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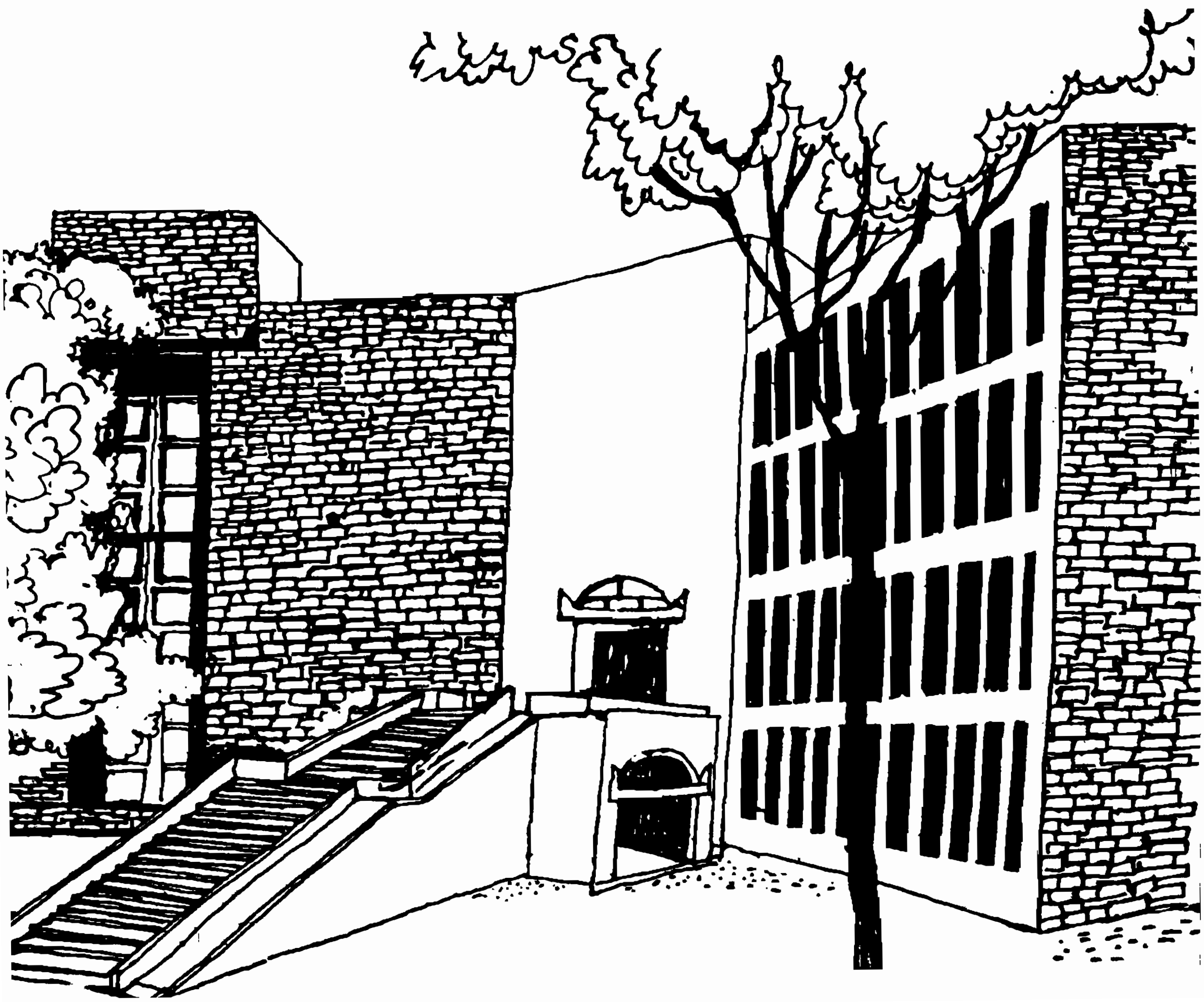

STRATEGY IN THE EMERGING COUNTRIES

By

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W.P.No.99-01-08 / 1502
January 1999

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INDIA

ABSTRACT

Many of the developing countries of Asia and Africa with large and increasing populations are currently at low levels of economic development but represent large potential markets for consumer as well as industrial products. Some developing nations in these continents have initiated economic reforms under the advice of international lending agencies such as The World Bank and IMF. Due to the process of deregulation and economic liberalisation taking place in these countries there has been a sudden upsurge in economic activity and as expected several industries are in the process of transformation.

