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# Effectiveness of E-Learning among the Students of Schools

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## **Abstract :**

21<sup>st</sup> century is marked to be the creator of numerous important and useful technological advancement. Among these, E-learning is also making its pace especially in a world of education. In early days students use to learn from the traditional method of teaching. Now the demands are growing and many schools are adopting the concept of E-learning. The purpose of the research is to find out the effectiveness of E-learning among students of schools and how this innovative technology has created an impact on them. The methodology used to evaluate the result is the primary process which started with targeting the students from the schools of major cities of Chhattisgarh state, India.

*Key Words:* E-Learning (Electronic Learning), Effectiveness, Innovative, Technology.

## **Introduction:**

**E-learning** refers to the use of electronic media and information and communication technologies in education. E-learning is a broadly inclusive term that describes educational technology that electronically or technologically supports learning and teaching. It can include training, the delivery of just-in-time information and guidance from experts. E-learning is inclusive of, and is broadly synonymous with multimedia learning, technology-enhanced learning, computer-based instruction, computer-based training, computer-assisted instruction or computer-aided instruction, internet-based training, web-based training, online education, virtual education, virtual learning environments and digital educational collaboration. E-learning comprises of numerous types of media that deliver text, audio, images, animation, and streaming video etc. There are several aspects to describing the intellectual and technical development of e-learning, which can be categorized into discrete areas. These are addressed as follows:

1. E-learning as an educational approach or tool that supports traditional teaching;
2. E-learning as a technological medium that assists in the communication of knowledge, and its development and exchange;

3. E-learning itself as an educational subject; such courses may be called "Computer Studies" or "Information and Communication Technology(ICT)";
4. E-learning administrative tools such as education management information systems (EMIS).

E-learning may either be synchronous or asynchronous. Synchronous learning occurs in real-time, with all participants interacting at the same time, while asynchronous learning is self-paced and allows participants to engage in the exchange of ideas or information without the dependency of other participant's involvement at the same time.

### **Research Objectives:**

1. To find out the awareness of E-learning among students.
2. To find out the helpfulness of E-learning making study easier, interactive and extending the support to memorize the concepts for longer span of time.
3. To find out the degree of interest in E-learning with level of relief from preparing extra notes.
4. To find out the satisfaction level of Students towards E-learning and the top factors those make it effective.

### **Research Methodology:**

#### **1. Hypothesis:**

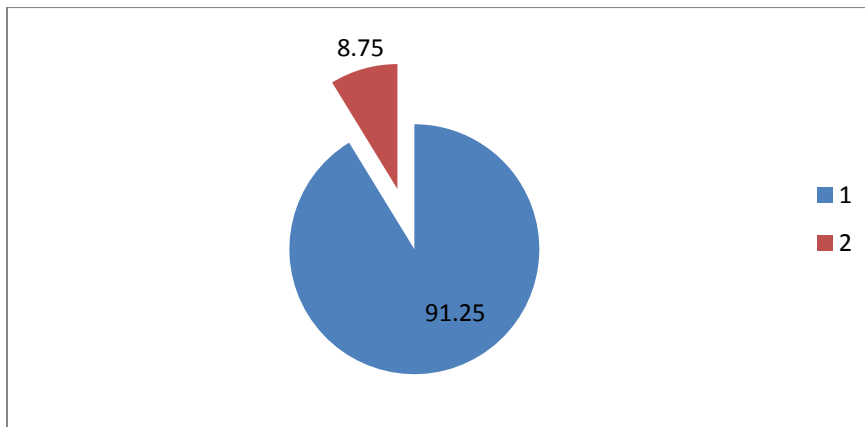
Ho: E-learning Technology is not an effective tool for providing satisfactory learning to students of schools.

2. **Sample Size:** Selected 160 respondents from the population.
3. **Geography:** The places from where the sample is taken from schools of Raipur, Bhilai-Durg, Bilaspur, Korba and Rajnandgaon belonging to region of Chhattisgarh state, India.
4. **Sampling Methods:** The samples are taken from different schools and of classes from 9<sup>th</sup>- 12<sup>th</sup> of both gender and age group is between 13-19.
5. **Source of Data:** Data used for the purpose of study was majorly the primary data.
6. **Data Collection:** Data is collected directly from students of schools through questionnaire.
7. **Instrument:** A questionnaire of 11 questions was prepared and the students were allowed to put a tick mark in front of the choices.
8. **Statistical tool:** The researchers have selected the percentage method for the analysis of data and for the testing of hypothesis  $\chi^2$  test is applied.

**Note:** Out of 160 respondents, 60 said that E-learning technology is not available in their school, so these respondents had answered only Q. no. 1, 2 and 10. Rest 100 were answered the Q.1 to Q.11 except Q. 10.

**Result and Discussion:****Table1. showingthe percentage of awareness of E-learning among students.**

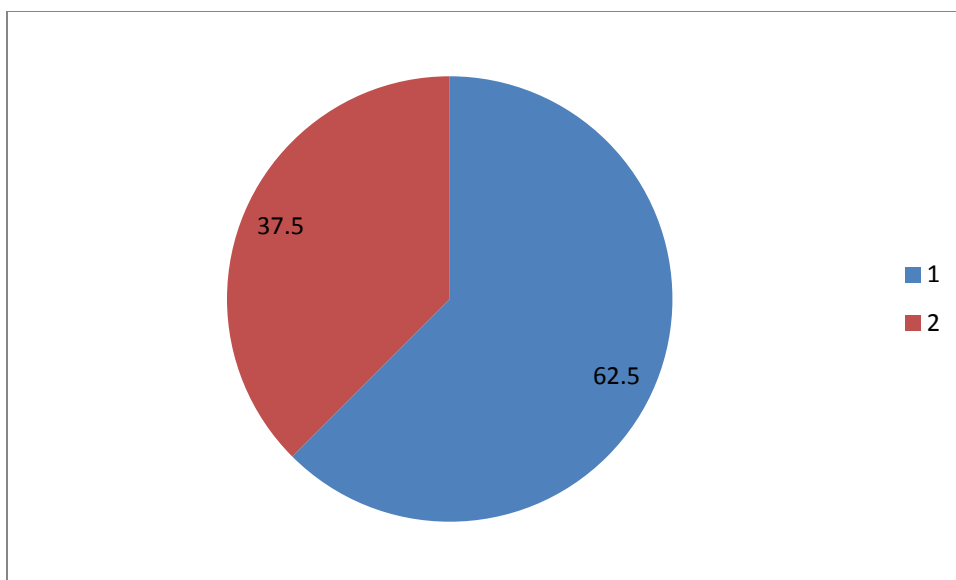
S.No.	Factors	No. Of Response	Percentage Dimension
A	Yes	146	91.25
B	No	14	8.75
Total		160	100%

**Interpretation:**

The table and chart show that 91.25% students are aware about the E-learning technology followed by 8.75 % who are unaware.

**Table 2.Showing Percentage Availability of E-learning in School.**

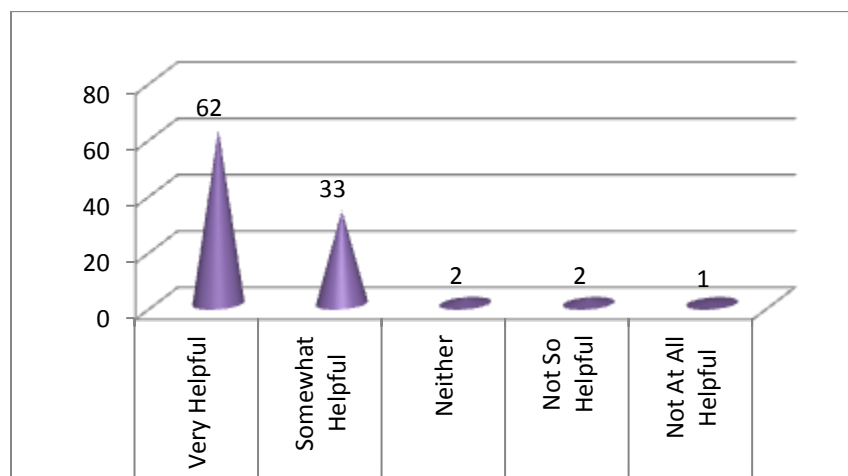
S.No.	Factors	No. Of Response	Percentage Dimension
A	Yes	100	62.5
B	No	60	37.5
Total		160	100%



**Interpretation:** The table and chart show that 62.5% respondents said that E-learning is available in their school while 37.5% said about unavailability.

**Table 3. Showing Percentage Helpfulness in studies through E-Learning.**

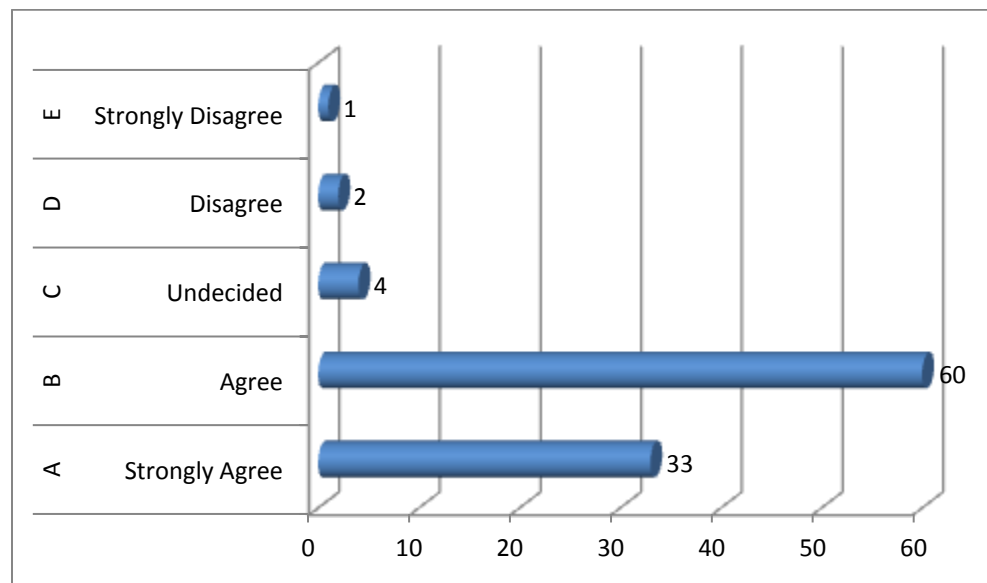
S.No.	Factors	No. Of Response	Percentage Dimension
A	Very Helpful	62	62%
B	Somewhat Helpful	33	33%
C	Neither	2	2%
D	Not So Helpful	2	2%
E	Not At All Helpful	1	1%
Total		100	100%



**Interpretation:** The table and chart indicate that about 62% respondents says that e-learning is very helpful in their studies followed by 33% (somewhat helpful), 2% (neither), 2% (not so helpful) and 1% (not at all helpful).

**Table 4. Showing Percentage E-learning makes study easier and interactive than theoretical classes.**

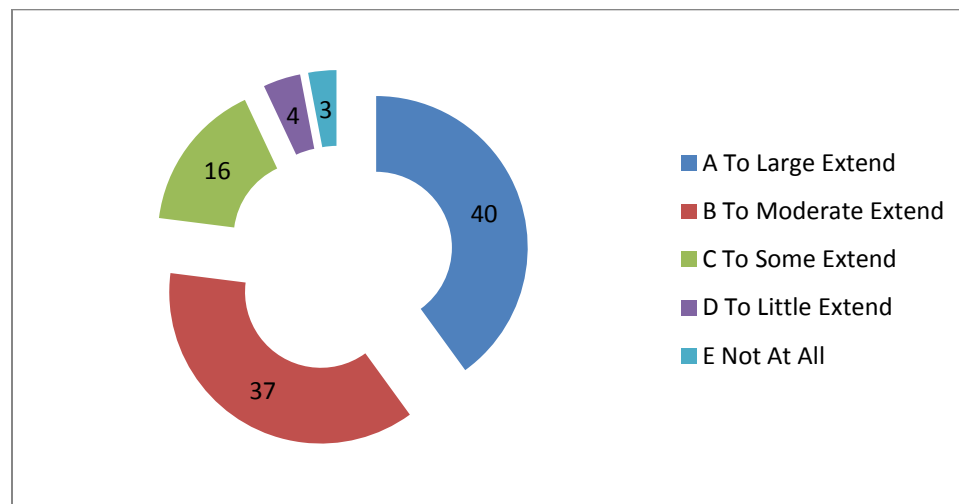
S.No. T	Factors	No. Of Response	Percentage Dimension
a	Strongly Agree	33	33%
b B	Agree	60	60%
l C	Undecided	4	4%
e D	Disagree	2	2%
_ E	Strongly Disagree	1	1%
Total		100	100%



**Interpretation:** The table and chart indicate that about 60% of the respondent agrees to the point that E-learning makes study easier and interactive than theoretical classes followed by 33% students who are strongly agreeing to this statement, 4% (undecided), 2% (disagree) and 1% (strongly disagree).

**Table 5. Showing Percentage Understanding of concepts through E-learning.**

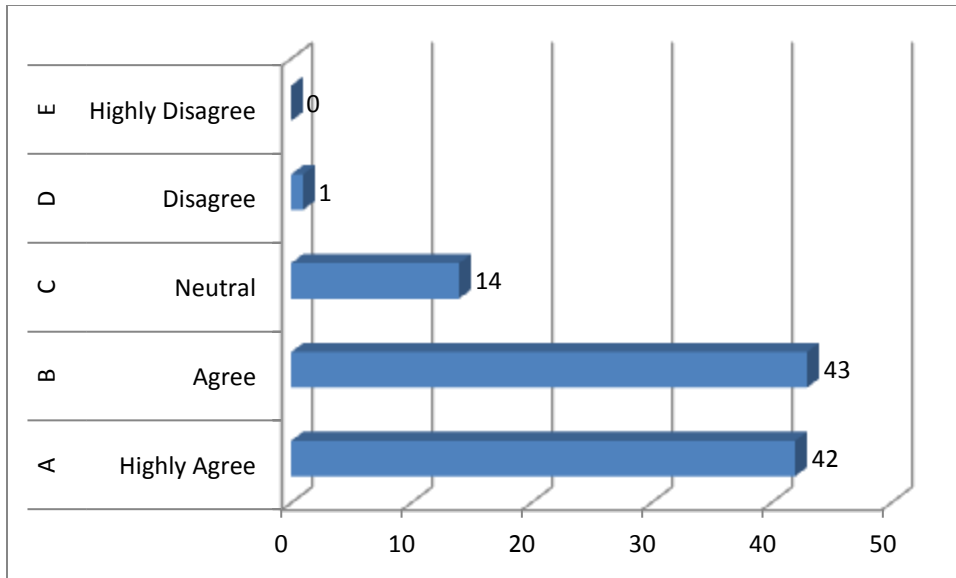
S.No.	Factors	No. Of Response	Percentage Dimension
A	To Large Extend	40	40%
B	To Moderate Extend	37	37%
C	To Some Extend	16	16%
D	To Little Extend	4	4%
E	Not At All	3	3%
Total		100	100%



**Interpretation:** The table and chart shown for understanding the concept through E-learning, indicate that about 40% respondents says to large extend, 37% says moderate extend and 16% says to some extent, 4% says little extend and 3% not at all.

**Table 6. Showing Percentage Helpfulness in memorizing concepts for longer time.**

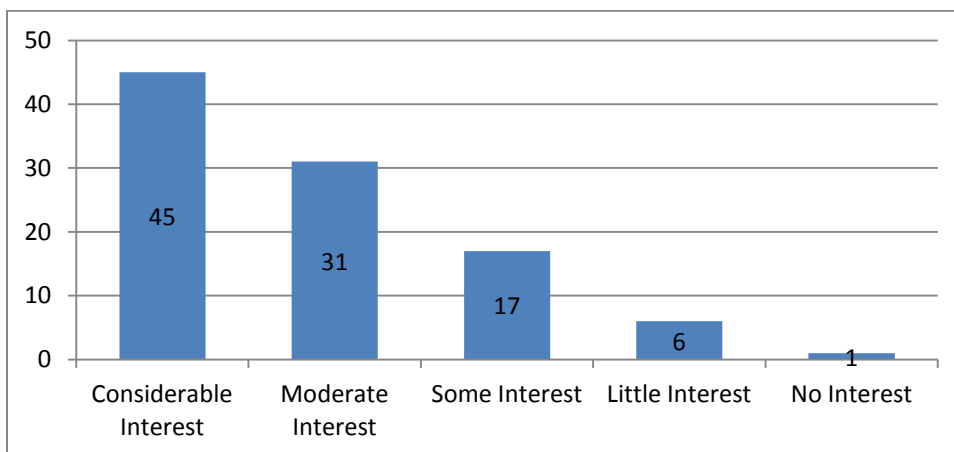
S.No.	Factors	No. Of Response	Percentage Dimension
A	Highly Agree	42	42%
B	Agree	43	43%
C	Neutral	14	14%
D	Disagree	1	1%
E	Highly Disagree	0	0%
Total		100	100%



**Interpretation:** Table and chart show that 42% students are highly agreed followed by 43% (agree), 14% (neutral), and 1 % ( disagree).

**Table 7. Showing Percentage Degree of interest in E-learning.**

S.No.	Factors	No. Of Response	Percentage Dimensions
A	Considerable Interest	45	45%
B	Moderate Interest	31	31%
C	Some Interest	17	17%
D	Little Interest	6	6%
E	No Interest	1	1%
Total		100	100%

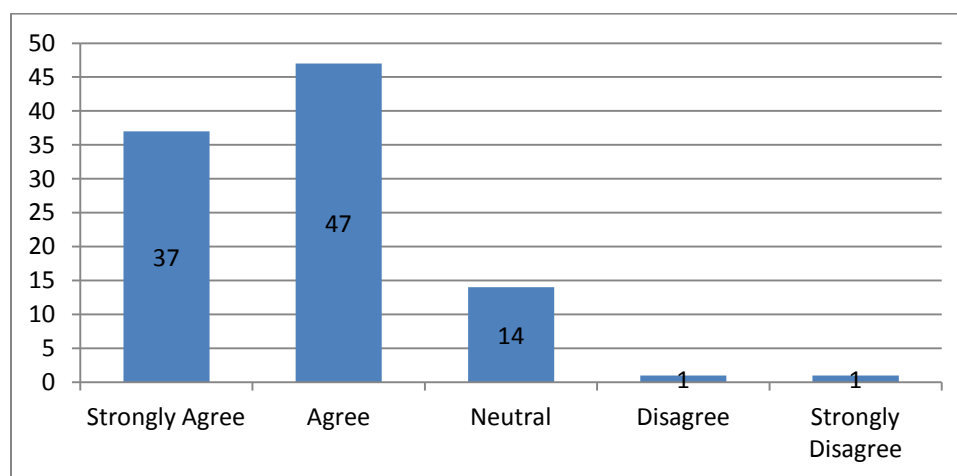




**Interpretation:** The degree of interest of respondents towards E-learning is varied according to the response 45% shows considerable interest, 31% shows moderate Interest and 17% has shown some interest in E-learning followed by 6 % (little interest) and 1 % (no interest).

**Table 8. Showing Percentage Relief from preparing Notes.**

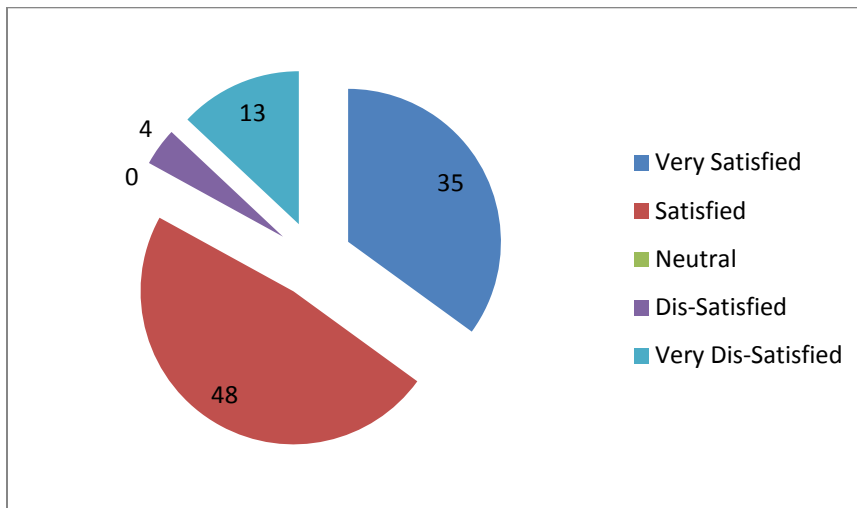
S.No.	Factors	No. Of Response	Percentage Dimensions
A	Strongly Agree	37	37%
B	Agree	47	47%
C	Neutral	14	14%
D	Disagree	1	1%
E	Strongly Disagree	1	1%
Total		100	100%



**Interpretation:** The Table and chart indicate that 37% are strongly agreed to statement followed by 47% (agree), 14% (neutral), 1% (disagree), 1% (strongly disagree).

