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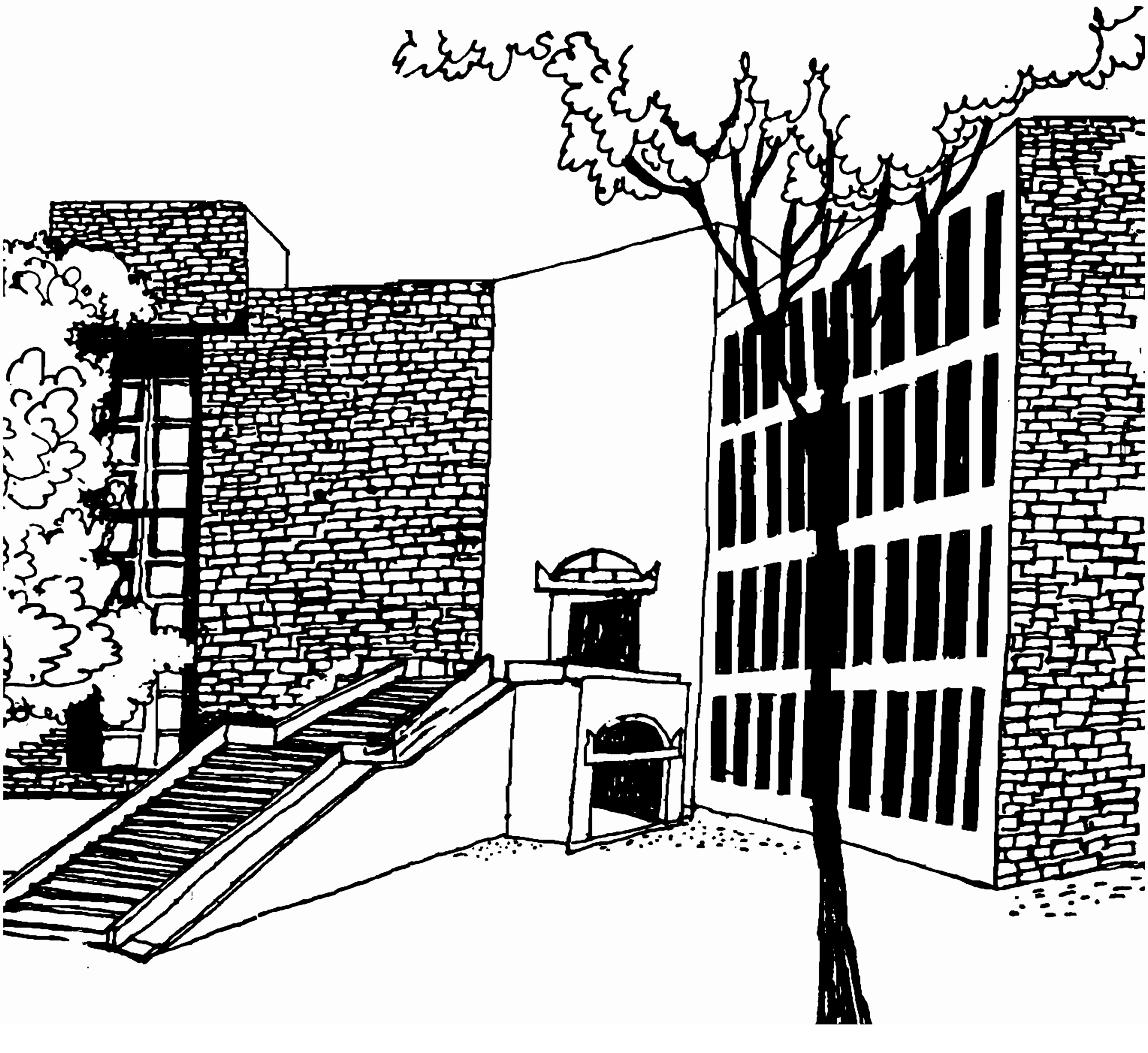

EFFECTIVE CORPORATE RESPONSE TO LIBERALISATION: THE INDIAN CASE

By

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W P No.1300
March 1996

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EFFECTIVE CORPORATE RESPONSE TO LIBERALIZATION : THE INDIAN CASE

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Abstract

In most developing societies there has been a decisive shift towards economic liberalisation, that is, towards deregulation and globalisation of the economy. Liberalisation has two major consequences for the corporate world : intensification of competition and increase in growth opportunities. Increasing competition subjects competing corporations to many partially conflicting pressures, such as the need for sharper awareness of market developments and competitive moves of rivals, greater compulsion to cut costs, to respond to special needs of customers, quicker responses to the moves of rivals and the demands of customers, better coordination between various management functions, greater decentralisation to meet effectively local contingencies, greater resourcefulness and innovativeness, greater access to diverse expertise, etc. Greater growth opportunities cannot be seized without increased entrepreneurial spirit. These pressures require a complex organizational response which is partly systemic and partly strategic. The systemic response needs to be the greater deployment of uncertainty coping, differentiation, and integration mechanisms. The strategic response requires clearer conceptualization of a short term strategy based on core competencies and a longer term strategy based on learning and adaptive capacity. The deployment of appropriate systemic and strategic mechanisms consequent on liberalization should lead to greater efficiency, better product quality, more innovation, faster growth, and greater profitability. However, in several countries liberalization does not appear to have produced the hoped for results, possibly because of institutional barriers to effective corporate response. In India, however, several indicators suggest that the corporate response to liberalization has, by and large, been quite satisfactory, as judged by corporate growth rates, increased profitability, greater quality consciousness, increased exports, etc. Available evidence suggests that both systemic and strategic responses tend to be in the expected direction. The reasons for the better corporate response to liberalization in India as compared to such countries as Russia are explored. Some management challenges for coping with liberalization, such as institutionalising effective management styles and policies indicated by recent studies, are described.

