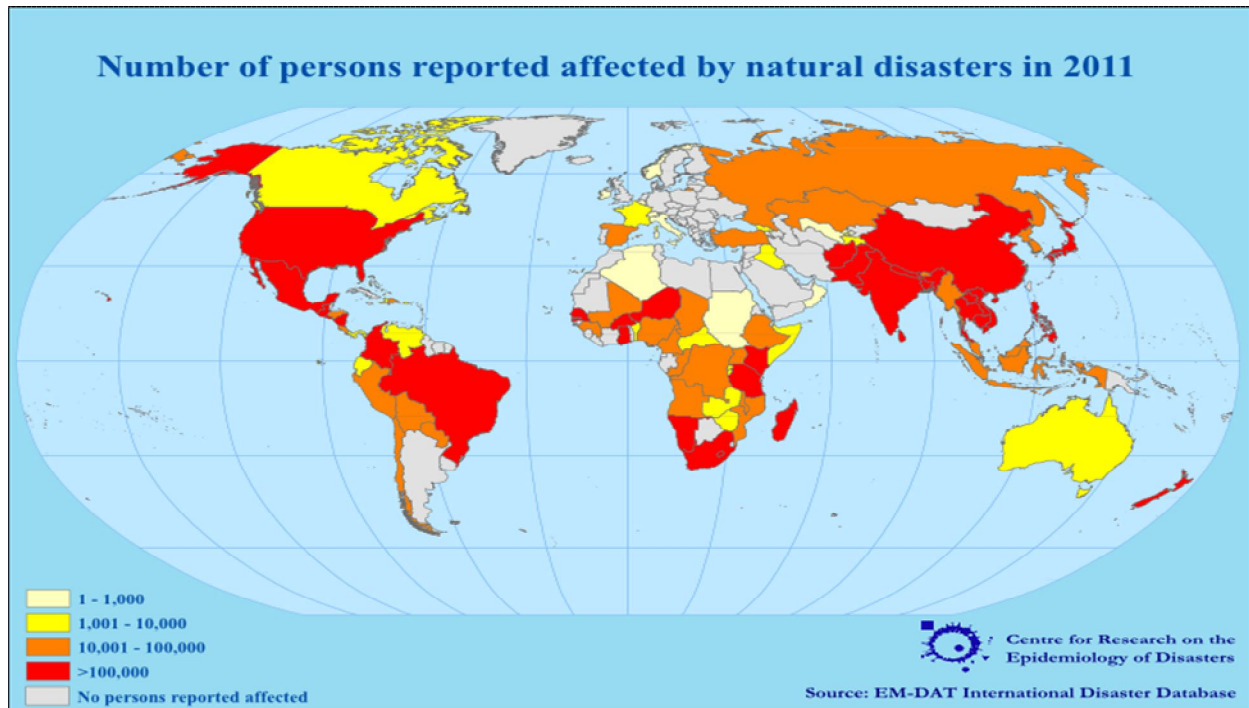
Hazards can also be divided into two types first the Sudden Onset Hazards which are short in duration, with no warning and cause immediate but large damage, like the natural disasters. The second type is the Slow Onset Hazards that are slow in their occurrence and damage caused may develop over a longer period of time or may not be immediate, example desertification, famine etc.

2 Trends in Disasters

Disasters have disturbed the very fabric of human community since 430 B.C. when in Athens Typhus epidemic had been reported. The deadliest natural disaster with regards to casualties of an Earthquake has been recorded in Shaanxi Province of China in 1556 in which 8, 30,000 people died. In India, the deadliest natural disaster is dated back to 1737 when an earthquake had hit Calcutta that led to about 3, 00,000 deaths. In the last century the floods that occurred in 1932 in China killed about 1,000,000 to 2,500,000 deaths, thus recorded as the world's deadliest natural disaster. Bhuj Earthquake of 2001 in India led to 25,000 deaths. *Coppola Damon P. (2011)*

The World Bank report has stated that in second half of Twentieth Century more than 200 natural disasters took place around the world that caused approximately 1.4 million people to lose their lives. Similarly 2011 was the costliest year with regards to natural disasters and had a loss of US\$380 billion, causing a rise in disaster trend over the 30-year period. More than 2.5 million people died between 1980 and 2011 and about economic loss of US\$ 3.5 trillion occurred across the world. (*worldbank.org*)

The map 1 below shows that Asia tops in list for largest number of casualties in the world, especially with regards to Natural Disasters. Trend thus indicates the gravity of increase in the vulnerability and severity of disasters. Analysis have stated that substantial growth in population both natural and migrated and assets due to expansion of cities to high risk areas with inappropriate standards of living including degradation of the environment are the main causes for the speedy rise in disasters.



Map 1

Disasters do not occur with regards to geographical boundaries, and therefore their effects have been seen more on developing countries because they have limited capacity and resources to prevent and absorb these shocks than the developed countries. Countries having low income per person are hit harder in comparison to countries with high income per person, as they cannot investment more in assets and insurance. Thus, poor people and communities are frequently the prime victims of a disaster because they live in crowded, unstable and vulnerable locations within the cities. Low quality infrastructures, economic conditions, low levels of education and awareness among poor community's increases their vulnerabilities to destruction by catastrophic disasters that have both short and long term effects.

According to UN report the incidence of death due to disaster is four times higher in low- income countries. The World Development Report 2000/2001 has stated that disasters are a dimension of poverty and slows the pace of human development. For developing countries like India loss due to disasters with regards to costs is both direct and indirect. Direct costs involve physical damage to infrastructure and buildings while indirect cost involved refers to unemployment, illness, loss of earnings. These have an effect on Gross Domestic Profit of the countries.

3 DISASTER MANAGEMENT

3.1 *Meaning*

According to United Nations (2009), DISASTER MANAGEMENT includes a systematic process of using administrative decisions, organizations, operational skills and capabilities to implement policies, strategies and coping capacities of the society and communities to lessen the impacts of natural hazards and related environmental and technological disasters.

Disaster Management needs to occupy an important place in policy framework of the countries. Thus, strategic management and planning(*NDMA*) are necessary for:

- Preventing of danger or threat of any disaster
- Mitigation of disaster risk or its severity/consequences
- Capacity building including research and knowledge management
- Preparedness to deal with disaster
- Assessing severity or magnitude of effects of any disaster
- Evacuation, rescue and relief
- Rehabilitation and reconstruction

3.2 Phases of Disasters

Key Elements of Disaster Management are divided into *two phases* Pre and Post Disaster as given in table 1 below:-

Pre- Disaster Phase				Post-Disaster Phase	
Risk Identification	Mitigation	Risk Transfer	Preparedness	Emergency Response	Rehabilitation and Reconstruction

Source: World Bank Institutes Distance Learning & NIDM

Table 1

Pre- Disaster phase includes identifying and assessing the hazard that causes a disaster, structural and non-structural mitigation of the disaster, transferring the risk means reducing the effect of the disaster through various means like insurance and lastly preparedness means contingency planning and use of techniques like early warning systems. Post – disaster phase of response during emergency refers to humanitarian assistance, mobilization of resources and damage assessment. While rehabilitation of the affected population of the disaster and reconstruction of damaged infrastructure is carried out.

4. DISASTER MANAGEMENT (DM) IN INDIA

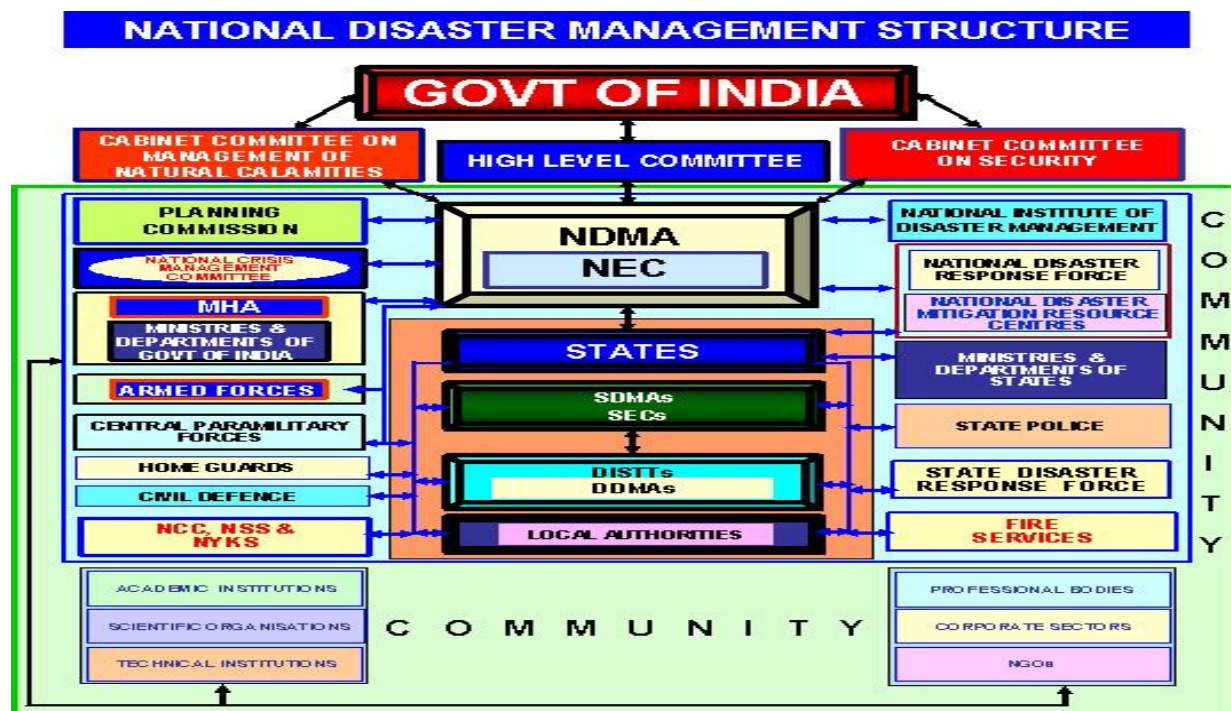
4.1 Origin

Disaster Management in India dates back to 1878 when Ministry of Agriculture, set up Scarcity Relief Division for food supply during the British period (NDMA). Ever since Disaster Management has undergone change with regards to nature, composition and policies. Initially, policies were relief oriented only. In 1990’s a permanent and institutional setup was done under Ministry of Agriculture. With number of disasters striking India within this decade like the Latur Earthquake (1993), Cyclone of Orissa (1999) and the Bhuj Earthquake (2001), a high powered committee was formed to draw a systematic, holistic and broad approach to disasters. In 2002, Disaster Management division was shifted to the Ministry of Home Affairs, headed by Joint Secretary Disaster Management.

4.2 D M Structure

After formation of disaster cell under Ministry of Home Affairs, issues related to strategic planning like early warning systems, forecasting and monitoring came to be focused upon rather than relief and response. Disaster Management in India works in a hierarchical system at four different levels – National, State, District and Panchayat level as shown in the figure 3. Secondly, it involves various other ministries, departments and administrative bodies, through a multi– sector and multi- disciplinary approach in Disaster Management strategy and planning.

This structure of Disaster Management in India is in the process of transition after the development of the Disaster Management Act, 2005. The above framework is still evolving and at the same time a new setup is also being framed. Thus, two structures co-exist at present (NDMA).



- Notes: 1. This diagram reflects interactive linkages for synergised management of disasters and not a hierarchical structure.
 2. Backward and forward linkages, especially at the functional level, are with a view to optimise efficiency.
 3. Participation of the Community is a crucial factor.

