Working Paper

STRATEGIES FOR INTERNATIONALIZATION: ISSUES AND LESSONS FROM INDIAN CASE STUDIES

By

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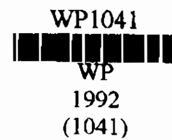
WP1041
WP
1992
(1041)

W P No. 1041
July 1992

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Abstract

This paper is an attempt to distill the experiences of a small number of recent case studies of Indian companies in the process of internationalizing their operations. The strategies employed by these organizations in international business are analyzed using a conceptual framework. The problems faced by these organizations are also analyzed using this framework, and some alternatives are suggested. The study also finds that the all-important decision - whether to separate out the international business side from the domestic side, has implications, sometimes unexpected, for both sides of the business. Special treatment is accorded to the issue of upgrading quality to international standards. Finally, the paper offers some reflections on the role of MNCs in internationalizing Indian business and suggests that public policy formulation should consider the strategic postures adopted by the parent company.

Introduction

This paper is an attempt to draw inferences from a small number of case studies of internationalization efforts by Indian companies and industries.

It is hardly necessary to stress the importance of internationalization to Indian companies today. With walls coming down all over the world- Berlin and tariffs alike - Indian companies must learn to straddle the globe if they are to survive at all.

This study represents a small step in the direction of trying to understand the strategic framework in which some Indian companies have attempted to go beyond the domestic market, some problems resulting naturally from the strategies adopted, and some specific organizational issues peculiar to the globalization effort.

To start with, we define 'internationalization' to mean any business abroad, be it exports, production, projects abroad, or whatever. Although the dictionary might consider importing technology or goods from abroad to be part of 'internationalization', such activities are not considered here - for they do not extend the reach of Indian businesses beyond our shores. In any case, such 'internationalization' activities are sufficiently well known to Indian businesses!

I. Overview

Section II provides a general description of the cases studied. In section III, we discuss the reasons why these organizations chose to internationalize their business. The strategies they employed in this endeavor are described in section IV. In section V, a conceptual framework is presented in which their strategies can be analyzed. Section VI continues the review of their actual strategic positioning by describing the organizational strengths they had to build up to sustain their chosen strategies.

In section VII, we analyze the problems faced by these organizations, their response to these problems is noted in section VIII. Section IX offers some alternative strategies for these organizations.

Section X takes up the issue of whether the domestic and international sides of the business should be separated from each other. Section XI addresses the important question of quality management. Finally, section XII raises some issues concerning the role of MNCs, in the light of the observations in this study.

II. Description of Case Studies

Companies studied may be described as follows:[1]

A: A pharmaceutical company engaged in the manufacture of a fluid to be intravenously injected into the bodies of patients. The product is a lifesaving fluid and sterility is of the utmost importance. The composition of the fluid involves no special technology or processes, and has not changed for a long time. The company has turnover between Rs. 10 and 20 crores a year, and is growing extremely rapidly.

A public company, it is managed and controlled by a small number of people from the same family, all of whom are highly-trained professional managers.

A sister company is in more conventional pharmaceutical products, some of which are also life-saving.

The company exports more than 50% of its turnover.

B: A textile company, part of a large group of companies. The company is a leader in the cotton fabrics industry in India and has operated almost since the beginning of the industry

in India. Turnover is several hundred crores a year,,of which almost a hundred crore Rs. comes from overseas.

The company is publicly held and is professionally managed, led by a member of the family which started the business.

Sister companies are mainly in the chemicals industry.

C: A joint venture in a South-Asian country between a large Indian group and a local partner. This company manufactures dyestuffs for cotton fabrics, which it markets in the country of manufacture as well as in other parts of South Asia.

Turnover is difficult to estimate, but the joint venture is a leader in its industry.

The company is jointly managed by the partners, with an Indian top-level executive posted on-site on a more or less permanent basis.

The Indian group to which the company belongs is in a wide variety of industries, including the manufacture of dyestuffs, in which it is also a leader in India.

D: A large multinational company with almost historic ties to India. In India, the company manufactures and sells consumer goods. The Indian operation is owned 51% by a foreign-based MNC, which is itself in a wide range of industries, although more or less restricted to consumer goods.

The turnover of the parent company is enormous - of the order of several hundred billion dollars a year. The Indian company is also very large, with turnover in the Rs. 1,000 crore range, of which about 15% comes from international business.

The company is professionally managed.

E: A somewhat smaller multinational company. In India, the company manufactures over-the-counter consumer goods. The Indian operation is 40% owned by the foreign parent. The foreign parent is also in the over-the-counter consumer goods business, and is a world leader in the field.

The turnover of the parent company is huge - it is one of the largest corporations in the world. The Indian company is relatively small, with turnover in the Rs. 100 crore range, of which between 10 to 15 % comes from international business.

The company is professionally managed.

F: This is an industry - the computer software business, listed as a 'priority' export sector. The industry is made up of a large number of players, of which perhaps 5 or 6 are major players, with about 10 to 15 niche players of some importance.

Internationally-generated turnover of this industry is about Rs. 250 crores.

III. Pressures to Internationalize

This section discusses the original motivation as well as the ongoing pressures to internationalize in each case. we shall see that they are as diverse as the companies themselves.

A: From the beginning, the entrepreneurs who had founded this company had nursed dreams of grasping the globe - their heroes were the Sonys and Matshushitas who had dreamed, thought, planned and acted on a global scale from the very beginning. It seems probable that the choice of product to be made by their company was determined in a subtle, perhaps even subconscious way, by this global vision.

