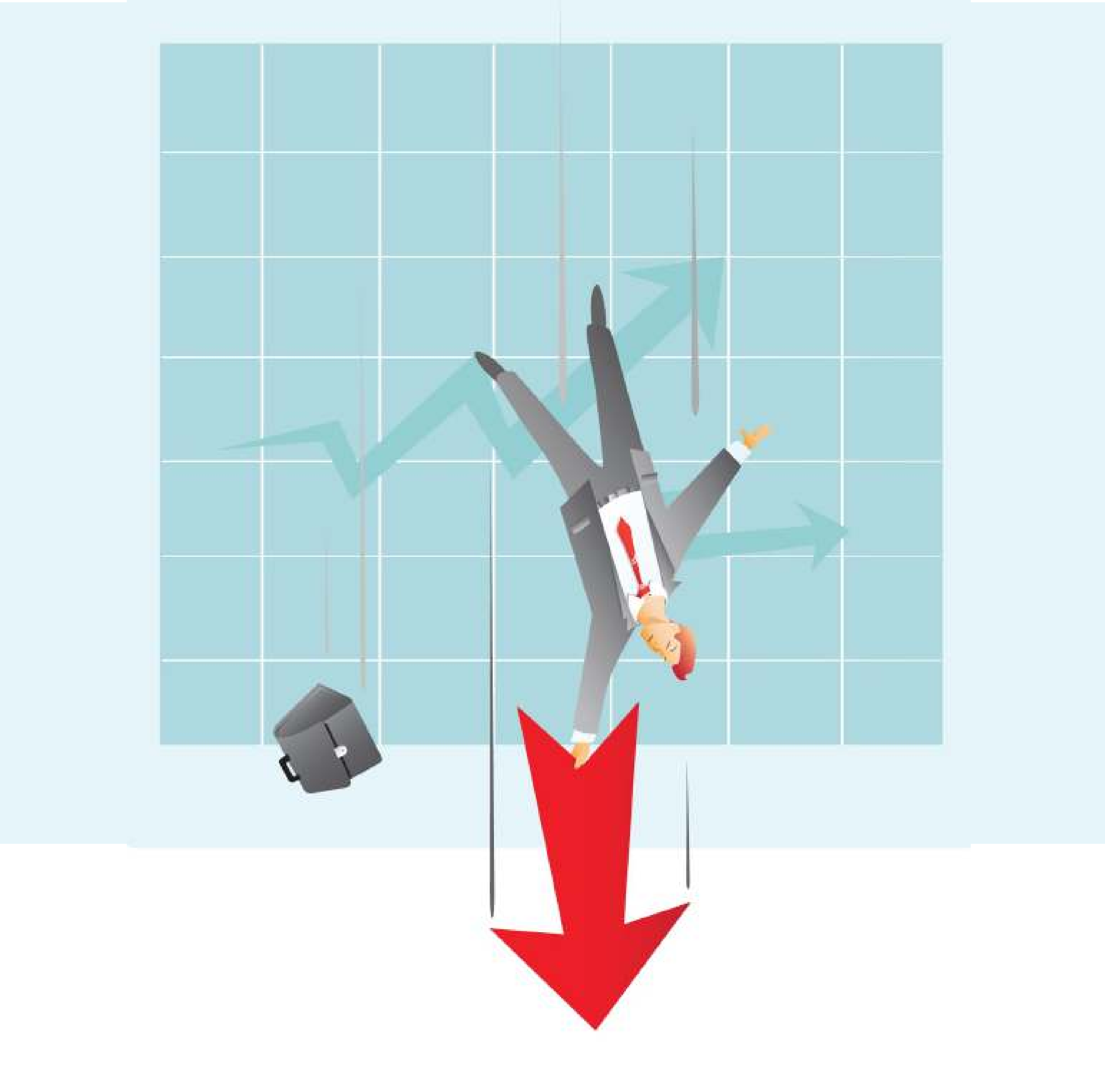

Doctoral Abstract

The Impact Of Global Economic Recession On Selected Indian Industries

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INTRODUCTION

The devastating tornado named 'Global Economic Recession' which emerged from U.S. subprime crisis in the end of 2007 engulfed almost all of the world economies in the year 2008-2009. This financial market turmoil led to an unprecedented collapse of major financial institutions, plummeting equity market, currency devaluation, contraction in investment activities and decline in gross domestic product along with the soaring unemployment rate worldwide. This global down-trend in economic cycles not only doomed U.S., its epicenter, but also transmitted strong tremors to so many other economies of the world. Whereas there is no commonly accepted definition of a global recession, International Monetary Fund regards 'the period when global growth is less than 3% to be global recession' which generally lasts as a cycle between 8 and 10 years. According to World Bank Report the world output growth rate in current recession shrank to mere 0.9 percent in comparison to already receding growth rate of 2.5 percent in 2008 from 4 percent in 2007. The growth rate of world trade also contracted to 2.1 percent in comparison to a sizable growth rate of 6.2 percent in 2008 and a high of 9.8 percent in 2007.

Due to substantial increase in financial globalization the recessionary cycles not only made deeper impact on the real economies of advanced countries, but doomed emerging market economies as well. As this crisis unfolded, credit markets appeared to be drying up in the developing economies along with the developed world. The Keynesian economics substantiates that demand-driven theories were at the root of recession as once panic and deflation set in, many people avoided further losses by keeping clear of the markets, resulting in falling investment & aggregate demand. On the other hand the monetarists believe that the recession started due to significant policy mistakes by monetary authorities especially the Federal Reserve's expansionary monetary policy and the Community Reinvestment Act. Along with it Government's inability to evaluate counter-party risk due to opaque financial statements and the unpredictable nature of government's response germinated the present crisis. The end result was internal as well external instability in the economies of the world, that