**Table 9. Showing Percentage Satisfaction level of E-learning technology adopted in Schools.**

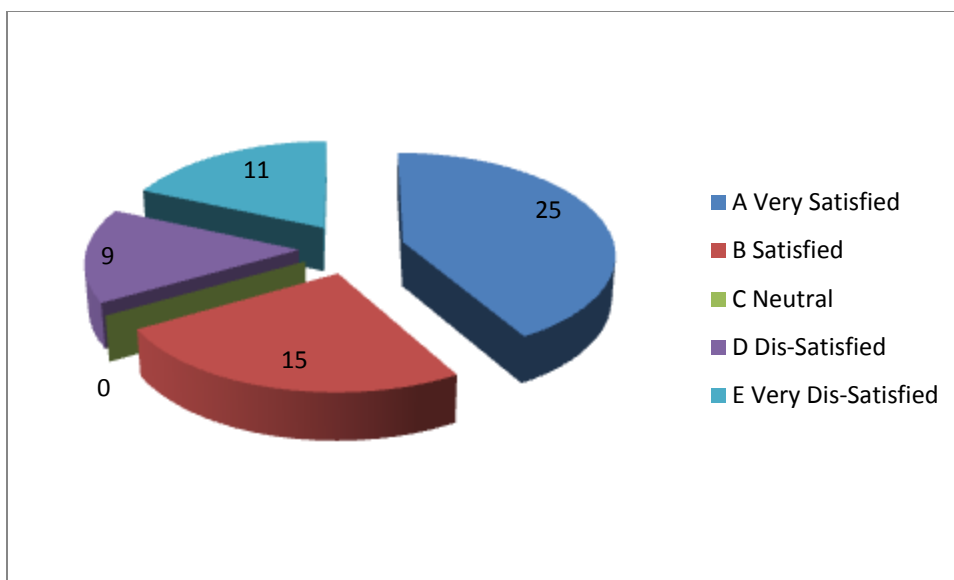
S.No.	Factors	No. of Response	Percentage Dimensions
A	Very Satisfied	35	35%
B	Satisfied	48	48%
C	Neutral	0	0%
D	Dis-Satisfied	4	4%
E	Very Dis-Satisfied	13	13%
Total		100	100%



**Interpretation:** The table and chart show that 35 % of respondents are very satisfied by the E-learning technology adopted by their school, followed by 48% (satisfied), 0% (neutral) and 4% (dissatisfied) and 13% (very dissatisfied).

**Table 10. Showing Percentage Satisfaction level where E- learning technology is not adopted in Schools.**

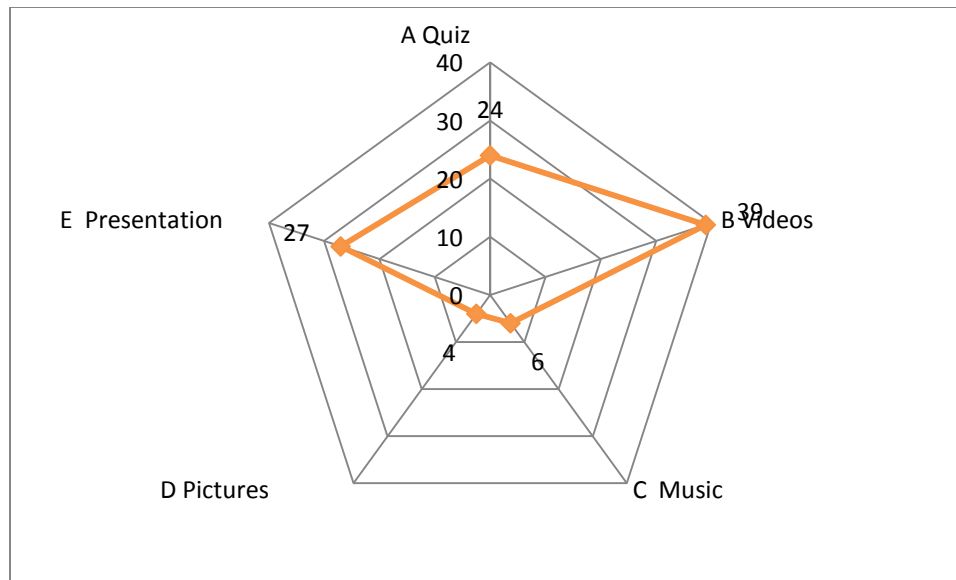
S.No.	Factors	No. of Response	Percentage Dimensions
A	Very Satisfied	25	42%
B	Satisfied	15	25%
C	Neutral	0	0%
D	Dis-Satisfied	9	15%
E	Very Dis-Satisfied	11	18%
Total		60	100%



**Interpretation:** The table and chart show that 25 % of respondents are very satisfied without E-learning technology, followed by 15% (satisfied), 0% (neutral) and 15% (dissatisfied) and 18% (Very dissatisfied).

**Table 11. Showing Percentage for 3 factors which makes session interactive in E-learning.**

S.No.	Factors	No. Of Response	Percentage Dimensions
A	Quiz	24	24%
B	Videos	39	39%
C	Music	6	6%
D	Pictures	4	4%
E	Presentation	27	27%
Total		100	100%



**Interpretation:** Table Shows that the Top three preference of respondents towards E- learning are Videos (39%), presentations (27%) and Quiz (24%).

#### Testing of hypothesis: $\chi^2$ test

	Favourable Response	Unfavourable Response	Total
E-Learning	83	17	100
Without E- learning	40	20	60
Total	123	37	160

Calculated value of  $\chi^2$  is **5.626**

The table value of  $\chi^2$  for one degree of freedom at 5 % level of significance is **3.841**

The calculated value of  $\chi^2$  is higher than the table value which means that the calculated value cannot be said to have arisen just because of chance. It is significant. Hence, the hypothesis does not hold good. We can, thus conclude **that E- learning is an effective tool for providing satisfactory learning to students of schools.**

**Findings:**

1. It is found that the majority of Students are aware of E-learning.
2. It is found that majority of students consider that e- learning is very helpful for their studies.
3. It is found that the majority of Students consider that E-learning makes study easier and interactive than theoretical classes.
4. It is found that the majority of Students consider that E-learning helps them to memorize the concepts for longer span of time.
5. It is found that the majority of students are interested in E-learning.
6. It is found that the majority of Students felt relief from preparing extra notes.
7. It is found that the majority of Students are satisfied with E-learning technology.
8. It is found that Session can become more interactive by giving emphasis on Videos, Quiz and Presentation.

**Suggestions:**

1. Schools should adopt the E-learning technology for more effective output.
2. E- Learning technology should emphasis more on videos, presentation and quiz for greater learning of students.

**Conclusion:**

To remain competitive in a today's global environment, students should have 360 degree exposure in all the field of study and to accomplish this objective E- learning plays a vital role. E-learning technology is in growing demand and also has a great effectiveness over the students as proven in this research paper. So we can conclude that for the overall development of students E-learning technology must be adopted by every school for creation of more creative and intellectual brains.

**Limitations:**

1. Sample taken out of the universe was very small, so the conclusion cannot be generalized.
2. Generalization of data depends upon the accuracy of the data given by concern respondents.

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**Appendix:****QUESTIONNAIRE**

Dear Student,

We are conducting a survey entitled **“Effectiveness of E-learning Among the Students of School”**. We need your help in conducting this study. Kindly provide us your valuable opinion to fill this questionnaire. Your personal information will be kept confidential and only be used for academic purpose.

**Part -1****Demographic Profile**

Name -

Class -

Age -

School -

Contact No-

Email Id. -

Address-

**Part-2**

**Please refer the rating parameters given below and (√) accordingly while answering questions/statements from 01 to 09.**

Q1. Are you aware about E-Learning technology?

Yes ( )      No ( )

Q2. Is this technology available in your school?

Yes ( )      No ( )

**(if your answer for question no. 2 is in No, please directly refer the question no .10 only.)**

**(if your answer for question no. 2 is in Yes, please go through all questions expect question no .10)**

Q3. How helpful is E-learning for your studies?

Very helpful ( )    Some What helpful ( )    Neither ( )

Not so helpful ( )    Not at all helpful ( )

Q4. E-learning makes study easier and interactive than theoretical classes.

Strongly agree ( )      Agree ( )      Undecided ( )

Disagree ( )      Strongly Disagree ( )

Q5. To what extend do you understand concepts thoroughly via E- learning?

To large extend ( )      To moderate extend ( )      To some extend ( )

To little extend ( )      Not at all ( )

Q6. Does E-learning help you to memorize the concepts for longer span of time?

Highly Agree ( )      Agree ( )      Neutral ( )

Disagree ( )      Highly Disagree ( )

Q7. Please indicate your degree of interest in E-learning.

Considerable interest ( )      Moderate interest ( )      Some interest ( )

Little interest ( )      No interest ( )

Q.8 Through E-learning do you feel relief from preparing extra notes?

Strongly Agree ( )      Agree ( )      Neutral ( )

Disagree ( )      Strongly Disagree ( )

Q.9 How satisfied areyou with E- learning adopted by your school?

Very satisfied ( )      Satisfied ( )      Neutral ( )

Dis-satisfied ( )      Very Dis-satisfied ( )

Q.10 How satisfied are you without E-leaning. (In case of traditional leaning.)

Very satisfied ( )      Satisfied ( )      Neutral ( )

Dis-satisfied ( )      Very Dis-satisfied ( )

Q.11 E-learning makes session interactive because of **(Rate best 3 factors from 1 to 3 in order of your preference).**

a. Quiz ( )

b. Videos ( )

c. Music ( )



- d. Pictures ( )
- e. Presentation ( )

# CORPORATE SOCIAL RESPONSIBILITY: A CASE STUDY OF RELIANCE INDUSTRIES LTD.

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## ***Abstract***

*Corporate Social responsibility is expressed as the voluntary assumption of responsibilities that go beyond the economic and legal responsibilities of business firm. Ideally, CSR policy would function as a built in self regulating mechanism whereby business world monitors and ensure its support to law, ethical standards and international norms. Consequently business would embrace responsibility for the impact of its activities on the employees, stake holders, communities and all other members of the public sphere. The exercise of social responsibility must be consistent with the corporate objective of earning a satisfactory level of profit. It implies a willingness to forego a certain measures of profits in order to achieve non-economic aids. CSR focused business world proactively promote the public interest by encouraging community growth and development, and voluntarily eliminating practices that harm the public regardless of legality. Driven by the CSR movement, firms, especially MNCs have sought to positions themselves as good corporate citizens. Indian companies are now expected to discharge their stakeholder's responsibilities and societal obligations, along with their shareholders wealth maximization goal. Nearly all leading corporate in India are involved in corporate social responsibility (CSR) programmes in areas like education, health, livelihood, creation, skill development and empowerment of weaker sections of the society. This paper aims to analyse the concept of corporate social responsibility and getting an insight in CSR practices of Reliance Group.*

**Key Words :** Corporate Social Responsibility, CSR Policy, Ethical Standards, Public Interest.

## Introduction

Corporate social responsibility is the process of continuing commitment by business to behave ethically and contribute to economic development .While improving the quality of workforce and their families and also to the local community, society at large. In this concept the companies are integrate with social, environmental and economic concerns in their business operations and have an interaction with their stakeholders on a voluntary basis. The ministry of corporate affairs along with the Indian Institute of corporate affairs has been making efforts to adoption of responsible governance activities by the corporate sector. In Indian companies there is a growing consciousness in the area with the activities of CSR. Indian companies are now expected to discharge their stakeholder's responsibilities and societal obligations, along with their shareholders wealth maximization goal. Nearly all leading corporate in India are involved in corporate social responsibility (CSR) programmes in areas like education, health, livelihood, creation, skill development and empowerment of weaker sections of the society. Notable efforts have come from the Reliance Group, Tata group, Infosys, Bharti Enterprises, ITC Welcome group, Indian oil corporations among others.

## Key Words

- **Corporate Social Responsibility:** Corporate Social Responsibility (CSR) is defined as the voluntary activities undertaken by a company to operate in an economic, social and environmentally sustainable manner.
- **CSR Policy:** It refers to the detailed policy and programmes of Business related to its CSR.
- **Ethical Standards:** Practices pertaining to or dealing with morals or the principles of morality; pertaining to right and wrong in conduct.
- **Public Interest:** Welfare of the general public (in contrast to the selfish interest of a person, group, or firm) in which the whole society has a stake and which warrants recognition, promotion, and protection by the government and its agencies.

## Literature review

- **Davis**, in the study, “Can Business Afford to Ignore Social Responsibilities? (1960)” argued that social responsibility is a nebulous idea but should be seen in a managerial context. He asserted that some socially responsible business decisions can be justified by a

long, complicated process of reasoning as having a good chance of bringing long-run economic gain to the firm, thus paying it back for its socially responsible outlook.

- **Wood** in his study, “**Towards improving corporate social performance (1991)**” states that CSR implies some sort of commitment, through corporate policies and action. This operational view of CSR is reflected in a firm’s social performance, which can be assessed by how a firm manages its societal relationships, its social impact and the outcomes of its CSR policies and actions.
- **Bajpai** in the study, “**Corporate Social Responsibility in India and Europe: Cross Cultural Perspective (2001)**” states that an ideal CSR has both ethical and philosophical dimensions, particularly in India where there exists a wide gap between sections of people in terms of income and standards as well as socio-economic status.
- **Goyder** in his study, “**Redefining CSR: From the Rhetoric of Accountability to the Reality of Earning Trust (2003)**” argues that today’s industry can no longer be regarded as a private arrangement for enriching shareholders. It has become a joint enterprise in which workers, management, consumers, the locality, govt. and trade union officials all play a part. If the system which we know by the name private enterprise is to continue, some way must be found to embrace many interests whom we go to make up industry in a common purpose.

## **Objectives**

- To understand the concept and scope of corporate social responsibility.
- To develop insight in CSR practices of Reliance Industries Ltd.

## **Research methodology**

The study is based on secondary data. Relevant data are availed from various sources of information such as Research Papers, Reports, Books, Websites etc.

## **Limitations**

The study is undertaken by the use of secondary data collected from various sources which may have some deficiencies.

## **Classification of Social Responsibility**

- **Responsibility towards itself**

It is the responsibility of each corporate entity run business and to work towards growth, expansion and stability and thus earn profits. If the corporation is to achieve social and economic ends, organizational efficiency should be boosted up.

- **Responsibility towards Employees**

Employees are the most important part of an organization. Some of the responsibilities which a business entity has towards its employees are Timely payment, Hygienic environment, Good and impartial behavior, Health care, Recreational activities, Encouraging them to take part in managerial decisions, etc.

- **Responsibility towards shareholders**

It is the responsibility of corporate entity to safeguard the shareholder's investment and make efforts to provide a reasonable return on their investment.

- **Responsibility towards state**

Out of the profit available, the state is entitled to a certain share as per the income tax laws. Utmost transparency has to be exerted regarding the profit & loss account and the balance sheet.

- **Responsibility towards consumers**

The Company should maintain high quality standards at reasonable prices. It should not resort to malpractices such as hoarding and black-marketing.

- **Responsibility towards environment**

It is the responsibility of the organization to contribute to the protection of environment. It should produce eco -friendly products. Moreover, industrial waste management must be taken care of.

## **Corporate Social Responsibility: Reliance Industries Limited (RIL)**

Reliance Industries Limited (RIL) is India's largest private sector enterprise with businesses across the energy and materials value chain and a strong presence in the rapidly expanding retail, telecommunications and media sectors. RIL's diverse projects and operations touch lives of people in many ways and create value by helping in overall and holistic development of communities across multiple geographies. Through its various initiatives, the group endeavors to play a relevant role by serving communities and projects that address gaps in basic societal

requirements. As a responsible corporate citizen, RIL has embarked on several initiatives of scale in the education, healthcare and livelihood domains. RIL endeavors to continuously learn from its experiences and adapt its policies and implementation strategy on an ongoing basis. RIL seeks to continue its contribution to the society through its distinct value proposition that meets the needs of millions of people, enhancing their lives through healthcare, improving quality of living by providing education and enabling livelihoods by creating employment opportunities through the following:

- **For the Business-** value created for the society through business (including employment generation, market growth, creating opportunities etc.)
- **By the Business-** value created through CSR initiatives across different operating facilities with appropriate linkages to local communities in which they operate.
- **Beyond Business-** value created through interventions for the communities in diverse geographies across India.

RIL's Board of Directors have formed a CSR Committee. This committee, along with the CSR team, are responsible for the decision making with respect to RIL CSR policy. It recommends the policy to RIL's Board of Directors and the Board of Directors executes them. The Board level Committee meets at least twice a year to review the implementation of CSR projects/ programs and give suitable direction. The Board of RIL to ensure that minimum of 2% of average net profit of the last 3 years is spent on CSR initiatives undertaken by RIL. All expenditure towards the programs is diligently documented. Also any surplus generated out of the CSR activities is not added to the normal business profits of RIL.

A press report in Economic Times dated 20 May 2014 states that Reliance Industries has spent over Rs 700 crore of its net profit on corporate social responsibility in the fiscal year 2014 and significant sums went into healthcare and rural development initiatives. According to its annual report, Reliance's CSR spend carried out through Reliance Foundation stood at 3.24 per cent of its net profit, which is amongst the highest in the country.

## CSR Policy on Education

The Company's major manufacturing locations provide good quality education to the children of all employees and also cater to the needs of surrounding villages. Jamnaben Hirachand Ambani School, Kokilaben Dhirubhai Ambani Vidya Mandir, and Jamnaben Hirachand Ambani Saraswati Vidya Mandir are schools near the Company's manufacturing locations at Patalganga, Hazira and Jamanagar respectively. A modern educational infrastructure coupled with extra-curricular activities and recreational facilities distinguish all these schools.

- 'Teach them young' is the very motto of Reliance as the Company believes that the quality of inputs received by an individual at an early age contributes to his or her growth as a capable human being. To ensure high quality of teaching, Reliance has made significant efforts towards value enhancement of teachers through professional and institutionalized training. Dahej Manufacturing Division conducts educational and excursion tours of students and teachers from the primary schools of neighbouring villages, and also organises 'Balmela' and Science and Mathematics Fair.
- To provide training in the field of effective techniques and modern methods of teaching to high school teachers in the Hazira area, the Company organized training of teachers in various subjects.
- Reliance has launched the "Sky is the limit" programme at Hazira, to address the problem of school drop-outs in the local community.
- The Company also provides opportunities to engineering and management institute students to undergo in-plant training/projects as part of their academic curriculum, thus enabling them to appreciate application of theoretical knowledge and get an exposure to the industrial practices.
- Efforts were made to enhance employability/skill development of local youths. This was done by giving opportunities to them to work in the Company's operating plants, which in turn improve their job prospects.
- Executive Development Programs for officers of neighbouring industries were organized in coordination with PRIA (Patalganga Rasayani Industries Association).

## **CSR Policy on Health**

The Company provides Community Medical Centres near most of its manufacturing divisions. These centres cater to the Governmental health care programmes like maternal and child health, TB, malaria, HIV / AIDS etc., besides providing curative treatment. These Centres have been well received and go a long way in providing the medical relief for the community. The Company has implemented HIV / AIDS and DOTS programme at Hazira and Jamnagar, and is in the process of replicating the same at the other manufacturing divisions. This initiative is a public private partnership between the Government, NGOs and Reliance. This comprehensive project extends from creating awareness to providing treatment, care and support. Reliance's initiative to combat HIV / AIDS has been recognized by UNAID, World Bank and other national and international institutions.

- Health Awareness Programs, covering diverse topics such as noise pollution, hazards substance abuse, prevention of HIV/AIDS and First Aid were conducted for students of schools at the neighbouring towns and villages of Patalganga. Barabanki Manufacturing Division provides medical service and awareness programs on health, hygiene, cleanliness and sanitation in neighboring villages.
- Hoshiarpur Manufacturing Division too conducts monthly checkup camps at neighbouring villages. Free medicines and spectacles were also provided. Round the clock free ambulance service has been provided to roadside accident victims. Hazira Rehabilitation Centre for the Physically Challenged has been set up in partnership with Disabled Welfare Trust of India for capacity building of physically challenged children from the weaker sections of society.
- The Company provides Community Medical Centres near most of its manufacturing divisions. These centres cater to the Governmental health care programmes like maternal and child health, TB, malaria, HIV / AIDS etc., besides providing curative treatment. These Centres have been well received and go a long way in providing the medical relief for the community. The Company has implemented HIV / AIDS and DOTS programme at Hazira and Jamnagar, and is in the process of replicating the same at the other manufacturing divisions. This initiative is a publicprivate partnership between the Government, NGOs and Reliance. This comprehensive project extends from creating awareness to providing



treatment, care and support. Reliance's initiative to combat HIV / AIDS has been recognized by UNAID, World Bank and other national and international institutions.