As the company grows, it continues to push overseas because it has found it to be a profitable business, and because it needs to expand continuously to reap the economies of scale it needs to be profitable. Although the domestic market is far from saturated, and the company's domestic market share is not yet very high (it is less than 20%), the company seems to see the foreign market as the easiest way to grow in size.

B: This company ventured overseas atleast partly to escape the doldrums the textile industry in India had found itself in in the seventies. While many in the textile business abandoned the industry and switched to other products, this company's leadership continued to see its core strengths, knowledge and expertise as being in the textile business. Since the textile business in India was not growing, the only possible growth business was the overseas business.

C: The venture abroad was initially a defensive move to protect market share in the country where it now operates - the company had exported dyestuffs from India for a few years earlier, but now saw major opportunities in South Asia, which it decided could best be exploited from this particular South Asian country. It is also probable that some members of the family controlling the parent group saw a need to carve a niche for themselves, and opportunities for growth in India were few, because of a generally hostile public policy and public attitude to large business houses. Thus, in some sense, the venture abroad was the result of misguided government policies in the past. There is an element of irony here, for the venture is a successful one, and is much admired in Indian business and government circles.

D: Here, the pressures to reach overseas came from the government of India, which required the company to export a certain percentage of total turnover, in return for being allowed to retain a 51% foreign shareholding.

It remains to be seen what new motivations will be found to continue the international thrust now that the Indian government has adopted a more liberal attitude to foreign equity holdings. There are atleast two potential motivators - for one thing, the company can never be really sure how permanent the change in the government's attitude is going to be. For another, the international division is highly profitable overall, and will be able to bargain for its share of resources from the company.

E: The motivations for international business here are somewhat more subtle here, and more deeply rooted in the culture of the global company and the psyches of its top managers.

Unlike D above, this company has a distinctly global stance - for instance, very few products it sells in India are not sold elsewhere as well - and there are several organizational differences which are discussed in greater detail in a later section. The prime motivation for going abroad is simply that it sees itself as a global company already, or as an integral part of a truly global company.

F: Since this is an industry, not a firm, the motivation for going abroad is a little harder to describe. However, in some sense, this industry is remarkably homogeneous, with most

significant players in agreement on the need to internationalize.

The industry appears to have grown in response to remarkably high wage differentials between developed countries and India. Since this is an industry dominated by professionals, the 'labor' was always highly mobile, willing to go overseas on their own if the industry did not.

As the industry grew, the government of India, mainly through the Department of Electronics, took an active role in encouraging its international efforts, with more or less mixed success.

IV. Review of Strategies Adopted

A: The company purchased top-of-the-line machinery from the world leader in the field, based in a Western European country. It set for itself quality targets far more stringent than the prevailing international standards. Expansion was pushed at all costs, in an effort to stay ahead on the declining cost curve as economies of scale were reaped.

Marketing was primarily to government buyers abroad. The product had some unique characteristics which aided in the marketing efforts: quality was relatively easy to define - number of contaminants was the key; the process of manufacturing was universally acknowledged to be the primary determinant of purity, and here the product itself bore the marking of the machines it was made on - the name of the world leader in this line of machinery.

The company competed with giant MNCs from developed countries. Pricing strategy was highly aggressive, designed to build market share, sometimes bidding close to cost.

Despite its global focus, the company's manufacturing operations remained in India - partly because economies of scale dictated a single plant, partly because the operations needed to be under the constant supervision of its top managers, who were very few in number.

The competitive strategy of the company appears to be woven from two strands: achieve demonstrably high levels of quality, and fight it out on even terms with global companies on a global battlefield. The product itself is a key ingredient of the strategy - with quality being the main hurdle the company faced in international competition with MNCs, the peculiar nature of the product makes its quality transparent to the customer.

B: This company began its venture abroad cautiously, hiring the services of an international marketing firm to help it identify and approach buyers. The company chose to focus on large importers in developed countries.

The product chosen was grey fabric - patterns, colors, etc. to be applied at a later stage. This was in distinct variance with its domestic operations, where patterns and colors were important to its products.

Initial contact with the customer was mainly through trade fairs, to be followed up by personal visits.

Production for international business was not generally separated from the domestic side of the business - a given plant might, for instance, produce a higher proportion of its output for export than another , but there was no 100% EOU, for instance. The people at the plant, both managerial and on the shop-floor, were expected to deal with both domestic and international business.

Competition was mainly with similar manufacturers in Asia. Competitive advantages were seen to be of two kinds: country-specific and company-specific. Country advantages were mainly availability of good quality cotton and the availability of textile-related skills and expertise. Company advantages centered around the company's long-developed reputation for quality and the culture it had built around this reputation.

C: The company chose to focus on a product - a dyes intermediary, whose technology has been stable for a very long time. Basic inputs to the product were sourced from India, further processing was done in the country where the JV was located, and the product was sold directly to textile mills in the country and in surrounding countries.
Competition was mainly with local companies - the superior technology and expertise in this product, coupled with the reputation of the Indian parent in the business, were the primary competitive advantages exploited by the company.

D: In response to pressures from the Indian government to increase exports, this company began by exporting its core products to the Eastern Bloc countries, where the parent MNC did not have a presence. Many of these exports were arranged through the GOI machinery such as bilateral agreements and so forth.

As the domestic business grew, and pressures to earn revenue from overseas business became even more intense, the company scrambled to find overseas business wherever it could.
Over time, it started five independent businesses, each based on 100% EOUs - one of these was in marine products, another in garments, and so on. Four of these internationally-oriented

businesses were entirely new to the Indian company, though one or two were related to businesses the parent MNC had had in the past.