The impact of reforms on industry has been felt acutely in India where several industries are now in the process of transformation. From a regulated and protected environment firms have been catapulted into a market oriented economy where international competitiveness is the only route to success. For a long period firms in India had been pursuing cost leadership strategies based on low wage labour. The target customers were essentially at the lower end of the market requiring low quality and low priced products. However, we are now seeing some changes in the strategic thinking of corporate leaders. With the realisation of the changes in the competitive environment firms are now experimenting with a diversity of strategic approaches. From a low cost approach firms are moving towards a new management paradigm. Strategic approaches incorporating product differentiation, brand building, rapid new product development, major technological changes, organisational restructuring for greater effectiveness and efficiency, internationalisation and a strategic refocusing on businesses with a view to building on core competences are fast becoming the order of the day in India. Future progress on the economic front in India as well as

on the sub-continent would depend on improvement in the governance processes. Political stability would be a key to further reforms and in turn industrial resurgence. Africa is going to face a very major challenge in the process of industrial development as the political situation there is far more complex with armed internecine conflicts being rampant.

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Many of the developing countries of Asia and Africa with large and increasing populations are currently at low levels of economic development but represent large potential markets for consumer as well as industrial products. Some developing nations in these continents have initiated economic reforms under the advice of international lending agencies such as The World Bank and IMF. Due to the process of deregulation and economic liberalisation taking place in these countries there has been a sudden upsurge in economic activity and as expected several industries are in the process of transformation.

In the following sections we explore briefly strategies being followed by firms in different industries in the Indian sub-continent and Africa.

INDIAN SUBCONTINENT

INDIA

1. INTRODUCTION

India became independent from British rule in August 1947. Since then it has had a relatively stable political situation for most of its history. On attaining independence the government decided to pursue a socialistic path of development and adopt an import substitution led economic growth strategy; which has undergone a metamorphosis during the last few years. With a per capita GNP of $340 India is currently one of the poorest nations in the world.

A new industrial policy initiating far reaching structural reforms was adopted in July 1991 with the major objectives: to maintain sustained growth in productivity and gainful employment, encourage growth of entrepreneurship and upgrade technology to achieve international competitiveness. The new policy covered all sectors of industry; small, medium and large, belonging to the public, private and cooperative sectors. Since 1991 several amendments have been made to the industrial, foreign investment, trade and fiscal policies. These policies, in combination, provide the framework for industrial activity in India currently. In the following sections we discuss briefly four major strategic approaches that have gained prominence during the post-reform period. Section 2 is base on a study done by the author (Chaudhuri, 1997). The other sections are based on published sources.

2. USING TECHNOLOGY FOR COMPETITIVE ADVANTAGE

With adoption of the New Economic Policy in mid-1991 the use of technology as a competitive weapon has gained prominence. For example, with the entry of new multinational companies (MNCs) in the passenger car industry (Daewoo, Ford, Mercedes-Benz, etc.) the existing players Maruti-Suzuki, Premier Automobiles, Hindustan Motors have signed new collaboration agreements with foreign car manufacturers to acquire new technologies for improving existing products and also to introduce new models. As a related development several auto ancillary manufacturers have also signed up foreign collaboration agreements for upgrading technology for component manufacture

Technology is being increasingly seen as a resource for pursuing both cost reduction and differentiation strategies.

2.1 Overall Growth and Trends in Nature of Foreign Collaboration

On an aggregate basis, 1980s saw a major increase in the number of foreign collaborations. This was the time when the process of economic liberalization had its beginning. The highest number of collaborations signed in any year during the decade of the 80s was 1041 in 1985 and the lowest was 389 in 1981. With the adoption of the New Industrial Policy in mid 1991 the increasing trend in the number of collaborations has been maintained. From 976 collaborations signed 1991 the figure went up to 1854 during 1994. During the eighties and nineties there has also been an increase in the number of collaboration agreements with foreign investment. For the period 1948 to 1996 foreign investments formed about 30 per cent of the total number of collaborations. In 1994, fifty seven per cent of the collaborations was with foreign equity.