- Reliance has adopted a Primary Health Centre (PHC) from the State Government of Gujarat and converted it into a model primary health centre. The PHC located at Dahej in Bharuch District, Gujarat, has attained the status of the best PHC in the District in a short-span of 6 months and has established itself as a centre of excellence.
- Reliance also operates the Dhirubhai Ambani Hospital, Lodhivali and renders quality medical services to the rural population and highway accident victims.
- As part of corporate social responsibility services, a community medical centre was established in Moti Khavdi, a village near Jamnagar Manufacturing Division, during the pre-commissioning stage of the refinery in November 1995. This Community Medical Centre provides comprehensive medical services free of cost and round the clock. About 1.2 lakh villagers of nearby areas like Moti Khavdi, Nani Khavdi, Padana, Meghpar, Gagva, Jogvad, Baid, Kanalus, Sikka, Sarmat, Navaniya, Mungani, Jakhar, Bara, Vasai and Amra benefit from the same.
- In partnership with the Lions Cancer Detection centre, the Company provides monetary assistance for purchase of medicines to cancer patients.
- Reliance also operates free medical diagnostic and therapeutic services at neighbouring villages of several of its manufacturing locations.
- The Company's employees organize and participate in blood donation campaigns every year across its manufacturing divisions and offices.
- Sir Hurkisonadas Nurrotumdas Hospital and Research Centre (HNHRC) Dhirubhai Ambani Foundation (DAF), with financial and technical services support from the Reliance Group, joined in 1997 the Management of HNHRC, a charitable hospital offering tertiary health care facilities to all strata of society and providing free and subsidized services to the poor and indigent patients availing of various diagnostic and treatment facilities.
- Project Drishti, a nation-wide corneal grafting drive to bring light into the lives of visually challenged from the underprivileged segment of society has restored the gift of sight to over 5,500 Indians. A unique joint initiative of Reliance Industries Limited and National Association of Blind (NAB), Project Drishti has undertaken more than 5,500 keroplasty

surgeries in less than 4 years since it was started - all free of cost. It is now the largest corneal grafting surgery project enabled by a single corporate entity in India.

### **Reliance Rural Development Trust (RRDT)**

The work to improve the rural infrastructure under the Government of Gujarat's rural development plans was continued with full energy by RRDT. During the year under report, the RRDT created 760 facilities in the rural areas at a cost of Rs. 24.07 crore. The facilities included 247 concrete roads, 465 anganwadis, 38 drinking water facilities, 1 panchayat office, 2 community halls, 5 check-dams and 2 other amenities in the rural areas of the State of Gujarat.

### **Empowerment of Women and Youth**

Reliance has conducted many training programmes, which would help the rural women and youth to be self sustaining and generate income for themselves and support their families. The training programmes conducted at Vadodara for the rural women and youth of surrounding villages of Vadodara Manufacturing Division during the current year are: 1) Women Empowerment, 2) Dress making & Designing, 3) Beauty Culture & Healthcare, 4) Hospital attendant (Helpers for Hospital & Nursing Homes), 5) Plumbing & Hand Pump repairing training, 6) Computer Hardware, 7) Motor Vehicle Driving, 8) Mobile Repairing and 9) Doormat making. Several persons participated and benefited from the above training programmes.

### **Eco-friendly Initiatives**

In addition to the above initiatives, the Company also focusses on the development of the eco-system and improvement of the green belt across its manufacturing and E&P sites.

### **Conclusion**

For bringing back and maintaining the general balance in the economic and social arena it is evident to think deeply and act wisely about CSR. Every business house owes some responsibility towards the society, nation and world in general which provide it with all human, material and natural resources. Considering the long run growth and sustainable development following the norms of CSR , devising new policies and effective implementation is inevitable to

bring and sustain a balance between corporate world and society, present generation and upcoming generation, man and nature . As far as the Reliance group is concerned, it has gone a long way in fulfilling its duty and responsibility towards the society and the nation. It has reached the masses to elevate their lives, to nurture their dreams and to hone their skills. It has to go a long way ahead for its own prosperity and of the country and its people as well.

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## **Sexual Harassment at Workplace: Legal & HR Framework**

*To get more female employees to be part of its workforce, India Inc. needs to prepare and help women employees face the complexities of sociocultural challenges, including social expectations and stereotypes about gender roles. The problem of sexual harassment is not new to India. Sexual harassment is a behavior with a sexual connotation that is abusive, injurious and unwelcome. It places the victim in an atmosphere of intimidation, humiliation or hostility. It may be constituted by many or single act and the intention of the harasser has no relevance. There is a whole range of behaviour and activities, which may not fall squarely within the purview of sexual harassment but still may constitute or amount to sexual harassment. India has witnessed several cases of sexual harassment which shook the entire nation and State responded as a custodian of the Constitution by bringing in the Sexual Harassment of Women at Workplace Act, 2013 and Amendments in Criminal Law by introducing relevant changes in Criminal Procedure Code (Cr.P.C.) and Indian Penal Code (I.P.C.) through Criminal Law Amendment Act, 2013. Courts, on the other hand, intervened from time to time and came up with landmark judgement of Vishaka v State of Rajasthan where it came up with guidelines to prevent such harassment by ensuring a hostile free work environment alongwith a framework regarding constitution of a complaints committee for effective and speedy enquiry and disposal of such reported cases. In case of Medha Kotwal Lele v Union of India Supreme Court issued orders to ensure compliances of Vishaka guidelines and its enforcement by different States. The Sexual Harassment of Women at Workplace Act, 2013 further clarified organizations that were covered to ensure what exactly was to be included as workplace as well as provided for timebound and speedy enquiry provisions. The rules that came on 9<sup>th</sup> December, 2013 further gave clarity regarding the manner in which complaints had to be filed and people who were competent to be members of Internal Complaints Committee (ICC). Also, it provided for time frame within which enquiry report had to be handed over alongwith the time limit within which enquiry report had to be implemented by the employer. However, corporate houses need to ensure awareness about such law alongwith measures to ensure a safe work environment for women. A recent survey by Ernst & Young (EY) is alarming as it revealed that almost 50 per cent of the organizations had not displayed the penal consequences of indulging in sexual harassment at a prominent place within the premises. Paper discusses the statutory provisions as well as judicial pronouncements with the help of which such social evil may be countered. It also discusses role of HR professionals who need to reduce unpreparedness of organizations alongwith*

*sensitizing the top management towards such problems. But more than any legal provisions and HR initiatives each and every individual and each department needs to understand its responsibility of ensuring a hostile free work environment.*

## **Introduction**

The 29-year-old complainant in the sexual harassment case against eminent scientist RK Pachauri resigned from Delhi based think tank Teri, with a grievance that she had been "mistreated" in the "worst possible manner". In her resignation that she submitted she lashed out at Teri for creating what she terms as a "hostile environment" which "only escalated and showed no signs of subsiding whatsoever". Tendering her resignation, she complained that her "work profile" was changed and the organization "played deaf to my requests for not doing so". She further added that she was given "zero explanation" for changing her profile. "I only got vague responses", it read. "I tender my resignation without any prejudice to my rights to claim my salary, damages and other dues/costs for the gross misconduct and mental torture meted out to me at the workplace, apart from taking all pending litigation to the logical conclusion". This pain of reporting sexual harassment and the suffering thereafter is one aspect of sexual harassment at the workplace that rarely gets talked about.

A woman has to go through tough times *after* she dares to lodge a formal complaint. Do organizations ensure that she is not harassed further because she has taken this bold decision to speak out? Is her identity really kept confidential and protected as the Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act mandates? The law that is meant to empower women and encourage them to not suffer in silence is really able to achieve its purpose? Does it become difficult for the female victim to find another job? Fundamental right under Article 14 and 15 guarantees every citizen of India right to equality. Also women have a right to life and right to live with dignity under Article 21 of the Constitution. Sexual harassment at workplace has been recognized as violating all these rights guaranteed to women. Sexual harassment has also been considered as violation of right to practice or carry out any occupation, trade or business under Article 19 (1)(g) of the constitution, including right to safe work environment free from harassment.

The Supreme Court in *Vishaka v. State of Rajasthan* for the first time recognized, acknowledged and explicitly defined sexual harassment as an – unwelcome sexual gesture or

behaviour aimed or having a tendency to outrage the modesty of woman directly or indirectly.

Defining sexual harassment as an act aimed towards gender based discrimination that affects women's right to life and livelihood, the Supreme Court developed broad based guidelines for employers. This mandatory guidelines known as Vishaka guidelines are aimed towards resolution and prevention of sexual harassment. These guidelines bring in its purview all employers in organized and unorganized sectors by holding them responsible for providing safe work environment for women. The Vishaka guidelines apply to all women whether students, working part time or full time, on contract or in voluntary/honorary capacity. Expressly prohibiting sexual harassment at work place these legally binding guidelines put a lot of emphasis on appropriate preventive and curative measures.

The definition of sexual harassment in the Sexual Harassment Act is in consonance with the Supreme Court's definition in the Vishaka Judgment and includes any unwelcome sexually determined behaviour (whether directly or by implication) such as physical contact and advances, demand or request for sexual favours, sexually coloured remarks, showing pornography, or any other unwelcome physical verbal or non-verbal conduct of sexual nature.

Sexual Harassment is a behavior with a sexual connotation that is abusive, injurious and unwelcome. It places the victim in an atmosphere of intimidation, humiliation or hostility. It may be constituted by many or single act and the intention of the harasser has no relevance. There is a whole range of behaviour and activities, which may not fall squarely within the definition above but still may constitute or amount to sexual harassment. Following can be dew of the illustration of such behaviour and any of these may be perceived as Sexual Harassment:

- (i) A sexual comment or sexually determined behaviour such as leering at another's body and/or sexually suggestive gesturing.
- (ii) Advances such as making favourable remarks about looks of a woman, unwanted comments on intelligence of a woman or the way she dresses up
- (iii) Displaying sexually visual material such as pin ups, cartoons, graffiti, computer programs, and catalogues of a sexual nature.
- (iv) Calling a woman employee late at night with a request to have dinner with her repeatedly with which she does not like and which makes her comfortable.

- (v) Making sweeping statements while delivering lecture on advertising; for example, women are the best models to sell a product; that body of the car should be sleek and sexy like women; soap has to be soft to touch and so on.
- (vi) Any other verbal or non-verbal conduct sexual in nature.

### **Case of Rupan Deol Bajaj**

Supreme Court upheld conviction of former Director-General of Punjab Police K. P. S. Gill for sexually harassing a senior IAS Officer Rupan Deol Bajaj. Supreme Court held that, “..the ultimate test for ascertaining whether modesty has been outraged is that the action of the offender could be perceived as one which is capable of shocking the sense of decency of a woman...the alleged act of Mr.Gill in slapping Ms.Bajaj on her posterior amounted to outraging of her modesty for it was not only an affront to normal sense of feminine decency but also an affront to the dignity of the lady-‘sexual overtones or not, notwithstanding’”.<sup>1</sup>

Supreme Court ordered K.P.S.Gill to pay Rs. 2 lakhs to Mrs. Bajaj and Rs. 50,000 as costs. Gill, had shown behavior to Ms.Bajaj, that amounted to sexual harassment, at a party in the house of the then Financial Commissioner and Secretary to the Government of Punjab. Justice K.G. Balakrishnan and Justice P.P. Naoelekar, who delivered the judgment, ordered Gill to give the compensation amount. Mrs. Bajaj filed a First Information Report (FIR) on July 29, 1988, and her husband filed a complaint before the Chief Judicial Magistrate (CJM) of Chandigarh in November 1988. Mr. Gill then had filed a criminal revision petition in the High Court in 1989, which quashed both the FIR and the complaint before the CJM. Mrs. Bajaj and her husband, in a Special Leave Petition before the Supreme Court, challenged the decision of the High Court in 1995. The Supreme Court set aside the High Court order and directed the complaint case back to the trial court with directions to take cognizance of the offences under Sections 354 (outraging the modesty of a woman) and Section 509 (insulting the modesty of a woman) of the Indian Penal Code (IPC). In August 1996, the CJM sentenced Mr. Gill to three months' imprisonment and a fine of Rs. 500. Mr. Gill appealed before the Sessions Judge, Chandigarh. The Sessions Judge upheld the conviction and directed Gill to pay Rs. 2 lakhs as compensation to Mrs. Bajaj and Rs. 50,000 as costs of which Rs. 25,000 had to be paid to Mrs. Bajaj. Mr. Gill was put on a three-year probation

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<sup>1</sup>Rupan Deol Bajaj v. Kanwar Pal Singh Gill (1995) 6 SCC 194.

period. He then appealed before the High Court, which, in 1998, upheld the Sessions Court order but reduced the probation period to one year.

The entire political and bureaucratic machinery threw its weight to protect the police chief and awarded him “Padma Shree” when the issue was sub-judice before court. In words of Bajaj “When your prescription is different from all others because ailments with which you are suffering have unique feature, when you do not have a set rules or standards or established norms or tradition to follow or any legislation or precedents to bank upon, you have to muster courage to fight against all odds and create your own way out of the complex and peculiar situation.”

The battle after stretching for 18 years, ended with finally, the Supreme Court upholding the conviction of Gill for his offence. He was found guilty under section 354 and 509 of IPC and the court directed him to pay Bajaj Rupees two lakh as compensation.

### **Vishaka Guidelines**

The Supreme Court guidelines came up in case of Vishaka and others v. State of Rajasthan<sup>2</sup> and others owing to the gang rape of Bhanwari Devi by a group of thakurs as she attempted to stop a child marriage in their family. Bhanwari Devi was a social worker (saathin) at rural level in a development programme initiated by State Government of Rajasthan, aiming to curb the evil of child marriages in villages. As part of her work, Bhanwari Devi, tried to stop Ramkaran Gujjar’s infant daughter’s marriage. Nevertheless, marriage took place but Bhanwari Devi was not forgiven for her efforts to stop marriage. She was subjected to social boycott, and in September 1992 was gang raped by five men including Ramkaran Gujjar in front of her husband. The days that followed were filled with hostility and humiliation for Bhanwari and her husband. The only male doctor in the Primary Health Centre refused to examine Bhanwari and the doctor at Jaipur only confirmed her age without making any reference to rape in his medical report. At the police station too, the women constables taunted her throughout the night. It was past midnight when the policemen asked Bhanwari to leave her lehenga behind as evidence and return to her village. She was left with only her husband’s bloodstained dhoti to wear. Their pleas to let them sleep in the police station at night, were turned down.

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<sup>2</sup>Vishaka v. State of Rajasthan (JT 1997 (7) SC 384)



The trial court acquitted the accused, but Bhanwari was determined to fight further and get justice. She said that she had nothing to be ashamed of and that the men should be ashamed due to what they had done. Her fighting spirit inspired fellow saathins and women's groups countrywide. In the months that followed they launched a concerted campaign for justice for Bhanwari. On December 1993, the High Court said, "it is a case of gang-rape which was committed out of vengeance". This provoked women's groups and NGOs to file a petition in the Supreme Court of India. As part of this campaign, the groups had filed a petition in the Supreme Court of India, under the name 'Vishaka', asking the court to give certain directions regarding the sexual harassment that women face at the workplace. The result was the Supreme Court judgement, which came on 13th August 1997, and gave the Vishaka guidelines.

In the judgement full bench of Supreme Court comprising of Chief Justice J.S.Verma, Justice Sujata V. Manohar and Justice B. N. Kirpal came up with following words<sup>3</sup>, *"It is necessary and expedient for employers in work places as well as other responsible persons or institutions to observe certain guidelines to ensure the prevention of sexual harassment of women:*

1. Duty of the Employer or other responsible persons in work places and other institutions:

It shall be the duty of the employer or other responsible persons in work places or other institutions to prevent or deter the commission of acts of sexual harassment and to provide the procedures for the resolution, settlement or prosecution of acts of sexual harassment by taking all steps required.

2. Definition:

For this purpose, sexual harassment includes such unwelcome sexually determined behaviour (whether directly or by implication) as: a) physical contact and advances; b) a demand or request for sexual favours;

c) sexually coloured remarks;

d) showing pornography;

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<sup>3</sup>*Ibid.*

e) any other unwelcome physical verbal or non-verbal conduct of sexual nature.

Where any of these acts is committed in circumstances where under the victim of such conduct has a reasonable apprehension that in relation to the victim's employment or work whether she is drawing salary, or honorarium or voluntary, whether in government, public or private enterprise such conduct can be humiliating and may constitute a health and safety problem. It is discriminatory for instance when the woman has reasonable grounds to believe that her objection would disadvantage her in connection with her employment or work including recruiting or promotion or when it creates a hostile work environment. Adverse consequences might be visited if the victim does not consent to the conduct in question or raises any objection thereto.

### 3. Preventive Steps:

All employers or persons in charge of work place whether in the public or private sector should take appropriate steps to prevent sexual harassment. Without prejudice to the generality of this obligation they should take the following steps:

(a) Express prohibition of sexual harassment as defined above at the work place should be notified, published and circulated in appropriate ways.

(b) The Rules/Regulations of Government and Public Sector bodies relating to conduct and discipline should include rules/regulations prohibiting sexual harassment and provide for appropriate penalties in such rules against the offender.

(c) As regards private employers steps should be taken to include the aforesaid prohibitions in the standing orders under the Industrial Employment (Standing Orders) Act, 1946.

(d) Appropriate work conditions should be provided in respect of work, leisure, health and hygiene to further ensure that there is no hostile environment towards women at work places and no employee woman should have reasonable grounds to believe that she is disadvantaged in connection with her employment.

4. Criminal Proceedings: Where such conduct amounts to a specific offence under the Indian Penal Code or under any other law the employer shall initiate appropriate action in accordance with law by making a complaint with the appropriate authority. In particular, it

should ensure that victims, or witnesses are not victimized or discriminated against while dealing with complaints of sexual harassment. The victims of sexual harassment should have the option to seek transfer of the perpetrator or their own transfer.

5. Disciplinary Action: Where such conduct amounts to mis-conduct in employment as defined by the relevant service rules, appropriate disciplinary action should be initiated by the employer in accordance with those rules.

6. Complaint Mechanism: Whether or not such conduct constitutes an offence under law or a breach of the service rules, an appropriate complaint mechanism should be created in the employer's organization for redress of the complaint made by the victim. Such complaint mechanism should ensure time bound treatment of complaints.

7. Complaints Committee: The complaint mechanism, referred to in (6) above, should be adequate to provide, where necessary, a Complaints Committee, a special counsellor or other support service, including the maintenance of confidentiality. The Complaints Committee should be headed by a woman and not less than half of its member should be women. Further, to prevent the possibility of any under pressure or influence from senior levels, such Complaints Committee should involve a third party, either NGO or other body who is familiar with the issue of sexual harassment. The Complaints Committee must make an annual report to the government department concerned of the complaints and action taken by them. The employers and person in charge will also report on the compliance with the aforesaid guidelines including on the reports of the Complaints Committee to the Government department.

8. Workers' Initiative: Employees should be allowed to raise issues of sexual harassment at workers meeting and in other appropriate forum and it should be affirmatively discussed in Employer-Employee Meetings.

9. Awareness: Awareness of the rights of female employees in this regard should be created in particular by prominently notifying the guidelines (and appropriate legislation when enacted on the subject) in suitable manner.

10. Where sexual harassment occurs as a result of an act or omission by any third party or outsider, the employer and person in charge will take all steps necessary and reasonable to assist the affected person in terms of support and preventive action.

11. The Central/State Governments are requested to consider adopting suitable measures including legislation to ensure that the guidelines laid down by this order are also observed by the employers in Private Sector.

12. These guidelines will not prejudice any rights available under the Protection of Human Rights Act, 1993.

*Accordingly, we direct that the above guidelines and norms would be strictly observed in all work places for the preservation and enforcement of the right to gender equality of the working women. These directions would be binding and enforceable in law until suitable legislation is enacted to occupy the field.”*

### **Saudi Arabia Airlines (SAA) Case**

It was in *Saudi Arabian Airlines v. Shehnaz Mudbhalkar*<sup>4</sup> that any High Court applied Court's guidelines with regard to Sexual Harassment at workplace. Shehnaz became the first employee to win a legal battle in a Labour Court against her employers on the grounds of sexual harassment.

