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Contents

Does Economic Growth Promote Foreign Direct Investment?
Evidence from India and Malaysia

*Rudra Prakash Pradhan**

The paper explores the promotion of Foreign Direct Investment (FDI) towards economic growth (and vice versa) in the economy. The empirical investigation has been undertaken in two Asian countries namely India and Malaysia during the period from 1970 to 2004. The empirical analysis confirmed that it is economic growth that promotes FDI in both the Indian and Malaysian economy. On the contrary, FDI does not promote economic growth in these two countries. The paper justifies the possible reasons for the same and strongly argues that FDI promotes economic growth indirectly via productivity spillovers and exports pillovers effect. In the end, the paper also suggests few possible areas for the promotion of FDI towards economic growth and vice versa.

INTRODUCTION

The source of economic growth has been a central issue in the field of economic security since the 1950s. The Neoclassical growth model suggests a great accounting method for explaining the same (Solow, 1956). The method shows that economic growth can be explained by using three different indicators, viz., physical capital accumulation, labor force growth, total factor productivity growth (Singh, 2005). But the present paper deals with the linkage between accumulation of physical capital and economic growth. The former can be obtained through domestic sources as well as through foreign sources, which is mostly incurred in the form of Foreign Direct Investment (FDI). It represents the movement of capital in and out of the country with the intention of buying physical assets to start a business. The contribution of FDI to economic growth has been well documented in economic literature (Romer, 1993; De Mello, 1997; Mody and Wang, 1997; Dua and Rashid, 1998; Zhang, 1999; Demurger, 2000; Yusop *et al.*, 2002; Zebregs, 2002; Dias, 2003; Lensink and Hermes, 2003; and Sjoholm and Okamoto, 2005).

Foreign Direct Investment is a dire need for a country. This is because of its multifaceted features in the economy, which include fulfilling saving-investment gap, relaxing foreign exchange constraints and flowing as a bundle of capital, technology, knowledge, marketing, competitiveness, etc., (Grossman and

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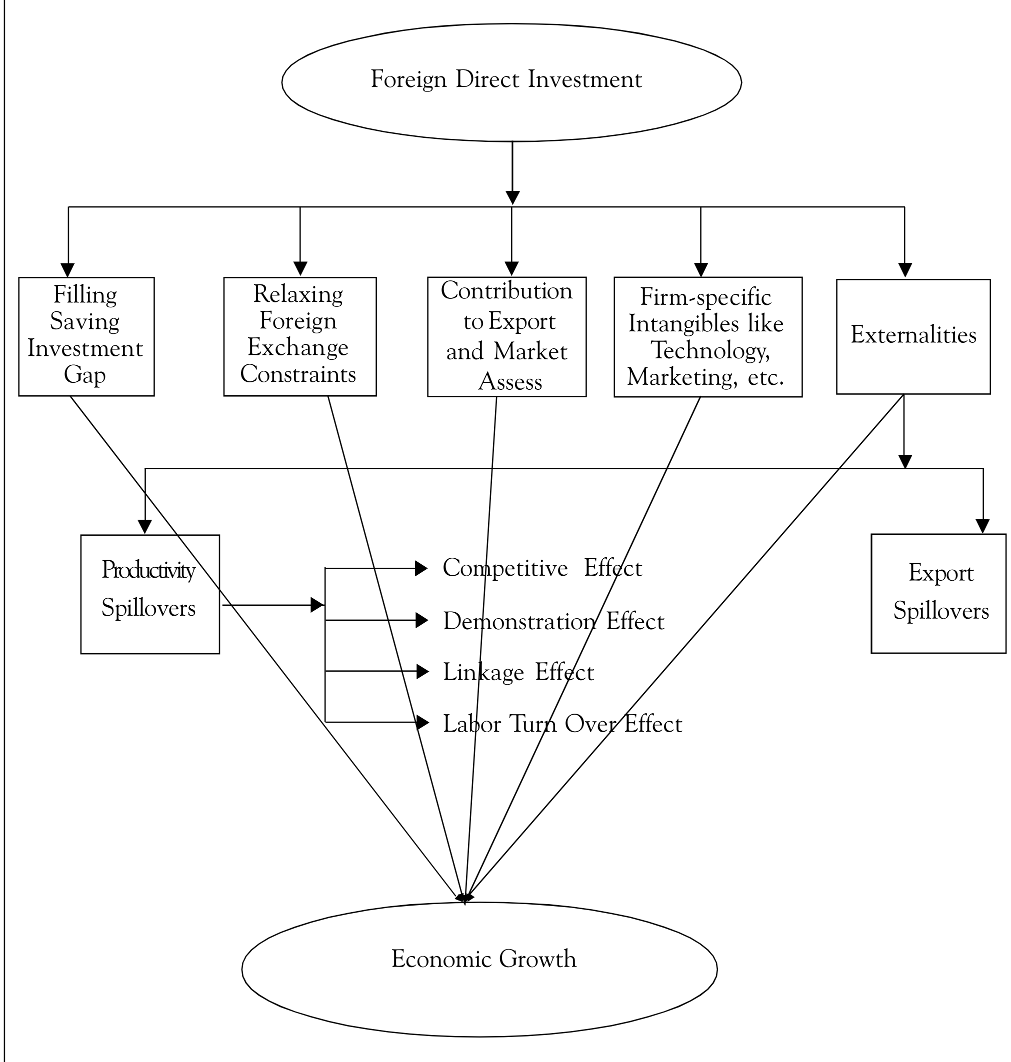
Helpman, 1992; Walz, 1997; and Pradhan, 2003). These are the main avenues by which FDI can contribute to economic growth. FDI affects economic growth by generating increasing returns in production via externalities, i.e., by productivity spillovers and exports spillovers (See Figure 1).

In developing countries, FDI's effect on economic growth is logistically more in contrast to its domestic investment. This could be more realistic, when there is sufficient absorptive capacity available in the host country (Borensztein *et al.*, 1998). The reason for the same is that FDI inflows are not only confined to modern manufacturing of developing countries

Figure1: Linkage between Foreign Direct Investment and Economic Growth



but also to the primary sectors. This is why most of the developing countries welcome multinational companies (MNCs), since they are usually associated with FDI (Kumar, 2005).

They offer various packages such as creation of Special Economic Zones (SEZs), streamlined administration, flexible labor laws, Intellectual Property Rights (IPRs) protection, opening up of additional sectors, access to world markets, trade openness, fiscal incentives, infrastructure and many more to attract the same (Lim, 1983; Chai, 1998; GOI, 2003; Venkateswarlu and Rao, 2004; and Pradhan, 2006). To make their operations more effective, MNCs also take with them high levels of technology, as they recognized that it is one of the significant factors that can strengthen their international competitiveness. In this process, FDI contributes to higher economic growth by incorporating new inputs and techniques (Feenstra and Markusen, 1994). But it is important to note that the growth consequences of FDI depends upon what types of sectors receive the same and that change in sectoral flows strengthen the positive effects and weaken the negative ones (Wei, 1996; Dutt, 1997; and Kathuria, 1998).

In short, FDI induces economic growth, and hence, the issue of economic prosperity is always linked with massive FDI inflows in the economy. There is twin linkage between the two. Firstly, a healthy inflow of FDI is a vital factor in accelerating higher economic growth in the economy (Jackson and Markowski, 1995; Aitken and Harrison, 1999; Cheng and Yum, 2000; and Coughlin and Segev, 2000). Secondly, a healthy economic growth is also an imperative factor in attracting high FDI inflow into the economy (Goldberg, 1972; Lunn, 1980; Schneider and Frey, 1985; Grubaugh, 1987; Lucas, 1993; Aziz, 1999; Zhang, 2001; and Globerman and Shapiro, 2003). While the former represents FDI-led growth hypothesis, the latter represents GDP-driven FDI hypothesis. This represents an existence of bidirectional causality between FDI and economic growth. This means that FDI inflows causes economic growth and economic growth also causes FDI inflows in the economy. Accordingly, the broad objective of this paper is to investigate the causality between FDI and economic growth. In other words, the target of the paper is to study whether FDI promotes economic growth or whether economic growth promotes FDI or both.

The empirical investigation has been carried out in two Asian countries namely, India and Malaysia. While India belongs to the South Asian group, Malaysia comes under the South- East Asian group. They are the two most emerging countries in the world, after China and Philippines. A Survey conducted by Multilateral Investment Guarantee Agency (MIGA) which included 147 MNCs concluded that India and Malaysia are the two leading investment destination countries and their position is 18 and 22 respectively (OECD, 2002). Moreover, the recent bilateral Comprehensive Economic Cooperation Agreement (CECA) between

India and Malaysia is an attractive step to choose these two countries as specific pair of developing economies of this study.

The rest of the paper describes the status of FDI inflows and GDP in the Indian economy as well as Malaysian economy, highlights the econometric methodology and the related data descriptions, shows empirical results and its discussion thereof, and finally concludes with policy remarks.

THE STATUS OF FDI INFLOWS AND GDP IN INDIA AND MALAYSIA

The liberalization of FDI regimes and the strengthening of international standards for the treatment of foreign investors gives foreign firms greater freedom to make decicisons about international locations (WIR, 2001). As a result, there is substantial change in the inflows of FDI and its diversification across the globe. The flows are, however, high from developed countries to developing countries and that's more visible in both India and Malaysia. Though the inflows of FDI have ups and downs, the cumulative inflows have been increased over time. The similar feature is also noticeable in GDP movement in the global economy. The author has first highlighted the global inflows of FDI and GDP and then shown a share of India and Malaysia. While the inflows of FDI is represented in Table 1, the quantum of GDP is represented in Table 2. The figures reflect that global FDI inflows have increased from a low of $13,434 mn in 1970 to a high of $6,48,146 mn in 2004, indicating an increase of 48 times. This increasing movement is visible both in developed countries as well as developing countries. While the FDI inflows of developed countries have increased from $9,496 mn to $3,80,022 mn, developing countries' FDI inflows have increased from $3,937 mn to $2,33,227 mn during the same period. Again in the developing

Table 1: FDI Inflows by Host Regions in the Globe (In $ mn)

Host Regions	1970	1980	1990	2000	2004
World Total	13,434 (100)	55,108 (100)	2,07,883 (100)	13,96,539 (100)	6,48,146 (100)
Developed Economies	9,496 (70.68)	46,629 (84.61)	172072 (82.77)	11,34,293 (81.22)	3,80,022 (58.63)
Developing Economies	3,937 (29.31)	8,455 (15.34)	35,736 (17.19)	2,53,179 (18.13)	2,33,227 (35.98)
India	45 (0.335)	79 (0.143)	237 (0.114)	2,319 (0.166)	5,335 (0.823)
Malaysia	94 (0.699)	934 (1.69)	2,611 (1.256)	3,788 (0.27)	4,624 (0.71)

Note: Figures in parentheses are in percentage with respect to World total.

Source: World Investment Report (WIR) (2005).

countries, India and Malaysia have a very emerging position.

While FDI inflows of India have increased from a low of $45 mn in 1970 to a high of $5,335 mn in 2004, Malaysia's FDI inflows has increased from $94 mn to a high of $4,624 mn in 2004. But their share in the global economy is about 1% only. Coming to GDP, the global quantum has increased from a low of $2,80,486 mn in 1970 to a high of $4,09,21,764 mn in 2004, indicating an increase of 148 times. This increase is also observed both in developed and developing countries. While the developed countries' GDP have increased from $22,23,310 mn in 1970 to $3,15,49,576 mn in 2004, developing countries' GDP have increased from $5,34,511 mn to $84,42,538 mn during the same period. In India, it has increased from a low of $61,175 mn in 1970 to a high of $6,61,046 mn in 2004, indicating an increase of 10 times. On the contrary, Malaysia's GDP increased from $4,277 mn in 1970 to a high of $1,17,776 in 2004, indicating an increase of 27 times. But their share in world GDP is significantly low. While Malaysia's share is just 0.3%, India's share is about 1.62% only (Table 2).

Table 2: GDP by Host Regions in the Globe (In $ mn)

Host Regions	1970	1980	1990	2000	2004
World Total	28,04,862 (100)	1,07,05,278 (100)	2,16,63,606 (100)	3,15,23,881 (100)	4,09,21,769 (100)
Developed Economies	22,23,310 (79.27)	81,31,866 (75.96)	1,71,94,401 (79.37)	2,44,56,495 (77.58)	3,15,49,576 (77.10)
Developing Economies	5,34,511 (19.06)	24,13,028 (22.54)	37,19,144 (17.17)	6,624,318 (21.01)	84,42,538 (20.63)
India	61,175 (2.18)	1,82,938 (1.71)	3,16,891 (1.46)	4,68,229 (1.49)	6,61,046 (1.62)
Malaysia	4,277 (0.152)	24,937 (0.233)	44,024 (0.203)	90,041 (0.286)	1,17,776 (0.288)

Note: Figures in parentheses are in percentage with respect to World total.

Source: World Investment Report (WIR) (2005).

ECONOMETRIC METHODOLOGY AND DATA DESCRIPTIONS

The paper explores the causality between FDI inflows and economic growth in the economy. The technique used for the same is the Granger Causality (GC) test. But the first and foremost condition of the GC test is to catch the stationarity of time series variables and an existence of long run relationship between them. While the former is investigated by unit root test, the latter is investigated by cointegration test. In a nutshell, for empirical investigation the study uses unit root test, cointegration test and causality test. Hence, a brief highlight of the methodological approach of each test is given and then it is used to verify the hypotheses.

A. UNIT ROOT TEST

The objective of unit root test is to know the stationarity of time series variables, as it is common for the time series data to demonstrate the signs of non-stationarity; typically both mean and variance of macroeconomic variables tend upwards over time. The test of non-stationarity is considered as a preliminary step to explore the possibility of long run relationship between the variables, i.e., cointegration test and their causality, i.e., causality test. The author has employed the Augmented Dickey Fuller Unit Root Test (Dickey and Fuller, 1979 and 1981; and Dickey *et al.*, 1986) to investigate the same. The test involves the estimation of following equation:

$$\Delta Y_t = \beta_1 + \beta_2 Y_{t-1} + \sum_{i=1}^{k} \delta_i \Delta Y_{t-i} + \varepsilon_t \quad ...(1)$$

Where, Δ is the first difference forward operator; β_i and δ_i are constant unknown parameters; Y_{t-1} is a variable of interest and ε_t is a stationary stochastic process. The lag lengths have been chosen by Akaike Information Criterion (AIC), as it gives consistent results in the selection of lags (Judge *et al.*, 1985). The task is to test the null hypothesis of non-stationarity [I(1)] against an alternative hypothesis of stationarity [I(0)]. But to determine the order of integration, Equation 1 has to be modified. That is by including the second differences on lagged first and *k*-lags of second differences, which is as follows:

$$\Delta^2 Y_t = \lambda_1 \Delta Y_{t-1} + \sum_{i=1}^{k} \mu_t \Delta^2 Y_{t-i} + \varepsilon_t \quad ...(2)$$

Where, $\Delta^2 = \Delta Y_t - \Delta Y_{t-1}$; λ_I and μ_i are constant unknown parameters and ε_t is a stochastic process. The *k*-lagged difference terms are included so that the error terms in both the equations are serially independent.

B. COINTEGRATION TEST

The test is meant to know, whether the time series variables have different unit roots (non-cointegrated) or same unit roots (cointegrated). It clarifies the existence of long run equilibrium relationship between two time series variables. In other words, cointegrated variables, if disturbed, will not drift apart from each other and thus, possess a long run equilibrium relationship. Testing of the existence of cointegration among economic variables has been widely used in the empirical literature to study economic interrelationships. The presence of cointegration indicates that two series would never drift too far apart. A non-stationary variable, by definition, tends to wander extensively over time, but a pair of non-stationary variables may have the property that a particular linear combination would keep them together, that is, they do not drift too far apart.

It is to note that equations estimated with stationary variables but without regard to the underlying cointegration are also inappropriate due to the model misspecification (i.e., an omitted-variable bias). Theoretically, cointegration between two time series variables can be obtained, if the linear combination of two non-stationary variables is stationary. Technically, two time series variables are cointegrated, if the following three conditions are satisfied:

1. The variables must be integrated of the same order and number of times each variable has to be differenced in order to turn the series stationary.
2. There should be a linear relationship between them. That is,

   $Y_t = \alpha + \beta X_t + \varepsilon_t$, and β coefficient should be significant ... (3)
3. The residuals in the above equation, i.e., the extent by which the two variables deviate from the long run equilibrium relationship (given by the equilibrium error (ε_t)) should be stationary.

To test the third condition, the author has applied the ADF test and for this, the author has to regress the following equation:

$$\Delta u_t = \rho u_{t-1} + \sum_{i=1}^{n} \alpha_i \Delta u_{t-i} + \varepsilon_t \qquad \ldots(4)$$

Where, Δ is the first difference operator; ρ and α_i are the constant unknown parameters; u_{t-1} is the variable of interest; and ε is a stochastic process. The task is to reject the null hypothesis H_0: $\rho \neq 1$ against an alternative hypothesis H_A: $\rho \neq 1$.

C . CAUSALITY TEST

It is important to note that the cointegration test clarifies the existence of the long-run relationship between the two time series variables but does not detect the direction of causality. For this, the causality test is employed. According to Granger (1986 and 1988), for two variables say X and Y, if X is influenced by both lagged values of X and lagged values of Y, then we call it Y Granger Causes X (Y=>X). This is due to the fact that the present cannot affect the past but the past certainly affects the present. Similarly, if Y is influenced by lagged Y and lagged X, then X causes Y (X=>Y). If both are true, then it is a situation of bidirectional causality (Y=>X and X=>Y). If only one exists, then it is a case of unidirectional causality (Y=>X or X=>Y). If none of them exist, then they are independent to each other. Technically, there are three possible models that can be undertaken to investigate the causality between X and Y. These are as follows:

Case 1: If the two variables are individually I(1) and they are cointegrated, then Granger Causality test uses I(1) data to detect the direction of causality. In such a case, the model is represented as follows:

$$FDI_t = \alpha + \sum_{i=1}^{p} a_i FDI_{t-i} + \sum_{j=1}^{q} b_j GDP_{t-j} + \varepsilon_t \ldots(5)$$

$$GDP_t = \beta + \sum_{i=1}^{r} c_i GDP_{t-i} + \sum_{j=1}^{s} d_j FDI_{t-j} + \eta_t \ldots(6)$$

Where, FDI stands for Foreign Direct Investment; GDP stands for Gross Domestic Product; α, a_i, b_j, c_i, and d_j are constant unknown parameters; and ε_t and η_t are the stochastic process. While Equation 5 indicates GDP influences FDI (GDP=>FDI), Equation 6 indicates that FDI influences GDP (FDI=>GDP). The investigation follows rejection of null hypothesis (for Equation 5) H_0: $b_j = 0$ against an alternative hypothesis H_A: At least one $b_j \neq 0$, $j = 1, 2, \ldots q$. And for equation (6), the null hypothesis H_0: $d_j = 0$ is rejected against an alternative hypothesis H_A: At least one $d_j \neq 0$, $j=1, 2, \ldots s$.

Case 2: If the two variables are I(1) individually and cointegrated, then GC test can use I(0) data to detect the direction of causality. In this case the model specification is as follows:

$$\Delta FDI_t = \alpha + \sum_{i=1}^{p} a_i \Delta FDI_{t-i} + \sum_{j=1}^{q} b_j \Delta GDP_{t-j} + \delta ECT_{t-1} + \varepsilon_t \qquad \ldots(7)$$

$$\Delta GDP_t = \beta + \sum_{i=1}^{r} c_i \Delta GDP_{t-i} + \sum_{j=1}^{s} d_j \Delta FDI_{t-j} + \delta ECT_{t-1} + \eta_t \qquad \ldots(8)$$

Where, ECT stands for Error Correction Term, which ties the short run behavior of each series to its long run values. The vector error correction model was first introduced by Sargan and Bhagava (1983) and later popularized by Engel and Granger (1987). They had shown that a system of cointegrated variables could be represented by a dynamic error correction model by invoking the Granger's Representation Theorem. The model involved introducing lagged residuals (called as Error Correction (EC) term) to the model with stationary variables obtained from the long run relationship. The coefficient of EC term reflected the adjustment of the dependent variable in the short run to its long run position.

Equation 7 represents that GDP influences FDI (i.e., GDP=>FDI) and to test the same, null hypothesis H_0: $b_j=0$ has to be rejected against an alternative hypothesis H_A: At least one $b_j \neq 0$, $j = 1, 2, \ldots s$. And Equation 8 represents that FDI influences GDP (i.e., FDI =>GDP) and to test the same, null hypothesis H_0: $d_j=0$ has to be rejected against an alternative hypothesis H_A: At least one $d_j \neq 0$, $j = 1, 2, \ldots s$.

Case 3: If two variables are I(1) individually but not cointegrated, the GC test can use I(0) data to detect the direction of causality. The model used for the same is as follows:

$$\Delta FDI_t = \alpha + \sum_{i=1}^{p} a_i \Delta FDI_{t-i} + \sum_{j=1}^{q} b_j \Delta GDP_{t-j} + \varepsilon_t \qquad \ldots(9)$$

$$\Delta GDP_t = \beta + \sum_{i=1}^{r} c_i \Delta GDP_{t-i} + \sum_{j=1}^{s} d_j \Delta FDI_{t-j} + \eta_t \qquad \ldots(10)$$

Equation 9 represents that GDP influences FDI (i.e., GDP=>FDI) and to test the same, null hypothesis H_0: b_j=0 has to be rejected against an alternative hypothesis H_A: At least one $b_j \neq 0$, j = 1, 2, ... s. And Equation 10 represents that FDI influences GDP (i.e., FDI=>GDP) and to test the same, the null hypothesis H_0: d_j=0 has to be rejected against an alternative hypothesis H_A: At least one $d_j \neq 0$, j=1, 2, ... s.

In all the cases, the optimal lags have been chosen by Akaike Information Criterion (AIC). The F-statistics has been used to detect the direction of causality and the formula used for the same is as follows:

$$F = \frac{(RSS_2 - RSS_1)/m}{(RSS_1)/(n-k)}$$

and F ~ (m, n–k) ...(11)

Where, RSS_1 represents restricted sum of squared residual; RSS_2 indicates unrestricted sum of squared residual; m is number of lags; k is number of parameters involved in the model; and n is the sample size. The test is to reject the null hypothesis of non-causality between FDI and GDP against an alternative hypothesis of causality between FDI and GDP. If the realization of the above statistics is significant, then the non-causality hypothesis can be rejected and it can be concluded that FDI causes GDP and vice versa. If it is not significant, then the non-causality hypothesis is accepted and it can be concluded that FDI does not cause GDP or vice versa. The empirical investigation has been undertaken on the Indian economy vis-à-vis the Malaysian economy. The data used for the same are annual data of FDI inflows and GDP during the period from 1970 to 2004. They are secondary in nature and have been collected from the World Investment Report (WIR) (2005). The empirical results and their discussion are given below.

RESULTS AND DISCUSSION

The preliminary step of the empirical analysis is to establish the degree of integration of each time series variables. For this purpose, we test the existence of unit root in the level and first difference of each of the time variables by applying Augmented Dickey Fuller (ADF) Unit Root Test. The empirical estimated results of unit root test are reported in Table 3.

The results reflect that both the time series variables (FDI and GDP) are non-stationary [I(1)] in the level form but found stationary [I(1)] in the first differences. This implies that they are integrated of order one (1). The obtained results are same for both the economies (i.e., in the Indian economy as well as Malaysian economy). The obtained results indicate that there exists a cointegration between the two, as they are integrated of same order and found stationary at the first differences. For this purpose, we employed

Table 3: Results of Unit Root Test

Countries	Variable	Level Data		First Difference Level	
		ADF Statistics	Conclusion	ADF Statistics	Conclusion
India	FDI	–2.179	I(1)	–7.889*	I (0)
	GDP	–1.435	I(1)	–7.216*	I (0)
Malaysia	FDI	–1.957	I(1)	–7.216*	I (0)
	GDP	–2.464	I(1)	–4.145*	I (0)

Note: FDI: Foreign Direct Investment; GDP: Gross Domestic Product; For the critical values of ADF test, see MacKinnon (1991).

Source: Author's Calculation

Engle and Granger Cointegration Test. The test justifies two things: First, to establish a significant linear relationship between FDI and GDP; and second, the error term involved in the linear relationship between the two must be stationary. The empirical estimated results are reported in Tables 4 and 5.

The cointegration test clarifies that there exists a significant linear relationship between FDI and GDP (Table 4) and that's true for both India and Malaysia. The ADF test further clarifies that error terms involved in each equations of both the countries are stationary at the data level (Table 5). Hence, it can be concluded that FDI and GDP are cointegrated, indicating an existence of long run equilibrium relationship between them. But the findings do not reflect the direction of causality. For this purpose, we have used Granger Causality (GC) test between FDI and GDP. Obviously, we have estimated two equations (i.e., FDI=>GDP and GDP=>FDI) by considering appropriate lag lengths (this has found two at the optimal level). The empirical estimated results of GC test are reported in Table 6.

The causality test confirmed that there is unidirectional causality between FDI

Table 4: Results of Cointegration Test (Linearity Test)

Country	Constant	Coefficient	R^2	DW
India FDI = F(GDP)	–12.36 (–5.23)	2.728 (6.188*)	0.537	1.266
India GDP = F(FDI)	4.911 (62.2)	0.197 (6.19*)	0.537	0.705
Malaysia FDI = F(GDP)	–2.321 (–5.851)	0.192 (12.08*)	0.815	0.986
Malaysia GDP = F(FDI)	2.42 (13.74)	0.684 (12.08)	0.815	0.786

Note: R^2: Coefficient of Determination; DW: Durbin Watson '*d*' Statistics; The parentheses indicate the value of *t*-statistics; and other notations are defined earlier.

Source: Author's Calculation

Table 5: Results of Cointegration Test (Stationarity Test)

Country	Coefficient	ADF Statistics	R^2	DW
India FDI = F(GDP)	–0.659	–4.082*	0.342	2.060
India GDP = F(FDI)	–0.428	–3.318*	0.256	2.334
Malaysia FDI = F(GDP)	–0.493	–3.234*	0.246	2.113
Malaysia GDP = F(FDI)	–0.399	–2.821*	0.199	2.210

Note: For the critical values of *DF*-statistics, see MacKinnon (1991); and other notations are defined earlier.

Source: Author's Calculation

and GDP. And the direction of causality is from GDP to FDI (GDP=>FDI) but there is no reverse causality, i.e., from FDI to GDP (FDI=>GDP). The above results represent that it is the level of GDP that affects FDI inflows in the economy but FDI inflows does not Granger Cause GDP. This is because the estimated results reject the non-causality hypothesis in the former case and does not reject in the latter case (Table 6).

This result supports the GDP-driven FDI hypothesis and rejects the FDI-driven GDP hypothesis. That means economic growth is a major determinant that promotes FDI inflows in India as well as in Malaysia. But that does not mean FDI has no contribution to economic growth. It may affect economic growth indirectly via productivity spillovers (Kumar, 2007) and export spillovers (Figure 1) effect. Moreover, FDI inflows in the two countries are also very limited. While the amount of FDI, as a percentage of GDP, is about 0.8% in India, it is about 3.9% in Malaysia. This could be the possible reason for the rejection of FDI-driven GDP hypothesis. The factors that affect the low FDI inflows and hence, the rejection of FDI-driven economic growth in these two countries are as follows:

- High transaction cost in the form of corruption and unnecessary regulatory requirements (Bhat *et al.*, 2004).

Table 6: Results of Granger-Causality Test

	Direction of Causality and Decision				
		FDI=>GDP Decision		GDP=>FDI Decision	
Country	Lags	*F*- value		F-Value	
India	1, 1	0.1126	X	10.7010*	√
	2, 2	0.0800	X	5.4860*	√
Malaysia	1, 1	0.0040	X	5.1888*	√
	2, 2	0.1417	X	2.4372*	√

Note: X: Denotes no causality; and √: Denotes causality.

Source: Author's Calculation

- Low infrastructure, both in quantity as well as quality, and lack of tax breaks fail to attract more FDI in these two countries.
- Lack of integration of capital and financial markets are also very responsible for low FDI in India as well as in Malaysia.
- Insufficient protection of physical and intellectual property rights.
- Lack of skilled workforce also leads to limits the benefits from FDI spillover effects (Yusop *et al.*, 2002).
- High tariff and non-tariff barriers also affect the effect of FDI inflows on economic growth. In this context, FDI may simply be the result of MNCs trying to access domestic markets because the export route has been closed. In this case, FDI may contribute to economic growth, but the impact will be reduced to the extent of high tariffs that stunt growth.

CONCLUSION AND POLICY IMPLICATIONS

The objective of this paper is to trace the causality between FDI inflows and economic growth in the economy. The study has been done on two Asian countries namely India and Malaysia during the period from 1970 to 2004. The empirical investigation follows unit root test, cointegration test and causality test. The unit root test clarified that both FDI inflows and economic growth (measured by GDP) are non-stationary at the level but found stationary at the first differences. The cointegration test clarified that both FDI and GDP are cointegrated to each other, indicating an existence of long-run equilibrium relationship between the two. The Granger Causality test finally confirmed that there is unidirectional causality between FDI and GDP. And the direction of causality is from GDP to FDI but there is no reverse causality (i.e., from FDI to GDP). This is true for both the Indian economy as well as the Malaysian economy during the period from 1970-2004.

The results show that it is economic growth that promotes FDI inflows in the economy and hence, support GDP- driven FDI hypothesis. On the contrary, FDI inflows do not promote economic growth and hence rejects FDI-driven GDP hypothesis. But that does not mean FDI has no contribution to economic growth. It may affect economic growth indirectly via productivity spillovers and export spillovers effect. There are various reasons for which FDI does not promote economic growth directly in India as well as Malaysia. The possible reasons are low inflows of FDI, which is due to high tariff barriers, low openness, slow financial integration, low infrastructure, lack of tax breaks, etc. and low benefits from FDI spillovers. Over and above, the paper suggests that the concerned economy has to maintain a steady economic growth in her territory. The absence of high economic growth may affect FDI inflows in the economy. In the same time, some attractive policy has to be designed urgently to bring more FDI inflows in the economy and that has to be channelized efficiently so that FDI inflows can affect economic growth directly. The following suggestions may be very useful to attain the same:

- Need of fuller utilization of FDI and much emphasis should be given for outward oriented trade policies. Role of government policy in the increment of economies stands out as the logical extension of the current analysis.
- Strengthening regional economic integration like ASEAN, NAFTA, etc. In fact, the recent introduction of India-Malaysia Comprehensive Economic Cooperation Agreement (CECA) is an attractive step to bring more FDI inflows and its better utilization in the respective countries.
- There is need of boosting infrastructure, flexible labor laws and favorable regulatory and tax treatment of foreign firms.
- High-skilled labor is a very urgent need in the economy and that has to be done first hand, as it leads to maximizing the benefits from FDI technological spillovers.

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Leadership Values Influencing Decision-Making: An Examination of Nine Islamic, Hindu, and Christian Nonprofit Institutions in the US

*Abdulfattah Yaghi**

The purpose of the present study is to examine the relationship between decision-making, values, and leadership. The study argues that the values of individual leaders can shape the processes of decision-making. Participant observation, content analysis of institutional archives, and structured interview methods are utilized in nine American nonprofit institutions that represent three major faiths in the country, namely Islam, Hinduism, and Christianity. The study indicates there are four major organizational values that can characterize decision-making, namely emphasis on learning, balancing human and organizational interests, mutuality, and self-criticism. The study reports that these values create an organizational culture that dominates the decision-making process, and makes it a cultural phenomenon within the institution. The paper discusses the implications of these findings and their relationship with organizational change.

INTRODUCTION[1]

One of the major responsibilities that board members in nonprofit institutions perform is decision-making, which is a daily function. However, making decisions is not a mechanic matter, rather, it is a human activity in which people's values are involved. The dynamics between decision-making and decision makers' values gains special importance in nonprofit institutions (or faith-based, interchangeably). This is because the constituents of the institution give a mandate of decision-making to elected officers who make the management board. These officers perform their unpaid, volunteering jobs as leaders. Their leadership stems from their legal status as representatives of their community abiding by the institution's bylaws, as well as from their efficacy and ability to dedicate their time and energy to serve the institution voluntarily and devotedly (see, Yaghi, 2007).

American nonprofit organizations that perform faith-based services, such as Islamic centers (mosques), Hindu temples, and churches represent a major

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[1] Similarities might appear between the present paper and other versions of it, as all versions report different phases of a major project about nonprofits and faith-based organizations. The author would like to thank Dr. Deborah Davenport and Dr. Raymond Mohamed for their ideas and conversation.

element of the American community-based institutions. Since the early 1900s, American faith-based institutions continue to serve a growing clientele (constituency) in all states (Zogby, 2000; ISNA, 2004; Eck, 2001). Since the clientele is diverse as well as the scope of services the institutions provide is also diverse, there is a need to understand how things are decided about and who can influence these decisions. Therefore, decision-making becomes a central organizational function, which may influence planning, staffing, budgeting, as well as other organizational aspects. Decisions also affect members of the organization because they are either the ones who make decisions or the ones who are subjected to them. Due to this role of decision-making, some researchers argue that decision-making processes or outcomes can be different when the content of decisions is different. Decision-making, however, can also be influenced by other factors, such as organizational culture.