needs an appropriate use of Monetary and Fiscal Policy' to combat such situations. MUNDELL Model explains that 'internal balance in an economy is achieved by reducing inflation and unemployment to zero, whereas external balance is achieved by reducing balance of payments deficits and surpluses to zero' through expansionary monetary policy and expansionary fiscal policy. Expansionary fiscal and monetary policies constitute expenditure increasing policy measures, whereas contractionary monetary and fiscal policies constitute expenditure reducing policy measures. To maintain internal balance as well as external balance during recession a mixed package of various fiscal & monetary measures used by the Government in India has been studied through this model in this study.

The financial crisis produced a "manufacturing crisis", with the strongest decline in industrial production occurring in export-based economies like India. High interest rates, raw material costs and credit availability crunch along with dipping demand continued to be a big challenge. Since the performance of industries underpin the growth of an economy, the impact of the global recession on Indian economy; especially on Indian industry has been the major issue of concern in this study. Under the impact of external demand shocks Indian economy witnessed a deceleration in growth, particularly a noticeable negative growth in industrial output in Q4 of 2008-09. It receded from 5.1% to 4.8% and then 1.65% and -0.55% in Q1, Q2, Q3 and Q4 of 2008-09 which was a steep decline for the first time since mid-1990s. Was this performance an aftermath of the global upheavals called economic recession or some inherent weaknesses of particular industry, is the issue that has been pondered over in this research. As the analysis of financial and operational performance of various firms of an industry gives a bird's eye view to ascertain its business strength for meeting long run & short term commitments, efficiency and growth prospects; the financial performance, profitability performance as well as efficiency performance of selected industries namely-automobile industries, hotel industries, gems & jewellery industries and information technology industries has been assessed through Dupont Model and Ratio Analysis. The analysis has been made individually of sample units of the industries, as well as industry as a whole in Ex-post Facto design, i.e. for pre-recession period and post-recession period.

