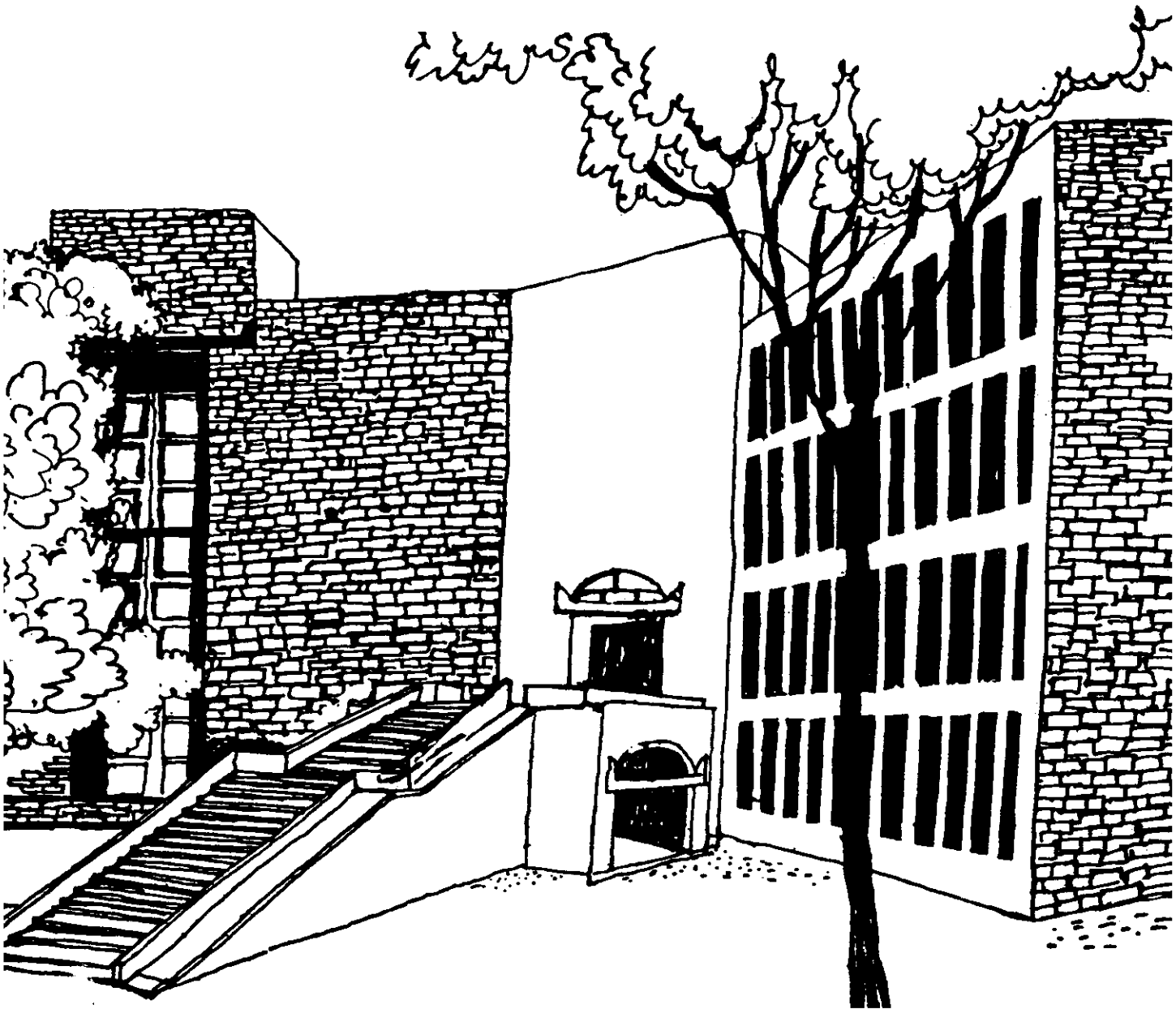




Working Paper



THE EMERGING ENVIRONMENT FOR BUSINESS
IN INDIA - A SCENARIO

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The Emerging Environment for Business in India
- A Scenario

