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Contents

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Editorial

It is my pleasure to introduce the September 2023 edition of Artha. Artha, as a peer-reviewed e-Journal, has attracted attention from academicians and practitioners, which is reflected in the increased number of subscriptions and articles submitted for publication. In the current issue, we are publishing four articles covering a variety of topics from Accounting, Finance, and Governance.

In the first article, "Sustainable Banking for a Greener Future," the author discusses the origins and growth of Sustainable Banking. He differentiates sustainable banking from conventional banking by raising and addressing questions on many dimensions. Further, the operational side of sustainable banking with a detailed discussion on financial products and services addressing the Sustainable Development Goals (SDGs), has also been highlighted.

In the *second article, "Pathway to Revenue Protection,"* the author highlights the importance and ways of revenue protection. He talks about detecting the causes and issues of revenue losses as an early warning signal for an organization. Further, a detailed root-cause analysis of revenue leakage and corrective measures that may be taken to mitigate the risk that arises, have also been emphasized on by the author.

The *third article*, *"Gender Budgeting: Bridging the Gender Gulf and Espousing Inclusive Development,"* discusses the worldwide debate on the importance of gender budgeting. The author believes that a gender-based assessment of budgets encompassing the gender perspective, at all levels of the budgetary process will lead to gender parity, and therefore, it is essential for the governments to prepare gender responsive budgets that take into consideration the gender patterns in the society and allot funds accordingly.

The *fourth article*, *"Corporate Governance Challenges in Family-Owned Luxury Businesses: Balancing Tradition and Modernization,"* delves into the complexities faced by family-owned luxury businesses in establishing effective governance structures. It explores the significance of finding the right equilibrium between tradition and modernization to ensure sustainable growth, competitiveness, and continue success in an evolving luxury market.

I hope that you will enjoy reading all articles. I sincerely thank the authors who have contributed to this issue, and I expect that you will consider Artha for publishing your article. You may send your articles, and feedback to us @ artha@iimcal.ac.in.

Vivek Rajvanshi

Chief Editor

Contributors

Utkarsh Majmudar is a professional with over two decades of experience encompassing teaching, research and administration at premier business schools in India (IIM Bangalore, IIM Lucknow, IIM Udaipur etc.) and working with large corporations in India at GE Capital, iGATE and HSBC. Apart from finance, he has done significant work in the area of sustainability – conducting an annual study of the performance of companies on corporate responsibility, working with large companies, publishing cases on sustainability, and writing extensively on the theme. He has co-authored two books. The second book, Shift: Decisions for a Net Zero World, was released recently. Utkarsh is a member of the Board of Governors at IIM Raipur. He is also on the editorial board of A₹tha.

Vilas Sateesh is a current student of Batch 12 of the "Executive Program on Business Analytics" of IIMC. Vilas is also a qualified Chartered Accountant from the Institute of Chartered Accountants of India. He has nearly 15+ years of management consulting experience. He has successfully delivered many complex transformation programs both in finance as well as in revenue management domains for clients across sectors including aviation, automotive, customs, retail, real estate, and power and utilities. His core area of expertise is revenue assurance and advising clients on ways to detect and prevent revenue leakages. Vilas is very keen on doing further research on revenue assurance and revenue management. He has completed a certificate course on "Forensic Accounting and Fraud Detection" conducted by the Digital Accounting and Assurance Board of the Institute of Chartered Accountants of India. He is also an aspirant of Certified Internal Audit from the Institute of Internal Auditors, US.

Dr. Akinchan Buddhodev Sinha is currently associated with the Institute of Company Secretaries of India (ICSI) in the capacity of Deputy Director. He has done M.Com, MBA-Finance (ICFAI), CFA (ICFAI) and Ph.D in Management (ICFAI University Jharkhand). He has more than 17 years of experience in academics and research and as a versatile writer he has published many articles and research papers in journals of repute and has presented research papers in various national and international conferences and seminars organised by various renowned Varsities and Institutions across India. He has authored more than 50 articles and research papers.

Nirbhay Rana is a highly experienced design educator and professor at IILM University Gurugram in the Design Department. With over 14 years of experience in the field, he has made significant contributions to design education and curriculum development. Notably, he drafted and designed the syllabus for the Bachelor in Fashion and Apparel Design program at Kurukshetra University, showcasing his expertise in curriculum planning and design. Additionally, Nirbhay Rana is an accomplished author, having authored two books on fashion. His extensive knowledge and practical experience in the field of fashion design make him a valuable asset to the academic community. With a passion for nurturing young talent and fostering creativity, Nirbhay Rana continues to inspire and guide aspiring fashion designers in their educational journey.

Sustainable Banking for a Greener Future

Utkarsh Majmudar

"The largest financial players in the world recognize energy transition represents a vast commercial opportunity as well as a planetary imperative." John Kerry, U.S. Special Presidential Envoy for Climate

The 20th century has seen massive economic progress more than humankind has seen in the past. However, this has had side effects of biodiversity loss, climate change, and environmental pollution. Social issues like poverty and unequal economic development have been pervasive. The 21st century has seen the problems of sustainability and climate crisis take centre stage. Two factors have led to the climate crisis – producers' unsustainable business practices and consumers' consumption practices (Taneja and Ali 2021).

Mitigating the impact of the climate crisis requires two tools – technology and finance. Given that banking is a significant source of funding for companies to transition to green businesses. At the same time, developing technology is also costly. While the primary funding source for technology development is the government, banks play no less a part. Sustainable banking has emerged from these needs.

This paper discusses the origins and growth of sustainable banking, how it differs from conventional banking, how sustainable banking is operationalised, how they can be structured and concludes with the imperatives of sustainable banking.

The Origin of Sustainable Banking

The origin of sustainable banking can be traced to the temples of Greece and Rome, where money lenders sat to do their trade. Ethical considerations came into play because they were operating from a temple. Gradually, the practice of accepting deposits and changing money developed. It was around the same time that banking developed in India and China.

Modern banking came about in medieval Italy, where banks acted like intermediaries where those who had money and those who needed money to invest came together. In some sense, they operated like credit unions of today. The framework for life and economy came from religious ethics, prevalent environment and community. This had a strong influence on business and banking. Religious ethics set clear rules on money lending and interests. Some banks even put a cap on interest rates for ethical reasons. Over time, some ethical practices and guidelines developed. For example, a bank should lend only to someone who worked hard, behaved responsibly, and took manageable risks. Ethical banking practices became important as many banks were founded with donations and charitable contributions.

The Industrial Revolution led to the growth of cooperative banks and credit unions. The development of the middle class spurred their growth. Credit unions collected the savings as capital and channelled the money into entrepreneurial ventures. While credit unions met the needs of the urban customers, the cooperatives focussed on the rural areas. These credit unions and cooperative banks were set up to fight usury and involved a lot of effort in educating people. While many of these institutions adopted questionable practices, some were early adapters to modern sustainable finance. They promoted sustainable finance initiatives like socially responsible investments, impact investment or clean-tech financing.

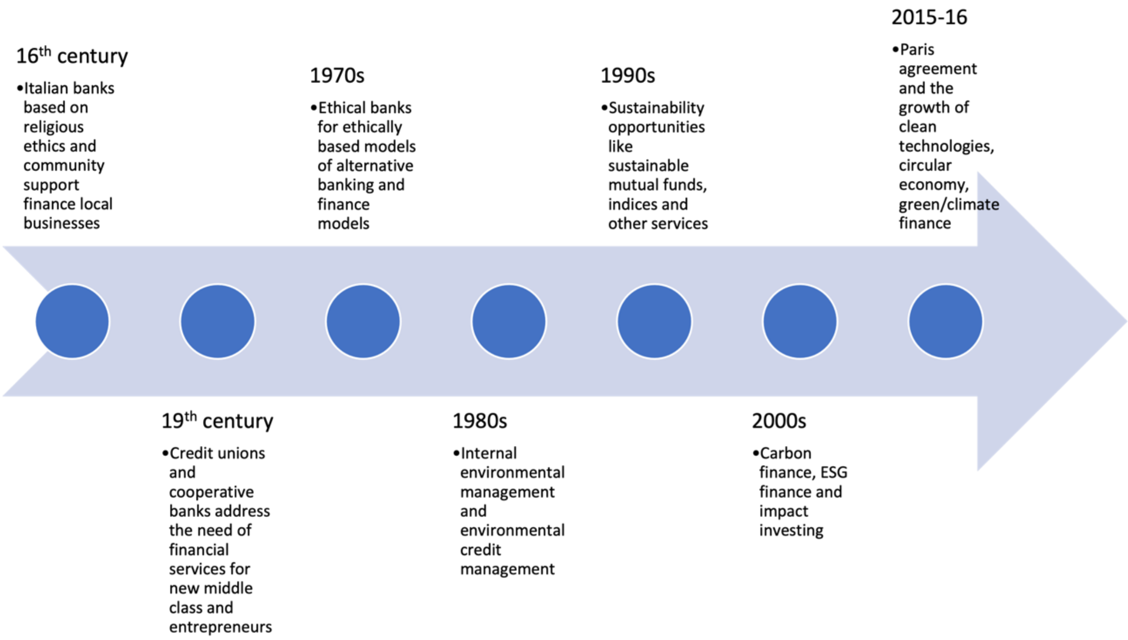
Gradually, the banks started becoming transnational and started controlling the financial industry. Banks changed their focus to creating wealth for the individual and the society. Traditional concepts like community finance or supporting local businesses began disappearing. Soon, banks started being criticised for financing dictators or supporting money laundering. This led to the development of ethical banking in the 1970s. However, they did not grow in strength. The Global Alliance for Banking on Values, a network of independent banks using finance to deliver sustainable economic, social and environmental development have only about 70 members in 45 odd countries (“GABV - Global Alliance for Banking on Values” n.d.). The period also saw the emergence of impact investing, which has grown exponentially over the years. Here, banks generate both social and financial returns. The 1980s saw greater consciousness regarding the environment and soil, water and air pollution. Banks became wary of companies' contaminated sites and the resulting credit default risks. Banks started integrating environmental issues into credit risk management to improve their risk predictions.