The basic driving consideration determining the choice of these new businesses appears to have been a search for country advantage - i.e., industries where India has a natural competitive advantage - for example, the marine products industry was selected because of the long coastline available for fishing.

Another key strategic decision made in setting up these units was to pursue seek technology as well as buyback guarantees from a foreign party. In no case was the parent MNC used in any way to generate international business revenues or even opportunities.

E: This company saw itself as part of a global company. Thus, it made no attempt to set up entirely new internationally-oriented business units - nor did it exploit the opportunities provided by 100% EOUs.

The chief vehicle of international business was sourcing to the global parent - i.e., to its sister companies around the globe. Because of the determinedly global stance of the company as a whole, the Indian company was able to bid for the right to supply products to other countries when it was able to produce it cheaper, subject to the strict international standards of the company. Conforming to international standards was not much of a problem for this company in any case, because it conformed to them in its domestic business anyway.

F: Despite the fact that this is an industry and not a company, it is possible to describe a strategy because the core strategies of most players, even the big ones, were remarkably similar.

The business was built on the fact that India has the world's largest pool of trained, English-speaking computer professionals, at a time when the software industry in developed countries was suffering from a severe shortage of manpower.

Many companies began by literally selling people - appropriately termed 'body-shopping'. As they began to establish some credibility, more and more work was being done in India itself - specifically 'back-office' type work where turnaround times were not critical, and data-entry type work which was highly labor-intensive.

V. A Strategic Framework

The strategies adopted by these set of companies can be analyzed

in terms of a general framework.

A company is postulated to formulate its strategic response by identifying the fundamental challenges in the given business opportunity and using its strengths to meet the challenges. Where it cannot meet the challenge head-on, it must either sidestep the challenge in some way or seek help from players in the environment who can help it meet the challenge.

Based on the case studies observed, the key challenges Indian companies face in their internationalization efforts are:

I. Credible Expertise : this is a function of ability to actually deliver what the customer really needs, and past track record. This reduces to: can you really do it and why should I believe you?

II. Marketing: this is a function of ability to distribute products, advertise them, establish brand image, and knowledge of the market characteristics: key buyers, buying processes, customer preferences, etc.

III. Quality: whether the product can meet the quality standards prevalent in the industry and demanded by customers.

IV. Speed: whether the company can respond quickly enough to changes in industry forces such as unexpected supply problems, fast-changing tastes, rapidly advancing technology, etc.

The strengths of Indian companies can similarly be classified as follows:

I. Strong, demanding domestic market, which demands and fosters continual innovation in products and processes.

II. Adapted technology - i.e., technology which is quite stable but is well-suited to conditions in India and therefore in many other similar countries as well. Usually, such technologies have been adapted over time to Indian conditions by a series of local innovations.

III. Availability of inputs: that is, India happens to be well-endowed with the factors of production which are critical to a given industry.

Strategic responses to these conditions are represented in Figures 1A, 1B and 1C. (This formulation draws considerably on the framework described in K. Balakrishnan (1)).

Figure 1A describes the strategic response of cases A and F. In the case of A, the basic challenge was quality - it was answered by the highly innovative strategy of choosing a product and manufacturing process whose quality is transparent to the

user - once the process is known, no further questions of quality arise.

In the case of F, the fundamental challenge was credible expertise - the basic strength was availability of inputs. The credibility issue arose primarily because the software business is really a services business - the major determinant of success in large segments of the market is the intimate knowledge of the customers' business processes - which Indian companies lack, partly because of the absence of world-class business enterprises in India. The strategic response was to sidestep the issue of credibility by focusing on a relatively low-value-addition link in the value chain and to focus on niches where labor is important.

Figure 1A: Strategies of cases A and F in strategic grid.