The specific performance of above mentioned industries may depend on their strengths, weaknesses or some extraneous factors. This study further has tried to explore the reasons for the same through Porter's Diamond Model of competitiveness. Competitiveness is considered to involve a combination of assets and processes where assets are either inherited, i.e., natural resources, or created, i.e. infrastructure; and processes transforming assets to achieve economic benefits by customers through sales. Porter's Diamond Model explains that the sources of real competitive advantage lie in the four major economic attributes- (a) Advanced Factor Conditions like skilled labour, (b)Advanced Technology & Capital, (c) the Sophisticated Customer Base & demand conditions, (d) presence of Related & Supporting Industries, firm level strategy, structure and internal rivalries to give intensity of competition. The four direct diamonds are constrained by additional two external factors: chance and Government. The nature endows some nations with factors which provide them with a comparative advantage in the short-run and a competitive advantage of probabilistic serendipitous inventions discoveries in an industry's growth as well as nation's economic growth. The reasons for resilience of Information Technology industry and Gems & Jewellery industry have got expression through Porter's Diamond Model of competitiveness in the present research.

OBJECTIVES OF THE STUDY

The following objectives have been ascertained to ponder over the phenomenon under study:

- To get acquainted with the recent global economic turmoil and find out the factors responsible for this financial catastrophe
- To measure the impact of global economic recession on the financial performance of selected Industries namely Automobile Industry, Hotel Industry, Gems & Jewellery Industry and Information Technology Industry in India.
- To assess the key strategies and reasons for their resilience.
- To suggest the directions for further growth through global competitiveness after the tempest, i.e. economic recession.

HYPOTHESES OF THE STUDY

For accomplishment of second objective especially the following hypotheses have been formulated-

H_{01}: The expenses performance does not change in post-recession period.

H_{02}: The operating performance does not get influenced due to economic recession.

H_{03}: The gross profit performance for these industries does not undergo any change.

H_{04}: Net profit performance does not change in post-recession period in comparison to pre-recession period

H_{05}: Earnings per Share of each company does not reduce in post economic recession period.

RESEARCH METHODOLOGY

The present study is an Ex post Facto as well as Descriptive Research intended to measure the impact of global economic recession on selected Indian industry with a Pre-Post research design. It is a type of conclusive study which provides an insight into the concept 'recession' and the hypotheses developed regarding its impact which have been statistically tested using descriptive research methodology. In the study four prominent industries have been selected for the research namely Automobile Industry, Hotel Industry, Gems & Jewellery Industry and Information Technology Industry. From each industry five firms have been chosen as samples from different segments to get a generalized overview of the industry, e.g. in Automobile industry companies producing two-wheelers, three wheelers, four wheelers & cars, as well as heavy commercial vehicles have been picked as samples. For the study of sample companies' financial performance the data has been extracted from their Published Annual Reports from 1st April, 2005 to 31st March, 2010. The research under consideration has used secondary information to assess the impact of economic recession on the firm's performance during the period. The financial tools like Expense Ratio, Operating Profit Ratio, Gross Profit Ratio, Net Profit Ratio, Earnings per Share Ratio and Return on Income Ratio have been employed to measure the impact of global economic recession on firm's productivity and financial performance of industry as a whole. The coefficient is calculated for each ratio from variables values in pre – recession period and post – recession period and their averages have been compared. The statistical tool namely T-test has also been used for hypotheses testing and making statements with a degree of precision or a level of confidence. Along with it Dupont Analysis has been applied to assess the Return on Investment for efficiency and profitability performance. The analysis has been presented in tabular form as well as SPSS output for different variables for each industry under study.

RESEARCH FINDINGS

To study Indian Automobiles Industry five listed company in Bombay stock exchange, namely Atul Automobiles Ltd., Eicher Motors Ltd. Hero Honda Motors Ltd., LML Ltd. and Tata Motors Ltd. were chosen as samples and the following results were derived….. An aggregative study of automobile industry reveals that it did not perform very well with respect to expenses, & profitability in post recession period, but industry's average gross profit ratio as well as earnings per share have increased marginally during post-recession period. According to ROI ratio of Dupont Model Hero Honda Ltd. was more efficient firm in comparison to remaining sample companies of the industry.

