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ADVERTISEMENT: A GAME OF EMOTIONS & PERSUASION

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ABSTRACT

Emotion and persuasion is an old topic in psychology and a difficult one to apply to advertising. Affect appears to have four possible effects on "learning" from advertising and a direct effect on advertising effectiveness in low depth-of-processing situations. But understanding and measurement of the cognitive neuropsychological underpinnings of the effect of affect is incomplete and often applied in an over simplistic way.

KEYWORDS: Advertisement, Percentage contribution, Memorability, Vividness, Unidimensional, Discriminant, Tricomponent,

Introduction

An inadequate understanding of the role of affect in advertising has probably been the cause of more wasted advertising money than any other single reason. Today, after years of advertising research, we still do not adequately understand if advertising must entertain in order to sell or whether, like the headache ads that seem to sell through their very irritation, pleasantness is irrelevant to considerations of advertising effectiveness. One could easily modify John Wanamaker's complaint: we know that half of our advertising is wasted, but we don't know if it's the "affective" half or the "rational" half.

Things seem to be changing, though. Recently, cracks seem to have developed in the edifice of the Fishbeinian "attitudes are based on attributes" school of brand superiority. We academic researchers may yet understand why advertising personnel have for long intuitively suspected that consumers develop a liking for brands based at least partly, and at least in some situations, on how affective that brand's advertising is (Vaughn 1980; Berger 1980).

In this review paper, we first examine the various reasons why, according to the literature, we need to study affect at all, and why affect is important for advertising theory and practice. In doing so, we first consider the role of affect in advertising as a mediating, instrumental factor in advertising success; we then look at reasons why the creation of affect may be important as an end in itself. Next, we discuss ways in which advertising-induced affect may be studied, and in order to do this we attempt to understand what the sources of affect are, and what it really means for people to experience affect. This section is heavily psycho physiological in tone. Finally, we raise questions on where we go from here, summarizing what we do know, and some urgent questions, about affect in advertising.

The Role of Affect in Advertising Affect as a Means to an End

There are at least four reasons why affective advertising may prove to be more effective advertising, no matter what the content or situation (subject to a few caveats in each case). We discuss these below.

People may pay greater attention to affective advertising. Affect tends to play a prominent role in models of attention and perception. Ittelson (1973, p. 16) asserts that "the first level of response to the environment is affective. The direct emotional impact of the situation, perhaps largely a global response to the ambiance, very generally governs the directions taken by subsequent relations with the environment". Posner and Snyder (1975) quote work by Erdelyi and Applebaum on the priority of emotional identification over semantic identification in the formation of perceptual context.

Broadbent (1977), too, finds an "emotionality effect" in his hierarchical model of information handling: words that have emotional content are perceived more readily than those which don't. And, most recently, Bower and Cohen (1982) present evidence that a person's feelings act like a selective filter that is tuned to incoming material that supports or justifies those feelings; the filter lets in material congruent with the mood of the perceiver, but ignores or casts aside incongruent material.

People must pay at least minimal (attention to advertising for it to have any effect, no matter what the relevant hierarchy of effects. And affective advertising should prove to be more effective in getting such attention (e.g. Ray 1977, 374).

Affect may enhance the degree of processing. Kroeber-Riel (1979) argues that the degree of information processing for a message is a function of the degree to which the message evokes arousal, or phasic activation. His experiments showed higher levels of information acquisition and information retention for messages evoking higher activation levels but were criticized on conceptual and methodological grounds by Ryan (1980).

Kahneman (1973) similarly argued for a relationship between activation (= "effort") and performance; all such relationships have a well-known inverted-U shaped relationship, however, since performance becomes impaired at excessively high levels of arousal. Evidence of such relationships is also found in the fear literature (Ray and Wilkie 1970). Arguing from a learning theory perspective, Ray (1973, 1982, Ch. 10) argues that advertising should use affective executions in those situations where the level of "natural drive" in the situation is otherwise low, to add to such drive to facilitate learning. And from yet another perspective, one could argue that since affective advertising executions are more likely to use visual imagery than less affective executions, such affective executions will evoke greater processing because of the use of the visual sensory stores and image processing channels in addition to the verbal channels (Paivio 1978).

Affective executions may lead to more positive judgments of the advertised message. Bower and Cohen (1982) report that people's judgments are (automatically, and without awareness) influenced by how people are feeling at the moment, because such emotions and moods differentially prime and "make available" inference rules and concepts that favor such positive appraisals. Affective ad executions should thus favor recipients' evaluations of the assertions in the ad.

Again, if the ad execution is affective because it is "vivid" and "concrete" rather than "abstract," the ad should have a greater impact on the people's inferences and behavior, even via processes other than greater impact on memory (Nisbett and Ross 1980).

And there are still other reasons to believe that affective executions may lead to more positive judgments of the ad. Such-executions may be more distracting from the attribute assertions in the ad, reducing counter-arguing and facilitating persuasion (Festinger and Maccoby, 1964; Osterhouse and Brock, 1970). Such affect may cause the message recipient to process the message more "mindlessly", leading it to be uncritically accepted, such that when the same information is used on a subsequent occasion, it may be used without a fresh re-consideration of its validity or applicability (Chanowitz and Langer 1981).

Finally, depending on the nature of the message, message acceptance may be higher because people in positive affect states tend to reduce the complexity of the judgment task, and engage in speedy, simplified, non compensatory processing, wanting to avoid cognitive strain (Isen, Means, Patrick, Nowocki 1982).

Affective executions may be remembered better. The effect of affect on memory has perhaps been the most re-searched topic in this area. Since this topic is being discussed in depth by another paper in this session, we will just mention what seems to be the bare, basic finding: affective material, regardless of valence, seems to be remembered better (Dutta and Kanungo 1975), though this conclusion may hold more for delayed measurements than for immediate ones (Silk and Vavra 1974).

Furthermore, the effect of "vividness" on recall and subsequent "availability" is well known, though some recent studies have questioned the robustness of this effect (Taylor and Thompson 1982).

In summary, therefore, affective advertising may, in many situations, be more effective advertising because it is attended to more, processed more, evaluated, more favorably, and remembered more. All these should lead to a more favorable evaluation of the advertised brand.

Yet the real gains from affective advertising may be even more direct: the liking for the ad may get conditioned onto the brand itself and form an important component of the attitude to the advertised brand. We address this effect below.

Affect as an End in Itself

Academic research on attitude change through advertising has relied heavily in recent years on the Fishbein-Ajzen (1975) tripartite model of attitude change, which argues that attitudes can be changed only by changing underlying beliefs. This model, in turn, is based on the assumption that attitudes are unidimensional, consisting purely of affect, which is based on beliefs and leads to behavioral intentions.

Recent research has indicated, first, that attitudes may not possess this unidimensional structure, and next, that attitude change may not be mediated purely through changes in underlying beliefs.

Empirical support for the Fishbein-Ajzen formulation re-lied heavily on studies of the convergent and discriminant validity of the tricomponent model which used the criteria of Campbell and Fiske (1959), including studies by Ostrom (1969) and Kothandapani (1971). Recent studies by Bagozzi and colleagues (Bagozzi and Burnkrant 1979; Bagozzi, Tybout, Craig, Sternthal 1979; Bagozzi 1980) have applied the more powerful (Kenny 1975) Confirmatory Factor Analysis technique to reassess the convergent and discriminant validity for the tricomponent and unidimensional models, on the same data

sets, and have reached dramatically different conclusions.

Their re-analysis suggests quite clearly that attitudes are not unidimensional, but instead have two distinct components, an "affective" and a "cognitive" one, and this conclusion is replicated by analysis on new data as well (Bagozzi 1981). We thus seem to be returning to a conception of attitudes similar to the multi-component one of Rosenberg and Hovland (1960). Note, also, that Osgood, Suci and Tannenbaum did not find their "evaluative" factor to be unidimensional (1957, p. 62; p. 70), a fact glossed over by those who use Osgood et al's re-search as reason to argue for the affective nature of attitudes.

At the same time, evidence is mounting that the attitude to the advertised brand is formed not only on the basis of the evaluation of the advertised brand's attributes, but may also be based on the classically conditioned affect for the brand from the attitude to the ad itself, based on message execution effects. Recent evidence of this effect has been presented by Mitchell and Olson (1981) and MacKenzie and Lutz (1982). While such conditioned affect may theoretically be treated as just another "inferential belief" within the Fishbein-Ajzen framework, the amazing fact is that the attitude models used in the consumer preference literature have so far used only product attributes in their measurements of brand evaluation, and any conditioned affect arising from the ad execution has been totally ignored.

It has also been argued by many that the sheer frequency of ad repetition itself leads to an enhancement of liking for the advertised brand, via the well-known "mere exposure" effect (Zajonc 1968; Ray 1973; Sawyer 1977, 1981; Batra and Ray 1982a), subject to the caveats that usually accompany such effects (Harrison 1977).