After managing environmental risk, the next step was to utilise the environmental and social issues to create products and services to promote sustainable development. Indices like the Dow Jones Sustainability Index, FTSE4Good, Stoxx Sustainability Index were developed and the sustainable banking industry grew with sustainable mutual funds and exchange-traded funds.

Sustainable banking has received another boost from IPCC's work highlighting the climate crisis and the Paris Accord requiring governments to act on the climate crisis. The European Union has been at the forefront of developing the taxonomy to streamline sustainable investments. Banks now find it increasingly critical to integrate ESG ratings into their decision-making. Sustainable banking has come of age.

Figure 1 summarises these developments.

Figure 1: Development of Banking and Sustainable Banking



Source: Based on Weber 2012

What is sustainable banking?

Sustainable banking refers to delivering financial products and services developed to meet people's needs and safeguard the environment while generating profit (Yip and Bocken 2018).

Defined in this way, sustainable banking has the following features:

- It enables banks to think from the perspective of the triple bottom line or ESG and how its actions impact people, the planet and profit.
- Sustainable banking is focused on transparency on how the depositors' money is utilised.
- Sustainable banking incorporates the social impact of banking.

How do sustainable banking and conventional banking differ?

Sustainable banking and conventional banking differ on many dimensions:

1. What is the purpose for which the bank exists?
2. Where and how do banks invest their money?
3. How is the project financing decision made?
4. What is the bank's lending policy?
5. What is the level of transparency?
6. How widely distributed are they?

Figure 2 details the comparison between sustainable banking and conventional banking.

Figure 2: Comparison between Sustainable and Conventional banking

Feature	Sustainable Banking	Conventional Banking
Purpose	Stakeholder oriented. Providing social, economic and ecological benefits	Shareholder oriented. Maximising shareholder value
Investment thesis	Invest in projects that satisfy social and environmental benefits.	Invest in projects that maximise the net present value.

Investment selection	Accept projects increase positive externalities; eschew projects with negative externalities	Accept projects that maximise profits/cash flows.
Lending policy	Directed towards social inclusion or environmental protection	Risk based and hence excludes sections of the society
Transparency	Relatively more transparent	Relatively less transparent
Geographical presence	Few branches	Many branches

Source: Based on Cantero Sáiz, Olmo, and Sanfilippo-Azofra 2023; Martínez, Rambaud, and Oller 2020

Sustainable banks create differentiation, attract customers and borrowers who are socially and ecologically aligned, cater to a wider variety of stakeholders, and reduce the risk of stranded assets.

How is sustainable banking operationalised?

Banking can be divided into two major groupings: (a) retail banking and (b) commercial banking. Retail banking includes private banking; the difference between the two is scale. Similarly, commercial banking includes global banking. Again, the difference is only a matter of scale.

Let us look at retail banking and see how it can be sustainable. Banks receive money from depositors, and this money is lent to businesses. For banking to be sustainable, banks should lend money to sustainable companies. Banks adopt different ways of doing this:

1. Screening: Here, companies or industries that are unsustainable (e.g. dealing in fossil fuels) or unethical (tobacco or gambling) are excluded from lending. This is called negative screening. Another way to screen is positive screening, where the bank lends to companies and industries whose ESG performance is better than others. Finally, there is norms-based screening, where the bank lends to companies that meet the norms of international like UN treaties, Security Council sanctions, UN Global Compact, UN Human Rights Declaration and OECD guidelines.

2. Financing mechanisms: Banks lend to companies through sustainability bonds and sustainability-linked bonds. Sustainability bonds are where the end-use of the proceeds is to make the company greener. On the other hand, sustainability-linked bonds also set targets that the company needs to achieve. For example, a company that achieves predetermined CO_2 emission reduction pays a lower interest rate. Social impact bonds work exactly like sustainability-linked bonds. The only difference is that targets are social indicators (e.g., maternal mortality rates), and proceeds are focused on social impact. Carbon-intensive organisations issue transition bonds with the intention to support decarbonisation. Clean-energy project finance refers to non- or limited-recourse loans to finance clean-energy projects. These projects include low-emission generation, sustainable fuels, and grid-scale storage, among other low-emission technologies.

On the other hand, retail banks have little control over who deposits money. Banks are trying to overcome this by issuing green deposits. For commercial/global banking, the bank can choose its depositors. It can apply ESG rating screens to decide who it wants to onboard as customers.

Let us now look at commercial banking activities. The lending practices are the same as what we have discussed above. Then, there are investment banking activities:

Transactions or M&A: Sustainable M&A are growing fairly rapidly. Here, the bank can promote sustainable M&As by developing criteria for evaluating the sustainability of M&A deals. They can also educate clients on the sustainability implications of M&A deals. Sustainable finance can be employed in M&A deals.

Financing: Helping companies raise debt and equity financing for companies. This requires focusing on green bond issuance, equity issuances for cleantech companies, etc. (McKinsey & Company 2022)

Advisory: This is a consulting business for banks. On sustainability, banks can provide Energy-efficiency education and financing resources for customers that are small and medium-sized enterprises.

There are several other opportunities for banks to support sustainability (Alessio Botta et al. 2022):

Trade finance: Here, for instance, banks may issue letters of credit where the underlying asset contributes to climate change mitigation. The underlying asset could be items like batteries for electric vehicles or fans for windmills. Alternatively, banks can support sustainable trade finance by providing guarantees at improved prices and improving access to finance.

Credit cards: Banks could provide favourable terms for customers purchasing sustainable products or encouraging travel with lower emissions.

Payments: Here, banks may offer favourable terms on where the underlying assets are sustainable or undertake transactions with counterparties that score high on ESG/sustainability.

Buyer-led trade finance: Take the case of reverse factoring. Here, the bank could pay sustainable client suppliers before maturity and at a more favourable financing rate. This will provide benefits over traditional reverse factoring.

Banks need to support the achievement of sustainable development goals (SDGs). Figure 2 lists how banks can finance each of the SDGs.

Figure 2: Financial Products and Services Addressing the SDGs

SDG	Products and Services		SDG	Products and Services
1 No poverty	Microfinance; Private international development finance through impact investing		9 Industry innovation and infrastructure	Project finance and commercial lending integrating social and environmental criteria for lending decisions; Public-private partnership
2 Zero hunger	Microfinance for smallholder farmers; Crop insurance; Agricultural loans		10 Reduced inequalities	Fair payment of financial sector employees; Microfinance; Loans for marginalised communities
3 Good health and well-being	Health-care investments; Medical loans		11 Sustainable cities and communities	Green building loans; Sustainable transportation loans; Municipal loans
4 Quality education	Philanthropic donations to schools; Student loans		12 Responsible consumption and production	Socially responsible investing; Green supply chain financing; Circular economy loans
5 Gender equality	Microfinance and lending to women and female entrepreneurs; Financial education programmes for women		13 Climate action	Climate finance; Green bonds; Climate risk insurance; Carbon offset financing

6 Clean water and sanitation	Socially responsible mutual funds investing in water; Water and sanitation loans	14 Life below water	Financing ecological services; Marine conservation loans; Sustainable fisheries financing;
7 Affordable and clean energy	Renewable energy investment; Green bonds	15 Life on land	Financing ecological services; Sustainable forestry financing; Land restoration bonds
8 Decent work and economic growth	General investments into the real economy; Small business loans; Job training programs	16 Peace, justice and strong institutions	Lending to public institutions; Community development loans; Microfinance loans for conflict-affected areas
17 Partnerships for the Goals	Impact investing; Public-private partnerships; Social impact bonds		

Source: Based on Weber 2018; United Nations and KPMG 2017

Structuring Sustainable Banks

The business models of sustainable banking are defined by three elements: (a) the value proposition, (b) value creation, and (c) value delivery.

