Indian Companies in a Globalising Arena
Generic Patterns and Strategies[1]

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With the onset of economic reforms in the early 1990s, India started on the path of transformation from 'centrally planned – self sufficient' to a 'market oriented – globally integrated' economy. During the previous four decades, India had evolved into one of the most centralised, controlled and insulated economies in the world. The decade of 1990s was a period of transition, and the reforms lead to virtual redefinition of the business environment in the country. And at the turn of century, the set of business and organisational imperatives for any company operating in India, are radically different from that prevailing earlier.

At a fundamental and as well as apparent level, the principal difference is of the "globalising pattern" of Indian business environment, in terms of the market and resource environment. The pace and extent of globalisation may vary across companies and industries, but the trend is indisputable. For Indian companies, enterprises predominantly owned and managed by Indian entrepreneurs, globalisation is an unfamiliar phenomenon. The responses have been sometimes a combination, of ignorance, denial, fear and excessive exhilaration. Impact of globalisation is pervasive, as it affects an enterprise at both strategic and operative levels.

While the operational issues relate to bringing the output and efficiency parameters to that of global class competition, the strategic management issues relate to setting the direction of Indian companies in the globalising business environment. Strategic management is about the activities, issues and processes in the functioning of top management, and whose role is to define the long term

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objectives of a company and to put the requisite business and organisation framework in place. Though operational and strategic issues are interrelated, the dynamics, forces and patterns are different, and focus here is on the latter.

The objective is to identify strategic imperatives for Indian companies as a class and to evolve some generic strategies for successfully navigating in the globalising business environment. The concept of generic strategies (Porter, 1980), as broadly defined but internally consistent approaches for creating sustainable advantage, is expanded to include definition of broad organisational framework, in recognition of the organisation design being a critical factor in a company's long term success. Generic strategies need to be crafted into specific initiatives and processes for a company, as per its unique business and organisational requirements. Indian companies as a class share among themselves a history, present and possibly future. In order to arrive at generic strategies, it is necessary to explore the past patterns in practise of strategic management and the forces that will shape conduct in coming years.

Strategic Management in a Controlled Economy

As the government attempted to play the role of planning and controlling the growth of Indian industry in the post-independence decades till the 1980s, it was essentially the 'strategic management on government's fringes' for Indian private sector enterprises (Karki & Krishnan, 1999). The government was the locus of strategic management for most of the industry sectors, as it decided on the investments and production levels. The investment patterns were based on determination of needs of the Indian economy, projections of goods and services required for the fulfilment of needs, availability of resources, etc. Government also decided on who should produce through an elaborate licensing system, and it also controlled how much to produce through production quotas. The private sector enterprises were considered a part of this overarching strategic planning system, and they were tightly regulated to perform as per the national objectives and approaches. The economic paradigm discouraged and tried to avoid competition through demand-supply management, and the high taxation rates at enterprise level were aimed at recovering excess resources to feed the national planning objectives. The national planning system was governed by a huge and pervasive politico- bureaucratic mechanism, with the top tier administered by politicians and senior bureaucrats and the lowest tier by inspectors.

The private sector enterprises faced a complex framework for survival and growth. The essential profit motive needed to be cloaked in an outward appearance of serving social and national objectives, such as the TISCO's corporate statement 'We also make steel'. Growth was entirely controlled by availability of licenses, either for entry into new product-markets or for expansion in capacities. As extremely high taxation rates left insufficient profits for funding investments, the private sector enterprises depended on indirect government funding through financial institutions. They used profits retained through 'creative accounting' to influence the politico-bureaucratic system in order to avail licenses and work through the regulatory mechanism. The Monopolies & Restrictive Trade Practices (MRTP) Act was a major hindrance to growth, resulting in a numbing of entrepreneurial initiative, and many companies like TISCO and ACC constantly lived under the threat of nationalisation. In addition, the companies and business houses needed to keep their ambitions stunted or secretive, given the prevailing ethos. However some industries were exceptions, varying in terms of the extent and the periods, with the players having freedom in making strategic management choices. A separate policy framework, for example, since its inception in the 1970s, governed the information technology (IT) sector. In some sectors like cement and automobiles (especially light commercial vehicles, tractors, motorcycles), the regulatory framework was gradually loosened from the late 1970s.