The present study explores the organizational culture within nine nonprofit or faith-based institutions and they include: three Islamic mosques, three Hindu temples, and three Christian protestant churches. All these institutions are in the southeastern region of the US In particular, the study examines the relationship between decision-making and the values carried by board members (including institutions head or chairpersons). In doing so, the present study attempts to explain how the values of leaders can be essential in shaping decision-making processes and outcomes. The study utilizes Bozeman and Pandey's model of decision content as a general framework within which the dynamics of organizational culture-decision making are examined (see, Bozeman and Pandey, 2004). This paper also builds on the findings of a case study by Yaghi (2007), who asserts that organizational culture in Islamic centers in the US is a major determinant of decision-making, in addition to other factors. He further says that although decision content may influence decision-making thereby causing it to vary in the public sector, organizational culture dominates decision-making in the case of the Islamic center. In conclusion, the current paper expands Yaghi's discussion by including more than one institution and to ensure the diversity of nonprofit institutions, it examines institutions from the three major religions in South-East US.

LITERATURE REVIEW

DECISION CONTENT AND DECISION-MAKING

Two researchers provide different yet interesting assertions about decision-making. Bozeman and Pandey (2004, p. 553), argue that the decision content is a prime factor that influences the decision-making process. They report findings from a study in the public sector that when the contents of decisions are different, the processes that managers follow to make those decisions differ, as well. While this assertion may have some validity, Yaghi (2007) says that the decision content has only a minor impact on decision-making. He further asserts that the values of those who are in charge of managing the institution establish an organizational culture that is so influential to the extent that regardless of a decision's content, the processes and outcomes of making all decisions follow a similar pattern. In other words, decision makers give priority to sheltering organizational mission, solidarity, and many other values that are essential to their beliefs. The question in the present study is how these values dominate decision-making.

LEADERSHIP AS A DRIVING FORCE

Leading is a central managerial function in nonprofit organizations. Burns (1978), Bass (1985), Bennis (1986), and Avolio *et al.* (1991), define leadership as the practice of decision-making that motivates followers to believe in the organizational mission and support the collective efforts of the group to maintain its goals. Blake *et al.* (1964) and Blake and McCanse (1991) argue that leadership can be successful or unsuccessful depending on its ability to maintain a balance between decisions that protect organizational needs and decisions that protect peoples' needs.

Simon (1945); Schein (1993); Hardgrave *et al.* (1999) and Becerra-Fernandez and Sabherwal (2001), describe leadership as flexible and adaptive to environmental conditions. They emphasize that organizational dynamics (for example, organizational communication) may influence the methods which decision makers follow in dealing with a situation. Consequently, if the content of some decisions differ, then there is a possibility that the processes and outcomes of decisions may, change as well.

Transformational leadership suggests that decision-making entails leaders to encourage positive values among followers, that is, to transform the organization through changing values and cultures of those who work there, either, subordinates, colleagues, or constituents (all are grouped as followers). Hence, the organizational environment in which decision makers interact with others can shape the way they (decision makers) influence other members of the board as well as members of the organization and constituents.

Since leaders are elected or appointed to perform major organizational tasks, Bergquist (1993) and Heifetz (1994) stress that decision makers bear direct responsibilities to develop the organization and maintain its running. Thus, leaders become gatekeepers who are responsible for the wellbeing of the institution. Similarly, Likert Rensis (1967) discusses four variant 'follower-leader' patterns according to which decision makers guard the organization and protect the group's interests. Likert argues that exploitive (autocratic) leadership does not allow followers to participate in decision-making. In the benevolent autocracy, he adds, leaders make decisions that benefit the organization's members and, at the same time, they consider the need for institutional efficiency (for example, reduce spending waste). Followers, however, cannot interfere with the decision-making process or contribute to the process of leadership. Differently, consultative leaders discuss issues with followers and listen to them without giving them a role in making final decisions. Contrary to the exploitative, benevolent, and consultative leadership, the participative leadership encourages followers to participate in all aspects of decision-making, management, and decision evaluation.

Researchers argue that leadership can change followers' behavior. Schein (1993) and Van de Ven (1986) and Schein and McClomb (1998) posit that organizational leadership has the practical and moral powers to promote behaviors that benefit the group. The 'collectiveness' in Bryman's research (1992) indicates that leaders can use personal qualities such as verbal fluency or personal ties and social networks to mobilize a desired behavior. Yukl (1994) claims that followers' respect of their leaders' actions gives leaders a mandate to determine 'what' behaviors or values ought to be encouraged.

Using the social power they have as legitimate leaders, decision makers can be a force of cultural change. Blake *et al.* (1964) and Blake and McCanse (1991) explain that decision makers stimulate organizational change by playing role models for others. Simply put, leaders insert their values into the organizational culture by joining followers in strengthening a group of closely connected members who share similar values. This group may work as a steering force to enforce the major values of the leaders. Bass (1983, 1985, 1990) and Bass and Avolio (1993) explain that leaders should stimulate interests amongst followers to redefine the goals and means of the organization in ways that meet with the vision of leaders and strengthen the organization.

ORGANIZATIONAL CULTURE IN NONPROFIT ORGANIZATIONS

One of the definitions of culture is that it consists of patterns, explicit and implicit, of and for behavior acquired and transmitted by symbols, constituting the distinctive achievement of human groups, including their embodiments in artifacts; the essential core of culture consists of traditional ideas and especially their attached values (Kroeber and Kluckholn, 1958, p. 181). This classic definition highlights the role of values as an essential element of any organization because values of people can guide their behavior.

Researchers stress that organizational culture is symbolic characterization of the social interactions and relationships within organizations (see, for example, Schein, 1985; Siehl, 1985; Smircich, 1985; Hanges *et al.*, 2001). In particular, organizational culture can be noticed as a symbolic expression of a collective set of values that members of the organization share (see Sathe, 1985; and Herguner, 2000; Alder, 2001). Since symbolism, is something that varies from one person to another, so also organizational culture gives each group (i.e., organization) a distinctive identity that symbolizes the organization's history, management practices, decision-making style, and people values, among other attributes. Over a period of time, group members develop a sense of collectiveness (wholeness) among each other and exchange beliefs that certain values are important and their meaning indicates deeply rooted beliefs that people share (Swindler, 2001; Mallak *et al.*, 2003; and Yaghi, 2007).

METHODOLOGY

As we have seen in the literature section, the examination of the relationship between values, leadership, and decision-making is important in nonprofit literature. The present study thus aims to answer the following questions (1) what are the major values that exist in the nine institutions; and (2) How do board members make decisions?

In order to answer these research questions, a qualitative research design was adopted and three methods were used, namely participant observation, semi-structured interviews, and archival examination of institutional records. The study was implemented between February 2005 and April 2007. Institutions were selected based on a letter sent to each one of them. Those that accepted participation in the study were included. Different letters were sent to individual board members (including institutions head), thus institutional and individual participations are voluntary and confidential. Nine institutions participated in the study: three Islamic centers (mosques), three Hindu temples, and three Christian protestant churches (Table 1).

In order to prepare a list of nonprofit institutions in southeast US (this region is spatially convenient to the researcher) from which nine institutions are selected, the following criteria are considered: (1) institutions must be located at and serve constituents in the southeastern states, (2) each institution must have at least three hundred registered members (paid membership), and (3) services provided must be diverse and include worship (e.g., masses and congregations), educational (e.g., schooling and kindergarten), and social (e.g., counseling). Interviews were semi-structured with open-ended questions. Both men and women board members were involved.

Table 1: Basic Characteristics of Respondents

Characteristics	Number	Note
Management member	102	Elected officers
Supporting administrative positions	30	Appointed by the management
Intervieweess	33	Three decision-makers from each center including the center's head (president)
Male	87	
Females	45	
Age under 35 years old	42	
Age 36 years old and above	90	
Resident for less than ten years	62	Residents anywhere in USA
Resident for ten years or more	70	Residents anywhere in USA
American citizen	94	Includes permanent residents
No-American citizens (non-residents)	38	And non permanent residents
Caucasian	57	As defined by the US Immigration Services: Anybody originally from Middle East. North Africa, and Europe
African American	44	
Asian	31	
Four-year college education/ graduate	112	
Total number of respondents	132	

The research design guarantees that in-depth information can be collected and analyzed about nonprofit institutions. In addition, the way institutions are conveniently selected provides a valid framework to conduct the study as a convenient random sample, which is selected from a randomly prepared list of institutions (see, for example, Babbie, 2001; Silverman, 2000; and Babbie, 2004). In particular, these research methods are suitable to examine organizational culture and values-related issues because the methods can allow exploring cultural and behavioral aspects that a survey may not be capable of doing (Schein, 1985; and Yaghi, 2007). Having collected data and compared against other data that are collected in a different method enhances reliability and validity. The three religions that are represented in this study reflect the diversity of the American society and also provide various services to the community. Of course, all institutions are legally tax-exempted and enjoy administrative and financial autonomy (according to the US law these are nonprofit organizations) (see, Yaghi, 2007).

This study is significant because it attempts to add new theoretical and practical understanding to what we know about organizational behavior and decision-making in nonprofit organizations. For practitioners, the study can improve managerial practices by recognizing the overlapping nature of leadership and daily managerial duties, such as decision-making. For those who are interested in organizational change, the study is valuable as it discusses the results from first hand data about the environment of faith-based organizations. Knowing what influences decision-making can inform our ability to improve managerial processes, such as communication and participation. Despite the fact that this study is about nonprofit organizations in the US, the findings can probably be generalized to other countries if they operate in similar environments, especially western nations. Keeping in mind that few studies exist about similar topics of the present study, the study is a pioneering effort that describes details about decision-making as they are cooked in board meetings. Finally, the present study gains theoretical and practical importance because it builds on and expands the examination of nonprofit organizations that Yaghi (2007) has reported in a published study.

FINDINGS, RESULTS, AND DISCUSSIONS

The archival analysis of previous decisions, interviews, and observations at the selected institutions reveals that decisions that board members make have an obvious religious flavor. Board members, time over time, cite holy scriptures during their discussions. Table 2 shows that values such as 'serving others' dominates in board meetings. Despite the contents of any decision, religiously toned values are given the utmost importance by board members. Before discussing these values, an attempt has been made to explain why all nine institutions have a religious organizational culture.

Faith-based institutions, such as those in the present study, tend to have a dual nature. One is profane, which means they provide educational, social, and cultural services. The second is sacred, which is

Table 2: Major Themes Counted from Archives of Board Meetings and Interviews

Themes (some words were grammatically rephrased)	How many times appeared in the transcript	Leadership implications
Community	824	Group, followers
Values: honesty, responsibility, dedication, serving, volunteering, and solidarity	1,984	Mutuality, solidarity, emotions
House of God	2,271	Institution, organizational concerns, organizational agenda
Respect others/respect the institution/show respect	918	Recognition
Participation	615	Participation in management/ decision-making, contribution in activities, learning
Evaluate/assess/review	1,009	Evaluative action, learning, feedback
Ask others/seek opinion	689	Consultation
Help	1,785	Solidarity, mutuality, human concerns
Response/answer/respond	781	Cooperation, understanding
Complaining, unsatisfied, write to us, read notes	363	Feedback, learning, debate, discussion, dissatisfaction
Gathering	1,046	Activity, meeting
Prayer	2,131	Religious activity, sacred
Problems/problem-solving/ crises	1,397	Experience, learning, leadership, decision-making

they provide a sphere for believers to worship God and practice religious activities (see, for example, Middleton, 1987; and Rudney, 1987).

From a functional and sociological perspective, the two natures (sacred and profane) overlap in faith-based institutions (see, for example, Durkheim, 1968). The 'sacred' nature, however, tends, most of the times to dominate (Bellah, 1970; Greetz, 1975; and Turner, 1977). To say this differently, a religious organization acts religiously and its profane or secular services appear either religious or with a flavor of religiosity. This domination of religiosity can be explained by the values of leaders. As the literature explained, leaders are enforcers of certain values. This is exactly what Bass (1988), Blake and McCanse (1991), and Schein (1993) stress when they report that managers or those in power carry values that quickly spread through out the organization. Having said this, it means that board members who feel that volunteering is a Godly service, influence other people to feel the same way about volunteering.

In the present study, most interviewees stressed that their institutions have a sacred mission and that the management of their institution is 'community leadership that serves God.' One board member puts it this way "… I volunteer to serve God and I expect nothing but going home happy that I am filled with God's blessing." Some other board members indicate they have 'brotherhood' and 'sisterhood' feelings with whom they serve. Managerially, such religious values can shape organizational behavior and promote human passion for serving and volunteerism. The study also discusses major values among board members (including institutions head), and how these values influence the decision-making process and also influences the organizational culture.

Serving others in a nonprofit organization is a driving motive for board members' actions. Table 2 shows consistency among board members' opinions about what leadership should do through the repetition of leadership values. That is to believe in values, such as the focus on human needs, organizational interests, community, decision-making, participation, achievements, evaluation, learning, recognition, respect, and acceptance among others (under 'Themes' in Table 2, the exact words or phrases used by board members during the interview are listed). Interviewees' who use similar words have been grouped in one category if they refer to close perceptual and/or linguistic meanings, such as values and honesty, or response and answer. While the second column shows the number of times, the phrases or words have been repeated in the transcript, the third column describes the way in which these words are being interpreted in the present study. Other researchers, of course, may disagree with this classification or interpretation because the process of coding and recoding can vary from one researcher to another (*see* for example, Collins, 1991; Emerson *et al.*, 1995; Rubin and Rubin, 1995; Silverman, 2000). Nevertheless, for the purpose of this study, all themes are classified based on their managerial implications and compared to other data collected by observation or archival examination to ensure accuracy of coding and interpretations.

VALUES OF BOARD MEMBERS AND DECISION-MAKING

Table 2 indicates that the component of organizational culture, namely, values, supersedes the importance of other elements in the decision-making process depending on the frequency of using them by board members. Specifically, in board meetings, where decisions are officially made, certain values are repeated and stressed. The interviews as well as archival records, also confirmed this finding because the same values are dominant. Regardless of the topic, content, or circumstances that may surround a decision, the process and outcomes of boards' decisions are guided by board members' values. These values can be grouped into four, namely emphasis on learning, emphasis on human and organizational wellbeing, mutuality, and self-criticism.

The four major values are the milieu within which board members exchange ideas and share mutual understanding about decisions, and to what outcomes they want their decisions to lead (see, Figure 1).

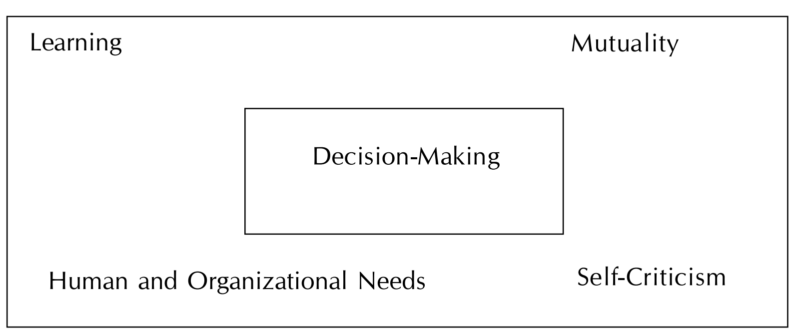
ORGANIZATIONAL LEARNING

Board heads (chairpersons) encourage learning behavior by supporting board members' participation in activities that add new skills or knowledge to what they know. The study reveals that organizational learning occurs continuously through networks of relationships among members and between members and the outside world. Learning is a popular characteristic among nonprofit organizations (Hickman, 1998; and Senge, 1990) and that learning is a cognitive process, which individuals as well as groups can perform. The study finds that the management's decisions, some times, gives priority to humans and at other times to the organization and its mission. By doing so, the management tries to balance human and organizational concerns. Despite the fact that learning is not easy or successful all the time, the mutual respect between board members and the board head is helpful to facilitate learning of new skills and abilities. Respect seems a mechanism for change.

King and Anderson (1995) and Alimo-Metcalfe and Alban-Metcalfe (2001) posit that learning leaderships develop a culture that encourages openness to change. The implication for having mutual understanding within the organization may reduce the resistance of change by improving members' absorption of new experiences. Similar to the argument of Van de Ven (1986) and Yukul (1994), board heads play a role model, to other board members so that they help the entire group of management to learn and transform its knowledge.

The study finds that the learning behavior is evident in the daily practices of the management. Board members learn new skills to manage, solve problems, and lead. They also learn how to deliver multiple services to a large group of people

Figure 1: Decision-Making Milieu



professionally. A member of the board says " ...I did not have any experience before I worked here... I had to ask friends in other institutions all the time about almost everything from paying bills to responding to the community's questions, ...it was essential to know how to make decisions in order to bring people together."

BALANCING HUMAN AND ORGANIZATIONAL NEEDS

Rensis Likert (1967) explained that leadership takes many forms. In particular, consultative and participative leaderships encourage people to become part of the decision-making process. In the nine institutions, findings show that board members make decisions by consultation, where constituents cannot make final decisions, and through participative leadership where constituents can vote. The constitution and bylaws, of course, outline the decisions that the constituents are allowed to participate in and they include, amending the constitution and electing board members and chairpersons.

The archive and field observations reveal that the following practices are noticeable (1) group-problem solving (2) integration with the outside environment (society), and (3) debating and prioritizing internal problems. Each one of these practices has important theoretical and practical implications.

Group-Problem Solving

Organizational leadership consists of individual board members as a collective leadership. Although all decisions are taken in a participatory form (see, Likert, 1967), the most influential figure within the board is the chairperson (institution head). This person leads the establishment of rules and routines for decision-making. The long service in addition to personal devotion to the organization's mission, are among the qualifications that make the chairperson the most powerful decision-maker and shaper of management dynamics.

The field observations and interviews reveal the major role chairpersons play during the management meetings. They table the agenda, question other board members about how they have been executing the institution's decisions, and how they have been distributing work assignments. Although the bylaws do not list these roles clearly, chairpersons gain more power as a result of their personal charismas. Chairpersons act as leaders even outside the management office. They occasionally lead the congregation (mass), teach in the Sunday school, and participate in cleaning the building. One major character that is clearly noticeable in the nine institutions is the ability of chairpersons to communicate with clients and establish personal ties.

Contrary to the personality and performance of the chairperson, board members have specific roles as listed by the constitution and bylaws. They are decision-makers and executers of these decisions. They also supervise daily activities. However, their decision-making skills and performance inside the management office are modest. Some of them are first time volunteers while others have served before in various managerial positions. Nevertheless, their leadership capacities can be described as teams who act collectively. They manage all cultural, social, and religious activities within the organization, but their work reflects a lot of 'following' rather than 'leading' within the board. They follow the guidance and actions of the chairperson. With the chairperson, however, their performance is crucial for enforcing organizational decisions.

The management board very often engages the members of the organization in solving problems by encouraging open debates and facilitating informal discussions. This consultative style of leadership indicates two facts: the first one is that the leadership is interested in clients and in fulfilling clients' needs. This will help in enhancing group commitment to the organization and also to the organization's mission (*see* for example, Rost, 1998). The second fact is that the leadership pays attention to organizational needs by ensuring goals attainment (Blake *et al.*, 1964; and Masi and Cooke, 2000). These goals must be met even if the decision will cost the institution extra resources.

The study finds that managements negotiate priorities. The leadership behavior helps the group to overcome problems such as financial tightfistedness. Thus, the responsibility for these actions is distributed among all members in the board. Regardless of unpleasant consequences that may arise, all members work together to set priorities and solve problems. This collective identity (Swindler, 2001; and Mallak *et al.*, 2003) may strengthen the board and help its members to overcome their differences or disputes.

The study finds that the leadership attempts to balance the interests of the group as well as those for the organization. To make their decisions successful as perceived, the management holds a series of group discussions between members of the board and their constituents, in which the former updates the latter on the development of unfinished business, loans, problems, or any other issues. Each meeting aims to answer questions concerning different aspects of decisions that the board has adopted earlier. The archival records of the institutions show that the management occasionally organizes meetings with the constituents to discuss major issues that relate to particular decisions. Constituents, therefore, have the opportunity to address their concerns or share their opinions with the rest but without a direct participation in the decision-making process.

Integration with the Society

Along with the constitutional roles, the leadership maintains systematic communication with other institutions. The relationship with the outside world provides comfort and a sense of belonging among board members. The archives reveal that the management maintains inter-organizational relationships with similar institutions. In addition, nonprofit institutions tend to organize or participate in public activities. Some interviewees indicate that such activities "… enhance solidarity and translate Gods' words into real experiences."

Prioritizing Internal Problems

The study shows that negotiating priorities of the management is not exclusive. Negotiations include decisions about internal problems (problems within the community) in addition to external problems. The management's agenda, the financial problems from which the organization suffers are of less importance than the interest of individual constituents. The archival records also show that there are many incidents when there is a clash between financial interests of the institution and the interests of people and this leads the management board to make decisions that support people. Although, there are many recorded losses resulting from siding with people, the management continues to do the same over years. However, human and organizational interests do not seem to contradict all the time. Both needs overlap without revealing a major rift between different priorities.

Mutuality

Some researchers claim that 'mutuality' is a managerial value in itself because sharing cultural elements may relate to exchangeability. Yaghi (2007) found that organizational identity was determined at large by members' success in establishing shared concepts that connect all members around specific values. Some researchers call mutuality a 'cultural element' and argue that it unites members of the group and also develops solidarity, which seems to be the case of the nine institutions (see for example, Schein, 1993; Morgan, 1997; and Smith, 2001).

The followers-leaders relationship strengthens solidarity within the board as well as within the entire community (the board and its constituents or clients). The enhancements stem fundamentally from the feelings of compassion that members of the board have and the support and appreciation that the constituents offer (see, Table 2). Leadership, however, did not necessarily create those values, but simply enhanced them. Mutuality and its values are segments of faith and its value system dominates the institution. Therefore, volunteering to serve others may require people to have consciousness and devotion to maintain the moral standards of the institution.

Self-Criticism and Evaluation

The study shows that by evaluating the process of decision-making, it helps in establishing a channel for feedback and behavioral correction. In one or two major meetings each year, the general assembly (all registered members in the institution) receives a report by the chairperson about the accomplishments, activities, and plans of the management. People in these meetings have the chance to ask questions and inquire explanations about any aspect of the management processes, practices, and decisions.

In addition to the previous official evaluation, which is part of a participatory leadership style, there are other possible ways to evaluate the management's performance year-around. The members of the organization can write to the management through a suggestion box, which is affixed to an accessible area inside the building.

Self-criticism or evaluation is a matter of personal conduct, where each individual on the board questions their actions. The value system that controls the group's behavior may stem from the same moral and cultural standards that individuals have, which are the religious values. Board members communicate daily with their followers to maintain the cohesiveness of the group and also seek advice from others. It is not unusual to see the chairperson or other members of the management frequently seeking opinion from other members in the community.

ORGANIZATIONAL CULTURE NOT DECISION CONTENT

The study shows that the management develops a multiple-meeting approach in decision-making according to which each issue is immersed by a comprehensive investigation to ensure efficiency. In the management proceedings, there are reccurring incidents where the management has to develop alternative solutions to solve different problems. Discussing the same issues in multiple meetings reflects a managerial approach that stresses the need for collecting information and providing in-depth analysis of the situation being discussed.

The multiple-meetings approach leads to partial solutions sometimes. Partial solutions seem to provide satisfying outcomes. The study shows dozens of decisions that have been discussed by the board of each institution, which have resulted in partial solutions to the problems they were addressing. Some of these problems were financial such as donations or debt. Other problems were about conflicts between two or more members of the organization and their requests for sponsoring activities. Whether these partial solutions aimed to create win-win situations or not, it is clear that managerial decisions were not exclusive. Making priorities and balancing different concerns (Blake *et al.*, 1964) allowed the leadership to be flexible and to learn from its experiences and share opinions with other members.

The study shows that the organizational values that board members carry shape the processes, which they utilize to solve problems or make decisions. In other words, the four major values establish and maintain an organizational culture where the same values remain dominant. Decision-making thus makes it difficult for decision-content or other factors to sway board members or change the way they make decisions. Bozeman and Pandey (2004) argue that decision-makers build a consensus and maintain it because they maintain their power by garnering support around major issues (political necessity). In addition, they utilize consensus-gaining to facilitate managerial processes (technical necessity). However, similar to Yaghi's assertion (2007), consensus making is also a cultural necessity (factor) that decision makers in the nine institutions utilize to maintain cohesiveness and solidarity among the management members as well as among the entire constituents, themselves included (see, Morgan, 1997; and Yaghi, 2007). Therefore, seeking a consensus becomes a goal that decision makers attain in all decisions. What makes consensus building possible is the fact that board members share similar values.

Decision makers use symbolic speeches and religious language to convince people with their opinions. They also maintain cohesiveness by replicating the same approach used to resolve disagreements anywhere and anytime (as explained earlier). The process briefly starts by micromanaging the situation; they appeal to the other party of the problem and try to convince them of the management's rationale behind making a particular decision or taking a particular position. Decision makers also lobby supporters to build a consensus. That is whether consensus is needed within the board membership or within the larger community. They use religious speeches to warn against division. By doing so, decision makers maintain a strong and cohesive group of people (see, Yaghi, 2007). The culture their behavior creates is essential in solving problems and making decisions within a faith-guided environment which is a godly type of behavior.

CONCLUSION AND IMPLICATIONS

Organizational culture has a profound impact on the organizational behavior of decision makers in the nine Islamic, Hindu, and Christian nonprofit institutions. The cultural milieu indicates that certain values are shared among decision makers bringing different peoples closer to each other; they share, relatively, similar perspectives on the organization's mission, their role, and so forth (see, Figure 1). Whether these values are 'good' or not is beyond the scope of this study. What the present study intended to do was to examine the influence of organizational culture on the decision-making process. In doing so, four major values characterize the decision-making process, namely emphasis on learning, balancing human and organizational interest, mutuality, and self-criticism.

While it is not definitely clear why these values maintain their dominance in the nine institutions, one can only speculate until new studies in the future reveal more knowledge about this subject. There may be two reasons that contribute to maintaining organizational culture with these dominant values. Firstly, most American nonprofit or faith-based institutions are newly established as community service-providers (during the 1970s and 1980s) (Ansari, 1988; Haddad and Smith, 1994 ; Ali, 1996; and Eck, 2001). Therefore, many of them find themselves in need of balancing their profane and sacred activities. This uncertainty in identity (secular or religious) can influence the way religiosity dominates decision-making and makes religious symbols effective in influencing people. However, over-religiosity may lead decision-makers to see everything inside and outside the organization through religious lenses thereby limiting their ability to change managerial strategies, change values, or gain new skills. Secondly, probably due to lack of adequate interest (to serve) among others or lack of volunteers, as is the case in many other nonprofit organizations, those who volunteer to sit on management boards or committees continue to be the same individuals who run for elections and get re-elected again and again. Therefore, the same leadership continues to influence the managerial and decision-making processes. As the study showed, the values of those who manage the organization also continue to survive influence the decision-making process. The longer these individuals serve in the management, the longer their values affect the decision-making process.

Theoretically, the findings suggest that organizational culture, not decision content, dictates the decision-making process. Therefore, while decision content and other factors may be important, organizational culture proves to be influential on the decision-making process in nonprofit or faith-based organizations.

Hence, changing board members, may or may not lead to changing the way decision-making is conducted because the organizational culture leaves a long-term impact on organization members (board members). Unless, new members bring new values, the old values will continue to remain influential. Future studies should be conducted to further examine the impact of organizational culture on organizational change and the role of new board members in organizational change.

For practitioners, the findings indicate that professionalism may conflict with organizational values. Conflict, however, can emerge if new board members are not satisfied with the way the process of decision-making goes. Therefore, if constituents feel that current decision-making suffers weaknesses, more participation and advocacy on their part will be needed. In other words, as the present study shows, there are only a few who volunteer to serve on boards. Therefore, if more people were willing to run for elections, the organizational culture would emerge, as new members would carry new values.

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Policy-Implementation Frame: A Revisit

*G Ramesh**

In Public Policy literature, implementation is discussed as flowing from Policy. In this paper, it is proposed that there is an emerging trend of evidences indicating an inverse relationship—Implementation leading to Policymaking, and Implementation manifesting as Policymaking. Implementation to policymaking happens when a local intervention grows from micro implementation to macro policymaking. The intervention starts with the Ideation of a new initiative, and its transition through the processes of snowballing and crystallization. Implementation as policymaking happens when an intended policy manifests as Emergent Policy (Pe) through the adaptation-mutation process, which can be characterized as Emergent Policy-Adaptation-Mutation (PeAM) Cycle. These conclusions are based on the findings in the literature and on learnings from the experience of projects such as Grameen Bank, Joint Forest Management, Rogi Kalyan Samiti and CNG. This paper seeks to provide a different perspective to direct the attention of policymakers to these possibilities.

INTRODUCTION

The Implementation phase of public policy gained immense importance in the last two decades due to the authors like Wildavsky. Implementation has got fresh impetus in the last decade due to public system initiatives like Reinventing Government and New Public Management (NPM), which succeeded, in bringing Policy Implementation to the forefront. The thrust of public policy writers has been that a policy design, bereft of implementation strategy, is deficient in nature. The focus of these initiatives are towards creating entrepreneurial public system, empowerment, accountability for performance, market modes of control, etc. Also in India, the thrust is moving away from policy and planning to implementation and execution. In this context, Parsons says that the emphasis is shifting to 'post-decisional' analysis (2003). We now have more than a decade of experience, post New Public Management (NPM) and Reinvention in Government, to revisit the traditional thinking of policy-implementation framework.

The search these days by policy- makers and administrators are for successful project interventions and best practices for replication in public system. This is probably a more pragmatic approach than proceeding top down for which planning has been traditionally blamed. However,

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questions arise about the Policies and Planning that formed the basis of these projects. The related issue that arises is: Have we moved from Planning and Policy Mode to Project and Implementation Mode? The planners no longer talk about input-output model, growth models, and perspective planning. If there is water crisis, look for a urban water project and NPM methodology like outsourcing, than looking at larger picture of urbanization. The recent trends have been towards: Policies than Planning, Projects than Policies, and Execution than Planning and Policies. It would be an useful study to understand this new trend and capture its processes. As Parsons (2003) says, "A primary task for the student of public policy is to understand and clarify the discourse or frameworks which structure the analysis of policy problems, control and processes."

The main theme of the paper is that there is enough evidence to suggest that we are moving from planning paradigm to implementation paradigm. The extant view of implementation flowing from policymaking needs to be revisited, and we need to consider the alternative processes of:

- Implementation to policymaking, a transition from micro implementation to macro policymaking; and
- Implementation as policymaking, a manifestation from intended to emergent policy through adaptation-mutation process.

TRADITIONAL POLICY – IMPLEMENTATION APPROACH

POLICY TO IMPLEMENTATION

In the context of theory and practice of policy analysis, Parsons classifies policy and implementation into three phases: (1) Meso Analysis, (2) Decisions Analysis, and (3) Delivery Analysis. Meso analysis phase is the 'deciding to decide' phase; decision analysis stage is about actions and inactions, and decisions and non-decisions; and delivery phase is about "how analysis are administered, managed, implemented, evaluated, and terminated" (Parsons, 2003). The decision-making stage is the link between policy formulation and implementation stages. Weimer and Vining (2005) writing on this, call it as adoption and implementation phase which follow policymaking. According to them, "The adoption phase begins with the formulation of a policy proposal and ends, if ever, with its formal acceptance as a law, regulation, administrative directive, or other decisions made according to the rules of the relevant political arena". The implementation phase, "begins with the adoption of the policy and continues as long as the policy remain in effect." It is evident from these writings that implementation succeeds policymaking and a policy is important for adoption and implementation.

Policy is discussed in different dimensions, as a statement of goals and objectives, as a statement of intention, and sometimes treated as 'equivalent to actual behavior' (Parsons, 2003). Policy is supposed to set the tone for implementation. However, some concessions have been made when they appreciate the criticality of implementation. Hill and Hupe (2003) give strong implementation orientation to policymaking when he describes policymaking as 'macro-relation between government and society' where 'policy characteristics and policy formation', 'intermediary institutional relationships', and 'street level' are three stages of policy implementation. Similarly, Ripley and Franklin (1975) define bureaucratic policy arena as consisting of "the environment external to the agency, the internal environment of the agency, the policy actions of the agency, and the policy results of agencies' policy actions'. Grey areas of policy implementation are left to the discretion of the local level implementers and paradigm shift occurs when policy gets enacted at street level bureaucracy also.

If implementation has taken a clear lead over planning, the debate is about the overturned causal relationship of implementation with policy and planning. The thrust on implementation might have come from loss of faith in planning, and command and control structure, which it assumes. The performance of planning and policymaking show that the scope for their failure are inherent in their processes. Planning and its widening gap with performance, has been criticized for many reasons: its grand designs, tendency to direct everything, inadequate information basis, inadequate resources, institutional weaknesses, administrative failures, etc. (Meier, 2001). As Caiden and Wildavsky (1974) point out quoting Watson and Dirlam, in underdeveloped countries, "…the difficulties which confront the planner—the ideological climate, organizational weaknesses, the lack of information and projects, and the shortage of competent personnel—are not merely symptoms of the underlying condition; but are also crucial obstacles to changing that condition". Planning, which took different shapes like 'adaptive planning and muddling through' was criticized for adopting "…any process for making decisions in a social context…". They have also discussed cases about various programs of Federal Government of the US, which have followed different trajectories but not any indication of financial losses from the adaptations. This and many such evaluation studies have merely referred to the ineffectiveness of such programs than to monetary losses.