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Introduction

All over the world there has been a decisive tilt towards economic decontrol and restructuring towards a market friendly competitive society. In the seventies, eighties and nineties, a large number of developing countries, faced with severe balance of payments and/or budgetary deficits and inflation, resorted to loans from the International Monetary Fund and the World Bank. The "structural adjustment" loans advanced by them usually had conditionalities attached to them requiring the recipient country not only to resort to "macroeconomic stabilization" but also to decontrol the economy and move towards a competitive, private enterprise dominated society[1]. In the mid-eighties the socialist countries also began to decontrol, and after the collapse of the Soviet system, most of them abandoned centralised planning and statism, and moved quickly - perhaps too quickly - towards a market friendly competitive economy[2]. Even China, one of the last officially Communist states, has increasingly resorted to private enterprise, foreign private investment, stock exchanges, deregulation, and privatisation[3].

The degree of movement towards a deregulated, market friendly economy has varied a great deal[4]. Some countries, such as Singapore and Hongkong, may currently be even more "capitalistic" than the leading Western countries. But countries like China, Brazil, and India still have large public sectors and a fair amount of state regulation of economic activity[5]. The pace of liberalisation has also varied greatly, with some countries, notably the ex-socialistic countries of Eastern Europe opting for the shock therapy or "big bang" type of rapid deregulation and privatization, and other countries, including China, India, and South Korea opting for a longer and phased liberalisation. Nonetheless, "liberalization" has generally led to lower tariff barriers, reduction of price and output controls, greater reliance on market forces, easier entry into industries, reduction of restrictions on foreign private investment, reduction in restrictions on foreign exchange transactions, some deregulation of investment decisions, etc. In many countries considerable privatisation has taken place, although it is yet to take off in a big way in several countries[6]. There is perhaps an increasing tendency to limit the role of the state to the maintenance of law and order and security, control of natural monopolies, state intervention if there is a serious market failure, state investment mainly in infrastructure with large externalities and in human capital, and government - led attempts at poverty alleviation[7].

What could be effective corporate response to the liberalization of statist societies? This is a significant question because if corporations do become the major engines of national economic growth it is important that they perform well. The national savings rate would substantially depend on the magnitude of surpluses generated by corporations and the investment rate as well as the composition of national investment would depend substantially on corporate investment decisions and effective implementation of these decisions. Equally interesting is the question of what kind of liberalisation is likely to elicit the best corporate response, in particular the phased, tailor-made (to the country's ground realities) type or the doctrinaire, big bang, "instant" one? A good deal of social engineering towards a market friendly society is likely to depend on answers to these questions.

Economists tend to assume that the mere existence of competition ensures efficiency. The efficiency assumed is of the allocative kind as well as the x-efficiency or managerial efficiency kind[8]. But large corporate organizations are far too complex to comply invariably with efficiency expectations from greater competition[9], and even if there is an overall gain in efficiency through survival of the fittest, the cost of this can be very large. In Britain, business insolvencies generally range around 10000 a year[10] and the number may be much larger in the US[11]. In Poland, for example, after extensive liberalization and privatization in the eighties, of 3000 enterprises half appeared to have gone under[12]. In Guinea, of 28 public enterprises that were privatised in the march towards a competitive market economy, nearly half folded and only four were profitable[13]. What kind of corporate response would reduce the corporate costs of the economic restructuring of statist economies, and provide the hoped for gains in efficiency, innovation, investment buoyancy and rapid economic growth?

Corporate Implications of Market Friendly Restructuring

Market friendly economic restructuring has two major implications for the corporate world. It intensifies competition through easier entry and greater foreign competition. It also opens up many opportunities for growth through the removal of regulations and artificial barriers on pricing and output decisions, investments, plant scales, mergers, acquisitions, joint ventures, technology imports, import of foreign capital, etc. It enables corporations to expand, diversify, integrate, and globalise more freely. Both these implications have profound consequences for the effective management of corporations in a liberalising economy.

Competition exerts several partially conflicting pressures on competing organizations[14]. It requires a high awareness of market developments and the competitive moves of rivals, and thus considerable investment in scanning and intelligence gathering mechanisms. It requires attempts to reduce costs through functional specialization and standardization; but it also requires the organization to respond to special needs of customers, and this can impose significant trade offs between custom-tailored and standardized outputs. Competition requires a quick response to the moves of rivals and demands of customers, and therefore a high order of coordination between the various functions and departments of the organization. But centralized coordination may not work when, as so often is the case, clientele, production and distribution facilities are dispersed, and clients have differentiated requirements. This sort of dispersion and differentiation requires considerable decentralization, so that the organizational requirement is high coordination despite decentralization. Competition also requires the management to be resourceful, and at least to some extent innovative. This again requires a trade off between tight control of operations to contain costs, and autonomy to managers and staff to be resourceful and innovative in meeting competitive challenges. Competition is usually multi-faceted, involving competition in pricing, product quality and variety, marketing, promotion, and distribution, as well as in acquiring inputs, and thus a competing organization must have access to diverse expertise; but expenses of availing this expertise must be kept under tight control to keep output costs low. Competition generally speeds up market change through new process and product introductions. This requires the organization to be able to cope speedily with market change. While standardisation and stabilization are important sources of cost savings, the need to cope with flux saddles the organization with large costs of frequent product redesign, retooling and refitting. Managing a competing organization is therefore not at all easy. In societies with lack of experience with competitive markets the costs of learning to compete can be enormous. The economic collapse of Russia after precipitate decontrol in the early nineties may well be because some 80000 Russian enterprises, used to operating in a sheltered, highly regulated environment, suddenly had to contend with foreign and domestic competition without a clue as to how to compete effectively, staffed at the top as they were by bureaucrats and technocrats used to operating in a command economy [5].

