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ENABLING ENTREPRENEURS SETTING THE STAGE FOR A START-UP NATION

The struggle to create jobs in manufacturing sector pushes the govt to promote young entrepreneurs instead

BY PRASHANT K. NANDA & MEENAKSHI THAKUR

Recognising that it's tough to create enough jobs in established manufacturing sectors, the National Democratic Alliance (NDA) government over the past two years seems to have adopted a more pragmatic path—promote new-age businesses so that the Gen-X becomes job creators than seekers.

When the country is seeing a start-up revolution, the NDA government has introduced several tax benefits, eased doing business norms and created other enabling environment to allow young entrepreneurs to flourish.

Along with small and

medium enterprises, the start-ups can help absorb a sizeable number of youngsters entering the labour market.

The beginning is good, but experts and the government both seem to have realized that the task is tough as some 12 million youth are entering the job market every year in India.

Consider the hard facts first: In 2014, eight key manufacturing and export-oriented sectors, including IT/BPO, textiles and automobiles, created less than half a million (421,000) jobs, and in 2015, the numbers were less than 290,000, according to the labour bureau, an arm of the Union labour and employment ministry.

The revival in job creation for India's manufacturing and export-oriented sectors is

unlikely, thanks to the lingering contraction in exports. India's merchandise exports contracted 16.7% to \$234.4 billion and imports shrank 14.7% to \$351.8 billion, leaving a trade deficit of \$117.4 billion. Weak demand is struggling overseas markets has hurt India's exports.

"Looking at the realities of economy, our government from prime minister downwards have emphasised on creating a better environment for businesses and help new entrepreneurs flourish. The aim—creation of more jobs in both traditional and new-age sectors. Big manufacturing industries and start-ups have both found support from different ministries in last two years," said labour and employment minister Bandaru Dattatraya.

What the minister said resonates in some of the announcements and decisions that the NDA government has taken in the past two years. Finance minister Arun Jaitley, in his budget speech on February 25, sought to unveil what he called the "fourth pillar" of his budget proposals—jobs, education and skill development.

The centre has set aside ₹1,000 crore for 2016-17 to pay the employee pension scheme contribution of 8.33% for all new employees drawing a salary of up to ₹10,000 a month. The move, termed by some experts as "employment subsidy", will be effective for three years and will perhaps encourage employers to hire more people.

Transport minister Nitin Gadkari, during a conversation with

Mint in March, said the renewed focus on infrastructure and the revival of investments in ports, inland waterways and highways sector alone will contribute to more than 2 percentage points of the country's gross domestic product in the next two years and generate five million jobs.

In December, Prime Minister Narendra Modi, while addressing the conference of Chief Ministers and Union Ministers to mark the 125th birth anniversary of B.R. Ambedkar, said that his government wants to create job creation and not job seekers.

Modi's speech falls in line with the BJP's electoral politics which has been fashioned around tapping the aspirations of India's overwhelmingly young demographic, especially among the socially and economically marginalized sections of the country.

In a letter written by Modi a day after the NDA government

launched the Pradhan Mantri Mudra Yojana to ease funding problems of more than 57 million small businesses, he reiterated the government's commitment to address their credit needs to promote self-employment.

On 18 January, Modi launched the Startup India initiative and announced several measures such as exempting them from labour compliance for three years, no income tax on profits for three years and self-certification for other regulatory compliance.

Besides, he announced the setting up of start-up hubs and labs to facilitate their growth.

"India's India must turn from job seekers to job creators," said Modi as he announced a start-up fund of ₹10,000 crore for funding young entrepreneurs.

"The general environment is better in the last two years. The policies are positive from senti-

ment point of view; the access to government has improved. But the financial aids they have spoken about are for early-stage start-ups," said Hemant Agarwal, CEO of Aspiring Minds, a start-up in the education and employability space.

Labour economists agree. "In the last two years, the government has definitely tried to create better environment for jobs through ease of doing business. They have adopted several administrative measures to showcase India as an attractive investment destination but it will take some time before the outcome is visible," said K.R. Shyam Sundar, a labour economist and business resource management professor at XLRI, Jamshedpur.

He said the government and industry have spoken about investment commitments, but one has to stay on alert on the fact that there is a huge gap between "intention and actual realization".