IMPLEMENTATION

Commenting on implementation, Green and Chandler (1990) mention that the way it is used in writings assumes a 'common understanding' of the word. Implementation is discussed in terms of macro and micro implementation. Macro implementation refers to federal or central interface with state agencies, where the policy is enacted, and micro implementation refers to state or field level, where the policy is executed through projects. The flow is again assumed to be from macro to micro implementation.

Hill and Hupe (2003), citing the discussion of handling of Cuban Crisis by Allison, deduce different types of implementation processes as: 'Implementation as system management', 'implementation as bureaucratic process', 'implementation as organization development', and 'implementation as conflict and bargaining'. This gives policy an action bias and implementation is seen as integral part of policy. They also mention that ambiguity and conflict can lead to various manifestations of implementation, which gives Policy emergent property, such as: administrative implementation, political implementation, experimental implementation, and symbolic implementation. Lane (2000)defines implementation as a function of, "policy, outcome, formator, implementer, initiator, and time". This, in fact, brings out the differences in formator, implementer, and initiator and the focus is towards benefit from policy-outcome.

Evaluators look for only tangible benefit in successful implementation. Benefits from a project can be even in learning from it, in terms of institutional design and building process, and even as a recipe knowledge for successful implementation. Contribution of a successful implementation can be varied like, capacity building, leadership building, and social capital creation. Implemented projects can provide a model for mobilization of resources—financial, physical or human; say in terms of, people's participation. Implementation gains can also be in terms of setting up governance structure, creation of market, establishing viable projects, establishing participative models, quality processes, model regulation, etc. The scope for gains is unlimited but rarely explored. What is of importance is the replicability value and strategy for tapping the experience of implementers and for capturing the learnings.

This lacuna in evaluation arises because the evaluators go by the policy implementation framework and do not look for cost benefits outside the scope of the policy. Implementation involve interface with many organizations and integrated solutions, which get missed out. It will be useful to view these modifications as creative adoptions and look for contextual properties of successful implementation. Then one might be evaluating a different program altogether.

Some of the manifestations are probably built in design stage itself. "What can be called 'public policy', and thus, has to be implemented, is the product of what has happened in the earlier stages of the policy process. Nevertheless, the content of that policy, and its impact on those affected, may be substantially modified, elaborated or even negated during the implementation stage" (Hill and Hupe, 2003). The stage of policy formulation itself can be looked at as an implementation phase.

PARADIGM SHIFT

The shift in emphasis and trends can be characterized as paradigm shift, even though in real terms the characterization is of less consequence. Is the shift in thinking significant enough to call it as paradigm shift? Changes in Paradigms happen if there is change in "the way we think about the way we think" (Schwandt, 1990). Hill and Hupe (2003) in the context of `implementation paradigm' wrote about is as "…more or less coherent and in a certain period legitimate set of problems and solutions connected with turning public policies into action, as perceived by both practitioners and analysts of implementation. A paradigm shift, then, would mean that the legitimacy and coherence of such a specific set at a specific time seems to have diminished in favor of other sets of problems and solutions". There can be paradigms and emergent paradigms (Lecompte, 1990). Among these some dominant paradigms emerge due to various reasons like emergence of dominant coalition and its priorities, or crisis, or just situational. In the current thinking, the implementation thrust seems to rule, probably in reaction to failure of policies to deliver on the field.

IMPLEMENTATION TO POLICYMAKING

Implementation to policy thinking is quite prevalent in corporate world. According to Kelly, CEO of IDEO, "enlightened trial and error outperforms the planning of flawless intellects"(Pfeffer and Sutton, 2000). The sequence now seems to be, as Peters and Waterman put it "ready, fire and aim". The basic premise of new thinking according to Pfeffer and Sutton is: "if you do it, then you will know". We briefly discuss Grameen Bank, Joint Forest Management, and *Rogi Kalyan Samiti* as cases of successfully implemented projects, which influenced policies. These cases would form the basis for our discussion on this emerging phenomenon.

CASES

Grameen Bank had a very humble beginning. According to its Website: "In 1976, when Professor Muhammad Yunus and his colleagues started giving out tiny loans under a system which later become known as Grameen Bank, we never imagined that some day we would be reaching hundreds of thousands, let alone three million, borrowers" (Grameen Bank, 2000). It is presently operating in 51 countries with a total portfolio of $25 bn. Its target is to reach 10 million families globally and in India 3 million families. Microcredit is now held to be a globally successful lending and employment generation program. It features in Credit Policy of many governments. In the beginning, they were struggling to gain recognition from the Central Bank in Bangladesh for it to be declared as a bank.

Grameen Bank has certain interesting features, which are quite specific to its operations, which makes it an important case for us. "Grameen is not noticeably 'bank like'. It does not lend money, and it does get repaid with interest. But there are no telephones in its branches, no typewriters or carpets ... and no loan agreements" (Grameen Bank, 2000). The collateral for their loans are peer pressure and peer support. Its trademark qualities are trust, smallness, sensible rules, meticulous organizations, imagination and peer pressure.

Based on some initial success in 1980s in extending microcredit, they started thinking in terms of using the network they have built to expand the scope of their activities to poverty alleviation program. Grameen Bank is a set of institutional arrangement and practices based on social control and it is this that they seek to transmit to various countries. It is a 'social consciousness driven enterprise'. This requires handholding and not just training. Grameen Bank commits itself to providing all these support globally and takes deeper responsibility to extend 'Grameen Family'. In India, the Government is trying to give it a thrust through its policies, institutional and financial support. This has the danger of the project losing its qualitative characteristics. There are success stories of Grameen banks run by NGOs in India. Reserve Bank of India as well as Government of India is keen to promote Micro Banks as a policy instrument of inclusive financing.

Joint Forest Management (JFM) makes an equally interesting case. It was triggered by a project started by an individual and as a small group initiative. It started as a community-based forest conservation movement in Arabari in Midnapur district in West Bengal in 1970s. Simultaneously, another group was working on a people-based project in Sukhomarji village in Haryana. Arabari project was started by a local silviculturist of the State Forest Department, who induced local people to protect and regenerate degraded Sal forest through incentives. They were organized into 'forest protection committees' to guard the forest in their neighborhood against illegal harvesting, overgrazing, fire, and encroachment. In Sukhomarji, the villagers developed earthen dams as irrigation alternative, which helped in tapping water potential. It ultimately leads to better harvesting of water resource and stabilization of agricultural production, and reduced dependence on forest for livelihood and increased forest cover.

The success of these projects pointed out the failure of government forest policies, which could not control denudation of forests, which is going on for decades. The basic flaw in the government approach was that it ignored people's participation based on the assumptions that it knows what is in the interest of forest and its dwellers. This made the Ministry of Environment and Forest to enunciate a Policy, which came to be called JFM, and a circular was issued in June 1990. Under this, the Forest Department and the concerned village community enter into an agreement to jointly protect and manage forestlands adjoining their villages, and share the responsibilities and benefits. Its main objectives are to ensure sustainable development of forests and at the same protect the livelihood of tribals depending on it. It also ensures sharing of power between forest department and villagers.

JFM covers about 10.24 million ha forestland in 22 states as of 2,000 and is managed by about 36,075 forest committees, and is still growing at good pace (Teri, 2004). Though everybody concedes its contribution and utility, there is divided opinion on its success. The actual impact varies from place to place depending on forest officers, village committees' members and local support, but the for the Ministry, this is a major policy initiative which evolved from the field.

Rogi Kalyan Samiti (RKS) is seen as savior of hospital care delivery system in Madhya Pradesh. This started as a simple attempt to clean up the unhygienic condition in MY Hospital in Indore after the Surat plague in 1994. It was thought other than the landfill, even the civil hospital can be a potential source for plague. The Collector, Mohanty with the help of public volunteers undertook massive cleaning exercise in which thousands of rodents and 150 ton of garbage were removed. The Collector then started looking for a method to sustain the tempo created by this. Fearing that the hospital may again slip back to degeneration, the Collector set up RKS to mobilize resources and oversee the hospital management. The Samiti contained representatives from various cross sections of professionals, administrators, political leaders and general public (Gdnet).

RKS introduced nominal user charges through which they were able to build a sizeable fund, improve the infrastructure and maintain the hospital. They also undertook complete renovation of the hospital, and there were visible improvements in the hospital and services. Its success made the then Chief Minister to adopt it and extend it to entire state. RKS has been now set up in all district and civil hospitals of 231 CHS and 378 PHCs of the state (Madhya Pradesh, 2004). The state gave these Samitis enough autonomy to enable them to function effectively. This is now viewed as a model for managing hospitals in public system.

RKS was started in response to the threat of plague in the city. Plague had hit Surat and it was feared that it could spread to Indore. The Collector probably used this as a trigger but he went beyond the usual repertoire of response of administration. The usual approach would have been to clean up the landfill but he started looking at other potential sources. He could have again stopped with cleaning but looking at the response he went beyond. His subsequent initiatives were aimed at tapping the people's involvement that it has generated. Thus though the crisis did help in triggering action, the response and initiatives went beyond the usual call of duty.

MICRO TO MACRO IMPLEMENTATION

In all these cases, we see innocuous but persistent field level interventions leading to major policy interventions. There was an actor, an evolving goal and a focused approach, public participation, and inculcation of social control of services. Some common inferences can be drawn. These initiatives and subsequent policy pronunciations can be seen as transition from Micro to Macro Implementation. It is the transition of an idea through the multiple loci, layers, and levels (Hill and Hupe, 2003) which is of interest.

In management, especially in the entrepreneurship and innovation, literature, it is common to find discussion on progression in terms of stages. There are life cycle theories of industry and firm, Stage Gate model and waterfall models, etc. The stages, we are proposing, are similar to innovation growth model, in which the usual stages consist of preliminary concept development, design and development, validation, and in-service product support (Phillips, 1999). In this, we discuss it in terms of Ideation, Snowballing, and Crystallization. In stages model, it is not unusual to use analogies to characterize stages.

Ideation

Ideation is the 'Deciding to decide' stage, and this in itself is an action phase and has an implementation cycle. Idea generation follows a cycle: context of problem definition, diagnosis and problem identification, and deciding to intervene. Nobody invents a problem, it requires a perceptive mind and a commitment to isolate a problem and find a solution. The garbage can model is one such process, which describes this process. What comes out starkly from both corporates and public system literature is that the existence or persistence of a problem is no guarantee for its recognition. The problem recognition requires a proactive agent. The initiative can come from the top like a Collector or from the field like forest officer at micro implementation level.

Problem definition is a critical step, as the problem has to be defined such that it begets solution. The diagnosis and intervention are built into the way the problem is defined. The effort should be towards finding a locally acceptable and implementable solution to a locally defined problem. At this stage, the focus is not on finding a global solution, which is replicable or scalable. This is best done at field than at top level.

The initial implementers start without a plan or even a name for it. All these get appended later. In the case of Grameen Bank, it started with a simple attempt to find a solution to the debt problem of poorer section of people in a neighborhood area. In the beginning itself, they did not start with the idea of a bank. They did not seek to provide multiple services that they subsequently added. They started with a smaller canvas and tried to find out a simpler solution.

The focus is entirely local and "... all social construction approaches examine local arrangements based on the methods of producing or constructing facts in their original place, facts that can be observed through human negotiations. According to this view, social reality is constructed by particular social actors, in particular places, at precise times" (Harrison and Labarge, 2002). The interventionists tried to limit the scope of intervention, presented it in new forms, which was simpler and acceptable. Also in RKS, it was initially sought to clean the hospital, which was thought to be a potential breeding ground for plague. In this case, the potential crisis rather than the crisis *per se* played a role in getting attention, but leadership helped in looking beyond the obvious and limited options. In JFM, it started with an initiative to control deforestation in the neighborhood. Subsequent developments were built on earlier successes and fulfillment.

Snowballing: Local Implementation

The adoption stage consists of establishing a Local Intervention (LI), which takes the form of Snowballing. There is a gradual recognition of scope of the problem and the general utility of the intervention. In RKS, the Collector first appealed to the public to contribute to the cleaning of the hospital. Having seen the overwhelming response to it and anticipating relapse of the original state of the hospital once the initial step is over. The Collector further enhanced the scope of the project and tried to institutionalize the intervention to ensure sustainability. He formed a committee involving various sections and gave the initial thrust through his active involvement. At LI stage, the intervention gets a form in the nature of network, structure and process, and also in a limited form shared beliefs and values.

Inculcating practice does not just end with the changed agent's advocacy of the program. It has to be adopted by various stakeholders who have to see the benefit in participating from it. This process is very critical to the success of the intervention. In Arabari and MY Hospital Project, the various stakeholders like villagers, tribals, doctors, patients saw that they stood to gain from participating in it. Conflicts can come wherever there is common resource, which would require a regulatory role, which was played, by the Forest Committees and *Samitis*.

This is akin to the process of snowballing. The common understanding of snowballing, "…is the rolling of small ball of snow down a snow covered hillside, as it rolls the ball will pick-up more snow gaining more mass and surface area…' (www.wikipedia.org). It is also symbolic of a small effort building, a momentum and a mass of its own and becoming a vicious spiral. Snowballing as a construct is used extensively in the context of research methodology and marketing.

The idea having gained currency needs a structure and sustainability to survive. The initial structure is amorphous, and there is self-selection and volunteerism. According to Hjern and Porter, "Implementation structures are most likely to be self-selected than designed through authoritative relationships. They are formed by the initiative of individuals in relation to a program" (1981). Quoting Sahal, they write, "it is self-referential process' … and 'is a problem posing and not merely a problem-solving system'". There was volunteerism in the initial stages in all the cases from the side of both the providers of service and the beneficiaries.

The ideation stage cannot be seen in isolation from the actor. He plays a crucial role. He helps define the problem, create the initial group, and necessary administrative ambience. It is akin to the Actor Network Theory (ANT) prescription. ANT describes the initial sequence of the innovation process as, "… having designed an innovation project, an *ad hoc* group, creates a provisional structure, develops arguments to legitimize the project and defines the necessary conditions for membership" (Harrison and Laberge, 2002, p. 500). This process is comparable to the analogy of snowballing. The snowball gains size and structure given the right ambience though it is definitely not geometrical or in regular shape. It gives a scope for volunteer to cling much as it provides a platform.

The success of the project can be judged from its continuity and scope for scalability. Attention cycle of governments, bureaucrats, and people is generally of short duration. For a project to be characterized as successful and worthy of replication, it has to continue beyond the tenure of the officials, people's interest, and funding availability. Continuity gets ensured if sufficient gains have been made by the stakeholders and it helps the project to show early success. This is quite evident in RKS, where there were initial successes and participants had stakes in making it successful.

It is also important that the initiative is given sufficient time and thrust for it to take roots and become noticed. This is in contrast to many initiatives, which die with first bloom itself. If we look at RKS, the efforts continued even after the threat had subsided. The Collector kept the interest on through his own personal intervention. So also with Grameen Bank and JFM, which went on for quite many years before these, got official recognition. The foundation for the sustenance of the project is built at this stage.

In the approach towards implementing an intervention, one can find government sponsored pilot projects following different trajectories from that of Civic Societies. In Government sponsored interventions, the emphasis is on targets, financial thrust, and finally, sustaining the project at any cost. In Grameen Bank case and Arabari case, the targets unfolded and the implementers did not have the cushion of funds. Since these grew in frugal atmosphere, these had better chances of success in replication. One of the pitfalls of replication and standardization process is the relaxation of administrative and financial constraints, which leads to explosion of costs. As it is said in software industry, the program development environment cannot be different from implementation environment or has to be compatible. The survival of the project depended on the value addition of the project and its continued legitimization. In RKS, it is government-driven, but its process was closer to the process followed by civic societies than its own.

Micro intervention is locale specific and some extent of scaling up happens through snowballing. The scaling up to macro level implementation would require different levels of definition, structure, process and escalation. It would require lot more concretization and standardization, and formal structures—one of the key elements would be knowledge management and transfer.

Crystallization: Policy Formulation

The next stage of successful local implementation is about how it gets translated as national program or policy. We restrict this phase to the policy formulation stage, which refers to enunciation of the program or policy than the entire cycle of policy implementation. The complete cycle of policy implementation is another huge process by itself. A successfully implemented project will have many takers. The same departments, which protest will claim credit for a project once the benefits, become evident. It is again a moot point how a successfully implemented project attracts attention of policymakers.The latest in public administration is the best practices and some of these innovations gain attention through this process also. In any case, a concept finally finds its way to policymakers, and gets adopted as national program. A local project becomes a candidate for macro implementation when it becomes successful or catches attention. The process of expansion can be better described as transplantation than replication. Berman (1978) refers to macro implementation as the process of Federal Government executing its policies by influencing local governments.

Consistent with our approach, we refer to macro implementation as the process of scaling up the local project to national or state level project or policy. Of the cycle, the focus of this paper is on policy formulation as emerging from a successfully implemented project.

The progression of an implemented project to the stage of policy formulation can be described as the process of crystallization. The success of a local program after it gets adopted as national program is yet to be fully tested but what is of interest is its elevation to a policy status.

The critical aspects of macro level of policy are articulated policy, a blue print based on implemented project, a globalized structure, and multi layer processes. Macro implementation requires different structures and persons to lead. The weakest link in scaling up is capturing learnings, knowledge management, from experience and transferring to other areas and groups.

An important aspect of policy formulation is its crystallization. Crystallization, a scientific concept, has rich connotation in social science and decision-making. Crystallization refers to formation of solid crystals from super saturated homogeneous solution. It can be formed by dipping a 'seed crystal' into supersaturated solution. A crystal has structure and is composed of motifs (www.wikipedia.org). The process of policy formulation in social arena is like the process of crystallization. Policies have to incorporate the contextual properties of the local project (the local project can be seen as the seed crystal) and is better to be seen as an organic process of transplantation. A macro context is also required.

Critical knowledge about an organization resides within the organization and public systems are no exceptions. There is constant adaptation that takes place at field level in the implementation of a project but are rarely captured or documented. The learnings get lost as these reside mostly within the implementer. O'Dell and Grayson (1998), quoting the experiences of HP and Texas Instruments, point out that: "inside their own organizations lies, unknown and untapped, a vast treasure house of knowledge, know-how, and best practices". JFM best illustrates this point. It was going on for many years in Arabari before it caught policymakers' eyes. There should be many more interventions, which were successful but did not reach this far.

The learnings are not just restricted to solutions or formal methods of implementation. As Moore says: "the contextual properties of ideas are much more influential than their intellectual properties" (1990). In the case of Grameen Bank, it would have been very tempting to the Central Banks of various countries to issue circulars detailing the organizational issues, committee formation, loan and eligibility norms, appraisal and monitoring systems, etc. This would have been a sure recipe for failure.

Based on a study of successful firms, O'Dell and Grayson (1998) conclude that "Attempting to copy just what is done—the explicit practices and policies—without holding the underlying philosophy is at once a more difficult task and an approach that is less likely to be successful". In Grameen Bank, the founder and the Bangladesh office provide advisorial service and training to other countries and governments, which are interested in implementing it. It does not stop with just manuals and prescriptions but accept deeper responsibility for extending `Grameen Family'. In RKS, the Collector played a central role in its extension. Even here, there is a paucity of successful implementers. We quickly adopted and become a knowledge society, but are still trying to become an implementation society.

Transplanting an idea even within an organization in a corporate set-up is a major task, and is an upheaval task when it comes to public system. 'If TI only knew what TI knows,' mentioned Jerry Junkins, the late Chairman of Texas Instruments (O'Dell and Grayson, 1998). Scalability of strategic interventions depends critically on ability to translate knowledge into action in different surroundings with fidelity and without transmission loss. According to Pfeffer and Sutton (2000), "..although knowledge creation, benchmarking, and knowledge management may be important, transforming knowledge into organizational action is at least as important to organizational success". The original implementers are now knowledge managers and trainers than project managers. The original ground becomes the demonstration site. Grameen Bank implementers seem to have perfected this changed role. They emphasize training and softskills. If JFM has to be multiplied, the training ground ought to be Arabari and Sukhomarji where there is more to be learnt from the original implementers, participants, and ambience than from policymakers or academicians.

When is it ideal to take up for scaling a local project depends on successfully creating a macro context? Recognizing the utility of an intervention and adopting it for further development is an uncertain process and without timeframe. A research conducted by Gabriel Szulanski on what prevents transfer of knowledge found that " a practice can linger unrecognized for years in a company. Even when it was recognized, it still took more than two years on average before other sites began actively trying to adopt the practice it at all" (O'Dell and Grayson, 1998). As Osborne and Plastrik mention, "focus on improving your steering capacity only after you have developed some momentum that builds faith in the effort" (2000). It is important for the local project to gain critical momentum for it to find takers. Given the cynicism about public system, it needs more internal marketing than external marketing with attainable and demonstratable milestones.

In Grameen Bank, it was many years before it took deep roots and became Grameen Bank. In JFM also the experiment was going on for long time before it caught attention. In forest management, it takes quite long to establish credibility as it involves forest regeneration. In RKS case, the Collector was steering it until it gained its own momentum. There is also need for a critical mass of support for a project to succeed. Huge inertia is built in public system and powerful stakeholders who stand to gain from status quo have to feel equally relevant in the new scenario. In JFM, this can be seen from the attempt to share power between forest department and local tribals. Scaling can be organic growth like in the case of Grameen Bank or externally driven like JFM or RKS.

Moore (1990) points out that as ideas gain currency, these establish the context in which public policy is debated and implemented, and these "…simultaneously establish the assumptions, justifications, purposes, and means of public action". Grameen Bank and JFM cases illustrate that these provide the context for all subsequent policy making and decisions in their respective domain which itself is a great achievement. When do the ideas become dominant in policy debates? These become dominant when "… an organization develops a strong sense of mission, or when a social norm mobilizes private actions on behalf of public purposes and suppresses other possible approaches, ideas demonstrate their power to provide a context for public debate and actions". This is when we can say there is consensus about a Policy and it becomes costly to oppose the policy.

The gains have to be visible for internal stakeholders as much as the external stakeholders. In JFM case, it gained acceptability among forest officers after they saw benefits in terms of policing. The Doctors in the RKS became willing adopters when saw improvements in their working conditions. For public policy to get acceptance, the ground has to be prepared, wide consultation have to be held for consensus to evolve, and mass mobilization to be taken up. The disbelievers become willing adopters. It can be observed that these processes are more critical than infrastructure building or establishing formal administrative mechanisms. The success of policy formulation would depend on effectively incorporating the contextual properties of a local project, having a huge army of willing adopters which happens through snowballing, standardizing effective structures from the amorphous ad hoc structures (snowballing to crystallization), an ambient macro structure for proper transplantation of ideas.

Micro to Macro Transition

The process of transition from micro implementation to macro policymaking can be described by ideation-snowballing-crystallization phases. This is a long and uncertain process. Some common observations can be made regarding the transition based on the cases. In all these cases, there are champions who spearheaded till it reached a stage. In the case of RKS, the collector was involved in extending it to whole state. In Grameen Bank, their founder plays an active role even today in spreading it all over including other countries. These projects were extensively studied and documented which helped in getting right attention and appreciation for the projects. These projects provided the proto types, which helped in designing macro level projects. These projects also act as good training ground for intended participants. Manuals and training programs have been designed based on the insights gained from these projects. We can thus find some common grounds in the scaling up of these projects, which are the learnings.

There should be many examples, apart from the ones discussed above, which might have followed similar trajectory where local initiatives acted as triggers for national programs or public policies. The main success factors of these projects are the creation of governance mechanism, and social capital in terms of developing "…underlying norms (trust, reciprocity) that facilitate coordination and cooperation for mutual benefits" (World Bank, 2001). These factors seem to make the difference between successful and unsuccessful implementation and it is precisely on these that projects fail when these reach macro level status.

We see clear evidences of these in the cases discussed so far. In Grameen Bank, there was organic growth before it was taken for massive expansion by governments, though in the case of JFM and RKS it was through bureaucratic channels. Also in JFM and RKS, major stress was on governance and soft skill properties of the intervention than on formal mechanisms.

The cycle proposed here resembles the concept of backward mapping to some extent. Hill and Hupe (2003), quoting Elmore, mention a process of 'backward mapping' or 'backward reasoning' and observe that the process flow "from the individual and organizational choices that are the hub of the problem to which policy is addressed, to the rules, procedures and structures that have the closest proximity to those choices, to the policy instruments available to affect those things, and hencek, to feasible policy objectives". It can be said that the decision rules, procedures, processes of a policy emanate from successfully implemented projects and are designed to resemble features of the selected projects as closely as possible.

The implication of this development is that policymakers should proactively search for successful local initiatives and look for institutions and processes that have transplantation value. This needs to be done by design than by chance or serendipity. This explains the search for best practices. This means government should also create conducive atmosphere to encourage such experimentation at operational level.

IMPLEMENTATION AS POLICYMAKING

Implementation manifests as policymaking in two ways: As an Emergent Policy (*Pe*) or through the process of adaptation; and mutation of Intended Policy (*Pi*). Government for the sake of expediency or in right earnest leaves policies ill-defined with ample scope for interpretation and adaptation during implementation. Government handles uncertainty in implementation phase by creating arms length organizations or regulatory bodies to handle further refinement of policies and to tackle contentious issues. This gives rise to the criticism of non-legislative authorities including street level bureaucrats deciding policies which belong to the domain of legislators. Writing on the characteristics of policy settings, Hill and Hupe (2003) mention three types of policy formation: Distinct policy formation, framework policy formation, and ongoing policy formation. Thus policy formulation encompasses not only distinct policies, but also a framework or an on going process. Quoting Anderson, Hill and Hupe point out: 'Policy is made as it is administered and administered as it is being made'. In this section, this aspect will be examined. The CNG case best exemplifies this.

EMERGENT POLICY

Public managers at the helm of affairs can rarely "rely on unambiguous legislative mandates" (Reich, 1990). The implemented projects are impacted by local realities, coalitions, and priorities more than those envisaged at macro level. The net result is as Berman (1978) cautions, "the policymakers may end up with 'adoption fallacy' in believing that the project they have adopted is same as the implemented project."

A policy or program under implementation undergoes several distortions, and finally, takes a shape, which can become unrecognizable from the intended one. This can happen in the form of Goal Displacement or in extreme cases, the implementers may be just fighting for the survival of the program organization than for the program objectives. It may succeed in its new metamorphosis also, but as Pressman and Wildavsky (1973) say: "Looking back at the very array of governmental programs that are in operation, we conclude that they must have been implemented... No genius is required to make programs operative if we don't care how long they take, how much they require, how often the objectives are altered or the means for obtaining them are changed".

CASE OF CNG

CNG as fuel was introduced in Delhi on the basis series of initiatives of Judiciary acting on appeals by certain segment of civic society. The implementation process of CNG makes an interesting reading as a case of implementation emerging as policymaking. The Supreme Court issued a directive in July 1998 that all diesel run buses and commercial vehicles in Delhi should be converted into Compressed Natural Gas (CNG) mode. Later, two more deadlines were set in September 2001 and 2002, each time leading to strikes and panic. CNG is clearly cheaper and cleaner than diesel but supply was a major issue as there were only nine dispensing stations in Delhi as of July 1998 (Rajalakshmi, 2001). By March 2002, about 100 buses with CNG were operational. The massive attempt involved converting 10,000 buses and about 70,000 commercial vehicles in

Delhi. Majority of buses were still not ready by September 30, 2002 and would have to go off road. Government stepped in by agreeing to provide financial assistance to taxi and three wheeler owners to retrofit their vehicles. Bus manufacturers were still gearing themselves to deliver new CNG cylinder fitted buses for which orders had been placed.

In September 2001, the then Chief Minister of Delhi mentioned that "Stands are taken in court which are to be fulfilled by the Center. But the tendency is to blame the Delhi Government. There was an agreement to put up a collective stand before the court but nothing of the sort happened and the Center has gone back on its word" (The Hindu, 2001). Central government expressed its inability to ensure supply and was still putting up a case for Low Sulphur Diesel (LSD), an alternative fuel. Delhi Government complained that even though the central government was informed that they had to supply gas for about 70,000 vehicles, the central government pleaded its inability.

There was still no clear fuel policy from the center. The Court, midway through the crisis, directed Bhure Lal Committee to examine whether LSD is a clean fuel and can be used in buses (Rajalakshmi, 2001). The desirability of CNG itself was still being debated. Safety concerns were expressed and there were some accidents. Debates were going on about the advantage of CNG with some energy specialists like Pachauri (2001), advocating Ultra LSD for economic, technical and environmental reasons. He wrote that, "In principle it is far more desirable to lay down permissible limits to pollution and specify the degree of environmental quality that should be achieved and maintained than to prescribe specific technologies and regimented solutions". Finally, he says "Enough confusion has been created already. Let us solve this problem through dispassionate analysis".

So, first a court directive was issued, and then, there was the debate about its technical and economic viability, and simultaneously the operators were trying to cope with conversion. Improvised retrofitted buses came first followed by infrastructure for CNG distribution with the vehicle manufacturers finally waking up to designing CNG compatible and safe buses. Adaptation happened in different ways. There was a shortage of cylinders and vehicle owners started using spurious ones. Sandhya (2002) pointed out that, "Authentic cylinders are priced between Rs. 10,000 and Rs. 15,000 depending on the capacity, while spurious versions are reportedly available for Rs. 5,000 in Delhi and between Rs. 1,000 and Rs. 3,000 in Mumbai. The spurious cylinders are the main cause of explosion and accidents in CNG vehicles". Draft norms were just getting ready and even the norms by International Organization of Standards (ISO) were in the final stage. De (2004) pointed out a series of difficulties like, "…uncertainty about vehicle conversion,.. lack of indigenous technology,.. infrastructure constraints, ...delay in getting permission,.. low storage capacity of cylinders…". So, the project got launched, and then came the technological adaptation, standard development, infrastructure development, etc.

It was finally implemented but a major program got implemented with little policy and least plan. It is now being appreciated by many for helping to control emission and pollution in Delhi. Now all stakeholders from Government of India to Delhi Government to NGOs claim credit for its successful implementation and impact. Other states are now looking at this technological choice.

The concept of deliberate and emergent policies becomes relevant here. According to Mintzberg and Waters (1998), 'emergent strategies' are "patterns or consistencies realized despite, or in the absence of, intentions". On the contrary, intended strategy is deliberate. To some extent, the concepts of Intended and Deliberate strategies have to be seen as a continuum with these two at the end of spectrum. It is unlikely that strategies will be completely intentional as some modifications do take place and or totally unintended as intention may be there but it may lack support or potency. In the case of CNG implementation in Delhi, it can be seen as Emergent because among the actual policymakers and implementers, that is at the level of Central and State Governments, and manufacturers and users, choice of technology was still being debated and there was no clearly expressed goal to opt for CNG. It was spearheaded by some NGOs and driven by the Court who are external to the system. So, it can be termed as Emergent Policy for this reason that the trigger as well as the initial impetus came from outside the system.

It can also be termed as emergent—adaptation process because the technology, implementation structure and support structure evolved with the implementation. The government was quite unprepared for its implementation. Technology was still evolving and supply chain was being put in place. There were also some accidents. Standards were not there but cylinders, both genuine and spurious, had already entered the market. It was much later that bus manufacturer came up with inbuilt CNG model.

Emergent policy can also be viewed as a process to incorporating learnings as implementation progresses. Even after the Court directive was issued, there was little attempt made to study its implication and come with a comprehensive policy including spelling out strategies for infrastructure, and design and manufacturing. This is evident from the ad hoc stand of Central and State Government. There was also incomplete debate and several technological and infrastructure issues were thrown up during implementation, which should have been dealt with at pilot stage or concept stage. This stands out as a program, which was externally driven with the government, constrained to following directives than proceeding with a policy framework and action plan. Probably, because of this unchartered progress, other states were deterred in going for CNG.

The emergent policymaking can also happen, if different stakeholders interpret it to suit their expectations. In CNG conversion project, government stepped in providing financial assistance to taxi and three wheeler owners to cover retrofitting expenses. This had its own implementation objectives. JFM got redefined, when the Forest Department used it to share some of the burden of policing of forests and the villagers tried to reap the benefits of forest resources through a formal mechanism. The intended objective of forest preservation with which JFM was launched becomes incidental to the various stakeholders' objectives. One of the deficiencies of policies is the failure to specify clearly the decision rules where there is conflict. It is unfair to leave unresolved policy issues to be resolved at operational levels, simply because of lack consensus at macro level.

A more frequent observation about emergent policy made in literature is the improvisation made by 'street level bureaucrats' to make programs more effective. They "...develop techniques to salvage service and decision-making values within the limits imposed upon them by the structure of work. They develop conceptions of their work and of their clients that narrow the gap between their personal and work limitations and the service ideal" (Hill and Hupe, 2003).

ADAPTATION – MUTATION

Adaptation is adapting to new surrounding. Berman (1978) discusses adaptation as an interaction between organizational characteristics, Adapted project, and micro implementation, and these are simultaneously determined. Mutation as Berman says, "...is the adaptation of a project to its local organizational setting during implementation". Given the variability and fluidity in which public system operate, there has to be adaptation and mutation if the program has to survive. Berman quotes a Rand study of federally sponsored educational program observed that: "At each site, the implemented educational practice differed from the sponsor's design; consequently, the same model resulted in distinctive practices across different sites". The study found that variations in strategies or funding explained little variations in project performance. Berman cites the implementation of Right to Read program carried out in US as an illustrative example of need for mutual adaptation at micro implementation level, wherein: "plans were revised and modified according to conditions in the schools as well as to teachers' and students' characteristics, and the schools' standard operating procedures and classroom practices were changed to deal better with project requirements". These adaptive processes he call as 'path of micro implementation'. In India, one can see cases of quite many cases of adaptation and mutations in nutrition schemes, rain water harvesting schemes, primary school education, etc.