We have therefore suggested elsewhere (Batra and Ray 1982b) that attitudes should be conceptualized as having two components: an "evaluation" component that is voluntarily developed in an expectancy-value manner, based on brand attributes, and a brand-specific "liking" component that is involuntary and non decomposable, based on attitude toward the ad as well as mere exposure effects. We have further suggested that the "percentage contribution" of "liking" to total affect (attitudes) is systematically higher in "low involvement" message reception conditions (defined as situations where the degree of processing for the brand attribute assertions in the ad is low) since such "liking" is relatively effortless.

Such a "percentage contribution" model would explain the situational variations in correlations between affect (attitude) and evaluation (summed be) hitherto observed. These correlations appear to be higher for more "complex" products like cars, which have greater or more tangible attributes (Nakanishi and Bettman 1974; Mazis, Ahtola and Klippel 1975) than for less complex ones, like toothpaste. It is also consistent with the frequent observation that people like/dislike stimuli even in the absence of cognitions, beliefs and detailed information (Zajonc 1980; Bagozzi 1980; Osgood, Suci and Tannenbaum 1957).

Further, such a "percentage contribution" model would predict that in deeper processing situations persuasive communications would be more successful if the attempt to persuade was based on attribute arguments rather than feelings, with the opposite prediction for shallower processing situations. Such results have, in fact, been found by Petty and Cacioppo (1980); Petty, Cacioppo and Goldman (1981) and Gorn (1982).

The underlying variable, in our explanation of these results, becomes the "availability" of beliefs in attitude modification attempts. If the initial attitude is based largely on involuntary liking, fewer beliefs are retrievable in later attitude modification situations. New message beliefs thus fail to make contact with retrieved (old message) beliefs, and the attempt at attitude change fails. Effects due to liking can, and do, occur. Such an explanation handles not just the experiments just described but also the earlier results on "perseverance effects" (Ross, Lepper and Hubbard 1975). It also leads to the suggestion that, at least in some cases, it may pay advertisers to "inoculate" their brand franchises against competitive attribute superiority based advertising efforts by deliberately following a "global affect" strategy.

Most importantly, this line of argument suggests that in such "low involvement" message reception situations the creation of advertising—induced "liking" for the brand, via an affective execution, may be an important end in itself, no matter, what such affect does for attention, process in time, judgment favorability, and memorability.

Such an assertion is without prejudice to other theorizing on the relative importance of marketing mix elements in such situations; such "liking" affect, even if "lower order" (Smith and Swinyard 1982), may be crucial in getting initial brand trial, which may then become the more important influence on subsequent brand preferences. Further, such "lower order" affect may be of even greater importance in first phase, brand "elimination" decisions by the consumer, in making the decision on which brands to process deeply, or in final "tie breaking" situations, when the brands concerned are equivalent on product attributes. Such hypotheses obviously need further research.

Understanding Affect: Its Sources and Consequences

The discussion above has shown that we do know something about what variables affect has an impact on and about the situational contingencies that may moderate such impact. Where our knowledge is grossly inadequate, how-ever, is in understanding where this affective impact really comes from, and therefore how we can best manipulate and measure it.

Such understanding is vital; yet it is also one that is going to be difficult to come by, since it involves delving into a level of analysis that is as potentially misleading as it is promising. This is, of course, the realm of psychophysiology (or psychobiology, or neuropsychology, or cognitive neuropsychology, or what you will).

Much has been made in recent years in our field of the "left brain, right brain" literature, and nothing could be a better example of the promise, and the potential pitfalls, of applying the knowledge of cognitive neuropsychology to consumer behavior. Many recent writers have called for the study of "right brain" advertising, identifying attribute argumentation advertising with processing by the left brain hemisphere and emotional advertising with processing by the right brain hemisphere. Good examples of such literature are the recent pieces by Hansen (1981) and the identification of hemispheric differences with media mode effects by Weinstein, Appel, and Weinstein (1980).

The role of the right brain hemisphere in generating such • affective responses is well documented (Sperry 1973; Schwartz, Davidson, and Maer 1975; Dimond et al 1976). The identification of such affect with the right hemisphere of the neocortex may well be incomplete, however. Thus recent literature has examined differences in such hemispheric lateralization between men and women, left-

handed versus right-handed people, and peoples in different cultures, and found such claims of hemispheric lateralization to be far from generalizable.

Perhaps the most exhaustive review of recent research in this area is provided by Bradshaw and Nettleton (1981). Their summary conclusion -- itself challenged and controversial -- is that the differences between the two hemispheres are of degree, rather than of kind; both hemispheres have some roles, perhaps different ones, in the processing of language and of music; and that the basic difference may be a more general one of an analytical/ holistic dichotomy, rather than one between verbal/nonverbal processing.

Furthermore, many other alternative dichotomies exist in the identification of those areas of the brain which may be responsible for "less effortful" processing. Thus Luria (1973) points out that the human brain has two distinct associative areas for stimuli from the external world: the posterior association cortex is used in the synthesis of incoming information, while the frontal association cortex (linked to the limbic system) is the center for the activating role of speech, which is used to formulate problems and to provide the special concentration necessary for some forms of intellectual activity. This "front-back" dichotomization has received much support from research by Pribram and colleagues (Pribram 1980b; 1978; Brody and Pribram 1978; Pribram and McGuiness 1975).

Yet another view of the origin and location of affect and emotion in the human brain would "locate" such affect in the "limbic" region, below the neocortex (Maclean 1976). In fact, the amygdala in the limbic region could be (speculatively) assigned a role in our understanding of the "mere exposure" effect, through the mediating role of the amygdala in the limbic region, which happens to be responsible for both the habituation to novel stimuli as well as the control of the endorphin neuropeptides which give us our subjective feelings of pleasure and liking (Pribram 1978, and Luria 1973, quoting the work of Sokolov, Vinogradova and others).

Even more interestingly, this gives us an insight into the subjective nature of the experience of liking.

Pribram (1980), reviewing psychobiological theories of emotion, points out that feelings have two components: emotions (affect) and motivations (appetitive, readiness). We do not, however, experience our feelings as localized and fractionated, though our feelings at a point in time may be complex and multifaceted and therefore labelled and verbalized distinctively. This unidimensionality of our hedonic experience is based on the fact that they are determined by neurohormones and neurochemicals, whose chemical concentrations are experienced as states, diffuse experiences.

According to Pribram, three separate core-brain control mechanisms determine the concentrations of the neuro hormones and neurochemicals, and thus how we feel. The amygdala (limbic basal ganglia of the forebrain), just discussed in connection with the (phasic) arousal response, regulates endorphin homeostasis; endorphins are morphine-like substances related to novelty, pain, and temperature, and link novelty to arousal. The nonlimbic basal ganglia of the forebrain control the (tonic) activation of motivational readiness through a system of dopamines, which determine our feelings of effectiveness (relation to depression). Finally, the hippocampus, which controls effort (or its inverse, comfort) makes us experience the degree of effort as a result of the level of the pituitary-adrenal hormones, ACH and ACTH.

One may, at this point, legitimately ask what all of this has to do with advertising or consumer behavior. We believe that our brief review of the psychobiological literature makes a few simple, but important, points.

First, we must, in trying to understand the nature and sources of affect, avoid simplistic, facile generalizations, such as "left brain, right brain," because the reality is a lot more complicated. Zajonc (1980), for example, is cautious enough to allow for multiple sources of affect.

Second, and on the other hand, we must feel free to learn, and speculate, for our knowledge in this important and fascinating area is admittedly abysmal. This very review has shown, for example, that researchers attempting to monitor affective activity via brain waves should tap not just left-right hemisphere differences, but front-back ones too, and that in gauging the affective impact of advertising one should tap not just the pleasantness dimension but also the ones relating to motivation (did the ad make you want the product?). In fact, in another paper (Batra and Ray 1983) we pre-sent some results of our attempts to capture these dimensions in tests of (verbal) cognitive response to advertising.

Issues For Future Research

Perhaps the most important research issue of all is the oldest one: identifying, and developing a theoretical understanding of, those situations where the use of affective executions adds to advertising effectiveness versus those where it merely entertains.

Such research should build on the far greater knowledge today of the mechanisms which underlie the impact of affective executions, and yet should continue to develop the kind of contingency frameworks that earlier research attempted (on, for instance, the fear appeal). Our own ideas on this question are found in Ray 1973, 1982 (Ch. 10), and Batra and Ray (1982b). The latter discusses the implications of the "percentage contribution" model (referred to briefly, above) for advertising strategy and new product development.