"The efforts to boost start-ups are commendable, but India needs to realize that there are regional imbalances in job creation and there is a need for creating a market economy which aids equitable distribution of jobs," said Sundar, adding that the recent push by the government will have long-term benefits.

The 2016-17 Union budget has pegged an outlay of ₹2.11 trillion for infrastructure, including rail and road sectors.

Sundar said the labour bureau data is not absolute but gives a broad picture of the employment scenario as it covers only select sectors. "The start-up supporting policies are commendable, but one has to realize that they can create a certain number of jobs," he added.

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Govt. to define 'new employees' for EPS

SOMESH JHA

NEW DELHI: The government is likely to come out with a definition for the term 'new employees' for implementing its Budget promise of footing the bill for pension scheme contribution in a bid to create more formal sector jobs.

Accordingly, 'new employees' may be defined as those in excess of the average employee base of a firm for the previous three years, a senior labour ministry official said.

Reimbursement

"The payment of the EPS contribution will be in the form of reimbursements to employers. The scheme will be applicable for the new employees, earning Rs.15,000 a month, who have worked for 240 days during a year in an establishment," the official said.

About 3.5 lakh establishments, which hire more than 20 workers, will be covered

under the scheme, ministry officials said.

Regulatory fear

The Finance Minister had said the government had decided to pay 8.33 per cent of wages to Employees Pension Scheme (EPS) on behalf of employers for workers during first three years of employment for which an allocation of Rs.1,000 crore had been made in the Budget under the scheme, Pradhan

Mantri Rojgar Protsahan Yojana.

"Employment tax subsidy has been tried in Western countries on a limited scale.

"The scheme looks good but it will increase regulation in the labour market which firms would not prefer as there will be increased scrutiny of their books," said K.R. Shyam Sundar, professor of human resource management at XLRI Jamshedpur.



JOB CREATION: The proposal will create more jobs in the organised sector. Above, the PF office in Bengaluru. — FILE PHOTO

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Independent directors or toothless tigers?

They do not impact performance or protect minority shareholders. Changes in the law could help raise the bar

PITIBAS MOHANTY / SUPRITI MITRA

With the increased focus on shareholders' wealth maximisation as the key corporate objective, regulators worldwide have understood the role independent directors can play to safeguard the interests of minority shareholders.

Clause 49 of the Listing Agreement in India, for example, expects the boards of listed companies with non-executive chairman to have at least one-third independent directors. The board must have at least 50 per cent independent directors if the company has an executive chairman.

Weak links

While, in principle, it is a good idea to have many independent directors on the board, this in itself does not guarantee that minority shareholders' interests are protected. At the end of the day, independent directors are appointed by executives of the company. Academic research finds companies largely appoint independent directors who remain loyal to the management.

So even if these directors are competent, they do not question the management. This, therefore, raises questions regarding the wisdom in according increasing focus on the number of independent directors. There can be possible reasons why academic research does not find any link between independent directors and financial performance.

It is possible, for example, that the company appoints more independent directors after a disappointing performance. One can

not expect the performance of such firms to improve overnight. Second, independent directors suffer from having inadequate knowledge about the company. Satyam is a case in point. So, one cannot expect much from these directors. Third, independent directors may indeed be inefficient. Even when they are efficient, as they are appointed by the management, they may prefer to support the management.

Effects on performance

We, therefore, looked at the financial performance of 5,317 companies and 20,999 directors to know the value created by independent directors in India. We looked at the return on equity generated by these firms in three fiscal years (2013, 2014 and 2015) to see if there is any link between having more independent directors and the company's financial performance.

We first compared the RoE figures for the companies that have more independent directors than required by the law, and compared that with the RoE for companies that just followed the Clause 49 requirements. As the chart shows, the former companies have actually reported marginally lower return on equity in all the three years that we studied.

Recruiting the right types of independent directors requires expertise and not every company can afford to do it. Section 165 of the Companies Act 2013 specifies that no person can be an independent director in more than 20 public companies (including 10 public companies). There is definitely some merit in this rule. However, it creates an artificial shortage in the market for good independent



Not so independent That's one of the problems in the corporate world

directors. The number of qualified and effective independent directors is limited and those who are known to be efficient will be hired by big companies. In fact, group companies can share their knowledge with each other and can ensure that the same independent director is hired by most of the group companies. Academic research shows that companies get the maximum benefit from independent directors when they are members on the board of another four companies. We performed a similar analysis to see if a pattern exists here.