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In the last few years far reaching changes have taken place in the environment for doing business in India. Many more changes are expected to follow in the months and years to come. These changes are likely to lead to further changes. Though the strategic questions facing the economy are no different from the ones faced by the founding fathers in the early fifties, the answers have been different. The context for evaluating the answers are different in terms of the experience in development planning and administration, and the resource base in terms of the skills and infrastructure. Certain key words and phrases in the environment like 'competitiveness', 'efficiency', 'profitability', 'world standards', 'globalisation', 'market determination', 'technology upgradation', 'foreign capital', 'safety net' and 'golden handshake' have grown stronger than the earlier key phrases like 'control of commanding heights', 'nationalisation', 'employment generation and protection', 'indigenisation of technology', 'appropriate technology', 'public monopolies', 'large business houses', and 'licences and controls'.

In the last forty years of Indian developmental history many successful, unsuccessful, fancy, and half hearted experiments have been conducted to do something different and impact making in the areas of technology development, creation of industries, promotion of small scale and public enterprises, turning

around sick units, and internationalisation of enterprises. Many more experiments can be expected to be initiated in the years to come.

These changes in the environment would shift the thrust of management of business from 'regulation driven' to 'market driven'. They have thrown open opportunities for acquiring new technology, tying up foreign investment agreements, raising funds from new domestic and international sources, expanding, diversifying, turning around, and internationalising. In the same stream threats would arise from the increase in the strengths of dormant competitors, possibility of further increase in the strength of existing competitors, impending arrival of new competitors, with new ways of competing, introduction of substitute products, and withdrawal of protection and concessions that conferred certain competitive advantages to existing companies. There would be an increase in the speed of product, material, and technology obsolescence. The responsibility for strategic management would, therefore, be shifted from Delhi to the head quarters of the corporations.

Different companies would be affected differently, depending upon their current product-market-location-technology and ownership strategy and its performance, by the emerging environment. The corporations are required to think through the implications of the changes that are specific to them, and generate strategic options for responding to and stimulating the course of developments to meet their corporate objectives. A hasty response like doing whatever is done by the competitors, imitating the re-

sponses of the corporate leaders, going for blind mergers and acquisitions, signing technology tie up agreements to produce what is current in the west, or diversifying like the Japanese companies etc., irrespective of the assessment of their current and potential competences and aspirations could lead to sickness.

It is imperative for the corporations, therefore, to take stock of what is happening around them to be prepared to respond to the stimuli generated by the changes or generate a response from the environment. While the most visible change is the spate of changes in regulations, there are many other changes that need to be recognised. This note attempts to present a scenario of the emerging environment for doing business in India.

Propelling Factors

The disenchantment of all with the slow response of the Indian economy to the policy of regulations and controls, sickness in the public sector and its inability to operate well at the commanding heights, loophole exploiting and scapegoating behaviour of the private sector, inability of the Indian industry and research & development units to develop indigenous innovations and technologies and keep pace with the rapid progress on the global science and technology front resulting in a gap between the Indian and international technological developments, lack of international competitive strength and the consequent inability to pay for imports from own earnings leading to international borrowing, pressures from international lending institutions and, the outstanding performance of Japan and South Korea, which launched their developmental efforts around the same time

as India, at the domestic and global levels, have prompted the policy makers to try out a new paradigm of economy management. This is fueled further by the increasing expectations of the steadily expanding urban middle class, higher political maturity, and the increased confidence in the resource mobilising and risk taking capabilities of the private sector.

New Paradigm

The various dimensions of the new paradigm of development can be identified as follows.

New Public Policy Orientation

The public policy orientation at the level of the central government is changing rapidly and increasingly in favour of allowing the market forces to determine the course of developments in the economy as opposed to regulations and controls. In this spirit, licensing is confined to a narrow band of defence, high luxury and hazardous items. Certain provisions of the MRTP have been relaxed and companies can grow as big as they want. With a view to facilitating the acquisition of new technologies and providing opportunities for Indian companies to modernise and develop world standards of operations, the entry conditions for multinationals and foreign collaborations have been eased. Restrictive features of FERA regulations have been removed. This has facilitated the return of the very same companies that had left India after the announcement of FERA regulations in 1973. Import policies have been liberalised. Exporting has been made more attractive. The import and export efforts of an organisation are linked through the market mechanism. Therefore, opportuni-

ties centering around regulations like licensing, reserved sector, quota allocation, and controls would disappear or, at the least, diminish. In the same way the concessions and subsidies would also decline.