She was secretary to station manager of the Airline; manager made series of abortive attempts at getting her to have dinner with him and even invited to his residence at odd time at midnight to discuss about promotion issues. At the beginning she declined politely but as things moved all limits were crossed by perpetrator. She raised her voice vigorously against such unwelcome behavior and personal remarks and lodged a complaint against the perpetrator. Then what followed was a series of victimization of her. She was demoted and later dismissed in 1985. The ostensible reason given in the letter dated 24th July, 1985 for termination of her service was that she was guilty of willful insubordination and acts of negligence committed during the month of July 1985 for which there was no explanation. She did not give up. Being aggrieved by her removal from service, she raised an industrial dispute. In 1997, the labour court directed that she be reinstated with back wages and continuity of service and Mumbai High Court upheld the directions. But the battle was not

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<sup>4</sup> 1999 (81) FLR 767, also available at <http://indiankanoon.org/doc/1721511/>

yet over. On joining SAA on 24th February, 1999 she was immediately transferred to Chennai. She then filed an injunction on transfer in a suit, where she also claimed damages of around one crore rupees for emotional trauma caused to her in the process. On 8th April, 1999 Justice Shah of Mumbai High Court ordered restraining the organization from transferring her and directed that she be allowed to resume her duties with her salary and all other dues. Due to continuous suffering and anxiety, she went into mental depression and could not resume duties. When she was declared fit by renowned psychiatrist Dr.Ashish Seth she was not taken back by the organization, in what was seen by her “as continuous harassment.”

She also did not receive payment since April, 1999 and it was declared by Justice Kochar that organization’s actions were of malafide intent and directed her reinstatement with full salaries and back wages.

Appeal was filed by SAA but they lost.

To add to her sufferings, her then husband who was also an employee of SAA received threat of retrenchment if he took stand against the Airline. Her firm determination of not quitting the legal battle led to estrangement with her husband and legally speaking she emerged victorious but lost on personal front. So did she really won??

### **Follow up of Vishaka**

A letter by Dr. Medha Kotwal of Aalochana (an NGO) on sexual harassment of a student by a Professor, was considered sympathetically and converted into a writ petition by the court. In this case, Supreme Court took cognizance and undertook to monitor the implementation of Vishaka Guidelines across the country. All State Governments were directed to file respectively affidavits stating the steps taken by them to implement those guidelines. Also the chief secretaries of all the states to inform it whether they have set committees in all departments and institutions, having over 50 staff members to deal with such complaints. Other NGO’s workers tried to create awareness amongst masses and further strengthening implementation of the guidelines. Then the court passed two significant interim orders in the matter:

1. Notices were issued by Court to various professional bodies, requiring them to produce detailed reports about the steps taken by them towards the implementation of Vishaka guidelines.

2. Secondly, in May 2004, the court said that the Complaints Committee under Vishaka were to be the disciplinary body in case of sexual harassment and the enquiries as conducted by the Complaint Committee would be final.

### **Post Vishaka scenario**

The drive to fill gaps in existing juridical framework gains momentum with every fresh verdict by Apex court. Supreme Court also held that an attempt to molest would also amount to sexual harassment. Outrageous behaviour of employee is sufficient to constitute Sexual Harassment and actual assault and touch is not necessary to prove it.

In case of Apparel Export Promotion Council v. A.K. Chopra, an employee named A.K. Chopra was accused of sexually harassing a woman who was a clerk in same office. She complained that accused tried to physically molest her in the office and also tried to sit closer to her to touch her advertently. The accused was asked to be present in disciplinary proceedings by Staff Committee and was eventually terminated from his service after found guilty.

He managed to get the staff Committee minutes for the meetings and found some of them favored him. He approached high court and Court found that he tried to molest the clerk and without actually doing so he cannot be removed from his service. Court gave decision in his favour and asked company to follow the minutes.

Company filed an appeal with Supreme Court. Criticizing the judgement of High Court Supreme Court<sup>5</sup> in its landmark judgement held that:

“The High Court in our opinion fell in error in interfering with the punishment, which could be lawfully imposed by the departmental authorities on the respondent for his proven misconduct. To hold that since the respondent had not actually molested Miss X and that he had only tried to molest her and had not managed to make physical contact with her, the punishment of removal from service was not justified was erroneous. The High Court should not have substituted its own discretion for that of the authority. What punishment was required to be imposed, in the facts and circumstances of the case, was a matter which fell exclusively within the jurisdiction of the competent authority and did not warrant any interference by the High Court. The entire approach of the High Court has been faulty.....

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<sup>5</sup> Apparel Export Promotion Council v. A.K. Chopra, AIR 1999 SC 625

In a case involving charge of sexual harassment or attempt to sexually molest, the courts are required to examine the broader probabilities of a case and not get swayed by insignificant discrepancies or narrow technicalities or dictionary meaning of the expression molestation. They must examine the entire material to determine the genuineness of the complaint. The statement of the victim must be appreciated in the background of the entire case. Where the evidence of the victim inspires confidence, as is the position in the instant case, the courts are obliged to rely on it. Such cases are required to be dealt with great sensitivity”.

Supreme Court allowed the appeal and restored the punishment of removal of perpetrator from service as imposed by Disciplinary Authority and as upheld by Departmental Appellate Authority and set aside the order of the High Court.

### **Case of Nalini and Prakriti**

Nalini Netto, a senior IAS officer in Kerala was assaulted by the then Minister for transport, Neelalohitadasan Nadar in his office in the Legislative assembly premises in the course of an official meeting on December 21, 1999. She extricated and informed her husband of her pain and suffering and also to her other colleagues. But she did not lodge a formal complaint assuming that it would tarnish the image of the government as a whole.

She sought the intervention of chief minister when after a month the stress and mental agony became too heavy on her. However, she did not come up for the prosecution of the minister but simply requested for a different working environment and some action to be taken to protect the modesty of women officers.

Immediately after Netto’s case came to light, Prakriti Srivastava, the divisional forest officer, Nilambur Kerala lodged a complaint on 11 April 2001, alleging sexual harassment by same minister in February 1998. The case was reported to the police commissioner. Being new to the state ethos, she had felt too insecure to file an official complaint then.

After sometime troubles started for her as she started receiving constant threat of grave nature from minister which became painful, unbearable and intolerable for her. She was compelled to file a written complaint after that under section 354 IPC demanding the legal remedy for the offences of sexual harassment so committed.

Government appointed a committee to conduct a parallel enquiry. Several norms were violated as the sitting male judge was appointed as its chairperson. Committee victimized Nalini consistently and insisted to go for a public trial, though as per the Vishaka guidelines it

has to be an in camera hearing. However, the crime branch summoned Prakriti for evidence and her case was suo-motto taken up by Human rights commission. The minister under pressure was forced to quit his ministerial post but continued to be a member of Legislative assembly and even contested in the election fully funded and supported by his party.

The charge sheet in Netto's case was filed by R.S. Mooshahary, former chief of the Crime Branch CID, who first investigated the case. According to the charge sheet, the crime was committed when Dr. Neelalohithadasan Nadar and Ms. Netto were alone in his ministerial chamber. The former Minister had grappled with her and forcibly tried to kiss her. As per the charge sheet, Ms. Netto had sustained injuries on her lips and the right index finger in the melee.

The first class magistrate sentenced Nadar to 3 months imprisonment and a fine of Rs. 50000. However, Additional Sessions Court acquitted him of the charges of harassment while sentencing him of one year in jail in Prakriti's case.

### **The Criminal Law Amendment, 2013**

Section 354 was amended by the Amendment Act of 2013 to include definition of Sexual Harassment in IPC. Sexual harassment thus became not only a serious misconduct but a criminal offence also punishable under 354 A (1) Indian Penal Code with rigorous imprisonment for a term which may extend to three years, or with fine, or with both;

354A(1)A man committing any of the following acts—

- Physical contact & advances involving unwelcome and explicit sexual overtures; or
- a demand or request for sexual favors; or
- Showing pornography against the will of a woman
- making sexually colored remarks
- Shall be guilty of the offence of sexual harassment.

Any man who commits the offence specified in clause (i) or clause (ii) or clause (iii) of subsection (1) shall be punished with rigorous imprisonment for a term which may extend to three years, or with fine, or with both.



Any man who commits the offence specified in clause (iv) of sub-section (1) shall be punished with imprisonment of either description for a term which may extend to one year, or with fine, or with both.

Punishment under section 354 increased to up to five years<sup>6</sup>. Offences included in IPC such as assault or use of criminal force to women with intent to disrobe her<sup>7</sup>, voyeurism,<sup>8</sup> stalking<sup>9</sup>, and definition of rape<sup>10</sup> widened to include more acts under the definition of rape.

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<sup>6</sup>In section 354 of the Penal Code, for the words "shall be punished with imprisonment of either description for a term which may extend to two years, or with fine, or with both", the words "shall be punished with imprisonment of either description for a term which shall not be less than one year but Which may extend to five years, and shall also be liable to fine" shall be substituted.

<sup>7</sup> 354B. Any man who assaults or uses criminal force to any woman or abets such act with the intention of disrobing or compelling her to be naked, shall be punished with imprisonment of either description for a term which shall not be less than three years but which may extend to seven years, and shall also be liable to fine.

<sup>8</sup>Voyeurism 354C. Any man who watches, or captures the image of a woman engaging in a private act in circumstances where she would usually have the expectation of not being observed either by the perpetrator or by any other person at the behest of the perpetrator or disseminates such image shall be punished on first conviction with imprisonment of either description for a term which shall not be less than one year, but which may extend to three years, and shall also be liable to fine, and be punished on a second or subsequent conviction, with imprisonment of either description for a term which shall not be less than three years, but which may extend to seven years, and shall also be liable to fine.

Explanation I.— For the purpose of this section, "private act" includes an act of watching carried out in a place which, in the circumstances, would reasonably be expected to provide privacy and where the victim's genitals, posterior or breasts are exposed or covered only in underwear; or the victim is using a lavatory; or the victim is doing a sexual act that is not of a kind ordinarily done in public.

Explanation 2. — Where the victim consents to the capture of the images or any act, but not to their dissemination to third persons and where such image or act is disseminated, such dissemination shall be considered an offence under this section.

#### <sup>9</sup>**Stalking** 354D

1. Any man who—
  - i. follows a woman and contacts, or attempts. to contact such woman to foster personal interaction repeatedly despite a clear indication of disinterest by such woman; or
  - ii. monitors the use by a woman of the internet, email or any other form of electronic communication, commits the offence of stalking:

Provided that such conduct shall not amount to stalking if the man who pursued it proves that—

- i. it was pursued for the purpose of preventing or detecting crime and the man accused of stalking had been entrusted with the responsibility of prevention and detection of crime by the State; or
- ii. it was pursued under any law or to comply with any condition or requirement imposed by any person under any law; or
- iii. in the particular circumstances such conduct was reasonable and justified.

## **The Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013**

Vishaka guidelines acted as a precursor to the new act which has finally seen the light of the day in 2013. The sexual Harassment of Women at Workplace (Prevention, Prohibition and redressal) Bill, 2012 was passed by the Lower House of the Parliament on September 3, 2012.

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2. Whoever commits the offence of stalking shall be punished on first conviction with imprisonment of either description for a term which may extend to three years, and shall also be liable to fine; and be punished on a second or subsequent conviction, with imprisonment of either description for a term which may extend to five years, and shall also be liable to fine.'

<sup>10</sup>Rape. '375. A man is said to commit "rape" if he—

- a. penetrates his penis, to any extent, into the vagina, mouth, urethra or anus of a woman or makes her to do so with him or any other person; or
- b. inserts, to any extent, any object or a part of the body, not being the penis, into the vagina, the urethra or anus of a woman or makes her to do so with him or any other person; or
- c. manipulates any part of the body of a woman so as to cause penetration into the vagina, urethra, anus or any ~ of body of such woman or makes her to do so with him or any other person; or
- d. applies his mouth to the vagina, anus, urethra of a woman or makes her to do so with him or any other person, under the circumstances falling under any of the following seven descriptions:— First.— Against her will. Secondly. —Without her consent.

Third/y.—With her consent, when her consent has been obtained by putting her or any person in whom she is interested, in fear of death or of hurt.

Fourth/y.—With her consent, when the man knows that he is not her husband and that her consent is given because she believes that he is another man to whom she is or believes herself to be lawfully married.

Fifth/y.—With her consent when, at the time of giving such consent, by reason of unsoundness of mind or intoxication or the administration by him personally or through another of any stupefying or unwholesome Substance, she is unable to understand the nature and consequences of that to which she gives consent.

Sixthly. —With or without her consent, when she is under eighteen years of age.

Seventhly. —When she is unable to communicate consent.

Explanation I.—For the purposes of this section, "vagina" shall also include labia majora.

Explanation 2.—Consent means an unequivocal voluntary agreement when the woman by words, gestures or any form of verbal or non-verbal communication, communicates willingness to participate in the specific sexual act:

Provided that a woman who does not physically resist to the act of penetration shall not by the reason only of that fact, be regarded as consenting to the sexual activity.

Exception I.—A medical procedure or intervention shall not constitute rape.

Exception 2.—Sexual intercourse or sexual acts by a man with his own wife, the wife not being under fifteen years of age, is not rape.'

It was then passed by the upper house of the parliament on February 26, 2013. Eventually it received the president's assent on April 22, 2013 and was published in Gazette of India.

The said act has been enacted almost 16 years after the Vishaka Judgement. Codification of the guidelines laid there has been a much awaited development and a significant step towards ensuring a healthy and safe environment at workplace for women.

Sexual harassment was defined in the Act:

Section 2(n) Sexual harassment includes any one or more of the following unwelcome acts or behaviour (whether directly or by implication) namely—

- Physical contact & advances; or
- a demand or request for sexual favors; or
- making sexually colored remarks; or
- Showing pornography; or
- any other unwelcome physical, verbal or non-verbal conduct of sexual nature;

Act provides protection against sexual harassment of women at workplace and prevention and redressal of complaints of sexual harassment and matters connected therewith.

Employer in the Act is the head or the person responsible for formulation & administration of policies of the workplace, the person discharging contractual obligations with respect to his/her employees and for a domestic worker, the person who benefits from that employment

Employees covered include regular/temporary/ad-hoc/daily wage employees, whether for remuneration including volunteers, contractual worker, probationer, trainee, apprentice etc. The Act covers all women in the organized or unorganized sectors, public or private and clients, customers and domestic workers irrespective of their age or employment status.

Workplace includes organizations, departments, institutions, office, branch unit etc. in the public/private sector, both organized and unorganized, hospitals, nursing homes, educational institutions, sports institutes, stadiums, sports complex, NGOs, trusts, cooperatives, societies, service providers & any place visited by the employee in the course of employment including transportation.

It is mandatory for establishments employing 10 or more employees to constitute ICC (Section 4)<sup>11</sup>. ICC needs to be appointed by an order in writing. At least ½ of the membership of the ICC has to be comprised of women members including Presiding Officer. ICC has to prepare and submit an annual report to the employer and the District Officer.

Any aggrieved woman may make, in writing, a complaint of sexual harassment at workplace to ICC within a period of three months from date of incident and in case of a series of incidents, within a period of three months from date of last incident<sup>12</sup>. Three more months may be given to a woman to file a complaint by ICC for reasons to be recorded in writing.

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<sup>11</sup>**Section 4. Constitution of Internal Complaints Committee.**

1. Every employer of a workplace shall, by an order in writing, constitute a Committee to be known as the "Internal Complaints Committee":

Provided that where the offices or administrative units of the workplace are located at different places or divisional or sub-divisional level, the Internal Committee shall be constituted at all administrative units or offices.

2. The Internal Committee shall consist of the following members to be nominated by the employer, namely:—
  - a. a Presiding Officer who shall be a woman employed at a senior level at workplace from amongst the employees;

Provided that in case a senior level woman employee is not available, the Presiding Officer shall be nominated from other offices or administrative units of the workplace referred to in sub-section (1):

Provided further that in case the other offices or administrative units of the workplace do not have a senior level woman employee, the Presiding Officer shall be nominated from any other workplace of the same employer or other department or organisation;

- b. not less than two Members from amongst employees preferably committed to the cause of women or who have had experience in social work or have legal knowledge;
  - c. one member from amongst non-governmental organisations or associations committed to the cause of women or a person familiar with the issues relating to sexual harassment:

Provided that at least one-half of the total Members so nominated shall be women.

<sup>12</sup>**Sexual Harassment of women at Workplace (Prevention, Prohibition and Redressal) Rules, 2013 “Rule 7”**

At the time of filing the complaint, complainant shall submit 6 copies to complaint committee along with supporting documents and the names and addresses of witnesses

On receipt of complaint, the committee shall send one of the copies to respondent within the period of seven working days.

ICC may take steps to settle the matter between aggrieved woman and respondent through conciliation. However, no monetary settlement shall be made as a basis of conciliation (Section 10). ICC may proceed to make enquiry into complaint in accordance with provisions of service rules applicable to respondent. Enquiry of ICC has to be completed within a period of ninety days and if prima facie case exists, forward the complaint to the police, within a period of seven days for registering the case under section 509 of the Indian Penal Code (Section 11).

During the pendency of the enquiry, upon written request by the aggrieved employee (Section 12) transfer the aggrieved woman or the respondent to any other workplace or grant leave to the aggrieved woman up to a period of three months.

On completion of enquiry ICC shall provide report of its findings to the employer within a period of 10 days from date of completion of enquiry and such report shall be made available to the concerned parties. When ICC arrives at a conclusion that allegations have not proved then it shall recommend no action to be taken in the matter. Where ICC arrives at a conclusion that allegation against respondent has been proved then it shall recommend to employer to take action for sexual harassment, as misconduct, in accordance with provisions of service rules. The employer shall act upon the recommendation within sixty days of its receipt (Section 13).

Where internal committee arrives at a conclusion that allegation against respondent is malicious or aggrieved woman making complaint has produced any forged or misleading document, it may recommend to employer to take action against woman as per service rules. However, mere inability to substantiate a complaint or provide adequate proof need not attract action against the complainant woman (Section 14).

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Respondent shall file his reply to the complaint along with all document and witnesses within a period not exceeding ten working days from the date of receipt of notice.

Complaint committee shall make enquiry in accordance with the principal of natural justice.

Parties shall not be allowed to bring any legal practitioner to represent them in any stage before complaint committee. In conducting enquiry a minimum of three members of complaint committee including the presiding officer or chairperson, shall be present.

Compensation is to be determined after taking into consideration the mental trauma, pain, suffering, emotional distress cause, loss in career opportunity due to the incident, medical expenses incurred, income/financial status of the respondent and feasibility of such payment in lump sum or in installments.

Any person aggrieved from recommendations made under section 13, 14 or 17 may prefer an appeal to court or tribunal in accordance with provisions of service rules applicable to the said person or where no service rules exist person may prefer appeal in a manner as may be prescribed within a period of ninety days of recommendations (Section 18).

Section 19 discusses the obligations of employers. It provides following obligations on part of employers:

- Provide a safe working environment
- Display at the workplace, details of:
  - the penal consequences of indulging in acts of sexual harassment
  - composition of the ICC
  - the grievance redressal mechanism available to aggrieved employees
- Organize workshops and awareness programs for sensitizing employees
- Organizing orientation programs for members of the ICC
- Cooperate and assist during the course of the inquiry
- Treat sexual harassment as misconduct under the service rules
- Provide assistance to the aggrieved employee, should she choose to file a police complaint;
- Initiate action under the IPC or such other applicable law
- Ensure timely submission of reports to the District Officer

Contravention of any provision under the statute invites a fine of INR 50,000 as well as cancellation of business licenses(S.26).

### **Compliance of the Act by the Corporate Houses& Role of HR**

A survey by Ernst & Young (EY) reveals that almost 50 per cent of the respondent organisations had not displayed the penal consequences of indulging in sexual harassment at a prominent place within the premises of the work organization. The number of such organizations is even higher than the average in the electronics & telecom (67 %), and BFSI (59%) sectors. Even more astonishing was the fact that almost 31 per cent of respondents were not even compliant with the provisions of the Act.

The consoling factor, however, was that organisations were increasingly putting the basics of anti-sexual harassment mechanisms and campaigns into place. Around 69 per cent of the respondents had constituted ICCs in their organisations after the enactment of the Sexual Harassment at Workplace Act, while another 13 per cent were still in the process of setting them up. However, 18 per cent of the respondents had neither done so nor had the intention of doing so or moving in that direction.

In terms of non-compliance of the Act, the small and medium sized organizations were found to be majorly unprepared (around 50 per cent) vis-à-vis the largest ones where noncompliance was only 27 per cent. Similarly, among Indian organizations, the figure was 36 per cent vis-à-vis multinational companies (MNCs) where unpreparedness was seen among 25 per cent of the respondent organizations.

Even more surprising was the fact that, sectors with a large number of women employees showed ignorance of the statutory provisions. Somewhere around 40 per cent of IT and advertising and media organizations admitted that they were unaware of the penal clause for noncompliance of constituting an ICC.