In the CNG case, Mutation-Adaptation happened through customization of cylinders, starting with some standards and codifying it later, phasing of conversion of vehicles, coping with infrastructure woes, etc. In the initial stages the adaptation was more towards

Compliance than towards Effectiveness. If this is the case with a technological intervention like CNG conversion, it is needless the stress the complexity of interventions in public services like education or health or municipal services where in the technology of process intervention is even more unclear.

The adaptation and change should be of some substance. Governments all over the world are introducing systems to reinforce the positive side and reinvent itself. Positive Process Adaptations that have been observed in the field are:

- Rule driven to goal driven;
- Incentive driven to norm driven; and
- Program driven to client driven

On the other hand, adaptation can become a trap if "…complete adaptation to the environment would rule out change altogether" (Caiden and Wildavsky, 1974). This has often happened in eGovernance projects. One of the objectives of these projects is to bring transparency, but it was often observed that the old elements find new justifications to tamper with the systems, and manage to maintain status quo in new forms. In the case of Rain Water Harvesting project in Tamil Nadu, the Government was successful in ensuring its implementation, but it went through many improvisations at field level leading to symbolic implementation in many places.

EMERGENT POLICY- ADAPTATION -MUTATION

'Implementation as Policy Making' can be discussed as a framework of Emergent Policy-Adaptation-Mutation (PeAM) Cycle based on the discussion so far. It is the Adaptation-Mutation (AM) characteristics that give it an Emergent property. The first stage of AM seems to be Compliance wherein the motive is to keep the cost of compliance low. There is little appreciation for the effectiveness of the initiative and it is more towards complying with a rule or with terms and conditions for spending, like in the case of public services. At the compliance stage, each stakeholder tries to interpret it to suit his or her purpose. The norms are still in the evolving stage and there is muddling through in fulfilling compliance. The complexities of interventions become clearer with more implementation and as the experiences get shared and documented. As the utility of the intervention becomes more obvious, and as the technology of intervention become more known, the thrust shifts to the effectiveness of implementation. At this stage, there is a more evolved norms and standards, there is more preparedness from the side of providers which helps to optimize resources instead of ad hoc deployment, and there is a perceived benefit and appreciation for it. Then it can be said that a policy and a program have indeed arrived.

A Policy can undergo significant changes through Adaptation and Mutation, and implemented policy or emergent policy becomes the relevant one. We can call a Policy efficient at design level, if Emergent Policy (*Pe*) is quite similar Intended Policy (*Pi*). If Pe is quite variant from *Pi*, then policy makers need to revisit the policy. Effectiveness and efficiency of the implementation have to be evaluated against the prescriptions of *Pe* than *Pi*, as the deficiency lies at Policy level itself. It is important that Government wakes up to this possibility and takes care that it is leading than being lead.

DOMINANT ISSUES

The tendency to look for successful projects and adopt for national implementation is fraught with dangers if the emphasis shifts from planning to implementation for tactical reasons. It can lead to overemphasis on short route than long route and projects with Quick Pay back. A particular department may launch a portfolio of ten projects on trial and error basis, and evaluated these for their impact. Some may fail and others may succeed, and it may evaluate these projects purely from return on investment perspective. Some of these failed projects may be important and have to be still carried forward. As Kanbur (1991) points out project emphasis can work where the country is already advanced in basic services and policy framework.

The emerging trend discussed raises the question of role of planning. The ministries thrust may be selecting mega schemes and projects, and focusing on implementing these. Will the Planning Commission restrict its scope to vetting these programs and projects and finding a strategic fit retrospectively, than taking a multi sectoral—multi period perspectives and regional balances? Are these conscious decisions or strategic drifts?

Governments should proactively look for strategic interventions from field, which has potential for macro implementation. There should be positive encouragement for such proactive agents. Governments, when it evolves policies or designs national schemes should be conscious of adaptation and mutation that can happen at field level. More than that, while selecting pilot projects for scaling it should look for governance and institutional properties also, and their suitability to other sites. It should also look for project champions and nurture them.

Public policy and implementation literature including World Development Reports today stress dimensions like: Social Capital, Accountability, Client Power, Principal-Agent, Governance, Equity, Choice, Compact, Contract, Decision Space, etc. All these have significant implementation connotation and the focus is directly on implementation. These terms find mention in project proposals, but it is doubtful how far these are inculcated in spirit. It is these that make implementation unique.

It is important to understand manifestations of Policy Making processes and Implementation in reality, and to strengthen or alter these accordingly. This paper seeks to provide a different perspective to direct the attention of policy makers to such manifestations.

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Understanding the Power Outage Cost of Residential Consumers in the City of Dhaka

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The objective of this paper is to estimate the welfare cost associated with electric power interruption in the residential sector of the city of Dhaka. Using survey data collected through face-to-face interviews with 400 residential customers in Dhaka, this study estimates a total welfare loss of Tk.24 mn (US$ 0.35 mn) per month as a result of massive power outages during peak summer. The results of the study, furthermore, indicate that the welfare cost depends on the nature and extent of the power outage and the customers' dependence on electricity in their daily lives. The study provides scientific evidence that residential consumers in Dhaka are willing to pay extra, in addition to their electricity bill, to ensure service reliability. However, the study explicitly detects a lack of customer confidence on the local power service provider. The research provides useful indications for policy makers and prospective future investors to assess reliability worth in household power sector under different management alternatives.

INTRODUCTION

In Dhaka, inadequate supply of electricity is one of the many problems faced by city dwellers in their daily lives. Massive power outages, particularly during peak summer, have become a regular feature in the capital city for a number of years. On an average, a typical Dhaka household experiences power failure for about three hours per day. The general daily power deficit in Dhaka ranges between 450 and 500 MW per day, which reaches up to 1,800 MW during summer (DESA, 2006). In a time of increasing dependence on electricity among households, widespread power interruptions cause an enormous amount of welfare loss as a result of high indoor temperatures and disruptions in daily household activities.

Bangladesh Power Development Board (BPDB) is the sole authority responsible for power generation and transmission facilities throughout the country. Dhaka Electric Supply Authority (DESA) and Dhaka Electric Supply Company (DESCO), a statutory organization under the Ministry of Power, Energy and Mineral Resources and a subsidiary of DESA respectively, are responsible to ensure efficient distribution of electricity in

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Greater Dhaka District area—the largest single distribution territory consuming around 50% of the total electricity sold in Bangladesh. The power sector of Bangladesh continues to suffer from high system losses, inadequate supply capacity, poor distribution, weak financial management, large payment arrears and the absence of a pricing policy to recover operational costs. Despite millions of dollars of investment expenditure and substantial administrative reforms over the past 20 years, the power sector failed to create any feeling of service reliability among the customers. Generally, the vast majority of interruptions in electricity supply in Dhaka occur due to inadequate power generation capacity of the existing BPDB power plants, inefficient power distribution system, and recurrent national grid failures.

Regardless of the specific cause of power service interruption, the development of policies to enhance service reliability requires knowledge of the economic costs they cause to the customers. The focus of the current study is on understanding the nature and extent of the inconvenience cost incurred by the residential consumers as a result of the acute power shortages. During the peak summer period of 2006 approximately 400 upper-middle income class residents of Dhaka were interviewed face-to-face using a fully structured questionnaire. Contingent Valuation (CV), a widely used non-market valuation method, was used to place a monetary value on the welfare loss caused by unserved energy. The study reveals an average Willingness To Pay (WTP) of Tk.235 (US$ 3.3) per household per month for reliable power supply, which is 20% of the average monthly electricity bill per household and 0.58% of average monthly household income. In sum, the overall WTP estimate across the whole population (8% of Dhaka city households), the welfare loss of interrupted power supply equals to Tk. 0.24 mn (US$ 0.35 mn) per month.

The study, furthermore, examines a theoretically expected relationship between the welfare loss and the nature and extent of power supply interruption. The results of the estimated regression model reveal that respondents' WTP for reliable power service increases with the duration of outages (measured through total number of hours of power cut per day and number of days per week). Other variables that explain variations in the stated WTP are nature of power outage (measured through implicit prior announcement), disutility from power outage (measured through dependency on electronic equipments in everyday life, frequency of television viewing).

The next section contains a brief discussion of literature on residential power outage cost and details the major hypotheses of the study. The following section presents a description of survey setup, questionnaire design, and characteristics of sample households. The next section summarizes the statistical results, which is followed by the discussion and conclusion.

LITERATURE REVIEW

The literature on power outage cost is vast and diverse. Numerous different studies have been conducted to estimate the cost of unreliable power supply in agricultural, industrial and residential sectors using both market and non-market-based valuation techniques. However, this section of the paper briefly summarizes the findings of previous studies that are specifically focused on household inconvenience cost due to unserved energy. Both market and non-market based valuation techniques have been applied to measure power outage cost in the household sector in different countries. Market-based valuation techniques take into consideration all the expenses households make to avoid inconveniences caused by power outage. Wacker *et al.* (1985) and Doane *et al.* (1988b) applied market based valuation techniques by estimating averting costs incurred by households in mitigating inconveniences.

However, market-based approaches only include market transactions and fail to capture non-market welfare losses associated with disruption of day-to-day household work or study or entertainment. Since most of the inconveniences caused by inadequate electricity supply in household sector are not traded in the market, the non-market valuation technique is perceived as the most useful method to measure total welfare loss. Contingent Valuation (CV) and Choice Experiments (CE) are two popular stated-preference-based non-market valuation techniques that are commonly used for placing monetary values on goods and services not bought and sold in marketplace. In the stated preference approach, respondents are directly asked to suggest the amount needed to improve the quality of a good or service in open-ended or closed-ended format. Existing literature shows widespread use of the stated preference method in measuring inconvenience cost or welfare loss in household sector due to power outage (e.g., Iyanda, 1982; Goett *et al.*, 1988; Doane *et al.*, 1988a; Woo *et al.*, 1991; Beenstock *et al.*, 1998; Layton and Moeltner, 2004; Carlsson and Martinsson, 2008).

Iyanda (1982) adopted the self-assessment methodology to estimate the impact of power shortages on the household sector. The author focused on high-income areas of Lagos state in Nigeria. The study estimated an average electricity outage cost of N1.19 per hour for each household. The study conducted by Beenstock *et al.* (1998) focused mainly on developing an empirical methodology for removing response biases from conjoint analyses where Israeli households' demand for uninterrupted electricity supply was used as a case study. Layton and Moeltner (2004) used repeated dichotomous choice questions to elicit the cost of power outages to residential customers where each respondent was presented with a series of hypothetical outage scenarios, differing in length and time of occurrence. Carlsson and Martinsson (2008) studied welfare implications of power outages on Swedish households using a CE survey. The study indicated that the marginal WTP for power reliability increases with the duration of the outages, and is higher if the outages occur during weekends and during winter months.

In summary, the above-mentioned studies considered a varied impact of outage characteristics on respondents' WTP for service reliability. Power outages have been characterized along a number of dimensions, including duration, frequency, timing, warning time, and interruption depth. Each of these characteristics has been proven to have substantial impact on outage costs incurred by a customer (Doane *et al.*, 1988a; Beenstock *et al.*, 1998; Goett *et al.*,1988; Layton and Moeltner, 2004; Carlsson and Martinsson, 2008). In the literature on power outage cost, total outage costs have been found to be positively related to outage frequency (Layton and Moeltner, 2004). Furthermore, outage costs have been found to vary with the timing of the power interruptions (Layton and Moeltner, 2004). The effect of evening outages was found to be insignificant compared to afternoon and morning interruptions. Again, outage costs and associated WTP values increase with the duration of an interruption. Moreover, interruption in daily routine work (e.g., missing TV programs, the presence of business activities run from home, the presence of residents at home most of the day) have been found to have an impact on WTP (Layton and Moeltner, 2004; Carlsson and Martinsson, 2008). Finally, WTP values vary with some household characteristics such as income, household size, and the number of elderly persons in the household (Layton and Moeltner, 2004).

FUNCTIONAL FORM OF THE STATISTICAL MODEL

Based on the findings in the existing literature, this study aims to test for the consistency of the explanatory factors of power outage cost in the context of the current case study. The test for theoretically expected explanatory variable(s) provides a validity check for survey instruments. The functional form of the statistical model to be estimated in the study can be written in the following form:

$$D = f(BID, W\_NUMBER, D\_OUTAGE, WARN, E\_BILL, TVWATCH) \quad ...(1)$$

The binary variable D is the indicates whether a household accepts the offered bid level (D=1; if household accepts offered bid; D=0 otherwise). Table 1 shows the description of the variables and the expected signs of the coefficients.

The model presented in Equation 1 aims to explain the respondents' likelihood of accepting a specific bid amount (probability that D_i=1) with respect to some theoretically expected variables. First, the likelihood of accepting a specific bid amount is expected to vary negatively with the bid level. The higher the bid level (higher the price charged for service reliability), the lowere the likelihood that the respondent will accept the bid. Second,

Table 1: Definition of the Variables

Variable	Definition	Hypothesized Sign
BID	Offered bid level	–
D_OUTAGE	Duration of daily outage measured through number of hours per day	+
W_NUMBER	Number of days in a week	+
WARN	No prior warning system (Power outage occurs without specific time in a day)	+
TVWATCH	Respondents' frequency of television viewing	+
E_BILL	Monthly electricity bill in thousand Taka	+

the likelihood of accepting a specific bid amount is expected to vary with the extent of power interruptions. The variables *W_NUMBER* (occurrences of power outages in number of days) and *D_OUTAGE* (duration of power outages in number of hours) are used as indicators to measure the extent of power outage. It is expected that the likelihood of accepting a certain bid amount by the respondents varies positively with *W_NUMBER* and *D_OUTAGE* indicating the fact that households suffering from higher degree of power outages per day and per week are willing to pay higher price for reliable power service.

Third, the likelihood of paying for reliable electricity service is expected to vary with the nature of power outages. The variable, *WARN* (power outage occurs with no prior warning), is used as an indicator of nature of power outage. It is expected that *WARN* will influence the likelihood of accepting a specific bid value positively. Finally, *E_BILL* (electricity bill) and *TVWATCH* (frequency of television viewing) are used as indicators of inconveniences caused by power interruptions in the respondents' daily lives. *E_BILL* indicates households' reliance on electronic goods and services and *TVWATCH* indicates the level to which households are dependent on electricity for entertainment. The higher the values of *E_BILL* and *TVWATCH*, the higher the inconvenience caused by power outages and therefore, it is expected that the likelihood to accept a certain bid amount would vary positively with *E_BILL* and *TVWATCH*.

SURVEY SETUP AND GENERAL SAMPLE CHARACTERISTICS

SURVEY SETUP AND SAMPLING PROCEDURE

Face-to-face interviews were conducted on 400 people in the last week of April 2006 using a fully structured questionnaire consisting of approximately 55 questions. The interviewers (both male and female) were carefully selected and thoroughly trained. Each interview lasted on an average for 15 to 20 minutes. The sample selection was done on the basis of a simple random sampling method. Interviews were conducted in residential dwellings, shopping malls, bus stoppages, and restaurants from sixteen well-recognized and spatially dispersed residential areas of Dhaka. The target population of this study included city dwellers belonging to middle class (monthly income above Tk. 10,000) to higher middle/higher class (monthly income above Tk. 50,000) groups.

The questionnaire used in the survey included the following four sections: (1) socio-demographic characteristics, (2) timing and extent of power outage (3) household preparedness to reduce power outage-related inconvenience; (4) WTP an additional amount to subscribe to a highly reliable power supply plant. In section four, respondents were briefed about a hypothetical high capacity power supply plant that would effectively enhance the reliability of power supply in the city in the near future upon successful installation. The hypothetical power plant was illustrated to the respondents in the following form:

> "To improve the current dissatisfactory state of electricity supply in Dhaka, the government is considering the installation of a new, high capacity power generation plant in collaboration with expert foreign engineers. Upon successful installation, this power plant will be able to meet the electricity demand of Dhaka city residents for the next 20 years without causing any power outage."

After introducing the hypothetical high capacity power plant, the respondents were asked about their views on the effectiveness of the plant. The respondents were then asked whether they would be willing to pay in principle any additional money to be a subscriber of this highly reliable power plant. Those who replied positively to the 'WTP in principle' question were subsequently asked, in a dichotomous choice format, a question whether or not they would be willing to pay a specific bid amount in addition to their electricity bill per month. Fifteen different bid levels ranging between Tk. 10 and Tk. 500 per month were used in this survey. To avoid biases inherent to CV studies, two pilot surveys were carried out in small subgroups of 50 respondents where the same WTP questions were asked in an open-ended format. Taking into account information obtained through the pilot survey, the bid amounts were selected and randomly allocated across respondents.

GENERAL SURVEY AND SAMPLE CHARACTERISTICS

Of the 400 respondents interviewed in this survey, 61% were female. The average age of the respondents was about 38 years, with 70% graduating from university. The average monthly income of the respondents was in the range of Tk. 30,000 to Tk.40,000. An average household consisted of five family members, of which two work. Of the 400 respondents interviewed, the majority (33%) of the household heads were businessmen; 21% were engaged in private sector job (e.g. NGO, bank, telecom, medical representative, etc.); and the rest were in government sector (13%), professional (14%) and housewife/ unemployed/retired (15%).

The majority (90%) of the respondents indicated that they suffer from power outage every day. Over 40% of the respondents indicated that power outages occurred during fixed hours of the day. The average duration of power outage was three hours per day, with a minimum of 10 minutes to maximum of 10 hours. Power outage generally occurred during evening (6:00 p.m. to 10:00 p.m.) and during weekdays. The most frequent problem recorded due to power interruptions is high indoor temperature (80% of the cases), followed by problems such as "unable to watch TV news/programs" (65% of the cases), disruption in children's study (61% of the cases), and "disruption in day-to-day activities" (56.5% of the cases).

More than two-thirds (70%) of the respondents interviewed during the survey indicated that the inconvenience caused by the power shortage is 'absolutely intolerable'. More than half (56%) of the sample respondents believed growing demand for electricity causes the power outage problem, whereas the rest believes poor management of power supply authority and illegal electricity connections are the reasons for poor reliability. Over 90% of the respondents indicated that the solution of the regular power outage problem was very important for them.

RESULTS

Over two-thirds (68%) of the respondents indicated that they believe the proposed scheme would be "effective to very effective", whereas the rest of the sample is unsure about the effectiveness of the proposed power scheme. A majority of the respondents (66%) replied positively to the first WTP question. A total of 131 respondents (33% of the sample) refused to pay in principle for power service reliability. Respondents who denied paying in principle were further asked whether they would be willing to pay if a foreign company installs, owns, and maintains the power plant. Of the 131 respondents (who declined paying in principle), 23% (n=30) replied positively to this question. More than one-third (40%) of the respondents who initially denied a WTP because of mistrust ("my money will not be used properly and I do not think the scheme will be fruitful") indicated positive WTP under the Foreign Service provider. The most common reason for paying under foreign management is "my money will be used properly" (70%), followed by reasons such as "the scheme will effectively solve power shortage problem" (17%) and "there will not be any illegal connections" (10%).

In total, 263 valid observations were obtained for the second WTP question, where respondents were asked whether they were willing to pay a specific bid amount for service reliability. A parametric logistic probability model was used to estimate mean WTP values based on binary CV response data (Hanemann, 1984). The logistic regression estimation results are presented in Table 2. Mean WTP for the proposed power plant scheme was Tk. 235.5 (US$ 3.36), which is 20% of average electricity bill per month and 0.58% of average monthly household income. Aggregating the mean WTP for improved electricity supply across the whole population (8% of the total Dhaka city households)[1], total economic inconvenience cost of_power outage in household sector totaled Tk. 24 mn (US$ 0.35 mn) per month.

Table 2: Mean WTP Values Based on Logistic Model

	Logistic Probability Model
Mean WTP (Taka/person/visit)	235.5 (US$ 3.35)[1]
Standard error	74.84 (US$ 1.06)[2]
n	263

Note: [1] The formula to calculate mean and median WTP based on linear-logistic regression is: $E(WTP) = -a/b$, where a is the estimated constant and b the estimated slope for the bid level.

[2] The standard error of mean WTP is calculated as follows:

$$s = \sqrt{\mathrm{var}(-a/b)} = \left[\frac{1}{b^2}\left(\mathrm{var}(a) + \left(\frac{a}{b}\right)^2 \mathrm{var}(b) - 2\left(\frac{a}{b}\right)\mathrm{cov}(a,b)\right)\right]^{1/2}$$

where a is again the estimated constant (intercept) and b the slope of the bid level.

The stated WTP amounts of respondents who were willing to pay for proposed improved power plant scheme (n=263) were checked for determining factors. Binary logistic regression approach was applied to estimate the effects of explanatory variables on binary discrete choice of accepting the offered bid amount along with other explanatory variables stated in the statistical model presented in Equation 1. Table 3 summarizes results of the estimated regression model. In the following paragraphs, results from binary regression model are summarized.

The estimated model turned out to be significant at less than the 1% level (see Table 3 for likelihood ratio test), which implies that the model (as a whole) is significantly different from that with one constant only. The model had a predictive ability of 82%. All the explanatory variables included in the model were statistically significant with theoretically expected sign in the estimated model. The presented bid amounts were statistically significant and showed the expected negative sign. This implies, other things remaining the same, the higher the bid level (BID), the lower is the probability that respondent is willing to pay.

Table 3: Results of Estimated Regression Model

Explanatory Variables	Variable Description	B	S.E.	Exp(B)
BID	Bid Level	–0.010***	0.002	0.990
WEEK_T	Number of days in a week	0.192**	0.093	1.211
PO_HOUR	Number of hours in a day	0.346**	0.139	1.413
E_BILL	Electricity bill per month (in thousand Taka)	0.662*	0.361	1.938
WARN	Power outage without specific time	0.876**	0.444	2.401
TV_WATCH	Frequency of television viewing	0.292*	0.172	1.339
CONSTANT	Constant	0.093	0.812	1.097
–2 Log Likelihood				149.41
Chi-square				73.025 (df=6, p<0.001)
Percentage correct predicted				81.5
Nagelkerke R-square				0.438
N				263

Note: *p < 0.10; ** p < 0.05; *** p < 0.01 and 'Yes' Replies to DC WTP Question is Response variable)

D_OUTAGE (duration of power outage) was used as one of the indicators to measure the extent of power outage. As expected, *D_OUTAGE* (measured by average number of hours of power outage experienced by the households per day) had a significant positive impact on respondents' WTP, suggesting that other things remaining the same, the higher was the duration of power outage experienced by households in terms of number of hours per day, the higher the WTP for reliable service. The variable *W_NUMBER* (frequency of power outage in terms of number of days in a week), was used as another indicator to measure the extent of power outage. The coefficient of the variable *W_NUMBER* turned out to be positive and statistically significant indicating that households suffering from higher outage frequency, in terms of number of days in a week, were willing to pay a higher price for uninterrupted electricity service.

The variable *WARN* was used as an indicator of nature of power outage, i.e., whether or not power outage occurs with any prior explicit or implicit announcement. As expected, the effect of no warning had a significant positive impact on outage cost suggesting the fact that households who suffered from power interruption without any warning were willing to pay higher price than those who knew the time of the outage.

As expected, *E_BILL* (monthly electricity bill paid by household) showed a significant positive impact on stated WTP. This confirms the hypothesis that high reliance on electrical appliances (for instance use of air conditioning, rice cooker, electric oven, microwave oven, etc.) in daily life causes high utility cost due to power outage and hence increases the likelihood of accepting a certain bid value to enhance power service reliability. *TVWATCH* (frequency of television viewing measured by number of hours per day), as expected, had a positive impact on respondents' WTP. More frequent TV viewers were expected to gain higher utility from the proposed power plant scheme than respondents who watch television less regularly and therefore, were willing to pay high price for uninterrupted power service.

DISCUSSION AND CONCLUSION

This paper presents the results of a CV survey on frequent power outage-related inconvenience and households' WTP for more reliable power supply in one of the fastest growing cities located in one of the poorest countries in the world. The paper focuses particularly on estimating the welfare loss incurred by a specific group of residential customers as a result of widespread power interruption by assessing the effects and impacts of service unreliability. The primary result of the study illustrates that the city dwellers in an increasingly modernized society in this part of the world were paying high welfare cost that sums up to Tk.24 mn (US$ 0.35 mn) per month as a result of unreliable power service. In the face of increasing concern about the justification of the level of power service reliability, the current study provides useful information for policy makers and prospective investors in the power sector of Bangladesh to carry out reliability worth assessment. Although the unreliability costs are not identical to the reliability worth, they are generally considered representative measures of it, perhaps a lower bound.

The study furthermore tests the consistency of the explanatory factors of power outage cost identified in existing literature in the context of a poor developing country. The analysis of a dichotomous choice model shows that the explanatory variables that have been tested in a developed country, are quite capable of revealing and explaining the attitudes of households in a developing country. In the estimated model, the presented bid amounts, extent of power outage (measured through number of outage per day and number of days per week), nature of power outage (measured through implicit prior announcement), and disutility from power outage (measured through dependency on electronic equipments in everyday life, frequency of television viewing) are statistically significant and show the theoretically expected sign.

The study provides explicit evidence indicating a lack of public confidence in local providers to enhance power service reliability. Approximately, one third of the sample respondents indicated a high degree of confidence deficiency about the credibility of the hypothetical power plant in providing reliable power service under the management regime of local service provider. A considerable number of respondents, who initially declined to pay in principle for the improved power plant, revealed their interest in subscribing for the power plant given the fact that the power plant is owned and maintained by a foreign company. The detection of lack of customer confidence in local service providers could be an important take home point for the policy makers and foreign investors. Given the rapid growth of electricity demand in the city and high customer confidence in foreign service providers, the sector demonstrates bright prospects for future foreign investment. In addition to attracting foreign direct investment in power generation, creating incentives for foreign companies to undertake power distribution service, too, could be considered as an important policy.

LIMITATIONS

However, as a final methodological note, I would like to mention that the current study presents survey results collected from a specific income group of residential customers in Dhaka and, therefore, the results of the study should not be generalized for the city as a whole. Due to limited financial support, a more extensive survey to ensure representativeness of the sample was beyond the scope of the current study. Furthermore, the survey was carried out during peak summer period. Therefore, the findings and the estimated welfare cost is season-specific and hence, should not be generalized for the rest of the months of the year. Nevertheless, the study provides some guidance towards future assessment of power sector reliability worth by illustrating that the sector incurs high amount of welfare loss due to unreliable power supply.

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A Theoretical Analysis of the Critical Factors Governing Consumers' Deal Responsive Behavior

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Consumer promotion is a conspicuously powerful component of the marketing mix, with the overarching objective of framing customers' perceptions and stimulates buying. However, it is powerful tool only when applied correctly, specifically conforming to the responsive behavior of the target consumer to the applied promotional vehicle. It is, therefore, imperative for the marketer to have a comprehensive understanding of the deal (promotion) responsive behavior of the consumer to various promotional tools. This shall ensure effectiveness of the promotional campaigns by appropriate appealing to the target consumer and leading to the perception of value addition. This paper presents a comprehensive theoretical analysis of various factors that influence the deal responsive behavior of the consumer. The response patterns to various types of promotional deals, the influence of consumers' and deal characteristics on deal redemption intentions, and the underlying psychological or behavioral mechanisms involved in deal redemptions, are discussed in this paper. The findings depict that promotional strategies should be deal specific, and psychological variables need to be emphasized.

INTRODUCTION

Consumer promotions constitute an important part of the promotional mix for majority of companies. In the consumer context, promotions are primarily used to encourage trial of a new brand or switching to an established brand, with the expectation that such trial or switching would also lead to higher repeat purchase rates.

Sales promotion is a powerful tool when employed creatively and appropriately. The offers made must appeal directly to the target audience and be perceived by them to add value. A 'money off' offer will have limited appeal to a price-insensitive segment.

For these reasons, the investigation of consumer response to promotions promises to be a fruitful area with several practical implications. Consequently several marketing researchers have addressed issues in this area (Raju and Hastak, 1980; and Hatton, 1998).

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From the marketing management perspective, knowing the profile of promotion-prone consumers will enable marketers to design better promotional campaigns (Bawa and Shoemaker, 1987; and Blattberg and Neslin, 1990).

Numerous studies have tried to provide organizations with some decision-making guidelines for the design of promotional campaigns. These studies have focused on analyzing whether all consumers show the same response to sales promotion, defining the profiles of more sensitive consumers to this type of action. Several types of variables have been used to define these profiles. This paper presents a comprehensive review of these studies and analyzes the critical factors that should govern marketing strategies and future research in the domain of consumers' deal responsive behavior.

AN ASSESSMENT OF CONSUMERS' PRONENESS TO DEALS

Proneness to deals may be defined, overall, as the tendency to use promotional information as a reference to make purchase decisions. As the response to deals varies across individuals (Webster, 1965; Montgomery, 1971; and Blattberg *et al.*, 1978), deal-prone consumers will be those who modify their purchase behavior so as to benefit from the temporary incentive offered by a promotion (Wakefield and Barnes, 1996). This implies that deal proneness is a result of the development of deal redemption intention at the consumer's cognitive level.

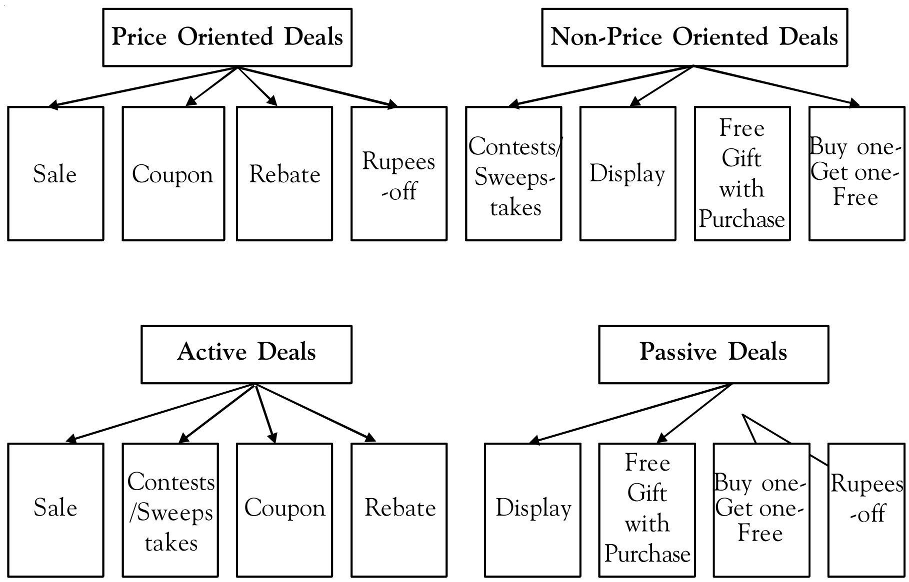
DEAL PRONENESS IS DIFFERENTIATED

Schneider and Currim (1991) have differentiated consumer's deal proneness as active proneness and passive proneness, based on their involvement and intensity of search for deals. Active proneness refers to the consumers' sensitivity to store flyers and coupons. This proneness requires an intense search from the consumer to find interesting promotions. On the other hand, passive proneness demands a limited search developed at the point of sales. Such proneness is reflected in the consumers' sensitivity to in-store displays.

Ailawadi *et al.* (2001) have segregated proneness into out-of-store promotions and in-store promotions. Out-of-store promotions are those, which take place out of the shops and demand some effort from the consumer; they would be related to the active proneness proposed by Schneider and Currim (1991). In-store promotions are those, which are developed inside the point of sales and discovered by the consumer when shopping. These types of promotions require a reduced effort from the buyer and they are associated with passive proneness (Figure 1).

Price *et al.* (1988) have differentiated price-oriented promotions from non-price oriented promotions. Price-oriented promotions result in lower purchase price while non-price-oriented promotions do not.

Figure 1: Type of Deals



DEAL PRONENESS DIFFERS ACROSS DIFFERENT DEAL TYPES

Despite the increase in the use and variety of sales promotions, much of the research on consumer response to promotion techniques has examined only one or a few different types of promotions. However, many of these studies generalize their findings to 'deals', 'deal proneness', and/or deal prone consumers in general. Some authors have observed that deal-proneness is a multidimensional construct and response to promotions might differ between promotional tools (Lichtenstein *et al.*, 1997).

Lichtenstein *et al.* (1997) state that it is very likely that alternative theories that might be applied to deal proneness will not be appropriate across all deal types. Their findings call into question the appropriateness of statements such as 'Deal proneness is positively (or negatively) related to X'. On the basis of their study, such statements appear ambiguous and beg the question of the type of deal proneness. Such concerns are greatest in instances in which a marketplace behavior is positively related to one type of deal proneness and negatively related to another.

Analyses by Lichtenstein *et al.* (1997) using multi-item scales assessing consumers' proneness to eight different types of sales promotion indicate the existence of a consumer segment that reflects generalized deal proneness across deal types. However, significant differences between the consumer segments are shown across eight dependent measures. These are—coupons, sales, cents (rupees)-off, buy-one-get-one-free, free-gift-with-purchase, shelf displays, rebates/refunds, and contests/sweepstakes (Table 1). These types were chosen because they were among those most commonly employed (Blattberg and Neslin, 1990), and diverse in terms of possible deal-type categorizations, i.e., active-passive and price-non-price.

Blattberg and Neslin (1990) also contend that consumer behaviors may be related to differing response sensitivities across types of promotions, thus suggesting a need to distinguish among consumer response to type of deal. For example, correlates of display proneness may be different from those of proneness to coupons (Table 2).