Economic liberalization also opens up many growth opportunities for corporations. They can much more easily merge, diversify, enter into domestic or international foreign ventures and joint ventures, develop new markets, avail of foreign technical collaboration, export, search globally for business partners, sources of capital and technology, excellent management practices and excellent managers, etc. But spotting and seizing domestic and global opportunities is not easy. It requires a venturing, entrepreneurial, risk taking mind set. For managements habituated to operating in a regulated environment and subject to government dictates, such a mind set change is not easy.

Corporate Organizational Design for Liberalization

Corporate organizational designs vary from enterprise to enterprise, industry to industry, and economy to economy. And yet there may be some core requirements for adapting to liberalisation. In the earlier section some of the pressures on corporate management from liberalisation were briefly outlined. In this section some preferred systemic and strategic organizational responses of corporations to liberalisation are discussed. Systemic responses encompass organizational structural and cultural responses, while strategic responses relate to the formulation of goals, priorities, business strategy, etc. First the broad outlines of the organizational design needed for responding to liberalisation induced greater competitive pressures are sketched; next, those for responding to the greater freedom for seizing growth opportunities.

Effective systemic and strategic response of the corporation to greater competition : Greater competition, especially when competition is multi-dimensional, poses a serious problem to the organization of coping with uncertainty. This uncertainty stems from competitive moves by domestic, and with liberalization, by foreign rivals vis-a-vis price cutting, introduction of new or differentiated products, promotion campaigns, acquisition of distribution channels, advantageous locations, etc. etc. Each competitive move triggers chains of reactions which in turn trigger further reactions, rendering the environment turbulent. As organization theorists have pointed out, uncertainty makes planning of operations difficult,[16] and organizations therefore need to resort to various uncertainty control measures. Some of these take the form of measures to reduce or avoid operating uncertainty. These include long term supply or delivery contracts, collusive pricing, heavy advertising to create brand loyalty, vertical integration to reduce uncertainty about input supplies or output offtakes, and contra-cyclical diversification to offset cyclical fluctuations in the market segments the corporation is operating in. Some take the form of information acquisition and coping mechanisms. These include expert consultancy, long range forecasting, market research, intelligence gathering mechanisms, and group processing of market related information so as to pool information and judgements. Where there are a lot of local uncertainties, regional decentralization of operations may be resorted to. Where parts of the external environment are particularly ambiguous, specialised units to monitor the specially turbulent aspects of the environment may be deployed. More and more mechanisms and more and more powerful uncertainty control mechanisms need to be deployed by the corporation as an economy moves towards globalisation. The organization increasingly needs to become a strong information acquiring, information processing, and quickly learning and adapting organism. In terms of the mind set of decision makers, the shift has to be to the inevitability of relatively rapid change and therefore to the readiness to abandon obsolete or untenable positions and practices, and a good deal of tolerance for ambiguity and uncertainty. The operating culture needs to shift from a mechanistic or bureaucratic one to an organic, flexible, communication, interaction, and expertise rich one[17].

Multi-sided competition has another systemic consequence. It differentiates the decision structure of the organization[18]. A wide range of expertise is needed to cope with the numerous contingencies created by a competitive environment, and a wide range of organizational mechanisms needs to be deployed (in the form of staff groups and responsibility centers) to cope with these contingencies. Such a response is not feasible in a centralised organization. Inevitably therefore the organization needs to be decentralized, and to opt for a relatively flat rather than a tall hierarchy. Culturally, too, a structure differentiated by numerous specialised units would imply the existence of correspondingly numerous operating subcultures[19], each with its distinctive mode of conducting its operations. Under liberalisation induced competition, therefore, the corporate organization is structurally and culturally likely to get much more differentiated as compared to that in a regulated, protected economy.

As Lawrence and Lorsch have pointed out, necessary though organizational differentiation may, in certain circumstances be, unless it is compensated by powerful integrative and coordinative devices, such differentiation could tear the organization apart in a welter of conflicts, confusion and lack of coordination[20]. Structurally, such integrative devices are needed as participative or committee decision making so that diverse view points are synthesised, a cadre of versatile and dynamic managers that are trained to be generalists who can integrate various functional concerns and perspectives, and respond quickly to market changes, and a sophisticated management information and control system that provides critically important operating information regularly and periodically to decision makers so that remedial action can be quickly taken. Widely shared core values and vision of excellence are also powerful integrators[21], and so is transformational leadership that stresses vision, trust, empowerment, confidence, family feeling in the employees, etc.[22]

Thus, competition, especially multi-faceted competition, requires the organization to deploy extensively uncertainty reduction, differentiation, and integration mechanisms[23]. A proliferation of these mechanisms renders complex the organizational design and management of the competing corporation. Such organizational complexity can increase substantially the costs of the organization's internal transactions[24], and the organization may resort to contracting out of several of its functions. Whether the organization retains or contracts out these various functions, the point of importance is that it must have access to the competencies implied by these functions.

The strategic responses required by competition are also noteworthy. Having to compete requires a sharper strategic focus; muddling through[25] or implicit strategising[26] may not suffice. The corporation needs to have a fairly clearly conceptualised short term strategy based on its core competencies[27], and a longer term strategy based on its long term vision, learning and adaptive capacity[28]. It needs to conceptualise whether its competitive strategy is to be anchored in cost advantage, or quality, or servicing a niche, or brand equity, or product innovation, or a particular combination of these generic strategies[29].

Systemic and strategic response of the corporation to opportunities and freedom offered by economic liberalisation: As was noted earlier, economic liberalisation and globalisation of an economy offer very many opportunities to the corporation. Since artificial entry and other barriers are lowered, it can more easily diversify or expand, internationalise its operations, and enter into mergers, acquisitions, and joint ventures. All the world, so to speak, becomes its stage. Multiple organizational designs and multiple corporate strategies can flourish in an opportunity-rich environment. The corporation is no longer limited by the compulsions of the domestic political economy nor by the growth rate or cyclical fluctuations of the domestic economy. If say, the Indian economy is in a recession but the Indonesian economy is booming, an Indian corporation can, under liberalisation and globalisation, curtail its operations in India and expand them in Indonesia.