Sharing independent directors

In India, companies that hire independent directors who are members of another 10 companies get the maximum benefit from it. This pattern is found for companies with all the four ownership groups — MNCs, Indian businesses, public sector enterprises, and others. Our results show companies that hire more independent directors than is legally necessary are not necessarily more profitable. In fact, companies that do not hire more independent directors than is legally

necessary are more profitable. These results indicate shareholders do not necessarily benefit if the board consists of more independent directors. Of course, there may be a selection bias in the sample as the companies that are not doing well probably have hired more independent directors to eliminate possible corporate mis-governance problems.

We also find that independent directors who also serve on the board of 10 other companies prove to be quite valuable to companies. The demand for good independent directors is much higher than the total supply. We find the total number of independent directors to be only 10,978 in our sample.

Given that India has over 5,500 listed firms, the demand for independent directors is high. Only the profitable companies are able to hire the good independent directors. These directors serve on an average on 11 boards (including at least one private company).

Improving effectiveness

Independent directors can play a more important and useful role in the functioning of the board if

they ensure protection of the interests of minority shareholders. Indian companies started recognising the importance of independent directors only in this century and it is probably too early to expect them to really play the role they are expected to play.

The following moves can make a difference:

a) Section 165 of the Companies Act can be relaxed to ensure that other companies can benefit from the experience of independent directors. Probably the law can be stated in terms of a maximum number in each ownership category of company that an independent director can serve to ensure that majority of the minority shareholders get benefited.

Indian media and analysts largely cover big companies and corporate mis-governance problems in smaller companies barely get noticed. Such a rule will help the minority shareholders of smaller and less profitable firms.

b) Clause 49 of the listing agreement makes the entire exercise of independent directors limited to legally-defined numbers. All companies follow the norm.

But unless independent directors give their independent views at board meetings, it will not serve any purpose in having them. That is probably why we find companies that hire more independent directors report lower RoE than companies that don't.

Though on paper, shareholders decide whether a particular person should be appointed as a director or not, usually, all resolutions get passed in the AGM. Since not much information is available about most independent directors, minority shareholders also cannot take an independent view. In such a case, the view of proxy firms or some independent rating agency would prove to be useful to all the minority shareholders in the country.

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COURSE CRUISING



Management programmes
The Entrepreneurship Development Centre (EDC) of XLRI, Jamshedpur invites applications for admission into the 7th batch of its full-time 6-month Post Graduate Program for Certificate in Entrepreneurship Management (PGP-CEM).

Courses offered: Fundamentals of Entrepreneurship, Competitive Advantage and Strategic Management, Communication, Social Entrepreneurship, Managerial Economics, Setting Up and Managing Production, Leadership and Business Development, Banking Policy for Enterprise Development & Microfinance, Human Resource Management, Accounting in Business, Macroeconomic Environment of Business, Scaling-up Ventures, Marketing Research, Entrepreneurial Marketing including CRM, Agripreneurship, Entrepreneurship, Family Business, Legal Aspects of Business, Mobilization and Management of Finance, Business Planning, Approval and Implementation, Advertising, Technopreneurship, Management of Service Sector Enterprises, Networking and Negotiation Eligibility: Candidates should be graduates from any recognised university with 2 years of work experience in related field after completion of graduation

How to apply: To register for online application, the candidates are to visit the website www.xlri.ac.in/edc and apply for registration.

Last date for online registration: June 15, 2016

Last date for receipt of filled-in Application Form: June 22, 2016

Check out: www.xlri.ac.in

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CAMPUS CAPSULE



Sai Vidya Institute of Technology celebrated its graduation day recently. R.B. Shetty, regional head, HR, TCS, Bangalore, was the chief guest at the event. Among those present were Prof. M.R. Mehta, director, SVIT and trustees of SVIT. 499 students received their degrees.