Earlier, the Vishakha Guidelines had also made it mandatory for all organizations to organise workshops and awareness programmes at regular intervals, to sensitise employees on the issues and implications of workplace sexual harassment and organise orientation programmes for members of the Internal Complaints Committee.

The survey revealed that over 40 per cent of the respondent organizations were yet to take initiative in the direction of organising such training programmes, while 21 percent of the respondent organisations did not have general awareness campaigns aimed at sensitizing their employees.

The HR Department of the organization needs to take a lead in initiating such training and gender sensitization programmes for senior level employees, department heads, HR team itself, all incharges, women employees and Internal Complaints Committee members. They also need to initiate practices for ensuring that organization is free from hostile environment and is a discrimination free place to work for.

### **Recommendations**

Reasons underlying women's reluctance to report sexual harassment revolve around the need for organizations especially HR Department to develop more user-friendly sexual harassment reporting procedures. HR Department within the organization needs to initiate following healthy practices for ensuring prevention of such acts against women:

#### **a) Demonstrated management support**

- **Tell and suffer:** Thing that stops women from filing complaints is the knowledge that they will suffer professionally in future jobs.
- **Top management needs to be more active:** The most important thing is to have strong management support beginning with acceptance that sexual harassment is a problem and will not be tolerated.
- **HR to play a key role in facilitating such support:** HR needs to facilitate initiation of healthy practices on the part of top management to ensure no woman suffers after reporting incidents of sexual harassment. It also needs to ensure that top management shows zero tolerance attitude towards sexual harassment.

#### **b) Preventive measures**

- HR professionals must play role of a leader in discouraging practices of sexual harassment by creating awareness about consequences of harassment as well as by introducing measures for gender sensitization.
- HR should encourage practices of healthy interaction between people belonging to both genders

#### **c) Words and Action to be in Consonance**

- There needs to be a demonstrated intolerance of this behaviour by senior executives & HR Department needs to ensure such demonstrated intolerance is visible to the entire organization



- True support from top and middle management should not just be lip service followed by “routine business”
- Top management can’t encourage reporting with a memo and then give other clues that reporting of such incidents would not be encouraged.
- Penalization of perpetrator is essential in building trust of women employees
- True support in real sense from the top is needed and HR has to play a more proactive role in this initiative.

#### **d) Privacy**

- Another important feature of a user friendly harassment policy concerns issues of privacy.
- Anonymity should be maintained for the victim; knowledge of the incident should be kept from the public.
- Access to confidential counselling would encourage reporting of harassment incidents.

#### **e) Training and awareness**

- Training and awareness are crucial to prevent such events from occurring at workplace.
- The orientation programmes have been an important aspect of the Vishaka Guidelines as well as the Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013 because managing sensitivities around sexual harassment at the workplace is a daunting task and frequency of orientation programmes should increase with HR taking a lead role in planning and conducting such programmes.

#### **Conclusion**

The Sexual Harassment of Women at Workplace Act, 2013 would go a long way in reducing if not completely eliminating the problem of sexual harassment, faced by women at work. Similarly, amending the I.P.C. and Cr.P.C. is a step in the right direction as now more offences related to women have been defined and penal provisions have been introduced for such offences along with stretching the definition of rape, which is a worst form of sexual harassment. Sexual harassment has direct link with office culture. Culture can become a dangerous lever that encourages inequality and establishes rigid assumptions about caste and

gender. HR has a key role in ensuring a discrimination free work place with more initiatives to be taken towards gender sensitization and sexual harassment training programmes.

Ethics at workplace has to be defined and made understood well by the HR. However, the respect towards women is the key towards ensuring a healthy and safe work environment and such understanding has to come in from within. Only legal provisions and efforts of HR would not work.

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## **FINANCIAL LITERACY: AN EMPOWERMENT FOR FINANCIAL INCLUSION**

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## **FINANCIAL LITERACY: AN EMPOWERMENT FOR FINANCIAL INCLUSION**

### **ABSTRACT**

Financial literacy is nothing but knowledge about finance. Financial literacy involves imparting knowledge about the risk and return of financial products to the users and providers of these products. India is ranked number two in the list of highest financial literacy countries in the world. The methodology used in the article is both primary and secondary data in nature. Primary data was collected from 100 respondents through interview schedule in the Jaipur and secondary data was collected from articles and journals. By analyzing & interpreting the data conclusion has been drawn that because of the lack of knowledge people are not able to utilize the financial services in an effective manner. Now, financial literacy in India is on the positive side. Without financial literacy financial inclusion cannot be attained. The Reserve bank of India, has been actively participating in the field of eradicating financial literacy through awareness, financial literacy centres and others in the country..

**KEYWORDS:** Financial Literacy, Financial Attitude, Financial Knowledge, Financial product

### **INTRODUCTION**

Financial deepening is the new buzzword in the corridors of financial world today, especially in a country like India where over 50 per cent of the population has no access to banking. The regulators, policy-makers and planners strongly believe that financial deepening is the first thing for inclusive growth in India where about 260 million adults are under-banked, 80 percent of them being in rural areas. More than 25 million no frills savings accounts have been opened by banks in the last four years since 2006 through various branchless banking channels (Business Correspondents - BC), but according to a study done by Skoch Foundation only around 12% are active. The major reason for this is the lack of financial literacy among masses at bottom of the pyramid. Financial deepening is a term used often by economists, experts of economic planning and development. It refers to the increased provision of services in the financial firmament with a wider choice of services geared to all levels of society. It also refers to the macro effects of financial spreading on the large economy. The focus of the policy makers today is to bring the 50 per cent of the under serviced population under the fold of financial inclusion which would be about providing them access to various financial instruments like insurance and investment which will not only help the individuals and bring them closer to the benefits of convergence but also propel economic growth. The great need today is institutional deepening for improving the economic governance of a country.

With less than half of India's 1.2 billion-strong population having access to organized financial services, the urgency in implementing financial inclusion activities begs no second-

thoughts. However, the push of financial inclusion activities (increasing availability of financial services infrastructure) alone is not enough to bring more people under the fold. Financial literacy programmes need to go hand-in-hand with financial inclusion initiatives to create the pull for accessing formal channels of finance. Further, these programmes need to be tailored to take into account the demographic profile and regional differences of the target population for a stronger impact

### **FOCUS ON FINANCIAL LITERACY:**

Financial literacy refers to the ability to make informed judgments and to take effective decisions regarding the use and management of money. Financial literacy is regarded as an important requirement for functioning effectively in modern society and trends in retirement income policies, work patterns and demography suggest its importance can only increase in the years ahead. When we talk about financial literacy, we are usually referring to a set of skills that allow people to manage their money wisely along with some understanding of essential financial concepts, not least an appreciation of the trade-off between risk and return. Financial Literacy is not just about markets and investing, but also savings, budgeting, financial planning, basics of banking and most importantly, about being "Financially Smart". To understand financial planning, a person should be financially literate and be able to understand the importance of preparing household budgets, cash-flow management and asset allocation to meet financial goals.

Financial literacy can broadly be defined as the capacity to have familiarity with and understanding of financial market products, especially rewards and risks in order to make informed choices. Viewed from this standpoint, financial literacy primarily relates to personal financial literacy to enable individuals to take effective actions to improve overall well-being and avoid distress in matters that are financial. The need for financial literacy is felt in the developed and the developing countries alike. In the developed countries, the increasing number and complexity of financial products, the continuing shift in responsibility for providing social security from governments and financial institutions to individuals, and the growing importance of individual retirement planning make it imperative that financial literacy be provided to all. Financial literacy involves imparting knowledge about the risk and return of financial products to the users and providers of these products.

In the developing countries also, the increasing participation of a growing number of consumers in newly developing financial markets will necessitate the provision of financial literacy - if these markets are to expand and operate efficiently. In addition, the substantial growth of international transactions during the last decade, resulting from new technologies and the growing international mobility of individuals, makes the improvement in financial literacy, increasingly, an international concern. Financial literacy empowers the person and reduces the burden of protecting the person from the elements of market failure. Financial literacy can make a difference not only in the quality of life that individuals can afford, but also the integrity, effectiveness, and quality of markets. It can provide individuals with basic tools for budgeting, help them to acquire the discipline to save and thus, ensure that they can enjoy a dignified life after retirement. Financially educated consumers can benefit the economy by encouraging genuine competition, forcing the service providers to innovate and improve their levels of efficiency. So, financial literacy is the process by which investors improve their understanding of financial markets, products, concepts and risks.

Through information and objective advice, they develop the skills and confidence to become more aware of financial risks and opportunities and make informed choices to improve their financial position. Thus, financial literacy efforts are closely interlinked with our financial inclusion strategy.

## **IMPORTANCE OF FINANCIAL LITERACY:**

Financial literacy assumes importance in this changed financial environment arising out of the synthesis of the processes of liberalization, globalization and reforms leading to increased competition. In considering means to improve the financial status of families, financial literacy can play a critical role by equipping consumers with the knowledge required to choose from a basket of financial products and providers. In addition, financial literacy can help provide individuals with the knowledge necessary to create household budgets, initiate savings plans, manage debt, and make strategic investment decisions for their retirement or for their children's education.

Being educated financially also enables individuals to better appreciate the possible contingencies and save in an appropriate manner. This process, in turn, raises consumers' real purchasing power and multiplies the opportunities for them to consume, save, or invest. Having these basic financial planning skills, can help families to meet their near-term obligations and maximize their longer-term financial well-being.

Financial Literacy is considered an important adjunct for promoting financial inclusion, consumer protection and ultimately, financial stability. Financial Inclusion and Financial Literacy need to go hand in hand to enable the common man to understand the needs and benefits of the products and services offered by the formal financial institutions. Financial inclusion as ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups, such as weaker sections and low income groups in particular, at an affordable cost, in a fair and transparent manner by regulated mainstream institutional players. So, from the financial inclusion perspective, it essentially involves two elements, one of access and the other of literacy.

Financial literacy is also an integral component of customer protection. Despite concerted efforts, the current state of transparency coupled with the difficulty of consumers in identifying and understanding the fine print from the large volume of convoluted information, leads to an information asymmetry between the financial intermediary and the customer. For example, customers are often penalized for minor violations in repayments, although they have limited redress mechanisms to rectify deficiencies in service by banks, rendering the banker-customer relationship one of unequals. In this relationship, it is the principal, that is, the depositor, who is actually far less powerful than the agent, that is, the bank. The representations received in regard to levying of unreasonably high service or user charges and enhancement of user charges without proper and prior intimation, and the growing number of customer complaints against the banks, also testify to this fact. In this context, financial literacy may help to prevent vulnerable consumers from falling prey to financially disquieting credit arrangements.



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**OBJECTIVE OF THE STUDY:**

- To study the importance and present scenario of Financial Literacy with reference to the economic development of the country.
- To bring out the steps taken by RBI and other banks to increase the financial literacy.
- To identify the extent to which the efforts of the banks towards financial literacy.

**HYPOTHESIS:**

- Financial literacy /education help to attain the long term financial stability and act as an intermediary between customer and financial institutions.
- Financial literacy raises consumer purchasing power and helps in procurement.
- Financial literacy is the positive effort to meet the contingency and to increase the level of financial inclusion.

**REVIEW OF LITERATURE:**

Dr. Y. V. Reddy, Governor, RBI addressed 'The Role of Financial Education: The Indian Case', helps us to know that Financial education can broadly be defined as the capacity to have familiarity with and understanding of financial market products, especially rewards and risks in order to make informed choices. Financial education primarily relates to personal financial education to enable individuals to take effective actions to improve overall well-being and avoid distress in matters that are financial. Financial education assumes importance in this changed financial environment. In considering means to improve the financial status of families, financial education can play a critical role by equipping consumers with the knowledge required to choose from a myriad of financial products and providers. In addition, financial education can help provide individuals with the knowledge necessary to create household budgets, initiate savings plans, manage debt, and make strategic investment decisions for their retirement or for their children's education



Ms. Gopinath Shyamala, Deputy Governor, Reserve Bank of India, "Inclusive growth – role of financial education" helps us to know that financial education is only one pillar of an adequate financial policy to improve financial literacy and expand access to financial services. It can complement, but not replace other pillars such as greater transparency, policies on consumer protection and regulation of financial institutions. There is a need for banks and other agencies striving to extend financial education to the masses to appreciate that financial inclusion is a continuous process. Efforts to extend literacy to make the common man enabled by being aware of the evolving functional, legal and technical issues cannot be a one-time effort.

## GLOBAL SCENARIO:

The **US** Treasury established its Office of Financial Education in 2002. The Office works to promote access to the financial literacy tools that can help all US citizens make wiser choices in all areas of personal financial management, with a special emphasis on saving, credit management, home ownership and retirement planning. A survey in the US found that four out of ten American workers are not saving for retirement. The Financial Literacy and Education Commission (FLEC), established by the Congress in 2003 through the passage of the Financial Literacy and Education Improvement Act, was created with the purpose of improving the financial literacy and education of persons in the United States through development of a national strategy to promote financial literacy and education. The Federal Reserve, along with numerous other federal government agencies, is a member of this commission, which is supported by the Office of Financial Education. In the **UK**, the Financial Services Authority (FSA) has launched the biggest ever campaign to improve the financial skills of the population and imparting education to enable a better appreciation of the risks and rewards inherent in financial instruments.

In **Australia**, the Government established a National Consumer and Financial Literacy Taskforce in 2002, which recommended the institution of the Financial Literacy Foundation in 2005. Working closely with states and territories, the Foundation has produced a National Curriculum Framework for Financial Literacy to provide benchmarks for teaching the school children the importance of managing their money.

In **Malaysia**, the Financial Sector Master Plan, launched in 2001, includes a 10-year consumer education program. This agenda includes infrastructure and institutional capacity development in the areas of financial literacy, advisory services, distress management and rehabilitation. For this purpose, the Bank Negara Malaysia in partnership with the financial industry and other government agencies, has introduced the Financial Mediation Bureau, Deposit Insurance Scheme, Basic Banking Services Framework as well as created a new class of licensed Financial Advisers. Savings and literacy programs are also being promoted in schools. A one-stop centre has recently been established within the central bank for the public to obtain information about financial services in Malaysia and to provide face-to-face customer service on general enquiries and complaints. These initiatives have been reinforced by high levels of transparency and disclosure. In collaboration with the government agencies, Monetary Authority of **Singapore** launched a national financial education programme (Money SENSE) to enhance financial literacy and self-reliance of consumers. The programme covers three tiers of financial literacy: basic money management covers skills in budgeting and saving as also tips on responsible use of credit (Tier-I); equipping citizens with

the skills and knowledge to plan for their long-term financial needs (Tier-II); and imparting knowledge about different investment products and skills for investing (Tier-III).

## **WHY FINANCIAL LITERACY IS A MUST FOR INDIA?**

India has one of the world's most efficient financial markets in terms of technology and systems.

Significantly, India also has one of the highest savings rate in the world - our gross household savings rate, which averaged 19% of GDP during 1996-97 to 1999-2000, increased to about 23% in 2003-04, and has been growing ever since. While Indians, as a whole, are saving more, where they are investing these savings is a cause for concern. Investments by households have increasingly moved either to risk-free, government-backed, fixed-return, low-yielding instruments or in non-financial assets. According to a survey, by Invest India Dataworks in 2007 - the year in which the capital markets reached the peak in recent years, it was found that among those Indians who earn and save, an overwhelming proportion keeps the money at home or in a bank: as a result, only 5.3 million of the 321 - million paid workers invest in mutual funds and barely 4.3 million of these 321 - million paid workers have invested in equities. A survey, conducted by Visa, revealed that 43% of Indian women do not discuss matters of money management with their children, due in large part to their own lack of understanding. It is no surprise that in a society where women are less likely than their male counterparts to engage in paid work, and are therefore not expected to undertake decision related to family budget, they do not educate their children in these matters. . A majority of our households are not using modern financial markets. Low knowledge among households of financial markets, concepts and products has a direct impact on mass-scale utilization of financial markets. Financial literacy also plays a significant role in efficient allocation of household savings and the ability of individuals to meet their financial goals. Financial literacy also means the ability to seek sound financial advice.

## **FINANCIAL LITERACY - AN ADJUNCT FOR FINANCIAL INCLUSION**

**Financial literacy** is the ability to understand finance. More specifically, it refers to the set of skills and knowledge that allows an individual to make informed and effective decisions through their understanding of finances. Financial literacy is considered as an important adjunct for promoting financial inclusion and ultimately financial stability. Both developed and developing countries, therefore, are focusing on programmes for financial literacy / education. In India, the need for financial literacy is even greater considering the low levels of literacy and the large section of the population, which still remains out of the formal financial set-up. In the context of 'financial inclusion', the scope of financial literacy is relatively broader and it acquires greater significance since it could be an important factor in the very access of such excluded groups to finance. Further, the process of educating may invariably involve addressing deep entrenched behavioral and psychological factors that could be major barriers.

In countries with diverse social and economic profile like India, financial literacy is particularly relevant for people who are resource-poor and who operate at the margin and are vulnerable to persistent downward financial pressures. With no established banking relationship, the un-banked poor are pushed towards expensive alternatives. The challenges of household cash management under difficult circumstances with few resources to fall back on

could be accentuated by the lack of skills or knowledge to make well informed financial decisions. Financial literacy can help them prepare ahead of time for life cycle needs and deal with unexpected emergencies without assuming unnecessary debt.

There is a need for banks and other agencies striving to extend financial literacy to the masses to appreciate that financial inclusion is a continuous process. Efforts to extend literacy to make the common man enabled by being aware of the evolving functional, legal and technical issues cannot be a one-time effort. A common effort of the educational programmes typically focuses on the 'supply' side that stresses on attracting customers in the financial fold. However, what is needed is to have an 'auto pilot' concept, where the prospective customer is empowered to make / demand the desired services. This could create a qualitative 'demand' situation of the financial services. The philosophy of Financial Inclusion has gained momentum in India, with the realization that the benefits of growth and development witnessed by India in the post-liberalized economic regime have not been apportioned equitably with the common man.

Financial Inclusion offers economic opportunities not only for the common man but also for financial institutions. In building savings, availing credit and making investments, the philosophy is a guiding mantra for the 'aamaadmi'. Counselling and financial literacy efforts initiated and carried out by commercial banks is the most significant empowerment tool. This empowerment will help the underprivileged to relieve themselves from the clutches of middlemen and moneylenders and associate with the formal financial system. It will also facilitate the bringing in of savings of people. Financial inclusion and the initiatives around it in India have largely been about geographic penetration and outreach in the hinterland. In comparison, the focus on educating people in handling financial resources to achieve their goals has been relatively low. While financial inclusion initiatives give people access to organized financial services, the lack of knowledge has resulted in sub-optimal impact in using this opportunity and in some cases proven counterproductive with the creation of debt traps. I believe that the solution to this problem lies in creating.

The objective of financial literacy is to protect the customer at the bottom of the pyramid. It helps customers to better understand and manage financial risk and deal with complexities of the market place and take advantage of increased competition and choice in the financial sector. The RBI, on its part, intends to advance the cause of financial literacy in the country as part of an overall strategy. Currently, a process of credit counseling is being encouraged to help all borrowers, particularly those in distress to overcome current financial problems and gain access to the structured financial system.

#### **INITIATIVES TAKEN BY RBI:**

Reserve Bank of India has undertaken a project titled 'Project Financial Literacy'. The objective of the project is to disseminate information regarding the central bank and general banking concepts to various target groups, such as, school and college going children, women, rural and urban poor, defence personnel and senior citizens. It is disseminated to the target audience with the help, among others, of banks, local government machinery, NGOs, schools, and colleges through presentations, pamphlets, brochures, films, as also through Reserve Bank's website. Reserve Bank of India has already created a link on its web site for the common person to give him / her ease of access to financial information in English and Hindi, and 12 Indian regional languages. A financial education site was launched on November 14, 2007 commemorating the Children's Day. Mainly aimed at teaching basics of banking, finance and central banking to children in different age groups, the site will also eventually

have information useful to other target groups, such as, women, rural and urban poor, defence personnel and senior citizens. The comic book format has been used to explain complexities of banking, finance and central banking in a simple and interesting way for children. The RBI has released on its website on January 31, 2013, a comprehensive Financial Literacy Guide, which, banks have been advised to use as a standard curriculum to impart basic conceptual understanding of financial products and services. Reserve Bank of India also launched 'RBI Young Scholars Award' Scheme amongst students undergoing undergraduate studies to generate interest in and create awareness about the banking sector and the Reserve Bank. Under the scheme, up to 150 young scholars are selected through country-wide competitive examination and awarded scholarships to work on short duration projects at Reserve Bank.