Liberalisation offers exceptional opportunities for entrepreneurship and innovation. As Drucker has indicated, innovation-based entrepreneurial strategies can come in various combinations of risk taking, innovation, risk aversion, and opportunism[30]. For example, what he calls "the fustest with the mostest strategy" aims at a radical innovation that either founds a new industry or makes obsolete an existing technology. According to Drucker this is a high risk strategy; the innovation may not come off despite large investment, or someone else may beat the organization to the innovation. "Entrepreneurial judo" and "creative imitation" are, comparatively speaking, safer strategies. In entrepreneurial judo the organization innovates a product specifically tailor-made to the needs of a neglected market segment, captures the segment from the major players in the industry who may be too preoccupied with the larger, more lucrative market segments, and then having established itself in the fringe market segment, launches an assault on the bastions of the industry leaders. In creative imitation the corporation capitalises on some one else's innovation by finding for it uses not thought of by the innovator.

Liberalisation also facilitates various partnering and networking strategies[3]. Erstwhile rivals can collaborate in developing a product which otherwise may be beyond the financial or technical capabilities of either, or collaborate to penetrate a high cost of entry market, or partner to commission a mega project or to develop a new resource or input.

Entrepreneurial management offers a similar range of options. Manimala's research suggests that while there are core heuristics (decision rules) that most successful entrepreneurs follow, there are sharp differences between pioneering and innovative entrepreneurs and ordinary entrepreneurs[17]. The common decision rules of most entrepreneurs appear to be : Cautious growth through existing products and customers; competing through resourcefulness; exploiting the resources of others; opportunistic diversification; self-contained operations; response to immediate environment; spreading risks through compatible partners; and entry through imitation. On the other hand, the pioneering and innovative entrepreneurs seem to favour a sort of intrinsic growth orientation anchored in organic learning based growth, financial and technical self-reliance, and credibility building by the enterprise; "quest for the unknown", meaning dynamism, seeking the unfamiliar, "global" or widespread search, and avoidance of competition by seeking monopolistic niches; integrated growth through environment scanning and vertical integration; capability building; people oriented vision for growth involving sharing of vision of excellence and also the sharing of gains from pursuing the vision with the staff, development and exploitation of useful contacts, and change in the organization towards greater professionalism with the growth of the enterprise; and dogged persistence.

Research on entrepreneurial management suggests a strong synergy between entrepreneurial management and the organic style of management[33]. The organic style, popularised by Burns and Stalker[34], consists of a mode where coordination is by interaction and information rather than by bosses, there is widespread dissemination of operations related information in the organization, a widespread awareness of the organization's goals, and of the challenges and the problems faced by the organization. Rigidity is anathema, decisions emerge from interactions rather than are taken, and the expert in a given problem or decision situation has more say than the formally designated boss.

Both entrepreneurial and organic managements are as much mindsets and corporate philosophies as they are strategy, mechanisms, and decision rules. Entrepreneurial management embodies the culture of risk taking and enterprise, opportunism, resourcefulness, innovation, pioneering, growth, and market conquest[35]. Organic management embodies the culture of flexibility and free interaction and looseness of form and structure. Both are compatible mindsets, for the entrepreneurial management often takes the organization where the professionally managed angels fear to tread, into situations of flux and dramatic and sudden developments. These can best be coped with through a cult of flexibility and decision making through intensive interactions between managers with expertise and experience.

Liberalisation requires of corporations both competitive excellence and entrepreneurial excellence. To some extent these two excellences are compatible; both require proactive, flexible managements. But there are also some potential conflicts. Competition requires a high order of structural complexity, access to diverse expertise, a relatively sharp strategic focus and efficient operations. An opportunity-rich environment elicits opportunistic entrepreneurship which in turn requires very high orders of adaptability and flexibility. If this entrepreneurship is forthcoming, it may however lessen to some extent the impact of errors and slackness. The corporate progeny of liberalisation tends to resemble a nuclear submarine-heavily armed, highly maneouvrable, speedy and complex, versatile, seldom under grave threat but engaging in many daunting missions. This is not an easy design to achieve. No wonder liberalisation unleashes much corporate venturing but less frequent corporate excellence.

Institutional Impediments to Effective Corporate Response to Liberalization

Intensification of competition due to liberalization should lead to greater efficiency, better product quality, more innovation, etc. Opening up of new opportunities should improve corporate profitability, growth, and diversification. This has, however, not invariably or even very frequently happened. Instead, in several countries, economic restructuring seems to have led to large scale corporate sickness or stagnation, as in the case of several countries like Poland[16], Russia[17] and Guinea[18]. If the desirable corporate response to intensification of competitive pressures is a strengthening of several organizational, managerial and strategic management capabilities in the corporate organization, why does this fail to happen in some societies, sectors, or industries when competitive pressures are increased through economic restructuring? There appears as yet no definitive answer to this question. But when competitive pressures mount, some "institutional" and cultural barriers may slow organizational adaptation and thus precipitate corporate sickness. First, of course, is the societal scarcity of capable professional, generalist managers and dynamic entrepreneurs who can conceptualise and implement the multi-dimensional structural and strategic organizational changes required to respond to market friendly economic restructuring. This may be a main reason for the failure of liberalization in generating an appropriate organizational response in the ex-socialist countries. A poor work ethic in the culture, meaning low achievement motivation, low ability to collaborate with organizational members other than those from one's kinship group, high dependency-proneness, and low commitment to punctuality, regular attendance, reliable performance of duties, etc., may also slow adaptation. Such a work ethic is often associated with extreme poverty.[39] Excessive social conflict stemming from gross inequalities, and manifesting itself in turbulent industrial relations may be a third institutional barrier to speedy adaptation to economic restructuring. Then there are other barriers such as a deficient infrastructure (transport, communications, energy), paucity of technocrats, corruption that has got ingrained in the political and administrative systems, cultural conservatism, a defective legal system, weak property rights etc.[40] There may be more, but the point is that economic restructuring that ignores these institutional and cultural barriers to corporate adaptation to liberalization may precipitate an economic crisis rather than the hoped for bonanza. At the enterprise, industry and state levels efforts need to be made to reduce these institutional and cultural barriers; and this may imply that economic restructuring needs to be phased to facilitate this and be broadened to include a strategy of institutional and cultural change. For an effective corporate response to liberalisation, an effective management of liberalisation is a must.