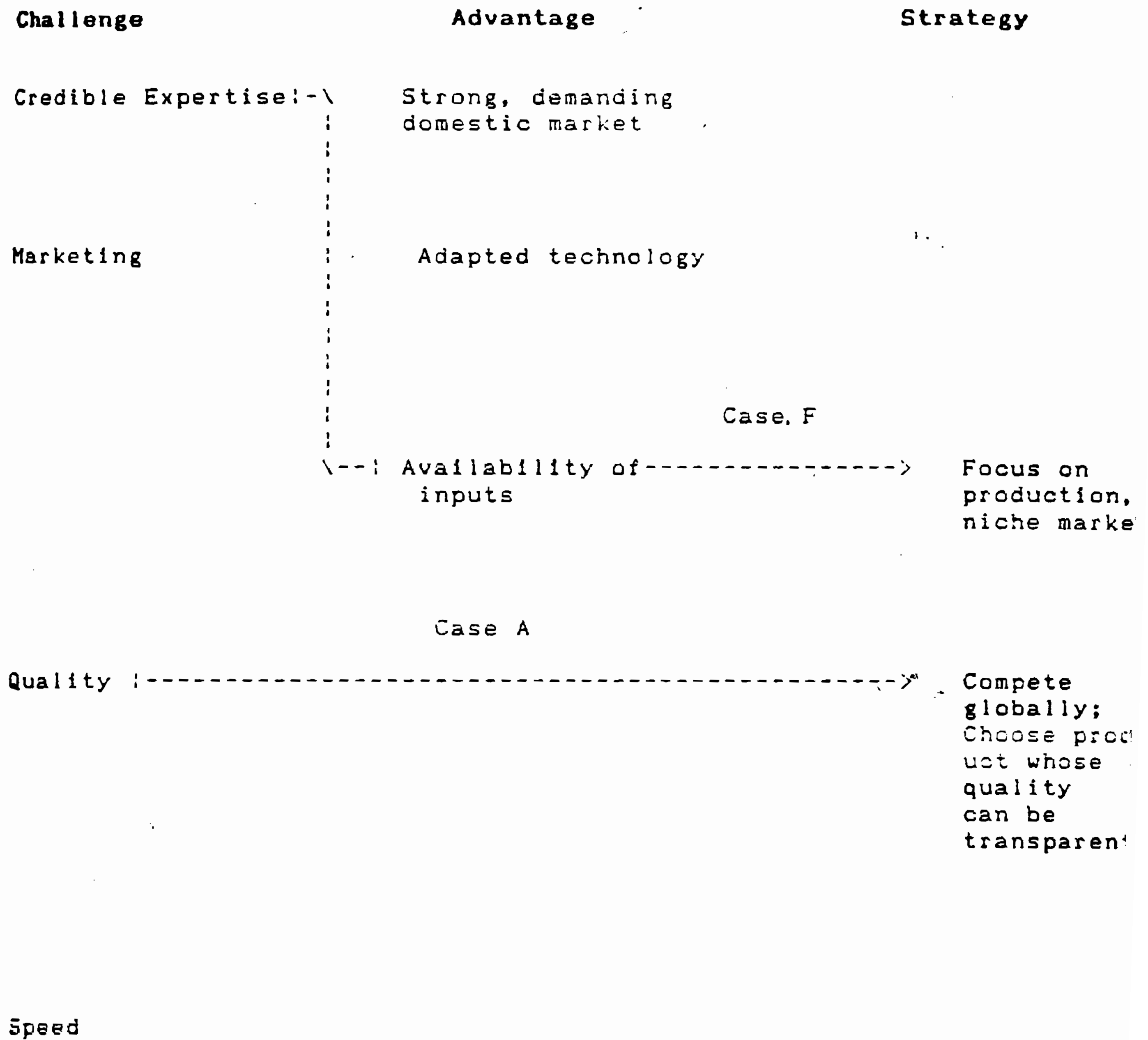


Figure 1B describes the strategies adopted by cases B and C. B saw three major challenges - marketing, quality, and speed. The marketing and speed challenges were essentially sidestepped, whereas the quality issue was met head-on. the problem of marketing was resolved by resorting to a tie-up with a foreign marketing agency, atleast initially. The problem of speed - namely, quick response to changing fashion in textiles, was avoided by sticking to greys. The issue of quality was addressed by a two-step process: quality was first defined in a manner understandable to all - number of defects per yard. A point-scoring system was created, with the help of customers as well as the marketing agency mentioned earlier, to keep score.

The second step was a sustained effort to upgrade quality throughout the organization. Two features of this effort stand out: one was the innovative use of customers - buyers were encouraged to talk to the workforce directly, to help everyone on the shop floor understand why it was important to eliminate a certain kind of defect, for instance. Another feature was an ongoing program to educate every single employee,. regardless of rank or title, on the total business picture of the company. Other more standard tools and techniques such as quality circles, better cleaning methods, etc. were also adopted. These are discussed in greater detail in a later section.

Company D was faced with the basic challenge of marketing, coupled with the basic strength of an adapted technology. The strategic response was to establish a joint venture close to its final markets.