### **CREDIT COUNSELLING**

Credit Counselling can be defined as 'counselling that explores the possibility of repaying debts outside bankruptcy and educates the debtor about credit, budgeting, and financial management'. It serves three purposes. First, it examines the ways to solve current financial problems. Second, by educating about the costs of misusing a credit, it improves financial management. Third, it encourages the distressed people to access the formal financial system. Credit counselling (known in the United Kingdoms debt counseling) is a process of offering education to consumers about how to avoid incurring debts that cannot be repaid. Credit counselling often involves negotiating with creditors to establish a Debt Management Plan (DMP) for a consumer. A DMP may help the debtor repay his or her debt by working out a repayment plan with the creditor. DMPs, set up by credit counsellors, usually offer reduced payments, fees and interest rates to the client. Credit counselors refer to the terms dictated by the creditors to determine payments or interest reductions offered to consumers in a Debt Management Plan. Thus, credit counsellors help their clients find realistic solutions to their problems and agree on repayments that are achievable. Credit counselling is kept confidential. Counselling services are generally offered free or for a very nominal charge, so that no undue additional burden is put on the already indebted customer. Some of the common features of these centers are as under:

- The counselling centres are mainly funded trusts set up by banks or funded by the banks themselves.
- The counsellors manning the centres are retired or serving bank employees.
- Counselling is provided free of cost.
- The counselling presently provided by most of the centers is mainly curative in nature, being given after a crisis event had occurred.

### **INITIATIVES TAKEN BY SOME BANKS:**

A few banks have already taken initiatives in opening credit counselling centres in the country. An Internal Group constituted by Reserve Bank of India to study credit counselling initiatives, visited some of the counselling centres in the state of Maharashtra viz., 'ABHAY' counselling centre (an initiative of Bank of India); Disha Trust (an initiative of ICICI Bank Ltd.) and Grameen Paramarsh Kendras (an initiative of Bank of Baroda). The counsellors at these centres assist people on a face to face basis as well as those who approach them over telephone, email, or by means of letters. Customers facing credit problems arising out of multiple credit cards, personal loans, housing loans and loans from societies approach the counselling centres for advice and guidance. The counsellors guide their customers and help

them to take up with the banks concerned for rescheduling / restructuring of loans. The Financial Literacy Centres have been set up by banks as per Reserve Bank of India Model Scheme with the objective of disseminating information regarding central bank and general banking concepts to various target groups including school and college going children, women, rural & urban poor, defence personnel and senior citizen with special attention to financially excluded people. Banks have established 718 Financial Literacy Centres as of March 31, 2013 mainly in district headquarters. A total of 2.2 million people were made aware through awareness camps during 2012-13.

### **DATA ANALYSIS & INTERPRETATION:**

A detailed survey is organized among 100 respondents. An interview schedule is based on financial literacy and an analysis is made. Respondents are villagers and their per annum salary is 2, 50,000. Employment statuses of respondents are farmers, marginal workers and artisans. Out of the 100 respondents surveyed so far 50% are below 25 years of age and 40% are in the age group of 26-35 years, 6% are in the age group of 36-45 years and 4% are above 45 years of age. Gender wise 70% of the respondents are male and the remaining 30% are female. Only 23% of them deposit their surplus funds in banks. 26% of them keep the funds idle at home. Only 2/5 of the respondents are aware of the purpose of different types of accounts. The awareness of features, benefits and usage of cheques is known only to 47% of the respondents. The awareness of features, benefits and usage of demand drafts is known only to 44% of the respondents. Less than 45% are aware about the overdraft facility. Only half of the respondents are aware about the lists of documents necessary to avail a loan. More than half of the respondents (60%) do not have an idea about the interest rates charged for their respective category. Financial literacy primarily relates to personal finance, which enables individuals to take effective action to improve overall well-being and avoid distress in financial matters. Financial literacy goes beyond the provision of financial information and advice. It is the ability to know, monitor, and effectively use financial resources to enhance the well-being and economic security of oneself, one's family, and one's business.

Only a third of the respondents are aware that there are few concessions given to a girl while availing an education loan. More than 60% are aware about the features and benefits of debit cards. Around 60% of the population is aware about the features and benefits of credit cards. More than 2/3 is aware that the Government is taking efforts to increase financial literacy. Only 25% feel that the steps taken by Government are adequate, others feel that the Government needs to take more efforts to increase financial literacy operations.

### **FINDINGS:**

The most important and glaring finding is that a considerable number of people do not even have an account to deposit their surplus funds. The surplus amount is kept idle at home where it is also very unsafe, the main reason being lack of knowledge of the various processes that is involved in opening an account. Individuals are under the same impression that Cheque and DD are one and the same. The knowledge about loans provided for different purposes is lacking with a major chunk of the population. Knowledge about the basic requirements for availing a loan is known only to half the number. Most of the people are not aware of various concessions given to a girl child while availing education loan. Majority of the people feel that the RBI and banks must improve their efforts towards financial literacy as a chunk of the rural population is unreachable yet.

### **CONCLUSION AND SUGGESTIONS:**

The process of financial literacy should start from the schools with the help of education department of respective State Governments. The Government should allocate more funds to improve financial literacy. Financial literacy programs require trained instructors. To be more effective, these instructors or counselors must be available to the clients at the time of making important decisions. Financial education has always been important for consumers in helping them budget and manage their income, save and invest efficiently, and avoid becoming victims of fraud. As financial markets become increasingly sophisticated and as households assume more of the responsibility and risk for financial decisions, financial education is increasingly necessary for individuals, not only to ensure their own financial well-being but also to ensure the smooth functioning of financial markets and the economy. Financial literacy has assumed greater importance in the recent years, as financial markets have become increasingly complex and as there is information asymmetry between markets and the common person, leading to the latter finding it increasingly difficult to make informed choices. Financial literacy goes beyond the provision of financial information and advice. The focus of any discussion on financial literacy is primarily on the individual, who usually has limited resources and skills to appreciate the complexities of financial dealings with financial intermediaries on a day-to-day basis. Financial literacy is the ability to understand which investment is good for us and helps us to compare the productivity of two investment proposals. Financial literacy has a futuristic approach which is beneficial for individual as well as nation also. Organization for Economic Co-operation and Development (OECD) has rightly defined financial education as 'the process by which financial consumers / investors improve their understanding of financial products, concepts and risks, and through information, instruction and / or objective advice, develop the skills and confidence to become more aware of financial risks and opportunities, to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being'. Prosperity can only come by properly balancing the four key personal finance components i.e. earning, spending, saving and investing. To achieve this financial literacy is very important and should be made mandatory. Financial inclusion and financial literacy form two sides of a coin with inclusion activities giving the push and literacy programmes creating the pull for financial services. To achieve this financial literacy is very important and should be made mandatory.

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**ACCOUNTING AND VALUATION OF INTELLECTUAL ASSETS:  
A STDUY ON THE PERCEPTION OF CHARTERED ACCOUNTANTS OF INDIA**

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**Abstract**

*Intellectual assets are the most valuable assets of the knowledge intensive industries. Since, technological change is embedded with intellectual assets, these assets rise in prominence in the asset portfolio of knowledge intensive industries. Hence, intellectual assets demand their due recognition in the financial statements of firms. Worldwide, the accounting standards are inconsistent in the recognition of intangible assets, especially when they are internally created. Since, accounting for intellectual assets depend on valuation of these assets, there is a need to convince the accounting profession on the relevance of intellectual assets in technology management. Thus far the studies on valuation of intangibles have used 'assumed' amortization rates to accord asset status to internally created intangibles and convince the accounting profession of the need for recognition and valuation of these assets. The present study was undertaken to gauge the perception of the accounting profession on recognition and valuation of internally created intellectual assets and to arrive at appropriate amortization rates for treating the intangibles as assets. The results of the survey undertaken suggest that the accounting profession is slowly reconciling with the growing importance of intellectual assets.*

**Introduction:**

Intellectual assets are the most valuable assets of the knowledge intensive industries. Since, technological change is embedded with intellectual assets, these assets rise in prominence in the asset portfolio of knowledge intensive industries. Hence, intellectual assets demand their due recognition in the financial statements of firms. Since, accounting for intellectual assets depend on valuation of these assets, there is a need to convince the accounting profession on the relevance of intellectual assets in technology management. The main purpose of financial reporting is to provide useful information to the users of the financial statements for taking economic decisions about the financial position of the company. In the industrial economy, the



tangible resources like production facilities, physical location and efficient manufacturing process are the vital resources to sustain and succeed in the market place. But, in the knowledge economy, capabilities like differentiation, innovation and intangible assets like research and development, patents, trademarks, copyrights are essential to achieve competitive advantage. Even though it is generally accepted that investments in intangibles are important sources of future performance, the cost perspective accounting rules of assets, do not recognize the intangible assets and include them in the balance sheets, especially if they are internally generated. More importantly, all cost incurred to develop the intangible assets are treated as expenses. This means that the current profit is reduced and future profit is overstated. The growing difference between the value of a firm in the market and the value in its books of account stands as a testimony to this statement. Since, accounting is considered as the language of business, this language should be clear enough to communicate the real picture about a company to its stakeholders. The shift from industrial economy to knowledge economy has direct effect on the accounting profession, especially when there is an imminent need to account for intellectual assets. This paper analyses the important national and international accounting standards on recognition and treatment of internally created intellectual assets and presents the perception of the Chartered Accountants, on valuation of intellectual assets.

**Intellectual Assets and Accounting Standards:**

The terms Intellectual Capital, Knowledge Capital, Intellectual Assets or Intangible Assets are used interchangeably as they all represent a non-physical claim to future benefits. Economists call them as Knowledge Capital, Management experts refer to them as Intellectual Capital and Accountants call them as Intangible Assets or Intellectual Assets. Intangible Assets is a generic term used to describe the invisible capital of a firm that generates value for it. Intangible Assets in its evolving forms is commonly referred to as Intellectual Capital or Knowledge Capital or Intellectual Assets. Legally protected Intellectual Assets becomes Intellectual Property. One of the most succinct definitions of Intellectual Capital is given by Stewart (1997), as 'packaged useful knowledge'. He explains that this includes an organization's processes, technologies, patents, employees' skills, and information about customers, suppliers, and stakeholders. A

comprehensive definition of Intellectual Capital is offered by Brooking (1996), 'Intellectual Capital is the term given to the combined intangible assets which enable the company to function'. As mentioned earlier, these assets are either understated or unstated in the financial statements. This is primarily because worldwide, the accounting standards are conservative in recognizing these assets. Accounting standards define the structure and contents of financial statements. They do not just affect the company accounts, but the business decisions of the company also. The following are some of the important accounting standards that lay down the prescription for recognition of intangible assets.

**International Financial Reporting Standards (IFRS):**

Since, different countries follow different standards in preparation of the financial statements, the companies operating in these countries face a problem in consolidation of their accounts, especially when they have multinational operations. International Financial Reporting Standards (IFRS) were developed to harmonize the different national accounting standards. The new International Accounting Standards Board (IASB) adopted the International Accounts Standards Committee (IASC) and all its accounting standards. The IASC issued International Accounting Standard (IAS) 38 which prescribes the accounting treatment of intangible assets. According to IAS 38 an asset to be qualified as intangibles, shall be identifiable, separable, be capable of generating future economic benefits and be reliably measured. This standard explicitly states that expenditure on internally generated intangible assets such as brands, mastheads, publishing titles, customer lists and similar items cannot be capitalized. Expenses on direct response advertisement are also treated as expenditure. While it does not permit capitalization of expenditure at research phase, it permits the expenditure on creation of an internally generated intangible asset at the development phase for capitalization and that too subject to many conditions. Further IFRS-3 describes the accounting treatment for intangible assets acquired as a part of business combination. The introduction of IFRS-3 resulted in an increase in the number of intangible assets recognized at the time of acquisition. Goodwill and in-process research and development are recognized only during mergers and acquisitions. Goodwill is measured as a residual value. Acquired goodwill is not permitted for amortization at

the initial stage. It is put to impairment test. Subsequently, it is amortized using straight line method less at historical cost less impairment value or at fair value less impairment. However internally generated goodwill is treated as expenses only. Over 90 countries have fully adopted IFRS and 120 countries require IFRS for their domestic listed companies.

**US GAAP:**

USA still follows their Generally Accepted Accounting Principles (GAPP), but has committed to converge with IFRS by 2015. The US GAPP is prescribed by Federal Accounting Standards Board (FASB). The Statement of Financial Accounting Standards Board (SFASB) no.142 prescribes the accounting treatment of acquired intangible assets, goodwill and internally generated intangible assets. According to SFASB 142, for an asset to be recognized as intangible it shall be identifiable, separable, be capable of generating future economic benefits and be reliably measured. As regard to internally generated intellectual assets that are not separable, having indeterminate life or inherent to a continuing business and that are related to the company as a whole are treated as expenses only. The Statement of Financial Accounting Standards Board (SFASB) no.142 prescribes the treatment of intangible assets acquired during merger and acquisitions. The USGAAP accords similar treatment to internally generated intangible assets like IFRS, with the only exception on direct response advertisement, that too with many conditions. There is no much of difference between IFRS and USGAAP in the treatment of internally generated assets arising out of research and development. However, the expenditure related to software development for internal management and the website development cost is permitted for capitalization, subject to some conditions. Under USGAAP revaluation of acquired goodwill is not allowed subsequently, it is only permitted for valuation at amortized cost less impairment. Like IFRS the US GAAP treats internally generated goodwill as expenses only.

**UK GAAP:** Under UK GAAP, Financial Reporting Standard-10 (FRS-10), issued by the Accounting Standards Board in December 1997, sets out the principles of accounting for goodwill and intangible assets. FRS 10 applies to all financial statements that are intended to give a true and

fair view of a reporting entity's financial position and profit or loss for a period. The conditions as to recognition and measurement are similar to IFRS for acquired intangibles. But in the case of internally generated intangibles, all cost excluding development cost, may be capitalized only if they have a readily ascertainable market value. Acquired goodwill is permitted for amortization for 20 years. The UK GAAP caps on the life of intangibles to 20 years. Similar to IFRS, the FRS 10 recognizes internally generated intangibles related to research and development only at the development phase and not at the initial phase. It is silent on acquired in-process research and development. Similarly it is silent on the treatment internally generated goodwill. As regard to direct response advertisement it is similar to IFRS.

**Indian GAAP:** Though the Institute of Chartered Accountants of India (ICAI) announced that IFRS is mandatory from April, 2012, it still follows its own GAAP. Accounting Standard (AS) 26 is the accounting standard that deals with accounting of intangible assets by the Indian companies. Accounting Standard (AS) 28 deal with impairment of assets including intangible assets. The AS 26 is similar to IAS 38 in all respects except the following: Revaluation of acquired and internally generated intangible assets is not permitted; goodwill arising out of amalgamation is amortized for five years; the useful life of intangible assets shall not exceed 10 years. AS 26 is silent on treatment of acquired in-process research and development. Further it treats cost at the planning state of website development as expenses, but the cost of website application is capitalized.

On the analysis of the above accounting standards, it is clear that world wide accounting standards treat intangibles in two ways. If a firm 'acquires' an intangible asset, it is recognized and shown in the balance sheets as an 'asset', of course with stringent conditions on revaluation. On the other hand if a company 'creates' intangible assets, the cost of its creation is treated as an 'expense'. This dichotomy defies the very logic and basis of treating the internally generated intangible assets as expense. Consider the following hypothetical case: Firm A acquires an in-process research & development project at 'market value'. Subsequently it 'spends' considerable amount for further improvement. According to the accounting

standards the 'spending' is to be treated as expense. Another firm offers to buy the improved in-process research and development, what would be the value for the new improved research and development project? Is it the value at which it was initially acquired or at a higher value? If at a higher value, how the 'spending' is incorporated in impairment? From a different perspective, if a R&D project fails, the company may embark on a second project. The second project succeeds, primarily on the accumulated knowledge of the failed R&D project. In such a situation, if the cost incurred on failed research and development is to be treated as expenses, how the successful R&D project would be valued? Only the cost associated with the development phase of the succeeded project would be treated as asset? Is the actual value of assets of a company, vanishing from the financial statements due to the inconsistencies in the accounting standards?

#### **Review of Past Studies:**

Canibano et al (2000) have extensively examined the studies related to accounting of intangibles and have found that accounting (standards) have failed to provide an accurate view of intangible value drivers and therefore traditional financial statements have experienced a significant loss of relevance. As a consequence there is a significant gap between the accounting estimate of a firm's value and its market value. The study opined that the standard setting bodies are facing the need to develop new guidelines for recognition, valuation and reporting of intangibles.

Gill (2002) has scanned the international practices set forth by IAS No. 38 and APB Opinion No. 17 as well as the lately issued FASB Summary of Statement No. 142 and AS 26 prescribed by the Institute of Chartered Accountants of India (ICAI). The study concludes by recommending that the difficulties in valuing intangibles should not discourage the companies from the disclosure of correct, factual and important information about the intangibles.

Bhartesh and Bandyopadhyay (2005) have analyzed the inconsistencies in the accounting standards by analyzing the accounting standards prescribed by IAS 38, SFASB 142, and AAS 13. They state that the accounting standards do not to identify, recognize, value and record the real value of internally generated intangible assets of an enterprise. This will result in not disclosing

the real value of the enterprise, leading to difference between market value of an enterprise and its value shown in the financial statements. The study concludes by this lack of disclosure that shareholders will be at a loss and the management may collude with the other party for their personal benefits while finalizing the deal of amalgamations and acquisitions of businesses.

Lev (2000) analyses in this article the gap in the Generally Accepted Accounting Practices (GAAP). He proves that the accounting standards in USA do not account for intangible assets properly, especially the internally generated intangibles. He suggests that policymakers should play an important role in the development of New Accounting, focusing on the accounting for intellectual assets. He concludes that development of standardized measurement and reporting modes for key elements of the new information structure will be an important contribution to improved accounting and reporting.

Lev et al (2005) have analyzed the evolution of accounting for intellectual capital. The study has analyzed the IASB and FASB standards on accounting for intangible assets and observes that there is controversy about the recognition of internally generated intangibles. They further observe that the traditional cost based accounting system needs to be complemented with information on the intangible value drivers. They have proposed alternatives to overcome the problem of accounting for intangibles. They suggested capitalization approach and fair market value approach for accounting for intangibles.

Ghafele (2010) observes that the traditional accounting practice does not recognize intellectual assets that are created by the companies. He further states that the excess that is paid for a company than its book Value during mergers and acquisitions was lumped as goodwill. This paper traces the recent developments in the accounting standards and proposes for a 'Statement of Intellectual Property' to be appended with the financial statement, until the accounting profession reconciles with the reality to account for internally generated intangible assets.

Mehra (2012) has analyzed the accounting standards dealing with intangibles. The study compared the IFRS, USGAAP, UK GAAP, Indian GAAP and the Chinese GAAP for identifying the inconsistencies in recognition and measurement of acquired and internally generated

intangibles. The study adopted the content analysis methodology to prove the indispensability of intangibles on the performance of companies in India and UK to strengthen the growing demand of 'proper accounting for intangible assets' by the accounting profession.

The studies presented above have analyzed the accounting standards dealing with the recognition and measurement of intangibles. These studies have identified that there are either inconsistencies within the standards (Lev, 2005), (Lev, ----) or they do not help the stakeholders to have a true picture about the firms (Gill, 2002), (Bhartesh and Bandyopadhyay, 2005). They therefore suggest for alternatives like appending the financial statement with 'Reports of Intellectual Assets', (Ghafele, 2010), (Lev, 2005), (Bhartesh and Bandyopadhyay, 2005). So far, the academic researchers have only identified the inconsistencies in the accounting standards and suggested alternatives for reporting intangible assets in financial statements. This suggests that the accounting profession and the academicians are at opposite ends on the issue of recognition and measurement of internally generated intangible assets. This study is an attempt to bridge the gap in the GAAP, by taking into confidence, the accounting profession. The study has conducted a survey to gauge the perception of the Chartered Accountants of India, on the recognition and measurement of internally generated intellectual assets. The findings are pretty encouraging.

### **Research Methodology:**

The study presented a questionnaire to 50 Chartered Accountants in Pondicherry and Chennai, India, to gauge their perception on recognition and measurement of internally generated intellectual assets, as a pilot study. 34 filled up questionnaires were received. Of these 3 respondents did not provide complete information. So the pilot study was restricted to 31 responses.

### **Findings:**

Of the 31 responses, 14 have mentioned that the cost of creating internal intellectual assets should not be treated as investments, inferring, that they shall be treated as expenses only. On the other hand, 17 respondents have mentioned that cost of creating internal intellectual

assets can be treated as investments and thus qualify as assets. Interestingly, even those 15 respondents who were not inclined to accord the status of assets to internally generated intangibles were tempted to record their opinion on amortization of the expenses related to these internally generated assets, which can be inferred that they are also in favor capitalization of these expenses.