The Indian Case

Post-1991 India may afford a good illustration of how a phased, modestly paced economic restructuring can provide enterprises time to develop capabilities needed to face greater domestic and foreign competition, and grasp the opportunities afforded by a market friendly restructuring.

After a strong tilt towards statism, and central economic planning in the sixties and seventies, India began to decontrol its economy in the eighties. But substantial liberalisation began in 1991. In that year, following a serious balance of payments crisis when foreign exchange reserves were down to a billion dollars, India resorted to a bailout by IMF, and accepted the structural adjustment of its economy as per IMF-World Bank conditionalities.

Indian structural adjustment so far has had several components.[41] The first is macro-economic stabilization, involving substantial devaluation of the rupee, attempt to reduce the fiscal deficit by reducing the rate of increase in government expenditure below the rate of increase in revenues, reduction of some subsidies, and reduction of the rate of increase in money supply to control inflation. The second is graduated deregulation and intensification of competition, by substantial but phased elimination of licensing for setting up industries and for expanding capacity, abolition of the Office of Controller of Capital Issues, reduction in the number of industries reserved for the public sector, liberalization of access to foreign technology, phased elimination of import and export controls, and phased reduction in import duties (from an average of 150% in 1991-92 to 50% in 1995-96). The third is the opening of the economy to foreign private investment and liberalisation of overseas investments by Indian firms. The fourth is rationalisation of taxes, such as through reduction in income tax, wealth tax, and corporate tax on profits, and selective and phased lowering of excise duties. The fifth is attempt at healthier functioning of money and capital markets by more comprehensive rules and regulations, the setting up of a national stock exchange with electronic operations, and by enforcing new accounting norms to bring reporting of income by banks to international standards. Sixthly, an attempt has been made to increase the functioning autonomy of public enterprises as well as making them more vulnerable to closure or divestment if they malfunction. Seventhly, a safety net is being implemented for those hurt by structural adjustment, such as a voluntary retirement scheme for surplus manpower. The government has also stepped up investment in infrastructure development, human capital (investment in health, education and training), rural development, and poverty alleviation (such as by expanding the public distribution system for distributing essential commodities at subsidised rates). By and large the government has followed a process of gradual rather than sweeping change.

The economy's response to liberalisation and structural adjustment has, by and large, been gratifying. After a stall in 1991-92, the economy resumed its growth path, with the GNP growth rate of about 6% in 1994-95 and 1995-96. Inflation is sharply down from 1991-92, and exports have surged in dollar terms after 1992-93 by around 20% per annum. Foreign private investment, less than a billion dollars in 1991-92, has increased to around five billion dollars in 1994-95, and may go up sharply in the future. Industrial production rose by over 8% in 1994-5 and the rise may be around 10% in 1995-96. Capital raised through public issues of stock and bond was 13 times higher, and the number of issues was ten times greater in 1995, compared to the pre-liberalisation year of 1990.[42]

The corporate response to liberalization appears so far to be excellent. Corporate private sector sales and profits have practically doubled, despite intensification of competition, between 1991-92 and 1995-96 (a roughly 50% increase in real terms). There also has been sizeable growth in sales of public sector enterprises and in their profitability.[43] A policy of stepping up domestic and foreign competition through deregulation seems to have paid off in terms of greater attention to productivity, quality of processes and products, operating efficiency, and customer need. During 1991-95 many corporations appear to have taken vigorous steps to upgrade productivity, operating efficiency, and process and product quality, through business process reengineering, quality circles, computerisation, and ISO 9000 certification.[44] There were barely a dozen ISO 9000 certifications in 1990; the number in 1995 was over 800, and this number may triple by the end of 1996. In a poll of corporate executives reported in 1995, over half rated quality as extremely important.[45] Service to the customer as an essential adjunct to marketing products, called morph marketing, seems also to be picking up.[46] Advertising and marketing expenditures have soared. Despite huge increases in corporate sales, marketing expenditure as a percentage of sales has gone up. In a survey of 200 large corporations, the increase was from marketing cost to sales percentage of 5.07 in 1990-91 to 5.65 in 1993-94. However, marketing flops seem to be on the increase, suggesting greater corporate vulnerability due to competition.[47]

The corporate sector has also responded well to the growth opportunities afforded by liberalization. Earlier, Indian corporations tended to opt for plant sizes keeping in mind the size of the domestic market. Increasingly they have been opting for scales that can cater also to the international market and thus avail of greater economies of scale. For instance, as of 1995 there were at least fifteen Indian private sector companies that were already one of the five largest in the world (or expected to be so shortly) in specific product lines[48]. There were virtually none before 1991. As of end 1993 there were at least a hundred private sector projects involving an investment of 200 million dollars or more, a number vastly larger than the number before liberalization.[49] Earlier, "internationalisation" amounted mostly to getting a foreign technical collaboration with a firm from a developed economy, and a modest export effort. Not only have foreign technical collaborations gone up (from 50? in 1990 to 800 in 1994) but in a study of 200 large Indian corporations, corporate exports appeared to have risen sharply (from 4.5% of sales in 1990-91 to 6.4% of sales in 1993-94). True globalisation may have begun in earnest in the form of Indian companies buying foreign firms and plants, large joint ventures with MNCs, global marketing, raising of finance overseas, etc.[50] Several business houses are re-examining their strategies in the new economic environment. Some seem to be seeking aggressive diversification in their areas of core competence to build up competitive strength, while the more entrepreneurial ones appear to be actively seeking opportunistic diversification to take advantage of opportunities afforded by liberalisation and globalisation.[51]