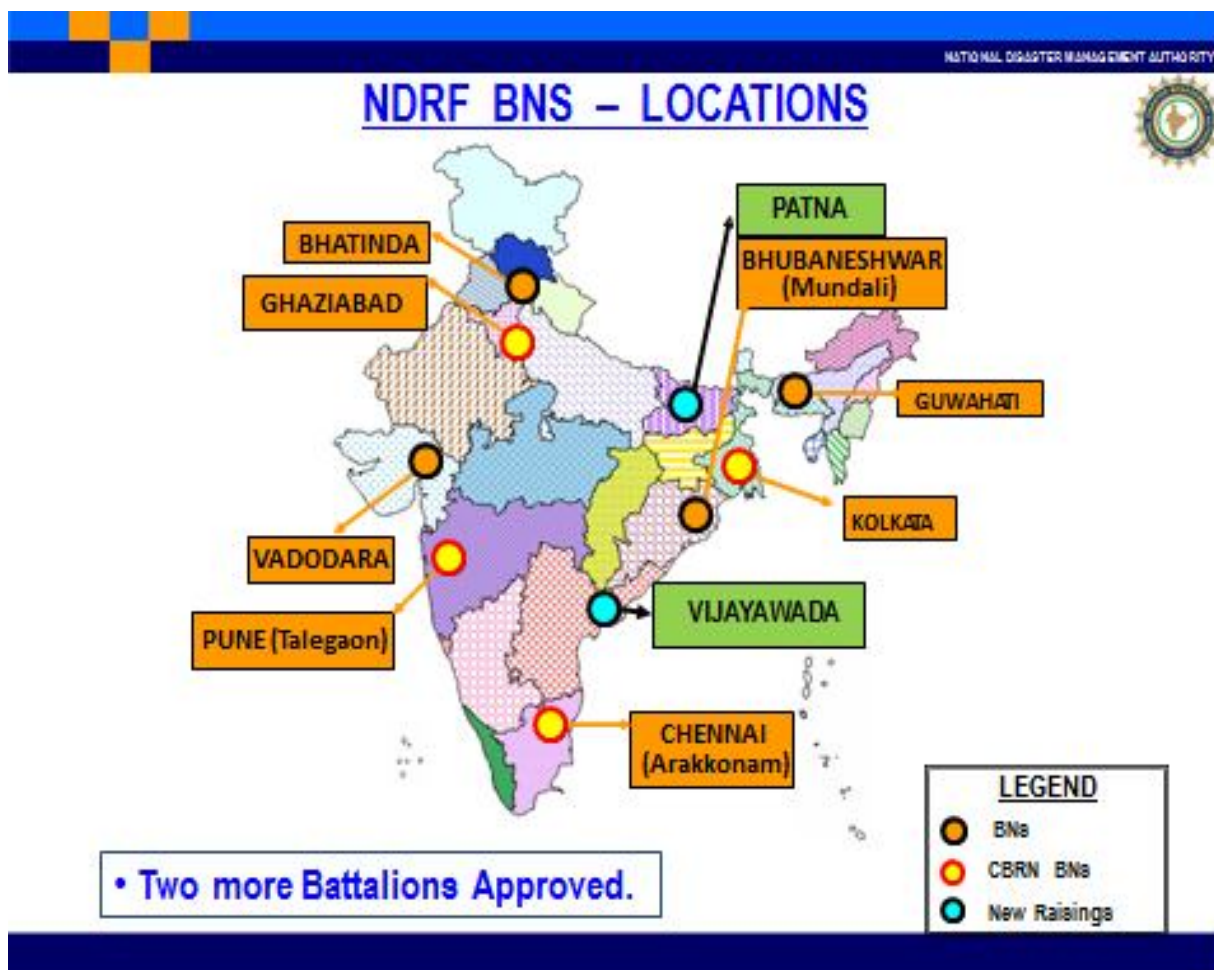
Source: NDMA website

Figure 3

4.3 Salient Features of the Disaster Management Act, 2005

The Act was formed for effective management of disasters and matters concerned with it. It ensures that the various wings of the government work for mitigation and prevention of disasters along with response.

1. It led to the establishment of National Disaster Management Authority (NDMA) on 27th September 2006 as Nodal Authority with Honourable PM as its Chairperson. There are nine other members on board of NDMA. Its mandate is to lay down policies and guidelines that are to be followed by various ministries and departments at various levels.
2. National Executive Committee (NEC). - Comprising of Secretaries of 14 Ministries and Chief of Integrated Defense Staff was formed to function as Executive Committee of the NDMA. It has to act as coordinating and monitoring body, prepare plans, monitor them and implement the policies.
3. DM Structure works at three levels i.e. National, State and District (23 States have Set up State Authorities).
4. National Disaster Response Force (NDRF) consists of eight standard battalions of Central Para Military Forces, i.e., two battalions each from Border Security Force (BSF), Indo-Tibetan Border Police (ITBP), Central Industrial Security Force (CISF) and Central Reserve Police Force (CRPF) to respond to disasters. These eight battalions having about 144 specialized teams are trained in all types of disasters and have been stationed at eight places within the country as shown in map 2 of NDMA below:



Map 2

5. National Institute of Disaster Management (NIDM) has been formed under the support of NDMA for capacity building. It was established in 1995 at the National Institute of Disaster Management as national centre for Disaster Management. On 16th October 2003, it was upgraded and named NIDM and now has achieved the status of statutory organization under the Disaster Management Act, 2005. It is entrusted with the responsibility of training, research and documentation of disasters.

6. National Disaster Mitigation Fund and National Disaster Response Fund was created for the purpose of disaster management at various levels.

7. The Act also envisages the specific roles to be played by the local bodies both at rural and urban levels. This has led to the involvement of communities at the grass root level in planning and development.

4.5 Policies

The National Policy on Disaster Management (NPDM) was formed by Government of India on 22nd October, 2009 for a safe and resilient India by developing a multi-disaster, universal, proactive and technology driven strategies for both post and pre disaster phases. NPDM also aims in bring about transparency and accountability in all aspects of Disaster Management by including the communities, community based organizations, Panchayati Raj Institutions (PRIs), local bodies and civil society. All the strategic policies and guidelines are laid down by NDMA as the national authority which are followed by various ministries, departments both at the Central and State levels for Disaster Risk Reduction. While at State level the State Disaster Management Authorities (SDMA) have the responsibility of laying down the state policies and plans in accordance with that of NDMA.

National Policy on Disaster Management is still under preparation and will consist of three parts:

1. National Response Plan

2. National Mitigation Plan
3. National Capacity Building Plan

Beside planning and policy making financial assistance is also provided under the schemes of relief funds based on recommendations of successive Finance Commissions and the present 13th Finance Commission which is operative from 1st April 2010 to 31st March 2015 under the Ministry of Finance. This helps to strengthen the institutions of Disaster Management, capacity building and response mechanisms. Beside this National and International stakeholders both provide support, example, United Nation Agencies like UNDP, SAARC Disaster Management Centre (SDMC), and Red Cross.

5. STRATEGIC PLANNING AND DEVELOPMENT

5.1 Meaning

Management of disasters for any organisation works at three levels:

1. **Strategic Level** which is concerned with conceptual thought process especially for long term planning and is part of highest level of management.
2. **Operational Level** is the link between 1st and 3rd levels of development through planning
3. **Tactical Level** refers with planning and execution of policies and programmes. (*Strategic Management Process, 2004*)

Strategic Management process (Figure 4) includes strategic indent dealing with mission and objectives of the policies as well as strategic formulation of strategies and their analysis. While strategic implementation in the process dealing with designing structures and putting strategies into operation and lastly the process involves evaluation of strategies.

STRATEGIC MANAGEMENT PROCESS



Figure 4

5.2 Strategic Programmes in India

Government of India is trying to integrate mainstream Disaster Risk Reduction (DRR) into the Developmental Strategies and Planning. It has adopted mitigation and prevention as the main components of developmental strategy which is a result of the *Yokohoma message given during International Decade for Natural Disaster Reduction, May 1994*, where strategies for Disaster Mitigation were stressed upon. Disaster Management needs to aim at reducing potential losses from intensity of hazardous events and take up measures or actions to mitigate future vulnerabilities through well planned strategies.

India formed the part of *Global Conference on Disaster Risk Reduction (DRR), Kobe, Japan, in January 2005*, at the *HYOGO FRAMEWORK of ACTION (HFA)* which consisted of 168 countries and aimed to globally

work towards reduction in loss of lives and social, economic and environmental assets of the communities and the countries by 2015.

India is working towards DRR under the frame work based on three strategic goals:

1. Integration of DRR into developmental policies, planning and programming at all levels with emphasis on pre-disaster phase.
2. Development and strengthening of institutions, mechanism and capabilities at all levels especially building resilience of community towards hazards.
3. Incorporation of risk reduction approaches into the Post – Disaster phase with regards to the affected communities.

India is also a part of *United Nations International Strategy for Disaster Reduction (UNISDR) formed in 2000* that aims at building resilience of nations and communities with regards to development, environmental protection and humanitarian action for disasters through implementation of HFA.

Hence forth there are various mechanisms and strategies to achieve the mission of Disaster Management not only in the world but in India to. These will help the Indian organisation on disasters to enhance effectiveness of the organisation, do long –term planning and evaluation, stimulate future thinking and helps to reduce resistance to change and ensures higher element of pro activeness.

6. CONCLUSION

Long-term objectives for every country susceptible to varied kind of disasters should be built on their technical and scientific infra structures to meet the hazards of a disastrous event. Disasters are mainly results of rapid urbanisation, industrialisation, bad unsafe construction and unplanned development that lead to increase in society's vulnerabilities as they are residing in hazardous areas of the city. Thus, lack of early warning systems, awareness, training, unprepared institutions and diminished resilience of the society indicate the need for strategic management and planning. By focusing more on mitigation and preparedness planning, i.e., a paradigm shifts from post disaster to pre- disaster strategies can ensure that hazards do not turn into disasters. The Indian government needs to work on restructuring its multi- tier Disaster Structure first and focus more on building capacities of the vulnerable societies. Insurance coverage, training, awareness and technical assistance from national and international sectors will help poor societies and nations in reducing risk reduction and mitigation. Comprehensive Disaster Risk Management Strategies can be formed. Our country does have good plans available on paper but the machinery to implement them is not rehearsed and geared up to rise to the occasion. This must cease and administration should become self-reliant in disaster management. No plan will ever succeed unless it is well rehearsed and practised.

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DEVELOPING A PERFORMANCE APPRAISAL FRAMEWORK FOR CEMENT INDUSTRY

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ABSTRACT

Performance appraisal system(PAS) is a strategic approach of increasing the effectiveness of organizations by improving the performance of the employees and by developing the capabilities of teams and individual contributors. This paper focuses on a development of a new and effective PAS for the workers of Cement industry in the geographical area of South Rajasthan, for this purpose a questionnaire was administered by taking 52 items spread among 9 dimensions and survey of workers and managers of 4 cement companies were being conducted by taking 121 workers and 99 managers. To identify key variables in current performance appraisal system testing of hypotheses were done with SPSS-19 software, by applying correlation, multiple regressions and ANOVA. The results of this research have come in the form of 39 variables of 9 dimensions selected from workers and managers perception. These variables were used to develop the new PA framework for cement companies.

Keywords: Performance Appraisal System, Cement companies, Workers and Managers Perception, Multiple Regression and ANOVA.

INTRODUCTION

The Indian cement industry is the second largest in the world. It comprises of 140 large and more than 365 mini cement plants. The industry's capacity at the beginning of the year 2009-10 was 217.80 million tonnes. Total cement consumption in India stood at 178 million tonnes during 2008-09, while exports of cement and clinker amounted to around 3 million tonnes. The industry occupies an important place in the national economy because of its strong linkages to other sectors such as construction, transportation, coal and power. The cement industry is also one of the major contributors to the exchequer by way of indirect taxes.

Cement production during April to January 2009-10 was 130.67 million tonnes as compared to 115.52 million tonnes during the same period for the year 2008-09. Dispatches were estimated at 129.97 million tonnes during April to January 2009-10 whereas during the same period for the year 2008-09, it stood at 115.07 million tonnes. Over the last few years, the Indian cement industry witnessed strong growth, with demand reporting a compounded annual growth rate (CAGR) of 9.3% and capacity addition a CAGR of 5.6% between 2004-05 and 2008-09. The main factors prompting this growth in demand include the real estate boom during 2004-08, increased investments in infrastructure by both the private sector and Government, and higher Governmental spending under various social programmes. With demand growth being buoyant and capacity addition limited, the industry posted capacity utilisation levels of around 93% during the last five years.