The 'controlled' economy paradigm had a deep and distinctive impact on the practise of strategic management in Indian companies. Patterns that emerged were widely different from those observed in developed country corporations and those that are put forward in classical strategy literature. These patterns, in terms of content and processes of strategic management, lead to creation of business profiles and managerial mindsets that continue to exercise considerable influence in the evolution of Indian companies. Some key patterns shared by most of the Indian companies while operating in the controlled economy, were:

- **Subsuming enterprise objectives into the national planning framework.** The strategic evolution of a company was generally de-linked from the successful operation of the existing activities, and it depended on the opportunities thrown-up by national planning system. The MRTP and other regulations discouraged expansion in existing activities; and the licenses practically secured profits due to pre-empting of competition, government support in accessing long-term and working capital funds, privileged access to technology, etc. Therefore strategic objectives were not determined at the enterprise level, and the companies had to let their objectives be governed and controlled by the national planning framework.
- **Capabilities in generating and grabbing opportunities.** The successful enterprises in pre-liberalisation stage, developed capabilities in influencing the politico-bureaucratic decision making process. The 'creative accounting' procedures and over-invoicing of capital equipments enabled the companies to generate resources, and the companies were able to identify and develop requisite 'levers' to exercise influence. Companies employed influence to generate new opportunities in terms of licenses and to secure their preferential treatment.
- **High diversification, non-competitive scales and weak technology capabilities.** As the essential approach to grow and increase profits was by securing licenses and the regulatory mechanisms actively discouraged concentration of capacities, diversification was generally the strategy for Indian enterprises and growth through mergers & acquisitions was not

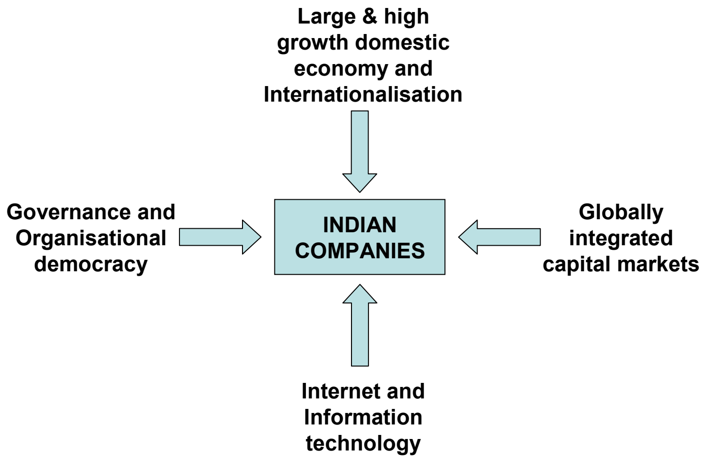
feasible. As a consequence, most of the companies became highly diversified with presence in a large number of unrelated businesses and most of the capacities were uneconomic. In addition the companies rarely progressed beyond the 'know what' of technology, which was barely adequate to operate the plants and solve simple production problems. There was little incentive for developing technology capabilities and for carrying-out product and process innovations, given the secure competitive environment and the low scale of operations.

- **Secretive and 'one man' strategic management process.** Indian enterprise essentially functioned at two largely insulated levels -- a strategic core comprising the owner alone or with few other family members and trusted lieutenants, and a large operating organisation with many levels and professionals. The operating organisation was shielded from strategic management activities, and it was called upon to implement a business opportunity after it was already secured.

These strategic management patterns came under considerable strain, during the transition to new paradigm of 'market oriented – globally integrated' economy in 1990s. Several Indian companies responded by undertaking business rationalisation and organisational restructuring and by setting up formal processes for top management decision making.

Forces Shaping the Globalising Business Arena

Unlike the 1980s and to an extent in the transition decade of 1990s, when government was the virtually the unitary and pervasive force defining the strategic approaches of Indian companies, the situation is relatively more complex in the new millennium. The new underlying or meta-pattern is the globalisation of Indian economy. The integration of Indian and global economy has thrown up new imperatives, which can be categorised and conceptualised into the four forces illustrated in the diagram below. The forces numbering four are tractable and independent, and cover most of the aspects of globalising Indian business arena. As the new set of forces is very different, the strategies and processes developed in 'controlled economy' environment need to be transformed and realigned.