**Table I: Perception on assumption of expenses on intangibles as investments.**

Question	Perception (in percentage)	
	Yes	No
Whether expenses related to R&D, Advertising, Marketing, Salaries, Training & development, General & administrative 'expenses' can be assumed as 'investments' for the purpose of capitalization in order to treat them as 'assets'?	55	45

Subsequently when the same question was asked with reference to capitalization, interestingly, even those 15 respondents who concur with the current accounting standards were tempted to record their opinion on amortization of the expenses. Table II presents the perception of the respondents who have recorded 'Yes' on amortization of the expenses leading to creation of internally generated assets.

**Table II: Perception on amortization rates for capitalization of expenses on intangibles by those who recorded "Yes" (No. of responses 17/31)**

Investments	Perception on amortization rates (in percentage)					
	10%	20%	30%	40%	50%	Specific rates
Research & Development	Nil	47	35	6	6	6
Advertisement	Nil	41	41	6	6	6
Marketing	6	23	18	12	35	6
Salaries & Wages	6	23	18	29	18	6
Staff Welfare & Training	18	18	35	23	Nil	6
General & Administration	12	53	6	Nil	17	12

Table III presents the perception of the respondents who have recorded 'No' on amortization of the expenses leading to creation of internally generated assets.



**Table III: Perception on amortization rates for capitalization of expenses on intangibles by those who recorded “No” (No. of responses 14/31)**

Investments	Perception on amortization rates (in percentage)					
	10%	20%	30%	40%	50%	Specific rates
Research & Development	7	72	7	Nil	7	7
Advertisement	Nil	57	14	Nil	29	Nil
Marketing	Nil	57	29	Nil	14	Nil
Salaries & Wages	7	50	29	Nil	7	7
Staff Welfare & Training	7	64	22	Nil	Nil	7
General & Administration	7	57	15	Nil	7	14

The study made a comparison of the amortization rates used by researchers worldwide for capitalization of expenses related to internally generated intangibles in order to find, whether the perceptions of the Chartered Accountants of India match with these studies.

From the table VI it may be observed that the assumed amortization rates used in the various studies on valuation of intangibles, range between 10 -25 percent for Research & Development expenses; 15-50 percent for Advertisement expenses; 20-33 percent for Marketing expenses (in many studies only Advertisement expenses are considered); Salaries at 20 percent; 15-20 percent for Training & Development and 20-25 percent for General & Administrative expenses. It may be noticed that the assumed amortization rates are in tandem with the perception of the Chartered Accountants of India.

### **Conclusion:**

Intellectual assets are the most valuable assets of the knowledge intensive industries. The rising prominence of these assets in the asset portfolio of knowledge intensive industries, demand their due recognition in the financial statements of firms. Further, the growing difference between the market value to book value of firms indicates some misalignment in the pricing of

these assets. However, worldwide the accounting standards are inconsistent in the recognition of intangible assets, especially when they are internally created. Therefore there is a need to sensitize the accounting profession on the need and relevance of intellectual assets in technology management. Thus far the studies on valuation of intangibles have 'assumed' amortization rates to accord assets status to internally created intangibles and convince the accounting profession on the need for recognition and valuation of these assets. The present study was undertaken to reconcile with the accounting profession on recognition and valuation of internally created intellectual assets. The results of the survey undertaken suggest that the accounting profession is slowly reconciling with the growing importance of intellectual assets. Above all, since the amortization rates are suggested by the accounting profession itself, it would lend more credence to valuation efforts.

**Table IV: A Literature Survey of the Assumed Amortization Rates used by the studies on valuation of Intangibles**

Sl. No	Studies	Assumed Amortization Rates (in percentage)					
		R&D Expenses	Advertisement Expenses	Marketing Expenses	Salaries	Training & Development Expenses	General Administrative Expenses
1	Kanwar (2014)	15; 30 <sup>*</sup>	15	Nil	Nil	Nil	Nil
2	Jaana (2014)	15	Nil	20 <sup>**</sup>	20 <sup>**</sup>	Nil	Nil
3	Lidia, Arturo & Jose (2014)	Nil	Nil	Nil	Nil	15; 30 <sup>*</sup>	Nil
4	Hulten (2010)	25	33 <sup>**</sup>	33 <sup>**</sup>			25
5	Kavida & Sivakoumar (2009)	20	50	25	Nil	Nil	Nil
6	Srinivasan & Lilian (2009)	15; 20 <sup>*</sup>	40; 45 <sup>*</sup>	Nil	Nil	Nil	Nil
7	Hulten & Hao (2008)	10	20 <sup>**</sup>	20 <sup>**</sup>	20 <sup>**</sup>	20 <sup>**</sup>	20 <sup>**</sup>
8	Czarnitzki, Hall & Oriani (2006)	15	Nil	Nil	Nil	Nil	Nil
9	Corrado, Hulten & Sichel (2005)	20	20	20	20	20	20
10	Hall & Oriani (2006)	15	Nil	Nil	Nil	Nil	Nil
11	Chan et al (2001)	20	Nil	Nil	Nil	Nil	Nil
12	Aboody & Lev (2001)	20	50	Nil	Nil	Nil	Nil
13	Blundell et al	15	Nil	Nil	Nil	Nil	Nil

	(1999)						
14	Hall & Vopel (1997)	15	Nil	Nil	Nil	Nil	Nil
15	Hall (1993)	15 ; 67 <sup>*</sup>	Nil	Nil	Nil	Nil	Nil
16	Hall (1992)	15; 20 <sup>*</sup>	Nil	Nil	Nil	Nil	Nil
17	Hall (1990)	15	Nil	Nil	Nil	Nil	Nil
18	Cockburn & Grilliches (1990)	15	Nil	Nil	Nil	Nil	Nil
19	Griliches, Hall & Pakes (1988)	15	Nil	Nil	Nil	Nil	Nil
20	Jaffe (1986)	15	Nil	Nil	Nil	Nil	Nil

\* Rates for robustness check

\*\* Rates applied for combination of the Intangibles

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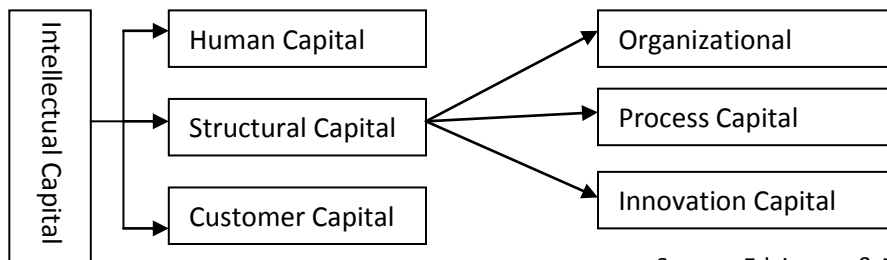
**Annexure-1****VALUATION OF INTELLECTUAL ASSETS - A SURVEY ON THE PERCEPTIONS OF CHARTERED ACCOUNTANTS**

*“The terms Intellectual Assets, Intellectual Capital and Intangible Assets are used interchangeably as they all represent a non-physical claim to future benefits. Economists call them as Knowledge Assets, Management experts refer to them as Intellectual Capital and Accountants call them as Intangible Assets or Intellectual Assets”. (Chandra, Prasanna,2006)*

1. Do you agree with this definition?

Strongly Agree ☐ Agree ☐ Undecided ☐ Disagree ☐ Strongly Disagree ☐

Classification of Intellectual Capital:



Source: Edvinsson & Malone,1997 (adapted)

2. Do you agree with the above classification?

Yes ☐ No ☐

3. Does the Financial Statements (IGAAP) recognize internally generated Intellectual Assets?

Yes ☐ No ☐

4. Does the Financial Statements provide information related to internally generated Intellectual assets (covertly/overtly)?

Yes ☐ No ☐

5. Please rank the following expenses (in the order of their relative importance) that are related to internally generated Intellectual Assets:

1. Research & Development expenses ☐
2. Advertising expenses ☐
3. Marketing expenses ☐



4. Salaries ☐
5. Staff Welfare & Training expense ☐
6. General & Administrative expense ☐

**6.** Whether the above mentioned expenses can be assumed as 'investments' for the purpose of 'capitalization' in order to treat them as 'Assets'?

Yes ☐

No ☐

**7.** In your opinion what is the appropriate amortization for capitalization of Research & Development expenses?

10% ☐

20% ☐

30% ☐

40% ☐

50% ☐

Any specific rate

**8.** Do Capitalized Research & Development expenses correspond to Structural Capital?

Yes ☐

No ☐

**9.** In your opinion what is the appropriate amortization for capitalization of Advertisement expenses?

10% ☐

20% ☐

30% ☐

40% ☐

50% ☐

Any specific rate

**10.** Do Capitalized Advertisement expenses correspond to Customer Capital?

Yes ☐

No ☐

**11.** In your opinion what is the appropriate amortization for capitalization of Marketing expenses?

10% ☐

20% ☐

30% ☐

40% ☐

50% ☐

Any specific rate

**12.** Do Capitalized Marketing expenses correspond to Customer Capital?

Yes ☐

No ☐

**13.** In your opinion what is the appropriate amortization for capitalization of Salaries?

10% ☐

20% ☐

30% ☐

40% ☐

50% ☐

Any specific rate

**14.** Do capitalized Salaries correspond to Human Capital?

Yes ☐

No ☐

**15.** In your opinion what is the appropriate amortization for capitalization of Staff Welfare & Training expenses?

10% ☐      20% ☐      30% ☐      40% ☐      50% ☐      Any specific rate

**16.** Do capitalized Staff Welfare & Training expenses correspond to Human Capital?

Yes ☐      No ☐

**17.** In your opinion what is the appropriate amortization for capitalization of General& Administrative expenses?

10% ☐      20% ☐      30% ☐      40% ☐      50% ☐      Any specific rate

**18.** Do capitalized General& Administrative expenses correspond to Organizational Capital?

Yes ☐      No ☐

**19.** The difference between the Market Value and Book Value of a company is called as:

1. Goodwill ☐
2. Intellectual Capital ☐
3. Rational expectation of future revenues ☐
4. Irrational expectation of future revenues ☐
5. Anonymous ☐

**20.** Valuation of Intellectual Assets is important for strategic management of these assets in Knowledge-based companies.

Strongly Agree ☐      Agree ☐      Undecided ☐      Disagree ☐      Strongly Disagree ☐

Your valuable comments on this research are solicited:

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Thank you,

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**ACTIVITY BASED COST MANAGEMENT IN INFORMATION TECHNOLOGY SECTOR****- SOME REFLECTIONS.**

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**ABSTRACT**

*Cost accounting had traditionally allocated overheads to products or services using only one volume-sensitive driver, typically direct labor. For organizations with high overheads and a mix of products or services, using a single cost driver may distort cost estimates. Hence the traditional methods of allocating overheads were found to be deficient in not only ascertainment of cost effectively but also in improving global competitiveness of business firms. The Activity Based Costing (ABC) method was designed in the United-States during the 80's (Cooper and Kaplan, 1988), which is a refined cost system that enables classifying more costs as direct, to expend the number of indirect-cost pools and to identify cost drivers (Wegmann, 2008). ABC favours better cost allocation using smaller cost pools called activities that become basis for assigning costs to other cost objects such as products or services. This paper is a modest attempt to discuss on the conceptual frame work and explain the application of ABC in IT sector in an analytical way with relevant illustration and examples.*

**1. INTRODUCTION**

ABC expanded in the early nineties of the 20th century, particularly in highly developed countries. The companies that implemented and used ABC were very few in number at that time (Ask & Ax, 1992; Nicholls, 1992; Bright et al., 1992; Drury & Tyles, 1994; Innes & Mitchell, 1995; Armitage & Nicholson, 1993). Research findings of late nineties of the 20th century showed that the number of companies using activity-based costing was growing (Lukka & Granlund, 1996; Björnenak, 1997; Gosselin, 1997; Cinquini et al., 1999; Clarke et al., 1999; Innes et al., 2000). On the contrary, it is also noticed that some companies come out from the thought of ABC implementation after analyzing the prospective costs and benefits. Even there were also rare cases of companies that abandoned ABC after its implementation and use.

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As far as ABC implementation in the developing countries is concerned the situation is different. In the nineties of the 20<sup>th</sup> century, cases of ABC implementation were incidental, and apart from a few exceptions nobody carried out any research on ABC expansion (Firth, 1996; Anderson & Lanen, 1999). Greater interest in ABC in developing countries could be observed at the beginning of 21st century. Unlike highly developed countries, where the interest in ABC slumped and the number of companies using ABC ceased to grow in developing countries. In the late 1980's, ABC gained the attention of academic researchers, consultants, and managers as a means of overcoming the disadvantages of traditional cost allocation methods. Another great observation is that the so called ABC became part of curriculum at universities and vocational courses for costing and management accounting. Even IT companies are competing through ABC and using the benefits of the same for the betterment of their organizations.

## **2. THE CONCEPT**

Traditionally, the costs of manufacturing a product have been categorized as direct material, direct labor, and overhead. Traditional cost systems, also called volume based cost systems (VBC) that traces overhead costs on the product base on the assumption of products are the cause of the costs. The most common allocation base used in ABC is direct labor hours. The amount of overhead allocated to a batch of products increases linearly with the volume produced<sup>1</sup>. ABC is an accounting technique that allows an organization to determine the actual cost associated with each product and service produced by the organization without regard to the organizational structure. It is developed to provide more-accurate ways of assigning the costs of indirect and support resources to activities, business processes, products, services, and customers. ABC system can recognize that organizational resources are required not for physical production of units of product but to provide a broad array of support activities, which enable the organizations a variety of products and services to be produced for a diverse group of customers. The goal of ABC is not to allocate common costs to products, but to measure and then price out all the resources used for activities that support the production and delivery of products and services to customers.

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*1 .It is assumed as volume of output increases, direct labor hours increase in a linear fashion.*

ABC<sup>2</sup> is defined in a comprehensive manner by Computer Aided Manufacturing-International (CAM-I) as “the collection of financial and operating performance information tracing the significant activities of the firm to product costs”. Hence, ABC is a technique that measures the quantitative costs and performance of activities, resources and cost objective of an organization. It derives from the idea that organization consumes resources by performing activities in converting some form of input to an output. ABC’s intent is to capture the costs incurred by organization, but not based on the structure of the organization, but rather by the activities performed by the organization in producing final physical product or service (see table1 to know more about difference between ABC and Traditional costing).

**Table 1: Difference between ABC and Traditional costing**

	<b>ABC method</b>	<b>Traditional costing method</b>
<b>Cost pools</b>	Costs are grouped into <i>activity cost pools</i> , which correspond to the major activities or business processes.	Costs are grouped in pools using departmental costs. The cost pools are very heterogeneous and are not caused by a single factor.
<b>Allocation bases</b>	Costs are allocated to products or services by using cost drivers	Costs are allocated to products or services by using arbitrary percentage (based on products or services volumes).
<b>Cost Objects</b>	Intend to calculate the “real cost” of cost objects activities, processes, products, services).	Calculate the “arbitrarily cost” of a cost object (either product or service).
<b>Cost Drivers</b>	Used to group costs into activity cost pool	Used to group costs into indirect/fixed costs.
<b>Decision support</b>	Can support strategic decisions with accurate information, because of the ability to align allocation bases with cost drivers.	Can cause problems of <i>over costing</i> and <i>under costing</i> because of the inability to align allocation bases with cost drivers.
<b>Cost Control</b>	By calculating the precise cost of organizational activities, ABC helps management to reduce costs and to prioritize efforts	Cost control is based on a departmental approach of grouping costs.
<b>Cost of implementation</b>	Implementation is difficult and maintaining is expensive.	Implementation and maintaining are inexpensive because it is a traditional accounting method.

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2. ABC is a concept in which overhead is assigned to products based on the number of activities consumed by the products.

### 3. WHAT REALLY ABC CAN DO?

ABC attempts to address shortcomings of traditional costing system, which typically allocate overhead to products and services based on direct labor hours [Cooper, 1988, 1989; Johnson, 1991]. In the ABC approach, overhead expenses, such as administrative salaries, are first traced to activities. Then, looking at multiple cost drivers, such as number of orders processed or shipping distance, costs are assigned from activities to cost objects. The objective of an ABC is to relate all the costs of doing business to products, services, or customers judiciously and effectively. Hence, ABC consists the following steps in its process:

1. Identify the **Resources** (expenditures) of an organization
2. Determine **Activities** (work performed) that are supported by Resources
3. Define **Cost Objects** (products, services, customers)
4. Develop **Resource Drivers** to link Resources to Activities
5. Develop **Cost Drivers** to link Activities to Cost Objects
6. Group activities into activity **cost pools**.
7. Determine the cost for each activity pool.
8. Identify outputs.
9. Assign activity costs to outputs.

### 4. APPLICATION OF ABC

Consider a company that manufacturing two Products K & G Product K is produced in two runs of 500 units and Product G in five independent runs of 200 units. Assuming each product consume equal direct material & direct labour content. The manufacturing overheads amount to Rs 14000 which comprises of line set up costs of Rs 7000, product inspection cost of Rs 3500 and Rs 3500 for material movement to the product line. Total cost incurred for producing 1000 units of product K and 1000 product G will be as under.

Particulars	Rs
Direct Materials	10,000
Direct Labour	2,000
Manufacturing overheads	14,000
TOTAL	26,000

**Table 2**  
**Cost Analysis Under Traditional Costing**

Particular	Product X		Product Y	
	Total Cost	Per Unit	Total Cost	Per Unit
Direct Materials	5000	5.00	5000	5.00
Direct Labour	1000	1.00	1000	1.00
Manufacturing Overheads	7000	7.00	7000	7.00
Total	13000	13.00	13000	13.00

**Table 3**  
**Under Activity Based Costing**

	Product X		Product Y	
	Total Cost	Per Unit	Total Cost	Per Unit
Direct Materials	5000		5000	5.00
Direct Labour	1000	5.00	1000	1.00
Manufacturing Overheads		1.00		
Line set up costs @1000				
Two set ups	2000	2.00	5000	5.00
Five set ups				
Product inspection Cost				
Two inspections	1000	1.00	2500	2.50
Five inspection				
Material movements				
Two movements	1000	1.00		
Five movements			2500	2.50
Total	10000	10.00	16000	16.00

The Process involved in manufacturing the activities involved is line set up, product inspection and material movements. The cost pools for all three activities are determined by the cost incurred on performing these activities. The cost drivers are the number of Product inspection, line set up and movements etc., The Cost Objects are the Products K & G to which



all cost are traced. From this we can understand that the non value adding activity is a movement, if such activity is eliminated, it will reduce the product cost significantly.

## 5. ABC AND IT SECTOR

ABC has shown itself to be a very powerful tool for product line profitability analysis. As a result of the success of ABC in this area, many companies are successfully extending its use to other areas of their value chains, including sales and marketing, manufacturing and customer services. Results have been used to identify and eliminate unprofitable products, customers, channel partners, and territories. With the proliferation of computer-related services, the explosion in data communication, and ongoing trends toward globalization, managers in high-tech industries are considering new ways to manage and control costs. The fact that most Information Technology (IT) services have varied degrees of intangibility makes it a challenge to measure the costs of the services delivered in a relevant and fervent manner, which is possible by ABC.

ABC implementation in IT<sup>3</sup> improved performance, control and governance. Finally, as an enabler of company strategy, competitive advantage and market transformation. Improved effectiveness of IT from application of this technique can contribute significantly to the overall success of the enterprise. IT a *logical* extension of activity-based costing, since IT's emergence and recognition as a key function in management, hence the principles of ABC, in allocating, or charging back the costs of the function to other parts of the business helping a lot the IT companies.

IT plays a crucial role in today's business environment, and a substantial portion of corporate budgets is dedicated to IT (Weill *et al.* 2002). However, investments in IT do not always produce the desired pay-offs; companies often do not experience the expected tangible

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3. *ABC the alternative to the traditional cost accounting systems, has been applied to manufacturing and service industries. Successful implementations in the healthcare, insurance, and transport industries have been reported over the last few years, but few publications relate ABC to IT.*

benefits from their investments. This is due to lack of tangible benefits derived from IT investments, also called the Productivity Paradox of IT (Brynjolfsson 1993), has been widely discussed.

The need for a cost model is given by the fact that it is necessary to identify the cost for each product or service in order to identify the profitability of IT activities and processes. The organization achieved major cost reduction and customer service improvements, in which IT can play a significant role. Despite of all the facts, pressure was growing for IT Services to benchmark its activities and to outsource areas that were shown to be inefficient. The turning point came when the IT sector decided to commission an ABC of IT Services.