Table 1: Description of Various Deal Types

Sales Promotions	Description	Objectives
Rupees-off	Product is available at less than the normal price list during the deal period only	To stimulate consumers to try a new product, encourage immediate sales, build-up inventory at trade level, inventory clearance at trade level, counter competitive moves
Sales (discounts)	Special discounts (other than normal cash discounts to trade)	To push more stocks to the trade, for getting an early or immediate cash payment from the trade
Coupons	A certificate that entitles the customer to stated savings or claim some specific things free or on part payment. Coupons are used both by retailers and manufacturers and are distributed by mail, door-to-door, inside product packs, by dealers, or are included in the print ad	To encourage product trial, reward customer loyalty, encourage continued usage, introduce new product, solicit enquiries
Rebate or Refund	Refund or rebate means the same thing. It is an offer of money, which is part of price paid by customer, for sending 'proof of purchase' of the stated product	To encourage primary users to try the product, encourage brand switching, loading dealers with stocks, obtain displays at retailers
Free gifts with purchase (Premiums)	A gift/reward given to the customer for purchasing a product. Premiums are usually offered for free (but sometimes at a low cost also). Premium and promoted product may not be interrelated. Premiums may be (1) packaged premium (2) banded premium (3) container premium (4) OTC premium (5) free-in-mail premium (6) self-liquidating premium (infrequent in India)	To encourage purchase of a product or service, build loyalty, promote products in off-season, encourage customers to try a new product

(Contd...)

Table 1: Description of Various Deal Types *(...contd)*

Sales Promotions	Description	Objectives
Contests/ Sweepstakes	Consumers are invited to compete on the basis of their general knowledge, skills or creativity. Sweepstakes are based on chance or luck factor	To create an interest or excitement in customers, create brand awareness, build traffic at retail stores, encourage brand purchase, pre-empt competition, get consumer feedback, encourage multiple purchases, increase consumption, increase attention getting power of ads, attract new customers and induce trial
Buy one- get one free	More quantity of the same product is offered at no extra cost	To encourage prolonged consumption period, trade-up consumers to purchase larger quantity packs, move larger quantity from factory
Shelf Display	In-store presentations and exhibitions of products along with relevant information. '*jo dikhta hai who bikta hai*'. Displays are also referred to as 'shelf-talkers'.	Increase store traffic and exposure at the pop, to gain more shelf-space (usually an allowance is given to trade to create enthusiasm i n trade and promote company's products)

Source: Quelch, 1989; Kotler, 2003; and Kazmi and Batra, 2004.

Several authors, when studying the consumer's response to promotional actions, have analyzed whether a consumer who is prone to purchase a certain promoted product will also respond to any other promotional action.

Table 2: Theories of Consumer Behavior Applied to Sales Promotion

Group	Examples of Theory	Key Strengths	Key Limitations
Behavior Learning Theories • Explain consumer behavioral responses to environment • View promotions as a reward that can generate immediate consumer response	• Classical conditioning • Operant conditioning • Hullian model • Black box model	• Simple and easy to be used as a basis for analyzing consumer responses to sales promotions, and developing marketing tools	• More related to the context of low involvement products where the internal cognitive process can be ignored • Ignore factors in relation to internal cognitive process • Does not provide a clear explanation of the influence that consumers' internal factors have on consumer responses to sales promotion

(Contd...)

Table 2: Theories of Consumer Behavior Applied to Sales Promotion

(...contd)

Group	Examples of Theory	Key Strengths	Key Limitations
Theories in Relation to Internal Cognition • Explain how consumers respond to environment based on internal cognitive factors, such as perceptions, and evaluations of a marketing message • Consumers will favorably respond to a marketing message when perceiving net gain from that message	• Recognition, memory, and recall theories • Attribution and dissonance theories • Person perception theory • Object perception theory • Self perception theory • Dissonance theory • Price perception theories • Weber's law • Adaptation level theory • Assimilation-contrast theory • Perceived risk • Prospect theory and mental accounting • Utility theory	• Focusing on internal factors (e.g., consumer perceptions and evaluations) assist the researcher in explaining the influence that consumer internal factors have response to sales promotion on consumer	• Provide an incomplete understanding about consumer responses to sales promotion due to an exclusion of particular external factors (e.g., normative influencing factors), which are related to certain internal cognitive factors
Theoretical Model Depicting how Consumer	• Theory of reasoned action	• Consist of a variety of key constructs	• Behavioral intentions may not be used to fully predict actual behaviors due to some factors,

(Contd...)

Table 2: Theories of consumer behaviour applied to sales promotion *(Contd...)*

Group	Examples of Theory	Key Strengths	Key Limitations
Perceptions Translate into Behavioural Responses • Models include consumer perceptions in their core, and also consider how perceptions translate into actual responses to environment	• Consumer decision-making models	e.g., perceptions, evaluation, attitude, normative influencing factors, behavioral intentions, and actual behavior	e.g., intervening time, stability of intentions, unforeseen situation context

Source: Blatberg and Neslin, 1990.

Some studies reveal that deal-proneness is a generalized construct, that is, an individual who modifies his or her purchase behavior in certain deals is likely to modify his or her behavior in any other deal (Shimp and Kavas, 1984; and Price *et al.*, 1988). Other authors maintain that deal-proneness is domain specific and that, consumers may respond to a certain type of promotional mechanism but not to others (Schneider and Currim, 1991; and Ailawadi *et al.*, 2001).

AN ASSESSMENT OF THE VARIABLES THAT INFLUENCE DEAL PRONENESS

As sales promotions affect the purchase process, different responses to promotions may be explained by analyzing the variables, which influence the purchase process. Some researchers have used economic benefits or purchase costs as a reference to characterize deal-prone consumers (Blattberg *et al.*, 1978; and Bawa and Shoemaker, 1987). Other authors have emphasized the hedonic benefits generated by the purchase of a promoted product (Shimp and Kavas, 1984). A number of theories have highlighted psychological motivations that underlie the deal redemption behavior.

DEAL PRONENESS IS A FUNCTION OF ECONOMIC UTILITY

Dodson *et al.* (1978) have forwarded the 'Theory of Economic Utility'. According to this formulation, deals serve as economic incentives that enhance the utility of a brand, thus attracting former purchasers of other brands. Furthermore, one can argue that the extent to which a particular deal stimulates switching depends on the economic value of the deal; deals having relatively high economic value (e.g., media-distributed coupons) are expected to have greater utility and induce more switching than ones having relatively low economic value (e.g., cents-off marked deals).

Sawyer and Dickson (1984) point out how Sherif's (1963) 'Assimilation Contrast Theory' can be used to explain consumers' reactions to prices. According to this theory, a consumer has a certain 'range of acceptance' for the price of a product. Prices inside this range are more likely to be considered acceptable while evaluating the product, while prices outside this range are not acceptable. Since coupon prone consumers would favorably evaluate a purchase offer because it is offered in coupon form (Lichtenstein *et al*. 1990), it follows that consumers that are highly coupon prone will be more likely to use coupon(s) irrespective of the magnitude of savings offered by the coupon. On the other hand, consumers who use coupons to purchase the brand only when magnitude of savings offered by coupon is high would be lesser coupon prone (Janda, 1996).

However, Chandon *et al.* (2000) integrate both economic and hedonic perspectives and consider that consumers respond to sales promotions due to the positive experience provided. They attempt to explain how both economic and hedonic benefits and costs influence the deal-proneness.

'Economic Benefits': Economic or functional benefits are tied to the product's attributes, they provide the customer with functional information and they refer to tangible or objective aspects of the product, e.g., savings and quality. Promotions provide a saving feeling and reduce the pain of paying. They may also grant the access to higher quality brands, which could not be bought at their normal price.

'Hedonic Benefits': Hedonic benefits are tied to intangible attributes and they are experiential and affective, e.g., entertainment, exploration and expression. Those consumers who enjoy shopping, some promotions may be amusing and increase this entertainment benefit provided by the product purchase.

Along the purchase decision process, the consumer weighs up both the benefits and the costs of a promotion. Some costs related to the purchase of promoted products, may be switching, search and inventory costs.

Customers who are loyal to brands present a lower level of proneness to promotions since they attach more importance to the product than to the price (Wakefield and Barnes, 1996), whereas non-loyal consumers are more prone to buy promoted products because they attach more importance to the price than to the product's attributes (Webster, 1965; and Bawa and Shoemaker, 1987).

HOWEVER, DEAL PRONENESS MAY NOT BE EXPLAINED BY ECONOMIC UTILITY ALONE…

Cotton and Babb (1978) and Schindler (1992) found that consumers respond more to an on-shelf coupon than to a similarly advertised temporary price reduction that offers the same monetary incentive. Bawa and Shoemaker (1989) found that some consumer switch brands because of a coupon but then do not redeem it. According to Chandon *et al.* (2000), the failure to redeem the coupons responsible for the purchase decision may be due to these consumers valuing the convenience and exploration benefits coupons provide in the aisles at the time of the decision but not the monetary savings they provide at the time of payment. These observations suggest that economic saving may not be the only reason for redemption intentions of deals.

Most of the studies on consumer buying behavior have considered demographics, behavioral and socioeconomic aspects as the main variables (primarily due to the easy availability of consumer panel data that afford extensive information on demographics and purchase behavior). However, the results have been mostly inconsistent. While such research is valuable in providing estimates of response elasticity to various promotional vehicles, it is less equipped to address the psychological motivations and tendencies affecting consumer decision making (Lichtenstein, 1997). On the other hand, some studies have emphasized the psychographics profile of the deal-prone consumer obtaining remarkable results (Montgomery, 1971; Lichtenstein *et al.*, 1990; and Ailawadi *et al.*, 2001). Hence, the use of psychological variables has been recommended to identify the promotion-prone consumer (Schneider and Currim, 1991; Grover and Srinivasan, 1992; and Martinez and Montaner, 2006).

CONSUMER'S PSYCHOLOGICAL CHARACTERISTICS INFLUENCE THEIR DEAL RESPONSIVE BEHAVIOR

Earlier research has identified various intrinsic characteristics (e.g., traits) of consumers, which consistently influence their deal redemption intentions (Martinez and Montaner, 2006).

'Innovative' people show a higher proneness to buy in-store promoted products, the offers they find encourage them to try out the new products. In addition, innovative people usually respond to coupons.

'Brand switchers' are more prone to in-store promotions because the promotions encourage them to switch brands and thus obtain a higher benefit in the purchase. Variety seekers often decide what to buy when they are inside the store; their choice depends on the offer at the point of sales. However, store flyers and coupons do not seem to have any effect on this kind of people.

'Store loyal customers' are satisfied with the promotions offered by the store they are loyal to (Sirohi *et al.*, 1998) and, therefore, these consumers will respond to its promotions. Store loyalty thus does not seem to condition a higher or lower proneness to any type of promotion.

Non-loyal customers are less familiar with the store and they need to go around the store until they find the product they need. During this process, as they are exposed to a lot of promotional stimulus, they might be more deal-prone. Moreover, many coupons can be redeemed at any store and loyal customers might use them in their habitual store.

'Brand loyalty' does not seem to condition a higher or lower proneness to any type of promotion. People who are loyal to a brand may respond to that brand's promotions, but not to the competitors' promotions (Grover and Srinivasan, 1992; and Ailawadi *et al.*, 2001).

'Consumers preferring only big savings' are less coupon-prone than others who like to redeem coupons even though they offer only marginal savings.

'Consumers who enjoy shopping', i.e., who are willing to spend time and effort going from store to store, looking at window displays, examining brands, are likely to be more coupon prone than people who are not willing to spend much time and effort in shopping.

'Deal retraction' – in general, people who purchase a certain brand of product when a deal is offered, but stop buying it when the deal (maybe in the form of a coupon) is retracted, are characterized as more coupon prone than those whose purchase of a brand is relatively unaffected by the presence or absence of a deal.

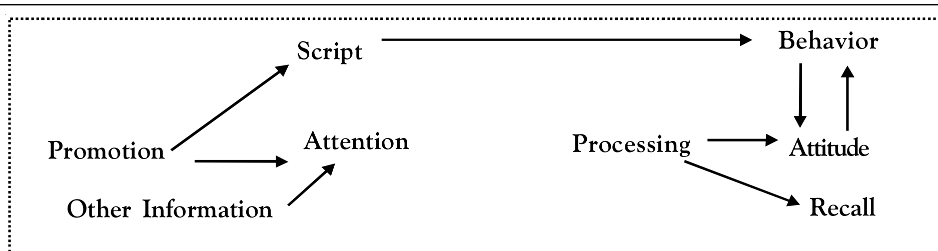
'Involvement' – Bloch and Richins (1983) have distinguished between enduring involvement and situational involvement. Enduring involvement is ongoing and is most likely related to product class, whereas situational involvement is temporary and is more likely to be due to a product-related situation. No evidence was found linking enduring involvement with coupon proneness. However, situational involvement was highly related to coupon proneness. The implication of this finding is that while involvement with the brand or product may not have much bearing on a person's coupon proneness, a person who has great intrinsic or situational self-relevance for getting rebates, and taking advantage of price deals would be characterized as being highly coupon prone.

'Quality-conscious consumers' are expected to show low proneness to promotions. This relationship was found to be true for in-store promotions and flyers, but could not be confirmed for coupons.

'Price consciousness consumers' depicted positive relationship with deal proneness.

'Value consciousness' – Value is defined as the ratio of quality to price. As coupons offers a lesser outlay of money, some consumers may redeem coupons because of the increase in value rather than because of a proneness to respond due to the reduced price being offered in coupon form. Consequently, when the construct of coupon proneness is

Figure 2: Consumer Response Process



measured strictly in behavioral terms, coupon proneness is confounded with the correlated construct of value consciousness. Lichtenstein *et al.* (1990) contend that coupon-redemption behavior is a function of value-consciousness as well as coupon proneness.

According to Zeithaml (1988), perceived value has been defined as 'the consumer's overall assessment of the utility of a product based on what is received and what is given'.

Total utility = (utility of the purchased good – the purchased price) – (internal reference price – purchased price)

Value-conscious consumers are more concerned about acquisition utility (the inherent need satisfying properties of the product). This focus implies that value conscious consumers are concerned about the product's value in use over time, which is a stable characteristic of the product. Thus, value conscious consumers are likely to have greater enduring involvement with the product. Conversely, coupon prone consumers are viewed as having more involvement in any purchase situation or specific transaction, which includes acting on a coupon. Thus, greater focus on transaction utility should result in greater situational involvement for coupon prone consumers.

Lichtenstein *et al.*, however, demonstrate that coupon proneness and value consciousness are distinct constructs that both underlie coupon redemption behavior. The authors in their study found that the correlation between value consciousness and enduring involvement with purchased products is more positive than the correlation between coupon proneness and enduring involvement with purchased products. Also, the correlation between coupon proneness and situational involvement is more positive than the correlation between value consciousness and situational involvement.

People who, in the post-purchase situation, discover they could have purchased the product at a cheaper price, but are satisfied with the purchase because they reason that use of coupons still led to a cheaper than regular price, are characterized as being highly coupon prone.

Thus, it has been found that there is a general consensus in the literature that the psychological variables of consumers influence their deal redemption intentions, and consistently explain their deal responsive behavior. To reiterate this finding, it is prudent to comprehensively review the theories explaining psychological mechanisms that underlie consumer's deal responsive behavior.

A REVIEW OF THE PSYCHOLOGICAL MECHANISMS UNDERLYING CONSUMER'S DEAL RESPONSIVE BEHAVIOR

A number of theories have been forwarded to explain the psychological mechanisms that underlie the consumer's deal responsive behavior.

'Shaping concept': Rothschild and Gaidis (1981) made a theory on behavioral learning to explain consumer response to promotions. They forward the concept of 'shaping', which suggests that a substantial incentive, such as a free sample, can encourage initial trial with successively smaller incentives fostering repeat purchases until the behavior is learned and the incentives can be withdrawn. If the incentive reward is greater than the regard associated with the product, then the repeat purchases are unlikely when the incentive is withdrawn. Similarly, if the incentive is withdrawn before the behavior is learned, then the consumer may switch to another brand. This theory further suggests that intermittent schedules may be more effective than continuous, that an immediate reward, e.g., a coupon, is likely to be more effective than a delayed reward, e.g., trading stamps, and that primary reinforcers (those directly associated with the product such as a free sample) are likely to be more effective than secondary reinforcers (coupons).

'Cognitive Approach Concept': In contrast to 'shaping' concept, Raju and Hastak (1980) proposed a 'cognitive approach'. "The essential feature of the cognitive approach is that a deal is considered to be a cue at the point of purchase which triggers certain psychological processes within the consumer. These psychological processes include encoding the deal and using it in the formation of beliefs necessary for the evaluation of the brand as well as post-trial experience".

In the pre-trial stage Raju and Hastak (1980) made a theory on social judgment to suggest that a deal will not be considered unless the brand is already priced within the consumer's acceptable range or the deal is large enough to move the price within that range. The positive effects of this may be offset by concerns about brand quality due to the fact that a deal is offered.

'The Script Theory': A model by Gardner and Strang (1984) indicates that one way consumers may respond to promotions is primarily through the use of stored scripts (Figure 2). According to Schank and Abelson (1977) a script is "a structure that describes an appropriate sequence of events in a particular context". A second way that consumers may respond to promotions is primarily through an attitude formation process. This sequence is more likely to occur when the consumer's response is not routinized.

'Stored and Constructive Rule Mechanisms': Bettman and Zins (1977), differentiated between information processing leading to a choice that takes place prior to a store trip and one that takes place on site. The former follows a 'stored' rule mechanism, while the latter takes the form of a 'constructive' rule mechanism. These researchers suggest that information presented in the store may have impact more than that presented outside the store if the consumer is operating under a constructive rule mechanism.

'Elaboration Likelihood Model': The Elaboration Likelihood Model of Petty and Cacioppo (1981) suggests that human information processing follows two distinct routes: the central route and the peripheral route. Inman *et al*. (1989) propose the consumer's need for cognition as one possibility, and find that the response to a promotion differs depending upon which route the promotional information was processed. Differences in effort and costs related to the use of different types of promotions, or differences in motivation for thinking about a purchase, may result in households generally favoring one type of promotion over another (Schneider and Currim, 1991).

'Adaptation Level Theory': According to this theory, consumers possess an adaptation level price or 'internal reference price' for a given product. The internal reference price implies the price a consumer expects to pay for a product, which is formed on the basis of past prices paid/observed either for the same or similar products. The internal reference price is a standard against which market prices are compared and judged as high, low or medium. The existence of internal reference prices has been confirmed in several laboratory studies (Gurumurthy and Winer, 1995).

Researchers have proposed that consumers respond to a price promotion based on the comparison between the internal reference price and the promotional price (Lattin and Bucklin, 1989; and Kalwani and Yim, 1992). Frequent price promotions can lead consumers to lower the reference price for the promoted product. Consumers with lowered reference prices will be unwilling to pay the full price of a product once the promotion is over.

'Attribution Theory': Attribution theory describes how consumers explain the causes of events (Mizerski *et al*., 1979) Different types of attribution can be distinguished based on the object about which the attribution is being made. Attributions made about self (the 'why-did-I-buy' question) come under self perception theory while attributions made about an object/ brand (the 'why-is-brand-X-on-promotion') come under object perception theory. Each is analyzed in the context of promotions.

'Self-perception Theory': Researchers who have applied self-perception theory to price promotions have stated that a purchase in the presence of a strong promotion is expected to lead the consumer to attribute purchase to an external cause (i.e., the promotion) rather than an internal cause (i.e., liking for the product). This will lead to discounting of a favorable brand attitude and repeat purchase probability will diminish. Basically, self-perception theory suggests a negative long-term effect of price promotions on consumer attitudes and behavior.

Object Perception Theory: Researchers who have applied object perception theory to price promotions have stated that the presence of a promotion will lead consumer to attribute lower quality to the brand owing to the fact that it is on promotion. However, attributions of lower quality to the promoted brand are expected to depend on factors such as the consistency

('Is the brand always on promotion?') and the distinctiveness of the price promotion ('Is it the only brand on promotion?').

Although early researchers had suggested that the mere presence of a promotion would lead to perceptions of lower quality (Dodson *et al*., 1978), results of later studies showed that a promotion's information value is context specific (Kahn and Louie, 1990; and Raghubir and Corfman, 1999). In today's purchase environment where most brands promote, it is unlikely that consumers will make negative attributions about a brand just because it is on promotion.

'Prospect Theory': This theory proposes that people perceive outcomes of a choice as perceived 'losses' and 'gains' relative to a subjective reference point. Researchers who have applied this theory to promotions (Diamond and Sanyal, 1990; and Campbell and Diamond, 1990) have stated that consumer's perception of promotion as a 'loss' or 'gain' is a function of the type of the promotion. They proposed that non-price promotions such as premium offers, which segregate the promotional gain from the purchase price, would be viewed as gains. On the other hand, price promotions such as price off, which integrate the promotional gain with the purchase price, will be viewed as reduced losses.

Diamond and Sanyal (1990) used prospect theory to predict that price promotions would be viewed as reduced losses and chosen less often than non-price promotion, which would be viewed as gains. However results of their research showed that almost an equal number of subjects chose the non-price promotion (a premium offer) as compared to the price promotion (a price discount).

'Attitude Model': Multi attribute models of attitude (Fishbein and Ajzen, 1975) depict the consumer's decision to perform a specific behavior as the logical consequence of beliefs, attitudes and intentions with regard to the behavior. As per this model, a consumer's intention to buy a brand may be based on positive/ negative attitudes towards a promotion.

Babakus *et al*. (1988) examined the impact of three attitudinal dimensions— price consciousness, time value and satisfaction/pride – on consumers' decision to use coupons. Results of their study showed that there was a positive relationship between coupon usage and consumer price consciousness. There was a significant negative relationship between coupon usage and perceived value of time indicating that the more a consumer valued his or her time, the lesser was the tendency to use coupons. The authors found that coupon usage increased when the consumer perceived higher satisfaction and pride with the use of coupons.

'Theory of Reasoned Action': Shimp and Kavas (1984) applied the theory of reasoned action to understand consumer's decision to use coupons. As per the model, behavior towards coupons would be influenced by consumer intentions to use coupons. Consumers' intention to use coupons would be determined by their attitudes and subjective norms.

Consumers' attitudes would be formed through their beliefs in the rewards and costs of using coupons while subjective norms would be formed through consumers' perception of whether others think they should expend the effort to clip, save and use coupons. The study showed that beliefs in the rewards of using coupons had high positive correlation with attitude while inconveniences and encumbrances had weak negative correlation with attitude. The authors found that both attitudes and subjective norms exerted an important influence on intention to use coupons. The results showed a clear link between consumer's intentions to use coupons and their self-reported behavior in actually doing so.

Schindler (1984) discusses three possible psychological mechanisms that may operate when consumers use coupons for their choice decision. First, the coupon may make consumers aware of the low price. Second, it may help the consumer form a reference price, thus allowing them to feel they are getting value for their money. Third, it can induce a feeling of being a "smart shopper" by getting a better deal.

LIMITATIONS OF THE THEORETICAL APPROACHES

Theoretical approaches used to explain consumer response to promotions have all had certain limitations. The price perception based studies are unable to explain consumer response to a wide range of non-price promotions such as free gift offers and extra product offers. Attribution theory is not useful in explaining consumer response to promotion in an environment where all brands promote on a regular basis.

Prospect theory based prediction that consumers will prefer non-price promotions perceived as 'gains' to price promotions perceived as 'reduced losses' is not supported by research and is also not based on a precise application of the theory.

Although attitude models provide information on the consumer decision process, their application is limited by the fact that several studies have found a weak correlation between attitude and behavior.

The Elaboration Likelihood Model bases the explanation of consumer response to promotion on an individual difference variable (need for cognition). There is a little information about the relationship between this variable and other managerially actionable variables, e.g., demographics. There is need for a theoretical framework, which is more adequately able to explain consumer response to different types of promotion.

Most of the theoretical research on promotions has concentrated on aspects of price and its impact on consumer judgments:

Studies based on adaptation level theory have focused on examining the impact of lower promotional price on consumer's internal reference price.

The concept of transaction utility has been used to assess the psychological pleasure associated with obtaining a price discount.

Assimilation contrast theory has been used to examine the optimum size and presentation format of price decreases in promotional advertisements.

The focus on price has probably been due to the fact that majority of the promotion research has focused on price promotions namely price-offs and coupons. These approaches are limited in that they restrict analysis of factors affecting promotion choice to mainly price.

Psychological approaches used, so far, to explain consumer response to promotion have had a single product focus. The theoretical approaches used so far – adaptation level theory, transaction utility theory, assimilation contrast theory, attribution theory, attitude models – have all had a single product orientation.

These studies have examined the impact of promotions on price perceptions, quality perceptions and savings. Although studies on retail price promotions have suggested positive cross product impact of promotion, psychologically based studies have not systematically examined this aspect of promotional response (Dang, 2004).

A REVIEW OF HOUSEHOLD CHARACTERISTICS AS IMPORTANT INDICATORS OF DEAL PRONENESS

Blattberg *et al.* (1978) predicted that deal proneness would be lower for households with children under six, no car, higher income, working wives, and a rented home. A model of utility maximization was proposed, predicting that the intensity of coupon usage is related inversely to a household's opportunity cost of time. The coupon usage was expected to be lower for households that are more educated, have children under six, and in which both husband and wives are working. He found coupon usage higher for households with higher levels of education, and no children under eighteen. He also found that the number of purchases made with a coupon first increased and then decreased with household income.

Webster (1965) found deal prone housewives to be older, lighter purchasers of the product class, and more likely to switch brands.

Bawa and Shoemaker (1987) reported that coupon prone households are more educated, have higher income, urban, less brand and store loyal. The findings on brand and store loyalty indicate two types of consumers – active shoppers who are less brand and store loyal, and relatively coupon prone; and routinized shoppers who are more brand and store loyal and light users of coupons.

A REVIEW OF DEAL CHARACTERISTICS AS DETERMINANTS OF DEAL RESPONSIVE BEHAVIOR

There are some compelling reasons to model the impact of deal characteristics on redemption intentions. It is argued that a person's coupon usage behavior will depend not only on his or her inherent coupon proneness or desire to use coupons, but also on the attractiveness of the coupons encountered. For example, a consumer may be inclined to use coupons but exhibit low coupon usage if he or she fails to find coupons that are sufficiently attractive (i.e., coupons with high face values or for a preferred brand). Thus, failure to include coupon attractiveness as a predictor of coupon usage can lead to an inaccurate assessment of coupon proneness and an inability to predict how the consumer would respond to coupons with different sets of characteristics.

Coupons for more heavily used categories tend to attract a broader cross section of consumers with varying levels of coupon proneness. Coupons for large-share brands and with higher face values tend to enjoy higher redemption rates (Bawa and Srinivasan 1997).

In the case of store causal variables like temporary price reductions, consumers are exposed to the deal inside the store and need to act immediately to take advantage of the deal offer. But in the case of coupons (when a typical customer is sitting in his/her house, browsing through the sunday newspaper and coming across coupons in the freestanding inserts), the consumer need not redeem the coupons immediately. Instead, the consumer may form intentions to redeem coupons and these intentions might translate into actual behavior in a subsequent period of time.

Based upon 'Microeconomic Theory', the redemption intention of a coupon is likely to be higher for a coupon offering higher utility (face value in our case) than for a coupon offering a lower utility. Research by Reibstein and Traver (1982) and Bawa and Shoemaker (1987) also find that coupon face value is significantly related to redemption rate. The intention to redeem a coupon is a function of the net benefit to a consumer because of the use of a coupon. The net benefit to a consumer is a function of both the costs and benefits involved in the use of coupons.

In sum, some of the characteristics most likely to influence coupon redemption intention include the coupon face value, which determines the savings provided; and the type of coupon (e.g., freestanding insert coupons and mail-in coupons), which determines the effort required to collect and redeem it. Also, whether the coupon is for a preferred brand or for a brand the consumer occasionally purchases is a determining factor.

The latent segmentation analysis reveals that there are three distinct segments of consumers (coupon chasers, easy couponers, and picky couponers), who exhibit distinct differences in response to coupon characteristics such as face value and method of distribution. The method of distribution of the coupons significantly affects the way the three segments respond to coupon drops. The use of mail-in coupons is unlikely to attract consumers belonging to the easy couponers segment.

Consumer response to promotional offer was more positive when the premium (free gift with purchase) was direct than when it was delayed. Also, consumer appreciation of a promotional offer was negatively associated with the quantity of the product one needed to buy to avail the offer. The price of a product had no impact on consumer reactions to a premium-based promotional offer. Consumers may be driven to purchase a product in which they have little interest if the premium is sufficiently attractive (Bawa and Srinivasan, 1997; Ramaswamy and Srinivasan, 1998; and D'Astous and Isabelle, 2002).

According to Raju and Hastak, 1980, studies on the consumer response to deals suffer from one or more of the following limitations:

- Conclusions are based solely on empirical data analysis with no prior theoretical framework.
- An adequate explanation of response to deals at the individual level is not provided. In some cases explanation of the results is given at the individual level but the analyses are not conducted at the individual level. Hence, it is difficult to determine whether the explanations truly represent the psychological processes that take place at individual level.

CONCLUSION

Considerable research has undergone to understand the deal responsive behavior of consumers. Majority of research has studied one or few deals at a time, and attempted to generalize it. It has been found that response to deals vary across various deal types. Hence, marketers need to adopt deal-specific strategies in their promotional programs. In the domain of consumer's response to deals, research should be done exclusively for different deal types.

Numerous studies have attempted to determine the correlates of deal responsive behavior in terms of demographic, socioeconomic, psychological, and purchase-related variables. Many studies have examined the impact of deals on brand switching and repeat purchase behavior. While majority studies have considered demographic, behavioral, and socioeconomic aspects as the main variables, the results have been mostly inconsistent. Instead studies using psychographic variables were more fruitful. Thus, earlier research shows that economic utility may not be the only reason for redemption of deals. Intrinsic trait variables of consumers need to be studied to identify the deal prone consumer. The other variables indicated in literature, e.g., deal characteristics and demographics may influence the consumer's response to deals but only through their psychographic variables.

Various theoretical approaches are stated in literature to explain the underlying mechanisms of deal responsive behavior. The most accepted ones include —economic and hedonic factors, shaping and cognitive approach concepts, script theory, stored and constructive rule mechanisms, elaboration likelihood model, adaptation level theory, attribution theory, prospect theory, attitude model, theory of reasoned action, etc.

Deal characteristics also have been found to be important determinants of deal responsive behavior. A detailed account of the response trends under influence of various promotion situations has been presented in this paper.

Thus, it is recommended that both marketers and academicians need to emphasize on the psychological characteristics and motivations of consumers to identify deal prone consumers. Sales promotion strategy should revolve around the consumers' psychological motivations to redeem deals and not just the economic benefits. Appropriate deal characteristics may also contribute to an extent towards this end.

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Road Transport in Himachal Pradesh: Policy Options for Sustainable Transportation

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This paper analyzes the transport sector in Himachal Pradesh. The paper finds that transport management in the state is totally out of gear with high congestion at major tourist areas, lack of parking facilities, high rate of accidents and pollution due to vehicular movement. It is argued that most of the problems could be solved with the introduction of economic instruments like taxation on old polluting vehicles, incentives that discourage private ownership and use of vehicles, subsidizing use of public transport and integrating transport with urban planning.

INTRODUCTION

In the transport economics literature transport demand, because it depends on industrial production and trade, is considered a derived demand (World Bank, 1996). Within the transport sector, road transport generally constitutes a substantial segment. New roads lower costs of goods and services, facilitate the development of new areas, create new job opportunities and allow the development of urban areas. In terms of macroeconomic contribution, value added by transport is estimated to account for 3-5% of GDP. Public investment in transport accounts for between 2% and 2.5% of GDP. The contribution of the sector to employment generation is also quite high. It commonly accounts for 5-8% of total paid employment. In terms of growth rates, demand for freight and passenger transport in most developing and transition countries is growing 1.5 to 2 times faster than GDP and the bulk of this increase is for road transport. Overall, macroeconomic cross-country evidence shows (World Bank, 1996) that investment in the transport sector promotes growth by increasing the returns to private investment.

While the benefits from transport are considerable, a series of related costs needs to be considered in assessing the relative advantages of transport policies.

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Such costs are usually external to those who make use of transport and are often unaccounted for. The main external costs of transport use are congestion, accidents and environmental costs. These costs include not only money, but also, for example, time losses, pollution and noise. The government can make use of several instruments to tackle these externalities. The job of transport policy is to assemble an effective combination of instruments. Such instruments can be classified into four broad categories: pricing, regulation, infrastructure policy and public participation. These instruments encompass a wide range of measures. For example, pricing includes economic instruments such as fuel taxes, taxes on vehicle ownership, insurance pricing and road pricing. Technology or emission standards, traffic rules or rationing of car use are examples of regulatory measures. Infrastructure policy refers not only to the expansion of the physical or virtual capacity of the infrastructure, but also to spatial planning. Public participation is through moral suasion, education and community involvement in decision making.

Transport has recently become an area of keen research interest to scholars and institutions, the world over. The World Bank through its several publications (World Bank, 1988, 1996 and 2002) has extensively studied the economic role of transport and the effects of externalities caused by transport operations. The World Bank (1996) gives an extensive review of the policy instruments used for correcting market and policy failures. Litman (2003) presents a relevant analysis on equity concerns in the sector and the measures usually taken to attend them. DFID (2003) presents exhaustive discussions on the stakeholders in transport. Mayeres (2003) gives a state-of-the-art analysis of the economic instruments used to handle transport problems. In the Indian context, Batta (2007), Pandey (2000), and Patankar (2000) present extensive surveys of literature and international experience in the area of transport externalities relevant for India. Singh (2004) reviews the laws relating to accident compensation and insurance.