Liberalization also seems to be inducing significant systemic cultural and structural changes in the corporate sector in the expected direction. The new rhetoric of corporate India seems to be "change is the only constant", "only quality ensures survival", "people, not products, are paramount", and "information is everything"; the main challenges before their chief executives are seen to be to create flexible systems, to develop a culture of excellence, to facilitate teamwork and empower employees, and to speed up and decentralise data flows.[52] There may still be a gap, possibly a narrowing gap, between rhetoric and reality, but the change in corporate culture seems distinctly to be compatible with a freer, more competitive market environment.

Organizational structures, too, seem to be changing to cope more effectively with greater competition and to avail of growth opportunities afforded by liberalization and globalisation.[53] Some business houses, such as the Duncan Goenka Group, are regrouping their varied product lines spread over diverse companies into synergistic product clusters for sharper focus. Some, such as Godrej Soaps, are graduating product divisions into "strategic business units" that have more freedom to make financial and investment decisions and for entering into strategic alliances with national or global players. Some, such as Modi Xerox, are converting functional departments into profit centres via the transfer pricing mechanism for greater bottom line consciousness in management. Some multi-product companies, such as Chloride India, are transiting to a divisionalized set up for greater market responsiveness. Some, such as the public sector Balmer Lawrie, are spinning off joint ventures with foreign partners into companies, each with equity stakes by the parent organizations, in order to escape organizational limits to growth. A few, such as Tata Consultancy Services and Wipro Infotech, have resorted to the matrix structure in which staff members are grouped both by areas of core competencies and by principal markets or industries served. Such a structure helps the organization to take on a wide variety of projects in increasingly diverse and complex markets. Divisionalization, resort to strategic business units, spin offs, matrix structure, etc. often create problems of corporate-wide coordination, economising, synergy, integration etc. To tackle this problem some organizations, such as the Lloyds Group, have set up a central monitoring group to coordinate strategies formulated by the chief executives of its different businesses, and also to serve as a nodal agency for technical and financial alliances. Some others, such as Asea Brown Boveri India, have set up a holding company to propagate corporate vision and core values in the subsidiaries. The preference seems increasingly for organizational differentiation through decentralization, and organizational integration through setting up self-contained, autonomous units with bottom line responsibility, supplemented by an overall coordinative, systems building, and vision and core values institutionalisation role played by the corporate or business house headquarters.

It seems clear that the Indian corporate sector could not have changed so drammatically in just a few years after liberalization in 1991 had it not already possessed significant management strengths, learning and coping ability, and at least some awareness of how to respond to greater competitive pressures and growth opportunities. Greater domestic and foreign competition have not maimed native enterprise; on the contrary they have acted as adrenalin and galvanised businesses into experimenting with new but effective strategies and structures. It is because India had achieved a management take off stage during a prolonged, slow deregulation in the eighties that the response was so robust when liberalization came in a big way in the nineties. Sudden liberalization without the country having reached a management and entrepreneurial take off stage may well devastate the corporate sector, as in the case of Russia and Eastern Europe, or hand industry over to foreign business houses or multinationals, as in the case of many African countries.

Why has liberalization yielded such good corporate performance in India and not say, in Russia? There could be many institutional reasons. India had already a much more open economy and a more robust private corporate sector than Russia before economic restructuring commenced in a big way in both countries in 1991. Thanks to the many management schools operating in India (versus virtually none in the earlier socialist Russia) Indian industry was already familiar with "professional management". India also had millions of entrepreneurs even before liberalization, many more than in socialist Russia. There were also many multinationals operating in India before liberalization and a large number of dynamically managed indigenous business houses, and they served as role models of excellent management for Indian companies.

But besides these institutional factors, the way liberalization was managed may also have made a substantial difference. In Russia it appeared to be post-haste and clumsy, characterised by excessively rapid deregulation that gave too little time to some 80000 Russian enterprises to cope with more intense domestic and foreign competition[54]. Drastic cuts in defense spending in Russia also led to losses of revenues and profits of Russian enterprises. The Russian state attempted to privatize government owned enterprises by distributing vouchers to citizens which entitled them to get shares in these enterprises on the assumption that such "privatization" would bring about better management[55]. No attempt was made, however, to replace the bureaucrats and technocrats who headed these enterprises by dynamic professional managers. Finally, as noted earlier, liberalization in India was more gradual and better planned and sequenced. The Indian success and the Russian failure in the corporate response to liberalization strongly argues against a recipe, "big bang" approach to liberalization. Both institutional factors specific to the country and the way liberalisation is managed seem to play major roles in determining how effective may be the corporate response to liberalisation and to the increased competitive pressures and growth opportunities liberalisation provides.

The Management Challenges Ahead

In the years ahead, faster deregulation and greater globalisation are in the cards for most developing countries, including India. While growth opportunities will continue to be robust, competitive pressures will steadily escalate and the state may become increasingly reluctant to bail out corporate failures. In the riskier environment, corporate performance could fluctuate a great deal unless stabilised by appropriate management modes and policies. Besides corporate strategy and structure, corporate managements will have to institutionalise effective styles and policies for more durable excellence. The issues will not be only or even primarily what business one should be in, how should one compete, and what should be the appropriate organizational structure for the company's growth and competitive strategy. Equally important will be such questions as how should management set its objectives, how should it build competencies in its managers and employees to be able to meet its objectives, how should management make decisions, how should operations be coordinated and controlled, how should the stakeholders of the organization be motivated to contribute to the excellence of the organization, how should a culture of learning and innovation be created, what should be the policy framework that could give the organization enduring strength, etc. Bright strategies and clever structures may fail if these issues are not addressed.