Another major research issue has to be the measurement of the affective impact of advertising. Physiological measures have for decades held great promise while, -at the same time, lacking support for reliability and validity. Despite recent advances in, for instance, the use of Event Response Potential (ERP) measures of brain activity (Galin 1976; Roy John 1977; Pritchard 1981), or even eye gaze measures (Schwartz et al 1975), such cautionary notes still hold good. Recent methodological reviews of this area can be found in Watson and Gatchel (1979) and Stewart and Furse (1981). And physiological measurement instrumentation is often financially and technically infeasible.

It would therefore seem appropriate to begin developing verbal report methods which could reliably and validly measure differences in nuances of affective response in message reception situations. Our preliminary attempts in this area are reported in Batra and Ray (1983).

Finally, from an operational significance viewpoint, it becomes important to understand for how long message-induced affective responses can be expected to last. Does the effect of attitude-to-the-ad last as long as an effect on brand "evaluations"? Some recent work (Mitchell and Dasgupta 1982) seems to indicate that such affect lasts at least two weeks. And yet earlier re-search, reviewed by Cialdini, Petty, and Cacioppo (1981, pp. 364-366) finds that attitude change through such "peripheral routes to

persuasion" tends to be rather short-lived. Further research on this question is warranted as well.

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DISCLOSURE OF TRANSFER PRICING METHOD IN INDIAN ANNUAL REPORTS

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ABSTRACT

Transfer price is the price which is charged by the transnational corporations for their related party transactions or inter-segment sales. This price can be based on the market price as charged to the third party or the arm's length price. It can also be fixed on the basis of the cost of the goods/services transferred from one division of the company to another or the company may plan for a cost plus margin method. Besides this, the transfer price for inter-segment sale can also be negotiated amongst the related parties to avoid argumentative situations. The present study focuses on identification of the transfer pricing method used by 40 NSE listed companies over a period of three years. The study also focuses on the most prevalent method of transfer price over past three years. It concludes that the most widely used method is market price method which is most widely used by the sample companies in the year 2010-11, 2011-12 & 2012-13. It has also identified the prevalence of arm's length method and cost plus method amongst 40 sample companies. Besides this it has also come to notice that in the year 2011-12, five companies have not disclosed their transfer pricing method in their annual reports. These companies are Bafna pharmaceutical ltd., Pidlite, Bombay Dyeing, Sumeet Industries & Vaibhav Global Ltd. Besides that even in the financial year 2010-11, eight companies have not disclosed their transfer pricing method in their annual reports. These companies are Bafna pharmaceutical ltd., Bombay Dyeing, Sumeet Industries, Jocil Ltd, Chemfeb Alkalies Ltd, Dishman pharmaceutical, Tata Chemicals & Vaibhav Global Ltd. That shows Bafna Pharmaceuticals Ltd, Bombay dyeing, sumeet enterprises and vaibhav Global Ltd have not been showing their method of pricing their inter segment transactions in the annual reports. But in the year 2012-13 they have started projecting their transfer price method in their annual reports showing more transparency to gain public trust.

Executive Summary

Modern businesses follow decentralized mechanism of operations and hence the modern corporations are divided into various segments called strategic business units. When these SBUs transact with each other in the form of sale or purchase of goods and/or services, they charge a price, this price is called transfer price. Transfer price is a charge for goods and services between controlled legal entities within an enterprise. It is a profit allocation method used to attribute a multinational company's net profit or loss before tax to countries where it does business. Transfer pricing results in the setting of price amongst divisions for pricing their inter-segment sales. There are different methods to price inter-segment sales like Market price method, cost based transfer price, cost plus transfer price, negotiated transfer price and arm's length transfer pricing method. The purpose of this research study is to identify the transfer pricing method used by a sample of forty NSE listed companies over a period of three years. I have identified the transfer pricing method used by these companies in past three financial years and have also identified the most prevalent transfer pricing method used by the companies these days.

The research has concluded that the most prevalent method amongst the sample companies is Market price method. In the year 2010-11, only 38% companies were using market price method, in FY 2011-12 that increased to 45 per cent and in FY 2012-13 that has further increased to 49 percent.

Besides this it has also come to notice that in the year 2011-12, five companies have not disclosed their transfer pricing method in their annual reports. These companies are Bafna pharmaceutical ltd., Pidlite, Bombay Dyeing, Sumeet Industries & Vaibhav Global Ltd. Besides that even in the financial year 2010-11, eight companies have not disclosed their transfer pricing method in their annual reports. These companies are Bafna pharmaceutical ltd., Bombay Dyeing, Sumeet Industries, Jocil Ltd, Chemfeb Alkalies Ltd, Dishman pharmaceutical, Tata Chemicals & Vaibhav Global Ltd. That shows Bafna Pharmaceuticals Ltd, Bombay dyeing, sumeet enterprises and vaibhav Global Ltd have not been showing their method of pricing their inter segment transactions in the annual reports . But in the year 2012-13 they have started projecting their transfer price method in their annual reports showing more transparency to gain public trust .Another problem is that the method of transfer pricing has been misused by the companies these days to evade tax.

KEY WORDS: Market price method, arm's length method, tax evasion, inter-segments sales, cost plus method.

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ECONOMIC EMPOWERMENT OF WOMEN THROUGH SELF HELP GROUPS IN KERALA

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ABSTRACT

The empowerment of women is crucial for the development of the country. Bringing women into the main stream of development is major concern for the Government of India. That is why the year 2001 has been declared as the "Year of women Empowerment" Women's empowerment is critical to the socio economic progress of the community and bringing women into the main stream of national development has, therefore, been a major concern of the government. The Ministry of Rural Development has special components for women in its programmes and funds are "women component" to ensure flow of adequate resources for the same. One of the major schemes implemented by the Ministry of Rural Development having women's component is the SGSY.

KEYWORDS: SGSY- Swarnjayanti Gram Swarozgar Yojana, SHG- Self Help Group

INTRODUCTION

The role of women in economic development is most intimately related to the goal of comprehensive socio economic development and is a strategic question for the development of all societies. Any development strategy which neglects the need for enhancing the role of women cannot lead to comprehensive socio economic development

The exceptionally high rates of malnutrition in India are rooted deeply in the soil of inequality between men and women. The poor care meted out to girls and women by their husbands and by elders is the first major reason for levels of girl child malnutrition that are markedly higher in India as part of South Asia than anywhere else in the world.

Surviving through a normal life cycle for resource- poor women is greatest challenge. A primary way that parents discriminate against their girl children is through neglect during illness. When sick, little girls are not taken to the doctor as frequently as are their brothers. A study in Punjab shows that medical expenditures for boys are 2.3 times higher than for girls. India's maternal mortality rates in rural areas are among the highest in the world. A factor that contributes to India's high maternal mortality rate is the reluctance to seek medical care for pregnancy- it is viewed as a temporary condition that will disappear.

Women and girls receive far less education than men. This is mainly due to social norms and fears of violence. India has the largest population of non-school-going working girls. India's constitution guarantees free primary school education for both boys and girls up to age 14. This goal has been repeatedly reconfirmed, but primary education in India is not universal. Overall, the literacy rate for women is low.

Women work longer hours and their work is more arduous than that of men. Whether it is subsistence farming or commercial agriculture-when measured in terms of the number of tasks performed and time spent, working hours put by women are greater than men.

Globally women face violence inside and outside the family throughout their lives. In India the number of crimes against women has almost doubled between 1990 and 1999. These are just the reported cases. The vast majority of crimes against women simply do not get recorded. While the large number of reported crimes is a positive sign in as much as it shows that women are speaking up and the police are recording their complaints, what is disturbing is the low rate of conviction.

Legal protections of women's rights have little effect in the face of prevailing patriarchal traditions. Exposure to and interactions with the outside world are instrumental in determining the possibilities available to women in their daily lives. The situation of women is affected by the degree of their autonomy or capacity to make decisions both inside and outside their own household. The position of women in northern India is notably poor.

Women Empowerment in India

India Constitution in its fundamental rights has provisions for equality, social justice and protection of women. These goals are yet to be realized. Still women continue to be discriminated, exploited and exposed to inequalities at various levels. So the concept of empowerment as a goal of development projects and programmes has been gaining wider acceptance.

By women empowerment would be able to develop self-esteem, confidence, realize their potential and enhance their collective bargaining power. Women's empowerment can be viewed as a continuum of several interrelated and mutually reinforcing components (Marilee, Karl, 1995). They are:

Awareness building about women's situation, discrimination and rights and opportunities as a step towards gender equality. Collective awareness building provides a sense of group identity and the power of working as a group.

Capacity building and skill development, especially the ability to plan, make decisions, organise, manage and carry out activities to deal with people and institutions in the world around them.

Participation and greater control and decision making power in the home, community and society.
Action to bring about greater equality between men and women.

Thus empowerment is a process of awareness and capacity building leading to greater participation, greater decision making power and control and transformative action. The empowerment of women covers both an individual and collective transformation. It strengthens their innate ability through acquiring knowledge, power and experience.