XIME, the Xavier Institute of Management and Entrepreneurship, held its 20th convocation ceremony recently. Dr. R. Natarajan, former chairman, AICTE and former director, IIT Chennai was the chief guest for the occasion. The event was also attended by Dr. I. Alexander, IAS retired, former chief secretary, Government of Karnataka and chairman, board of Governors, XIME, Prof. I. Philip, president, XIME and former director, IIMB, Dr. E. Abraham, S.J. founder member and director, XLRI, Sarathi J. Ghosh, former chairman, XIME, Dr. Prakash G. Agar, former director, IIMB and representatives from XIME board.

The convocation was declared open by Dr. I. Alexander IAS (retd.), followed by the welcome address delivered by Dr. E. Abraham S.J.

The presidential address was delivered by Prof. I. Philip and Dr. Jayashree Vaidyanathan, director, XIME presented the annual report. The 'Awards of Excellence' were given away by Dr. R. Natarajan.



ME XAVIER INSTITUTE OF MANAGEMENT & ENTREPRENEURSHIP, BANGALORE

CONVOCATION - 14 MAY 2016
Chief Guest: R. Natarajan

by M.R. Seetharam, member of Legislative Council and vice-chairman, GREP and Director MSRET.
Dr. NCR Naidu, principal, MSRET, welcomed the gathering. Venkatesh G. Shashibag, in his address, stressed on time management, project management skills, risk analysis and team work. He motivated students to update themselves with continuous learning skills.

The 'Best Outgoing Student' awards from each department and also at the college level were presented by all the dignitaries.
Around 30 students from all departments were awarded certificates and given cash prizes. Dabbala from the Electronics and Communication Engineering Department was awarded the best outgoing student at the college level for overall excellence.

The institution also awarded those who put up the 25 top innovative projects during Production 2016.

The Department of Computer Science and Engineering, Rajawade College of Engineering had organised a convocation



on 'Innovations in Computing and Networking' recently. The idea behind the convocation was to provide new ideas to researchers and deal with the use of new techniques, methodology, design and the development of different computing platforms. The keynote speaker of the conference was Prof. Gauri Ray from the National Institute of Advanced Studies, Indian Statistical Institute, Kolkata.

Out of 220 papers submitted, only 120 were accepted. Prof. Ray spoke on 'Computing Technologies, Neuroscience and Quantum Vistas'. In the afternoon session, Prof. Manish Kumar from Matigala University spoke on 'Importance of Open Source Software Computational Tools for Researchers'. This was followed by a panel discussion on 'IoT challenges and Proficiency'.

On the second day of the conference, there was a talk by Dr. Pethuru Raj on 'Envisioning Real-time IoT Data Analytics through Fog/Edge Device Clouds'. This was followed by a talk by John Beydoun on 'Introduction to Mathematics of Quantum Computing'.

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Paytm eyes grads hit by Flipkart delay

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Bengaluru: Flipkart's rival Paytm may bail out graduates from Indian Institutes of Management (IIMs) whose joining dates have been deferred by India's largest e-tailer. The digital payments and commerce platform said it is extending support to these students and is ready to interview them for jobs at the Noida-based firm.

"Recommendations started pouring in after some stu-

dent recommendations started pouring in after some students could not join Flipkart. IIM-A also wrote to us and we have mutually agreed to conduct interviews and select top talent from among these graduates

AMIT SINHA | VP, PAYTM

dents could not join Flipkart. IIM-Ahmedabad also wrote to us and we have mutually agreed

to conduct interviews and select top talent from among these graduates. In terms of timing, it fits well with our requirements as some freshers from IIMs, **XLRI** Indian School of Business are joining us in the coming days," Amit Sinha, VP at Paytm, told TOI.

Alibaba-backed Paytm is learnt to have hired about 50 students from the country's leading management institutes. It has a total employee base of about 4,000.

Earlier, IIM-Ahmedabad had written to Flipkart ex-

pressing displeasure over the company's move to defer the joining date of its graduates who were given job offers by the e-tailer. IIMs are trying to resolve the issue by talking to Flipkart but the e-commerce major has said it is in no position to absorb the freshers before December. Flipkart has said it will pay a compensation of Rs 1.5 lakh, which is also a point of contention between the two parties.

Facing a funds crunch, most startups have been cutting wage costs to improve unit economics and shave off losses.