PAS IN CEMENT COMPANIES

HRM could be described as broad and strategic issue, involving all managerial personnel, valuing employees as important assets of organizations, and being proactive in its responsibilities. Moreover, today human resource functions refer to those tasks and duties performed in both large and small organizations to coordinate human resources.

PA is a powerful tool to calibrate, refine and reward the performance of the employee. It helps to analyze his contribution towards the achievement of the overall organizational goals (Chouhan et.al. 2013; Verma, 2014). Performance management system is to ensure that the work performed by employees is in accordance with the established objectives of the organization (Chouhan, et. al, 2014). Employees should have clear understanding of the quality and quantity of work, expected from them. Employee should also receive the information about how effectively they are standing with the expected standard.

In a developing economy like India it is essential to evaluate every individual's talent & achievement with sensible consistency and accuracy. Performance management is taken up as a means of getting better result from the organization, team & individuals within an agreed framework of planned goals, objectives and standards.

THE PROBLEM OF CURRENT PAS IN SELECTED CEMENT COMPANIES

Performance appraisal is a very internal function of Human Resource Management; it needs very constructive approach for performance & regulation in the organization. Until we do not recognize the contribution of people in organization's objective we cannot manage our talent properly. Therefore, it is very essential to evaluate the performance of the workers in the organization goal and then providing them complementary rewards or recognition. It is imperative to boost up their moral & motivation. But the real problem arises when management has no formal system of performance appraisal or management has no proper orientation to implement performance appraisal system or does not implement the results of performance appraisal system.

Such situation creates very harmful effects on the performance of the employee. Workers get frustrated when their contribution is not recognized properly or when they are not given what they deserve for.

OBJECTIVES

The objectives of this study were as follows:

- i. To measure the Perception of workers and managers on various dimension.
- ii. To identify the areas where gap in the perception is found.
- iii. To develop a new PAS by taking the perceptions of workers and managers.

REVIEW OF LITERATURE

The reviews PAS of the workers and managers can be provided as under:

Roberts (2003) in his paper on "Employee Performance Appraisal System Participation: a Technique that Works" found that the results concerning participation are constantly positive. Employer participation is a key element of intrinsic motivational strategies that facilitate to other growth and development. Furthermore, employee attains ownership over the performance appraisal process and employee's acceptance is enhanced that way. Third, it generates which reduces appraisal related tension, defensive behaviour and vater-ratee conflict adds that these positive effects are especially generalisable to the design and implementation of pay systems. She suggests that systems implemented following meaningful consultations with employees are more effective than those which are implemented unilaterally by mangers or with less employee involvement. Positive impacts where found on a number of factors, including absence and labour turnover rates, throughout and productivity. Even more important she argues that some of these potential failure factures can be diminished by consultation of employee.

Green and James (2003), in their paper on "Assessing skills and autonomy: The job holder versus the line manager" explored the differences between managers' and employees' perceptions of skill supported to a certain extent this composition of generic skills, including verbal, physical, problem-solving and planning skills. Their view suggested that these skills give a mix of the academic, non-academic and organizational elements. Thus the word "generic skills" is broader in meaning and makes concrete sense only when it is placed in a specific work context. In contrast, technical skills are the specific skills needed in an occupation, and are usually codified in job descriptions.

Bratton, at. al. (2003) in their book entitled "Human Resource Management, Theory and Practice", explains PAS with the words as Performance appraisal was also defined as a structured formal interaction between employee and manager that usually takes the form of a periodic interview, in which the work performance of the employee is examined and discussed, with a view to identifying weaknesses and strengths as well as opportunities for improvement and skills development. Performance appraisal is based on results obtained by the employee in his job, not on employee's personality characteristics.

Ferdowsian, Mehran, Charles, D.M., (2002), in their research article "The making of a top-performing employee in the high technology industry" observed that how an organization could become more productive and competitive by enabling its employees to raise their overall level of work performance. The results of these efforts were intended to assist the employees to operate at a higher level of their capacity by enabling them to leverage many of the common factors or best practices used by the top performing employees in their organizations. This study determined that five factors had a significant or measurable impact on employee performance: (1) leadership/ management (2) the impact of the job itself (3) the environment of the job (4) emotional intelligence (5) an individual's motivations or drivers. Research focused on these five factors and made a closer assessment sub-factors within these areas on employee performance. In conclusion, this study provided evidence that organizational productivity, effectiveness, and creativity flow naturally from individual productivity, effectiveness and creativity. In another research article "Effectiveness of Performance Appraisal System and Employee's Perception" concludes that Employee PA is one of the most commonly used

management tools in the Indian industries. According to him the traditional research agenda has done little to improve the usefulness of PA as a managerial tool and recent research has moved away from studies of rater accuracy and psychometric measure to theme of employee reactions towards PA. It states that there is a great connection between PA feedback and perceptions of fairness given by the supervisors. PPR is very important to employee's PA, additional to that two- way participation of goal setting play a great role on employee's perception towards their appraisal. To avoid biases evaluation training the supervisor also play a significant role but more to that mutually understanding the goals setting motivate employee's towards achieving it.

Bruce (2002) in his research paper on "Does 360-degree feedback negatively affect company performance?", revealed that Unless everyone participating in a 360-degree program is trained in the art of giving and receiving feedback, the process can lead to uncertainty and conflict among team member. Another issue is that there may be a gap between an organization's business objectives and what 360-degree feedback programs measure. Typical 360-degree feedback programs assess competencies that are not directly related to business results or are so broad that they aren't relevant to the average employee.

Kennerley, Andy Neely, (2002) in their research paper on "A framework of the factors affecting the evolution of performance measurement systems", check the effectiveness of performance measurement is an issue of growing importance to industrialists and academics alike. Many organisations are investing considerable amounts of resource implementing measures that reflect all dimensions of their performance. Consideration is being given to what should be measured today, but little attention is being paid to the question of what should be measured tomorrow. Measurement systems should be dynamic. They have to be modified as circumstances change. Yet few organisations appear to have systematic processes in place for managing the evolution of their measurement systems and few researchers appear to have explored the question, what shapes the evolution of an organisation's measurement system? The research reported in this paper seeks to address this gap in the literature by presenting data that describes the forces that shape the evolution of the measurement systems used by different organisations.

Fajana, S. (2002) in his book entitled "Human Resource Management: An Introduction" view appraisal as a means for determining training and development needs of employees. We found that various problems affect the effectiveness of performance appraisal in the organisations surveyed such as halo-effect, error of central tendency, stereotype and favouritisms.

Shibata (2002), who studied wage and performance appraisal systems of unionized Japanese and American firms, pointed out that personal wages and skill-based wages of Japanese employees were determined by the employees' skill-based job grades, performance appraisals and seniority. In contrast, both hourly wages for blue-collar employees and weekly or annual wages for white collar employees in unionized American firms were based on job attributes.

Mike at. al, (2002) in their research paper on "A framework of the factors affecting the evolution of performance measurement systems", raised an issue of the effectiveness of performance measurement as an issue of growing importance to industrialists and academics alike. Many organisations are investing considerable amounts of resource implementing measures that reflect all dimensions of their performance. Consideration is being given to what should be measured today, but little attention is being paid to the question of what should be measured tomorrow. Measurement systems should be dynamic. They have to be modified as circumstances change. Yet few organisations appear to have systematic processes in place for managing the evolution of their measurement systems and few researchers appear to have explored the question, what shapes the evolution of an organisation's measurement system? The research reported in this paper seeks to address this gap in the literature by presenting data that describes the forces that shape the evolution of the measurement systems used by different organisations.

Yahya, at. al., (2002) in their research paper on "Managing human resources toward achieving knowledge management", examines the linkages between human resource management and knowledge management. Specifically, the association between four areas of human resource management (training, decision-making, performance appraisal, and compensation and reward) with the five areas of knowledge management (knowledge acquisition, knowledge documentation, knowledge transfer, knowledge creation, knowledge application) is explored. The statistical results suggest that a knowledge organisation requires a different management approach than the non-knowledge organisation. Hence, the role of human resource management is also unique. In terms of employee development, the focus should be placed on achieving quality, creativity, leadership, and problem solving skill. The design of a compensation and reward system should be on promoting group performance, knowledge sharing, and innovative thinking. The performance appraisal must be the base of

evaluation of employee’s knowledge management practices, and an input for directing knowledge management efforts.

Fandray Dayton (2001) in his research article, "The new thinking in performance appraisals" concluded that the performance appraisal was a practice that no one really liked, was part of an old command-and-control style of organizational leadership. Today's emphasis on teamwork, shared leadership, and employee retention leaves little room for this method of performance measurement. The author provides six steps towards meaningful performance management, including conducting a mid-year review, articulating a set of role based competencies and focusing on leadership.

RESEARCH METHODOLOGY AND HYPOTHESIS

Sample Companies: The following other sector units are working in the geographic area of southern Rajasthan. For the purpose of making a performance appraisal system the detailed study of these units were also conducted. These units includes JK Cement works, Nimbahera, The Birla Cement works Chittorgarh, ACC - Lakheri Cement Works, Bundi and J. K. Laxmi Cement, Sirohi.

Sample Size: The data for this research is collected from primary source by a well fabricated questionnaire; this was filled in by the workers and Managers of the selected cement companies. Through questions attempt was made to find out weaknesses in mechanisms and strategies of the present performance appraisal system, and suggestions for making performance appraisal system more effective. This questionnaire was administered by taking 52 items spread among 9 dimensions on Likert Scale, survey of workers and managers of 4 cement companies were being conducted by taking perception of 121 workers and 99 managers.

Data analysis Tool:To identify gap in PAS testing of hypotheses were done with SPSS-19 software, by applying multiple regressions and ANOVA. 29 variables were selected from workers and managers perception.

Hypothesis

To identify key variables in current performance appraisal system multivariate regression analysis has been used. The perception of the workers and managers are sought in relation to various parameters. The following hypothesis was developed:

- H₀: The attributes configuring Performance appraisal of organisation on various dimensions has no influence over the PAS.
- H₁: The attributes configuring Performance appraisal of organisation on various dimensions significantly influence the PAS.

DATA ANALYSIS

As per the objective of the study the agreement of the managers related with the various attributes were checked with the broader hypothesis. Data has being taken on five point Likert Scale (1 for highly disagree and 5 for highly agree) from the workers and managers for skill check under Current performance appraisal system in terms of their perception.