The study under consideration has also evaluated the impact of global economic recession on five Indian hotels namely Oriental Hotels Ltd., Blue Coast Hotels Ltd, EIH LTD., Indian Hotels Ltd & Asian Hotels Ltd. Industry level analysis reveals that expenses performance and the operating performance of the Indian hotel industry were adversely affected due to global economic recession. The net profit performance of the hotel industry has also decreased in post-recession period in comparison to pre-recession period. Return on Investment ratio in Dupont Model suggests that Oriental Hotels Ltd was more efficient as compared to other industry samples.

To fathom the Gems & Jewellery industry's endurance of recession five listed companies in Bombay stock exchange, namely Asian Star Co. Ltd. Classic Diamonds Ltd. Goldiam International Ltd. Shyam Star Gems Ltd. Vaibhav Gems Ltd.were selected….. The analysis of industry as a whole highlights that whereas average ETR has increased; the operating performance of the industry has not been affected significantly. Profitability as well as earning per share have dipped significantly in the post recession period taken under study i.e. till April 2010. Again, the Dupont Model suggests that Asian Star Co. Ltd was more efficient as compared to other sample units of the Gems & Jewellery industry.

The Impact of Economic Recession on Indian Information Technology (IT) Industry has been measured from the performance of following listed companies taken as samples- ACI Infocom Ltd., ADVENT Computer Services Ltd.., BLUE STAR Infotechs Ltd., GOLDSTONE Technologies Ltd., PALSOFT Infosystems Ltd. These companies are engaged in computer designing, development, implementation and management of computer-based information systems, particularly software applications and computer hardware…… The average expense ratio for Indian IT industry has been found to be more in pre-recession period as compared to the post-recession average ETR of the industry. This infers that the operating performance of the Indian IT industry has not been affected negatively due to global economic recession. The analysis further states that average gross profit ratio of the Indian IT industry was negatively affected due to global economic recession. The average EPS for Indian IT industry was μ = 4.76 in pre-recession period which happens to be more in comparison to the post-recession EPS μ = 3.08 of the industry. There has been a visible negative impact on Indian IT industry immediately after recession. By analyzing ROI ratio under Dupont Model it was found that the Goldstone Technologies Ltd. had been efficiently utilizing its asset to generate sales in post-recession period in comparison to other sample companies taken in IT industry.

STATUS OF HYPOTHESES TESTING

The Pre-Post measures were further statistically analyzed using T Test, so that it can be ascertained that the differences between the means are due to the phenomenon i.e. 'Economic recession' and not "by chance". Statistical tests allow us to make statements with a degree of precision. Level of significance has been taken up to .5 and .1, as the data has been procured from secondary sources.

- In case of Expense turnover ratio in automobile industry, the ETR for pre-recession and post-recession period were tested through paired t-test (two-tailed) at á = 0.05. The result observed was t =.374, which was not significant at any level of risk. Null hypothesis was not rejected. Hence expenses performance of the Indian automobiles industry was not significantly changed due to global economic recession.

  The Indian hotel industry ETR performance through paired t-test (two-tailed) observed t = - 7.67 which was highly significant at 1% level of risk. A null hypothesis was rejected. Hence expenses performance of the Indian hotel industry was affected due to global economic recession.

  In case of Gems & Jewellery industry ETR performance through paired t-test (two-tailed) at á = 0.05 the observed result was t = - 2.09 which was not significant at any level of risk. Hence expenses turnover performance of the industry was not significantly affected due to global economic recession.

  The ETR performance through paired t-test (two-tailed) at á = 0.05 and it was observed, t = - 0.740 which was not significant at any level of risk. Hence expenses performance of the Indian IT industry was not affected due to global mild economic recession significantly.