However, one unexplored area is the actual operation of the provisions of the Motor Vehicles Act in India and the impact of taxation policies in the transport sector. It is especially important to analyze the interaction of the provisions of the Motor Vehicles Act and the taxation laws. Although the Government of India has enacted uniform legislation with the objective to ensure free mobility, reduced pollution and greater passenger safety, each state government has the power to levy taxes on the vehicles as it chooses. The objectives of the uniform legislation are thus still to be achieved. The paper focuses on this unexplored aspect of transport policy.

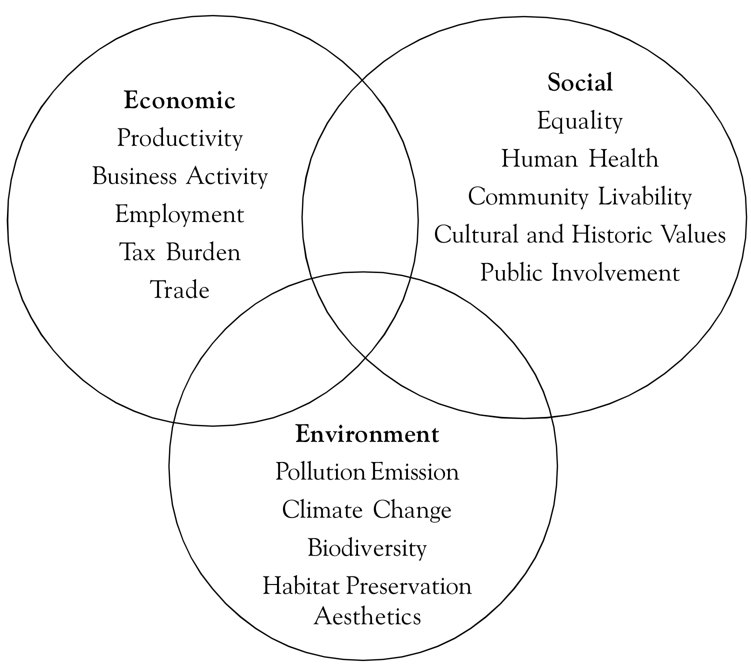
One of the prime concerns of transport policy is to develop transport infrastructure while keeping externalities under control. The paper starts with an analysis of transport regulation in Himachal Pradesh. An overview of current policy is provided and areas of concern are identified. From the areas of concern, an agenda for policy change is drawn. The study finds that transport management in the state is totally out of gear with high congestion at major tourist areas, lack of parking facilities, high accidents and pollution due to vehicular movement. It is argued that most of the problems could be solved with the introduction of economic instruments like taxation on old polluting vehicles, incentives discouraging private ownership and use of vehicles, subsidizing use of public transport and integrating transport with urban planning.

SUSTAINABLE TRANSPORTATION

The goal of sustainable transportation is to ensure that environmental, social and economic considerations are factored into decisions affecting transportation activity. Interest in sustainability, originally started with concerns regarding depletion of natural resources, especially energy resources, and is yet to be fully explored (Litman and Burwell, 2003). More recently equity considerations and the environmental impacts of human actions have also become the foci of concern. Various dimensions of sustainability issues are illustrated in Figure 1.

Although each issue may appear to fit into a specific category, in practice they

Figure 1: Sustainability Issues



often overlap. For example, on the face of it, pollution may appear to be an environmental concern but its impact on health and other economic activities also stimulates economic and social concerns. Solutions to problems of sustainability need to reflect integrated analysis.

It is important to identify strategies that help achieve multiple objectives and avoid those that solve one transportation problem and exacerbate others. For example, a policy or program that reduces traffic congestion but increases air pollution, emissions or crashes cannot be considered a sustainable solution. Similarly, a strategy that reduces energy consumption and air pollution emission, but increases traffic congestion, crashes and consumer costs is not necessarily a sustainable strategy. The most sustainable strategies are those that simultaneously help reduce traffic congestion, pollution, crashes and consumer costs, increase mobility options for non-drivers, and encourage more efficient land use patterns.

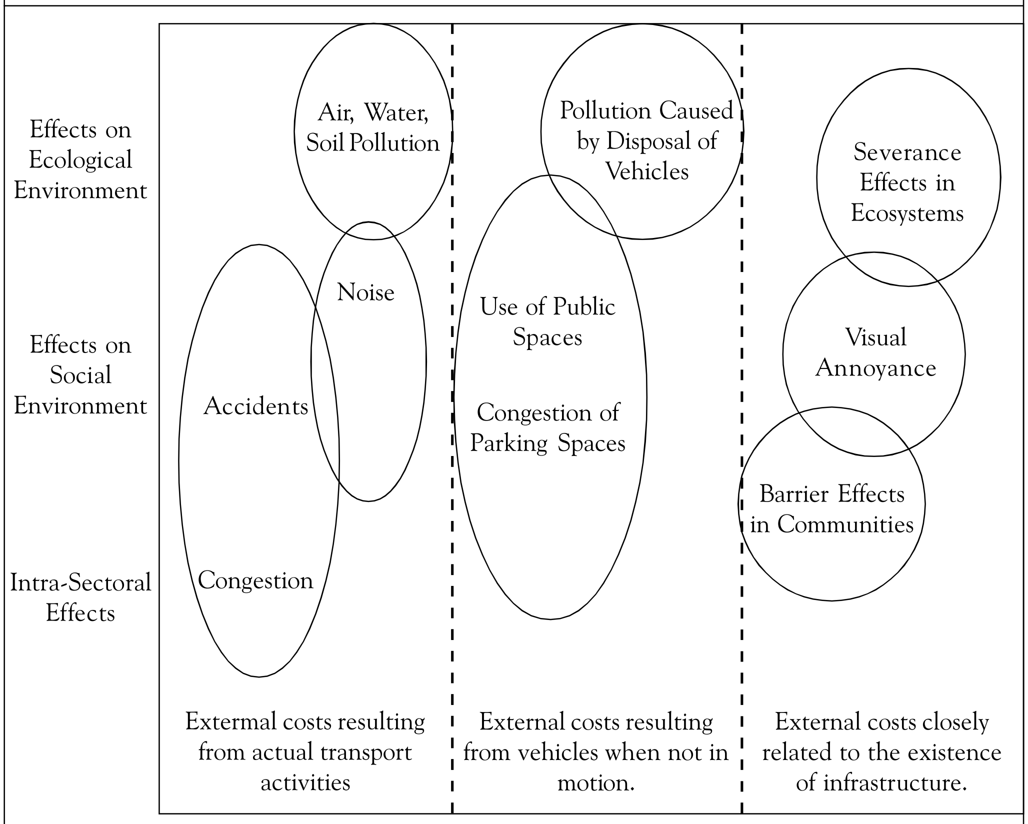
Until recently, most economists assumed that whatever its social and environmental costs might be, increased transport provided significant economic benefits. However, new research indicates (World Bank, 1996; Verhoef, 1996; and Mayeres, 2003) that increased road capacity and motor vehicle use may have negative as well as positive economic impacts. This is because the marginal productivity benefits of increased transport decline and vehicle use imposes external costs that can offset direct economic gains. Thus, sustainability planning does not always require tradeoffs between economic, social and environmental objectives, but rather strategies that help achieve all of these objectives over the long-term by increasing transportation system efficiency.

Verhoef (1996) analyzes the external costs of transport along two dimensions: according to their impacts and type of source. In the first category (who is affected), there are three possibilities: intra-sectoral effects, effects on social environment, and effects on ecological environment. In the second category (type of source), are costs due to vehicle use, costs when vehicles are not in motion and infrastructure related costs. Figure 2 illustrates these externalities.

By causing congestion road users impose costs on themselves, accidents cause a cost to the society and pollution causes ecological costs. External costs also occur when vehicles are not in use. Examples include congestion of parking spaces, use of public space, and environmental problems caused due to disposal of vehicles. Transport infrastructure also causes externalities in the form of visual and environmental effects.

Thus, transport problems and solutions can be viewed in two different ways. One is as individual problems with technical solutions: traffic and parking congestion require building more roads and parking facilities; crash risk requires roads and vehicles that offer greater crash protection; energy problems require

Figure 2: Typology of External Costst of Transport



Source: Verhoef (1996).

alternative fuels and efficiency standards; and mobility for non-drivers in automobile-oriented areas requires paratransit services. The approach is: "adjust roads and vehicles, not driver behavior". This approach using command and control instruments is considered to have a fundamental flaw: solutions to one problem often exacerbate others, particularly if they increase total vehicle travel. For example, over the long run, increasing roadway capacity tends to increase overall vehicle travel by inducing vehicle use, which increases crashes, energy consumption and pollution. Policies aimed at crash protection require heavier vehicles that consume more energy while fuel efficiency standards reduce per-mile cost of driving, further stimulating traffic congestion and crashes. Hence, this approach cannot solve all problems because the more a solution achieves its objectives, the more it exacerbates the other problems.

The alternate approach relies on market-oriented analysis of transportation problems. It assumes that most transportation problems share a common root: market distortions resulting in excessive automobile use. From this perspective, solving transport problems requires planning reforms that increase transport options, and market reforms that give consumers suitable incentives to choose the best option for each individual trip. The approach is: "increase transportation system diversity and efficiency". The general term for this approach is transportation demand management. This approach uses market-based instruments (like taxes, subsidies and public spending), negotiation and moral suasion. The overriding philosophy is that some aspects of transport market framework like monopolies, corruption, lack of valuation of resources characterized with public good features (environment for instance) and perverse subsidies, actually hinder progress towards sustainability. With the help of appropriate policy instruments such market distortions can be corrected.

ROAD TRANSPORT IN HIMACHAL PRADESH

THE POLICY REGIME

Spread over an area of 55,673 sq km, Himachal Pradesh is situated between the foothills and high mountain ranges of the Indian Himalayas. Owing to its geo-physical characteristics, road transport is practically the only mode of transport in the state. All matters relating to registration of motor vehicles, issuance of permits, fitness certificates, driving licenses and adherence to pollution norms are dealt within India under the Motor Vehicles Act 1988 and rules made thereunder by the Government of India and the states. In most states this work is handled by Transport Departments and State and Regional Transport Authorities.

The current policy regime can be studied in two parts: a) The legal and institutional framework, and b) The fiscal policy related to motor vehicles. Motor vehicle operation in the state is governed by the Motor Vehicles Act (the Act) and rules made thereunder. Transport Authorities constituted under the Act decide the grant of permits to commercial vehicles of all kinds. These commercial vehicles are subject to Inspection and Maintenance (IM) checks by the officers of the transport department at regular intervals. The transport department, police, and the courts enforce the provisions of the Act. While the Act lays down norms for maximum pollution emissions, regrettably, in the face of mass violations, enforcement is totally ineffective. Further, the Act makes little contribution to mitigate traffic congestion.

The structure and incidence of taxes and fees that the motor vehicles registered and operating in the state are liable to pay varies with the type of vehicle, cost of vehicle and its area of operation. The major taxes are token tax, passenger tax and special road tax. Token tax is the license fee that owners are supposed to pay for using the road. Rates of token tax vary with kinds of use. There are two distinct categories of tax: personalized vehicles and commercial vehicles. Personalized vehicles pay tax at the time of registration for a period of 15 years. Commercial vehicles, on the other hand, pay tax on an annual basis. The rates and incidence of tax also vary between these two categories. While personalized vehicles pay tax in a lump sum, calculated as a percentage of the price of the vehicle and collected once in 15 years, commercial vehicles pay tax annually charged on the per seat basis in the case of passenger vehicles, and a lump sum amount based on the gross weight of the vehicle in the case of goods carriers. The rates of special road tax vary depending on the nature of the road, with users of national highways paying the highest rates per seat per kilometer and users of rural roads paying the lowest rates per seat per kilometer.

Like the special road tax for stage carriage buses, passenger and goods tax is charged from cabs, tourist buses and goods carriers. Contract carriages (cabs and buses) pay passenger tax on a quarterly basis depending on the seating capacity. Goods carriages are liable to pay goods tax on a lump sum basis at varied rates depending on the class of the vehicle (light commercial vehicle, medium goods vehicle and heavy goods vehicle). In addition, all kinds of vehicles also pay various kinds of fees, for example, registration fee, special registration fee, permit fee, inspection fee, license fee and composite fee. All these fees, except the registration fee, are charged on a lump sum basis irrespective of the cost, size and mechanical strength of the vehicle.

The Motor Vehicles Taxation policy of the state does not reflect any clear-cut strategy to achieve any definite objective or to handle transport externalities (Batta, 2006). Indeed, the state has not used tax as an instrument of control. Instead, it has been used only for generating resources. Examples of taxation policy running contrary to transport policy are seen in the tax structures of personalized vehicles compared to public service vehicles, and the tax rates in different categories of public service vehicles. Personalized vehicles are growing rapidly and causing problems of traffic congestion and pollution. However, personal vehicles are still charged one-time tax at nominal rates. Likewise, while efforts are desirable to make travel by public service vehicles more popular by making them more comfortable, tax rates for luxury public service vehicles are prohibitively high. Thus, the state does not have a single luxury or air-conditioned coach. Further, because rates of token tax of personalized vehicles are a ratio of the price of the vehicle, higher technology vehicles that conform to Euro II norms and have better safety features, pay higher taxes.

There is a supposedly clear-cut division of responsibilities between the federal and the state governments. The Motor Vehicles Act (which is uniform all over the country) is in the domain of the Government of India, while motor vehicle taxation is a state subject. However, both sets of arrangements do not move in tandem. While the provisions of the Act reflect the Government of India's overall strategy on economic reforms, state taxation policies are mostly guided by requirements to generate resources. For example, while the Act emphasizes liberalization and privatization in the transport sector in India, it is not uncommon to find taxation policies in the states, which discourage private investment by keeping tax for the private operators much higher than their public sector counterparts. Most states do not offer a level playing field for the private sector and there is no institution like a regulator in any state to ensure fair competition. Further, even the fare and freight rates in most states are fixed by the state governments, which for obvious political considerations do not want to charge fares that reflect the true cost of operation. While public sector companies are able to afford such a fare structure due to financial support available from government budgets, it is difficult for private operators to survive. According to a rough estimate (DOT, 2003), the problem of default in payments to financial institutions by private operators is rising. Besides, while the Act provides for All India Tourist Permits and National Permits to encourage trade and tourism between the states and envisages uniform composite taxation for the whole country, most states have their own tax structure with very high rates of taxation.

There are contradictions in other areas too. For example, while the Act discourages vehicles with higher pollution emissions, vehicle taxation policy has provisions that run counter to this objective. One such example is the policy of charging one-time and lower rates of taxes for personalized vehicles that cause pollution and congestion, and higher annual taxes from public transport vehicles. Further, within the tax rates for public transport services, the incidence of tax is very high for luxury vehicles. While the strategy for reduction of private vehicles should be to encourage luxury vehicles to attract more and more commuters to the public transport, the high rates of taxes on luxury and air-conditioned buses (which are 100 to 200% more than the ordinary buses) act as a strong deterrent. Overall, existing vehicle taxation policies do little to solve the problem of congestion.

AREAS OF CONCERN

Vehicle Population and Growth Rates

The growth rate of vehicle population in Himachal Pradesh has been quite phenomenal. From an average growth rate of 2.7% during 1980-85, the growth rate of the vehicle population increased to 7.8% in 1995-2000. After 1998, the annual growth rate of the vehicle population increased substantially to 12% because of easy finance and new models. The composition of vehicle population, in December 2003, is given in Table 1.

Two wheelers and cars comprised 82% of the total vehicle population. Commercial vehicles were only 25% of the total vehicle population. The motor vehicle population in Himachal Pradesh is thus rising with higher shares of personalized vehicles. Among personalized vehicles as well, the share of two wheelers is very high (about 60%).

Table 1: Motor Vehicle Population in Himachal Pradesh			
Sl. No.	**Category of Vehicle**	**Population**	**As Percentage of Total**
1.	Two Wheelers	149,286	58
2.	Cars and Jeeps	63,249	24
3.	Trucks	37,805	14
4.	Buses	4,417	2
5.	Three Wheelers	2,611	1
6.	Others	3,656	1
	Total	**261,024**	**100**
Source: DOT (2003).			

Table 2: Vehicle-wise Road Space Utilization and Pollution in India			
Type or Vehicle	**Average Passengers per Vehicle**	**Pollution Load in gm/ Passenger per Kilometer**	**Congestion Effect in PCU*/ Passenger**
Two-Stroke Two Wheeler Petrol Engine	2	7.13	0.375
Four-Stroke Two Wheeler Petrol Engine	2	4.76	0.375
Car with Catalytic Converter Petrol Engine	4	0.93	0.250
Bus with Diesel Engine	40	1.00	0.075
Note: * PCU = Passenger Car Unit where 1 car = 1PCU, 1 Bus = 2.5 PCU, 1 Scooter = 0.75 PCU.			
Source: MORT (2003): 3.			

The composition of the vehicle population coupled with high growth rates of personalized vehicles has caused serious problems of congestion, accidents and pollution. This raises the following important issue: Should we encourage personal vehicles to grow, as is the current trend or should we encourage greater use of public transport, in order to ensure good mobility? Though the data on road space utilization and pollution in the state is not available, going by the national averages, public transport utilizes much lesser road space and causes less pollution than personalized transport.

Though cars and buses have the same pollution effect on a per passenger basis, buses have the advantage of occupying far less road space. On the other hand, two wheelers not only have a far more damaging effect on the environment than cars and buses, but are also undesirable from the congestion point of view. Hence, from Table 2, buses are clearly more desirable and two wheelers are least desirable. Therefore, transport policy has to support investments in facilities that would wean people away from the use of personal vehicles rather than build facilities that would encourage greater use of personal motor vehicles. This requires a tax and fee regime that discourages the ownership and use of personalized vehicles.

Transport Sector and the Socioeconomic Priorities

As 30% of Himachal Pradesh's population live below the poverty line (E&S, 2003), equity and welfare aspects in transport management are significant. However, concessions for the poorer sections of the society contribute to heavy losses incurred by public transport managed by Public Sector Undertakings (PSUs) (MORT, 2003). Because the poorer sections of society mostly use public transport, it is difficult for the management of PSUs to increase fares. It is therefore necessary to find a balance between business needs and equity considerations. Among the alternatives suggested to overcome the problem are introduction of a dual pricing system by offering different services to the poor section and the upper income group; private sector participation in the provision of services; and budgetary funding of the deficits of PSUs.

Road Safety

A study by the railway and traffic wing of Himachal Pradesh shows that while road accidents are growing at a rate of 12-15% per annum, casualties are growing at the rate of 18-20% per annum (R&T, 2003) (Table 3). There are 11 deaths per 10,000 vehicles in the state (as against 20 in India) which is far higher than 1.2-1.5 per 10,000 vehicles in the developed countries (World Bank, 1996). In addition are those who suffer serious injuries in road accidents and require medical attention. While no estimates of losses due to accidents are available in GDP terms, it is believed that, increasingly, road accidents are causing more damage to the society.

Owing to the concentration of traffic on national highways, over 35% of accidents occur on national highways followed by 31% on state highways and 34% on other rural roads. Examining the causes of accidents makes salutary reading.

Table 3: Road Accidents and Casualties in Himachal Pradesh

Year	Vehicle Category						Total	Persons Injured	Persons Died
	Buses	Trucks	Jeeps	Cars	Two Wheelers	Others			
2000	374	473	278	302	333	295	**2055**	4302	820
2001	494	650	294	454	612	659	**3163**	5213	960
2002	345	431	242	503	515	423	**2459**	4171	616

Source: R&T (2003).

Fault of the driver, mechanical faults and bad road conditions account for 83% of total traffic accidents in Himachal Pradesh (Table 4).

Table 4: Causes of Accidents in Himachal Pradesh

Cause	Percentage of the Total Accidents
Fault of the Driver	36
Mechanical Fault	21
Bad Condition of Road	26
Fault of the Pedestrian	11
Natural Calamity	06

Source: R&T (2003).

Traffic Congestion

Traffic congestion arises when transport networks are loaded with traffic more than their economic capacity (Reddy *et al.*, 2000). High growth rates in the vehicle population in the state impose problems of parking and congestion. As the tourist season reaches its peak, the regulatory system often collapses. Because parking facilities are insufficient, most of the incoming vehicles park on the roads, and the road space shrinks because of the roadside parking. The tourism industry in the state has grown significantly in the 1990s. It is estimated that an average of 0.4-0.5 million tourists visit Himachal Pradesh every year which is equal to about two-thirds of its population (Batta, 2003). Major places of attraction are Kullu Manali, Shimla, Dharamsala-Palampur and Dalhousie-Chamba. The tourist season lasts for almost nine months during which about 0.2 million externally registered vehicles enter the state. Finding the existing machinery incapable to handle the situation, the state High Court has recently set up a high-powered committee to recommend steps to solve traffic congestion.

Liberalization and the carrying capacity of infrastructure, especially roads, need to be balanced. As a recent study by the Transport Department of Himachal Pradesh (DOT, 2003) shows, the capacity of the roads to absorb further traffic is limited. The study calculated the frequency of bus services on important National Highways and found that a bus service ran on the main National Highways every 1.5 minutes during the peak hours between 7 a.m. and 7 p.m. The average road width of National Highways is 2.5 meters, which is further cut back in towns. In addition to the buses plying on such a small strip, trucks, government vehicles and private vehicles also struggle for space. Most of the National Highways connect important destinations on the tourist circuits. The roads in Himachal Pradesh are thus fully saturated and have no capacity to absorb more traffic.

Environmental Concerns of the Road Transport

Among the sectors of the economy that account for CO_2 emissions from energy, prominent are fuel combustion in industry (41%), electricity production (34%) and transport (17%). Within the transport sector, it is estimated that two wheelers and cars contribute to 78% and

11% respectively of vehicular pollution. Three wheelers contribute around 5%, buses 2% and trucks 4%. Among the principal factors that determine vehicular emissions are engine technology, vehicle mass, fuel quality, maintenance and aerodynamic drag. Two factors contribute mainly to vehicular pollution in the state, namely a large population of two wheelers and the rising population of diesel vehicles. Most Indian two wheelers are intrinsically polluting. Fuel and oil are discharged without being fully burnt. In addition, two-stroke engines tend to wear faster than the four-stroke engines and their spark plugs tend to get fouled very frequently leading to further emissions. The rising population of diesel engines is also a cause of concern. Further, the diesel sold in India has a high sulfur content and diesel engines emit more black smoke full of suspended particulate matter, if they are not properly maintained.

AGENDA FOR REFORM

PRICING

There is a need to introduce a taxation policy that tackles the problems of congestion, road safety and environmental emissions. The textbook solution to the problem is to impose a tax equal to the difference between the private marginal benefits and the social marginal costs. A polluter exposed to such a tax would then internalize the costs of pollution and would reduce emissions. However, in order to levy such a tax the regulator would need to know the exact pollution caused by each vehicle, which would be difficult because the sources are mobile and numerous. Therefore, the second best solution often recommended is to impose a tax on polluting goods such as fuel. Higher fuel prices would reduce vehicle use, reduce vehicle ownership and encourage the design of more fuel-efficient cars.

Air pollution caused by transport is a typical case of negative externality. From a vehicle owner's perspective, the marginal benefits of emitting pollutants into the atmosphere (a public good) are more than the marginal costs the owner has to bear. In the absence of any intervention to prevent market failure, the social marginal costs will be higher than the private marginal benefits. Any policy to check pollution emanating from vehicle exhausts has to have four components that relate to: vehicle technology, vintage, fuel used, and usage. Over the years, vehicle technology has substantially improved resulting in better fuel efficiency and lesser emissions. Among petrol driven vehicles, introduction of four-stroke engines in two and three wheelers and accurate fuel injection systems controlled by electronics are most significant from the environmental perspective. Electronic control systems optimize ignition and injection. In diesel engines, there is a trend towards direct injection. In developed countries the proportion of direct injection vehicles is almost 75% of total diesel vehicles.

Vehicles using improved technology are now being manufactured and sold in India. But it is important to encourage further the introduction and use of better technology vehicles (vintage). A suitable policy framework is also required to provide incentives to the users of obsolete vehicles to adopt new technology. Road tax or token tax needs to be structured so that the incidence of tax reduces with technological improvements and reduction in pollution emissions, and increases with the level of pollution. Suitable tax concessions could be provided for four-stroke engines in two and three wheelers, Euro II engines in petrol vehicles and turbo engines in diesel vehicles.

Among vehicles in use, the Inspection and Maintenance Program, Manufacturer Warranty Program and Scrappage Program could help to improve performance. Under the Motor Vehicles Act 1988, all commercial vehicles have to obtain a certificate of fitness once a year and private vehicles after 15 years of use and every five years thereafter. Introducing progressive taxation that increases with the lifespan of the vehicle could induce early replacement or scrapping of vehicles. In addition, providing incentives for retrofitment of catalytic converters and engine replacements could bring remarkable results. It is estimated (Reddy, 2000) that older commercial vehicles retrofitted with modern engines could reduce particulate levels at least by 80% and hydrocarbons by 60% with no increase in NO_x and noise levels.

Extending the responsibility of performance to the manufacturer is also one of the often recommended options. Owing to the modest success of the current inspection and maintenance systems, there is a trend to shift liability for maintaining emission control during the life of the vehicle to manufacturers through warranty coverage requirements on emission control equipment. As manufacturers would not like to be penalized through warranty-covered repairs, the quality of the equipment should improve. Amendments designed to promote this change are being made to the central motor vehicle rules.

In terms of fuel use, CNG, LPG and petrol are considered to be less polluting than leaded petrol and diesel. Introduction of an emission charge based on fuel used is often advocated. A differentiated fee structure based on the classifications (given in Table 5) is recommended to encourage the use of environment friendly fuel and technology in vehicles. A further refinement would be to introduce a progressively graduated charge based on the life of the vehicle.

Finally, vehicle usage (private versus commercial) is also an important factor. As commercial vehicles ply more, they tend to emit more pollutants. Problems of overloading and bad maintenance are also strongly associated with commercial vehicles. Therefore, incentives for technological interventions like catalytic converters, electronic fuel injection, turbo chargers, modern carburetors and conversion to greener fuels need to be built into the emission fee or tax rate structures.

Table 5: Proposed Format for Motor Vehicle Taxation Based on Age and Fuel Used

Sl. No.	Vehicle Type	Rates of Tax			
		10 Yrs	15 Yrs	25 Yrs	Above 25 Yrs
1.	Cars (Petrol)				
2.	Cars (Diesel)				
3.	Taxies (Petrol)				
4.	Taxies (Diesel)				
5.	Three Wheelers (Petrol Two-Stroke)				
6.	Three Wheelers (Diesel)				
7.	Two Wheelers (Two-Stroke)				
8.	Two Wheelers (Four-Stroke)				
9.	Buses				

Traffic congestion imposes substantial cost on the society: pollution, energy costs and time costs. With the ever-increasing vehicle population and increasing vehicle miles, congestion is likely to worsen. Consequently, transport planners and policy analysts are faced with the problem of finding a policy tool to handle it. Among the options are road pricing, subsidizing public transport and introduction of rapid mass transit systems.

One of the options tried in many places of the world is road pricing. Economists have advocated it as a way of allocating scarce roadway capacity to the highest valued users. Among the most popular types of the road pricing are pay lanes, area licensing and cordon pricing. With pay lanes, of which high occupancy or toll lanes are examples, one of the several highway lanes is tolled while the others are not. Efficiency is sought by differentiating drivers according to how they value time. Area licensing requires a license to drive in certain areas. Examples are found in Singapore and several European countries. Cordon pricing aims at reducing congestion through a differentiated charge for entry into the area within the cordon. Well-known examples of cordon pricing are found in Norwegian cities and in London.

One of the best examples of road pricing is the congestion charge in London. At 5 pounds per day the charge currently raises about 500,000 pounds per day. It is estimated that the charge cuts traffic by at least 20%. Besides, the money raised is spent on improving bus services. However, congestion pricing has at least three major limitations: high implementation costs, privacy issues and distributional effects. High implementation costs arise as a result of the need for a barrier to collect the toll. With manual collections, the cost and time implications both rise. However, the recent introduction of electronic smart cards to collect the toll has helped a great deal. Privacy issues arise mainly in the manual form of collection and are by and large overcome with smart cards. Distributional effects of congestion tolls remain an area of concern. Since everyone pays the same toll regardless of income, low-income motorists suffer disproportionately. Compensating potential users by appropriately spending the revenue, could help to improve the political feasibility of congestion pricing.

Subsidizing public transport could be achieved in two ways: cash subsidy for operations and tax incentives for public transport operators. While subsidies are considered inefficient and also impose strain on fund-starved governments, tax concessions continue to be favored by government in many countries.

Road pricing continues to be preferred to fuel tax and higher subsidies for public transport. Studies on use of economic instruments show that equity considerations do not have a large impact on ranking of transport instruments. Moreover, the use of revenue generated through road pricing becomes a useful tool to reduce inequalities by improving social security transfers or social services network.

With respect to road safety, one of the strongest reasons for the government to intervene in the form of a transport policy or a road safety policy is because road safety is a 'merit good'. Consumers are not able to assess its utility adequately, or may not have access to relevant information. This problem can be approached on the demand side by influencing the consumer's decision-making behavior. On the supply side, production and distribution of potentially dangerous goods can be discouraged or even stopped.

Another important reason to intervene is the need for compulsory insurance to cover the third-party risks. Compulsory insurance is a potential tool to enable the policymakers to ensure internalization of the external costs of driving motor vehicles. One of the important factors in insurance costs is that *ex ante* payment of a compulsory insurance premium influences decisions earlier than *ex post* payment of compensation. A premium is part of the overhead expenses taken into account when deciding on the purchase of a vehicle. The probability of an accident and its financial consequences is built into the decision to purchase. From the safety viewpoint *ex ante* pricing is clearly preferable to *ex post* pricing. The more the insurance premiums reflect the real risks of accident costs by differentiating between the safety characteristics of different kinds of vehicles, the records of drivers and the nature of the roads used, the more the costs are internalized.

REGULATION

Also known as the Command and Control (CAC) strategy, direct controls consist of measures aimed at influencing the behavior of agents causing damage directly. They continue to play a leading role in developing countries where incentive-based strategies are being introduced. There is a wide range of available instruments: emission standards, permits, zoning and bans. However, these can be classified into two broad categories: a) Emission standards, which limit the quantities or concentration of pollutants, which may be emitted and b) Restrictions concerning the use of specific equipment or procedures. Usually, ensuring emission levels at pre-fixed standards is a rather difficult job. It is often done with the help of metering devices, which are complex and error prone. Therefore, the second type of direct controls is more effective. Prescribing a technology, offers an advantage of avoiding actual monitoring of emissions because it is possible to ensure that it has been actually used. The most common examples of such controls in the transport sector are prescribing Euro II norms for vehicles, complete bans on use of non-CNG vehicles in a particular area, banning use of two-stroke engines in two and three wheelers, and providing safety standards to be adhered to by manufacturers.

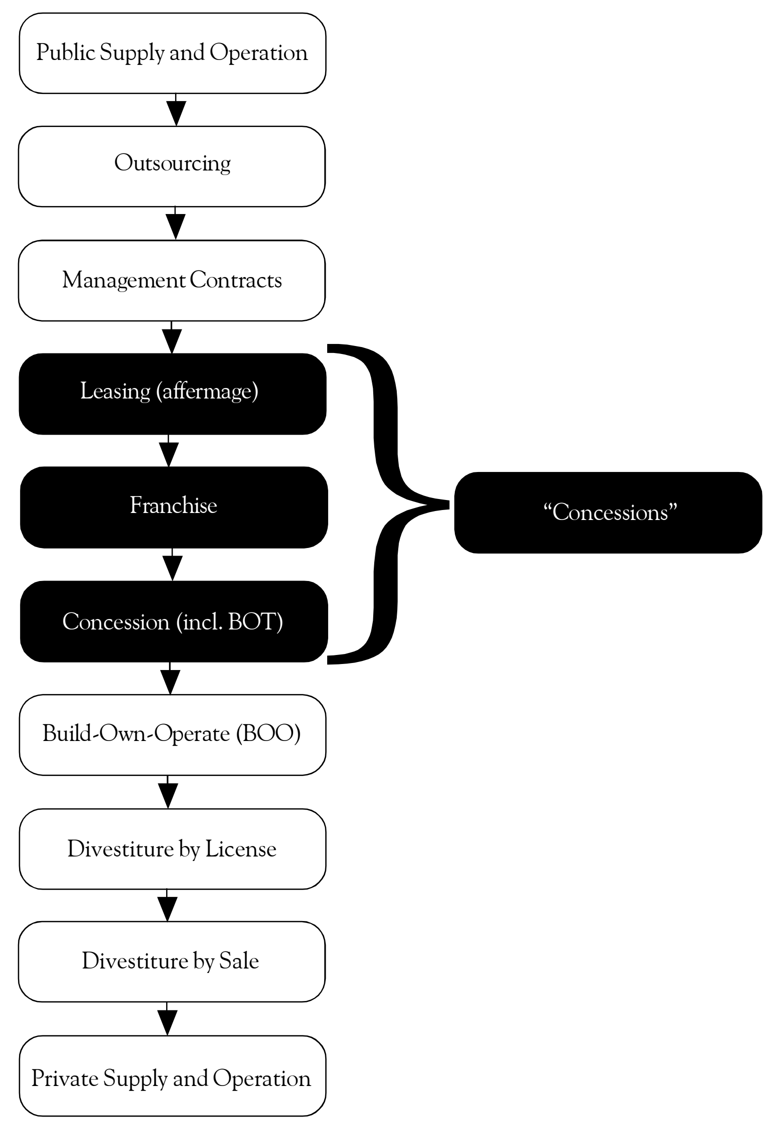
In India, the Central Motor Vehicle Rules, 1989 seek to implement standards of motor vehicle production, usage and maintenance. To apply environmental standards, it will be necessary to design appropriate vehicle inspection and maintenance programs and scrappage programs. It will also be necessary to ensure that related policies are appropriate, and provide the correct incentives, including those related to domestic taxation, trade liberalization, and public expenditures.