Table 1: Data Analysis with Multiple Regression

Variables Entered/Removed^b

Model	Variables Entered	Variables Removed	Method
1	Ability_8, Procedure_5, Participation_3, Procedure_2, Participation_1, Goal_5, Pay_3, Goal_7, Judgement_2, Pay_4, Procedure_4, Pay_2, Validity_3, Feedback_7, Judgement_5, Validity_6, Ability_1, Ability_5, Goal_6, Validity_4, Goal_1, Procedure_3, Participation_2, Judgement_3, Validity_5, Procedure_1, Goal_3, Pay_1, Goal_2, Ability_3, Ability_6, Feedback_2, Feedback_4, Goal_4, Feedback_3, Feedback_1, Feedback_8, Ability_4	.	Enter

a. Tolerance = .000 limits reached.

b. Dependent Variable: Current_PAS

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.997 ^a	.994	.992	.07855	.994	742.458	38	181	.000

a. Predictors: (Constant), Ability_8, Procedure_5, Participation_3, Procedure_2, Participation_1, Goal_5, Pay_3, Goal_7, Judgement_2, Pay_4, Procedure_4, Pay_2, Validity_3, Feedback_7, Judgement_5, Validity_6, Ability_1, Ability_5, Goal_6, Validity_4, Goal_1, Procedure_3, Participation_2, Judgement_3, Validity_5, Procedure_1, Goal_3, Pay_1, Goal_2, Ability_3, Ability_6, Feedback_2, Feedback_4, Goal_4, Feedback_3, Feedback_1, Feedback_8, Ability_4

ANOVA^b

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	174.061	38	4.581	742.458	.000 ^a
	Residual	1.117	181	.006		
	Total	175.177	219			

a. Predictors: (Constant), Ability_8, Procedure_5, Participation_3, Procedure_2, Participation_1, Goal_5, Pay_3, Goal_7, Judgement_2, Pay_4, Procedure_4, Pay_2, Validity_3, Feedback_7, Judgement_5, Validity_6, Ability_1, Ability_5, Goal_6, Validity_4, Goal_1, Procedure_3, Participation_2, Judgement_3, Validity_5, Procedure_1, Goal_3, Pay_1, Goal_2, Ability_3, Ability_6, Feedback_2, Feedback_4, Goal_4, Feedback_3, Feedback_1, Feedback_8, Ability_4

b. Dependent Variable: Current_PAS

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Correlations			Collinearity Statistics	
		B	Std. Error	Beta			Zero-order	Partial	Part	Tolerance	VIF
1	(Constant)	-5.466	.296		-18.471	.000					
	Validity_3	.102	.040	.109	2.579	.011	.376	.188	.015	.020	50.300
	Validity_4	-.240	.058	-.252	-4.156	.000	.160	-.295	-.025	.010	104.068
	Validity_5	.540	.021	.540	25.603	.000	.428	.885	.152	.079	12.621
	Validity_6	-.024	.033	-.023	-.724	.470	.057	-.054	-.004	.034	29.659
	Judgement_2	.210	.034	.223	6.174	.000	.163	.417	.037	.027	36.996
	Judgement_3	-.428	.033	-.436	-13.155	.000	.267	-.699	-.078	.032	31.255
	Judgement_5	-.089	.025	-.073	-3.569	.000	.122	-.256	-.021	.085	11.761
	Procedure_1	1.608	.055	1.225	29.331	.000	.488	.909	.174	.020	49.516
	Procedure_2	-.218	.022	-.212	-10.128	.000	.111	-.601	-.060	.080	12.477
	Procedure_3	-1.081	.040	-.987	-26.782	.000	.406	-.894	-.159	.026	38.581
	Procedure_4	-.464	.032	-.431	-14.617	.000	.107	-.736	-.087	.040	24.725
	Procedure_5	.822	.043	.704	19.125	.000	.164	.818	.113	.026	38.512
	Goal_1	1.514	.050	1.265	30.436	.000	.460	.915	.181	.020	49.028
	Goal_2	.271	.035	.195	7.701	.000	.196	.497	.046	.055	18.234
	Goal_3	-1.931	.060	-1.329	-32.363	.000	.090	-.923	-.192	.021	47.849
	Goal_4	1.755	.038	1.597	45.981	.000	.220	.960	.273	.029	34.237
	Goal_5	-.013	.022	-.012	-.591	.555	.220	-.044	-.004	.081	12.374
	Goal_6	1.185	.025	.974	47.450	.000	.099	.962	.282	.084	11.953
	Goal_7	.052	.016	.059	3.311	.001	-.004	.239	.020	.111	8.989
	Feedback_1	-1.682	.048	-1.798	-34.837	.000	.197	-.933	-.207	.013	75.660
	Feedback_2	-.243	.046	-.212	-5.246	.000	.107	-.363	-.031	.021	46.572
	Feedback_3	1.245	.045	1.150	27.753	.000	.284	.900	.165	.021	48.752
	Feedback_4	-.469	.034	-.428	-13.765	.000	.200	-.715	-.082	.036	27.474
	Feedback_7	-.980	.033	-.995	-29.889	.000	.099	-.912	-.177	.032	31.464
	Feedback_8	.037	.043	.039	.860	.391	-.006	.064	.005	.017	57.713
	Pay_1	.860	.054	.593	16.072	.000	-.296	.767	.095	.026	38.686
	Pay_2	-1.388	.047	-.863	-29.422	.000	-.099	-.909	-.175	.041	24.430
	Pay_3	-.034	.010	-.032	-3.587	.000	.247	-.258	-.021	.453	2.206
	Pay_4	.001	.011	.001	.097	.922	.758	.007	.001	.328	3.053

Participation_1	.002	.008	.002	.269	.788	-.188	.020	.002	.694	1.441
Participation_2	.434	.066	.310	6.607	.000	-.135	.441	.039	.016	62.517
Participation_3	.263	.048	.200	5.517	.000	.167	.379	.033	.027	37.489
Ability_1	-.247	.029	-.228	-8.552	.000	.108	-.536	-.051	.050	20.158
Ability_3	1.063	.025	1.049	42.046	.000	.018	.952	.250	.057	17.661
Ability_4	.111	.097	.088	1.143	.254	-.316	.085	.007	.006	168.683
Ability_5	-.477	.042	-.361	-11.380	.000	-.146	-.646	-.068	.035	28.531
Ability_6	.323	.037	.244	8.623	.000	-.075	.540	.051	.044	22.760
Ability_8	-.024	.017	-.022	-1.442	.151	-.299	-.107	-.009	.147	6.814

a. Dependent Variable: Current_PAS

The final Regression model with 39 independent variables explains almost 99.2% of the variance of current PAS. Also, the standard errors of the estimate has been reduced to .07855, which means that at 95% level, the margin of errors for any predicted value of Current PAS can be calculated as ± 0.153958 (1.96×0.07855). The three regression coefficients, plus the constraints are significant at 0.05 levels. Hence, we can **reject the null hypothesis** and can say that the attributes configuring Performance appraisal of organisation on various dimensions significantly influence the PAS. The impact of multi colinerarity in the 39 variables is substantial. They all have the tolerance value less than .147, indicating that over 83.3% of the variance is accounted for by the other variables in the equation.

ANOVA ANALYSIS

The ANOVA analysis provides the statistical test for overall model fit in terms of F Ratio. The total sum of squares (175.177) is the squared error that would accrue if the mean of Current PAS has been used to predict the dependent variable. Using these values this errors can be reduced by 99.36% ($174.061/175.177$). This reduction is deemed statistically significant with the F ratio of 742.458 and significance at level of 0.000. Table 2 shows the selected variables of this study.

Table-2: Selected variables for Development of New PAS

PARAMETERS OF ANALYSIS	VARIABLE NUMBERS	VARIABLE DESCRIPTIONS
Validity of Performance Appraisal Tool	Validity_3	I and My supervisor agree on equals job performance.
	Validity_4	I recognise the measures used to evaluate my performance.
	Validity_5	The most important parts of my job performance are reflected in my PA.
	Validity_6	PA accurately measures work on job.
Judgement accuracy	Judgement_2	PAS results in better communication between me and my supervisor
	Judgement_3	Better employee receives the highest evaluation scores
	Judgement_5	Appraising my own performance would enhance my awareness of my performance
Use of correct procedure	Procedure_1	I openly express and communicate the problem with PAS to my supervisor.
	Procedure_2	The supervisor utilizes the evaluation system to assess my performance without bias
	Procedure_3	The supervisor possesses adequate knowledge and training for correct appraisal of performance.
	Procedure_4	Clear standard is used to evaluate performance.
	Procedure_5	My supervisor takes the PA procedure seriously.
Goal-Selection	Goal_1	The supervisor clearly expresses goals and assignments allotted.
	Goal_2	The goals developed for my performance period are meaningful measures.
	Goal_3	I accept those goals assigned to me are meaningful.
	Goal_4	Reasonable performance goals set up for me.
	Goal_5	My supervisors help me to choose the goals that I have to achieve.
	Goal_6	I have given knowledge of the course of action needs to be taken in order to

		accomplish performance goals.
	Goal_7	Goal-setting gives me a broader picture of the work unit and the organisations objectives.
Feedback& Satisfaction	Feedback_1	Feedback regarding my performance is helpful in improving on-the –job performance and in attaining the goals.
	Feedback_2	Regular and timely performance feedback is provided to me.
	Feedback_3	My performance feedback is sufficiently detailed & Level of involvement in evaluating is adequate.
	Feedback_4	I am satisfied with my performance feedback.
	Feedback_7	I would like to give my supervisor feedback
	Feedback_8	Appraised by supervisor, peers, customers etc. would enhance the accuracy of performance appraisals.
Performance-based pay system	Pay_1	Clear and direct linkage between performance and pay in PAS.
	Pay_2	Clear and reasonable process is established for giving both evaluation and performance-based pay results.
	Pay_3	High evaluation ratings will make a noticeable difference in my future performance.
	Pay_4	Pay based on performance ratings is the most effective method for motivating employees to improve/sustain performance.
Participation of workers /Employee	Participation_1	I would be willing to participate in developing a new PAS.
	Participation_2	Employees' participation in the development of performance standards leads to a better performance appraisal instrument.
	Participation_3	I prefer that my performance to be evaluated by an instrument developed and designed with the help of employees
Ability of PAS is Significant	Ability_1	Opportunity to exercise responsibility
	Ability_3	Job Security
	Ability_4	Contribution in improvement of Service
	Ability_5	Flexible Working Time
	Ability_6	Carrier Opportunity
	Ability_8	Linking with Pay performance

On the basis of the important factors the performance appraisal system a framework of self-appraisal and assessing officer's review the finally generated PAS has divided into two parts: In PART-I which is Self-Appraisal all the workers are told to provide themselves ranking based on 1 to 5 by taking 1 as poor and 5 as best on the above selected variables.

CONCLUSION

The major conclusion of this research is the model developed for the self-appraisal of the workers which will make them satisfied with the new PAS. Since, it was always found in cement concern that age influence means older employees take the performance appraisal system more for granted. Younger employees might still have the motivation to critically investigate and evaluate things. With age and experience people might learn that in organisations the individual opinion does not really make a change and come to accept things as they are. It is especially important before developing and implementing a new PAS that it is to be developed as per the requirement of the organisation. Otherwise negative after-effects could not be overcome with the help of surveys, good ideas and suggestions could be gathered and employees feel that the target organisation attaches great importance to their opinion. Thus, the quality of the performance appraisal and the acceptance of its users could easily be improved.

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HUMAN RESOURCE FUNCTIONS TO ENHANCE EMOTIONAL INTELLIGENCE IN AN ORGANISATION

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ABSTRACT

As the world economy becomes more global and information based, organizations are finding it necessary to adapt to a quickly changing and more competitive marketplace. Emotionally intelligent organizations are able to leverage the talent of their members to meet these challenges more effectively. These organizations exhibit core competencies such as Teamwork and Collaboration, Adaptability, Achievement Orientation, and Service Orientation; and they tend to be more networked and flexible than traditional hierarchical organizations. As organizations become more networked they require more emotional intelligence among their members than do traditional hierarchical organizations. In networked organizations people more often work together in teams and often team members find themselves managing others who do not report directly to them. Most of the emotional intelligence competencies are critical for this type of organization to perform well. The objective of this paper is to introduce ways that organizations can increase their emotional intelligence through use of standard human resource (HR) functions—hiring, training and development, and performance management systems—and successfully meet the demands of the changing marketplace.

Keywords: Collaboration, Achievement Orientation, Service Orientation, traditional hierarchical organizations and performance management systems.

INTRODUCTION

Organizations can increase their emotional intelligence through use of standard human resource (HR) functions—hiring, training and development, and performance management systems—and successfully meet the demands of the changing marketplace.

There are basically two ways to increase emotional intelligence in an organization: (1) hire people who are emotionally intelligent or (2) develop emotional intelligence in current members. Hiring (or selecting) is one of the quickest ways to increase emotional intelligence in an organization; but unless the organization hires a critical mass (usually greater than 20 percent) of emotionally intelligent personnel, it may not see an impact. In addition, if the organization's climate does not support or reward emotionally intelligent behavior, it is likely that the people it is trying to keep will leave. Thus it is important for organizations to develop and maintain emotional intelligence in their present employee populations. This paper suggests how organizations can use HR applications such as hiring, training, executive coaching, and performance management to successfully select for and develop emotional intelligence in their organizations.