Need and Significance of the Study

Women participation in entrepreneurial activities abroad is growing rapidly. According to Suriyamurthi (2009) 25 percent of business in china, 40 percent of all business in Hungary and 38 percent of business

in Poland 32 percent of business in Mexico, 25 percent of business in France are established by women entrepreneurs. 38 percent of business in USA are established by women and employed 27.5 million. They generate annual sales \$3.6 trillion. In addition 23 percent of private firms in Japan 1/3 of new business, since 1990 in Germany and 1/3 of new business in Europe and 25 percent of self employed sector in U.K were established by women entrepreneurs.

It is evident that 50 percent of world population do the 2/3 of world work hours receive 10 percent of world income and own less than 1 percent of the world property (ILO Report 1980). Women owned business are becoming increasingly important in the economies of almost all countries. To the U.S economy they contribute more than \$250 million annually and create new business opportunities at 2 to 3 times the rate of their male counterparts.

Similarly in India, women constitute nearly 50 percent of national population and a very important human resource for the nation's development. According to the survey report Indian women constitute 47 percent of total urban population. The participation of women in the country's GDP is as low as 8 percent though their work participation was 19.7 percent in 1981. In India according to the Census 2001, the female labour force participation rate in their total population is 25.7 percent but it is 31 percent in rural and 11.6 percent in urban areas. They are engaging in different sectors. It is estimated that the invisible work of house wives contribute nearly 1/3 of India's GNP. Over the last few decades, women have come forward to establish their own enterprises. The development of women entrepreneurship, political and social empowerment of women is essential for reducing unemployment in the rural areas in India. The 1990s saw a proliferation of women SHG across India, particularly in the south. Without land or paid employment, many of the world's poor turn to self employed activities to generate income. The poor are faced with the challenge of acquiring credit to take loans to engage in various productive activities, without necessary collateral (eg. land) required by formal lending institutions. Micro credit institutions have become increasingly popular as a way to mobilise poor communities through the provision of loans through specialised financial institutions. Small groups are formed and loans are allocated to members based on group solidarity instead of formal collateral.

Micro credit schemes through SHGs have been particularly targeted towards poor women, who are often discriminated against not only by institutions but also with their own house holds. The provision of loans to women may then serve the dual goals of increasing household wealth and empowering females. So study about SHGs in the industrially developed district Ernakulam and industrial backward district Idukki assume significance. The study is beneficial to a large number of rural people in Kerala. It also benefits the government to increase assistance to SHGs in Kerala and ultimately lead to the development of the state of Kerala.

Statement of the Problem

Economic development of a country means a process by which per capita income of that country moves upward over a period of time. Like any other countries of the world, India has been endowed with rich natural and human resources who need proper utilization by adopting modern technology for growth and development of the economy. Therefore, entrepreneurship is essential for proper use of renewable and non renewable natural resources and to provide employment to the unemployed youth. The empowerment of women is crucial for the development of the country. In India, where population maintain equal ratio of males and females the emergence of women entrepreneurs have great relevance

and importance otherwise it will be amounting to neglecting 50 per cent of the entrepreneurial talent of the country. Creative entrepreneur is the backbone of a nation's industrialization and economic development. Bringing women into the main stream of development is major concern for the Government of India. Therefore the Government of India launched a new programme known as SGSY for developing the women entrepreneurship and creating self employment opportunities. Kerala is a state where unemployment is very crucial. The implementation of these types self employment programmes assumes due relevance. This study titled empowerment of women through SHG's make an analysis of the economic empowerment of women in industrially developed Ernakulam district and industrially backward Idukki district is very relevant.

Objectives of the Study

The proposed study is intended to carry out the following objectives in view:

1. To study the profile of the respondents.
2. To assess the effectiveness SHGs in the economic empowerment of women.

Hypothesis

Based on the above objectives the following hypothesis is formulated.

There is no economic empowerment of women through SHGs.

Methodology

The study is analytical and descriptive in nature. The universe of the study includes all the beneficiaries of SHGs in Ernakulam and Idukki districts. Both primary and secondary data were used for the study. Primary data is collected through interview schedule to the selected respondents. Secondary data required for the study are collected from books, journals and other periodicals and reports of the Government and other agencies.

Sampling Design

There are 8 blocks in Idukki District and 15 blocks in Ernakulam district. Out of 8 blocks in Idukki district and 15 in Ernakulam district 4 are randomly selected from each district and out of the selected blocks, 100 SHGs are randomly selected and from each SHG 2 members interviewed. Thus a total number of 200 SHG members are taken from both Ernakulam and Idukki district for the study.

Scope of the Study

The present study covers only the SHG members in Ernakulam and Idukki district. It is confined to demographic aspects of the sample respondents and the empowerment of women in the study area.

Tools of Data Collection

Both primary and secondary data are used for the study, the primary data was collected by using structured interview schedule and the secondary data was collected from various publications of both central and state governments and NABARD.

Analysis of Data

The data were analyzed and interpreted by using various statistical tools like percentage and Wilcoxon signed Ranks Test.

Results and Discussions

Personal Profile of the Respondents

In this part the personal profile of the SHG members are analyzed. For analyzing the personal profile seven variables are used. They are:

The age of SHG members, Number of years with SHG, Marital status of the SHG members, religion, and number of household members and main occupation of the SHG members. The age wise classification of the members are shown in table 1

Table 1
Age –Wise Classification of Respondents

Age	Ernakulam		Idukki	
	No. Respondents	Percentage	No. Respondents	Percentage
18 – 30 Years	2	2.0	9	9.0
31 – 42 Years	18	18.0	41	41.0
43 – 54 Years	64	64.0	49	49.0
Above 55 Years	16	16.0	1	1.0
Total	100	100.0	100	100.0

Source: Survey data

Age wise classification of the respondents in both Ernakulam and Idukki districts are shown in Table 1. It is evident from the table that majority i.e 82 percent in Ernakulum and 90 percent in Idukki belongs to the age group of 31-42 and 43-54. Respondents in the category of below 30 and above 55 are few.

Table 2 shows the education wise classification of respondents.

Table 2
Education-Wise Classification of Respondents

Qualification	Ernakulam		Idukki	
	No. Respondents	Percentage	No. Respondents	Percentage
Below 10 th	58	58.0	39	39.0
SSLC	36	36.0	35	35.0
Plus Two	4	4.0	25	25.0
Degree	2	2.0	1	1.0
Total	100	100.0	100	100.0

Source: Survey data

Table 2 shows that majority of the respondents (58 percent) have the educational qualification of below SSLC, 36 percent have SSLC qualification in Ernakulam. In Idukki 39 percent have below S.S.L.C qualification and 35 percent have SSLC qualification and only a few have Degree or Plus Two qualification in both the districts. It reveals that majority of the respondents are not highly educated. The table 3 shows that how long they are with SHG.

Table 3
Classification on the Basis of No. Years with SHG

Experience	Ernakulam		Idukki	
	No. Respondents	Percentage	No. Respondents	Percentage
1 – 5 Years	26	26.0	53	53.0
5 – 10 Years	72	72.0	47	47.0
Above 10 Years	2	2.0	0	0.0
Total	100	100.0	100	100.0

Source: Survey data

Classifications of respondents on the basis of No. of Years with SHG are shown in Table 3. It is evident from the table that 26 percent in Ernakulam and 53 percent in Idukki have 1-5 years with SHG, 72 percent in Ernakulam have 5-10 years upon with SHG. But only 47 percent have 5-10 year experience with SHG in Idukki. Only 2 percent in Ernakulam have more than 10 year experience and in Idukki none have more than 10 years with SHG. Majority in both districts have 1-10 years experience with SHGs.

Table 4
Classification of Respondents on the Basis of Marital Status

Marital status	Ernakulam		Idukki	
	No. Respondents	Percentage	No. Respondents	Percentage
Married	88	88.0	100	100.0
Unmarried	2	2.0	0	0.0
Widowed	10	10.0	0	0.0
Total	100	100.0	100	100.0

Source: Survey data

Table 4 shows that majority of respondents (88%) in Ernakulam District are married 100 percent respondents in Idukki District are married. Only 2 percent are unmarried and 10 percent are widowed in Ernakulam District.

Table 5
Religion- Wise Classification of Respondents

Religion	Ernakulam		Idukki	
	No. Respondents	Percentage	No. Respondents	Percentage
Islam	2	2.0	14	14.0
Hindu	74	74.0	44	44.0
Christian	24	24.0	42	42.0
Total	100	100.0	100	100.0

Source: Survey data

Religion wise classifications of the respondents are shown in Table 5. The religion wise classification shows a different picture in Ernakulam and Idukki District. 2 percent belongs to Islam in Ernakulam, but it was 14 percent in Idukki and majority 74 percent are Hindus in Ernakulam but only 44 percent are Hindus in Idukki , 24 percent are Christian in Ernakulam but Christian constitute 42 percent in Idukki. Classification of members on the basis of number of members in the family are shown in table 6.