Value proposition	Value creation and delivery	Value caputre
• Product/service • Customer segments • Relationships	• Key activities • Resources • Channels • Partners • Technology	• Cost structure • Revenue streams

Source: Based on (Bocken et al. 2014; Nosratabadi et al. 2020)

Sustainable banking business models incorporate a circular economy, the triple bottom line and cover a wide range of stakeholder interests, including the environment and the society. The three areas to look for while configuring the sustainable banking business model are:

a. Value proposition: This describes the assortment of a bank's products and services that meet sustainability norms.
b. Value creation and delivery: Here, the focus is on activities, resources, partners, and distribution channels. Sustainable banks use their sustainability credentials to exploit new opportunities and address new markets and revenue streams.
c. Value capture: Value capture comes from the bank's revenue models and cost structures. Conventional banks focus on maximising the gap between revenue and cost; sustainable banks aim to increase the same while accounting for externalities in the business structure.

Conclusion

Sustainability is increasingly getting integrated with business processes and strategies. Banking needs to align with the new reality. Banks must break up each of the bank's activities and see where the potential for becoming sustainable exists. Banks have long looked at simple solutions like using less paper or electricity. They have believed that sustainability is other people's problem. They can and should contribute to sustainability by looking at their business practices and ensuring that each aspect of their business contributes to sustainability. Banking needs to be sustainable, and sustainable banking is here to stay.

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Pathway to Revenue Protection

Vilas Sateesh

1. ABOUT THIS ARTICLE

Organizations in this digital, agile, innovative (and now the "post-pandemic") era continuously steer through various challenges. However, regardless of the era or type of organization, "revenue protection" is of prime significance because revenue represents the daily flow of oxygen for an organization to sustain. Any erosion or leakage or whatever term is used affects the organizations deeply and might often turn an otherwise profitable business into a less or not profitable one at all. In an international survey conducted across 2000 business leaders, 45% of the respondents mentioned that revenue leakage is a systematic problem that they face (BCG, July 2020, Achieving rapid topline growth with revenue assurance). Effective revenue protection can contribute as much as 10% to an organization's total revenue without the need to sell additional products or services (BCG, July 2020, Achieving rapid topline growth with revenue assurance). This article explains how to approach revenue protection pragmatically.

2. INTRODUCTION

The term "revenue protection" is a loosely used term that is highly subjective. For a better understanding of this term as well as to narrow down its definition, the broader concept of "revenue management" first needs to be understood. In layman's terms, the term revenue management refers to any activity that is aimed at improving the revenues of the organization. More specifically, revenue management could be defined as the set of activities carried out by an organization to protect, optimize, or maximize its revenues. It can now be seen that there are 3 further components in revenue management. A better way to understand these 3 components is to look at the pertinent question that each of them tries to address.

- Revenue protection - How do I protect my existing revenues? Am I billing and collecting whatever I am supposed to bill and collect?
- Revenue optimization - How do I optimize my operations to increase revenue or prevent opportunity losses?
- Revenue maximization - Can I expand my fields of play and introduce additional revenue streams?

Out of the above 3 layers, revenue protection could be viewed as the foundation layer, i.e., without this layer, the other 2 layers cannot be sustained. After all, what is the point in maximizing or optimizing revenues when organizations cannot effectively protect them?

Narrowing down the definition, revenue protection encompasses all the activities undertaken by an organization to protect its existing revenues by ensuring the accuracy of its billings and enhancing the efficiency of its collections. Revenue protection is not a one-time activity, rather it is an ongoing journey that needs a lot of organizational support and dedication. Broadly speaking, the revenue protection journey typically comprises of three stages, i.e., detection, prevention, and sustainance. The rest of the article focuses on these three stages.

3. DETECTION STAGE

The detection stage commences upon realization by the organization, where it begins to suspect that something is wrong but cannot articulate where the issue is, how big the issue is, or what exactly is leading to the issue. Detection specifically tries to address "where are the revenue leakages" through various techniques but relies heavily on data analytics and process vulnerability analysis. The basic objective at this stage is to identify "what could go wrong" which is nothing but potential scenarios that might ultimately lead to revenue leakages. To understand this better, consider the below table that lists some of the risks that prevail at various stages of a typical revenue life cycle.

#	Revenue life cycle phase	Examples of typical revenue risks ("what could go wrong")
1	Pricing strategy	• Unknowingly providing goods or services at a lower rate or free of cost, where the cost base is complex and cost allocations are not adequately performed. • Misuse of discounts to boost sales performance
2	Customer onboarding and granting of credit facility	• Granting credit facility to a non-eligible customer or provision of credit more than the eligible amount • Failing to protect credit limit with adequate collateral security
3	Delivery of goods and services	• Provision of goods or services in excess of secured credit limits • Manipulation of the delivery mechanism by the customer to avail excess delivery or similar economic benefits (including internal manipulation by employees)

4	Billing	• Intentional suppression of billable transactions by the customers (more prevalent in revenue share agreements) • Delays in billing resulting in working capital loss
5	Collections1	• Delinquent customers or bad debts where there is no recourse available to collect the amount due from them. • Granting credit period in excess of the period availed by the organization from its suppliers, resulting in working capital loss

The above-mentioned risks are just illustrative and not exhaustive. Another key overarching element that will always be considered is the fraud risk. It is estimated that organizations typically lose 5% of revenue to fraud each year2.

1. It is estimated that 1 to 5% of EBITDA (i.e., Earnings before interest, taxation, depreciation & amortization) flows unnoticed out of companies, because they do not have their contract management system and payment follow-up completely in order (EY, August 2019, Revenue Leakage – How to identify revenue leakages in your company and recoup them). Based on similar research, focusing on government revenue leakages, it was observed that 20% of government revenues worldwide go missing every year, either because of non-payment or outgoing payments gone awry (McKinsey & Company, January 2018, The trillion-dollar prize: Plugging government revenue leaks with advanced analytics).

2. Based on a study of 2110 cases across 133 countries (The Association of Certified Fraud Examiners, 2022, "Occupational fraud 2022 – A report to the nations")

3.1 Significance of data analytics in the detection of leakages

Living in an age of "big data" there is no further messaging needed to mention the significance of data analytics in detecting revenue leakages. Traditionally data analysis or rather revenue analysis was nothing more than a comparative analysis of transactions, some trend analysis, performance metrics analysis, etc. With the advancement of data analytics, organizations these days are employing advanced data analytics techniques and methods such as econometrics, machine learning, etc. These techniques when combined with forensic accounting make the detection layer even stronger where the fraud risk is higher. Research suggests that in large, developed economies, analytics capabilities have the potential to increase total government revenue by 1 to 3%, while in developing countries the opportunity is much larger as much as 10% (McKinsey & Company, January 2018, The trillion-dollar prize: Plugging government revenue leaks with advanced analytics). In parallel, stakeholder expectations are rising, wherein the revenue leakages are expected to be less than 1% due to advanced analytics providing visibility on leakage at every step (McKinsey & Company, January 2022, Finding hidden value with order-to-cash optimization)

In today's world, there are numerous platforms available for performing analytics ranging from spreadsheets to SQL queries to advanced software like R, Python, Alteryx, etc. Regardless of the platform, the objective is to come up with red flags or anomalies that if further investigated could be unearthed as leakages. The following is an illustrative list of some of the non-conventional ways of anomaly detection using data analytics, which is being used these days for revenue leakage detection typically in the retail/trading sector:

- Sales price realization analysis to analyze leakages from excessive discounts.
- Analysis of transactions carried out at unauthorized prices.
- Analysis of average transaction processing time per employee, mainly cashiers at the supermarket to identify any suspicious behaviors.
- Analysis of credit limit overshoots for each customer
- Identification of transactions with blacklisted customers who had payment issues in the past
- Important transactions which were approved just before the departure of an employee.
- For self-invoicing / invoicing based on customer declaration or data:
    - Analysis of missing transaction sequences
    - Analysis of excess usage of void transactions
    - Identification of manipulations using techniques such as Benford's Law3
    - Validation of declared information against information provided by an independent third party.

It should however be noted that data analytics alone will not effectively pinpoint all probable areas of leakage. Data analytics should go hand in hand with in-depth analysis of business processes and their vulnerabilities.