INFRASTRUCTURE POLICY

Over the past few years, the private sector has become increasingly involved in infrastructure, with private management of government assets in sectors such as power, telecommunications and water, and specifically in transport, worldwide. There are many ways to bring the private sector into the transport market: outsourcing, management contracts, leases, franchises, concessions, divestitures by license or sale, and private supply and operation. Concessions, which include leasing, franchising and Build-Own-Transfer (BOT) arrangements, involve a more limited set of instruments. Where these operate, governments retain the ultimate ownership of assets and/or the right to supply, and transfer at least some part of the commercial risk of providing and/or operating the assets to a private concessionaire.

These characteristics distinguish concessions from management contracts, at one end of the spectrum, where the private sector is generally not asked to carry much, if any, commercial risk. By retaining ultimate ownership, and/or the right to supply, governments control policy, can find a way to allocate risks to those best suited to bear them, and can ensure that the policy risks, in particular, are removed from the sector for the duration of the agreement. At the other end of the spectrum, concessions also differ from Build-Own-Operate (BOO) contracts, where governments relinquish ownership. Figure 3 shows the progression from government supply and operation of

Figure 3: Public Private Partnership Options



facilities or services, to complete privatization.

Government could consider bringing in private sector participation in several areas. These include: access infrastructure like bus stands and terminal stations, and operation of public transport on selected routes to reduce the need for subsidies and enhance operational efficiency. However, a government cannot always develop its entire program to the extent intended because private sector resources may not be available or sufficient. Thus, a government may need to scale down its goals. One mechanism for doing so would be to use feasibility studies, with consultants determining exactly what can be achieved, as was done by the Union Government in the National Highways Program. At the level of individual projects, it may be better to review all financing and management options, and only then consider the allocation of concessions, if appropriate. The state government has already tried the Public Private Partnership (PPP) model in construction of some of its bus stands. Inspection and management systems and road infrastructure projects could also be undertaken in the PPP mode.

PUBLIC PARTICIPATION

Public participation is achieved through stakeholder dialogues, public disclosure and moral suasion. Stakeholder dialogues can reduce the uncertainty involved with planning for the future. A successful dialogue is one, which provokes meaningful conversations, helping people plan for and create societal change. Progress beyond ideas is best achieved through partnerships between government, civil society and others. Strategic partnerships yield gains by applying the complementary capabilities of the actors and eliminating duplication of efforts.

To improve public information, information disclosures would require firms producing a specific good or using a potentially hazardous good to make disclosures on the technology used, or the environmental effects of its operation, or the final product. For example, firms could need to specify the details of motor vehicle emissions, abatement technology applied on a particular model (for example Euro II or Euro III compliant technology) and the emissions levels of each model. The public would then be in a position to choose among the models available.

Further, an effective way to reduce road accidents is to educate the public. This could involve informing individuals about the consequences of their actions on the well-being of the population at large and future generations (for example, emissions by ill maintained vehicles, problems of disposal of motor vehicle waste, and risks of driving without a helmet or drunken driving). Incomplete information about the risks of driving without appropriate safety equipment leads to behavior the drivers would not otherwise choose. However, it is recognized that changing individual behavior may require a mixture of complementary measures.

CONCLUSION

As an integral part of economic policy, it is up to the transport policy to establish the general conditions necessary to enable personal and freight mobility resulting from economic activity. The role of transport policy is to put in place conditions that will ensure greater efficiency in all activities relating to the transport economy. In particular, this means:

- Providing transport infrastructure of a high standard, in terms of both quantity and quality;

- Establishing the necessary conditions for non-discriminatory competition within and between the modes;
- Using the same method of calculation to charge infrastructure costs to all transport modes, while still allowing for the possibility of an appropriate contribution from the public exchequer towards infrastructure development; and
- Issuing regulations and establishing norms in respect of harmful emissions, noise pollution, vehicle characteristics, road safety and other public benefits.

Providing transport services to meet future needs without causing serious damage to the environment is a major challenge. A sustainable future transportation system will comprise a mixture of many measures. Introduction of combinations of measures that govern the demand and supply of transport services requires appropriate planning techniques which can take account of a wide range of transport, energy and environmental issues and options. The ultimate goal of a transport policy should be to use efficiently road space, a common resource facing the proverbial 'tragedy' of overuse, and allow users to take into account the true cost of their decisions, so as to lead to higher social welfare. The equity implications of such a policy can be a powerful tool for poverty alleviation. The wide variety of measures and technical possibilities, combined with the growing seriousness of excessive fuel consumption, congestion and environmental impacts, provide the need and the means to overcome this challenge. It will however, require institutional reform so as to promote integrated planning methods, coordinate implementation, develop suitably skilled manpower and secure access to substantial financial resources.

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Case Study

Tight Rope Walk at Tata Steel: Balancing Profits and CSR[Ψ]

*J Singh**

Now in its centennial year, Tata Steel is among India's largest and most renowned companies. With a consistent track record in the past, it is poised for dramatic growth in the future—both in India and abroad. Since its inception, Tata Steel has been deeply committed to sharing its wealth and prosperity with disadvantaged communities around its operational sites. It voluntarily ploughed large sums of money into redressing a range of social problems—much before 'Corporate Social Responsibility (or CSR)' formally entered the vocabulary of management texts. This case study describes the company, its underlying value system, and its wide portfolio of social programs. In the process, it also triggers a debate over future course of action. Can Tata Steel afford to maintain its traditional CSR strategy? In view of increasing competition, and the importance of cost competitiveness, has the time come for a comprehensive review of all that the company does and the way in which they are done?

It was an anticlimatic question. In the teak-paneled boardroom of Tata Steel, a senior executive had just completed an impressive, somewhat self-congratulatory, presentation on the extensive range of social activities undertaken by the company in and around the east-Indian city of Jamshedpur. In the audience were 35 fast-track foreign executives of leading global companies registered for the prestigious IMPM[¥]. They were on a day's trip to observe management practices at this premier Indian company.

Instead of the overawed appreciation that Tata Steel's executives had become accustomed to at the end of such presentations, one of the foreign delegates piped in: "But why are you wasting so much of shareholders' money on activities

Ψ This case study has been written by J Singh mainly to be used to stimulate discussion in management education programs rather than to advocate any particular course of action.

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¥ The IMPM, a brainchild of Henry Mintzberg, is conducted jointly by the business schools at McGill (Canada), Lancaster (UK), Insead (France), Kobe (Japan), and IIM Bangalore (India) in five separate fortnight-long modules for senior executives of leading companies from around the globe.

that clearly fall within the purview of local or state governments? Why don't you stick to your main business?"It was an anticlimactic question.

Other keen observers of Tata Steel such as financial analysts, management consultants, and the business press have subsequently picked up this refrain. Faced with repeated questioning of this nature, the company's top management is engaged in an intense debate: How to strike a balance between its primary objective of enhancing shareholder wealth, and its equally deep commitment to the welfare of the communities around it?

PROFILE OF TATA STEEL

Tata Steel, which began operations in 1907, is the oldest, and undoubtedly the best-known steel company in India. On the verge of completing a century in business, it is widely respected for the professionalism of its management, consistent performance record, employee-orientation, adherence to core 'Tata Values', and its social-consciousness. Many of these qualities are the direct legacy of its Parsi (or Zoroastrian) founder: Jamsetji Nusserwanji Tata (1839-1904). A true visionary—more of a nation-builder than a wealth-seeking industrialist—he stood apart from his peers. Unlike them, he was not satisfied with accumulating easy wealth from the lucrative trade in the agricultural commodities that India was famous for—and this had attracted the British to colonize the country. Instead, he set out to lay the foundations of a modern, manufacturing-based economy; he considered this as a prerequisite for attaining political independence. With dogged determination, he overcame all the obstacles placed in his way by the colonial powers of his era and eventually succeeded in giving India its first integrated steel plant (now Tata Steel), its first power generating company (now Tata Power), and its finest technical institute (the Indian Institute of Science in Bangalore). His successors went on to expand the Tata industrial empire to a group of over 85 companies spanning a variety of industries including: metals, automobiles, engineering, aviation (now nationalized), IT, telecommunication, chemicals, finance, tea, and hotels. They have a combined turnover of around $23 bn. But throughout this expansion, they stuck to the founder's core values: concentrate on nation-building activities; plow back the wealth generated from efficient business in the communities where it was earned; treat employees as the producers of its wealth—and therefore, as members of the Tata 'joint family'; and treat all other stakeholders with due respect and fairness.

Tata Steel is the 'flagship' company of the Tata group. Though headquartered in Mumbai, most of its operations are in eastern India. Its integrated steel plant is in Jamshedpur, and its captive collieries and iron ore mines are in the states of Jharkhand and Orissa. This region, though very rich in mineral resources, is economically underdeveloped. There is extreme poverty among the 'tribal' population; local governments have been singularly inept at providing the basic infrastructure and amenities taken for granted elsewhere. This is reflected in the low literacy and high unemployment levels—and the primitive state of health care facilities in the rural areas.

For nearly 45 years in post-independent India, Tata Steel was subjected to draconian controls by the government. According to the official industrial policy, the steel industry was reserved for the public sector. Therefore, Tata Steel was prevented from growing beyond the capacity it had already built up. Major decisions, such as the quantity of steel it could make in a year, or the price at which it could sell its products, were made by bureaucrats in the Steel Ministry in Delhi. The net effect was that it could earn only very modest returns—enough to pay regular dividends to shareholders but not enough to invest either in modernization of its plant, or growth. The cumulative effect of this discriminatory policy was that Tata Steel was reduced to being a company with an antiquated plant of uneconomical scale. To compound matters, it was also grossly overmanned with a peak of nearly 80,000 employees at one stage.

In 1991, the winds of globalization and market-based liberalization swept across the country. The Indian government began to systematically dismantle the restrictive 'license raj' it had set up. The industrial policy, which had reserved the steel industry, only for the public sector was set aside—and Tata Steel was free once again to chart its own course. Liberated from decades of restrictive controls that had stunted its growth, and exposed for the first time to the torrid winds of free trade, it directed all its pent up energy and aspirations towards a sustained modernization campaign to upgrade and expand its steel-making capacity. Investments on an unprecedented scale were made regularly for several years to dismantle obsolete mills and replace them with new ones based on state-of-the-art technology.

The changes were not limited to technology. Equally dramatic were the changes in overall organizational design, management systems and practices. These were re-engineered with the help of several leading international consultancies. Among the more dramatic changes were: delayering of the hierarchy from 13 levels to 5; and a switch from a traditional functional organization to a series of autonomous strategic business units and profit-centers.

Along with this modernization campaign, the company also reduced—entirely peacefully—its workforce to around 37,000. As a result, its employee cost fell from a high of 19% to around 7% of total cost. The method used to achieve this dramatic reduction was also unique—perhaps unparalleled in the world. Surplus employees were given the option of accepting a separation package that assured them a regular, monthly salary (minus perks and further contributions to retirement benefits) until their due date of retirement at the age of 60 years. The monthly salary was pegged at least at the level at the time of separation; in many cases, it was increased by 25% to 50% to compensate for expected inflation. Though critics considered this scheme as extravagant and unwise, Tata Steel felt obligated to send its former employees away in a humane way—without hurting their livelihood or their sense of self-respect. (It ought to be kept in mind that there is a shortage of alternate employment opportunities for workers in India). Hence, it did not go for cheaper and more convenient separation schemes.

ON THE ANVIL

With its improved finances, Tata Steel is now spreading its wings. It is well on the way to expanding its production capacity in Jamshedpur from 5 to 7 million tons (m.t.)—and plans to take it up further in stages to 10 m.t. To gain easier access to the promising southeast Asian market, it acquired Singapore-based NatSteel (2 m.t.) in 2004, and Millennium Steel (1.7 m.t.) in Thailand a year later. It has also acquired two wire-making facilities in India and Sri Lanka—and thereby emerged as one of the largest wire manufacturers of the world.

In a nail-biting finish, Tata Steel recently (February 2007) outbid CSN of Brazil to acquire Corus—an Anglo-Dutch steel-maker which is several times its own size. As a result, it has leapfrogged its way to becoming the fifth largest steel company in the world.

Betting heavily on economic growth in India and the Asian region, Tata Steel has also announced its intention to pursue several 'green-field' mega-projects simultaneously. On the drawing board are:

- Three integrated steel plants in Jharkhand, Orissa, and Chattisgarh (with a combined capacity of 11 m.t.).
- A 2.5 m.t. plant in neighboring Bangladesh.
- A joint venture in Iran for setting up two separate plants with a combined capacity of 6 m.t.
- A ferrochrome smelting unit in South Africa.
- A Titania project in the south Indian state of Tamil Nadu.

Though progress has been slow, when all these projects are completed around 2015, Tata Steel will have a combined capacity of approximately 50 m.t.—thereby consolidating its position as a key player in the global steel industry.

JAMSHEDPUR: THE STEEL CITY

A century ago, there was only a tiny tribal hamlet where Jamshedpur stands today. It was selected as the site of Tata Steel's plant because of its strategic location at the confluence of two perennial rivers, and also because of its proximity to iron ore and coal mines. It also lay along the railway line connecting two of India's largest commercial centers: Bombay and Calcutta (now renamed as Mumbai and Kolkata).

Designed and built by Tata Steel, Jamshedpur has now grown into a vibrant industrial city of over 7,00,000 people—with an additional 3,00,000 in its adjoining suburbs. The combined population makes it the second largest city in the state of Jharkhand. It is home to a dozen Tata Group companies. Two multinational firms of US origin, Timken and Cummins, recently began operations in Jamshedpur. In addition, there are numerous privately owned, smaller-scale ancillary units.

Perhaps the most distinctive feature of Jamshedpur is that it is still a 'company town'. Under a special dispensation, it does not have an elected municipality. Instead, responsibility for administering the city has been entrusted directly to Tata Steel. Accordingly, it is responsible for town planning and providing a wide range of civic amenities: roads, water and electricity, street lighting, public parks and gardens, sewage disposal, public health, etc.

Though Tata Steel is responsible for Jamshedpur's development and administration, it has not been empowered to levy any taxes. It can only recover some charges based on actual consumption of electricity and water. For employees, these charges are highly subsidized by the company; for other citizens, they are fixed in consultation with the local government. Except for these recoveries, much of the expenses of running the town are financed out of Tata Steel's revenues. In effect, they come out of its bottom line.

In 2004, the Town Division was spun off as a wholly owned subsidiary, JUSCO (Jamshedpur Utilities and Services Company). There were two primary motives behind this decision. Firstly, it would be able to achieve higher efficiency levels because of its autonomy and focus on its business. Secondly, it would be free to explore business opportunities in the area of urban services in other cities. However, critics point out that there was a third, unstated reason which is to reduce Tata Steel's employee cost by transferring all the employees of the Town Division to the newly-formed JUSCO—where the general compensation level would be lower than in the parent company.

Other than the revenue that JUSCO now earns from independent 'third parties', its main budgetary support still comes from Tata Steel. In essence, the earlier expenditure on the Town Division is paid to JUSCO for all the work it does at the behest of Tata Steel.

The state government is responsible for maintaining law and order, and providing other public services.

Residents of Jamshedpur are proud of their city. Its civic amenities, and its quality of life, are generally regarded as superior to that in most other Indian cities. (In a biannual survey of quality of life commissioned by JUSCO, but conducted independently by A C Nielsen ORG-Marg, Jamshedpur emerged as second only to Chandigarh—the joint capital of Punjab and Haryana—and ahead of Bangalore, Pune, and Bhubaneswar). Therefore, they are extremely averse to its conversion into a traditional municipality-run city. They have succeeded in beating back campaigns mounted by vested interests in the past. Notwithstanding the cost of administering the city, there is consensus even in Tata Steel about maintaining the status quo. Some argue that the company has reaped rich dividends from its investments in the city; it is probably the single most important factor in attracting and retaining its professionals. Yet there are some who question the wisdom of continuing to shoulder the responsibility of running a growing city.

EMPLOYEE WELFARE

Over a century, Tata Steel has built an enviable reputation as an employee-friendly company. It has consistently gone beyond industry standards and legal requirements to take care of its employees. Its pioneering initiatives to enhance employee welfare have, in fact, served as the model for much of the welfare legislation in India. Among the 'firsts' to its credit are mentioned in Table 1.

in the company—and therefore ought to be given his due importance.

Table 1: Tata Steel's Welfare Measures—A Model for Welfare Legislation in India

Welfare Measures	Year	Year of Enactment as Indian Law
8 hours Working Day	1912	1948 (Factories Act)
Free Medical Aid	1915	1948 (Employees State Insurance Act)
Establishment of Welfare Department	1917	1948 (Factories Act)
Schooling Facilities for Employees' Children	1917	—
Works Committees for Grievance Handling	1919	1947 (Industrial Disputes Act)
Leave with Pay	1920	1948 (Factories Act)
Workers Provident Fund	1920	1952 (Employees Provident Fund Act)
Workmen's Accident Compensation	1920	1924 (Workmen's Compensation Act)
Training of Apprentices	1921	1961 (Apprentices Act)
Maternity Benefit	1928	1946 (Maternity Benefit Act)
Profit-sharing Bonus	1934	1965 (Bonus Act)
Retiring Gratuity	1937	1972 (Payment of Gratuity Act)

Today, a Tata Steel employee enjoys company housing with highly subsidized electricity and water supply, free health care for the family at company-run hospitals, educational facilities for children, civic amenities of an exceptionally high standard, and a range of recreational opportunities. It is often jokingly referred to as a 'cradle to grave socialist organization.'

More importantly, Tata Steel is known for its work environment built around the theme of 'working together.' It is characterized by participation and fair play. Employees at all levels are treated with respect. Those who may have grievances have easy access to the higher management. The company also has numerous formal forums for participation and communication. The underlying belief is that every employee is a partner

Tata Steel's employee-orientation has paid rich dividends. Though it is located in a region known for volatile trade unionism and violent strikes, it has an exceptional record of 75 years of 'industrial harmony'—a period without any strike or work stoppage. It has convinced its various unions that it is ever ready to discuss contentious issues across the table and reach mutually satisfactory solutions—rather than allow dead end adversarial situations to develop.

It is also reflected in the general sense of 'belongingness' among employees. Indirect indicators of this are: the large number of employees who have dedicated their entire working life exclusively to Tata Steel; the average length of service of employees; and a large proportion of them who are either 2nd, or even 3rd, generation employees (i.e., their parents or grandparents also worked for Tata Steel). Even now, many harbor a hope that their children will eventually also work for the company.

Nevertheless, there are some critics also. They point out that the innovations in Tata Steel's employee relations and welfare programs have dried up. No significant features have been added in recent decades. On the contrary, there are increasing signs that the company's management is now more concerned about relentlessly reducing employee numbers and costs. The earlier all-inclusive 'joint family' mindset is yielding to a more pragmatic 'lean-and-mean nuclear family' mindset.

THE SOCIAL SIDE OF TATA STEEL

The tone for Tata Steel's 'social philosophy' was set early by its founder, J N Tata: "In a free enterprise, the community is not just another stakeholder in business, but is in fact the very purpose of its existence".

Several decades later, this philosophy was incorporated in an official social policy statement: "Tata Steel believes that the primary purpose of a business is to improve the quality of life of people…(It) will volunteer its resources, to the extent it can reasonably afford, to sustain and improve the environment, and the quality of life of the people of the areas in which it operates".

Drawing inspiration from its founder's philosophy—cherished, and passed on from one generation to another—and acutely aware of the grinding poverty in Jamshedpur's hinterland, Tata Steel voluntarily assumed a wide range of social responsibilities much before Corporate Social Responsibility entered the management lexicon. So deep and extensive was the commitment that it earned the sobriquet of being the company 'that also made steel'—suggesting that it often gave the impression of being primarily a social, rather than a business, organization.

As the largest and most prosperous company in the region, Tata Steel became a 'lightning rod'; it attracted requests for help from numerous disadvantaged groups around it. Therefore, at least in the initial years, its responses appeared more ad hoc than in keeping with any grand social strategy. However, based on lessons learnt from its experiences, it has now realized that it had spread itself too thin. Therefore, an attempt is being made to give greater focus to its social work. It now encompasses the following broad areas; the figures in parentheses indicate the weight, or priority, that has been assigned recently to each area:

- Health care (20)
- Education (15)
- Rural development (10)
- Relief operations after natural calamities (10)
- Sports and adventure (10)
- Civic and community services (10)
- Vocational training (10)
- Environment (10)

- Art and culture (5)

A Corporate Citizenship Index has been developed recently to measure the company's performance in the listed areas. It is still in the process of fine-tuning.

THE DELIVERY VEHICLES

Most of the activities in these areas are coordinated by specialized departments belonging to the Social Services Division (please see the organization chart in the annexure). This division is made up of five key departments:

1. **Community Development and Social Welfare (CDSW):** Its mandate is to look after community-building efforts in '*bustees*', or low-income colonies, that are either autonomous enclaves within Jamshedpur (i.e., not within the leasehold area under Tata Steel's administrative control) or just on the periphery. Some of the inhabitants of these semi-urban *bustees* are also employees of the company.
2. **Tata Steel Rural Development Society (TSRDS):** It was established to take Tata Steel's social work deeper into Jamshedpur's rural hinterland. The areas covered are inhabited by 'Adivasi tribals' who subsist on farming. There is extreme poverty and high illiteracy among them. Due to governmental neglect, they have little access to educational facilities and health care; roads, electricity, irrigation systems are virtually non-existent.
3. **Tata Steel Family Initiatives Foundation:** India's burgeoning population prompted the establishment of this foundation. Its initial objective was to propagate family planning in Jamshedpur. However, it has now gone beyond this limited objective to also focus on reproductive health, antenatal and postnatal care for women, and HIV/AIDS awareness campaigns.
4. **Tribal Cultural Society (TCS):** Its primary objective is to help marginalized communities (scheduled castes and tribes). It also works to preserve and promote their tribal culture—especially their arts and crafts.
5. **Sports and Adventure:** This department promotes sports and outdoor adventure programs in a variety of ways. For carrying out this work, it has an elaborate infrastructure of training academies, stadiums, gymnasiums, and playing fields.

The newly formed JUSCO (the erstwhile Town Division of Tata Steel—and now a fully-owned subsidiary company) has inherited responsibility for the civic administration of Jamshedpur. In addition to developing and maintaining the infrastructure of the city, it also runs nine schools—primarily, but not exclusively, for children of employees.

There is a separate Environment Department, which is responsible for various pollution control measures in the company's mines and steel plant. It also leads initiatives in the areas of afforestation, water conservation, and rainwater harvesting (Table 2).

Table 2: Commitment of Resources

Unit	No. of Employees		Average Expenditure (Rs. in cr)
	Officers	Others	
1. Social Services (CDSW + Rural Development + Family Initiatives + Tribal Culture)	29	355	14.70
2. Sports and Adventure	14	19	5.30
3. Medical Care (including annual contribution of Rs. 25 cr to Jharkhand Health Insurance Scheme for 30 years)	199	706	34.70
4. Town Services (JUSCO)	231	1231	37.30
5. Environment Management	6	28	125.00
6. Philanthropy (Donations)	–	–	6.00

Note: Some of these services (especially medical care, town services, and sports) benefit both employees and non-employees. It is difficult to calculate separately the cost incurred on account of each group. The ratio between the two groups in the geographical area under Tata Steel's leasehold is approximately 1:4). While some of the expenditure on environment is simply to comply with mandatory standards, Tata Steel has often exceeded them voluntarily.

THE PORTFOLIO OF PROGRAMS

INCOME GENERATION PROGRAMS

Having learnt from years of experience that simply doling out grants can lead the beneficiaries to become habitually dependent, Tata Steel has now come to believe that it is far better to help them become more self-sufficient. Therefore, its current approach is directed largely towards enhancing their earning capabilities. Among the schemes to meet this objective are:

- Rainwater harvesting, watershed management, and lift irrigation schemes to bring water to otherwise parched farmlands and, thereby, support multi-cropping in place of the traditional mono-cropping.
- Agriculture extension (organization of high-yield seed banks, and distribution of agricultural implements).
- Training of villagers in modern farming methods, dairy and poultry farming, pisciculture, floriculture, and community forestry.
- Formation of entrepreneurial women's self-help groups.
- Promotion of traditional handicrafts like terracotta and '*dhocra*' figurines, and carpet weaving. An annual fair is organized to provide a market outlet for the craftsmen.

HEALTH CARE AND HYGIENE

Due to prolonged government negligence, the areas around Jamshedpur have a very primitive public health system. Recognizing the importance of health care, Tata Steel has chosen to step in and help to the extent possible in a variety of ways:

- The Tata Main Hospital in Jamshedpur, with over 1000 beds, is supported by a network of smaller satellite hospitals and clinics in several other locations where the company has its operations. They provide free medical care to employees and their dependent family members. In addition, they also treat non-employees on payment of normal charges.
- Mobile clinics, mounted on vans, routinely visit semi-urban '*bustees*' and more remote villages spread over an area of approximately 500 sq km to provide free medical checkups and care to residents there. A significant part of the work of these mobile clinics is educating people about preventive health measures.
- Tata Steel is among several corporate sponsors of the 'Lifeline Express'—a hospital with surgical facilities mounted on a train. It is taken periodically to stations in remote rural areas and provides free care, including surgery and postoperative treatment, to villagers from the neighborhood. During this period, the hospital is staffed entirely by doctors and supporting paramedics from the company's hospital.
- Distribution of artificial limbs, aids and appliances to the disabled.
- Surgical camps in villages (especially for cataract, cleft lip or palate).
- Blood donation campaigns to ensure availability of safe blood for the needy through the company-supported blood bank.
- Organization of free sterilization camps as part of family planning initiatives.
- Reproductive health education for adolescents.
- Antenatal and postnatal care for women.
- Immunization of children.
- HIV/AIDS awareness programs.
- Running of de-addiction centers to help youngsters overcome the menace of drugs.
- Health camps to educate people about health and hygiene.
- Total sanitation campaigns in villages. Its focus is on proper disposal of garbage, human and animal excreta, and wastewater. As part of this program, villagers are given help in the construction of low-cost toilets. Furthermore, they are also educated about personal and food hygiene, home and village sanitation, and proper handling of drinking water.
- Digging of tube wells and installation of hand pumps to make clean drinking water available to villages.

EDUCATION

Tata Steel believes that basic education is the way out of poverty and towards socio-economic development. Therefore, it has several programs to promote education:

- Tata Steel directly operates nine schools for approximately 5,000 children of its employees. In addition, it supports in innumerable ways several other schools run independently by various educational organizations.

- Preschool literacy programs for children in the '*bustees*' around Jamshedpur and more remote villages.
- Computer literacy programs.
- Scholarships for employees' children pursuing degrees in selected professional disciplines at renowned institutions.
- Chaired professorships at prestigious schools of engineering and management.
- Vocational training to improve employability of job-seeking youngsters. With this in view, Tata Steel has helped establish a vocational training institute in Jamshedpur.

These educational initiatives are, of course, in addition to the extensive range of learning opportunities provided to employees through the company's in-house training centers. Need-based programs are conducted regularly to update their technical and managerial skills. Though employee strength has fallen, the expenditure on their continuous education has not.

RELIEF OPERATIONS

Tata Steel, in conjunction with its associated companies, has established the Tata Relief Fund. It provides emergency relief (in the form of medical care, essential supplies of food, clothing, and temporary shelter) to victims of natural calamities anywhere in the country. Thereafter, the company also undertakes long-term rehabilitation work like reconstruction of housing colonies.

SPORTS AND ADVENTURE

This department was established to give concrete shape to Tata Steel's credo that 'sports are a way of life'. It has a 3-point agenda:

1. Promote interdepartmental sports among employees of Tata Steel.
2. Promote various sporting activities among the general public of Jamshedpur.
3. Provide specialized support and coaching to exceptionally promising sportsmen selected from different parts of India.

To meet these objectives, the department is staffed by distinguished Indian sportsmen. They are responsible for coaching youngsters in their respective disciplines.

Three specialized academies have been dedicated exclusively for football, archery and athletics. Candidates are selected for enrollment in these academies through an elaborate selection process. During their stay in these residential academies, apart from receiving intensive coaching in their respective discipline, they are also provided free general education. Many of the alumni of these academies have gone on to represent India in various international contests.

To facilitate the work of this department, Tata Steel has invested heavily in stadiums, play fields, gymnasiums, coaching centers, and sports hostels.

Recognizing the importance of 'outbound' (or outdoor) training, Tata Steel has also set up an Adventure Foundation. It organizes Himalayan treks and various adventure sports (like rock climbing, river rafting, hang gliding, and camping). They are open to all enthusiasts—regardless of whether they are employees or not—on payment of nominal fees.

TRIBAL WELFARE

In view of Tata Steel's location in the tribal heartland of India, a separate Tribal Cultural Center was set up to work exclusively with the tribal community to help preserve its traditional culture. It focuses on promoting traditional handicrafts and dances, and periodically organizes seminars to discuss cultural affairs. It also maintains a museum to display artifacts connected with tribal life.

PHILANTHROPY

Above all that it does in the social arena, Tata Steel has a reputation for its generous corporate philanthropy. As a leading company in India, it is considered with high regard on every fundraiser's 'hit list'. It has consistently supported worthy causes with generous contributions. Among the principal beneficiaries are premier hospitals, educational institutions, and charitable organizations working with underprivileged and physically handicapped people—especially schools for the mentally challenged, blind and deaf. The company is also known as a regular benefactor of fine and performing arts.

CIVIC ADMINISTRATION

Tata Steel was established in Jamshedpur nearly a century ago—and has been responsible for developing and maintaining it since then. Covering an area of 65 sq km, it now has a population of over 700,000—with only 20% belonging to families of employees.

ENVIRONMENT MANAGEMENT

Tata Steel has been environment-conscious ever since its inception—much before talk of ecosystems and biodiversity became fashionable. It spends an average of Rs. 100 per ton of crude steel produced on environmental measures. Large investments have been made in environment-friendly technologies in all its operating units. These are aimed towards minimizing (or eliminating) air, water and noise pollution. Significant advances have also been made in reducing energy consumption, and in recycling both waste gases and solids. All effluents from the steel plant, and all sewage from the city, are treated before being discharged into the local rivers; no other Indian city can claim to do so. But perhaps its greatest achievement is in the area of afforestation, or tree plantation. In a sustained campaign, millions of trees have been planted in the locations where it has its operations. Furthermore, to ensure their survival, Tata Steel has enlisted the help of village communities to protect the regenerated forests.

It is estimated that nearly 12 *paise* (or 12%) of every *rupee* of profit earned by the company was spent on a wide range of community or social services till the end of the 1990s. This level of voluntary expenditure is considerably higher than the 1% often recommended by Indian Prime Ministers as a norm for industry in general. Since then, however, this proportion has declined; the increases in social expenditure have not kept pace with the more dramatic improvements in overall profitability—though the total outlay has not fallen in absolute terms. Most of the beneficiaries are non-employees.

SOCIAL AUDIT

In 1980, Tata Steel decided to subject its social work to independent scrutiny. Therefore, it constituted a 'Social Audit Committee' consisting of three eminent persons: one retired Supreme Court judge, and two distinguished academicians. Their mandate was to review critically all of the company's social programs, assess the extent to which they fulfilled its social and moral responsibilities towards its key stakeholders, and recommend ways of improving their effectiveness.

After commenting on various positive features and shortcomings, the committee concluded: "The company has not merely fulfilled the dream of its founder—but has gone far beyond it…. It has encompassed, within the ambit of its activities and financial aid, not merely the worker and his dependents but the community among which they live and indeed society in general in far-flung corners of India whenever a calamity or a disaster has struck. At the same time, it has taken care to see that the consumer who buys its goods gets value for his money and, within the limitations laid down by Government and other compulsions within which it operates, the shareholder, whose money it uses, gets an adequate return".

Since then, two more audits were conducted at the turn of each subsequent decade. They too involved judges of the country's apex court and leading academicians. The general tone of their final conclusions was quite similar.

THE ONGOING DEBATE

Notwithstanding all the emphasis laid on social responsibilities in the past, and the generous kudos received from various sources, there is renewed debate on future strategy. Both company insiders and external stakeholders have strong views on the subject.

POINT: REDUCE CSR EXPENDITURE

- In today's fiercely competitive world, Tata Steel must keep its overall costs under strict control. Unlike its competitors, however, it already carries a significantly higher burden of social costs. Therefore, its competitiveness is compromised somewhat. Hence it must find ways of at least containing, if not reducing, these social costs in future—without abandoning its traditional commitment to its social responsibilities.
- Five possible ways to prevent social costs from spiraling out of control are often recommended:
  - Consolidate the various departments engaged in social work into one. This will yield economies in both employee and infrastructure costs.
  - Only a small, core policy-making team should be on the rolls of the company. To minimize employee costs, the remainder of the staff should be transferred to semi-

autonomous trusts with their own terms of employment. Their employment would be contractual; and their compensation level would be lower than in Tata Steel.