## 6. COST DRIVERS IN IT SECTOR

Cost drivers are cost parameters which are normally intangible in nature but have qualitative impact on constructing the IT cost model. As for as IT Sector is concerned the nature of the work is distinguishable, so there may be five categories of cost drivers in terms of size of drivers, systems, software, Hardware, and support. In the following lines the descriptions of five categories of cost drivers are given with explanations of the inclusion of each driver category.

### 6.1 Size drivers

Size drivers are size parameters that are tangible and quantifiable which can be expressed in discrete numeric format. Below is a list of all the size drivers utilized within the cost model of by ABC in IT companies (see table 4).

<b>Table 4 Types of size drivers</b>
<b>Number of servers or racks</b>
<b>Number of software licenses</b>
<b>Number of KVMs (terminal servers)</b>
<b>Number of distinct sites(data centers)</b>
<b>Number of users / PC equipments</b>
<b>Number of feet of FA-CL or CAT5 cables.</b>
<b>Number of software applications that need to be supported ( COTS and new)</b>
<b>Number of databases (i.e., human resources, sales, etc)</b>
<b>Number of data &amp; phone jacks</b>

Source: Ken Huang, Towards An Information Technology Cost Model, February 2007

## 6.2 Systems Cost Drivers

System is defined as the collection of resources, assets, knowledge, policies, procedures, application systems and organizational structures that are necessary to provide and operate an IT service. The systems include physical and non physical aspects of the service provision and it represent holistic approach to operating services.

A system cost driver does mean that interconnected computers that share a central storage system and various peripheral devices such as a printers, scanners, or routers. Each computer connected to the system can operate independently, but has the ability to communicate with other external devices and computers.

Each of these cost drivers were devised based on their relevance to the determination of IT system needs. The relevance of certain drivers are quite obvious: the TCO\* of a given system, for instance, is likely to be a great interest to most purchasers of IT systems. Other drivers may be less obvious, but not necessarily less important. A CIO may, for instance, neglect to take into account the fact that the service response time of the company associated with a given system may be particularly slow, and may further neglect the impact on his company's bottom-line that delays in service calls may cause. As a second example, some companies may feel that server redundancy is just an unnecessary cost, while other companies may feel that having all of their data doubly, triply, and even quadruply backed up is integral for their ongoing business concerns( see table 5).

Table 5

<b>Service call response time</b>	The time required or agreed to respond a technical support ticket opened by the customer.
<b>Reimplementation / re-design</b>	To re-architecture / to enhance some/entire functionalities of the systems in question.
<b>Client/server compatibility</b>	The time required or agreed to respond a technical support ticket opened by the Customer.
<b>Security</b>	The company compliance level of the "systems" in question
<b>Server Redundancy</b>	A hot-standby (disaster recovery) server for the primary server of the same functionality.
<b>Business Continuity</b>	High Availability of the "systems" infrastructure overall.
<b>MTTR (mean time to recovery)</b>	The average amount of time required to resolve most hardware or software problems with a given device.
<b>TCO (total cost of ownership)*</b>	Cost to purchase and maintain software over time.

<b>SLA (Service level agreement)</b>	Formal agreement between a Service Provider and customers to provide a certain level of service. Penalty clauses might apply if the SLA is not met
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Source: Ken Huang, Towards An Information Technology Cost Model, February 2007

### 6.3 Hardware Cost Drivers

Hardware is a general term that refers to the physical components of technology. This applies to any physical part (device) of a computer, such as the CPU, monitor, hard drives, and so forth. When compared to *software*, which consists of the operational programs that run on the system, hardware is anything that can be *physically handled*, and software is anything that cannot be physically handled, although we may handle the CD, media, or drives on which it is written.

As it can be seen from the table the cost drivers within the Hardware category are considerably different than in the system's category. In fact, different concerns may be relevant when purchasing new hardware, compared to the purchase of new system resources. Obvious considerations include the ease with which the new systems will integrate with existing architecture, and the reliability of the hardware. Less obvious drivers, on the other hand, may include the speed with which employees are going to be able to learn the new systems. In total, however, each of these drivers were devised due to their direct relevance to the purchase of new hardware equipment (See table 6).

Table 6

<b>Seamless integration</b>	The smoothness of the coordination between two or more hardware components.
<b>Component volatility</b>	The rate of stability of the component.
<b>Component application complexity</b>	The level of complexity of a component's functionality and operations.
<b>Interface Complexity</b>	The level of effort to interact with another hardware component.
<b>Product Support</b>	The hardware warranty provided by the hardware vendor.
<b>Experience with Component</b>	The overall technical experience of the engineers handling the hardware.
<b>Learning rate</b>	A measure of the technical personnel mastering the installation/replacement of the hardware in relation to some specification of time
<b>Reliability</b>	The probability of performing a specified function without failure under given conditions for a specified period of time.
<b>Confidence level</b>	The level of comfort of having this hardware lives within the current system infrastructure.

Source: Ken Huang, Towards An Information Technology Cost Model, February 2007

## 6.4 Software Cost Drivers

Software, is a collection of computer programs and related data that provides the instructions for telling a computer what to do and how to do it? Software refers to one or more computer programs and data held in the storage of the computer for some reasons. In other words, software is a set of *programs, procedures, algorithms* and its *documentation* concerned with the operation of a data processing system. Program software performs the function of the program it implements, either by directly providing instructions to the computer hardware or by serving as input to another piece of software.

It is evident from table 7 that the considerations that need to be taken into account when purchasing new software are numerous, and quite different from considerations regarding hardware and system architecture. These considerations may include the ease with which the software can be implemented on the existing architecture, the ease with which users will be able to make use of the software, and the speed with which the software is able to undertake its core duties. Less obvious, but equally relevant, may be the total lines of code that are required to run the program. Longer code may lead directly to longer application time, and also may require increased IT costs if the software ever requires modification (See table 7).

Table 7

<b>Confidence level</b>	The level of comfort of running this application live within the current system infrastructure.
<b>Lines of Codes</b>	The total number of lines of codes required to run this application.
<b>Redesign required</b>	The necessity of re-organizing the layout.
<b>Retest required</b>	The necessity of examining the software for quality assurance purpose.
<b>Reimplementation required</b>	The necessity of enhancing the functionalities of the application.
<b>Time constraints</b>	The total time allowed performing any tasks relevant to this application.

Source: Ken Huang, Towards An Information Technology Cost Model, February 2007

## 6.5 Support Cost Drivers

It is explained well in the table 5 that which can be considered relatively analogous to the ‘Resources’ category in the true IT cost model. In short, the drivers in this category relate to the specific needs of those individuals who may be required to provide ongoing maintenance and support of the system/hardware/software. Drivers in this category include the learning rate of the

IT personnel, the frequency with which upgrades are required on the new hardware/software, and the cost of repairs to the system, if repairs become necessary (See table 8).

Table 8

<b>Learning Rate</b>	A measure of the technical personnel mastering the maintenance in relation to some Specification of time
<b>Professional Experience</b>	The technical expertise from the staff or the vendor technical support team to escalate all the issues that might arise.
<b>Cost</b>	The annual monetary spending for maintaining the current server infrastructure.
<b>Repairs</b>	The frequency rate of fixing any hardware component or software.
<b>Call center</b>	The 24/7 surveillance center for monitoring any server failure and coordinating the failure to the appropriate teams.
<b>Upgrades</b>	The rate of upgrading the current server infrastructure design or functionalities.

Source: Ken Huang, Towards An Information Technology Cost Model, February 2007

## 7. ABC AND COST MANAGEMENT IN IT SECTOR

Cost management<sup>4</sup> is becoming linked to Information Technology (IT) more closely. The globalization and proliferation of the computer and Internet-related systems have changed the paradigm for how business is conducted. CIOs, CFOs, and managers in IT are aware that costs need to be controlled for companies to remain competitive and improve performance in a changing world. Managing costs is an operational necessity in forward strategic planning in the IT environment.

IT Companies face the challenge of managing information technology (IT) costs, in ensuring the needs for capacity, performance, and new functionality. In many instances, the costs of technology track directly with budgets; in other words technology costs are actually growing in real and percentage terms, so the needs of an IT company to establish accurate recharge rates and define appropriate activities pertinent to business culture are the main driving forces behind the Cost Management in IT sector. The modeling process required the definition of resources, activities, cost objects, and drivers that correspond closely to the organizational functions within the IT division.

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4. John Shank suggests that cost management in a contemporary firm must not be internally focused nor should it use single cost drivers. Instead, cost management should: Be externally focused, Add value, Use multiple cost drivers, Reflect unique cost drivers for each value-added activity Base cost management activities on cost drivers or linkages with suppliers and customers, and Identify cost drivers at the individual activity level and pose strategic questions (outsourcing, forward/backward integration, establish new linkages with suppliers and customers).

In major software companies cost management processes can be utilized effectively for IT services. Data centers and client-server architecture developers have started using more meaningful accounting terms. Instead of using "CPU seconds" and "I/Os," new terms such as "Cost Per Transaction" are becoming more common. But despite the new focus, IT has a long way to go in using accounting systems to meet the business needs of the organization at a level of detail that will satisfy every customer. Charge backs for specialized IT services, such as CPUs, data storage, and communications, are not derived, for the most part, from strict cost accounting calculations. Companies using chargeback systems often overestimate the value and accuracy of their cost accounting system. Traditional cost systems have been known to distort costs and often provide inaccurate information while assigning costs to unrelated accounts. ABC is regarded as an improvement upon this situation because it assigns the cost of resources to a group of activities and then to particular services (cost objects). The ABC model traces and maps the consumption of IT costs for a wide range of internal services provided within the organization. The resulting model provides a managerial tool to measure productivity and efficiency and is currently being used for IT cost charge backs and process improvements.

A major difficulty facing IT Companies is ensuring the projects and activities to which IT resources are committed and represent an effective, economic, and efficient use of those resources, which has no single answer. To determine effective use comprehensive review of the institution's organizational, strategic, and competitive position, coupled with a clear understanding of the core competencies of the internal IT resources and a broad knowledge of external resource capabilities, mostly required.

An essential first step for effective planning, budgeting, and funding of IT resources is providing good cost information. Failure to have a strong grasp of IT economics will result in a misallocation of resources supporting the activities of the institution. At worst, it may result in failing to serve stakeholders appropriately.

Difficulties in the ABC usually arise when tracking activity costs to products and customers. Very often, drivers are not formally measured even though they drive significant organizational costs. Managers have two options: disregard important drivers or change the system to incorporate them. Incorporating important drivers was the second major requirement.

An ABC model can be viewed from a cost-assignment perspective, which provides information about resources, activities, and cost objects. Because the primary purpose of the ABC model was to generate potential recharge rates for the IT division's services, the cost-assignment perspective was chosen as the third major requirement.

The fourth major requirement was the allocation of both labor and technology costs. As mentioned before, the business world is getting more complex. As a result, the nature of which costs are charged to which users is changing. This increasingly complex environment leads to higher overhead costs. Overheads are replacing direct costs in most high-tech firms. Overhead now include technology and people who sustain productivity and manage complexity.

ABC becomes very successful when the data provided is useful to operational personnel. Operational success factors are mainly behavioral because ABC is not a product; it is a process. Therefore, it has to be sustained by improved knowledge about cost drivers and supported primarily by operational staff. Managing activities that consume resources will eventually reduce costs. That is the key for better understanding of the business and improved financial performances. The fifth major requirement was that the organization should utilize ABC to improve IT service delivery through a better understanding of costs.

Several real-life experiences demonstrate the difficulty and importance of satisfying these requirements. One example of ABC implementation is the Lawson Company. Their reengineering process was to empower the organization and employees, which helps to identify redundant costs, understand cost drivers better, and create new ways to budget and forecast. While Lawson is also in the IT business, their approach to ABC was more from a manufacturer rather than a service provider perspective. Each and every company wanted to determine the costs for internal IT services. Even though both ABC systems were developed to address deficiencies in the financial reporting systems and to support continuous improvement, the service application in companies required significant additional effort beyond a typical manufacturing application involving tangible products.

Most IT companies spend large amounts of money on providing services without realizing exactly where and how costs are incurred. For example, Liebmann asks challenging questions such as:



- \* How much does your Web connection really cost?
- \* What does it cost to send a two-megabyte-file attachment over thin, expensive WAN (wide-area network) links?
- \* What is the "total cost of ownership," including support and maintenance costs

Most organizations are unable to answer these questions accurately even though one of the biggest cost variables in an IT organization is bandwidth consumption. From a technical perspective, application monitors can provide data on WAN utilization. The difficulty with that the cost per gigabyte drops depending on the percentage of utilization. Furthermore, the cost of ownership is much more than the cost of the raw technology. Service reconfiguration, technical support, upgrades, training, and "others" constitute the largest chunk of IT budgets--largely in the form of salaries--while the costs of ports and servers decline over time. Our solution was to track the life cycle of IT assets and utilize usage-based chargeback whenever possible.

At the end, we can say that lack of information beyond the direct purchase and licensing costs of a system has led to *event costing* — the process of evaluating an IT service on its installation cost rather than on the total cost of ownership. This approach makes resource budgeters wary of IT proposals. Most of IT companies have damaged their own reputations by providing overly optimistic estimates for IT projects that failed to deliver the goods as they moved along the lines of "take the first number estimated, double it, then double it again."

## 8. SOME GLARING EXAMPLES

**8.1** Tata Consultancy Services (TCS) of India is the largest consulting organization in India, serving both Indian and international clients. The company used Activity Based Cost Management (ABCM) to identify problem areas in its software development business. An early finding was that "quality assurance, testing and error correction activities made up a significant chunk of the overall effort required to build a system, and this cost had to be kept under control to improve productivity and profitability." The company already had in place a quality management system that helped identify the types of errors that were occurring and the corrective action that would be required, but no costs were attached these errors and actions. The ABCM system provided effective cost information system,

which allowed managers to set better priorities and to monitor the costs of error-correction activities.

**8.2** As another example of the usefulness of the system, 54 person-days in one software development project at TCS were charged to the activity "waiting for client feedback" - a non-value-added activity. Investigation revealed that the client was taking a long time to review the graphical user interface (GUI) designed by TCS. The client was showing the GUI to various end users - often resulting in contradictory suggestions. The solution was to draw up guideline for the GUI with client, which were enforced. "As a result of this corrective action, subsequent client feedback was well within the time schedule. Most of our screens were accepted because they conformed to standards . . . ."

**8.3** ABC and Process costing approaches could be relevant. Moreover, the customer could be a more relevant cost object than the product. We insist on the inter organizational dimension of the ABC method in a supply chain management context. ABC implementation in an IT supply division of an international and diversified industrial group. We call this division INFOTECH. The figure 5 presents the links between INFOTECH and the other divisions of the group. INFOTECH is a profit center and sell computing services into and outside the group. So, inside the group, it has a supply chain process concerning the different kinds of computing activities: hardware, software and services (hotline, ...) So that the supply chain process would be more relevant, the staff decided to implement an ABC system dedicated to this process.

## **9. ASCERTAINMENT OF COST IN IT COMPANIES UNDER ABC METHOD -AN ANALYSIS**

Under ABC method, to identify the cost associated with an output service of IT the department budget and organizational resource consumption for IT Department to produce outputs (products and services) are required. The cost analysis would be done by many driver the service called *Administration of IT server*”, using parameters like: total area of IT department, area occupied by server, total power consumed by IT department, total power consumed by server, total weight of IT Equipment , weight of server ,etc. The details are given in table 9, 10, 11 and 12.

**Table 9. IT Department budget**

<b>Total Costs of IT Department</b>	<b>Amount in Rs</b>
Cost of space	54000
Cost of power	76500
Cost of cooling	24000
Cost of operation, which include:	
- Salary	72000
- Purchase of new products (hardware and software)	150000
- Courses for personnel	25000
- Purchase of spare parts for equipments	45000
- Programming	67500
<b>TOTAL COSTS PER PERIOD</b>	<b>514000</b>

**Table10. Cost of space for server**

1. Total cost of space	54000
2. Area of space occupied with equipments	45 square meters
3. Area of space occupied with server	1.25 square meters
4. Cost of space occupied with the server ( = 1 x 3 / 2 )	1500 Rs

**Table 11. Cost of power for server**

1. Total cost of power	76500
2. Total power of IT equipments	15 KWatts
3. Total power consumed by server	700 Watts
4. Period of time	14,860 hours
5. Total power consumed by IT equipments ( = 2 x 4 )	222900 KWh
6. Total power consumed by server ( = 3 x 4 )	10402 KWh
7. Cost of power consumed by server ( = 1 x 6 / 5 )	3570 Rs

**Table 12 .Cost of cooling the server**

1. Total cost of cooling	24000
2. Total weight of IT equipments	1400kgs
3. Total weight of server	50kg
4. Cost of cooling for server ( = 1 x 3 / 2 )	857.142 Rs

From the analysis it is very clear that there are certain steps to be followed in ABC methodology in IT companies. In the following line those steps are discussed and illustrated with the help of the hypothetical data taken in above example.

### 9.1 Identify activities

ABC can identify activities of the IT companies in the first step. The most common method for identifying IT processes and activities can be done on the basis of employee surveys. The activities in general are: Functional requirement analysis, Planning Design, setup and configuring equipments, service of equipments and programs (maintenance and repairing), developing new programs, Supervision & Administration, Project Management, Power(Keeping current) and supporting the users of the IT systems. Accuracy of the method depends on the number of activities that are taken into consideration.

### 9.2 Identify cost drivers

In this step, cost drivers are associated with each activity as exemplified in cost driver tables shown in terms of Size Drivers, System Cost Drivers, Hardware Cost Drivers, Software Cost Drivers, and Support Cost Driver tables.

### 9.3 Group activities into activity cost pools

In this step, similar activities with the same cost driver are gathered together, as is show in

**Table 13 . Activity cost pools**

Activity pool	Cost driver
Functional requirement analysis,	Number of PC requirement
Setup and configuring	Number of setups
Service & Repairs	Number of incidents
Develop new programs	Programming hours
Support for users	Number of calls
Power	Number of Units

### 9.4 Determine the cost for each activity pool

The cost of each activity pool is obtained from the accounting department. These data is collected in a table format such as the one presented in Table 14 below.

**Table 14.** Identifying cost objects

Activity	Amount in Rs (Cost of
Functional requirement analysis,	1,95,500
Setup and configuring	64,500
Service & Repairs	48,500
Develop new programs	86,500
Support for users	32,000
Power	52,000
<b>TOTAL</b>	<b>4,79,000</b>

### 9.5 Identify outputs

The output is a product or a service. Every output could be a cost object. In this example, the output is the service called “*Administration of IT server*”.

### 9.6 Assign activity costs to outputs

In this step, the cost drivers determined in the previous step are used to assign cost objects (activity costs) to the output service “*Administration of IT server*” as presented in Table 15 below.

**Table 15.** Computation of the cost of Administration of IT server

Cost object (1)	Amount (cost of activity) (2)	Number of activities per Department (3)	Number of activities allocated to <i>Administration of IT server</i> (4)	Cost allocated to <i>Administration of IT server</i> ( =2 X 4/3)
Functional requirement analysis,	1,95,500	10 PC	4 PC	78,200
Setup and configuring	64,500	20 Setups	8 Setups	25,800
Service & Repairs	48,500	20 incident	6 incident	14550
Develop new programs	86,500	180 hours	96 hours	46,133
Support for users	32,000	1200 calls	125 calls	3,333
Power	52,000	1500 Units	186 Units	6,448
Cost of operation for <i>Administration of IT server</i>				1,74,464

Finally, all costs presented in relation (1) are allocated to cost object “*Administration of IT server*”. So, the precise cost of this service can be calculated as shown in Table 16.

**Table 16.** Calculating the total cost for output *Administration of IT server*

Cost of space occupied with the server	Rs 1500
Cost of power consumed by server	Rs 3570
Cost of cooling for server	Rs 857.142
Cost of operation for <i>Administration of IT server</i>	Rs 1,74,464
<b>TOTAL COST for <i>Administration of IT server</i></b>	<b>Rs 1,80,391.142</b>

Source: cost model for the IT Department, summer 2010, JAQM, Vol , 5 No 2.

Using ABC methodology a precise cost for each “output” (product or service) can be calculated based on the consumption” of each activity and resource.

## 10. CONCLUSION

ABC for IT companies is a new way of thinking about and organizing the collection, analysis and presentation of data about IT spending/costs. For IT companies, ABC is not a radical departure from conventional techniques for reporting on IT spending. ABC collects and organizes several techniques that have been intuitively evolving for many years in IT financial reporting under a single mantle. It provides a commonly accepted, well established principals and a body of knowledge for communicating the approach to peers and senior management. ABC offers several innovative analytic techniques and benchmarks for identifying and dealing with inefficiencies and risks, and finally helps a lot IT companies in projecting future spending.

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