3 Benford's law, named after Physicist Frank Benford, states that in numbered lists providing real-life data (e.g., a journal of cash disbursements and receipts, contract payments, or credit card charges), the leading digit is one almost 33 percent (i.e., one third) of the time. On the other hand, larger numbers occur as the leading digit with less frequency as they grow in magnitude to the point that nine is the first digit less than 5 percent of the time (Regional Training Institute Kolkata, Comptroller and Auditor General of India, 29 February 2016, Research paper on "Using Benford's Law in Audit")

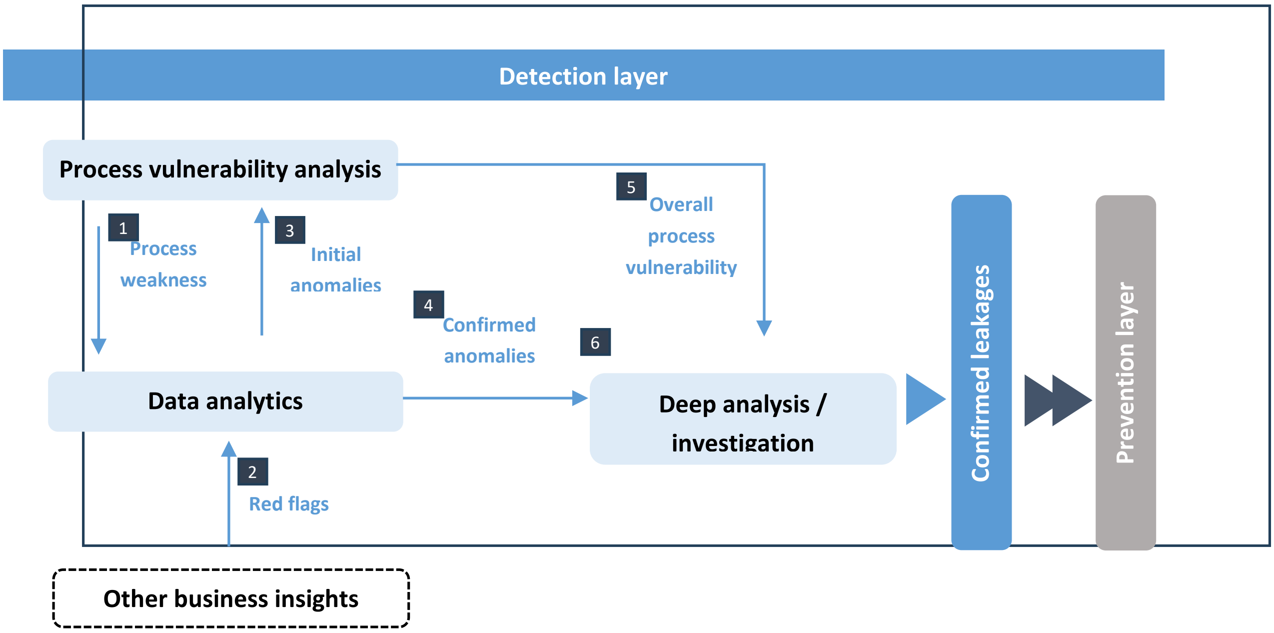
3.2 What is "process vulnerability analysis"?

"Process vulnerability analysis" examines how vulnerable are the revenue processes to revenue risks. The starting point is to identify what are the typical revenue risks considering the industry and the business model. Once the risks are identified, the next step is to assess the revenue processes in terms of available internal controls to mitigate those risks. In today's world, system controls or information technology controls play a significant role in the functioning of business controls. Hence, process vulnerability analysis should lay special emphasis on information technology/system controls assessment. In fact, the presence of internal controls is associated with lowering fraud losses and quicker fraud detection. Based on a study of 2110 cases across 133 countries, it is estimated that nearly half of the fraud cases occurred due to lack of internal controls or an override of existing controls (The Association of Certified Fraud Examiners, 2022, "Occupational fraud 2022 – A report to the nations").

3.3 Overall schema of detection

So, how do analytics, vulnerability analysis, and all fit together in the identification and confirmation of leakages? This is better explained through an interrelationship diagram as shown in figure 1.

Figure 1



Source: Author

1	Process weaknesses	Weaknesses in process controls (including information technology controls) that could expose revenue to leakages (more qualitative), but very important input for data analytics. The weaknesses discovered herein are often treated as scenarios for data analytics.
2	Red flags	Most of the organizations would have some idea regarding the loopholes or areas of weakness. These red flags if analyzed in depth through process vulnerability analysis and data analytics could be a typical low-hanging fruit for any revenue leakage analysis.
3	Initial anomalies	Initial insights from data analytics may or may not turn out to be real leakages, but each of these anomalies needs to be analyzed in detail, i.e., complemented with the knowledge of process weaknesses to assess whether these are confirmed anomalies or just anomalies themselves (hence to be dropped).

4	Confirmed anomalies	Not just anomalies in the data but are serious candidates for revenue leakage. However, needs to be investigated further before confirming as leakage.
5	Overall process vulnerability	Initial process weaknesses strengthened with some story from analytics, i.e., these are areas that are not just qualitative weaknesses, but there are some supporting anomalies observed in the data which might be hinting towards potential leakage.
6	Deep analysis/investigation	The stage at which the data anomalies coupled with an understanding of process weaknesses are analyzed further. Usually, each material anomaly is analyzed against process weakness and if it is pointing towards a leakage, then additional analysis is performed. This additional analysis involves verification of source documents for the underlying transaction or set of transactions, interviewing the relevant personnel, verifying the backend of information systems, etc. The end result is either confirmation of leakage or dismissing the anomaly.

3.4 Types of leakages

The leakages that are confirmed could be classified broadly into the following categories.

1	Recoverable leakages	Leakages that could be recovered from the customer either in line with the contractual clause or have the potential of being recovered through legal action. These types of leakages are viewed very seriously by the management as the issue might have persisted in the past and have the potential to persist in the future.
2	Irrecoverable leakages	Leakages that can no longer be recovered mostly due to time-barred issues. However, the root causes need to be examined so that this kind of leakage does not persist in the future.
3	Notional leakage	Indirect leakages that might not be perceived as leakage in the first place but have a material impact on the working capital that ultimately affects the bottom line. e.g., delays in billing. Most of the organizations does not view this seriously, but those with high commercial mandate treat this very seriously.
4	Probable leakage	Serious process vulnerabilities that indicate leakage or potential for leakage, but which have not been substantiated with data. e.g., the absence of a sound credit policy. Organizations usually take a calculated risk here and try to implement mitigation mechanisms that would limit the probability of leakage.

Regardless of the type, once leakage is confirmed, the next phase is to establish adequate mitigation actions in place.

4. PREVENTION STAGE

At the prevention stage, the organization realizes that a particular type of leakage has occurred or there is a potential for future leakage and thereby the need for corrective measures. As per studies, 81% of organizations that were victims of fraud, modified their controls following the fraud. Out of this 75% increased management review procedures while 64% increased use of proactive data monitoring analysis (The Association of Certified Fraud Examiners, 2022, "Occupational fraud 2022 – A report to the nations").

But before putting the prevention mechanisms in place, be it corrective or pre-emptive, the critical thing is to identify what exactly caused the leakage typically known as "root-cause analysis".

4.1 Root-cause analysis

Root-cause analysis implies analyzing the underlying environment of the leakage. This could be explained with the example of a "sales skimming fraud" which is a type of business fraud in which the cash proceeds are stolen by a fraudster employee before the transaction is entered into the financial accounting system. Imagine this kind of fraud has been detected at one of the supermarkets. Now, apart from the disciplinary measures taken against the culprit employee, the victim organization would be more interested in preventing similar cases in the future. This is where root cause analysis comes into the picture. In this specific case, root cause analysis comprises of analyzing:

1. Are there policy guidelines available for thresholds for acceptance of cash, periodic stock count, surprise cash verifications, etc., and to what extent these are followed?
2. What is the underlying process of customer ordering, cash collection, tendering of change, and delivery of goods including information technology and physical access controls?
3. What process and information technology controls are in place for the segregation of duties between cashiering and stock count and separation of access controls between point-of-sale machine and stock module?

The above is just an indicative list, but organizations need to go into similar depth if they are to implement mechanisms to prevent revenue leakages.

4.2 Implementation of mitigation actions

"Mitigation actions" are corrective measures or pre-emptive measures put in place by an organization in response to a revenue leakage. Examples include information technology fixes, the introduction of new controls, strengthening the adherence of existing controls, etc. Once required mitigation actions are determined, the organization, before implementing them will typically weigh those against several parameters such as:

- Overall risk appetite
- Cost vs. benefit – i.e., what is the cost of implementation of the measure compared against the value it protects.
- Confirmed vs. probable leakage, i.e., likelihood of occurrence.
- Availability of other mitigating controls
- One-time initiative vs. repeated monitoring (e.g., a system enhancement is more of a one-time initiative that could be preferred over a manual control that needs to be monitored periodically)

5. SUSTAINANCE STAGE

Once the organization has identified the leakages and has put in place the mitigation measures, the next natural step is to continue the momentum and lay down a solid foundation to continue protecting the revenues on an ongoing basis, i.e., "revenue monitoring". But unfortunately, this is where most of the organizations fail. In an international survey conducted across 2000 business leaders, out of the organizations that identified revenue leakage as a significant concern, three fourth of the organizations did not have an automated revenue assurance process, 64% did not have any standardized tools as part of their enterprise system and 59% do not devote any full-time staff or equivalent to revenue monitoring function (BCG, July 2020, Achieving rapid topline growth with revenue assurance). Organizations that have been successful in sustaining the momentum of revenue protection had some critical ingredients, explained below.