All the forces would have an impact on strategic approaches of an Indian company, however the strength of a particular force would tend to vary depending on the specific business and organisational characteristics. The impact of each force would be multi-dimensional – affecting several activities and multi-level – from a unit level to enterprise as a whole, and the forces would act in various permutations and combinations, in order to define the exact nature of imperatives for a company.

Large and high growth domestic economy and Internationalisation

India unlike most of the countries in South East Asia and Europe will have a large domestic market, and current proportion of exports at 10% of GDP is likely to persist of many decades to come. In some ways the economic profile will be similar to United States, and Indian companies can afford to achieve economic and considerable size without feeling the urgency to enter international markets. India is currently the fourth largest economy in the world in terms of purchasing power parity and it is expected to achieve annual GDP growth rates close to 7%, which makes it one of the most attractive economies to do business in. At an aggregate level, Indian companies would need to maintain a nominal growth of 15% per annum to retain their position in terms of size. The opportunities in domestic market are huge, as penetration of most manufactured goods or services in India is very small compared to either developed countries or to comparable countries like China and Brazil. This situation prevails from commodity goods like cement, to consumer products like cosmetics and television to technology products like personal computers and telecom equipment. Besides continent size domestic market, Indian companies can seek opportunities in international markets on two logics. Firstly, by building on success in domestic market, often against competition from global corporations, they can extend operations into nearby countries in South Asia onwards into Indian Ocean rim, South East Asia and finally into developed countries, i.e. IT training companies like Aptech and NIIT. Secondly, by building on comparative advantages resulting from natural factors, lower costs for skilled manpower and technology capabilities i.e. information technology, IT enabled services, pharmaceuticals, etc.

Globally integrated capital markets

The Indian and international capital markets for both debt and equity is already integrated to a large extent. Indian companies have the option of whether to access domestic market or international ones for capital, and they have been raising international capital often at attractive terms in the form of debt, initial public offering, private or public placement of equity, etc. Venture capital, from international as well as domestic sources, is easily available for start-up and to support enterprises in early stages. Primary and secondary markets are willing to reward good performers, with feasibility to mobilise large amounts of capital and with opportunities to grow through mergers and acquisitions. On the other hand, poor business performance is getting noticed quickly and being upbraided. In many ways, 'rewards and punishments' for performance are getting bigger and quicker, and often exaggerated. The move towards integration with global capital markets is likely to be formally completed in a few years time, with introduction of capital account convertibility. The impact of this force is going to strengthen and cover most of the industrial sectors, in the coming years. The force 'globally integrated capital markets' alone, has the potential to change the complexion of industrial activity in India. The availability of capital based on robustness of ideas rather than social contacts or inheritance will diminish the role of certain social groups and communities, and it is likely to start entrepreneurial activity in newer social groups and geographical areas. For established and well performing companies, the capital ceases to remain a constraint, perhaps for the first time in the history of Indian business enterprise, as shown by the cases of Reliance, Tata Tea and some IT companies

Internet and Information technology

In its essence, a business activity is exchange of goods and services for money, which is made possible, by the exchange of information at various points and stages. The efficacy and efficiency of information exchange in business settings, is a powerful explanation for the creation and for determination of boundaries of organised entities. The developments in information technology during the last couple of decades, especially after coming of internet in 1990s, have revolutionised the scope and costs of capturing, processing and exchanging information. These developments have the potential to alter the concept of business and organisation, in corporations' around the world. With proven capabilities of Indian IT companies and fast creation of IT infrastructure in the country, the impact on Indian companies will be equally strong and almost at the same time. Indian companies can use IT enablement, to pitchfork their operational efficiencies in terms of speed, quality and costs. The strategic imperatives are not yet fully apparent, but they are likely to be equally profound. Firstly, the force of 'IT and internet' will open up new business opportunities, due to lowering of costs of the communication and information processing, i.e. outsourcing of products and services by global corporations, as in case of the GE international vendor programme and the customer relationship activities of international finance players. Secondly, it can be used to redefine the boundaries of business, by breaking up or integrating further along the value chain. Thirdly, it will provide new answers to organisation design questions related to scope of activities, division of responsibilities, centralisation of authority, etc. Indian companies can benefit, and not lose out vis-à-vis their competitors, by developing deep understanding of imperatives of 'IT and internet', innovating on their strategies and organisation designs to create unique positions, and moving quickly.