Indian corporate research suggests that four styles of management either singly or in combination provide outstanding strengths to the organization[56]. These are the participative, altruistic, professional, and organic styles. In a study of 90 Indian companies, these styles - out of 20 that were studied - were found to give the best results vis-a-vis five criteria of assessment. These criteria were the organization's learning ability, smooth and stress-free functioning of the organization, the management style's capacity to yield excellent performance on a relatively wide band of indicators of organizational effectiveness, and the capacity of the style to "jell" with and have synergy with the ingrained mode of management.

The participative management style includes a strong emphasis on seeking the participation of subordinates in decision making, on sharing power with them, on trying to reach consensus decisions through free and frank decisions, sharing of ideas and information, on democratic procedures, on involving staff in decisions, on mutual trust, on creating a climate of collaboration, team building, and team management. A pitfall to be avoided in practicing the participative style is an over-reliance on committees for deciding everything and endless wrangling in committees. Effective consensus building is the key to the effective participative style of management.

The altruistic style emphasises the idea that management is a trustee for the various stakeholders of the organization including owners, employees, customers and society at large. It emphasises ethics in securing business goals, honesty, a spirit of sacrifice, commitment to the welfare of others, and dedication to great social ideals. The practice of this style needs to avoid public posturing of being enlightened that involves getting into highly visible charitable activities at the cost of attending to urgent organizational concerns.

The professional management style emphasises systematic research for growth opportunities and systematic anticipation of problems through formal forecasts; a systematic consideration of costs and benefits of alternatives and a carefully coordinated, formally stated top management strategy. It emphasises long term planning, a sophisticated management information system, and the extensive use of expertise and thorough research in making decisions. In practicing this style some pitfalls need to be avoided : exclusive reliance on formal qualifications as a surrogate for managerial competence; an excessive number of specialist staff departments, resulting in staff-staff, staff-line conflicts; unrealistic or simplistic assumptions for reaching analytically sophisticated decisions: analysis - paralysis, etc.

The organic management style emphasises the free flow of information and communication within the organization and widespread awareness of the organization's goals, problems, and business plan of action among decision makers at all levels. It avoids excessive paperwork and formalised procedures and narrow job descriptions. The emphasis is on flexibility, openness, innovation, improvisation, the importance of the effective problem solver, resourcefulness and getting things done. Some perversions of the style that need to be avoided are dislike of any sort of order, rules, specification of duties, responsibilities, reporting relationships, or filing of information, and excessive "openness" such that even proprietary information is not kept secret.

These four management styles, when used in combination, seem to provide great strengths to the organization. The participative style not only leads to better quality of decisions through pooling of viewpoints, information, expertise, etc. but also to more effective implementation of decisions participatively taken. It makes the organization's functioning more cohesive. The professional style yields high quality, analytically sound decisions. The organic style gives to the organization the flexibility and capacity to innovate and improvise that is so vital in a rapidly changing environment. The altruistic style anchors the organization into an idealism that not only improves its public image but eggs on its stakeholders to superhuman efforts and sacrifices. Cohesion, expertise, flexibility, and idealism may well be management strengths that can help liberalising Third World economies reach heights of socially relevant, sustainable growth in a rapidly globalising world[57].

The corporate policy structure is another potential source of corporate excellence. Policies are guides to decision making[58], and often represent the thumb rules learnt by management in the course of running the organization. They tilt management in favour of certain kinds of decisions. The policy structure therefore usefully supplements management style. A study of the corporate policies of Indian public sector enterprises, most of them some of the largest and best performing amongst such enterprises in India, indicated 17 policies that were associated with at least three out of nine indicators of perceived corporate excellence[59]. Each policy item was posed as a choice between extremes, such as policy of confining all sales to the Indian market versus policy of increasing exports rapidly.

Interestingly, over half the "excellent" policies related to globalisation : policy of turning into a multinational corporation, policy of adopting the best international operations, financial, personnel, and marketing management practices, policy of seeking globally the most advantageous locations of plants or operating centres, policy of shopping globally for inputs, a strong export orientation, and global diversification of suppliers of knowhow and technology. Besides globalisation, an entrepreneurial orientation was also reflected in some of the other policies : a policy of pioneering in the country technologically sophisticated products, and of actively cultivating important contacts to secure vital future-related information. A professional management orientation was reflected in the policy of planning on the basis of long range forecasts. A participative management orientation was indicated by the policy of involving subordinates in decision-making for reaching consensus decisions. An altruistic orientation was reflected in the corporate commitment to staff welfare and giving staff above average benefits and amenities, development of family-type relations with the employees, as well as commitment to the welfare of the communities in which the company's plants and offices are located. An organic orientation was reflected in the policy of emphasising innovation and experimentation in all operating areas.

Since liberalization increases competitive pressures as well as growth opportunities, the organization must pay greater attention to efficiency, staff morale, financial strength and performance stability, and also to adaptability, innovativeness, and growth opportunities. Significantly, over half of these 17 "excellent" policies were statistically significantly associated with the excellence criteria of efficiency, staff morale, financial strength and performance stability, as well as with adaptability and proactivity, innovativeness, and the corporate growth rate.

Thus, a style of managing the corporate organization that emphasises participation, professionalism, flexibility (organic management) and altruism, in conjunction with an entrepreneurial orientation (globalisation, pioneering of new products) may strongly promote durable and multi-dimensional corporate excellence in a liberalizing economy.