5.1 Dedicated organizational function

Successful organizations create a dedicated revenue monitoring function as part of their organization structure. The housing of this dedicated function could depend upon the nature, size, and complexity of the organization and business model, e.g., could be housed within Finance, Commercial, or as a standalone function. Alongside the positioning of the function, equally important is how well the function is staffed in terms of capabilities and skills. The revenue monitoring function needs two kinds of core skill sets, data analytics and business process risk analysis. Further to these core skill sets, there are certain generic skills that any resource working in this function should have such as commercial acumen, problem-solving skills, good communication and articulation skills, etc.

5.2 Effective partnering with other functions

The basic nature of the revenue monitoring function calls for effective and deep working relationships with quite a lot of wider organizational functions. These functions include, but are not restricted to Sales, Commercial, Contracts Management, Legal, Finance, Information Technology, Business Intelligence, etc. In most cases, there will be a constant flow of information and input between revenue monitoring and these functions which in turn calls for adequate support and sponsorship from top management. To ensure effective coordination and support from other functions, it is quite a common practice to form working groups with a specific mandate depending upon the needs of the organization.

5.3 Clearly defined processes

Like any other function, the revenue monitoring function also needs sound governance. It is advisable to have clearly define governance around:

- Leakage detection – covering data acquisition, data validation, cleansing, running analytical procedures, validation of anomalies, confirmation, and communication of leakages.
- Risk & controls/vulnerability analysis – covering the process framework to be adopted for analysis of processes, maintenance of risk register, methodology for mapping of controls with leakages, etc.
- Controls monitoring – covering procedures for testing of relevant revenue controls, periodicity/frequency, data owners, etc.

5.4 Adequate monitoring tools

Monitoring tools, as the name suggests, are not strictly data analytics tools, but rather any platform or models that are used by the revenue monitoring function on an ongoing basis. The most common ones are "monitoring dashboards" that would give the initial inputs to the team in the following areas:

- On areas where the leakage was detected before, is it persisting or decreasing thanks to the implementation of mitigation mechanisms.
- On areas where no leakage was detected previously, does the situation still hold good, i.e., no leakages could be detected.
- Other basic analysis of revenue KPIs and measures

6. RECAP AND KEY TAKEAWAYS

- Revenue protection is more of a continuous journey than a one-time assignment and calls for patience, a methodical approach, and extensive organizational and management support.
- Revenue protection is not just about improving billing accuracy, but rather analyzing the entire revenue touchpoints.
- In today's world of big data, organizations use both conventional and non-conventional data analysis techniques to uncover leakages.
- Mere detection of leakages is not sufficient to ensure the protection of revenues. This calls for side-by-side analysis of process risks & controls with data analysis to identify leakages and to put control measures to prevent leakages from occurring in the future.
- To continue the momentum of revenue protection, organizations need to have a dedicated function that is well equipped with top management support, skillsets, processes, and tools.

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Gender Budgeting: Bridging the Gender Gulf and Espousing Inclusive Development

Akinchan Buddhodev Sinha

Abstract

Generally, a budget of a nation involves a detailed elaboration of the forecasted receipts and expenditures of the government for a particular fiscal year. It can be broadly segregated into two categories viz., revenue budget and capital budget. In essence, a budget lays down the future trajectory of economic development of a nation, by prioritizing allocation of funds to various sectors of an economy based on the estimated receipts from various sources. The union budget lays thrust on inclusive development through wider participation of its citizens and in this process upliftment of women has to be a focal point and to facilitate the same the union budgets need to provide berth to gender budgeting. According to the Council of Europe, gender budgeting implies a gender-based assessment of budgets encompassing a gender perspective at all levels of the budgetary process and restructuring revenues and expenditures to foster gender parity. A gender-responsive budget means a budget that takes into consideration the gender patterns in society and allots funds to implement policies and programmes that will transform these patterns in a way that will assist in accomplishing more gender parity. In light of the paramount position gender budgeting has secured over a period of time, as it addresses the vital issue of the upliftment of women in all spheres of economic activities, this article makes an endeavour to explore the global and Indian scenario of gender budgeting and other significant aspects.

Keywords: **Global scenario; Indian scenario.**

JEL Classification Code**: J16 (Economics of Gender • Non-labor Discrimination).**

Introduction

Gender budgeting involves obliterating gender disparity thereby engendering socio-economic development entailing women empowerment. Gender budgets gained a strong foothold in the 20th century and have been largely utilised to address the issue of gender inequalities. Gender inequalities pose a peril to the nation's balanced development. Gender budgeting mainly comprises of the following: applying fiscal policies to foster gender equality, focusing on the results-oriented allocation of expenditure, tax incentives for women and girls, and dissevering of government budgets to reconnoitre gender differential effects to ensure that gender commitments are reflected in union budgets and targets are determined to gauge the fulfilment of commitments.

In a global survey conducted by IMF, it was observed that globally more than G20 countries have a regulatory structure in place that calls for inclusion of gender goals and activities in the budget, and nearly all the nations have collated gender-disaggregated statistics to some extent. It was further observed that information pertaining to gender information is hardly incorporated in government annual financial reports.

Gender budgeting has largely become a global phenomenon whose roots lie in Australia and then gained grounds from United Nation's commitment to the Beijing Platform for Action. Gender budgets are not separate budgets dedicated to women rather it is an approach to explicate the gap between policy statements and resources earmarked for the implementation of policies, to ensure that public money is spent in an optimum manner to achieve gender equality.

Thus, from the aforesaid discussion, it may be opined that gender budgeting has mainly three objectives:

a. Encouraging accountability and transparency in fiscal planning

b. Strengthening gender responsive participation in the making of budget.

c. Endorsing the concept of gender equality and women's rights.

Literature Review

Guha Sriparna and Goswami (2006) have stated that numerous nations across the globe have espoused gender budgeting as a qualitative improvement in their development issue but groundbreaking work has been done by two nations, i.e., Australia and South Africa. Australian government embraced, "Three-Way Categorization to address the matter. This model differentiates between –

1. Gender-specific expenditure;
2. Equal opportunity expenditure for civil servants;
3. Gender expenditure (the rest) is considered in terms of their gender impact.

In the case of South Africa, the government embraced a "Five Step Approach" comprising of the following:

1. Analyzing the situation of women, men, girls and boys;
2. Assessing the gender-responsiveness of policies;
3. Assessing budget allocations;
4. Monitoring spending and service delivery;
5. Assessing outcomes.

Galizzi Giovanna, Meliou Elina and Steccolini Ilena (2021) have stated that gender budgeting or gender-responsive budgeting are umbrella terms used for referring to the tools, methods and systems to include a gender viewpoint in the budgeting process to ultimately encourage effective mainstreaming of gender in policy making. They have also mentioned that there is testimony to the fact that a superior gender balance in policies, organizations and society is not only appropriate and fair but also economically desirable.

Wittbom and Häyrén (2021) have provided a new perception of whether public value management can assist in advancing gender equality by mainstreaming it into public policy decisions and services.

Kasliwal Ria (2023) has stated that the gender budget involves a microscopic view of the allocation and utilisation of funds for the upliftment and welfare of women. She further states that on perusing the data it can be observed that gender budgeting is still not impeccable and accomplishment of the objective of women's welfare still remains a distant dream.

Objective of the study

1. To comprehend the global scenario of gender budgeting.
2. To ascertain the scenario of gender budgeting prevailing in India.

Research Methodology

1. **F-Test (One Factor Model):** It will facilitate in gauging whether any variation exists or not in the expenditure incurred by the Asian Development Bank on Gender Equality Designs and Results in Lending Operations, Pilot Initiatives with Key Lessons for Scaling up, Gender Knowledge Products and Services in DMCs (Developing Member Countries) and Partnerships on Gender Equality. This statistical tool is linked to the first objective of the research study, i.e., the global scenario of gender budgeting.
2. **Partial Correlation Coefficient:** Through this statistical tool the impact of gender budgeting on two key economic variables of the country, i.e., Gross Domestic Product and Net National Income will be ascertained. This statistical tool is linked to the second objective of the research study, i.e., the scenario of gender budgeting prevailing in India.

Limitations of the study

1. No primary data have been used in the authoring of this article. This research study is completely based on the secondary data.
2. Due to technical constraints expenditure incurred on gender budgeting by other global financial institutions apart from the Asian Development Bank (ADB) could not be studied.