- Streamline the programs portfolio. Instead of chasing every social cause and, thereby, dissipating its limited resources, it must focus more pointedly in the future on a few selected programs that will yield the maximum social impact; others should be wound up.
- Instead of doing everything itself, Tata Steel should engage more specialized NGOs. Apart from benefiting from their greater expertise in program execution, it will also be able to reduce its administrative overhead costs.
- Through the NGOs, Tata Steel should also seek project funding from donor agencies. This will release some of the demands on its own financial resources.

Though this subject has been under discussion for quite some time, only marginal progress has been made—mostly in the area of transferring lower-level staff off the company's rolls.

- Independent observers also point out that instead of collaborating with one another, and thereby deriving synergy, the different Tata companies in Jamshedpur prefer to go their own separate ways. Instead of standing on false corporate egos, why do they not combine their resources and work together according to a common coherent strategy? In the process, they would save substantially on their respective costs.
- The attack from the financial investor community is along different lines. In a bygone era when India was a virtually closed economy and the steel industry was heavily protected, Tata Steel could afford to assume a wide range of costly social responsibilities—and simply pass the bill on to customers. Perhaps the grim social conditions and the general inefficiency of governmental organizations left a vacuum that Tata Steel had to fill. However, circumstances have changed significantly since then. In view of the intense competition in the global steel market, it cannot afford to carry the burden of social costs of such magnitude. It must curb such expenditures to improve its cost competitiveness. Besides, governments have surely matured in all the intervening years. Therefore, they must assume their rightful responsibilities. At the best, leading companies like Tata Steel should combine to persuade the local and central governments to do what they have been elected to do.
- Perhaps the hardest question asked is: What tangible benefits has Tata Steel derived from the huge and steady expenditure on various social programs? Are there regular and systematic attempts to measure their effectiveness and 'qualitative ROI'? Implicit in this line of questioning is the suspicion that many programs are continued out of 'blind faith' rather than pragmatism. There is scope for streamlining the range of social activities and, thereby, also saving on costs.

- In any case, they question the wisdom (or right) of the management to unilaterally decide on a social agenda and allocate funds—over which investors also have a claim—on a regular basis. They fear that corporate resources may be appropriated by influential executives to pursue their 'pet' (or personal) causes—rather than those, which may be of interest to the general body of stakeholders.
- A final point: If the promoters and executives of Tata Steel are genuinely interested in alleviating social problems, why don't they contribute to a fund out of their own earnings—rather than by dipping into the company's resources which rightfully belong to shareholders? (It may be pointed out here that Tata Sons, the privately-held promoter company of Tata Steel, does indeed allocate a very substantial proportion of its earnings to a number of charitable trusts and social initiatives).

COUNTERPOINT: INCREASE CSR EXPENDITURE

However, there are others who, disturbed by the sharp decline in employment in Tata Steel, and the relentless campaign to reduce costs—especially in 'non-core' areas—criticize the company on several grounds:

- Tata Steel seems to be moving away gradually from its earlier 'we also make steel' mindset towards a 'we only make steel' mindset.
- Though the company's financial results have improved dramatically in recent years, and are expected to continue at the current level in the near future, its expenditure on social programs have not risen proportionately. It has, in fact, declined from an all-time high of 15% of PAT to around 6%.
- Jamshedpur has grown much beyond its original borders and size. The city's population has also increased significantly. As a result, there are heightened pressures on Tata Steel to improve its civic amenities, and even extend them beyond its legal leasehold. However, it has largely ignored the newly developed areas; it has argued that governmental agencies should assume responsibility for them. But that has not happened. With no agency owning responsibility for their development, there are already striking contrasts between the amenities available in the original and newer sections of 'Greater Jamshedpur'. This has resulted in a social divide that is certain to become more pronounced as time goes on.
- There are signs of growing disenchantment among the majority non-employee population of Jamshedpur. They complain of step-motherly treatment. While areas of the city predominantly inhabited by employees are very well taken care of, other sections suffer by comparison. An additional grievance of theirs is that they have little voice in the running of the company-town. As a result, some have launched a fresh campaign to change its status; they are fighting for the establishment of an elected municipality.
- Some critics allege that Tata Steel appears to have lost some of the

goodwill it had earned through its social work in the past. This is reflected in the strident campaign against its proposed 'Greenfield' plants. These have been derailed temporarily because of stiff opposition from the local communities where they were to be located. Instead of welcoming Tata Steel, villagers are opposing the acquisition of land by the government for allotment to it.

- If Tata Steel decides to 'outsource' its social work to NGOs, it would be akin to engaging in 'cheque book charity'. It would not be consistent with the level of direct commitment that the company had shown all this while. Paying for social work done by others is not the same as doing it oneself.

Such critics are of the view that Tata Steel needs to increase, not reduce, its commitment to its social responsibilities.

This debate, which has acquired urgency in view of the company's ambitious growth plans, has prompted the top management team to spend a day in seclusion to brainstorm intensively on its CSR strategy for the future. Should it continue along the time-tested lines of the past—or chart a new course? In case the consensus is in favor of a break from the past, what should the new approach be?

Annexure 1

QUESTIONS FOR DISCUSSION

1. How would you answer the IMPM candidate's question?
2. Is Tata Steel's management justified in diverting so much of corporate resources (or shareholders' wealth) towards its self-assumed social responsibilities?
3. Has Tata Steel's CSR agenda and strategy become outdated?
4. What agenda and strategy would you recommend for the future?
5. In view of competitive compulsions dictated by globalization, should Tata Steel begin to gradually disengage itself from its traditional commitment to CSR? Or should it become even more active than in the past?

Annexure 2

Vital Information about Tata Steel:

a) Location of main steel plant: Jamshedpur

b) Location of collieries: Jharia (underground) and West Bokaro (open cast)—approximately 3 hours' driving distance from Jamshedpur.

c) Iron ore mines: Noamundi and Joda—located on either side of the Jharkhand-Orissa state border. They also are approximately 3 hours by road from Jamshedpur.

d) Ferro-alloys: Sukinda and Bamnipal—both in Orissa.

e) Other plants:
   - i. Bearings (Kharagpur, West Bengal)
   - ii. Wire products (Mumbai)
   - iii. Growth shop for manufacturing steel plant equipment (Jamshedpur)
   - iv. Tubes (Jamshedpur)

f) Main products:
   - i. Flats (hot and cold rolled coils for the automobile and 'white goods' industries, and for roofing purposes)
   - ii. Longs (wires and rods for the construction industry)
   - iii. Tubes
   - iv. Bearings

g) Honors and recognitions:
   - a. JRD-QV (based on the Tata Business Excellence Model—an equivalent of the Malcolm Baldridge award in the US).
   - b. CII-EXIM Award (based on the European)
   - c. ASSOCHAM award for Corporate Citizenship
   - d. World Steel Dynamics recognition as the 'best' steel plant in the world (thrice)
   - e. Prime Minister's trophy for the 'best' steel plant in India (four times)
   - f. First Indian company invited to sign the UN Global Compact

h) Subsidiaries or associated companies:
   - i. TAYO (roll manufacturing)
   - ii. TRF (material handling equipment)
   - iii. Tata Refractories Ltd.
   - iv. Tata Sponge Iron Ltd.
   - v. Tata Metaliks (pig iron)
   - vi. Tata Pigments (paints from by-products)
   - vii. Tata Ryerson (steel service centers)
   - viii. TMIL (freight forwarding, ship handling and port operations)
   - ix. Metaljunction (e-business)
   - x. ISWP (wire products)
   - xi. Tata Blue Scope (color-coated steel)
   - xii. Hooghly Met Coke and Power
   - xiii. Jamshedpur Utilities and Services Company (JUSCO)
   - xiv. NatSteel (Singapore)
   - xv. Millennium Steel (Thailand)
   - xvi. Corus (UK and Netherland)

Organization Chart

The chart below shows only those departments relevant to this case. It does not include others related to the core business of the company.

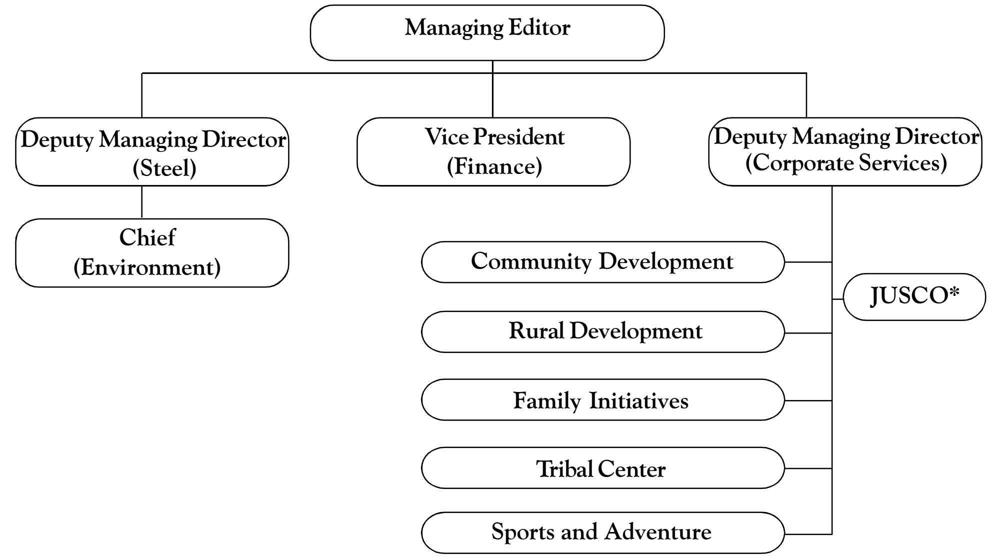
Vital Statistics

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Gross Turnover	7,683	9,844	12,070	16,054	17,399	20,196
PBT	251	1,263	2,666	5,297	5,240	6,262
PAT	205	1,012	1,746	3,474	3,506	4,222
Capital Employed	9,545	9,696	10,145	11,929	14,364	25,395
No. of Employees	46,234	43,248	42,511	39,648	38,182	37,205

Note: Currency: Indian Rupee; Monetary figures are in 'crores' (1 cr = 10 mn); All figures have been rounded off for ease of reading.

Annexure 2

(...contd)



Note: * Please note that JUSCO is now a fully-owned, semi-independent subsidiary company. The Deputy Managing Director (Corporate Services) of Tata Steel serves as Chairman of its Board of Directors.

Teaching Notes on "Tight Rope Walk At Tata Steel"

Objectives of the Case

1. To trigger a general debate on corporate social responsibilities. Should business firms assume such responsibilities? If yes, then to what extent? What are the dangers of not paying heed to them?
2. To illustrate how one reputed Indian company, Tata Steel, has defined its social responsibilities and has gone about fulfilling them.
3. To highlight the dilemmas before Tata Steel as it encounters more challenging competitive forces. Given the fierce competition that has now come to characterize the global steel industry, can Tata Steel afford to continue along its traditional ways of meeting its social responsibilities? If change is necessary, which way should it go?
4. To enable readers of the case to evolve a general strategy towards corporate social responsibilities.

Discussion Points

1. Orthodox economists and accountants regard 'profit maximization' as the central purpose of a business.
2. According to them, any activity that distracts from (or does not contribute to) tangible profits is both heretical and wasteful.
3. Underlying the orthodox viewpoint is the notion of legal ownership. Shareholders own a firm. As owners, they are interested in maximizing the returns on their investment in it. Therefore, the management must be motivated only by the thought of maximizing profits on behalf of the legal owners.
4. Adam Smith provided theoretical sanction for the strategy of profit maximization. His 'perfect market' visualized every person (or firm) pursuing his own self-interest. Thanks to the mediating role of an 'invisible hand', the single-minded pursuit of self-interest by individuals would lead to the maximum gain for all in society.
5. Unfortunately, 'perfect competition' is a myth. Real-life markets are characterized by a host of

(Contd...)

Annexure 2

(...contd)

Teaching Notes on "Tight Rope Walk At Tata Steel"

imperfections. Together, they render Adam Smith's 'invisible hand' ineffective.

6. As a result, single-minded pursuit of profits may lead to gains for some at the expense of others. Can this be sustained?
7. According to contemporary thinking, modern firms do not have clear owners; instead, they have a host of 'stakeholders'. Therefore, management must fulfill the expectations not only of shareholders, but all stakeholders.
8. If we accept the notion that there are many stakeholders in society, then we cannot escape the conclusion that firms have responsibilities towards all of them—going beyond the financial responsibilities towards shareholders. These non-financial responsibilities are termed social responsibilities.
9. But given the fact that a firm has limited resources, and its numerous stakeholders have countless expectations, the challenge is to strike a sustainable balance between profits and social responsibilities.
10. Tata Steel has displayed an abiding commitment to social issues by voluntarily initiating a wide range of social programs. It has consistently directed substantial financial and managerial resources to them. As a result, it has acquired a high reputation for 'corporate citizenship'.
11. Discussions can center around:
    a. The way Tata Steel decides on its social agenda.
    b. The way the various programs are implemented (or delivered to their beneficiaries).
    c. The quantum of resources committed to the social programs.
    d. The organization structure of the social services.
    e. Involvement of beneficiaries in program identification and implementation.
    f. Measurement and control systems.
    g. Payoffs to the company.
    h. Consequences if the programs were wound up.
12. But in a changed environment, where lowering costs is essential for gaining competitive advantage, can it afford to continue shouldering the numerous responsibilities it has assumed in the past? Critics have already begun suggesting that it must reassess its social strategy—and perhaps curtail its involvement with social issues.
13. On the other hand, there are others who argue that the company's profitability has improved dramatically in recent years and, therefore, in keeping with its century-old philosophy and value system, it must increase its expenditure on social activities.
14. How to reconcile the opposing viewpoints? Must Tata Steel abandon its traditional social-orientation in the interest of profits? Or is it possible to pursue both simultaneously? If so, how?
15. Among the possible ways of reducing the cost of its social activities are:
    a. Reviewing the existing portfolio of social programs on the basis of social benefit and importance. Those that are of relatively low value may be wound up.
    b. Streamlining the administrative structure to save on overhead expenditures.
    c. Soliciting financial support for its social initiatives from independent funding agencies—thereby reducing demands on its own finances.
    d. Inviting governmental agencies and reputed NGOs to assume some of the responsibilities it has shouldered in the past.
    e. Forming a consortium of local companies to jointly work on a common social agenda—instead of competing with one another. Sharing of resources would lessen the burden on each of them.
16. If large sums of money are spent on social activities, how to ensure that:
    a. They are spent on the most deserving causes?
    b. They are spent efficiently and yield the desired results?
17. In the long run, how to establish that Tata Steel has gained from its social initiatives?
18. To what extent can the experiences of Tata Steel be transferred to other organizations?

Book Reviews

The Ultimate Question: Driving Good Profits and True Growth

By Fred Reichhled

Harvard Business School Press, Boston, USA, 2006; pp. 210; Price: $24.95

ISBN: 1-59139-783-9

If growth is what you're after, you won't learn much from complex measurements of customer satisfaction or retention. You simply need to know what your customers tell their friends about you.

This is the central theme of the latest book of the loyalty guru Fred Reichheld. "The Ultimate Question" was recently ranked as the number one on The Wall Street Journal's Business Best Seller's List and number one on the USA TODAY'S Best Sellers List. The book is based on an extensive research by the Bain & Company in association with Satemetrix Systems Inc. (a company that develops software to gather and analyze real time customer feedback). The Ultimate Question guides companies how to rigorously measure the Net Promoter Score and help managers to improve it and in the process create communities of passionate customer advocates which stimulates innovation. The long list of companies which have benefited from the new metric for "Measuring Loyalty with One Number" consists of companies like USAA, GE, Intuit, HomeBanc, Dell, Apple, SAS, Harley-Davidson, Enterprise Rent-A-Car, etc.

The Ultimate Question referred to in this book is "How likely is it that you would recommend this company to a friend or colleague?", and the metric that it produces is called the "Net Promoter Score (NPS)." The form of the question may vary from organization to organization, but the essence remains the same: it is based on willingness of a customer to recommend/promote the organization to others. The author states that loyalty is the key to profitable growth and the new metric is the missing link between the Golden Rule, Loyalty and True Growth. He further adds that there are two requirements for growth viz. (1) profitable customers and (2) happy customers. Everyone knows how to measure "profits" but the real challenge is the measurement of "customers' happiness." Satisfaction surveys are not enough. Companies have long been tracking the customer retention rates which tells how fast the customer bucket is emptying — but tells nothing

Note: : Readers are encouraged to send reviews especially of books which may not have been published in India to the Book Review Editor (arifwaqif@amdisa.org) regarding how fast the bucket is filling up. These are the poor indicators of attitudes when customers are held hostage by high switching costs or other barriers (pp. 26). The NPS is a simple measure and a practical indicator of what customers were thinking and feeling about the companies they did business with. It links directly the customers' attitudes and customers' actions to the growth of the company.

The book is organized into three parts as follows:

Part 1: *Why The Ultimate Question Works*

This section explains how NPS work to distinguish between bad profits and good profits and to illuminate the path to true growth and how to calculate the NPS and benchmark against world-class standards.

Part 2: *How to Measure Responses*

This section explains how to avoid the pitfalls of customer satisfaction surveys and construct a practical measurement process which can turn NPS into a reliable tool for assigning accountability and managing priorities.

Part 3: *Becoming Good Enough to Grow*

This section of the book explains, with the help of case studies of companies using this metric, how this metric is providing a better customer experience and thus building better relationships with their customers. It lays down the steps a company needs to follow to improve the customer relationships and turbo charge the company's growth.

The text is replete with real life case studies of companies which make it easier to visualize the use of NPS metric in practice. The author claims that this is the best way to measure loyalty. Customers of a company can be classified into three categories based on The Ultimate Question. A scale ranging from 0-10, where 0 stands for "extremely likely to recommend", 5 stands for the "neutral customers" and 10 stands for "not at all likely to recommend", has been used to classify the customers into three groups viz. "promoters", "passives" and "detractors." Customers who give ratings of 9-10 are grouped as promoters and these customers are the loyal enthusiasts who have the highest repurchase rates and urge their peers to do the same. Passives are those customers who give ratings of 7-8 and are satisfied but unenthusiastic who can be easily wooed by the competitors. Finally, detractors are the customers who give ratings of 0-6 and these are unhappy customers trapped in a bad relationship. They have the potential to damage the reputation of a company through negative word of mouth. The NPS is measured as the difference between the percentage of promoters a company has and the percentage of detractors it has i.e.

NPS = [% of Promoters] – [% of Detractors]

Companies with the highest ratio of promoters and detractors enjoy both strong profits and healthy growth. The author also points out that the real challenge is how to create more promoters. He lays down certain guidelines for the same:

- Hold direct conversations with customers.
- Create processes for systematic listening by frontline employees.
- Let customers guide innovation.
- Help customers delight one another.

- Create an inner circle.
- Bringing traditional customers into the circle.

The author proposes that to be a Net Promoter practitioner, an organization needs to do the following three things:

First, categorizing the customers systematically into promoters, passives and detractors. Secondly, creating the closed loop processes such that the right employees will directly investigate the root causes that drives the customers into these categories. And finally, prioritizing the creation of more and more promoters and lesser number of detractors so that employees in the organization take adequate actions based on the findings of the root cause investigation.

Managers have widely embraced and adopted the Net Promoter metric as the single most reliable indicator of firm growth compared to other loyalty metrics such as customer satisfaction and retention. But recently there has been considerable debate regarding the superiority of this metric. Following the methodology adopted by Reichheld in his book Keiningham et al. (2007) in a longitudinal study of 21 firms has shown that NPS has failed to replicate the author's assertions regarding the superiority of NPS compared with other metrics for those industries. In another study by Morgan and Rego (2006) it was proved that the NPS has no significant relationship with future business performance at all. According to these authors further research is required to establish NPS as the single most superior metric to measure customer loyalty.

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Innovation Management: Strategies, Concepts and Tools for Growth and Profit

By Shlomo Maital and DVR Sheshadri

Response-Sage Publications, New Delhi, 2007; pp: 489; Rs.695;

ISBN: 0-7619-3527-4

The book is divided into two parts: Strategies and Concepts for Innovation, which consists of four chapters and Tools for profit and growth, which consists of ten chapters. There is a learning CD, describing the ten tools for profit and growth, which supplements what is described in the second part.

Part 1 describes innovation from various angles. Chapter 1 discusses the need for innovation. Although there are many reasons why people get motivated to innovate, the main purpose why organizations pursue innovation, as the authors rightly point out, is to attain sustained competitive advantage. The place where one looks to innovate is the subject matter of Chapter 2. The domain of innovation lies in the products the organization makes and the processes it employs to make the goods and services. Actually, together with the products the entire value chain is the domain or potential terrain for innovation. After mentioning briefly the types of innovation, without any elaboration, the authors also dwell in this chapter on the links between the innovation portfolio and the risk appetite of the organization in a concise manner.

Chapter 3 discusses how to innovate. The advice given by the authors is to listen to four voices, namely, that of the products, that of the customers, that of the organization and the innovator's own voice. Product profiling guidance is described in a lucid way using the letters of the word 'profile'; for instance, the letter 'r' in profile stands for *raising existing features*, the letter 'i'in profile stands for *introduce totally new feature(s)*; similarly, 'l' in profile stands for *lowering features* and 'e' in profile stands for *eliminating features*. The direction to innovators is clear and novel. The last chapter of Part 1, namely chapter 4 addresses the characterization of the innovator at the individual, team and organizational level.

Part 2 of the book describes ten tools (one tool per chapter) which show how to manage innovation by deploying and adopting innovative ideas, through estimating and managing costs (Chapters 5 – 11), through understanding consumer demand (Chapter 12), through managing risks (Chapter 13) and through competitive cooperation (chapter 14).

The first author's debt to MIT Sloan School of Management (where he taught more than a thousand R & D Engineers) and to many engineers at Technion - Israel Institute of Technology, Haifa, whom he taught—points to the segment of readers who would generally profit from the book—namely, (R&D) Engineers, preferably with an entrepreneurial spirit who may need to brush up on largely microeconomics and finance. This would also be a good book for reference for those attending Management Development Programs (MDPs) related to innovation management.

Seventy percent (chapter wise) of the book is devoted to principles / concepts of microeconomics applied to business management. As the purpose of innovation is to augment the organization's sustainable competitive advantage, it would be beneficial for the innovator to be mindful of the basic economic principles. Even those who are interested in other areas of the organization such as Strategic Quality Management would find the last ten chapters useful. It would do no harm to go through those pages. Actually, anybody who is interested in the microeconomic foundations of an organization's profit and growth would find Part 2 useful, whether they are interested in innovation or not. After all, many of the chapters in Part 2, it appears, has been taken (pages 376 and 443) from the first author's earlier book, entitled, Executive Economics.

The portion of the book which deals with Innovation Strategies and Concepts is covered in the first thirty percent (chapter wise) of the book. It is a good introduction to the subject for the 'Tech' and the 'Ec' (the technologists and the economists, according to the book's preface) but leaves the 'Exec' (the Manager) wishing more for guidance regarding choice of organization for managing innovation. The organization form is not a stark choice between skunk works and intrapreneurship as is made out in the book (page 137). There are many alternatives such as NVD (new venture division), ad-hoc teams, matrix structure, quasi-structure, etc. [1] to choose from.

As the book (rightly) draws association between innovators and entrepreneurship (page 124) and surveys have found (page 125) that many entrepreneurs have previous work experience in development and in 'key technology source organization', i.e. large technology-intensive laboratory or company, the book could have given a bit more space relating management of technology to innovation at the strategic level. For instance, appropriation of technology could be done in broadly two ways, namely, Innovation and Technology Acquisition [1] referred to as Internal and External Strategy respectively [2]. The discussion of the appropriateness of these two types of appropriation together with their similarities and differences on dimensions such as planning; implementation and evaluation/control would have been useful to the managers in largely technology oriented firms. This would have been currently very relevant for India and perhaps for the other BRIC (Brazil, Russia, India and China) countries where there is a palpable resurgence of growth, both internal and through acquisitions.

The question regarding diagnosis of the organization whether it is competent with respect to innovation (pages 136 – 137) could have been elaborated by expanding on Innovative Capabilities Audit Framework [3]. Along the same line, a discussion regarding the degree of fit [4], between an organization's architecture and its goals, including innovation, would have enhanced the desirability of the book for the 'Exec' (the Manager).

The numerous cases, boxes and action learning points are important resources the book provides. As the authors make it very clear that this book is intended to provide economic tools for the reader interested in innovation, therefore to that extent it has succeded in its mission. But the reader has to wait till page 376 to get this categorically, which was only allegorically mentioned in the preface of the book. It would have been better if there is also a prior introduction to the two parts of the book regarding the objective and structure of the book rather than leave those to pages 45, 140 and 141.

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The Seven Steps of Effective Executive Coaching

By **Sabine Dembkowski, Fiona Eldridge and Ian Hunter**

Viva Books (P) LTD, New Delhi, 2007; Pages: 203; Price: Rs. 195;

ISBN 81-309-0507-8

"Executive coaching is the art and science of facilitating the personal and professional development, learning and performance of an executive by expanding his options for behaving authentically" (Dembkowski, Eldridge and Hunter, 2007 pg. 11). Taking this definition into account of executive coaching authors has mentioned seven steps of effective executive coaching. This book is in a form of practical and structured guide. It is objective and research based. This book provides the foundation upon which one can develop one's skills and experience as a valued executive coach. It not only explains theories and techniques but also gives real life case studies with their applications.

This book is divided into four parts. Part one covers the overview and introduction to executive coaching. Regarding how to use this book, the authors have compared it to reading a menu in a restaurant. "By just reading the menu your appetite will not be sated. To have the full experience you need to read, select and then eat" (pg.6). This part also covers the eight factors contributing to the growth of executive coaching.

Part two covers the seven core capabilities of effective executive coaching which focus on essential coaching skills – rapport building, deep listening, creative and open questioning, honest feedback, clear goal setting, use of intuition and presence The successful experienced executive coach makes use of a personal blend of all seven of these skills and abilities. It is the orchestration of all of these core capabilities, their intensity and simultaneous play that distinguish an executive coaching conversation from a normal office conversation between colleagues.

Part three is the heart of the book. It explains the new seven steps ACHIEVE coaching model. Using the GROW model as a starting point [Goal, Reality, Opportunity and What Next?] they created a seven step model ACHIEVE (Assess the Current situation, Hone goals, Initiate options, Evaluate options, Valid action program and Encourage momentum).In this part authors describe each of the seven steps in detail and complement these descriptions with views from the clients perspectives and real-life case studies. The ACHIEVE Coaching Model details a systematic coaching process which makes the whole executive coaching process transparent for: organizations who wish to implement a systematic coaching process to achieve measurable and sustainable outcomes, and a greater return on coaching investment (ROI) from their spend on executive coaching; executive coaches who wish to enhance their own coaching practice and executive thinking about embarking on a coaching programme and who want to know what to expect.

Part four describes about using the ACHIEVE coaching model in context, the seven core capabilities in context, and measuring the effectiveness of executive coaching. The coach and the organization aim to capture data and measure the impact at four levels: reaction, learning, behavior and business results (pg.170). This part has highlighted a number of tools and approaches at each of these four levels. Return on coaching investment is a useful measure for expressing the consequences of the executive coaching programme in monetary terms. It also explains the seven critical success factors for demonstrating the ROI of executive coaching. This part also focuses on future trends and outlook in executive coaching.

This book provides an effective model for executive coaches on which to structure their coaching sessions and programme. It offers valuable guidelines to HR professionals and managers in both assessing outside executive coaches and developing their own executive coaching skills. The content of this book is insightful and has given many new ideas to improve upon skills. For example the use of 'why' and 'how' questions should be avoided as these tends to make the client defensive and hinder progress towards goal (pg .46). Three acronyms are used as mnemonics to guide executive coaches and clients through the process of goal setting. These are: SMART: Specific, Measurable, Achievable, Realistic, and Time bound

PURE: Positively stated, Understood, Relevant and Ethical and

CLEAR: Challenging, Legal, Environmentally sound, Appropriate and Recorded. There is some overlap between the acronyms but it is useful to use all three as they do touch upon different areas.

Compared to Executive Coaching (2003) which deals more of practices and perspectives this book has advantage that it deals with both theoretical and practical aspects. But besides this I would like to emphasis that chapter measuring the effectiveness of executive coaching and especially the four–level model to measuring part could have been more elaborated.

After reading this book I found the quote on the front cover of this book by John Whitmore (author of Coaching for Performance and originator of the GROW model) very true "It grabs one's interest and holds it….very convincing…will be invaluable to many coaches wishing to refine their skills."

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Guidelines to Authors for Manuscripts

The South Asian Journal of Management (SAJM) was founded in response to the global needs to know about the current research and practice in the field of management in South Asia and the South Asian needs to network management development institutions and create a forum for promoting cooperative research and constructive dialogue on contemporary issues in South Asian Management.

SAJM welcomes articles on issues of current interest in management, especially in the South Asian context. We publish empirical papers, review papers, executive experience-sharing, research notes and book reviews. All submissions and related correspondence should be addressed to:

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Manuscripts: All manuscripts must be printed in letter quality (font size 12) in double-space on one side of A4 paper with margins of at least one inch on all sides. Authors should submit one soft copy together with one hard copy by post of their manuscripts to the Editor *(SAJM)*.

Cover Page: Manuscript of a paper should have a cover page providing the title of the paper, the name(s), address(es), phone, fax numbers and e-mail address(es) of all authors and acknowledgements, if any. In order to facilitate anonymous review of the papers, please restrict the author-related information only to the cover page.

Abstract: Following the cover page, there should be an 'abstract' page, which should contain the title of the paper, the subtitle 'Abstract' and a summary of the paper in single space, not exceeding 150 words. The text of the paper should not start on this page, but on a fresh page with the title of the paper repeated.

References: References should be cited in the style prescribed in the Publication Manual of the American Psychological Association (4th ed.). Indicate the position of the reference in the text within brackets by the author's last name and the year of publication; e.g.: '(Hooda 1998)' or 'as pointed out by Hannan and Freeman (1977)' if it is part of a sentence. At the end of the text, references should be listed in the alphabetical order of the last names of the authors, with a title REFERENCES. Examples of how the references are to be listed at the end is given below:

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Disk and hard copy of final revised manuscripts: At the end of the blind review process, the editor informs the author about the acceptance or rejection of the manuscript. On acceptance, the author is expected to incorporate the modifications suggested by the reviewers if any and submit a disk and hard copy of the final revised manuscript.

Policy against simultaneous submission: Authors should ensure that the manuscript submitted to *SAJM* is not simultaneously submitted to any other journal or publisher. Similarly, it should not be submitted anywhere else during the pendency of the review process which will take about 12 weeks. Once a manuscript is accepted by or published in *SAJM,* it becomes the property of AMDISA, whose permission is required for any operations covered by the Copyright Act.

Association of Management Development Institutions in South Asia
(AMDISA)

The leading business schools in the SAARC region initiated the Association of Management Development Institutions in South Asia (AMDISA) in 1988. This is the only Association which networks management development institutions across the seven South Asian Nations, through exchange of information, conducting regional conferences and providing a forum for academics and business leaders.

The Association interfaces business schools with leaders interested in management development; promotes professional development of management faculty; provides institution building assistance to business schools and corporate management development centers in the region. AMDISA organizes institution building workshops for Heads of institutions, faculty workshops on frontier areas of management and inter-institutional cooperative research on contemporary managerial issues in South Asia. It publishes a *Newsletter* three times a year and the *South Asian Journal of Management*, quarterly. AMDISA is recognized by SAARC, the Inter-Government Agency, as a professional association with consultative status having 151 members, of which 128 are Institutional Members, 8 Corporate Members and 15 Reciprocal Members. Membership is available to management development networks all over the world.

AMDISA is closely associated with National Networks in India like AIMS and has helped establish networks in Bangladesh (AMDIB), Nepal (AMDIN), Pakistan (AMDIP) and Sri Lanka (ASLIM).

In its first decade, AMDISA organized five major academic events—*Challenges of Management Development in South Asia*, Hyderabad (1990), *Innovations in Management Development*, Kathmandu (1992), *Management of Change in South Asia*, Dhaka (1994), *Innovations in Asian Management*, Colombo (1996), *Management Development: Growth and Equity*, Thimpu (1998), *Advantage South Asia: Opportunities and Challenges for Management Development*, Pune (2000) and *South Asian Management: Challenges in the New Millennium*, Maldives (2002). It has organized three South Asian Management Colloquiums for business leaders, policy planners and management academics (Kathmandu, 1995, Karachi, 1997 and Maldives, 2001) and nearly 20 Faculty Development workshops in Dhaka, Lahore, Colombo, Hyderabad, Kathmandu, New Delhi, Karachi, Lucknow and Pune during 1988-98. Recently, it has launched Regional Doctoral and Post Doctoral Fellowship Program, to enable doctoral scholars and younger faculty/researchers from South Asia to undertake field work in at most two neighboring countries in South Asia, in the areas of management and related social sciences and other disciplines.

AMDISA is the founder-member of global Management Network INTERMAN which hosts a Global Management Forum every four years. The venues for earlier forums were Geneva (1986), Montreal (1990), Barcelona (1994), Chicago (1998) and Bangkok (2002).

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