- In case the average OPR of the Automobile industry SPSS output by using paired t-test where t = -1.136 and not statistically significant at any standard level of risk. Hence the OPR performance of the industry is not influenced greatly due to global economic recession. For Indian hotel industry operating performance measured through paired t-test (two-tailed) observed that t = 4.78 which was highly significant at 1% level of risk. Null Hypothesis was rejected. This inferred that operating performance of the Indian hotel industry was adversely affected due to global economic recession.

  The study under consideration tested the operating performance through paired t-test (two-tailed) at á = 0.05 where observed t = 0.14 and which was not significant at any level of risk. Hence operating performance of the Indian Gems & Jewellery industry was not affected positively/negatively due to global economic recession.

  In case of Indian IT industry the operating performance analyzed through paired t-test (two-tailed) at á = 0.05 where t = 1.23 observed and which was not significant. Hence operating performance of the Indian IT industry was not affected positively/negatively due to global economic recession.

- In case of GPR- The t-value for the GPR (pre and post) was t = - 1.141 which was negative and not significant at á = 0.05. Thus Null hypothesis has been accepted.

  The pre and post-recession Operating performance of Indian hotel industry has been tested through paired t-test (two-tailed) at á = 0.05 where t = 3.72 was observed and significant at 5% level of risk. Null Hypothesis was rejected. Hence gross profit performance of the Indian hotel industry was adversely affected due to global economic recession.

  The pre and post-recession operating performance of Indian Jewellery industry has been tested through paired t-test (two-tailed) where observed value of t = 2.328 significant at 10% level of risk instead of 5% level of risk. Hence gross profit performance of the Indian Jewelry industry was positively affected due to global economic recession.

  Operating performance of Indian IT industry has been tested through paired t-test (two-tailed) and the resultant t = 1.248 which was not significant at 5% level of risk. Hence average gross profit performance of the Indian IT industry has been negatively affected due to global economic recession.

- The NPR for pre-recession and post-recession period for automobile industry were tested through paired t-test where the resultant t = -.907 which was not significant at any level of risk while testing at á = 0.05. Hence net profit performance of the automobiles Indian industry was not significantly changed due to global economic recession. The pre and post-recession period performance of the hotel industry was tested through paired t-test and the result was t = 2.74 significant at 10% level of risk. Null hypothesis has been rejected. The net profit performance of the hotel industry has decreased in post-recession period very apparently.

For Gems & Jewellery industry observed t value was 1.94, which was not significant at any level of risk. Hence net profit performance of the Indian Jewellery industry was not affected due to global economic recession.

The pre and post-recession net profit performance of Indian IT industry has been tested through paired t-test (two-tailed) at á = 0.05 where t = - 0.87 is observed not significant at any level of risk.

- In case of EPS in automobile industry t = -.394 which was not significant at any level of risk. Hence the EPS performance of whole industry was not much affected. In hotel industry t = .989 which was significant at 5 percent level of risk. Null hypothesis has been rejected. Hence the EPS performance of Hotels industry has been adversely affected due to global economic recession.

  In Gems & Jewellery Industry t=1.34 which was not significant at any level of risk. Hence EPS performance of the Indian Jewellery industry was not positively/ negatively affected due to global economic recession.

  Indian IT industry was tested through paired t-test (two-tailed) at á=0.05, where the resultant t = 0.60 which is not significant at any level of risk. Hence EPS performance of the Indian IT industry is not positively/negatively affected due to global economic recession.

CONCLUSION

On the basis of obtained statistical results it has been deduced that the global recession had only a dampening effect on the growth of Automobile industry, IT industry and Gems & jewellery industry but hotel industry got a major setback. According to analysis made above the expenses in aforesaid industries were not affected much due to recession. Whereas the sales and profitability of these industries dipped in post recession period but did not pose a challenge to their existence & survival. Rather Automobile Industry and IT industry have shown resilience. The Gems & Jewellery and Hotel Industry also have huge growth potential and are about to bounce back after this short term phenomenon. Latest information indicates that these are on the path of fast recovery. In fact when the developed nations of the world were feeling the scorching blaze of recession, Indian industry felt the placid heat only i.e. a slowdown with lesser intensity. Various factors attributed to this industrial resilience which correspond to the third objective of the study may be counted as:

- The conservative but sensible financial policies of the government- An approach of full convertibility of rupee on the Current account, but a very cautious phased out approach towards Capital account convertibility. & maintaining a grip on exchange rate. Along with it expansionary monetary & fiscal policy helped in achieving external as well internal balance in the economy. This corresponds to Mundell Model. Monetary policy focused on augmenting liquidity-both domestic rupees as well as foreign exchange liquidity- to make them available at lower rates. This was supported by fiscal stimulus measures aimed at cushioning the deficiency in demand as well as helping the economy to return back to normal pace of activity & growth.

- Large domestic demand emanating from the huge middle class and consumerism insulated these industries from external shocks and dipping demand.

- High rate of domestic savings: The Indian psyche of saving money was a big savior in these testing times when organizations turned towards the domestic banking sector for their investment needs with lesser Foreign Institutional investments in the market. Along with it, RBI's decreasing Bank rate, cash reserve ratio, Repo rate, Reverse Repo rate helped in credit expansion and stimulation of investment to support industry.

- Cheap resources: The availability of cheaper factors of production, especially labour, also helped these industries to sustain the recessionary shocks.

- Skilled and educated labour: It was a major reason behind the quick recovery of the industries under study, especially the automobile and Gems and jewellery industry which had creative and skilled labourers, to bring in competitive advantage. Along with this, the huge army of IT professionals brought an added benefit to the IT industry which has put India in almost reigning position over the world. This was a major economic attribute to achieve the competitive advantage according to Porter's diamond model.

- Improving infrastructure: To fight out recessionary trends, the government introduced various fiscal measures, especially the public expenditures through huge investments in infrastructure

- Comparative as well as competitive advantage to our industries helped them in surviving this catastrophe. Comparatively cheaper labour in the IT sector, gems and jewellery sector, and the automobile industry has brought comparative advantage in the form of decreased costs. Along with it, their skill and efficiency were helpful in getting competitive advantage to brush aside the business losses in these industries. India was the cheapest destination for outsourcing of quality IT services of research projects, website development and design work.

- Promotion of tourism: India is the most popular destination for heritage tourism, adventure tourism, eco tourism, and medical and wellness tourism, which may boost up the hotel and tourism industry, especially in the post-recession period.

- Huge pump priming of Rs 3 lakh crores in the economy with specific measures for various sectors, especially to export industries was another great reason for their resilience.

- Entrepreneurship: Recession was a great time to start new ventures and boosting innovation as laid off engineers, scientists, and other skilled persons decided to pursue their own ideas. Entrepreneurship has been promoted, especially in the IT sector giving the industry sustainability.

The fourth objective has been accomplished by indicating towards various comparative & competitive advantages mentioned in Porter's Diamond model of competitiveness, which can be amassed and incorporated by these industries not only to gain financial vigour and vitality to sustain the inevitable economic phenomenon like recession, but to succeed in achieving global competitiveness in modern times.

LIMITATIONS OF THE STUDY

The present study measured the impact of recession on only four but major industries namely hotel industry, automobiles industry, gems and jewellery industry and information technology industry with limited number of units considering the paucity of time & resource constraint.

The research was based on secondary information. Moreover the secondary information taken was not for a long period, as economic recession surfaced in 2007 only.

The data has been primarily taken from published annual reports of the companies. Authenticity of research findings depends upon the authenticity of secondary data used in the study.

FURTHER SCOPE OF THE STUDY

The study can be replicated to verify more industries and larger samples.

Since the industrial recovery has been attributed to the government policies up to an extent, we can make another empirical study to explore the effectiveness of these policies as well as the effectiveness of corporate strategies. Along with it, various social, economic, psychological and sociological perspectives related to recession can also be taken as further statistical studies.

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