2.2 Industrial Sectorwise Collaborations

The chemical, electrical and electronics, industrial machinery, mechanical engineering, metallurgical and transport industries have been important in terms of foreign collaboration approvals at different periods. In recent years consultancy and other services have assumed importance. In 1996 consultancy and other services cornered about 17 per cent of all collaborations.

In the post-reform period there are 3 sectors that stand out: chemicals, electricals and electronics and consultancy and other services. The chemicals sector attracted around 14 per cent; electricals and electronics about 15 per cent; consultancy and other services about 14 per cent of all collaborations.

The increase in collaborative activity between Indian companies and foreign ones is a good augway, but it is posing new managerial challenges. A significant number have broken up because of the foreign partners' insistence on hiking up their equity control. The challenge for Indian firms would be to improve their own skills through continuous learning from their partners as well as through their own R&D activities.

2.3 Countrywise Distribution of Foreign Collaborations

On an overall basis it is evident that the US has been the most significant provider of technology to Indian firms during the period 1981-94 with an average of 20.84 per cent of the total number of approvals. Germany and the UK follow in the same order accounting for 16.15 and 13.89 per cent of the total.

During the period 1991 to 1994 companies from countries other than those traditionally known as technology suppliers became active in this field. For example Mauritius became an important source indicating the importance of tax considerations in technology transfer.

3. DIFFERENTIATION AS A COMPETITIVE STRATEGY

Though the overall cost leadership and focus strategies have been quite common the increasing competitiveness of the business environment in India during the last few years has seen a surge in product differentiation strategies. We examine below how companies in different industries are trying to achieve differentiation.

3.1 Brand Building

Currently most software companies in India earn more than 90 per cent of their revenues from consultancy and projects. On an average, less than 8-10 per cent of their revenues come from generic software products. However, the scenario is likely to change fast. Indian companies are now considering introducing branded software packages to boost their bottomlines. The brand presence is expected to generate loyalty among users and have a long term business prospects. Tata Consultancy Services (TCS), the leading infotech company in the country launched 5 branded products during 1991-98. Infosys, another significant IT company launched 2 branded products during the same period. (The Financial Express, Brand wagon, September 8, 1998, p.1) .

3.2 Time to Market: The Emerging Competitive Edge

Rapid product development and market launch is an important way to score over competitors. This has been known to be true in the TRIAD countries (US, Europe and Japan) for long. However, the emerging competitive scenario in India is pointing toward the need for pre-emptive launches to exploit first mover advantage. Nestle (India) like its multinational parent has used this strategy for its products ranging from Macaroni snacks to chocolates and soups. In mid 1997 Dabur launched its Homemade Cooking Pastes ahead of Kissan's launch of a similar product. Hindustan Lever, the Indian subsidiary of Unilever, the Anglo-Dutch multinational, launched Clinic All Clear, a new anti-dandruff shampoo ahead of Procter and Gamble's launch of the world famous Head and Shoulder. (The Financial Express, Brand Wagon, September 8, 1998, p.2)

4. FOCUSING ON CORE COMPETENCIES THROUGH COMBINATION STRATEGIES

The advent of global competition in India has made a dramatic impact on the thinking of corporate leaders in India. Whereas unrelated diversification propelled by industrial licensing norms and other governmental regulations was the norm during the pre-liberalisation era large multi product and multi divisional firms are now rethinking their strategic approaches. During the last few years larger firms have been pursuing complex strategies at the heart of which is the objective of building on a few core competencies. A few examples follow:

4.1 Foseco India, the market leader in specialty foundry chemicals and steel fluxes was born as a joint venture between Greaves Cotton Limited and Foseco International in 1964. In 1992 the Thapar group as a part of their long term strategy divested off the shares of Greaves Cotton in Greaves Foseco International and brought about organizational changes that included creating strategic business units to focus on the different markets and product lines and delayering to bring down the number of managerial layers. (AIMA , 1995, p. 43)