Governance and Organisational democracy

Sharing of complete and accurate information in a timely manner, with all the relevant stakeholders, is the basic premise of a market oriented and capital markets institutions driven economy. Indian companies have to cover the maximum and the most difficult ground with respect to mindsets and processes required for the appropriate governance of business enterprises. On the one hand the promoters have a proprietary attitude towards publicly owned companies, rather than being the representative of all shareholders, leading to biased business decisions and in-discretionary handling of company funds. On the other, some promoters thrive on access to privileged information and company resources, to exploit situation for personal benefits. Generally the awareness and the sensitivity to standards of corporate governance, is at low or rudimentary levels in Indian companies. After the entry of foreign institutional investors and mutual funds into Indian capital markets, the pressure is building up for maintaining higher standards of governance. There is some evidence of capital markets demanding and acting thereon as per a company's governance standards, and the trend is going to strengthen and become all encompassing in coming years. In addition, as the business environment is going to become more complex and dynamic, and Indian companies would need to have sufficient managerial capability that is vested with adequate authority at various levels, in order to be successful. This will necessitate major decentralisation of authority, and giving up powers on behalf of promoters and senior executives. Ability to attract and develop requisite managerial capability, and then enabling them to function as part of an organisational framework, would be a major determinant of a company's success. Given the likely proliferation of opportunities and options for professionals in Indian economy, it would be difficult to create outstanding organisations without being 'clear, fair and transparent' in managing human resources.

These four forces capture the essence of strategic imperatives for Indian companies, in order to be successful in a 'market oriented – globally integrated' economy. The four forces present a marked contrast to the imperatives prevailing in the major part of post-independence Indian business environment. Indian companies need to adopt different strategies as a genre to be successful, and they make fundamental changes in the approaches developed in the 'controlled economy' environment.

Three Generic Strategies

During the last decade, Indian companies have been exposed and often beseeched with the new strategy concepts and change approaches, from international consulting firms and management gurus. The companies realised the need and enormity of task, of coping with the implications of paradigmatic changes in the Indian economy. They experimented with the change approaches, and tried to implement the 'latest' thinking and methodologies. However unlike technology arena, where the latest is distinctly superior and generally context neutral, the management concepts and approaches are different. Management approaches are rooted in their socio-economic contexts and are often a product of contours of corporate evolution, and there are serious issues in transplanting them into a different 'time and space'. The experiments lead to mixed results, while Indian companies devoted enormous time, efforts and financial resources. There were some blunders, like the case of advice on the sale of soft drink brands to Coca Cola. Paras Pharmaceuticals, Jyothi Laboratories and Cavin Care latter showed the possibility of successfully competing with consumer goods multinationals, in relatively more difficult situation of a new local brand versus an entrenched MNC brand.

The research and conceptualisations on strategy and change methodologies, in various geographical contexts and over various periods, hold important inferences and need to be drawn upon while strategising for Indian companies. However the concepts and change approaches will be unique to Indian situation, and these will also be relevant for current strategic scenario that may prevail for decade or so. Strategy concepts have tended to have a life of about one decade, when they aligned well with the prevailing economic situation and corporate aspirations in United States. This is evident by the popularity of portfolio planning matrices in 1970s, competitive strategy and position in 1980s, and strategic intent and core competencies in 1990s. After the coming of internet, need is being felt for new strategy concepts (Eisenhardt & Sull, 2001). All strategy concepts can hold important insights for Indian companies, and it is possible that some concepts currently considered outmoded may be more appropriate i.e. the portfolio planning approach is quite relevant for fast growing and fast diversifying economic conditions.