While the central government policies have changed, state governments have yet to act and appreciate the implications of these developments for their own policies of industrialisation. It can be expected that the new policy orientation would also percolate to the state level policies resulting in the withdrawal of concessions provided by the states.

New Concepts in Public Enterprise Management:

Concepts like privatisation, sharing ownership, and autonomy in the management of public enterprises are becoming realities in the Indian context. Increased weightage is given to the need to run public enterprises on business principles. The central government is trying to provide autonomy to public enterprises through the instrument of the Memorandum of Understanding (MOU). In the last few years both the public enterprises and the government have gained experience in managing through MOUs. The attitude towards sick units is also changing from keeping them hanging to protect employment at any cost to allowing exit and providing alternative options for the displaced employees. The message is that what was tolerated and viewed sympathetically yesterday would not be done tomorrow.

The concept of public monopoly for public services is also being reviewed and the entry of private sector is contemplated.

Public enterprises would be required to operate in a competitive environment. It should be recognised that though there is sickness in the public sector in an average sense, there are some public enterprises, especially in the engineering sector, that have developed capabilities in formulating and implementing their strategies effectively and efficiently. They would benefit from the new policy orientation and offer tough competition to the new private sector entrants. They would be competing with the private enterprises not only for taking a share of the market for end products but also for the resources in the market. The significant impact of the private sector's entry on public enterprises would be the flight of experienced talent from the public sector. The public sector enterprises would be under pressure to develop strategies to preserve their talents.

Changes in the Financial Sector

Very significant changes are going to take place in the financial system of the country. The World Bank in its report on India's financial structure has recommended a set of radical reforms to be implemented in the medium term and the long term. These recommendations have been reinforced by the report of the Narasimhan committee. The report argues for greater privatisation efforts in the financial sector as it is felt that the earlier objectives of keeping some financial institutions, especially banks, in the public sector have been achieved. These recommendations, if implemented, would bring a sea-change in the in the management of the financial institutions in the country. The focus of management of these institutions would shift from

'social objectives at any cost' to 'commercial objectives at reasonable social benefits'.

The concept of large private sector banks appears to be coming back. The Indian financial institutions have to compete with international financial institutions directly or through their joint ventures. Some of the large business houses have already initiated dialogues with foreign banks to float joint ventures. Permissions for setting up private mutual funds have also been given. The new entrants would have greater freedom to choose their people and technology than the existing ones. With the application of information technology, their response to opportunities would be faster. In this sense the existing institutions would have a competitive handicap and hence would be under pressure to innovate. Such innovations can come in only if these institutions recognise the nature of the challenge before them.

New face of the capital market in India

In the second half of the eighties the capital market in India came of age. It built effectively on the buoyancy created by FERA dilutions. To begin with, the reach of the market increased. Mass media came to be used for promoting new issues. Even brand names got coined to develop a stronger identification of the investors with the issue. Unconventional distribution channels were used to issue application forms. New merchant banking organisations were set up to provide professional assistance to the companies. It helped entrepreneurs raise unprece-

dedented amounts of capital. It also saw the introduction of new instruments for raising capital. A new class of professional brokers, with more scientific attitudes towards portfolio management and a new class of small investors with an eye on steady income and long term growth of investment came on the scene. The rise of leasing, venture capitalism, and mutual funds was a marked development. Leasing companies found it more economical to operate as integrated financial services companies. Services like merchant banking and factoring gained popularity. Today the concept of a super market for financial services is gaining active support from the corporate world. These trends towards a progressive capital market would continue in view of the liberalisation of the constraints on the capital market.

Safety Valves

It can be predicted that the reliance of the government on the capital market to mobilise and allocate resources in the economy is likely to increase further. There would however be safety valves and checks. Moves to provide greater protection to the investor by streamlining the operations of the stock exchanges and the stock brokers would gain ground. Greater freedom would be given to the players to decide the terms of exchange. Setting up of the Securities Exchange Board of India (SEBI) and the credit rating institutions are steps in this direction. Though SEBI is struggling to find its feet and teeth in the capital market, we expect that it would acquire strength and play a significant role in streamlining the transactions at the capital market and align them with international standards.