4.2 Tata Refractories (TRL) , the market leader in the Indian refractory market was set up by Tata Steel in technical collaboration with Didier of Germany. In the late eighties TRL discontinued its range of low quality alumina bricks due to competition from smaller players and decline in profitability. In 1992 TRL diversified into high technology products and to meet the competitive challenge it reorganized its operations into strategic business units and focusing on its dolomite, mag carbon and specialty range of products. In 1994-95 TRL sold off its loss making companies, and was planning to prune its product range and avail of tax benefits by merging of a sister company into it. (AIMA , 1995, p.45)

4.3 The RP Goenka Group, a large (sales turnover: Rs 64000 million) multi product company is in the midst of a complex restructuring and refocusing exercise. Recently it sold off its stake in a five-year old joint venture with Goodyear Tyre of the U.S. During the last few months it divested itself of or diluted its shareholding in several JVs operating in diverse business. The new parameters that are guiding the company's entry into a business line are ; competitiveness, leadership and sustained profitability. The group is currently involved in a globalisation effort with JV s in Saudi Arabia, Lebanon, Malaysia and Vietnam and is exploring the possibility of a JV in China for carbon black business (Sitaraman Shanker, E T Dossier, p.1, may 8-14 1998)

5. INTERNATIONALISATION

In global markets Indian products though generally considered to be competitively priced ,
rank low on critical factors like quality, delivery, and technology. A major problem is attitudinal. Most Indian firms lack an international perspective in strategy formulation, and there is considerable risk-aversion to exploring international business opportunities.

An exploratory study of the internationalisation process by ten of the larger Indian firms that cut across several industries revealed some interesting facts. These firms' internationalization efforts were characterised by a) a process of fairly rapid rate of internationalization, b) long term thinking and planning, c) a global mindset , d) a strategy of creating beach heads in critical markets, e) emphasis on quality, f) global scale , g) building on distinctive capabilities, h) an international perspective on funds mobilization, i) changing product portfolio and j) backward integration (Chaudhuri, et. al. 1996, p 35).

Increasing competition in the home market is pushing firms to increasingly explore foreign markets in industries like pharmaceuticals and software.

PAKISTAN

Pakistan was created through partition of India in 1947. At the time of its emergence it included an eastern part which is now called Bangladesh. It has had a volatile political history like Bangladesh. For a major part of its history it has had military generals heading the country. In 1970 the country had its first free elections. Since the late 80's Pakistan has had elected governments.

Pakistan has a per capita GNP $ 460. Agriculture and Industry are almost equally important in terms of their contribution to their GDP. Services comprise 50 per cent of its GDP. During the last few years its economy has faced some problems. Petroleum and utility prices have increased by leaps and bounds and inflation has been around 12 per cent. Industry and exports have been stagnant.

Major industries are cotton cloth, cotton yarn, fertilizer, cement, sugar, paper and paper board. Major exports are cotton yarn, cotton cloth, synthetic textiles, cotton, rice, leather, fish, carpets and rugs , petroleum products and foot wear. The export industries in Pakistan are basically geared towards pursuing a cost leadership strategy targeted towards the low end of international markets. Firms are using the comparative advantage of low wages to power their export drive.

Though the above description of Pakistan's industries does not portray a rosy picture there are some silver linings as evidenced by the relative success of the surgical instrument industry, which has emerged in the provincial town of Sialkot. Around 300 small and medium enterprises (SME's) located in Sialkot have made Pakistan a global player in the manufacture of stainless steel medical, dental and surgical instruments. Since the mid 1980's export growth in real terms for the industry has averaged approximately 10 per cent per year. Total exports sales exceeded $ 100 m in 1997. Eighty five per cent of exports were to North America and Western Europe. Pakistan's share of the world market in this industry was 20 per cent (Asia 1998 ; Nadvi , 1997). The success of this industry illustrates the concept of the national diamond of competitiveness as well as the working of industrial clusters (Porter, 1990).

BANGLADESH

Bangladesh was born as an independent nation in 1971 and since then has had a volatile political history. With a percapita GNP of $240 it is one of the world's poorest nation.