Figure 1B: Strategies of cases B and C in strategic grid

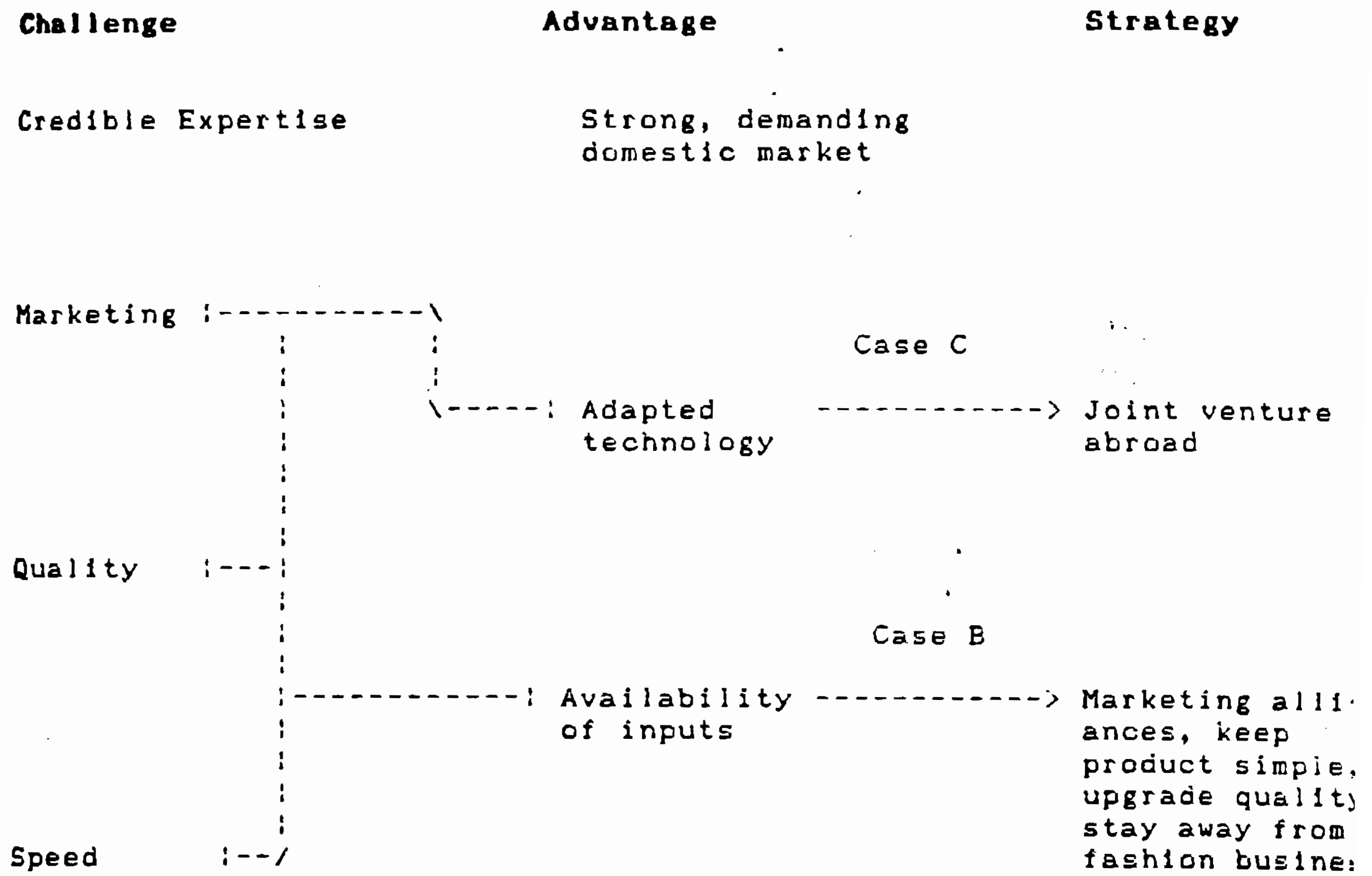
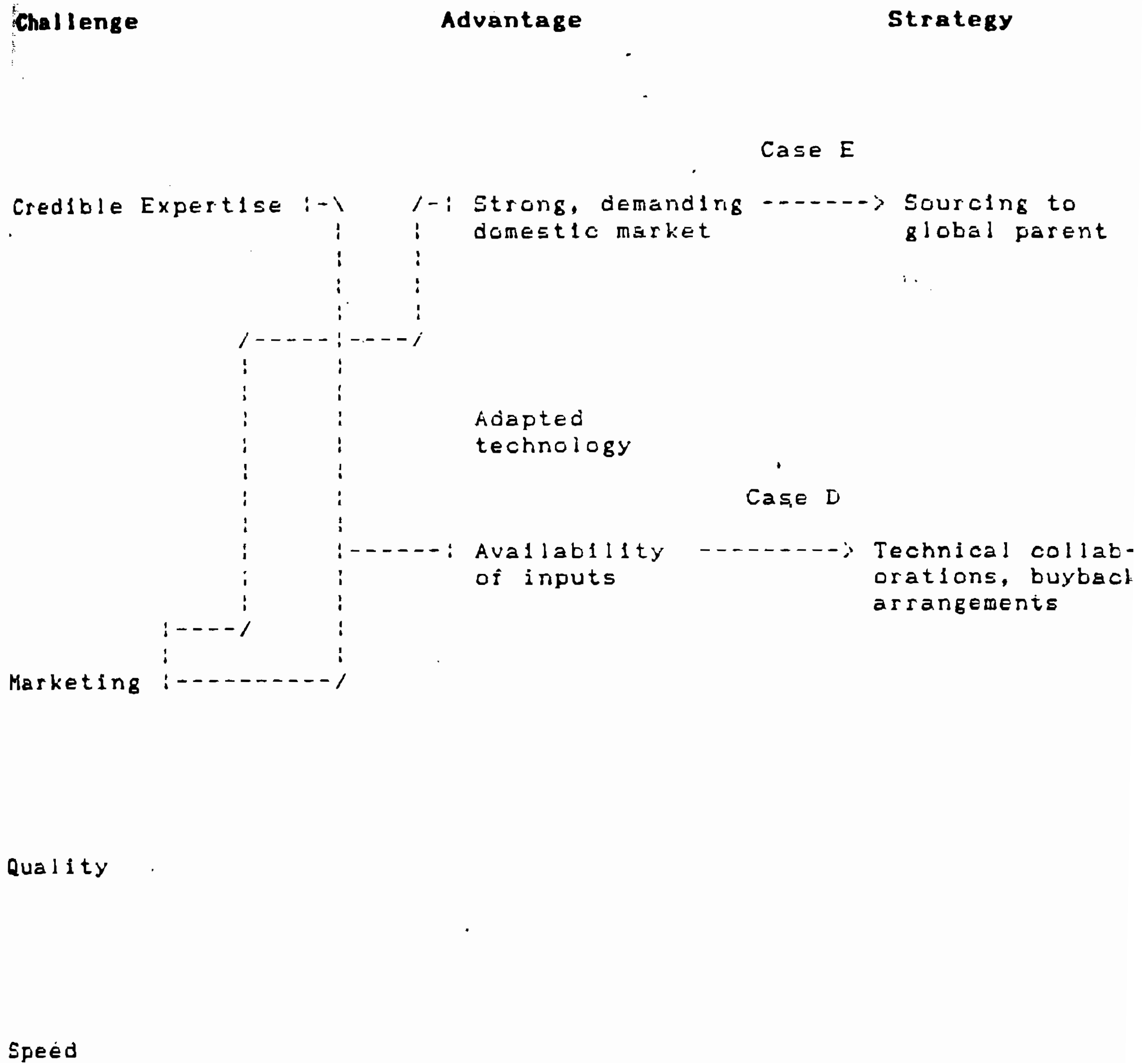


Figure 1C describes the strategic responses of cases D and E. In D's case, because it ventured far outside its core business, it faced the challenge titled 'credible expertise'. Marketing was another challenge - it had no distribution system or brand image abroad it could directly tap. The strength D relied on was availability of inputs - a long coastline, for instance. D's solution was to enter into technological collaborations coupled with buyback arrangements, with all the production being done in India.

