

Case Studies on
India Inc.: The Competitiveness

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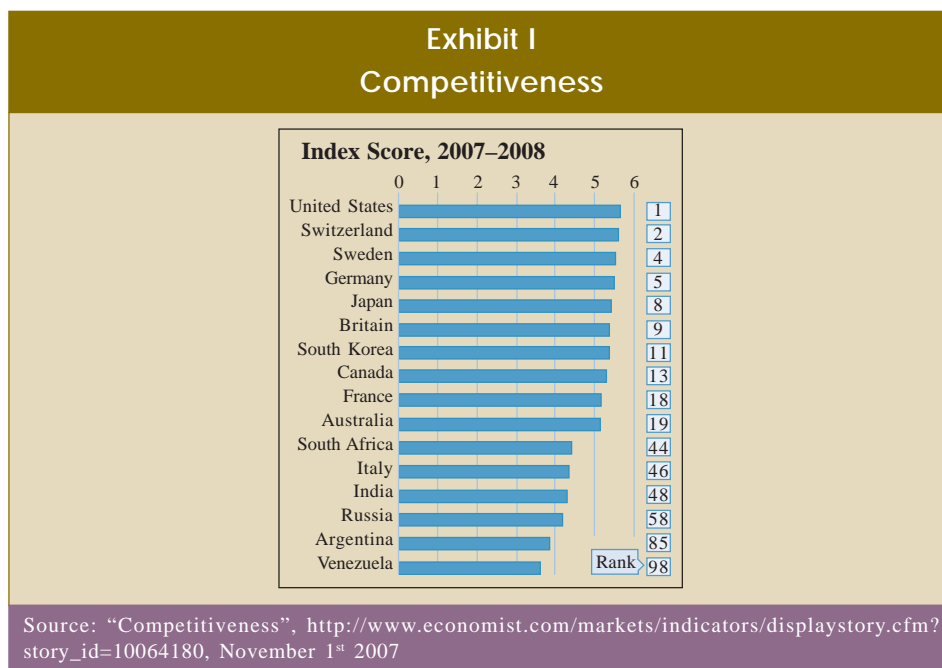
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OVERVIEW

“Competitiveness, like charity, begins at home. An externally competitive economy thrives on stirring its internal competitiveness. An economy that suppresses its internal competitiveness is most unlikely to be globally competitive.”¹

Alongside its cultural richness, India’s fame also rests on prosperous fields like Information technology (IT), pharmaceuticals, etc. This move has happened over a period of time. India attracts more FDI and many look to it as a key part in their value chain. India is the preferred destination for outsourcing, on the grounds of quality and cost efficiency. Not only for IT, but also for engineering and other services. Glowing comments came from Matti Pietarinen, Deputy Director General of Finnish Ministry of Trade and Industry: “I can foresee a day when Finland could begin importing mobile phones from India.”²

India’s competitive edge owes to its large pool of scientific and engineering manpower, linguistic capabilities, inexpensive labour costs and favourable time zones. However, there are inherent weakness like a corrupt bureaucracy, inefficient infrastructure (especially power) and redundant labour laws dragged it down in the Global Competitive Index (GCI) (Exhibit I). It was ranked 48th among 131 countries in the 2007-2008 index; it was at 45th and 43rd in 2005 and 2006 respectively. It has been reported that India loses out predominantly on its rigid job markets.



¹ Ramachandran G, “Competitiveness begins at home”, <http://www.thehindubusinessline.com/2005/01/13/stories/2005011300110800.htm>, January 13th 2005

² <http://www.ibef.org/resource/quotes.aspx>

The GCI devised its ranking based on critical factors, which drive economic productivity and competitiveness. They can be grouped into nine basic pillars. Analysing each factor, in the Indian context, is critical to know its competitiveness:

Institutions: India is ranked 34th in the 2007-2008 index, on the institution parameter. Mostly because of its efficient business houses, which once languished under the regimental government policies. Old business houses like the Tata and Birla, the torch-bearer of Indian corporate world, could have been more effective – had their wings not been clipped, during the two decades of *license raj*. But this *raj* did help conceive other behemoths like Reliance industries.

Weighing on both the sides, the balance tends to shift towards the cons more than the pros – a Reliance has been made at the cost of many Tatas. However, after liberalisation of the Indian economy, the wings freed and Indian corporate houses soared like never before.

Infrastructure: India is pitched at 62nd position, when it comes to infrastructure. This is much better than its ranks in macroeconomics and higher education, 88 and 93 respectively.