SELECTING FOR EMOTIONAL INTELLIGENCE

The quickest way to increase emotional intelligence competencies in members of an organization is to select individuals who already demonstrate those competencies and behaviors. Unfortunately, typical HR selection processes tend to focus on what appears on the applicant's résumé: education, skills, and experience. Although these factors are important and often a baseline for adequately performing a job, they rarely differentiate outstanding from average performance (Spencer,

McClelland, & Spencer, 1992). Beyond that, hiring decisions are often left to interviewer *hunches* or to *chemistry* between the interviewer and candidate. An inability or failure to categorize *exactly* what is giving the interviewer a positive impression may lead to faulty decisions. Sometimes the good feelings may be due to the candidate's being *like* the interviewer: they may share the same values or work ethic, for example; they may both play golf; they may have similar backgrounds. At best, relying on such similarities may have little impact on job performance. At worst, basing decisions on such feelings may be discriminatory or negatively related to job performance.

The emotional intelligence competencies, although more difficult to detect, have been shown to be the key differentiators between typical and outstanding performers (McClelland, 1998; Goleman, 1998b). If organizations want to increase these competencies in their workforce, the HR hiring process must include a method for identifying these competencies in candidates.

USING THE EMOTIONAL INTELLIGENCE COMPETENCE MODEL

Goleman's revised model, or framework, of emotional intelligence currently consists of twenty emotional competencies distributed in four clusters (Boyatzis, Goleman, & Rhee, 2000). Selecting for all twenty competencies would be an extremely challenging, costly task. Fortunately, David McClelland has demonstrated that competencies operate on a category, or cluster, level and not just individually.

Many of us have known intuitively what McClelland advocates—that there is no one single set of characteristics that lead to success; rather there are alternative configurations and combinations of competencies that produce results. “I cannot overemphasize,” says McClelland (1994), the importance of recognizing that there are alternative combinations of characteristics that lead to success in a particular job. Too many consultants and companies operate on the assumption that we need to discover the *one best set* of competencies that lead to success. We are acting like “cookie cutters.”

We are trying to find the best competency mold so that we can pick or shape individuals to fit that mold. *Yet everyone who has been in a business for any length of time has observed instances in which the same job has been performed very well by two people who appear to have quite different characteristics. The fact is that often various combinations of competencies lead to success* [italics in original].

McClelland referred to this phenomenon as a formula, or algorithm, for success. Competency model algorithms work on the cluster level. In order to demonstrate mastery of a cluster, the criteria for that cluster must be met. For example, let's create a cluster called Getting Results that consists of the following competencies:

- Self-Confidence
- Achievement Orientation
- Initiative

Let's also say that the algorithm for this cluster requires that the individual demonstrate a certain level of mastery of at least two out of the three competencies. If the individual masters only one of the competencies, for example, Initiative, he would not fulfil the criteria for the cluster and therefore would not meet the algorithm for that competency model.

UNDERSTANDING COMPETENCY CLUSTERS

Some competencies in a cluster may be required as individuals, others may be grouped with other competencies as in the previous example. Richard Boyatzis spells out four different groupings of relationships that may exist between competencies in a cluster: complementary, alternate manifestations, compensatory, and antagonistic.

Competencies that have a complementary relationship enhance a person's effectiveness when used in conjunction with each other. Demonstrating one competence does not interfere with the ability to demonstrate the other. For example,

Boyatzis (1999a) explores the relationship between Adaptability and Conscientiousness: “A person can demonstrate flexibility in adapting to situations. His/her demonstration of reliability and consistency (i.e., Conscientiousness) would not interfere with the demonstration of Adaptability, but if the person can use both competencies their effectiveness would increase in many situations. For example, if the situation changed but a reliable response was still needed, the use of Adaptability and Conscientiousness would allow for continued appropriate behavior even in the new situation.”

The second competency relationship, alternate manifestations, occurs between competencies that represent the same set of capabilities although each competence possesses behaviors that are situation specific. For example, Leading Others and Change Catalyst are alternate manifestations of Leadership behavior. Leading others is more general and is seen in traditional leadership roles, whereas Change Catalyst is a manifestation of Leadership specific to organizations undergoing change—as a result of mergers, reengineering, or rapid growth, for example. Competencies that have a compensatory relationship are able to make up for the lack of use of or weakness in each other. Whether one competence or the other is used, the results are the same. Achievement Orientation and Initiative are examples of compensatory competencies. As Boyatzis (1999a) writes:

A person can demonstrate a great deal of concern about doing better, contemplating and acting on cost-benefit utility analysis and so forth (i.e., Achievement Orientation). This may drive a degree of innovation and discovery of new and better ways to accomplish things. At the same time, someone else in the same situation may find new and better ways to accomplish things because they are starting things before anyone has thought of them, seeking information in distinctive ways, and so forth (i.e., demonstrating Initiative). While the outcomes are the same, the specific behavior used and the intention underlying the behavior are different.

The fourth and final type of competency relationship is antagonistic. Being very strong in one competence may prevent the use or demonstration of another. Often the person who has the ability to balance the use of antagonistic competencies demonstrates the best performance. In the emotional intelligence competence model,

Self-Control can be antagonistic to Initiative. As Boyatzis (1999a) reports: “If someone demonstrates a great deal of Self-control and inhibits their impulses and actions, they would have an increasingly difficult time demonstrating Initiative and starting things before anyone asks.”

FIGURE 1. THE EMOTIONAL INTELLIGENCE COMPETENCE MODEL ALGORITHM

<p style="text-align: center;">Self-Awareness</p> <ul style="list-style-type: none"> • Emotional Self-Awareness <i>or</i> • Acurate Self-Assessment • Self-Confidence 	<p style="text-align: center;">Social Awareness</p> <ul style="list-style-type: none"> • Empathy • Organizational Awareness <i>or</i> • Service Orientation
<p style="text-align: center;">Self-Management</p> <ul style="list-style-type: none"> • Self-Control • Trustworthiness <i>or</i> Conscientiousness <i>or</i> Adaptability • Achievement Orientation <i>or</i> Initiative 	<p style="text-align: center;">Social Skills</p> <ul style="list-style-type: none"> • Influence • Leading Others <i>or</i> Developing Others • Building Bonds <i>or</i> Teamwork and Collaboration <i>or</i> Conflict Management • Communication <i>or</i> Change Catalyst

Self-Management. The Self-Management cluster consists of a mandatory competence and two groups of additional competencies. Self-Control must be demonstrated, as it is the core of managing oneself and one’s motives. A person also needs to demonstrate Trustworthiness or Conscientiousness or Adaptability. Trustworthiness and Conscientiousness may be considered compensatory, or alternate, manifestations of each other. Trustworthiness tends to be associated with executive and management jobs, whereas Conscientiousness tends to be associated with individual contributor and administrative support jobs. Both these competencies are somewhat antagonistic to Adaptability. Whereas Trustworthiness and Conscientiousness are about stability and reliability, Adaptability is about flexibility and openness to change. Finally, a person must demonstrate either Achievement Orientation or Initiative. As mentioned earlier, these two competencies are compensatory. Having strength in one can make up for lack of use of the other.

Goleman originally conceptualized the Self-Management cluster as two clusters: Self-Regulation and Motivation. Self-Regulation involved managing or controlling one’s impulses, and Motivation involved energizing or driving one’s behavior. A cluster analysis by Boyatzis (Boyatzis, Goleman, and Rhee, 2000) revealed that the two clusters were not distinct. Although the Self-Regulation competencies are antagonistic to the Motivation competencies, it is a balance between the two that maximizes effectiveness.

Social Awareness. At the core of the Social Awareness cluster is the mandatory competence Empathy, an awareness of others’ feelings, needs, and concerns. From Empathy are derived the other two competencies: Organizational Awareness and Service Orientation. Organizational Awareness and Service Orientation are alternate manifestations of each other. Organizational Awareness tends to be used in higher-level management and executive positions where understanding and navigating the organization is critical for success. Service Orientation tends to be important in positions relating directly to customers (external or internal). Frontline personnel, customer-service representatives, consultants, salespeople, individual contributors, and the like hold these positions.

Social Skills. The Social Skills cluster contains competencies that tend to be more situation specific than competencies in other clusters, that is, more appropriate to certain jobs or roles. However, the Influence competence is the core of the Social Skills cluster and is therefore considered mandatory. The remainder of the Social Skills cluster is divided into two primary groups. The first group— Leading Others and Developing Others—demonstrates the ability to lead and manage others. The second group—Building Bonds, Teamwork and Collaboration, and Conflict Management—demonstrates the ability to work well with others. The algorithm for this cluster requires that an individual demonstrate at least one competence from each of these groups. In addition, this cluster contains additional competencies—Communication and Change Catalyst—that may or may not be critical (depending on the situation) and therefore are considered optional.

SELECTING FOR DIFFERENT TYPES OF JOBS

The algorithm depicted in Figure 1 is a good overall guide for selecting for emotional intelligence competencies. It may be considered a generic model for emotional intelligence, important for building the

overall capability of an organization. However, if you are looking for more immediate, short-term impact, you will need to take into account the competency requirements of the job. As Spencer and Spencer (1993) have shown, “the better the fit between the requirements of a job and the competencies of a person, the higher the person’s job performance and job satisfaction will be.”

Spencer and Spencer’s *Competence at Work* (1993) presented a number of generic models developed from a meta-analysis of over two hundred competency models in the Hay/McBer database. A review of targeted competency models reveals that most of the differences in the models are manifested in the Social Skills cluster. That is because Self-Awareness, Self-Management, and Social Awareness are all building blocks from which the Social Skills competencies arise. Because much of Spencer and Spencer’s work is the precursor to Goleman’s work, many of their generic models can be mapped to the emotional intelligence competence model. In the following paragraphs, I have mapped four of Spencer and Spencer’s generic models to the emotional intelligence paradigm. These models are for competencies for managers, individual contributors, salespeople, and helping and human service workers.

Managers. The manager model emphasizes competencies that facilitate leading or influencing others (see Figure 1.2). In the Self-Awareness cluster, Self- Confidence becomes particularly salient at the managerial level. In the Hay/McBer database this competence was found to be a critical differentiator of outstanding managers across studies. The same held true for Trustworthiness, also known as Integrity in many competency models. In order for managers to be effective they must consistently act upon their espoused values and beliefs. Achievement

Orientation, or setting and meeting challenging goals, was also a key differentiator in Spencer and Spencer’s meta-analysis; and Self-Control, the core of Self-Management, has been found in longitudinal studies to predict success in

FIGURE 1.2. EMOTIONAL INTELLIGENCE COMPETENCE MODEL FOR MANAGERS

<p style="text-align: center;">Self-Awareness</p> <ul style="list-style-type: none"> • Emotional Self-Awareness <i>or</i> <ul style="list-style-type: none"> • Accurate Self-Assessment • Self-Confidence 	<p style="text-align: center;">Social Awareness</p> <ul style="list-style-type: none"> • Empathy • Organizational Awareness <i>or</i> • Service Orientation
<p style="text-align: center;">Self-Management</p> <ul style="list-style-type: none"> • Self-Control • Trustworthiness <i>or</i> • Conscientiousness <i>or</i> Adaptability • Achievement Orientation <i>or</i> Initiative 	<p style="text-align: center;">Social Skills</p> <ul style="list-style-type: none"> • Influence • Leading Others <i>or</i> Developing Others <ul style="list-style-type: none"> • Building Bonds <i>or</i> Teamwork and Collaboration <i>or</i> Conflict Management • Communication <i>or</i> Change Catalyst

managers, particularly those high in power motivation (McClelland & Boyatzis, 1982; Jacobs & McClelland, 1994). In the Social Awareness cluster, Empathy and Organizational Awareness are critical competencies for managers. As one moves up in the organization, understanding the underlying issues and politics of the organization becomes increasingly necessary in order to be successful. In the Social Skills cluster the emphasis in managerial jobs is influencing and leading others. Thus, Influence competence along with the Leading Others and Developing Others competencies is considered especially salient. In addition, Conflict Management and Communication have also been shown to be important behaviors for managers to demonstrate.