E did not face the problem of credibility, because it did not venture into products outside the core business of its MNC parent. The problem of quality was not serious either, because it always did adhere to global quality standards. The major problem then was marketing: primarily distribution. The solution was to focus on sourcing - use the sister companies' distribution channels, producing in India to global standards.

Thus, we find that a small number of challenges and strengths are adequate to describe the strategic situations our sample of Indian companies found themselves in.

Figure 1C: Strategies of cases D and E in strategic grid



VI. Organizational capabilities needed to sustain strategy

In this section, we review briefly the capabilities each organization had to develop to sustain the chosen strategy.

In the case of company A, the organization had to identify the best possible sources for its equipment. At the same time, it had to manage its operations extremely tightly, since low overheads was one key ingredient in its pricing strategy. The result was a 'tight ship', tightly controlled from the top. A quality culture had to be established as well - this was done by going to what might seem like ridiculous lengths to establish a clean, sterile production environment (discussed in detail in a later section).

In the case of B, the company had to consciously create a climate where employees learned from customers - customer visits were encouraged, employees at all levels were sent abroad to work with the customer. Decentralization was of vital concern as well, since employees were encouraged to see the total business picture of the company and act accordingly. Customers dealt directly with the shop-floor supervisors in many case, with no intervention from headquarters.

Company C had to learn to deal with a foreign partner and to manage an operation far out of sight. Its main technique was to send top-level managers to run the joint venture on a permanent basis - that is, to make a career out of the joint venture and nothing else.

Company D had to learn to manage a large number of new businesses simultaneously - it did this by creating separate divisions for each business. International business was separated from domestic business (this is discussed in detail later). This again required extensive decentralization and devolution of powers to the divisions. Negotiating international deals became a major skill to be developed. Country expertise was also important - an executive in Japan selling fish, for instance, might well come across an opportunity for something else - a mechanism had to be instituted for sharing this knowledge. This was done by creating the concept of 'country specialist' - not a new position, but a formal designation of certain managers who had come to know a country well and so were charged with the responsibility of helping other divisions get business in that country.

Company E had to create a generation of global managers - it did this in a number of ways. Information technology was upgraded to the point where any manager in the Indian operation could communicate on a global network with any manager in the global company almost instantaneously. Regional teams were created to help develop and market products found to be successful in one country, in other countries in the region. Most important, a high proportion of Indian managers were sent abroad to work in the global company - in many cases, they held important positions in important markets of the world. Several managers from outside India were regularly brought in to work in India.

The company also had to increase the visibility of the Indian company in the global scheme of things - it did this by going out of its ways to contribute to regional teams and by encouraging cross-flow of people.

Industry F had to continually upgrade its technical skills in order to be able to claim that it had the world's largest pool of skilled labor - at the same time, it had to develop a system for advertising its country advantage - it did this by creating a relatively active and cohesive industry association, which worked closely with the government to promote shows and demonstration abroad where a large number of Indian companies could talk to potential users of their services in a relatively efficient fashion.

VII. Problems ahead

In this section, we attempt to look ahead to predict problems one might reasonably expect to find in store for our companies. We shall find that the problems we anticipate are closely linked, in fact, flow naturally from, the strategies adopted in each case by the company.

Company A, fighting a global battle on a global battlefield, must continuously grow to keep lowering costs. As it grows larger and more geographically spread out, it will find the most scarce resource to be top-flight management talent. Unless it learns to find such talent, to encourage greater initiative by these new managers, and to encourage dissent from them, it will find itself under great stress.

Company B finds itself struggling to move up the value chain. Having concentrated on greys thus far, it has not yet learned how to anticipate and respond to customer tastes when it comes to patterns and colors. This is an entirely new ballgame - the main challenge will be speed, which it is not geared for at present.

Company C faces the possibility of losing control of the venture as it becomes more and more independent. As time proceeds, the technology, which is very stable, could well be mastered by the venture itself. Reliance on a locally adapted technology means in this case reliance on a technology which is feared to carry environmental hazards - as environmental laws grow more stringent in India, the locally-adapted technology may find itself being banned altogether.

Company D faces the problem of developing critical mass in each of the new businesses it has fostered. Synergy across the business lines is minimal, since the dominant theme is country advantage. Again, competition from Indian imitators is also to be feared, since the country advantages can be exploited equally well by anyone. Finally, the reliance on separate 100% EOUs has created a peculiar problem - it is hard to find and motivate good managers to stick to international business, since the business

volumes are necessarily smaller than on the domestic side, and a typical manager would certainly prefer to head a large business rather than a small one.

Company E, relying on sourcing, will find that there are very few products which are really cheaper to produce in India - which will mean margins on such business will shrink over time as volume pushes ahead.

Industry F faces the prospect of being relegated to the back-waters of the industry - and the prospect of a major innovation which sharply cuts the labor component of software development is a very real one. If such a technical change were to come about, the software industry would be no better off than manufacturing industries trying to compete on the basis of cheap labor.

VIII. Observed responses to problems

Company A, in attempting to grow, has begun an attempt to internationalize some of its sister companies' products - a newly created international division will attempt to bring some synergy to these efforts.

Company B has begun making relatively standard patterns and prints at the same facilities where greys were being made. The same network of buyers is being marketed to.

Company C's plans are not known to the author at this time.