India attracts many multinational giants to set their production base through its inexpensive, but skilled, labour. Today India does boast of high technology and sophisticated manufacturing facilities, on par with the best in the world. However, these state-of-the-art facilities are proving to be very ineffective due to power scarcity. It is not that India has inadequate power generation, but there is chronic misuse. “Between 1992 and 2002, 40% of the power generated in India was stolen. Analysts estimate that SEB (state electric board) losses in the financial year ending March 31, 2004, the most recent figures available, came to \$4.7 billion, or nearly 1% of GDP.”³

Moreover, with most Indians dependent on agriculture, the lack of hard infrastructure makes a bigger dent. Food and Agricultural organisation (FAO) claims that “India is the one of the largest and most varied fruit producing nations in the world, accounting for 10 percent of all fruits and nearly 40 percent of tropical fruits produced globally.”⁴ However, only 10% of it is processed, due to lack of storage and processing facilities.⁵

Yet it is not that bad in infrastructure. India has shown a remarkable growth in soft infrastructure, in particular the telecom sector. “Though telecom reform started later than power, it has been far more successful. Between 2000 and 2005, India added about 18 million fixed phone lines and nearly 73 million mobile connections. Teledensity grew more than three-fold to 11.5%; in urban areas to 34.7%.”⁶ This makes one ponder what makes it possible with telecom that fails with power. Simply, “telecom did not affect any vote banks,”⁷ whereas power reforms do.

All that India has to remember is – “Infrastructure investment is not about constructing large and costly projects. It is about providing the basic services that people need for everyday life like –

³ “What’s next for India: Beyond the backoffice”, http://knowledge.wharton.upenn.edu/special_section.cfm?specialID=62

⁴ <http://www.fao.org/DOCREP/MEETING/004/Y1879E.HTM>

⁵ “Processed Food: Adding Value to the Farmers’ Harvests”, <http://www.indiaindustryreports.com/info.aspx?sid=3&id=17&doc=Articles-Business-17.htm>, March 2006

⁶ “What’s next for India: Beyond the backoffice”, op. cit.

⁷ Ibid.

power, roads, railways, other modes of transport, and access to modern communications technology.”⁸

Macroeconomy: Post-liberalisation Indian economy is growing quite appreciably. However, in macroeconomic parameters, India is rated far below – mainly because of the political economy. It is so unfortunate that there has been a coalition government for the past two decades. Although, there are attached benefits to the coalition government, there are demerits too. It has been observed that in a coalition government, parties with different ideologies send confused signals to the investors. Moreover, the decision-making process seems to be perennially delayed, sometimes denied, with so many deciding authorities. With parties plundering the decision-making process, inefficiency and corruption finds it easy to thrive.

Not only that, right from the days of independence, the role of Indian government had been predominantly focused on running businesses rather than governing. This attitude has given the public sector units a preferential treatment, while comparing the private players. This biased perception has made the productivity of these public sector units very dismal. Moreover, the policy formulations mostly favoured the public sector and the rigid labour laws were in place to please the labour unions.

Health and primary education: The economy, which flaunts its knowledge power, performs abysmally poor when it comes to primary education. ‘Education for all’ is a distant dream in a country that got its independence over 50 years back. In the modern society, where education is self-defence, millions of Indian kids are away from school, and even those who enrol do not continue. UNESCO reports that only 59.23% male children and 58.71% female children, registering in grade 1, reach grade 5 (1999-2000).⁹ India’s primary schooling is appalling not because of affordability, but slackness. Most Indian schools are government-run – infrastructure is improper and teacher absenteeism is rampant.

UNICEF reports that “while the literacy rate of the country has reported a sharp increase from 18.39% in 1950-51 to 65.38% in 2000-2001, one-third of the population, or nearly 300 million people in the age group 7 years and above are still illiterate in the country. 42 million children in the age-group 6-14 years do not attend school. There are also problems related to high drop out rates, low level of achievement, low participation of children from disadvantaged sections of society. Approximately 16.64% villages of the country do not have facilities of primary schooling.”¹⁰

The state of health is no better in India. India, in spite of emerging as one of the largest producers of generic drugs and vaccines, has its citizens dying of curable diseases. For instance, “Of the 1.8 million diarrhoea deaths in the world, India has 450,000.”¹¹ Moreover, two-thirds of India does not have access to proper sanitation.