Gender Budgeting – Global Scenario

To provide a fillip to gender equality and encourage women's empowerment in the Asia-Pacific (APAC) region, the Asian Development Bank initiated a noteworthy initiative of establishing the Gender and Development Cooperation Fund. The mentioned fund facilitates country-wise gender assessments and formulates strategies that pave the way for developing country partnership strategies, project-specific gender action plans for Asian Development Bank gender-relevant projects, recruitment of long-term gender consultants, gender impact assessments and promoting partnerships with women's organisations and other development partners.

The fund extends financial assistance for activities that involve the following:

a) Country strategy and program activities.
b) Gender and Development (GAD) plans and strategies for ADB loans.
c) GAD specialists in resident missions.
d) GAD capacity building.
e) Gender impact assessments.
f) GAD partnerships.

As a sample, to ascertain the progress in the area of gender development through gender budgeting, the expenditure incurred by the Asian Development Bank on the project, "Promoting Gender Equality and Women's Empowerment, Phase II has been considered for the period 2016 to 2019, as the mentioned project was financially completed in February 2020. Under the mentioned project, the expenditure has been incurred under the four heads-

i. Gender Equality Designs and Results in Lending Operations.
ii. Pilot Initiatives with Key Lessons for Scaling Up.
iii. Gender Knowledge Products and Services in DMCs (Developing Member Countries).
iv. Partnerships on Gender Equality.

The expenditure incurred under the above-mentioned four heads on the project, "Promoting Gender Equality and Women's Empowerment, Phase II has been referred from the Asian Development Bank website and the project.

To determine whether there is a significant difference or not in the expenditure incurred on Gender Equality Designs and Results in Lending Operations, Pilot Initiatives with Key Lessons for Scaling up, Gender Knowledge Products and Services in DMCs (Developing Member Countries) and Partnerships on Gender Equality, F-Test (One Factor Model) have been applied.

Null Hypothesis (H0): ***No substantial difference in the expenditure incurred on Gender Equality Designs and Results in Lending Operations, Pilot Initiatives with Key Lessons for Scaling up, Gender Knowledge Products and Services in DMCs (Developing Member Countries) and Partnerships on Gender Equality.***

Alternative Hypothesis (H1): ***There is a substantial difference in the expenditure incurred on Gender Equality Designs and Results in Lending Operations, Pilot Initiatives with Key Lessons for Scaling up, Gender Knowledge Products and Services in DMCs (Developing Member Countries) and Partnerships on Gender Equality.***

Anova: Single Factor						
SUMMARY						
Groups			*Count*	*Sum*	*Average*	*Variance*
Gender Equality Designs and Results in Lending Operations			4	988960	247240	17145264807
Pilot Initiatives with Key Lessons for Scaling Up			4	452001	113000.3	4749398329
Gender Knowledge Products and Services in DMCs			4	3235559	808889.8	97195081555
Partnerships on Gender Equality			4	433242	108310.5	2591459348
ANOVA						
Source of Variation	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
Between Groups	1.33E+12	3	4.43E+11	14.55023553	0.000266	3.490294819
Within Groups	3.65E+11	12	3.04E+10			
Total	1.69E+12	15				

Decision: Since the calculated value of F, i.e., 14.55 is higher than the tabled value of F at a 5% level of significance ($F_{0.05}$) is 3.49, hence the null hypothesis is rejected and the alternative hypothesis is accepted. Hence, there is a significant difference in the expenditure incurred on Gender Equality Designs and Results in

Lending Operations, Pilot Initiatives with Key Lessons for Scaling up, Gender Knowledge Products and Services in DMCs (Developing Member Countries) and Partnerships on Gender Equality.

Indian Scenario

In India too, gender budgeting has gained steam with the passage of time. To analyse the impact of gender budgeting on two key economic variables of the country, i.e., Gross Domestic Product and Net National Income, a partial correlation coefficient have been applied. The data pertaining to Gross Domestic Product and Net National Income have been referred from the Indian Union Budgets. Gender budget allocation (revised estimates), Gross Domestic Product and Net National Income are provided in table 1 below-

Table 1

Gender Budget, Gross Domestic Product and Net National Income

Revised Estimates of Gender Budget (Rs.in Crore) (X1)	**Gross Domestic Product (Rs.in Crore) (X2)**	**Net National Income (Rs.in Crore) (X3)**
96331.83	12308193	10782092
117221.47	13144582	11508774
125531.58	14003316	12226019
142813.3	14569268	12641633
207261.02	13512740	11536004
166182.71	14753535	12519976

For applying the partial correlation coefficient, Revised Estimates of Gender Budget have been considered as variable 1, i.e. X1, Gross Domestic Product (GDP) as variable 2, i.e., X2 and Net National Income (NNI) as variable 3, X3. The formula used for the partial correlation coefficient is as under:

$$r12.3 = \frac{r12 - r13 \times r23}{\sqrt{(1- r213)} \times \sqrt{(1- r223)}}$$

$$r13.2 = \frac{r13 - r12 \times r23}{\sqrt{(1- r212)} \times \sqrt{(1- r223)}}$$

The value of the partial correlation coefficient is provided in table 2 below-

Table 2
Partial Correlation Coefficient Values

S.NO.	Partial Correlation	Partial Correlation Coefficient (r)
1	r(Gender Budget, GDP)	0.822922243
2	r(Gender Budget, NNI)	-0.793781295
3	r(GDP, NNI)	0.982119

Findings A significant difference in the expenditure exists on the four different projects/activities of the Asian Development Bank pertaining to gender budget, i.e., Gender Equality Designs and Results in Lending Operations, Pilot Initiatives with Key Lessons for Scaling up, Gender Knowledge Products and Services in DMCs (Developing Member Countries) and Partnerships on Gender Equality as evident from the outcomes of the F-Test (One Factor Model). However, it does not imply that adequate initiatives are not being taken at a global level.

It is to be noted that in this article, the analysis of gender budgeting at a global level has been conducted by considering only a sample from the complete gamut of various activities that are being conducted by various international organisations and nations. Even from the Asian Development Bank's gender budgeting-related projects, only one project has been taken into account for research study.

Therefore, if all the projects/activities or funding scenarios of various international organisations such as the International Monetary Fund (IMF), European Union, United Nations etc. had been taken into consideration then the research outcomes would have been different.

But even if we look at the expenditure pattern of the Asian Development Bank on the aforesaid activities carried out under the project- "Promoting Gender Equality and Women's Empowerment, Phase II, it may be inferred that substantial expenditures have been incurred for the upliftment of women.

Further, if we look at the Indian scenario, it is heartening to note that budgetary allocation for the gender budget is showing a rising trend and exerting a positive impact on the Gross Domestic Product, as evident from partial correlation analysis, i.e., the correlation coefficient is +0.82. However, the negative partial correlation coefficient between gender budget and Net National Income does not mean that allocation for gender budgeting is not delivering the desired results, as the partial correlation coefficient between Gross Domestic Product and Net National Income is extremely high, i.e., 0.98, implying that somewhere gender budgeting is assisting in accomplishing inclusive economic growth thereby exerting a positive impact on both the mentioned economic variables. Thus, gender budgeting is creating optimism at both global and national levels.

Way Forward

Gender parity has occupied a centre stage across the globe and in view of this nations as well as various international organisations involved in developmental activities are laying thrust on gender budgeting. Looking at India's Union Budget 2023-24 has espoused a unique and innovative approach of ***'Saptarishi'*** or seven principles, wherein the first principle of 'Inclusive Development' has given due emphasis on women empowerment. Honourable Finance Minister in her budget speech has mentioned that the government recognises the significance of women's power as a precursor of a bright future.

According to a study by the World Bank, enhancing gender parity and investing in empowerment engenders mammoth economic gains. No society can develop sustainably without transforming and increasing the distribution of opportunities, resources, and options for men and women so that they have the same power to shape their own lives and contribute to their families, communities and countries. It is also stated that on average across nations, long-run GDP per capita would be nearly 20% more if gender employment gaps are narrowed or obliterated.

More thrust may be given to channelising of investments, formulation of reforms, and increased interventions towards bolstering the earnings and productivity of women farmers and entrepreneurs, expanding female human capital participation by creating gainful employment opportunities for them and encouraging women's involvement in decision-making in communities, businesses, and in organisations or institutions affiliated to public and private sectors.

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Corporate Governance Challenges in Family-Owned Luxury Businesses: Balancing Tradition and Modernization

Nirbhay Rana

Introduction

Family-owned luxury businesses stand as timeless pillars in the global luxury industry, embodying a legacy of artisanal craftsmanship, generational heritage, and personalized experiences. These revered brands hold a unique allure, captivating discerning consumers seeking authenticity and exclusivity. However, beneath their exquisite facades lie intricate corporate governance challenges that arise from the delicate balancing act between cherished traditions and the necessity for modernization.

This article delves into the complexities faced by family-owned luxury businesses in establishing effective governance structures. It explores the significance of finding the right equilibrium between tradition and modernization to ensure sustainable growth, competitiveness, and continued success in an evolving luxury market.