Company D has actively searched for large chunks of business, sometimes at enormous cost, requiring approval by the parent MNC. This is in an attempt to generate critical mass.

Company E has begun to think about getting into products outside its current range - including products not in the global company's portfolio at all.

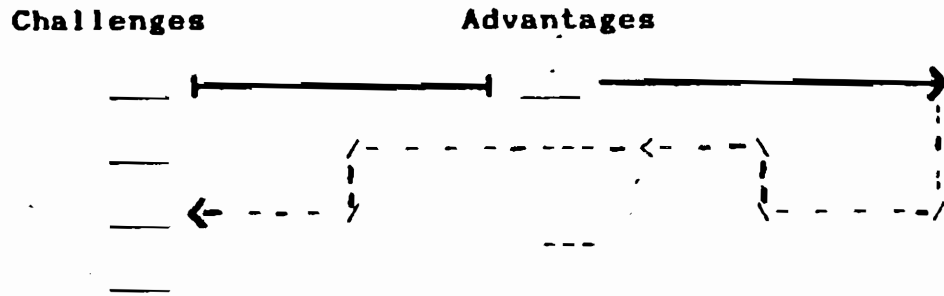
Industry F has begun a major effort to bid on complete projects, such as management of ports and railways, in an attempt to demonstrate its overall capabilities in some selected segments. It has also targeted certain product segments such as graphics and geographic information systems, which require considerable technical expertise, something India can boast of with thousands of engineers and scientists.

IX. Some alternative strategies

The strategic framework in which we have analyzed the strategies of companies in the sample may perhaps be used to generate some ideas for alternative strategies.

One feature noticeably absent from most strategies reviewed here is a conscious attempt to overcome some of the challenges rather than simply sidestep them. A truly dynamic approach would be to devise a strategy which builds new strengths or deals with another challenge in a new way (Figure 2).

Figure 2: Dynamic Strategies



______: represents current strategy

-----: represents potential for developing further advantages to meet further challenges

For instance, company A could leverage the quality image it has achieved over the years to market other products bought by the same set of buyers it now deals with - these need not even be pharmaceutical products - they could be any products bought by the heads of large hospitals or government health organizations. This would shift the quality image from the process used in one product to the company itself.

Company B could respond to the problem of speed by moving production overseas, closer to the market. A joint venture abroad, depending upon technology from India, could well help solve the marketing problems as well, as company C has shown.

Company D could solve its marketing problems by using its parent more creatively. Its present strategy leaves marketing to its partner, which does nothing to help it overcome the problem in the long run.

Company E could learn to overcome its challenge - marketing abroad, by using its credibility with sister companies as a base to penetrate their neighbouring countries where it does not come in conflict with an established part of its global parent.

Industry F could solve its credibility problem by entering into truly strategic alliances with large systems houses which can help Indian companies learn the realities of business abroad, in return for help with their own manpower shortage.

X. Separate and Unequal?

One key issue any company must deal with sooner or later is whether to separate the international business organization from the domestic business set up.

The companies we have studied have come up with different answers to this basic question, with some interesting consequences for their business.

Companies A, B, and E have chosen to keep the domestic and international sides together, although company A is now experimenting with a separate organization for international marketing. Company C, being a joint venture, is necessarily separate from its parent. Company D and industry F have chosen to separate their domestic and international organizations from each other.

Company B has found that it has succeeded in raising the quality consciousness of its entire workforce as well as in upgrading the technology of its production to the point where it is finding it difficult to compete in segments of the domestic marketplace where quality is not valued. It has begun to search for market segments where the customer is as demanding as the international customer - exporters of garments, for instance, or certain niche markets such as military applications, where quality cannot be

sacrificed at any cost.
Company E, having taken on a very large domestic challenge, is finding it difficult to devote managerial resources to its international side.

Company D, having taken the other fork in the road, find themselves wondering how to motivate managers to work for the international side. For one thing, experience in international markets is not necessarily valued in domestic business - the business dynamics are entirely different in the domestic and the international arenas. For instance, locally, the company has a strong distribution network - internationally, it has almost none at all. Again, since the domestic side is much larger than the international side, it is finding it difficult to devise compensation and incentive packages which would induce a good performer on the domestic side to move to the international side, or to prevent a good performer on the international arena from moving to the domestic side. The quality consciousness and work ethic it has created in its international business does not benefit the domestic side at all, either, since the two organizations, down to production facilities, are completely different. Needless to say, given the size of the domestic company and the strategy chosen, this was probably the only route available to it.

Industry F has similarly kept the domestic and international sides separate, by and large. One consequence is that a large disparity has emerged between compensation packages of people in the two business sides - in order to ensure that valuable people stay with the company and do not simply migrate abroad, people engaged in international business must necessarily be offered a compensation package comparable in some sense with those obtaining abroad. Naturally, the domestic side has suffered. With a general shortage of good people willing to work on domestic problems (why stay home when you could go abroad?), the industry would not have been able to build up any solid expertise at home even it had tried to, which means it would never have been able to solve the credibility problem by its efforts at home.

Thus we find that those who separated out the two business streams could move quickly to seize international business opportunities but could not upgrade the work processes on the domestic side. Those who chose to combine the two sides had a much greater inertial mass to move, but they could reap the consequences on the domestic side as well.

XI. Global Quality

The issue of quality is important enough to justify some separate treatment here, although reference has been made to it several times elsewhere in this paper.

Almost every company in the study has found it important to achieve quality standards comparable to those obtaining abroad.

To some companies, this has been the major hurdle, to others, it has been a relatively minor one. Regardless of its relative importance (for which see section V), this section discusses how they have managed quality.