The Pressure to Internationalise:

The increasing gap between the product and the technological achievements in India and abroad and the worsening foreign exchange situation, have put pressure on the Indian industrial sector to internationalise. Public policies are favourably inclined towards supporting efforts in this direction.

The need for internationalising the Indian business has been felt at several quarters. The imperative to catch up with the international economy has been highlighted by the Finance Minister on several occasions. The emerging gap between the domestic and international enterprises in terms of management practices, sensitivity to time as a resource, technological capabilities, quality consciousness, competitive orientation, and bias for innovations, needs to be identified and plugged. Any comparison between Indian and Japanese or Korean enterprises leaves much to be desired. In this context it would appear desirable even to talk about serving the domestic market at international standards. Some of the companies that are moving in this direction are using phrases like 'international standards', 'world class vision', 'state of the art', etc. to gain competitive advantage in the product and the factor markets. This trend would continue. The pressure to internationalise business practices in terms of quality standards and presence in the international market would continue to come from the following factors :

- (a) The need to earn foreign exchange to import.

- (b) Emerging competition from new entrants with global connections and promising international quality products and options to choose from.
- (c) Increased speed of transmission of information on new products and new quality standards through the mass media.
- (d) Easy access to 'imports' through illegal channels.
- (e) Increasing strengths of consumer counterforce through organised actions.
- (f) Need to differentiate from imitations and spurious goods manufacturers.

Global alignments like Europe 1992, unification of Germany, and evolving market orientation of the hitherto communist countries have provided opportunities for exploring new markets.

There is GATT and the Uruguay round for opening out the markets for new products and services.

Extending arena of the Global Competitive Battle

The eighties saw the development of global corporations and global competitive arena. The earlier battles among the European and American companies were joined by the Japanese and Korean companies. As the fight intensifies the arena would expand. Current developments in the Indian regulatory environments are opening the Indian gates for the expansion of the arena into India. Already some companies have taken positions through memberships in consortia, consulting projects, minority joint ventures, product based technology transfer agreements, component supply arrangements, R&D agreements, and the like. Some of the existing subsidiaries of the multinationals are looking for new

strategic directions and strengthening their muscles to face the battle. The extension of the global competitive arena to India is a source of both threat and opportunity. There is the threat of mergers and acquisitions, and the elimination of medium and small companies from the market place. There is also the opportunity to forge strategic alliances and even test out one's own strengths vis-a-vis multinational competition.

Spin offs from Linkages with Japanese companies

The eighties saw the old and new Indian companies forging a variety of linkages with globally successful Japanese companies. The linkages have ranged from transfer of designs and drawings, technology tie up, training support, joint ventures, and the like. Companies like Matsushita, Sharp, Sanyo, Hitachi, Toyota, Mitsubishi, and NEC operate with capabilities in a wide range of products and components. What started as service support operations in respect of some product categories grew in to technical and at times financial collaborations. It can be expected that for many Indian companies having links with these companies would facilitate the introduction of new products, components, and technologies either directly or through their associate companies. The liberal licensing and MRTP policies and the track record of these companies in terms of financial performance, corporate image, dealer network, and support from investors would catalyse the process. It has been observed that the entry of one Japanese company paves way for the entry of a family of companies, products, and services. They concentrate on facilitators to entry rather than barriers. It has also been observed they

enter by taking up any job that comes their way and build gradually by learning, innovating and satisfying the needs of the customers. Their strategy in India is not likely to be different. As a consequence, there could be unexpected entries leading to new competition in many established industries like textiles, soaps and detergents, refrigerators and air conditioners, cooking utensils, domestic appliances, household furniture, pharmaceuticals, construction, etc. . Quality, technology and lower maintenance costs would be the entry facilitators. Such moves do not call for the possession of any related technological strengths on the part of the Indian companies. The introduction of washing machines by leading consumer electronics companies like Onida, Videocon, and BPL is an illustration. An association with the company is more than adequate. A vegetable oil company has diversified into the production of audio and video cassettes.