Individual contributors. One of the most critical differentiators of outstanding individual contributors, professionals, and entrepreneurs has been the achievement motive (McClelland, 1985; Spencer & Spencer, 1993). In the emotional intelligence competence model, behaviors related to the achievement motive are represented by the Achievement Orientation and Initiative competencies residing in the Self-Management cluster (see Figure 1.3). A characteristic of individuals with the achievement motive is that testing themselves against a standard of excellence energizes them. Thus Accurate Self-Assessment, knowing one’s strengths and weaknesses, often characterizes this population.

FIGURE 1.3. EMOTIONAL INTELLIGENCE COMPETENCE MODEL FOR INDIVIDUAL CONTRIBUTORS.

<p style="text-align: center;">Self-Awareness</p> <ul style="list-style-type: none"> • Emotional Self-Awareness <i>or</i> <ul style="list-style-type: none"> • Accurate Self-Assessment • Self-Confidence 	<p style="text-align: center;">Social Awareness</p> <ul style="list-style-type: none"> • Empathy • Organizational Awareness <i>or</i> • Service Orientation
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Self-Management <ul style="list-style-type: none"> • Self-Control • Trustworthiness <i>or</i> • Conscientiousness <i>or</i> Adaptability • Achievement Orientation <i>or</i> Initiative 	Social Skills <ul style="list-style-type: none"> • Influence • Leading Others <i>or</i> Developing Others • Building Bonds <i>or</i> Teamwork and Collaboration <i>or</i> Conflict Management • Communication <i>or</i> Change Catalyst
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In terms of the Social Awareness cluster, Service Orientation is often more critical to individual contributors than is Organizational Awareness, because the former is more focused on helping, consulting, or assisting clients and customers. Lastly, successful individual contributors, particularly professionals, build networks and work well with others. Thus in the Social Skills cluster the Building Bonds and Teamwork and Collaboration competencies are more critical for these people than are the Leading Others or Developing Others competencies.

Salespeople. Like outstanding individual contributors, outstanding salespeople are characterized by a high achievement motive. Thus the same Self-Management competencies—Achievement Orientation and Initiative—are important (see Figure 1.4). However, salespeople differ from other individual contributors in that their main goal is to influence others to buy a service or product. Thus the Influence competence, as Spencer and Spencer have shown, is particularly critical to outstanding salespeople. In order to successfully influence others, salespeople must

build on some of the Social Awareness competencies, particularly Empathy and

FIGURE 1.4. EMOTIONAL COMPETENCE MODEL FOR SALESPEOPLE

Self-Awareness <ul style="list-style-type: none"> • Emotional Self-Awareness <i>or</i> • Acurate Self-Assessment • Self-Confidence 	Social Awareness <ul style="list-style-type: none"> • Empathy • Organizational Awareness <i>or</i> • Service Orientation
Self-Management <ul style="list-style-type: none"> • Self-Control • Trustworthiness <i>or</i> • Conscientiousness <i>or</i> Adaptability • Achievement Orientation <i>or</i> Initiative 	Social Skills <ul style="list-style-type: none"> • Influence • Leading Others <i>or</i> Developing Others • Building Bonds <i>or</i> Teamwork and Collaboration <i>or</i> Conflict Management • Communication <i>or</i> Change Catalyst

Service Orientation. They must understand the underlying needs and issues of each customer and work to address those needs. In addition, many salespeople actively build long-term relationships with their clients, acting as trusted advisers. This requires the Building Bonds competence from the Social Skills cluster. *Helping and human service workers.* Helping and human service workers include social workers, therapists, medical personnel such as nurses and physicians, teachers, and the like. One of the key characteristics of outstanding helping and human service workers is a high socialized power motive, which indicates that these people enjoy having an impact and influencing for the good of others or for the good of an organization (McClelland, 1985). Thus the Influence competence, as well as the Developing Others competence, is particularly critical for those successful in these professions (see Figure 1.5). The nature of these helping positions requires strong social awareness. Empathy is a given, and Service Orientation takes precedence over Organizational Awareness. People in these jobs need to understand and manage themselves well in order to be helpful to others. This requires Self- Control, Self-Confidence, and Accurate Self-Assessment. In addition, they

Self-Awareness <ul style="list-style-type: none"> • Emotional Self-Awareness <i>or</i> • Acurate Self-Assessment • Self-Confidence 	Social Awareness <ul style="list-style-type: none"> • Empathy • Organizational Awareness <i>or</i> • Service Orientation
Self-Management <ul style="list-style-type: none"> • Self-Control • Trustworthiness <i>or</i> • Conscientiousness <i>or</i> Adaptability • Achievement Orientation <i>or</i> Initiative 	Social Skills <ul style="list-style-type: none"> • Influence • Leading Others <i>or</i> Developing Others • Building Bonds <i>or</i> Teamwork and Collaboration <i>or</i> Conflict Management • Communication <i>or</i> Change Catalyst

be able to work well with others, using the competencies of Teamwork and Collaboration and of Conflict Management.

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**FOREIGN DIRECT INVESTMENT IN INDIA: AN ANALYSIS OF PRE & POST 1990
REFORMS IN INDIA**

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ABSTRACT

India have seen lot of fluctuation in FDI inflow during pre-reform, i.e. till 1990 and also in post-reform stage, i.e. after 1990. The growth rate of FDI inflow had been much higher in post-reform period in comparison to the pre-reform period. There is sectoral as well as source of FDI change during both the tenure. The reason attributable to the same is the liberalization policies in India after 1990, wherein it have opened up itself for various sectors in different tenure of time-frame. This have not only worked towards economic boost-up, but also have multi-dimensional effect in various sectors and different areas. Various countries have different timeframe of liberalization, but every FDI policy had impact on other country and have always considered that of countries across the globe.

Keywords: FDI, Liberalization, pre-reforms, post-reforms

INTRODUCTION

As per Organisation for Economic Co-operation and Development(OECD) (2000)¹, Foreign Direct Investment (FDI) is “An investor based in one Country acquires an asset in another country with the intent to manage the asset”.

A perusal of India’s FDI policy vis-à-vis other major emerging market economies (EMEs) reveals that though India’s approach towards foreign investment has been relatively conservative to begin with, it progressively started catching up with the more liberalised policy stance of other EMEs from the early 1990s onwards, inter alia in terms of wider access to different sectors of the economy, ease of starting business, repatriation of dividend and profits and relaxations regarding norms for owning equity. This progressive liberalisation, coupled with considerable improvement in terms of macroeconomic fundamentals, reflected in growing size of FDI flows to the country that increased nearly 5 fold during first decade of the present millennium.²

Foreign investments mean both foreign portfolio investments and FDI. FDI brings better technology and management, marketing networks and offers competition, the latter helping Indian companies improve, quite apart from being good for consumers. Alongside opening up of the FDI regime, steps were taken to allow foreign portfolio investments into the Indian stock market through the mechanism of foreign institutional investors. FDI have helped India to attain a financial stability and economic growth with the help of investments in different sectors. FDI has boosted the economic life of India and on the other hand there are critics who have blamed the government for ousting the domestic inflows. After liberalization of Trade policies in India, there has been a positive GDP growth rate in Indian economy. Foreign direct investments helps in developing the economy by generating employment to the unemployed, Generating revenues in the form of tax and incomes, Financial stability to the government, development of infrastructure, backward and forward linkages to the domestic firms for the requirements of raw materials, tools, business infrastructure, and act as support for financial system. Forward and back ward linkages are developed to support the foreign firm with supply of raw and other requirements. It helps in generation of employment and also helps poverty eradication. There are many businesses or individuals who would earn their lively hood through the foreign investments. There are legal and financial consultants who also guide in the early stage of establishment of firm.

¹ Rao K. S., Dhar B. (2011) -“India’s FDI Inflows Trends and Concepts”; OECD, Benchmark Definition of foreign Direct Investment, Edition 4.

² Reserve Bank of India (RBI)

LITERATURE REVIEW

India had liberalized its FDI policy in 1990 [Agarwal (2012), Singh (2012)], post which the FDI have increased to many folds in the country [Akhtar (2013), Ray (2014)]. During Pre-reforms period, there was an increase in FDI across the globe viz-a-viz in India too, but, the growth rate was much lesser in India in comparison to the world [Chopra (2004)]. There had been few fluctuations in the FDI growth rate, but, the net result during pre-reforms was positive. RBI have issued many mandates liberalizing the FDI policy post-reforms [Chaturvedi (2011), Rao (2011), Sharma (2013)], as a result of which, the FDI have increased in various sectors in the country [RBI (2013)].

There are studies, wherein FDI flow outward the country is also talked, but, for India being a developing country, it is less significant [Baskaran (2012), Basha (2013)]. FDI in India post-reform could had been better, but, the same was sluggish due to various reasons including bureaucracy, tariff & tax structure, etc. [Herekar (2013)]. UNCTAD’s investment policy framework for sustainability development have been a influencing factor to the India’s FDI policy [baral (2013)]. Various sectors, like Retail [Meenakshi (2013), Singh (2012)], employment [Mohire (2013)], pharmaceutical [Syed (2011)] etc. had a significant impact of

STUDY PERIOD

Total FDI in India and world is studied from 1970 to 2012. Whereas, Sector-wise and country-wise FDI in India is studied in for 1981 to 1990 and from 2009 to 2013.

RESEARCH METHODOLOGY

This research is a descriptive study in nature. Although, the source of data can be both Primary as well as Secondary. But, in this study, in order to have accuracy in the data, only Secondary Source is used for data collection and study. Various publications, data archives, etc. are used from various sources like, RBI, various Indian and world government bodies, Indian Monetary Fund (IMF), United Nations Conference on Trade and Development (UNCTAD), Asian Development Bank (ADB), different research studies, etc.

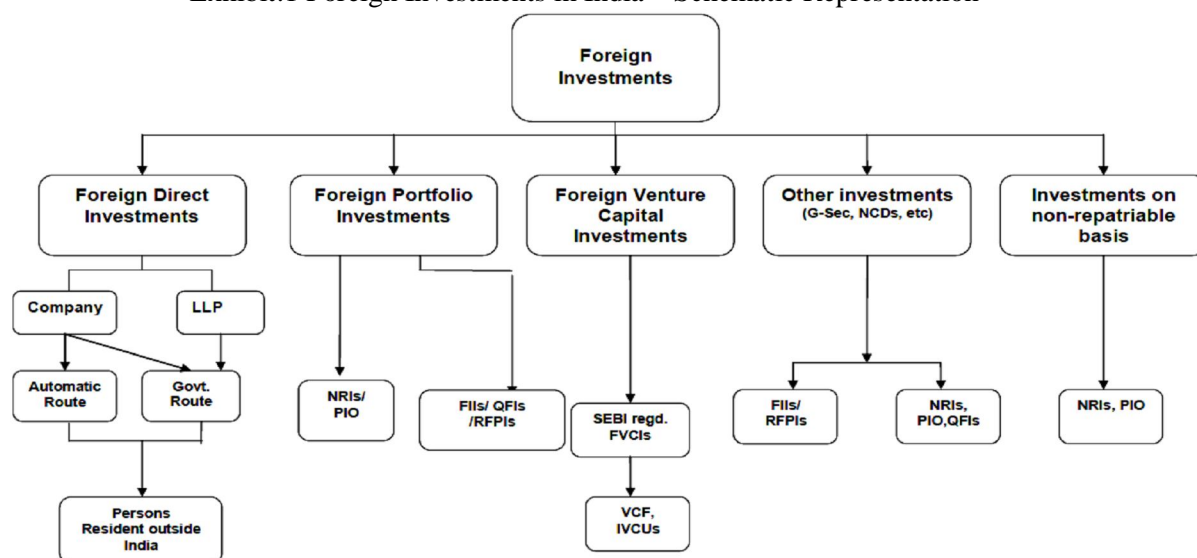
Literatures review are covered in the Literature Review column and based on the data and information thus collected hypothesis / objective / conclusion / findings / suggestions are derived. Although the timeline of the study is from 1970 to 2012, but for some data / information, the figures are from 2009 to 2013 only.