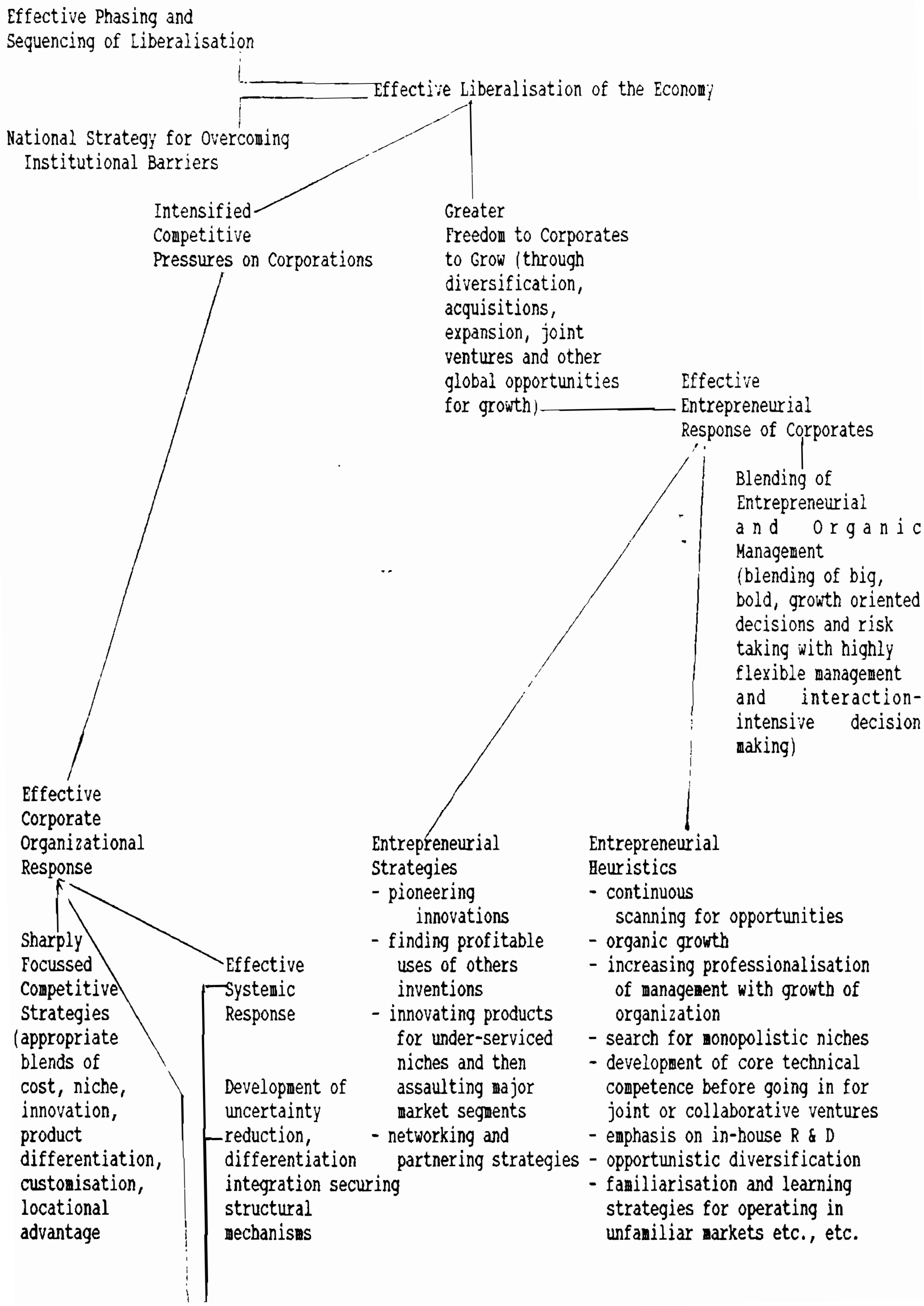
Concluding Comments

Liberalisation of statist economies is an experiment in social engineering. Its success can lead not only to a freer economy but also possibly to a freer society which more fully releases human creative potential. But an effective corporate response is essential for the success of liberalisation. Such a corporate response is not automatic. In societies in which entrepreneurial traditions are weak and professional management is more or less unknown, as in Russia, the corporate response to liberalisation can falter badly at least in the initial years, and the economy can plunge rather than prosper. Besides, liberalisation itself needs to be managed well, both in terms of phasing and sequencing, and in terms of including in it an agenda of removing institutional bottlenecks. Finally, the effective design of the corporate organization assumes great importance for the success of liberalisation. This effective design encompasses strategic, structural, cultural, policy and management style variables. The more these are deployed, and the more orchestrated they are for complementarity and synergy, the more effective may be the corporate response to liberalisation. This paper has attempted to spell out some of these instrumentalities of durable corporate excellence in a liberalising economy (see Diagram). The available evidence suggests that partly because of the able management of liberalisation by the government and partly because of a robust corporate response to liberalisation aided by appropriate systemic and strategic changes, the Indian corporate response to liberalisation seems so far to be satisfactory. However, in the more exacting business environment of the future, much more powerful designs and much better quality of management may be needed to sustain corporate excellence.

(Diagram about here)

DIAGRAM

LIBERALISATION AND EFFECTIVE CORPORATE RESPONSE



strategies:

Policy Framework for Sustained Excellence	Work culture building : emphasis on efficiency, productivity, product and process quality, innovation, resourcefulness
- benchmarking with globally excellent management practices - preference for technologically sophisticated products/services - continuous experimentation and innovation in operating areas - having long range objectives and planning - above average emoluments to staff - staff involvement in decision making - investment in welfare of local communities	Blend of participative, professional altruistic, and organic styles of management for sustained excellence

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