Strategic imperatives for Indian companies as a genre at the turn of century fall into two categories. Firstly, they need to undertake quantum shift from strategic management approaches developed during the controlled economy period, by discarding some aspects and reorienting the relevant ones. Secondly, they need to effectively respond to the implications of four forces that are shaping the globalising Indian business environment. As an appropriate and adequate response to the two categories of imperatives, Indian companies need to undertake quantum or transformational changes. They can deploy three generic strategies for navigating in the globalising Indian business arena. Each generic strategy is consistent with the characteristics of a certain type of Indian companies, and it envisages the creation of a specific business and organisational framework and the adoption of a particular type of change methodology. However following more than one generic strategy at the same time, is likely to be unviable due to factors such as size of current activities, financial and managerial resources, orientation and focus of top management, and 'fit' with the organisational framework.

Generic Strategy 1: Domestic market focus and Conglomerate type portfolio

This strategy is appropriate for relatively large Indian companies, which have either inherited multiple and unrelated businesses from the controlled economy era or which can generate and mobilise resources far more than required for current businesses. Generally the current operations of these companies tend to cover entire geography of the country, and the businesses face many handicaps in international markets and the top management and organisation is not internationally oriented. Groups and companies like Birlas, Reliance, Voltas, Nirma etc, after careful assessment of viability of their current business portfolio, can develop strategy aimed at a balance of growth potential, profitability profile over the years, and investment requirements. The strategy of these companies should also aim to position them for forceful entry into newly emerging sectors of Indian economy i.e. telecom, insurance, infrastructure, information technology, etc. This generic strategy would need to be backed by divisional or holding company structure, with clearly defined and institutionalised information flows, methodology for setting operating and strategic objectives, and review and response processes. The remuneration system would need to be tailored to short and long term requirements of a business activity, with adequate variance among the businesses. And they should attempt to nurture middle and top management skills in current businesses, to be deployed into new initiatives. Governance mechanism would need to be comprehensive and transparent, with communication of analysis and performance of individual businesses, through elaborate annual reports and quarterly financial result announcements.

Generic Strategy 2: Domestic market and Single industry Focus

This strategy is appropriate for relatively young and small Indian companies, which are in high growth industries or that have enough ground to cover in terms of market share and entry into new product-market segments and geographical areas. These companies also suffer from industry or organisation based handicaps in global markets, but they can look for limited expansion into similar developing countries after exhausting the domestic market potential. Groups and companies like Eicher, Bharti, Gujarat Ambuja, Pantaloon would tend to follow this generic strategy. These companies should avoid the temptations of going global or entering new businesses, as their resource position would not be able to support it. They should undertake extensive deployment of information and internet technology, in order to maintain high efficiency and quality at world class levels, in order to compete with domestic and international players in Indian markets. The structures may be functional or divisional, and organisational ethos should be aimed at attracting and nurturing managerial talent. They also need to aim for high governance standards, for creating a culture of excellence and for meeting generally large fund requirements from domestic and international sources.

Generic Strategy 3: Global market and Single industry or segment Focus

This generic strategy is appropriate in industry sectors where India has certain advantages globally, and for companies that have achieved size and capability levels that can be deployed in international markets. Companies operating in sectors like textiles, tea, diamond cutting, information technology and pharmaceuticals, can emerge as global players. Within a sector, some companies can focus primarily on developed countries markets, like Infosys; or some can cover entire spectrum of developing and developed countries like Aptech. The key capabilities needed are technological and organisational, for which they have to continually retain the world beating standards. Quite often the focus needs to whittle down to a segment or sub-segment of industry to global competitiveness, as in case of Wipro on software development for system integration rather than software product development. However Indian companies would need to gradually move to higher technology and customer applications, to improve profit margins and develop sustainable competitive advantage. The structure is likely to be functional or geographical divisions, as Indian companies would take many years to reach levels in terms of size and managerial depth to have global product divisions. Instead of financial resources, the major constraint for success will be the ability to attract manpower resources and to develop managerial capabilities. The companies need institute dynamic reward systems, and create a culture of organisational innovation and excellence. The planning, review and response systems need to comprehensive, clear and fast, for adequately responding to the contingencies of global business.

The backdrop of strategic management approaches during controlled economy and the imperatives of four forces shaping India's globalising business environment, set the contours for the functioning of Indian companies in coming years. The generic strategies are distinct and sort of mutually exclusive, and they provide the logic for evolving company specific business and organisational initiatives. Generic strategies respond to 'time and space' of Indian companies, and they do not belong to any specific doctrine of strategy research but draw insights from most of the schools of thought.

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