Industry accounts for close to 20 percent of GDP. At the time of independence the government assigned the lead role in industrialisation to the state but very soon undertook measures to encourage private entrepreneurship. Trade liberalisation, market oriented exchange rate policy, public enterprise reforms and incentives for foreign private investments are some of the key aspects of the governments policy reform since the mid 1970's and since 1982 the private sector has been given the lead role in industrialisation.

Ready-made garments, jute textiles, leather products, processed fish and sea food and tea are the major export industries. Available evidence suggests that exporting firms are pursuing a cost leadership strategy targeting low end customers based on low wage advantage.

The ready-made garment industry has expanded quite rapidly during recent years. Small industry seems to have shown some amount of dynamism. Within the small industry sector, industries that have experienced significant growth are the following; bakery, oil mill, ready-made garment, hosiery, wooden furniture and fixtures, printing and publishing, industrial chemicals, lime products, soap, cosmetics and perfumery, light engineering, automobile servicing and repairing, steel furniture and jewellery (Asia 1998; Quibria, 1997). All these industries are labour intensive. Bangladesh, with a vast population has the comparative advantage in these labour intensive industries which exporting firms are exploiting.

SRI LANKA

Srilanka formally known as Ceylon emerged as an independent nation in early 1948. Like Bangladesh and Pakistan this country has also had turbulent political history. For the last fifteen years or so Sri Lanka has been embroiled in a civil war like situation with Tamil separatists.

Despite the difficult political situation the country has the highest per capita GNP ($700) amongst the South Asian Nations. Agriculture and industry contribute 23 and 25 per cent respectively while services account for the rest. Major industries are: food , beverages, tobacco, textiles, wearing apparel and leather products, chemicals, petroleum, rubber and plastic products and major exports include tea, rubber, coconuts, textiles, petroleum, gems, textiles and garments-- all characterised by labour intensive technologies (Asia 1998).

AFRICA

Africa is a continent of 54 countries with an estimated population of 700 million people as of 1994. A large part of Africa has been embroiled in devastating conflicts for twenty years or more. Ethiopia, Namibia, South Africa, Uganda, Angola, and Mozambique are emerging from years of turmoil but others such as Liberia, Somalia, and the Sudan still continue to be in the most horrific of internal armed conflicts. Political turmoil and internal civil strife have caused devastating effects on the economies of the countries involved. It is estimated that around 22 million people in Central and East Africa alone are displaced and atleast 250 million people in sub-Saharan Africa -- nearly half the population -- live in abject poverty. (Colletta, Kostner, Wiederhofer, 1996)

Many African countries have undertaken structural adjustment programmes to accelerate economic growth. A World Bank report (IBRD 1994) points out that in the African countries that have undertaken and sustained major policy reforms, adjustment is working; however a number of countries have yet to introduce required reforms to restore growth. No African country has achieved a sound macro economic policy profile (inflation under 10 per cent, very low budget deficit, and competitive exchange rate). On the positive side the reforms have improved external competitiveness. Increased access to imports required for growth has been achieved and also the reduced taxation of agriculture has encouraged production and exports.

Reforms of agricultural pricing and marketing systems are in progress across the continent. Almost all countries are attempting to ensure better prices for their major agricultural exports. In some cases they have abolished state marketing boards and have allowed the private sector to compete with them. In some cases the countries have adopted pricing formulas linked to world market prices and there has been a major withdrawal of government from food crop marketing. There has also been a move to deregulate prices and markets in other sectors. In many countries commodities like rice, sugar and tea can now be imported freely by the private sector. Monopolies, however continue in important sectors as petroleum, wheat and fertiliser and infrastructure services.

Most African governments have been carrying out some kind of reform in order to ease the financial burden and to increase efficiency. The reform process has at best been only moderately successful. Almost all countries have halted the increase in the number of public enterprises, and some have reduced the number. A number of governments have signed performance contracts with key enterprises but available evidence shows that they have mostly failed in improving enterprise efficiency. Most of the divestiture of government share holding has occurred in the small and medium public enterprises. The larger ones -- airlines, railroads, mining , utilities -- have generally not been privatised.

In the following paragrâphs we describe brief profiles of 3 major industries on the continent.