The linkages with Japanese companies could be expected to bring in not only new industrial initiatives but also managerial practices. Several studies of Japanese managerial practices have shown that they have moved away from hitherto accepted management practices and offered their own version. Some of these like quality circles, just-in-time systems, time based competition, multi skilling, customer orientation, company song, and common uniform, are being experimented in Indian companies. We have a mix of successes and failures in adapting these practices. Ultimately we would retain what is compatible with our ways of doing business. The cosmetic part of such practices would fade away

like fashions. Early enthusiasm with company songs and calisthenics already seems to be declining.

International trend towards collaboration and strategic alliances

An international trend towards strategic alliances and collaboration showed up towards the end of the eighties to face global competition and the changing technological environment. In future the stress on growth through collaborative strategies and networking would increase further. This aspect has made a slow beginning, but would catch up as companies look for different ways of growing.

The Second Agricultural Revolution :

Indian agriculture witnessed remarkable strides in the last four decades. From a stage of imports we moved over to self sufficiency and we are now contemplating to generate surplus to export. During the early days of experimentation and innovations in policies, institution creation, farming practices, several lessons were learnt in technology transfer from lab to land; managing extension education; resolving conflicts among farmers, middlemen, bureaucrats, and politicians; financing agricultural projects; integrating markets; mechanisation; water management; and strengthening the role of Non-Government organisations in rural development. Efforts have been made to comprehend the heterogeneity of resource endowments and provide support to the high risk, dry, and backward regions. The positive and negative effects of the green revolution have been assimilated. These will provide a firm base for the new agricultural revolution.

Large projects like Narmada, irrespective of when they are

implemented promise greater realisation of benefits than the earlier irrigation projects, in view of the experience gained in the last four decade in water management at the grassroots level. Support for diversification, injection of new technologies, better management of water resources, stress on export orientation, eliminating waste, and organised processing and marketing of agricultural produce could lead to a second revolution in agriculture. Agriculture would be run in a business-like manner, especially when subsidies and concessions are withdrawn gradually. The efforts in land reforms, rural banking, medicine, and literacy initiated in the last decade would yield the lagged effects in the coming years.

Opportunities arising from these developments need to be viewed in the context of the opening up and monetisation of rural markets due to expanded banking network, reach of the electronic media, and improved infrastructure like transport and telecommunications.

New technology of Management

The technology of management has also progressed further. New frameworks for understanding competition, organising manufacturing and marketing functions, formulating collaborative and competitive strategies, understanding human behaviour, identifying the human resource potential, spurring creativity and innovations, and new concepts in managing multi product and multi location companies have been developed. Technologies have been developed for managing large data bases. These are finding their

entry into the Indian business world through the training programmes of the collaborators, all India management institutions, national and regional management associations, in house workshops of large companies conducted with the help of external experts, and the large number of books and articles published in the popular press. While intuitive approaches would still be practiced they would increasingly be supported by decision making based on information analysis. Refinement in them would take place and be transmitted quickly across the globe.

Attitude to Formal Management Concepts

The attitude among businessmen that the concepts and frameworks of management are for the text books and management schools have shown signs of change. These will change further as they adapt them to their specific business situations. One of the areas that would witness noticeable change would be the management of the manufacturing functions.

Opportunities from new Office Management Technology:

Developments in information and telecommunications technologies are breaking the barriers of time and distance. They are bringing in new products, services, and office practices in the corporations. The organisation of the office and provision of services to clients are getting centered around the new information and communication technologies. The Government of India is committing more resources to improve the telecommunication infrastructure and to provide opportunities for introducing new value added services based on data and voice communications in rural and urban areas. These developments are expected to create two

types of opportunities, one, for initiating new industrial activities in telematics and two, for strengthening companies' own internal and external linkages. This would help them remove the geographical constraints. There is evidence of companies trying to exploit both these opportunities through appropriate data communication networks. Design and installation of such networks would facilitate the creation of common data bases, sharing information without loss of time, and taking up joint projects with respect to a single client. The knowledge gap in this area is yet to be filled. Still there are companies that have neither the appreciation nor the skills to design and implement such networks. It is expected that there would be a spate of training, orientation, and skill upgradation programmes in this sector. The companies, irrespective of size, would employ these technologies as the awareness and skill building efforts by the organisations and the training institutions increase.