Table 6
Classification on the Basis of Number of Members in the Family

No. members	Ernakulam		Idukki	
	No. respondents	Percentage	No. respondents	Percentage
Up to 3	16	16.0	11	11.0
4	52	52.0	35	35.0
5	14	14.0	33	33.0
6 and Above	18	18.0	21	21.0
Total	100	100.0	100	100.0

Source: Survey data

Majority of the respondents i.e 82 percent in Ernakulam and 79 percent in Idukki have only 3-5 members in the family. But 18 percent percent in Ernakulam and 21 percent in Idukki have 6 or more than 6 family members. Majority are not over burden by having more number of members in the family. The occupation wise classification of the members are shown in table 7.

Table 7
Occupation Wise Classification of Respondents

Occupation	Ernakulam		Idukki	
	No. respondent s	Percentag e	No. respondent s	Percentag e
Farm Own Employed	2	2.0	23	23.0
Farm on Contract	0	0.0	10	10.0
Farm Day Labour	0	0.0	5	5.0
Non-farm Own Employed	98	98.0	12	12.0
Non-farm Day Labour	0	0.0	20	20.0
Unemployed	0	0.0	30	30.0
Total	100	100.0	100	100.0

Source: Survey data

Occupation wise classification of the respondents is shown in Table 7. The occupation wise classification of respondents reveals that 98 percent in Ernakulam district are non-farm own employed and only 2 percent farm own employed. But in Idukki 30 percent are unemployed and remaining spreads over Farm Own Employed, Farm Own Contract, Non-farm Day labour etc.

The personal profile of the respondents reveals that majority belongs to the age group of 31 to 54 and majority have educational qualification of SSLC or below and most of them have experience up to 10 years and most of the respondents in both districts are married and major portion of the respondents are Hindus and Christians in both districts. Majority of the respondents have 3 to 5 dependents.

Economic Empowerment of Women Through SHGs

Poverty and unemployment are the major problems of any under developed country, to which India is not exception. At the end of ninth plan various schemes were implemented to reduce poverty and to promote gainful employment. But the more attractive scheme with less effort is of self help groups. They have been recognized as a useful tool to help the poor and as an alternative mechanism to meet the urgent credit needs of the poor through thrift. SHG is medium for promoting the habit of saving among the women and to enhance the equality of status of women as participant, decision makers and beneficiaries in the democratic, economic, social and cultural spheres of life. Table 8 shows the income of the SHG members before and after joining the SHGs.

Table 8
Monthly Income of the SHG Members Before and After Joining SHG in Ernakulam District

Sl.No	Monthly income	Before Joining SHG		After Joining SHG	
		No. respondents	Percentage	No. respondents	Percentage
1	Less Than 1000	1	1.0	0	0
2	1000 – 2000	28	28.0	4	4.0
3	2000 – 3000	35	35.0	22	22.0
4	3000 – 4000	26	26.0	35	35.0
5	4000 – 5000	3	3.0	17	17.0
6	5000 - 6000	4	4.0	11	11.0
7	Above 6000	3	3.0	11	11.0

Source: Survey data

Test Statistics (b)

	Income after Joining SHG – Income Before Joining SHG
Z	-8.293(a)
Asymp. Sig. (2-tailed)	.000

- a. Based on negative ranks
b. Wilcoxon Signed Rank Test

Since the asymptotic significance value is less than 0.05, we reject the null hypothesis that there is no difference in income before and after joining SHG in Ernakulam district. The number of positive and negative ranks for Income after Joining SHG – Income before Joining SHG is given in the following table. It is trivial from the table that for all the respondents Income after Joining SHG is higher than Income before Joining SHG

RANKS

	N	Mean Rank	Sum of Ranks
Income after Joining SHG – Income Before Joining SHG Negative Ranks	0(a)	.00	.00
Positive Ranks	84(b)	42.50	3570.00
Ties	16(c)		
Total	100		

a Income After Joining SHG < Income Before Joining SHG

b Income After Joining SHG > Income Before Joining SHG

c Income After Joining SHG = Income Before Joining SHG

Monthly income of the SHG members before and after joining the SHG in Idukki district is shown in table 9.

Table 9
Monthly Income of the SHG Members Before and After Joining SHG in Idukki District

Sl.No	Monthly income	Before Joining SHG		After Joining SHG	
		No. respondents	Percentage	No. respondents	Percentage
1	Less Than 1000	1	1.0	0	0
2	1000 – 2000	14	14.0	0	0
3	2000 – 3000	25	25.0	16	16.0
4	3000 – 4000	28	28.0	28	28.0
5	4000 – 5000	20	20.0	27	27.0
6	5000 - 6000	5	5.0	12	12.0
7	Above 6000	7	7.0	17	17.0
	Total	100	100	100	100

Source: Survey data

Test Statistics (b)

	Income After Joining SHG – Income Before Joining SHG
Z	-7.719
Asymp. Sig. (2-tailed)	<0.001

a. Based on negative ranks

b. Wilcoxon Signed Rank Test

Since the asymptotic significance value is less than 0.05, we reject the null hypothesis that there is no difference in income of SHG members before and after joining SHG in Idukki District. The number of positive and negative ranks for Income after Joining SHG – Income before Joining SHG is given in the following table. It is trivial from the table that for all the respondents Income after Joining SHG is higher than the Income before Joining SHG.

Ranks

	N	Mean Rank	Sum of Ranks
Income After Joining SHG – Income Before Joining SHG	0(a)	.00	.00
Positive Ranks	71(b)	36.00	2556.00
Ties	29 ^c		
Total	100		

a Income After Joining SHG < Income Before Joining SHG

b Income After Joining SHG > Income Before Joining SHG

c Income After Joining SHG = Income Before Joining SHG

Monthly employment of the SHG members before and after joining the SHG are shown in table 10.

Table 10

Monthly Employment of the SHG Members Before and After Joining the SHG in Ernakulam District

Sl.No	Monthly No. employment	Before joining SHG		After joining SHG	
		No. respondents	Percentage	No. respondents	Percentage
1	8 – 12	26	26.0	2	2.0
2	12 -16	56	56.0	14	14.0
3	16 – 18	8	8.0	33	33.0
4	18 – 20	10	10.0	35	35.0
5	20 -22	0	0	9	9.0
6	Above 22	0	0	7	7.0
	Total	100	100	100	100

Source: Survey data

Test Statistics(b)

	Number of Employment After Joining SHG – Number of Employment Before Joining SHG
Z	-8.283(a)
Asymp. Sig. (2-tailed)	.000

a Based on negative ranks.

b Wilcoxon Signed Ranks Test

Since the asymptotic significance value is less than 0.05, we reject the null hypothesis that there is no difference in number of employment of SHG members before and after joining SHG in Ernakulam District. The number of positive and negative ranks for number of employment after Joining SHG – number of employment before Joining SHG is given in the following table. It is trivial from the table that for majority the respondent's number of employment after Joining SHG is higher than the number of employment before Joining SHG.

Ranks

	N	Mean Rank	Sum of Ranks
Number of Employment After Joining SHG – Number of Employment Before Joining SHG			
Negative Ranks	1(a)	19.00	19.00
Positive Ranks	88(b)	45.30	3986.00
Ties	11(c)		
Total	100		

a Number of Employment After Joining SHG < Number of Employment Before Joining SHG

b Number of Employment After Joining SHG > Number of Employment Before Joining SHG

c Number of Employment After Joining SHG = Number of Employment Before Joining SHG

Table 11
Monthly Employment of the SHG Members Before and After Joining the SHG in Idukki District

Sl.No	Before Joining SHG			After joining SHG	
	Monthly No. employment	No. respondents	Percentage	No. respondents	Percentage
1	8 – 12	12	12.0	0	0
2	12 -16	52	52.0	18	18.0
3	16 – 18	26	26.0	21	21.0
4	18 – 20	10	10.0	39	39.0
5	20 -22	0	0	14	14.0
6	Above 22	0	0	8	8.0

Source: Survey data

Test Statistics(b)

	Number of Employment After Joining SHG – Number of Employment Before Joining SHG
Z	-7.949(a)
Asymp. Sig. (2-tailed)	.000

a Based on negative ranks.

b Wilcoxon Signed Ranks Test

Since the asymptotic significance value is less than 0.05, we reject the null hypothesis that there is no difference in number of employment of SHG members before and after joining SHG in Idukki District. The number of positive and negative ranks for number of employment after Joining SHG – number of employment before Joining SHG is given in the following table. It is trivial from the table that for majority the respondent's number of employment after Joining SHG is higher than the number of employment before Joining SHG.