In general, the problem of quality can be broken down into the following components:

1. Specification: i.e., how to define and measure quality.

2. Achieving Standards: i.e., how to actually achieve the required standards.

3. Communicating to the Customer: i.e., how to convince the customer that quality standards have in fact been met.

In other words: how to measure it, how to do it, and how to prove it.

1. Specifying Quality.

The first question the companies had to address was - what does quality really mean? In each case, it was clear that it was the customer's perception of quality which was all-important. Secondly, it helps to have a product where quality can be clearly defined and can be seen to have been achieved.

Company A was able to define quality in terms of contaminants per unit volume of fluid. This was possible because the properties of the fluid itself were well-known and not subject to change, atleast as long as the human body does not change.

Company B's product - grey fabric - was also such that definition was relatively easy. Since colors, patterns, and consumer tastes were not relevant, the definition of quality came down to mean a count of defects per unit of fabric. In defining what a defect was and what relative weights were to be assigned to each defect, the company was extremely meticulous - more importantly, it relied exclusively on the customer's perception of this. While it must have been tempted to use its hundreds of experience in the textile business to come up with an internally generated scoring system for defects, it asked the marketing agency it had an allied itself with to help come up with a scoring system based on a survey of customers' requirements. Further, it committed itself to being willing to scrap even this scoring system if a particular customer preferred to impose its own system.

Company D and E had a harder time defining quality. In E's case, it boiled down to conforming to the product specifications set by the global parent. In D's case, it was even harder, because the products were new to the company. In most cases, however, since the customer also supplied the technology, satisfying the customer on quality meant satisfying him that his technology was actually being employed the way it was supposed to be employed.

2. Achieving Quality.

Achieving quality was found to be a function of two broad sets of measures: upgrading the process and upgrading the culture of the organization. The two are so closely interlinked that it is hard to see where one begins and the other ends.

Company A set itself a deliberate goal of exceeding international standards by almost an order of magnitude in many instances. To a casual observer, some of the measures employed would seem ridiculous - for instance, the floors of the main process room in the plant were washed with distilled water, although almost every other company in the business uses regular water. The company invested significant amounts of money in purchasing filters whose efficacy had yet to be proven. The whole idea was to create a climate where nothing was taken for granted and nothing was 'good enough'.

In a similar vein, company E set itself the task of upgrading packaging even on domestic products to be comparable with products sold abroad, even though the market did not, apparently, demand it.

Company B tracked down defects in fabric down to their root causes - tracing them back in several instances to contaminations occuring even as the cotton stood in the fields. It followed up on a tip from a customer and sent a team to Egypt to study how certain contaminants can be eliminated while the cotton is being cleaned in the plant - what is more, similar measures were immediately put in place in the Indian plants.

The quality culture was fostered in different ways by different companies. The most innovative approach was probably Company B's - they used customers to educate their employees. Talking directly to people on the shop-floor, buyers would repeatedly bring home to everyone why certain kinds of defects could not be tolerated. This form of direct communication helped to eliminate the natural suspicion any quality drives instituted by management are viewed with by employees. Secondly, company B decided to run a series of ongoing seminars and workshops to brief each and every employee, without exception, on the complete business picture of the company. This team-building exercise has been found to be extremely valuable.

Company E's deliberate efforts to send its managers on job rotations abroad were also viewed as part of a drive to upgrade quality consciousness.

Company D sought to create a climate of quality by shielding the international side from the contagion of the domestic business - starting afresh, as it were, in each international business endeavor.

3. Communicating Quality.

This is probably by far the most difficult and frustrating step of all. Only company E had it easy here, because of its global posture from the very beginning.

As we have seen earlier, Company A neatly finessed the problem by using a process and employing machinery which, by themselves, went a long way to convincing the customer of the quality of the product.

Company B's approach was to focus on relatively more sophisticated large buyers, who could come down to the company's plants to inspect the processes and check the quality of the product for themselves.

Industry F had to demonstrate quality by allowing professionals to work initially under the supervision of the customer, on customer site abroad, until the customers in general had sufficient confidence in the quality of Indian professionals that they would permit small chunks of work to be done in India.

XII. An MNC is an MNC is an MNC ..?

This section poses some questions and offers some reflection on the role of MNCs in internationalizing Indian business.

For a start, we see that different MNCs, even in similar industries, have entirely different business strategies and processes. Which kind should Indians prefer and under what circumstances? Now that the welcome mat has been put out for MNCs to come into India, what kind of MNC should we reserve a big welcome hug for and what kind should get only a warm handshake?

Some multinationals in India are able to succeed in international business purely because of their size and their management capabilities, virtues which are not peculiar to MNCs at all, but are shared by some large Indian business houses also. However, there is certainly something to be said for a company which can put a country advantage to good use!

Others succeed by using their global parent as a customer. However, this rules out products the global parent is not already in.

Very few appear to be able to leverage the name and connections of the global parent to succeed in markets or products outside the parent's ambit. Perhaps they have not tried very seriously, or perhaps there are institutional barriers to doing this in a large global company.

MNCs differ in their ability to upgrade the work processes and culture in their Indian organizations to international standards - this is probably a function of how truly global the parent

company is.

Even in a given industry, we should be able to find MNCs of different kinds. Depending upon what the country needs at any given time, perhaps the government should study the business strategy and organizational culture of different firms and make a more deliberate and reasoned choice rather than simply welcome them all or debar them all.

Notes

1. Companies names are withheld for the time being pending official approval from them.

References

1. K. Balakrishnan: "A sequential strategic search model for identifying internationalization opportunities for Indian firms", IIM-A working paper #314, 1980.