Sweeping strokes of Electronics technology

Advancements in micro electronics, fiber optics, and laser technologies, and development of new materials like engineering plastic are going to make a major impact on the size, shape, functions, and efficiency of the old household products like pressure cookers, cooking utensils, ovens, refrigerators, and the like. The trend towards this is already visible in the west and in Japan. Their impact would be felt in India as the efforts to link to the global markets bear fruit. The liberal industrialisation policies permitting foreign participation would support such moves and shorten the time lags.

Professionalisation of Family Managed Companies and the organisation of unorganised Traditional Companies

Several family managed companies have professionalised over the last two decades either by recruiting professional managers or by sending their family members for professional management training. Some of the companies have posed significant challenges to the multinational companies operating in India by creating their own brand names and developing their own technologies. In the same way, some ventures in the unorganised sector have organised their activities and moved into the organised sector. They have also learnt to skillfully use the marketing media. The transformation seen in the companies making ayurvedic products and traditional kitchen items like masaalas, condiments, ready to make snack mixes like dosa mix, vada mix, is a case in point. It could be expected that many more companies would follow the successful ones.

Options in Media and Distribution Channels

The options in print and electronic media for advertising and promotion would increase. Greater information would be available on the reach, profile of the audience, effectiveness, etc. to facilitate the media planner to develop his strategy. Spread of TV, VCP, VCR, video libraries provide opportunities for innovative media building.

Retailing system has strengthened and the retailer is going to be more demanding and business like.

Increasing size of the urban middle class

The size of the urban middle class is increasing. Many new entrants in the consumer durable sector are banking on this segment to provide support to their activities.

Changing Adult Education Environment

The adult educational environment of the country has changed considerably and is likely to change further. The number of institutions offering short term refresher courses has increased and the spread of technical and managerial courses has diversified. Concepts like open university and distance education have come to stay. These have opened out opportunities for providing formal instructional inputs to those who could not go to schools and colleges and acquire formal degrees or diplomas. Utilising these opportunities calls for a change in the attitude of the management towards those who could not acquire formal university education in the past. Opportunities from this development need to be viewed in the context of the human resources development strategies of the companies.

The Resources Of the Retired

In the next decade the first generation technicians, technical and managerial executives would retire and be available for redeployment. Their association with new ventures would be a source of start up advantage.

Elusive NRIs

In the late eighties, substantial hope was pinned on the packages of central and state level incentives to attract the

NRIs to invest in India. Each state vied with the others in making trips abroad and addressing the NRIs and offering carrots. The experience in getting significant entrepreneurial support from the NRIs, however, proved to be discouraging. The message was driven home that the NRIs can at best invest in on going concerns rather than start something on their own. This means that the industrialisation has to be through domestic entrepreneurs and efforts would be focussed on them.

Incentives, however, would be given to them to remit the foreign exchange liberally. Aspects like rupee convertibility and gold imports are aimed at getting NRI dollars rather than NRI entrepreneurship.

Inflation and Rising Project costs

With inflation the cost of putting up projects has also gone up. This trend would be no different from the earlier years. This, combined with greater market orientation, would place even greater stress on efficiency and competitive advantage.

Movement for Greener, Safer and Cleaner Environment

The eighties saw the growth of organised movements demanding cleaner, safer and greener environment. They received support from the masses, the Government, and the international agencies. This could be expected to emerge as a force to reckon with.

Persistence of Age-old Problems

While some of the aspects of the society have changed, the ageold problems of population, slums, inequalities of income and opportunities, corruption, violence, unstable political values,

and fights on the basis of caste would continue to pose formidable challenge to the strategists.

Conclusion

We may conclude by pointing out again that the external environment is going to be more dynamic and complex. There would be less societal protection for inefficiency. There would be noticeable fights in the market place calling for innovation and competitiveness. The search for quick solutions may mean surrender in the long term and loss of the competences built by the companies in the past through experience. Hence companies are required to take a long and hard look at the emerging environment, generate strategic options, and make a considered choice. The internal managerial implications of the external positions in the market place and promises to the stakeholders have to be comprehended. The new competences required to implement the strategies, need to be identified and actions need to be initiated before it becomes too late.

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