Chemical Industry

The North African region, West Africa and Southern Africa have relatively stronger chemical industries than the rest of the continent. Access to larger markets, presence of feed stocks such as natural gas coupled with good downstream oil refining or cracking infrastructure have facilitated the development of the industries in these regions. In the north Algeria, Egypt, Libya, Morocco and Tunisia have strong chemical industries. Nigeria in the west is the main manufacturer and user of chemicals and South Africa is the key player in the southern part. The chemical industries in Africa are basically meant for meeting local requirements rather than for exports. In Africa the chemical industry comprises private indigenous African companies, public sector enterprises, multinational companies, traders, agents and distributors. A few examples follow:

Sasol Chemical Industries manufactures a wide range of primary, intermediate and final products marketing in Africa and in the rest of the world. Products dealt with by this company includes solvents, waxes, ammonia, fertilizers, alcohol, explosives, acrylic fibres, etc.

Chempro, a south African company is involved in the supply of key products to the oil refining, lubricant and fuel markets. Products include catalysts, process chemicals, performance additives and specialised dyestuffs.

There are several national oil and chemical companies as well as multinationals in the chemical and petrochemical industries in Africa.

Mining Industry

Mining is one of Africa's key industries. South Africa dominates Africa's mining industry. It produces approximately 70 per cent of Africa's metals by value. More than half the value of exports from each of Ghana, Morocco, Zaire, Zambia, Namibia, Botswana and Zimbabwe is derived from minerals. The world's diamond industry is dominated by Africa. The mining industry in Africa is facing several challenges. At the political level the break down in the rule of law as in Liberia, Somalia and Angola has discouraged foreign investments in the local mining industry. South Africa is struggling to keep its mining industry competitive while other countries are in the process of making changes in their mineral legislation, fiscal and foreign exchange regimes which could make their industries attractive exploration prospects. Canadian companies have been in the forefront of exploration and mining ventures in the recent past.

Oil Industry

The upstream oil industry is significant to Africa. In 1994 it produced over 40 types of crude oil. The upstream industry is dominated by 5 countries, Algeria, Libya, Egypt, Angola and Nigeria. Other oil producing nations are Gabon, Congo and Cameroon. All the major international oil companies have operations in Africa. Besides, there are also local African companies.

The downstream oil industry comprises 43 refineries in 25 countries as well as marketing and distribution facilities in all countries. The major refining centres are in South Africa, Nigeria and Egypt. Africa also have an active lubricants industry which encompasses base oil refining, lubricant blending, distribution and marketing.

6. CONCLUSION

The Indian sub-continent and Africa have much in common. Geographically the two regions are large and have considerable diversity and also huge populations. Most countries in the region have had a turbulent political history for long periods except for India which has had relatively more stable political situation. On the whole, they are at a low level of economic development and poverty is rampant. However, there are reasons to be optimistic. Just as there are considerable similarities between the countries in these two regions there are also considerable inter-regional and intra-regional differences. Several countries in these two regions are in the process of implementing major macro economic reform programmes. Though, overall, the experience with the reform process has been mixed that in several countries reforms are paying off. In both the regions, however, it is believed by aid agencies, reforms have to be speeded up for better economic performance.

The impact of reforms on industry has been felt acutely in India where several industries are now in the process of transformation. From a regulated and protected environment firms have been catapulted into a market oriented economy where international competitiveness is the only route to success. For a long period firms in India had been pursuing cost leadership strategies based on low wage labour. The target customers were essentially at the lower end of the market requiring low quality and low priced products. However, we are now seeing some changes in the strategic thinking of corporate leaders. With the realisation of the changes in the competitive environment firms are now experimenting with a diversity of strategic approaches. From a low cost approach firms are moving towards a new management paradigm. Strategic approaches incorporating product differentiation, brand building, rapid new product development, major technological changes, organisational restructuring for greater effectiveness and efficiency, internationalisation and a strategic refocusing on businesses with a view to building on core competences are fast becoming the order of the day in India. Future progress on the economic front in India as well as on the sub-continent would depend on improvement in the governance processes. Political stability would be a key to further reforms and in turn industrial resurgence. Africa is going to face a very major challenge in the process of industrial development as the political situation there is far more complex with armed internecine conflicts being rampant.

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