FDI Policy of few countries, namely, China, Chile, Korea, Malaysia, Thailand is also studied.

FDI LIBERALIZATION IN INDIA

One can have investment in India through various routes/channels. A schematic diagram of the same is as under:

Exhibit:1 Foreign Investments in India—Schematic Representation³



³ Reserve Bank of India (<http://rbidocs.rbi.org.in/rdocs/notification/PDFs/15MCNFDI270613.pdf>)

REGULATORY FRAMEWORK⁴

1. Foreign Direct Investment (FDI) in India is :

- undertaken in accordance with the FDI Policy which is formulated and announced by the Government of India. The Department of Industrial Policy and Promotion, Ministry of Commerce and Industry, Government of India issues a “Consolidated FDI Policy Circular ” on an yearly basis on March 31 of each year (since 2010) elaborating the policy and the process in respect of FDI in India governed by the provisions of the Foreign Exchange Management Act (FEMA), 1999. FEMA Regulations which prescribe amongst other things the mode of investments i.e. issue or acquisition of shares / convertible debentures and preference shares, manner of receipt of funds, pricing guidelines and reporting of the investments to the Reserve Bank.

Entry routes for investments in India

Under the Foreign Direct Investments (FDI) Scheme, investments can be made in shares, mandatorily and fully convertible debentures and mandatorily and fully convertible preference shares of an Indian company by non-residents through two routes:

- **Automatic Route:** Under the Automatic Route, the foreign investor or the Indian company does not require any approval from the Reserve Bank or Government of India for the investment.
- **Government Route:** Under the Government Route, the foreign investor or the Indian company should obtain prior approval of the Government of India (Foreign Investment Promotion Board (FIPB), Department of Economic Affairs (DEA), Ministry of Finance or Department of Industrial Policy & Promotion, as the case may be) for the investment.
- **Sector Specific Limits of Foreign Investment in India (updated as on June 2014) is as under⁵:**

Exhibit:2 Sector Specific Limits of Foreign Investment in India			
Sector	FDI Cap/Equity	Entry Route	Other Conditions
<u>A. Agriculture</u>			
1. Floriculture, Horticulture, Development of Seeds, Animal Husbandry, Pisciculture, Aquaculture, Cultivation of vegetables & mushrooms and services related to agro and allied sectors.	100%	Automatic	
2. Tea sector, including plantation	100%	FIPB	
(FDI is not allowed in any other agricultural sector /activity)			
<u>B. Industry</u>			
1. Mining covering exploration and mining of diamonds & precious stones; gold, silver and minerals.	100%	Automatic	
2. Coal and lignite mining for captive consumption by power projects, and iron & steel, cement production.	100%	Automatic	
3. Mining and mineral separation of titanium bearing minerals	100%	FIPB	
<u>C. Manufacturing</u>			
1. Alcohol- Distillation & Brewing	100%	Automatic	
2. Coffee & Rubber processing & Warehousing.	100%	Automatic	
3. Defence production	26%	FIPB	
4. Hazardous chemicals and isocyanates	100%	Automatic	
5. Industrial explosives -Manufacture	100%	Automatic	
6. Drugs and Pharmaceuticals	100%	Automatic	

⁴ RBI Mater Circular No. 15/2013-14, dated: 1st July 2013 (updated as on 11th June 2014) (http://www.rbi.org.in/Scripts/BS_ViewMasCirculardetails.aspx?id=8104)

⁵ Reserve Bank of India (http://www.rbi.org.in/scripts/bs_viewcontent.aspx?Id=2513)

7. Power including generation (except Atomic energy); transmission, distribution and power trading.	100%	Automatic	
(FDI is not permitted for generation, transmission & distribution of electricity produced in atomic power plant/atomic energy since private investment in this activity is prohibited and reserved for public sector.)			
D. Services			
1. Civilaviation (Greenfield projects and Existing projects)	100%	Automatic	
2. Asset Reconstruction companies	49%	FIPB	
3. Banking (private) sector	74% (FDI+FII). FII not to exceed 49%	Automatic	
4. NBFCs : underwriting, portfolio management services, investment advisory services, financial consultancy, stock broking, asset management, venture capital, custodian, factoring, leasing and finance, housing finance, forex broking, etc.	100%	Automatic	s.t.minimum capitalisation norms
5. Broadcasting			
a. FM Radio	20%	FIPB	
b. Cable network; c. Direct to home; d. Hardware facilities such as up-linking, HUB.	49% (FDI+FII)		
e. Up-linking a news and current affairs TV Channel	100%		
6. Commodity Exchanges	49% (FDI+FII) (FDI 26 % FII 23%)	FIPB	
7. Insurance	26%	Automatic	Clearance from IRDA
8. Petroleum and natural gas :	49% (PSUs).	FIPB (for PSUs).	
a. Refining	100% (Pvt. Companies)	Automatic (Pvt.)	
9. Print Media	26%	FIPB	S.t.guidelines by Ministry of Information & broadcasting
a. Publishing of newspaper and periodicals dealing with news and current affairs			
b. Publishing of scientific magazines / speciality journals/periodicals	100%	FIPB	
10. Telecommunications			
a. Basic and cellular, unified access services, national / international long-distance, V-SAT, public mobile radio trunked services (PMRTS), global mobile personal communication services (GMPCS) and others.	74% (including FDI, FII, NRI, FCCBs, ADRs/GDRs, convertible preference shares, etc.	Automatic up to 49% and FIPB beyond 49%.	
Sectors where FDI is Banned			
1. Retail Trading (except single brand product retailing);			
2. Atomic Energy;			
3. Lottery Business including Government / private lottery, online lotteries etc;			
4. Gambling and Betting including casinos etc.;			
5. Business of chit fund;			
6. Nidhi Company;			

7. Trading in Transferable Development Rights (TDRs);
8. Activities/sector not opened to private sector investment;
9. Agriculture (excluding Floriculture, Horticulture, Development of seeds, Animal Husbandry, Pisciculture and cultivation of vegetables, mushrooms etc. under controlled conditions and services related to agro and allied sectors) and Plantations (Other than Tea Plantations);
10. Real estate business, or construction of farm houses;
Manufacturing of Cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco or of tobacco substitutes.

PRE-REFORM PERIOD (TILL 1990)

Apart from overall fundamentals (rules & regulations), whether Policy regime promotes or restrains the foreign investment flow, fundamentally plays the most important role in attracting any investment in a country. India had a change in approach towards foreign investment from early 1990s, leading to reforms in its investment policies and thus entering into the phase of liberalization. India had been extremely cautious while formulating FDI policies for the country, leading to fluctuating flow of FDI in India. Foreign Exchange Regulation Act (FERA), 1973 was enacted wherein joint venture was allowed for foreign equity holding upto 40 percentage. Subsequently, liberalization was extended to foreign companies / countries in export oriented business and high priority / technology areas allowing equity holdings of upto 40 percentage. India learnt from global experiences towards various types of concepts and policies and implemented few of them in-house too, like, Special Economic Zones (SEZs) for promoting FDI indirectly into the country and to promote exports too. Still, India remained highly protective and resulted in less attractive policies for foreign investments.

The announcements of Technology Policy (1983) and Industrial Policy (1980 and 1982) worked towards positive attitude for investments in terms of policy directions. Some of the industrial rules and promotion of Indian manufacturing exports were de-licensed and it emphasized on modernization of industries through imports of capital goods and technology being liberalized. Open General Licensing (OGL) supported this trade liberalization measures by tariff reduction as well as shifting of large number of items from import licensing to OGL. The role played by britishers as foreigners during independence worked negative towards foreign interference in Indian economics. The climate for working for foreign investors was made very complex favoring basically the domestic investors, leading to unattractive place for foreign investment. Complete discretion and authority was vested under government to shape and control FDI.

Akhtar (2013) have classified the indoor government policy towards FDI before economic reform may be classified under three different phases:

- 1) The Phase of Cautious and Selective Attitude towards FDI (1948-1967);
- 2) The Phase of Restrictive Attitude towards FDI (1968-1979);
- 3) The Phase of Semi-Liberalization (1980-1990);
- 4) Trends of FDI Inflows during Pre-reform Period: Before 1991;

After independence the cautious FDI policy was resulted in a low level of FDI inflow in India. The amount of FDI increased from US\$ 45 million in 1970 to reach a peak level US \$ 252 million in 1989 thereafter it declined US \$ 237 million in 1990 (Exhibit below). The overall FDI inflow till 1984 was fluctuating with a big downfall in 1988. During last 10 years of the pre-liberalization period, FDI increased by about 3 folds.

YEAR	USD	% growth	% of world total	% of Developing Economies
1970	45.46		0.34%	1.18%
1971	47.66	4.84%	0.33%	1.31%
1972	17.79	-62.67%	0.12%	0.52%
1973	37.91	113.10%	0.18%	0.73%
1974	56.97	50.28%	0.24%	2.31%

⁶Authors compilation from United Nations Conference on Trade and Development (UNCTAD)

1975	85.09	49.36%	0.32%	0.88%
1976	51.11	-39.93%	0.23%	0.79%
1977	(36.06)	-170.55%	-0.13%	-0.52%
1978	18.09	-150.17%	0.05%	0.20%
1979	48.57	168.49%	0.11%	0.57%
1980	79.16	62.98%	0.15%	1.06%
1981	91.92	16.12%	0.13%	0.38%
1982	72.08	-21.58%	0.12%	0.27%
1983	5.64	-92.18%	0.01%	0.03%
1984	19.24	241.13%	0.03%	0.11%
1985	106.09	451.40%	0.19%	0.75%
1986	117.73	10.97%	0.14%	0.75%
1987	212.32	80.34%	0.16%	0.97%
1988	91.25	-57.02%	0.06%	0.30%
1989	252.10	176.27%	0.13%	0.81%
1990	236.69	-6.11%	0.11%	0.68%

There was almost a fluctuating trend during the 1981 to 1990. The important feature is that except Germany almost all the countries have about positive trend in FDI in inflows during pre-reforms period in India. Top five investing countries in 1981 accounted for 86% of total FDI, whereas top five investing countries in 1990 accounted only for 57% of total FDI inflows. Japan invested during 1982, 1983, whereas Germany invested in 1981 the most. (refer to the exhibit below):

Year	USA	Germany	Japan	UK	Italy	Switzerland	Others
1981	20.80%	49.60%	5.60%	6.40%	0.80%	4.00%	12.80%
1982	8.01%	5.59%	40.03%	2.57%	6.34%	1.81%	35.65%
1983	22.46%	7.87%	26.07%	15.90%	1.80%	1.80%	24.10%
1984	7.95%	2.52%	5.43%	1.61%	0.70%	0.40%	81.39%
1985	31.67%	9.41%	12.45%	2.94%	5.49%	0.69%	37.35%
1986	27.44%	18.85%	5.42%	7.18%	2.24%	3.06%	35.81%
1987	27.44%	9.15%	6.38%	7.82%	2.77%	8.18%	38.27%
1988	40.51%	12.94%	7.25%	5.80%	12.77%	0.70%	20.02%
1989	19.62%	38.01%	2.77%	10.55%	2.20%	2.46%	24.39%
1990	26.88%	7.37%	3.96%	7.09%	5.32%	10.50%	38.88%

The FDI inflow is very fluctuating in various sectors in India during pre-reforms. Chemicals have seen 78.99% in 1984 and at the same time had only 2.37% a year preceding, i.e. 1983. Similarly, Electrical and Electronics have seen a change from 1.68% in 1982 to 22.85% in 1983. India had significant investment in Industrial Machinery and Mechanical Engineering only in thrice and twice from 1981-1990 respectively. Metallurgy have seen change from as low as 0.51% in 1982 to 18.84% in 1985.