Ranks

	N	Mean Rank	Sum of Ranks
Number of Employment After Joining SHG – Number of Employment Before Joining SHG			
Negative Ranks	1(a)	56.50	56.50
Positive Ranks	84(b)	42.84	3598.50
Ties	15(c)		
Total	100		

- a Number of Employment After Joining SHG < Number of Employment Before Joining SHG
 b Number of Employment After Joining SHG > Number of Employment Before Joining SHG
 c Number of Employment After Joining SHG = Number of Employment Before Joining SHG

It was found that there is an increase in income as well as number of employment of the SHG members both in Ernakulam and Idukki districts. So on the basis of the above analysis we can reject the null hypothesis that there is no economic empowerment of women through SHGs.

Findings and Conclusion

Empowerment of women has emerged as an important issue in our country. In India nearly half of the population consists of women. But in Kerala more than half of the population is women. In India their work participation rate is less than half of men. The role of women in the development of nation is very important nowadays. So women should be respected both in the society as well as in the family. To increase the status of women, they must be empowered economically. Income of the SHG members before joining SHG and after joining SHG was analyzed and Wilcoxon signed ranks test was conducted to find out the significance of difference. It was found that majority of the respondents Income after Joining SHG are higher than the Income before Joining SHG in both Ernakulam and Idukki districts.

Wilcoxon signed ranks test was also conducted to find out the significance of difference in the number of employment before and after joining SHGs. The test shows that for majority the respondent's number of employment after Joining SHG is higher than the number of employment before Joining SHG in both Ernakulam and idukki districts. On the basis of the above analysis the null hypothesis that "there is no economic empowerment of women through SHGs" can be rejected.

It is evident from the study that in Ernakulam and idukki districts the SHGs have been playing a vital role in the empowerment of women. This is an important institution for improving the life of women on various social, political and economic components. The number of women inclined towards SHG is increasing which implies that women are aspiring for empowerment. It was found that the SHGs are helping for the economic empowerment of its members. Since majority of the SHG members are women we can conclude that the SHGs are help full for the empowerment of women and eradication of poverty in the study area.

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FINANCING LONG TERM DEBT CAPITAL REQUIREMENTS OF SJVN LIMITED, A PUBLIC SECTOR POWER CORPORATION ON AN EXPANSION DRIVE: A STUDY OF PROJECT APPRAISAL PROCEDURES

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ABSTRACT

India, the world's second fastest growing major economy, desperately needs to expand its electricity infrastructure to reduce peak power shortage and provide electricity to millions of rural households, as well as to keep its resource-hungry industry on the move. Planning Commission of India and the Power Ministry have reached a consensus over fixing the capacity addition target of the country at 75,785 MW during the 12th plan. The global impetus and inclination towards renewable power sources such as hydro, wind and solar power etc. alongwith the Government of India's policies has created a window of opportunity in these Sectors. The SJVN Limited, a public sector power corporation promoted jointly by Government of India and Government of Himachal Pradesh, is well prepared to seize the opportunity available in the sector. To meet its ambitious capacity addition and diversification plans, the Corporation require to raise huge debt capital in line with general debt equity norm of 70:30. This paper aims to study the challenges that exist in financing of hydro power projects and the project appraisal process being used by domestic and foreign lenders. The study reveals that the major challenges being faced by the sector which are deterrent in the free flow of investment in hydro sector are basically the various risks associated with construction of projects. Furthermore, the study finds out that multilateral development banks like World Bank and Asian Development Bank gives considerable emphasis to environment and social appraisal in addition to techno-financial viability of the project.

KEYWORDS: Debt Capital, Internal Rate of Return, Multilateral Development Banks, Net Present Value, Project Appraisal

INTRODUCTION

SJVN Limited is a Public Sector Power Corporation engaged in operation of already executed 1500 MW underground Nathpa Jhakri Hydro Power Station and implementation of a large number of hydro power projects in India and neighboring countries like Bhutan and Nepal. The corporation has expanded its origins and envisions developing itself into a fully diversified Transnational Power Sector company in all types of conventional and non conventional forms of energy. In this direction the corporation is exploring various opportunities in wind, solar, power transmission and even conventional forms of energy in addition to hydro power.

For its existing Nathpa Jhakri Hydro Power Station which is the largest underground hydropower project of the country, the debt capital was raised from the World Bank. The long term loan of US Dollar 400 Million has also been arranged from the World Bank for its 412MW Rampur Hydro Electric Project which is under advance stage of execution. The corporation, presently, is in the lookout for raising huge

debt capital requirements for execution of its large number of upcoming projects.

2.0 OBJECTIVES OF THE STUDY

- 1.To study the specific challenges in financing of hydroelectric projects in India
- 2.To study and understand the actual project appraisal procedures being adopted by the domestic financial institutions of India like Power Finance Corporation (PFC) and various commercial banks as well as that of Multilateral Development Banks (MDBs) like Asian Development Bank (ADB) and World Bank (WB) and to present the same for easier understanding and comprehension.

3.0 CHALLENGES IN FINANCING OF HYDRO ELECTRIC POWER PROJECTS

The following risks, mainly associated while execution of the project, could delay the execution of the project leading to cost and time over run resulting negative impact on the viability of the project: - Uncertainties like heavy rainfall, floods, landslides. - Legal issues related to land acquisition, contractual negotiation, law & order. - Construction related like accidents, design changes, geological surprises. - Strikes, disputes with local residents etc. - Delay in statutory approvals leading to delay in financial closure. - Political interference, half hearted support from bureaucracy, general opposition for changes, environmentalist aggressive opposition.

Other major issues which negatively impact the hydro power sector are:

1. General dearth of resourceful contracting agencies, willing to invest in the appropriate technology especially to execute the job relating to underground works in a given time frame.
2. Clearances, specifically the forest and environmental takes a long time due to cumbersome procedures in place.
3. Rehabilitation, re-settlement and environmental issues are aggressively pursued by the NGOs inspite of the clearances provided by the Govt. Agencies which delays the project, add to the cost and brings bad publicity to the promoters.
4. A number of facilities like access road, bridges, widening of roads etc. has to be taken up by the promoters which constitutes 5-10% of the project cost and add to the capital cost of the project.

Because of above risks which make the borrowing costlier coupled with longer construction phase, high up-front cost of development etc., the banks and financial institutions hesitate to come forward to liberally fund the hydro power projects.

4.0 PROJECT APPRAISAL

Appraisal is the analysis of the proposed project to determine its merit and acceptability in accordance with established criteria. Appraisal involves a careful checking of the basic data, assumptions and methodology used in project preparation, an in-depth review of the work plan, cost estimates and proposed financing, an assessment of the project's organizational and management aspects, and finally the validity of the financial economic and social benefits expected from the project. On the basis of such an assessment, a judgment is reached as to whether the project is technically sound and financially viable from the point of view of the economy as a whole.

For the FIs, the prime objective of the project appraisal is to satisfy itself that the proposed project is technically feasible and financially viable and is likely to be implemented within the projected time

frame so that the loan provided is expected to be repaid alongwith the interest as planned.

5.0 GENERAL PRINCIPLES OF LENDING BEING ADOPTED BY FINANCIAL INSTITUTIONS

Almost all the Financial Institutions (FIs) follows the following principles while lending for a project:

Safety:

It essentially means ensuring that the borrowed capital is repaid. This factor has assumed great importance due to stringent NPA norms. To go in for third party guarantee for repayment of loan and collateral security is also common with FIs.

Purpose:

Funds are provided for an approved purpose only and the FIs have formulated lending policy in respect of purpose.

End Use:

Bankers invariably ascertain that money lent has been used for the purpose for which the same was granted and has not been diverted elsewhere.

Need Based Finance:

Funds are provided after ascertaining the credit needs of the borrower. The FIs ensure that the funds provided are neither more nor less than the actually required by the borrower i.e. the project is neither over nor under financed.

Own Stake:

A significant financial stake is ensured by the promoters in the project so that the promoters do not loose interest in the project in between. This is taken care through the debt equity norms of the FIs.

6.0 PROJECT APPRAISAL PROCESS

A typical project appraisal process, presently in place, in term lending financial institutions includes:

- 1.Entity and Managerial Appraisal
- 2.Market or Commercial Appraisal
- 3.Technical Appraisal
- 4.Financial Appraisal
- 5.Economic or Social Appraisal
- 6.Risk or Sensitivity Analysis

1. Entity and Managerial Appraisal

This involves analysis of three Cs, the Character, Capacity and Capital of the borrower. Character implies honesty, integrity, and reputation in the market; Capacity means the knowledge of the borrower about his business and ability to conduct the affairs successfully; Capital refers to the funds to be employed by the borrower in the project.

Managerial competence and integrity is an extremely important pre-requisite to translate a project viable on paper into a real life success. The followings are looked at by FIs to form a judgment regarding the managerial competence and resourcefulness: - Track record in earlier projects. - Resourcefulness of the promoters. - Understanding of the business. - Commitment to the project.