The importance of family-owned luxury businesses in the global luxury landscape cannot be overstated. Their timeless creations and dedication to craftsmanship have captured the hearts of consumers for generations. Yet, as these businesses evolve and expand internationally, they encounter a profound need to adapt their governance practices to meet contemporary demands while safeguarding their cultural heritage and core values.

Traditional governance practices in family-owned luxury businesses often center around familial ties and familial decision-making structures. The close-knit nature of these businesses enables quick decision-making and a cohesive brand vision. However, it also poses potential challenges in terms of maintaining professional management, nurturing a culture of innovation, and ensuring transparency and accountability.

Amidst globalization and evolving luxury consumer preferences, the call for modernization in family-owned luxury businesses grows ever stronger. Integrating independent directors, non-family executives, and professional managers can introduce diverse perspectives and industry expertise. Embracing modern governance practices can enhance adaptability and responsiveness, but it can also encounter resistance from family members reluctant to relinquish control or alter cherished traditions.

The article will explore the intricacies of striking a harmonious balance between the brand's long-term vision and the short-term pressures of the luxury market. Family-owned luxury businesses often emphasize generational legacy over immediate financial gains, making their commitment to long-term sustainability paramount. Finding ways to satisfy these enduring aspirations while addressing contemporary market challenges will be a focal point of discussion.

The Significance of Family-Owned Luxury Businesses

Family-owned luxury businesses epitomize a sense of heritage and authenticity that deeply resonates with discerning consumers who seek timeless craftsmanship and exclusivity. In India, the iconic Tata Group exemplifies this commitment to tradition and quality. Their brands, such as Titan Watches and Tanishq, have captured the essence of Indian luxury, offering exquisite timepieces and jewelry that reflect the nation's rich cultural heritage. This unwavering dedication to quality and personalized experiences sets them apart from corporate-owned luxury brands. Similarly, on the global stage, Italy's Ferragamo family, the founders of Salvatore Ferragamo, has maintained their family-owned luxury brand for generations. Salvatore Ferragamo is renowned for its exceptional footwear, leather goods, and accessories. The Ferragamo family's commitment to artistry and craftsmanship remains a hallmark of their brand, which has become a symbol of Italian luxury worldwide. However, as family-owned luxury businesses expand their reach across international borders, the need for robust governance practices becomes paramount. They encounter diverse cultural, legal, and market conditions that demand adaptable and efficient governance structures to maintain their unique identity. The significance of family-owned luxury businesses extends beyond craftsmanship. They have the remarkable ability to foster strong emotional connections with consumers. For instance, Titan Watches and Tanishq's stories of generational passion, dedication, and craftsmanship resonate deeply with Indian consumers seeking authentic luxury experiences. This emotional bond nurtured by family-owned luxury brands translates into enduring brand loyalty and enthusiastic word-of-mouth referrals, further solidifying their position in the market. However, amidst the allure of tradition, these businesses must also confront the necessity for professionalization and transparency in their governance practices. As they expand globally, they must adhere to robust corporate governance standards to ensure transparency, accountability, and compliance with international business norms. Striking the balance between familial decision-making and external expertise is essential. Engaging independent directors and professional managers can infuse fresh perspectives and industry knowledge into their strategic decisions and practices. This integration of diverse viewpoints fosters adaptability, enabling family-owned luxury businesses to remain relevant and competitive in an ever-changing luxury landscape. Furthermore, the significance of family-owned luxury businesses extends to their potential to contribute to the social and economic development of their regions. Often deeply rooted in their local communities, they provide employment opportunities, support local artisans, and contribute to cultural preservation. For instance, the Tata Group in India has a rich history of community engagement and corporate social responsibility, enhancing their reputation and creating a positive impact beyond their luxurious products. As family-owned luxury businesses expand globally, they must navigate succession planning carefully to ensure a seamless transition of leadership while preserving the core values that define their brand. The delicate balance between preserving family heritage and embracing modernization is crucial to guarantee the brand's continuity and relevance.

Traditional Governance Practices

Family-owned luxury businesses are often characterized by a strong sense of kinship and personal attachment to the brand's legacy. In such structures, decision-making is frequently centered around family members, leading to a concentration of power and limited external perspectives. While this approach can facilitate quick decision-making and preserve the brand's authenticity, it may pose challenges in terms of professional management, diversification, and succession planning. The traditional governance practices inherent in family-owned luxury businesses serve as a double-edged sword, combining strengths and challenges that impact the brand's long-term sustainability and growth. The strong sense of kinship and family legacy in these businesses fosters a deep emotional connection to the brand, instilling a shared vision and unwavering dedication to its success. This cohesive familial bond often translates into swift and decisive decision-making, enabling them to respond promptly to market opportunities and challenges. Moreover, the preservation of the brand's authenticity is a hallmark of family-owned luxury businesses. The deep-rooted traditions, craftsmanship, and values passed down through generations contribute to their timeless appeal, attracting consumers seeking a genuine and meaningful luxury experience. However, the concentration of decision-making power within the family circle may inadvertently limit external perspectives and expertise. As family members may be emotionally invested in preserving traditions, they may resist adopting modern practices or embracing change to stay relevant in a dynamic market. This reluctance to diversify and adapt can hinder the brand's ability to appeal to evolving consumer preferences and seize new growth opportunities. Professional management is often a pivotal aspect of sustainable business growth, but traditional governance structures may struggle to attract and retain top-tier talent from outside the family. Competent professionals can bring fresh insights, industry expertise, and specialized skills, complementing the brand's heritage with contemporary practices. The integration of external talent can enrich decision-making, improve operational efficiency, and enhance innovation.

Another critical challenge associated with traditional governance is succession planning. The transfer of leadership from one generation to the next is a critical juncture that requires careful planning and execution.

While maintaining a familial legacy is essential, family-owned luxury businesses must simultaneously identify and groom competent successors capable of navigating the complexities of the luxury market while preserving the brand's values.

To overcome these challenges, family-owned luxury businesses can consider adopting a hybrid governance model that combines familial involvement with independent oversight. Introducing independent directors or a board of advisors can provide unbiased guidance and strategic counsel, promoting transparency, accountability, and professional governance practices.

Encouraging family members to actively engage with external industry experts and seek professional development can also enrich their understanding of the ever-changing luxury landscape. This cross-pollination of ideas helps strike a balance between honoring tradition and embracing innovation, enabling the brand to flourish in the global luxury marketplace.

Case Study: Performance Analysis of Sabyasachi Couture

Introduction:

Sabyasachi Couture, founded by renowned Indian fashion designer Sabyasachi Mukherjee in 2002, is a prominent name in the luxury couture segment. The brand offers a diverse product portfolio encompassing bridal couture, apparel for men and women, accessories, and fine jewelry. Sabyasachi has established a strong presence not only in the Indian fashion industry but also in the global market. This case study examines the financial performance of Sabyasachi Couture over the past few years, highlighting key strengths and weaknesses.

Financial Performance Analysis:

Established Brand and Diversified Portfolio: Sabyasachi's brand has a strong foothold in India, with a product range that includes bridal couture, accessories, and fine jewelry. The brand's diversification into jewelry in July 2017 marked a significant expansion of its portfolio.

National and Global Collaborations: Sabyasachi has strategically entered into collaborations with renowned brands such as Christian Louboutin, Pottery Barn, Thomas Goode & Co, Asian Paints, L'Oreal Paris, and H&M. These collaborations have not only expanded the brand's reach but also enhanced its popularity.

Improved Financial Performance in FY20: Sabyasachi Couture showed improved financial performance in FY20, with an approximately 8% year-on-year growth in operating income, reaching Rs. 275 crore. The jewelry segment registered remarkable growth, with a 48% year-on-year increase, while apparel sales experienced a slight decline.

Comfortable Debt Protection Metrics: The brand maintains a comfortable debt structure, with low gearing ratios and adequate debt protection metrics. The PBILDT margin improved significantly to 21.89% in FY20, indicating better profitability.

Liquidity Strength: Sabyasachi Couture boasts strong liquidity, with substantial accruals, liquid investments, and unutilized bank lines. This liquidity position is crucial for the firm's operational needs and financial stability.

Key Weaknesses:

Partnership Concern: The firm's constitution as a partnership concern poses a risk of capital withdrawal during personal contingencies and dissolution in case of partners' retirement, insolvency, or death. However, there are plans to convert the partnership firm into an LLP.

Inventory Risk: The fashion industry's ever-changing trends can lead to inventory obsolescence. While Sabyasachi primarily caters to made-to-order products in the couture category, the jewelry segment carries a higher inventory risk.

Working Capital Intensive: The firm's operations require a high level of working capital due to its flagship stores and the need to maintain inventory of raw materials, work in progress, and finished goods.

Competition and Plagiarism: The luxury fashion industry is highly competitive, with low entry barriers, and the risk of plagiarism of designs is a concern. Maintaining brand positioning and market share in such an environment requires consistent investment in advertising and branding.