Sector / Year	Chemicals	Electrical and Electronics	Industrial Machinery	Mechanical Engineering	Metallurgy	Others
1981	10.62%	8.85%	23.89%	10.62%	0.88%	45.13%
1982	58.92%	1.68%	3.54%	1.01%	0.51%	34.34%
1983	2.37%	22.85%	5.93%	6.82%	1.48%	60.53%
1984	78.99%	6.33%	5.95%	5.06%	2.78%	0.89%
1985	11.15%	38.30%	4.24%	10.68%	18.84%	16.80%

⁷ Reserve Bank of India, Annual Report, 2012-13, pp 199

⁸ Reserve Bank of India, Annual Report, 2012-13, pp 199

1986	36.12%	34.90%	1.21%	9.71%	16.54%	1.52%
1987	52.34%	23.75%	10.37%	2.17%	1.67%	9.70%
1988	26.67%	25.93%	2.66%	4.14%	13.18%	27.42%
1989	45.45%	19.29%	1.98%	3.08%	9.80%	20.40%
1990	21.08%	24.02%	11.03%	8.82%	3.19%	31.86%

POST-REFORM PERIOD (POST 1990)

India had its reform program started in 1991 targeting for high investment and growth to the economy by economic liberalization and reforms thus started. Although slowly, but industrial reforms removed restrictions on business expansion and investment projects and also allowed for funding as well as increased access towards foreign technology.

Indian economy have seen severe financial crisis during mid 1990 because of political disturbances, like, high inflation and fiscal deficit. This doengraded the international rating of the country, leading to loss of confidence of international community in Indian economy. The foreign exchange was hit by Gulf war in January 1991 because of high deposits by NRIs in Gulf countries, which was exacerbated with balance of payments crisis during the war.

The foreign exchange become very scanty and it was not sufficient even to pay for just one week import. Thus, the economic liberalization process was introduced under Structural Adjustment Programme (SAP) with the support of the World Bank and IMF. This resulted in series of economic reforms during 1991 and become host of Indian industrial policy reforms.

National Industrial Policy (NIP) 1991 recognized the role of FDI in the process of industrial development in India by bringing technological upgradation, greater competitiveness & efficiency, modernization, creation of a sound base for export promotion and thus integrating India with the rest of the world. The major highlights of NIP 1991 changes are as followings:

- Abolition of industrial licensing system except for 18 industries which includes those industries which manufactured, hazardous chemicals and items of elitists consumption or of national concerns social well being and the environment concerns.
- Introduction of the dual approval system for FDI proposals viz. (i) through an automatic approval channel for FDI in 35 priority sectors by RBI upto equity participation 51 percent and (ii) through formal government of India channel via FIPB/SIA.
- Foreign investment promotion board (FIPB) was established and has been authorized to provide a single window clearance for all project proposals regarded by it.
- Existing companies were allowed to hike their foreign equity upto 51 percent in priority sector.
- Dilution of dividend balancing conditions and its related exports obligation except in case of 22 consumer goods industries.
- Ceiling of 40 percent foreign equity under FERA was done away with.
- Automatic permission for technology agreement in high priority industries.
- Removal of registration under MRTTP Act.

Government of India set up Foreign Investment Implementation Authority (FIIA) in August 1999 within the ministry of industry to facilitate quick translation of FDI approvals into implementation by providing a proactive one step after care service to foreign investor like helping them obtain necessary approvals and sorting their operational problems. FIIA is assisted by Fast Track Committee which has been established in 30 Ministries/Departments of Government of India for monitoring and resolution of difficulties for sector specific projects⁹. Planning Commission set-up the steering committee on FDI in August 2001 which recommended for lifting of ban on FDI from sectors such as banking and financial services, petroleum exploration and oil marketing including real estate upto 100 percentage. The committee recommended not to lift the ban on Retail, which was expected to erode the local market and may have hit towards steady growth of local market. Even during New Economic Policy in 1991, many sectors were kept out of FDI, and sectors wherein FDI was

⁹ Chopra, Chanchal (2004). "Foreign Investment in India: Liberalization and WTO-The Emerging Scenario", Deep and Deep Publication Pvt. Ltd., New Delhi.

allowed, it was capped with an upper limit. In the same time there was a fear of sustainability of the policy in future.

As far as amount of FDI is concerned it has been increased from US\$ 0.08billion in 1991 to US\$ 47.14billion in 2008, but thereafter it declined to US\$ 21.13 billion in the year 2010 and in 2012 it was US\$ 25.54 billion. The reforms shown its impact in 1992 and had a big jump in 2006 with the revised and liberalized policies. In the same time, in years 1998, 1999, 2003, 2009, 2010 and 2012 it was negative i.e. -27.25%, -17.66%, -23.24%, -24.26%, -40.75% and -29.42% respectively. Thereafter it increased to a high level of in 2006 and 2011 i.e. 166.71% and 71.31% respectively. The average FDI inflow is 41.64% during 1991-2008. (kindly refer to Exhibit below). It was only in last 7 years (2007-2012) that, FDI Inflow in India was more than 1% of world total FDI inflow (upto 2% in 2010), with a significant jump in 2001 and 2006.

YEAR	USD	% growth	% of world total	% of Developing Economies
1991	75.00	-68.31%	0.05%	0.19%
1992	252.00	236.00%	0.15%	0.47%
1993	532.00	111.11%	0.24%	0.69%
1994	974.00	83.08%	0.38%	0.94%
1995	2,151.00	120.84%	0.63%	1.84%
1996	2,525.00	17.39%	0.65%	1.69%
1997	3,619.00	43.33%	0.74%	1.88%
1998	2,633.00	-27.25%	0.37%	1.39%
1999	2,168.00	-17.66%	0.20%	0.94%
2000	3,587.99	65.50%	0.25%	1.36%
2001	5,477.64	52.67%	0.66%	2.44%
2002	5,629.67	2.78%	0.90%	3.33%
2003	4,321.08	-23.24%	0.72%	2.23%
2004	5,777.81	33.71%	0.79%	2.06%
2005	7,621.77	31.91%	0.77%	2.28%
2006	20,327.76	166.71%	1.37%	4.70%
2007	25,349.89	24.71%	1.27%	4.30%
2008	47,138.73	85.95%	2.60%	7.05%
2009	35,657.25	-24.36%	2.93%	6.72%
2010	21,125.45	-40.75%	1.50%	3.32%
2011	36,190.40	71.31%	2.19%	4.92%
2012	25,542.84	-29.42%	1.89%	3.63%

Mauritius had been the biggest contributor to the Indian FDI. It have been contributing about 40% in last few years (kindly refer to exhibit below):

(US \$ million)					
Source	2008-09	2009-10	2010-11	2011-12	2012-13
Mauritius	44.79%	43.64%	43.64%	37.59%	34.69%
Singapore	14.80%	9.87%	9.87%	10.31%	14.08%
U.S.A	5.45%	9.85%	9.85%	7.17%	4.23%
Cyprus	5.34%	7.23%	7.23%	3.82%	6.68%

¹⁰ Authors compilation from United Nations Conference on Trade and Development (UNCTAD)

¹¹ Reserve Bank of India, Annual Report 2012-13, pp 199

Japan	1.17%	4.32%	4.32%	8.41%	8.90%
Netherlands	3.00%	3.58%	3.58%	9.49%	5.49%
UK	3.04%	2.86%	2.86%	3.60%	11.76%
Germany	2.69%	2.68%	2.68%	1.09%	1.57%
UAE	1.03%	1.66%	1.66%	1.26%	1.47%
France	1.93%	1.26%	1.26%	3.25%	2.51%
Switzerland	0.59%	0.43%	0.43%	0.89%	0.90%
Hong Kong SAR	0.68%	0.61%	0.61%	1.40%	1.12%
Spain	1.60%	0.56%	0.56%	1.22%	1.07%
South Korea	0.42%	0.71%	0.71%	0.91%	0.96%
Luxembourg	0.10%	0.18%	0.18%	1.66%	0.38%
Others	13.37%	10.57%	10.57%	7.93%	4.19%

Manufacturing Sector have been biggest contributor to the FDI flow in India followed by Construction and Financial Services Sector (refer to the exhibit below):

Exhibit:8 FDI TO INDIA: INDUSTRY-WISE¹²					
(US \$ million)					
Source/Industry	2008-09	2009-10	2010-11	2011-12	2012-13
Manufacture	21.05%	22.90%	32.08%	39.78%	35.70%
Construction	9.86%	15.65%	10.70%	11.22%	7.21%
Financial Services	19.52%	9.82%	9.06%	11.09%	15.09%
Real Estate Activities	8.31%	9.75%	2.97%	1.45%	1.08%
Electricity and other Energy Generation, Distribution & Transmission	2.95%	8.36%	8.96%	5.94%	9.04%
Communication Services	9.11%	8.25%	8.22%	6.21%	0.50%
Business Services	2.83%	6.92%	3.81%	6.77%	3.52%
Miscellaneous Services	6.42%	3.95%	3.41%	3.41%	3.02%
Computer Services	7.26%	3.86%	5.64%	3.14%	1.35%
Restaurants & Hotels	1.51%	2.99%	1.46%	3.71%	17.11%
Retail & Wholesale Trade	1.30%	2.39%	2.62%	2.42%	3.01%
Mining	0.46%	1.19%	3.96%	0.87%	0.38%
Transport	1.77%	0.98%	2.30%	1.75%	1.16%
Trading	1.76%	0.88%	1.04%	0.03%	0.77%
Education, Research & Development	1.07%	0.41%	0.37%	0.44%	0.82%
Others	4.83%	1.71%	3.39%	1.79%	0.24%
Total	100.00%	100.00%	100.00%	100.00%	100.00%
Note : Includes FDI through SIA/FIPB and RBI routes only.					

CONCLUSION

It can be seen from the data that there is significant growth of FDI in India and across the globe. But, due to late opening of the sectors, the pace of growth rate is lower than the average of the world and developing economies across the globe. India is opening up various sectors slowly and slowly after 1990. The same is opposed sometimes but at the same time it is welcomed too.

There are various factors leading to the slowing of pace of FDI inflow into the country, like, Red-Tapism, lack of infrastructure, over regulated, etc. We need lot of participation from the central and state government in facilitating the FDI inflow into the country. Mauritius have developed as the biggest contributor to the FDI

¹² Reserve Bank of India, Annual Report 2012-13, pp 199

inflow in India with a focus on manufacturing sector. Various global incidents like, Economic Crisis, etc. have caused India too have a hit in FDI inflow, but, the same had a bigger hit to the developing economies more.

SCOPE FOR FURTHER RESEARCH

The Study can be extended by studying FDI policy of various other countries across the globe and comparing the same during its pre and post reforms period. The study of reasons for sudden jump and fall of the flow can be very important in understanding the scenarios which impact positively and which impact negatively to the FDI flow in a country.

Impact of FDI policies on various sectors in any economy can help to understand the correction (if required) in the policy thus devised. Accordingly, the same can be further taken-up with DIPP or RBI.

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4. The title of the paper should be in capital letters, bold, size 16” and centered at the top of the first page. The author(s) and affiliations(s) should be centered, bold, size 14” and single-spaced, beginning from the second line below the title.

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3 Author Designation, Department, Organization, City, email id

5. The abstract should summarize the context, content and conclusions of the paper in less than 350 words in 12 points italic Times New Roman. The abstract should have about five key words in alphabetical order separated by comma of 12 points italic Times New Roman.

Examples of References

All references must be arranged first alphabetically and then it may be further sorted chronologically also.

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