The sources of information available to assess the borrower comprises of working results of the existing units, market reports, report from the earlier bankers regarding operation of the account and loan repayment track, assets and liabilities statement of promoters, income tax returns etc.

In case of large scale projects the FIs also evaluates the key personnel and managerial team finalized for the execution of project so as to get the answer of the questions; (a) is technical competence available? (b) are the authority and responsibility properly linked? (c) does the organizational setup encourage delegation of authority? (d) are the specialist required for the project arranged? (e) what are training and development arrangements? etc. In case of partnership / proprietary concerns FIs also takes into account the problem of succession and sharing of work amongst them. In case of a limited company the study of the Directors is also made through discussions.

2. Market or Commercial Appraisal

The commercial aspects of a project include the arrangements for marketing the output produced by the project and the arrangement for the supply of inputs needed to build and operate the project. On the output side, careful analysis of the proposed market for the project's production is essential to ensure that there will be an effective demand at a remunerative price.

The reasonableness of the demand projections supplied by the promoters are verified by utilizing the findings of available reports/ surveys, industry association/ planning commission projections, and independent market survey (sometimes commissioned with the expense borne by the promoters). Assessment of the adequacy of the marketing infrastructure planned in terms of promotional effort, distribution network, transport facilities stock levels etc. is also made. The knowledge, experience and competence of the marketing department are judged.

3. Technical Appraisal:

This refers to analysis of the project for determining the technical viability. Technical appraisal provides a comprehensive review of all aspects of the project and focuses mainly on the following:

- Suitability of the technology selected,
- Engineering know how and technical collaborations
- Product mix
- Installed capacity and utilization of capacity in initial years
- Manufacturing Process
- Suitability of the location / site in terms of accessibility

- Administrative as well as office buildings
- Plant and equipments - Raw materials and consumables
- Manpower requirements
- Break-even point
- Implementation schedule and consequences, in case, project implementation is delayed

Besides above, one of the important aspect of technical appraisal of the project is evaluation of supplier of the machinery in terms of reasonableness of prices of the equipments, delivery schedule, reputation of supplier, financial position of the supplier, performance guarantees etc. A feedback is generally obtained by the FIs from the existing customers and banker of the supplier.

4. Financial Appraisal

The main objective of financial appraisal is to determine the requirements of funds/timing and the expected returns of investment from the points of view of the various parties involved in the financing of the project. The financial appraisal is considered to be most important part of the project appraisal as it is conducted to decide whether the project is worth financing or not considering its capability of servicing debt.

The financial appraisal involves checking up of cost of the project; financing plan; preparation of financial forecasts which includes projected income statement, cash flow statements and balance sheet; calculation of various financial ratios etc., followed by ascertaining of financial viability i.e. the return on capital of the project to take a decision regarding financing of the project by using standard techniques.

Financial Appraisal Techniques / Methods

There are various techniques for estimating the worth or viability of the project but there is no one best technique as some are better than others and some are deficient. The traditional nondiscounting techniques like Pay Back Period, Profitability Index, Rate of Return method, which are now limited to academic interest only and are not being used by the FIs for project appraisals, are not discussed here.

In day to day practice the FIs have their own independent criteria and credit rating methodology for arriving at the credit rating of each project. However, the following discounted methods are used by almost all the FIs including MDBs:

- (i) Net Present Value (NPV) or Net Present Worth (NPW)
- (ii) Internal Rate of Return (IRR)

Net Present Value (NPV)

The net present value (NVP) is the sum of the present values of the expected incremental positive and negative net cash flows over a project's anticipated lifetime. In simple words NPV of a project is the present value of future cash inflows minus the initial investment or cash out flow. In NPV analysis selection of discount rate is important. The discount or cut-off rate is usually the marginal cost of money to the firm for which the analysis is being done. This often will be the rate at which the enterprise is able to borrow money. Sometimes the discount rate chosen is the borrowing rate the nation needs to pay to

finance the project. In most developing countries, it is assumed to be somewhere between 8 and 15 percent in real terms. In India, the discount rate is generally taken at 12% by the Fis.

The NPV formula for the annual net cash flow can be written out in its component present values as follows:

$$NPV = C_0 + C_1/(1+r) + C_2/(1+r)^2 + \dots + C_n/(1+r)^n$$

Where, „C0“ is the initial investment or cash out flow, „C1“ is cash in flow during first year and „r“ is the discount rate.

During the analysis, if the NPV is equal to zero, then investor can expect to recover their incremental investment and earn a rate of return on the capital equal to the discount rate used to compute the present values. A NPV greater than zero means that investors can expect not only to recover their capital investment and earn a rate of return equal to the discount rate, but also to receive an addition to its real net worth equal to the positive amount of the NPV. In other words, a positive NPV project outperforms the capital market and makes investors better off. If the NPV is less than zero, then investors cannot expect to earn a rate of return equal to the discount rate, nor possibly to recover their invested capital, and hence, their real net worth is expected to decrease. Only projects with positive NPVs are considered beneficial and are financed by the Fis.

Sample Calculation of NPV is given hereunder:

(Rs. in Crores)					
Year	Initial Investment	Future Cash inflows or Return	Present Value of future cash in flows		Net Flow
1	2	3	4	5	6=5-2
0(2012-13)	1300	0	0	0	(-)1300.00
1(2013-14)	0	400	$400/(1+0.12)^1$	357.14	357.14
2(2014-15)	0	450	$450/(1+0.12)^2$	358.74	358.74
3(2015-16)	0	450	$450/(1+0.12)^3$	320.30	320.30
4(2016-17)	0	500	$500/(1+0.12)^4$	317.70	317.70
NPV					53.00
At discount rate of 12%					

Internal Rate of Return (IRR)

Internal Rate of Return refers to the rate of return that the project is expected to generate in real terms based on its project cash flows accruing over its expected lifespan. From computation point of view IRR is that rate of return (from a project) at which present value of the future cash inflows shall be equal to initial investment resulting in Net Present Value of zero. In other words, it is that discount rate which makes the NPV of the incremental net benefit stream or incremental cash flow equal to zero.

The project is considered to be financially viable only if the IRR of the project exceeds the Weighted Average Cost of Capital (WACC). The higher the IRR, the better it is.

The WACC represents the cost incurred by the entity to raise the capital necessary to implement the project. As most projects raise capital from several sources and each of these sources may have different cost/return, it is necessary to use a weighted average of the different cost/return paid to these sources. The Appraisal Report also includes a calculation of the project's WACC expressed in real terms.

Sample Calculation of IRR is given hereunder:

In the NPV sample calculation, discussed above, the NPV at 12% discount rate works out to Rs. 53.00 Crores. The IRR calculations are other way round where we have to calculate the discount rate at which NPV of the above sample project works out to zero instead of Rs. 53.00 Crores. There is no formula for finding the internal rate of return straightaway. We are forced to resort to a systematic procedure of trial and error to find that discount rate which will make the net present worth of incremental net benefit-stream equal to zero. The formula of interpolation is used and is given below:

$$IRR = R_1 + (R_2 - R_1) \times \frac{(PV \text{ of Cash flows at } R_1)}{(\text{absolute sum of PVs at } R_1 \text{ and } R_2)}$$

where, R1 is lower discount rate which gives positive NPV and R2 is higher discount rate which gives negative NPV.

IRR for the above sample project has been calculated based on the above described formula and the same works out to 13.88% (calculations not presented here). The illustration below shows that the NPV of the sample project shall be ZERO at discount rate of 13.88% equivalent to calculated IRR.

Illustration

(Rs. in Crores)						
Year	Outflow	Future Cash inflows or Return	Net Cash in Flow	Present Value of future cash in flows		Net Flow
1	2	3	4=3-2	5	6	7=6-2
0(2012-13)	1300	0	(-)1300	0	0	(-)1300.00
1(2013-14)	0	400	400	$400/(1+0.1388)^1$	357.14	357.14
2(2014-15)	0	450	450	$450/(1+0.1388)^2$	358.74	358.74
3(2015-16)	0	450	450	$450/(1+0.1388)^3$	320.30	320.30
4(2016-17)	0	500	500	$500/(1+0.1388)^4$	317.70	317.70
NPV						0.00

Government of India, also considers IRR as a criteria for taking investment decision in case of Public Sector Projects. As per guidelines issued by Planning Commission, GOI, the project having IRR equal or more than 12% can only be considered by the Public Investment Board (PIB).