Impact of COVID-19: The COVID-19 pandemic led to the closure of stores and workshops, affecting the firm's revenue in FY21. Despite cost control measures, muted performance was expected due to lower consumer spending.

Conclusion

Sabyasachi Couture has successfully established itself as a prominent luxury couture brand in India and the global market. Its diversified product portfolio, collaborations with renowned brands, and improved financial performance in FY20 showcase its strengths. However, challenges related to partnership structure, inventory risk, and competition require ongoing attention. The impact of COVID-19 on the luxury fashion industry further underscores the need for adaptability and resilience.

The brand's ability to navigate these challenges and capitalize on its strong brand image and diverse offerings will determine its future growth and sustainability in the luxury couture segment.

Modernization and Professionalization

As family-owned luxury businesses face global competition and evolving consumer demands, embracing modern governance practices becomes imperative. The inclusion of independent directors, non-family executives, and professional managers can inject fresh insights and industry expertise into the decision-making process. However, implementing these changes can be met with resistance, as family members may fear losing control or diluting their brand's unique identity. Embracing modernization and professionalization in family-owned luxury businesses is essential to ensure their relevance and competitiveness in the global luxury market. As the industry evolves, driven by changing consumer behaviors and technological advancements, family-owned brands must adapt their governance practices to thrive in the dynamic business landscape.

The inclusion of independent directors in the boardroom brings an impartial perspective and diverse expertise to the decision-making process. These directors can offer valuable insights on market trends, consumer preferences, and industry best practices, enabling the brand to make informed and forward-thinking strategic decisions. Their presence also enhances transparency and accountability, promoting a culture of corporate responsibility that resonates with stakeholders and investors.

Non-family executives and professional managers can infuse the organization with specialized skills and a broader understanding of modern business practices. Their experience in organizational management, marketing, finance, and technology can optimize operations, drive innovation, and elevate the brand's performance to new heights. By leveraging the strengths of both family members and external professionals, family-owned luxury businesses can achieve a harmonious balance between cherished traditions and progressive evolution. Despite the undeniable benefits of modernization, family members may harbor concerns about losing control or diluting the brand's unique identity. Handing over authority to non-family executives and professional managers may evoke feelings of apprehension, as they fear relinquishing the brand's essence built upon generational heritage. However, effective communication and a shared vision of preserving the brand's legacy while embracing change are critical in assuaging these concerns. To overcome resistance to change, family-owned luxury businesses can gradually introduce modern governance practices, creating a seamless transition that respects the brand's history while aligning with contemporary demands.

Open dialogues and involvement in decision-making processes can foster a sense of ownership and inclusion for family members, enabling them to appreciate the benefits of professionalization.

Moreover, engaging family members in professional development and providing opportunities for them to enhance their skills can empower them to actively contribute to the brand's growth. This proactive approach allows them to bridge the gap between tradition and modernity, fostering a shared commitment to the brand's sustainable success.

Balancing Long-Term Vision and Short-Term Pressures

Family-owned luxury businesses often have a deep commitment to long-term sustainability, emphasizing generational legacy over immediate financial gains. Balancing this vision with the short-term pressures of market demands and investor expectations can be challenging. Striking the right equilibrium between tradition and the need to adapt to rapidly changing consumer preferences is essential to ensure the brand's continued relevance and growth. Balancing long-term vision with short-term pressures is a delicate tightrope act that family-owned luxury businesses must navigate. The deep commitment to sustaining generational legacy often propels these businesses to prioritize preserving their brand's heritage and values over pursuing short-term financial gains. This focus on legacy entails investment in craftsmanship, quality, and social responsibility, which may not yield immediate returns but solidifies the brand's reputation and secures its long-term success.

However, the luxury market operates in an ever-evolving landscape, where consumer preferences, trends, and technology continually shift. Amidst these dynamic forces, family-owned luxury businesses face short-term pressures, such as meeting quarterly financial targets, staying ahead of competitors, and satisfying investor expectations. Failure to address these immediate demands can expose the brand to potential risks and compromise its market position. One of the significant challenges lies in striking a harmonious balance between the family's inherent long-term vision and the pragmatic requirements of the present. To address this, family-owned luxury businesses can adopt a strategic approach that incorporates both short-term and long-term considerations. This entails preserving the brand's authenticity and heritage while embracing innovation and flexibility to respond to market trends.

Understanding the pulse of the luxury consumer and staying attuned to market dynamics is crucial. Conducting market research, monitoring consumer behavior, and engaging in continuous dialogue with customers enable family-owned luxury businesses to align their long-term vision with current market demands. By embracing a customer-centric approach, these businesses can identify areas for growth and innovation, ensuring that their long-term vision remains relevant and adaptive. Collaboration with experts, industry consultants, and professional managers can provide valuable insights on navigating short-term challenges while keeping long-term sustainability in focus. Diverse viewpoints and expertise can help family-owned luxury businesses assess the viability of new opportunities, evaluate risks, and implement effective strategies that align with their core values. Effective communication and transparent governance practices are also vital in striking a balance between short-term and long-term objectives. Ensuring that all stakeholders understand the brand's vision and the rationale behind strategic decisions fosters trust and support during times of transformation.

Moreover, family-owned luxury businesses can establish clear key performance indicators (KPIs) that reflect both short-term performance and long-term growth objectives. Tracking progress against these metrics facilitates informed decision-making and enables the brand to adapt its strategies accordingly.

Succession Planning and Governance Transition

Effective succession planning is crucial for the continued success of family-owned luxury businesses. A well-structured governance transition from one generation to the next ensures continuity and minimizes disruptions. However, emotional ties and family dynamics can complicate this process, necessitating clear communication, professional advice, and a commitment to preserving the brand's values and legacy.

Succession planning and governance transition represent critical milestones for family-owned luxury businesses, as they determine the brand's future direction and ensure the preservation of its cherished heritage. An effective succession plan is not just about identifying a suitable successor; it involves a holistic approach that addresses both business and family dynamics. Clear communication is the bedrock of successful succession planning. Family members must engage in open and honest discussions about their aspirations, expectations, and individual roles within the business. Transparent dialogue fosters understanding and alignment, reducing the risk of conflicts that can arise when succession decisions are made in secrecy. Professional advice and guidance play a pivotal role in guiding family-owned luxury businesses through the succession process. Engaging external consultants, financial advisors, and legal experts provides an objective perspective, helping family members make informed decisions without being clouded by personal emotions or biases. These professionals can also offer valuable insights into tax implications, estate planning, and business valuation, ensuring a smooth and well-structured transition.

Central to the governance transition is the identification and preparation of potential successors. A comprehensive evaluation of each family member's skills, experience, and passion for the business is crucial in selecting the most suitable candidate. Investing in professional development and mentorship programs for the chosen successor can further equip them with the necessary leadership skills and industry knowledge. It is equally important to consider the aspirations of family members who may not be involved in the day-to-day operations of the business. Ensuring that they have a voice in the succession planning process and are treated fairly in terms of inheritance and ownership matters promotes family harmony and unity.

Preserving the brand's values and legacy during the transition is a fundamental concern. As family-owned luxury businesses pass the torch to a new generation, it is essential to instill a deep commitment to the brand's core principles. This can be achieved through storytelling, emphasizing the brand's heritage, and reinforcing the values that have defined its identity. Family charters or constitutions can be valuable tools in formalizing governance practices and guiding the behavior of family members involved in the business. These documents outline the family's shared vision, rules for decision-making, and mechanisms for conflict resolution, ensuring a smooth governance transition and alignment with the brand's long-term vision.

Finally, flexibility is critical throughout the succession planning and governance transition process. As family dynamics and business environments evolve, being adaptable and open to adjustments ensures that the chosen succession plan remains relevant and effective over time.

Conclusion

In conclusion, family-owned luxury businesses play a vital role in the global luxury industry, offering a sense of heritage, authenticity, and personalized experiences that resonate with discerning consumers. However, as they evolve and expand globally, the need for robust governance practices becomes increasingly evident. Balancing tradition with modernization is a key challenge, and family-owned luxury businesses must proactively embrace change without compromising their core values. By integrating independent perspectives, professional management, and strategic planning, these businesses can fortify their position in the competitive luxury market.

Moreover, effective succession planning is critical to ensure seamless leadership transitions and uphold the brand's enduring legacy. Clear communication, transparency, and professional advice are indispensable in navigating the complexities of succession while preserving family harmony and unity. Family-owned luxury businesses that successfully navigate these challenges demonstrate resilience and foresight, securing their place as timeless icons in the luxury industry. Embracing innovative governance practices, honoring traditions, and fostering an environment of collaboration will empower them to flourish in an ever-changing world, captivating discerning consumers for generations to come. Ultimately, it is the harmonious blend of heritage and adaptability that allows family-owned luxury businesses to continue captivating the world with their timeless allure.

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