In determining the return or cash inflow streams for calculating discounted measures of the project like NPV and IRR, interest as well as depreciation is not considered as a cost both in financial and economic analysis. Expressing it in another way interest and depreciation is not deducted from the benefit-stream while doing above analysis. To understand the logic, while computing NPV we determine what would be left over after allowing for some specific Rate of Return to the entity's own capital which is nothing but the „interest“. When we compute IRR, this is return to the entity's own capital and in a sense it is the interest which that capital earns. In simple words the analysis is carried out for total cost of the project without considering the financing pattern to know the exact return so as to take a decision whether to take a particular loan on a specified interest rate.

Depreciation is an accounting concept, the provision of which is necessarily while preparation of account for a period. Actually a part of the project's revenue is set aside in an account labeled as „depreciation“ to ensure that some revenue are retained to replace capital when it wears out. Thus, in real sense it is neither a cost nor a cash out flow and is a provision only. Accordingly, depreciation is not deducted from the benefits stream i.e. cash inflows being the part of the return of capital.

Its deduction from the cash inflows will result into distorted picture of the return on capital obtained through discounted techniques.

Further, the project analysis is undertaken at constant prices. It is assumed that the current price level will continue to apply and that inflation will affect cost and benefits to the same extent so that they retain their same general relations.

In addition all FIs also calculate the Debt Service Coverage Ratio (DSCR) from the projected financial statement of the project under consideration for providing term loan. The DSCR tells about the capacity of the project to repay its debt / loan obligations and as a general norm this ratio should be between 1.5:1 to 2.0:1. In case it works out to more than 2:1, the repayment period is reduced to bring it below 2:1. A DSCR of 2:1 means that the project shall be having Rs. 2/- available for repayment of Rs. 1/- on account of interest as well as installment of term loan. If DSCR works out to less than 1.5:1, the repayment period of the loan is required to be increased so as to bring DSCR more than 1.5:1.

5. Economic or Social Appraisal

Economic appraisal refers to analysis from the economic aspect which assesses the desirability of an investment proposal in terms of its effect on the economy. The question to be addressed here is whether the investment proposal contributes to the developmental objective of the country and whether this contribution is likely to be large enough to justify the use of scarce resources such as capital, skilled labour, managerial talents etc., that would be needed to implement and operate the project. This type of appraisal is principally relevant to public sector investments only and is commonly called as Social Cost Benefit Analysis (SCBA).

The process involved consist of (i) identifying the social costs and benefits of the project to the society such as costs like human displacements, inconvenience, increase in dust and pollution level during construction etc. and benefits like increased level of income, direct and indirect employment, increase level of literacy etc. and (ii) quantifying and valuing social costs and benefits. It is often possible to express social costs and benefits in physical units but placing meaningful monetary values on them is a

biggest challenge. However, unless they have a monetary value, it is not possible to include them in the cost benefits analysis along with financial cost and benefits. An important techniques which is followed for correct quantification of costs and benefits is “with and without project” comparison of costs and benefits. Project analysts try to identify and value costs and benefits that arise with the proposed project and to compare them with the situation as it would be without the project. The difference is the incremental net benefits arising from the project investment. This approach is not the same as comparing the situation “before” and “after” the project. The “before” and “after” comparison fails to account for the situation changes in production over the life of the project that would occur without the project and thus leads to an erroneous statement of benefits attributable to the project investment. Once social costs and benefits have been identified and valued, the methodology for conducting Social Cost Benefit Analysis follows a similar procedure to financial appraisal like calculation of Net Present Values, the Internal Rate of Returns and Benefit Cost Ratio etc. with the minor difference that IRR here is called as Economic Internal Rate of Return (EIRR).

The taxes and duties are treated as transfer payments and are excluded from the capital and operating costs for conducting the social or economic analysis As per the practice being followed up by the Planning Commission, GOI the investment i.e. cash out flow is reduced by flat 15% on account of taxes and duties for calculation of EIRR and Interest During Construction (IDC) period is also not considered the part of the cost of projects. Benefit Cost Ratio (BCR) is the main technique used for social cost benefit analysis which is the ratio obtained by dividing the present value of the benefit stream by the present value of the costs stream of the project. The BCR criterion suggests accepting all independent projects with a benefit-cost ratio of 1 or greater, when the cost and benefit streams are discounted at the opportunity cost of the capital.

6. Risk or Sensitivity Analysis

Several times when the project is under execution, certain things go wrong with the project with the result that the desired benefits cannot be achieved within the stipulated time frame. For example, the actual execution of the project is delayed (time over-run) or the cost exceeds the original estimated cost (cost over-run). Even on commissioning the production or sale rate may be less than the expected and the operation and maintenance expenses may be more than the anticipated. In such cases, the results get fairly changed and many a times the IRR, NPV etc. gets reduced.

Risk or sensitivity analysis which is also termed as Treatment of Uncertainty is conducted by the owners as well as by the lenders right in the beginning at the time of preparation of project report and project appraisal respectively. The process involve testing the viability of the project with certain assumptions like for 10-20% cost overrun, reduction in revenue on account of reduction in sale price or less generation, increase in operation and maintenance costs etc. The NPV, IRR and BCR etc. worked out on the re-drawn figures of cost and benefits are made part of the appraisal report.

7.0 PROJECT APPRAISAL BY MULTILATERAL DEVELOPMENT BANKS

In addition to the above discussed project appraisal process, presently in practice by the domestic financial institutions, the Multilateral Development Banks (MDBs) gives significant importance to Social Appraisal wherein, in addition to social cost benefit analysis, the land acquisition and resettlement impacts of the project are also studied in detail and are described in the Appraisal Report. It

is also ensured that a Resettlement Action Plan (RAP) describing the measures to mitigate adverse impacts, and the institutional arrangements to implement them, is in place and that a proper budget for the implementation of RAP has been provided and taken in the cost of the project. MDBs also insist for preparation and implementation of Sustainable Community Development Plan (SCDP). As a part of appraisal process for taking a decision to grant term loan for the project, consultations are held with the various stake holders including local people, elected representatives, affected people, the media, government officials, youth and women organizations, to elicit their views and suggestions on the project activities.

Further, in depth Environment Appraisal is undertaken by the MDBs. The Environment Appraisal refers to systematic examination of the likely environmental consequences of the proposed project and the measures proposed for addressing the negative impacts on the environment. This involves preparation of Environmental Impact Assessment (EIA) study through independent environment consultants and Environment Management Plan (EMP). The EIA describes, quantifies and then aggregates the effects of project activities on environmental attributes like air, water, land, ecology, sound, human effects, economics, renewal and non renewable resources etc. The EMP which sets out the action for monitoring and evaluation of the project during implementation and operation is also made fundamental part of the project documents. A typical EMP includes mitigation measures to minimize adverse impacts; measures to enhance environmental benefits; resources, funds, contractual and managerial arrangements; environmental legislation and standards which apply etc.

CONCLUSION

Project financing in hydro power projects in India has to be looked in different way compared to other types of project financing. This is due to the Risk Factor involved with such projects because of geological risks associated with underground works and uncertainties like unprecedented floods and landslides. In case of hydro project financing the lending institutions keep their eyes wide open and a stringent project appraisal is inevitable. All the financial institutions have their standard prescribed project appraisal format according to which the Appraisal Report is prepared and presented to the decision making authority. MDBs in general go in for more detailed project appraisal and have their own robust monitoring mechanism for assessment of progress for timely release of installments of term loan. They also assist the borrowing organization in mitigation of various associated risks through expert advice and ensure that beside implementation of the project, the proposed social programmes and environmental safeguard measures are also implemented as envisaged. SJVN, having sufficient reserves for meeting the equity portion for the future upcoming projects from internal resources and established credentials in effective execution and successful running of the project as well as in repayment of existing term loans, do not for-see much of problem in raising debt capital for its new projects. However, the understanding of the dynamics of project appraisal makes it clear that all in the organization can contribute positively to the project appraisal process in a direct or indirect manner. The advance indepth knowledge of the appraisal procedures of various lending organizations also helps the borrower in making choice of the proposed lender considering the strengths and shortcomings of the organization.

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INTEGRATING ORGANISATIONAL POLITICS INTO ORGANISATIONAL SYSTEMS, FUNCTIONS AND PROCEDURES. A HUMAN CAPITAL PERFORMANCE ENHANCEMENT STRATEGY

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ABSTRACT

Organisational (office) politics is a reality which leaders and employees usually grapple with because it affects organisational systems, functions and procedures raising concern as to how it can be integrated and consolidated as a strategy to enhance employee and leadership competence. Literature on organisational politics was reviewed and the findings are that office politics is a blind spot which has got serious impact to organisational performance and yet its existence is known but often ignored. However, office politics can be manipulated to enhance the quality of the human capital of an organisation. This paper seeks to highlight the dimensions, dynamics and controversies surrounding the origins, manifestations, and effects of office politics to organizations and how it can be integrated and consolidated within organisational systems, functions and procedures as a strategy to enhance human capital performance.

KEY WORDS: human capital, organisational (office) politics, organisational performance, organisational systems, functions and procedures.

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