⁸ “The Infrastructure challenge in India”, <http://www.adb.org/Documents/Speeches/2003/ms2003073.pdf>

⁹ http://www.ilo.org/public/english/region/asro/bangkok/skills-ap/skills/india_primary_education.htm

¹⁰ “Global Campaign for Education – more teachers needed”, http://www.unicef.org/india/education_1551.htm

¹¹ Jain Sonu, “India way behind in sanitation, look at diarrhoea deaths: UNDP report”, <http://www.indianexpress.com/story/16341.html>, November 10th 2006

Other diseases also plague India. Nearly 5 million Indians are infected by AIDS. In 2003, about 1,200 were infected and the 325,000 died of it.¹² “India’s capacity to check the epidemic is defeated; there’s still no political commitment around AIDS. The epidemic will only get worse in the next five to ten years.”¹³ It is very unfortunate for India, which attracts ‘medical tourism’, to have more women dying during childbirth than anywhere else in the world. “Of the 5.36 lakh women who died during pregnancy or after childbirth in 2005 globally, India accounted for 1.17 lakh. It was followed by Nigeria (59,000), Congo (32,000) and Afghanistan (26,000). India, along with 10 other countries, accounted for almost 65% of global maternal deaths in 2005.”¹⁴

Higher education and training: Ranked 49th in higher education, it is no better than primary education. India, having known for its world-class institutions like IITs and IIMs, is losing steam. The growth of these institutions is stemmed by uninvited political intervention. Moreover, academic professions are not that lucrative compared to corporate pay packages – resulting in a dearth of scholarly academics.

With India spending around 3% of its GDP on education, lots of universities are resource-deprived, affecting the quality of research. “Unfortunately now the research is being increasingly separated from the universities. No major research work is being done and the research scholars are on a decline. We would have to check this trend by giving more financial incentives and facilities for research.”¹⁵

With higher education taking a beating, it is getting worsened with outsourcing. Today, with a graduated degree, or even lower ones, employment opportunities are plenty. This has taken away the aspiration for most young Indians to go for higher education. Outsourcing may look like a panacea for unemployment, but there is a chance for deprivation of knowledge pool in a longer run. “We should not forget that almost half of the country’s population is going to be less than 25 years of age, and by good university education we would be preparing a knowledge base for not just our country but for the world. I can say with reasonable surety that in 10 years, India’s youth would be important for the world’s development. Let us be very clear that the country cannot run on outsourced jobs, we would have to look for serious alternatives. By running after outsourced jobs we are merely solving the problems of others, we should not forget that solutions to our problems would have to be provided by us only.”¹⁶

Market efficiency: The shift from *licence raj* to mixed economy has made Indian market more efficient. This shift has bagged India the 21st rank, relatively better than its ranks on most other parameters. It means India is rated well in the outside world in financial, goods and labour market efficiency. It is supposed to be due to regulatory bodies like Security and Exchange Board of India, whose objective is to protect the interests of investors in securities and promote the development of the securities market through appropriate regulation. Less government intervention in these regulatory bodies has enhanced market efficiency.

¹² “Taking India’s pulse: The state of Health care”, <http://knowledge.wharton.upenn.edu/india/article.cfm?articleid=4039>, March 30th 2005

¹³ “Taking India’s pulse: The state of Health care”, op.cit.

¹⁴ Sinha Kounteya, “India reports maximum no of childbirth deaths”, http://timesofindia.indiatimes.com/India_reports_maximum_no_of_childbirth_deaths/articleshow/2461713.cms, October 16th 2007

¹⁵ Vibhash, “Is BPO hype in India realistic?”, <http://tech-tonic.net/it/is-bpo-hype-in-india-realistic.html>, April 29th 2006

¹⁶ Ibid.

Technological readiness: Despite the fact that India is IT-powered, it is placed at 55th position on this. Many factors are responsible for this performance. One among it is the poor Internet penetration in India. Only 3.7% of the Indian population have web access.¹⁷ Moreover, those who do have largely reside in urban India – making the vast rural India a forbidden place for technology and information.

In India, with hard infrastructure in a state of despair, improvising the soft infrastructure is imminent. Information and Communication technology (ICT), which can reach even the isolated areas, could be employed to empower the mass. For instance, the e-choupal initiative by ITC has empowered the rural masses with buying power and created a win-win situation.

Business sophistication: In business sophistication – which includes indicators like local supplier quantity and quality, production process sophistication, extent of marketing, control of international distribution, willingness to delegate authority, nature of competitive advantage and value-chain presence – India is at 25th. After India got liberalised in the early 1990s, the market was slowly opened for foreign players. Only very few sectors of strategic importance like defence were regulated and protected. Many multi-national companies are vying for the Indian market, not only for its sheer size, but also for its inherent capabilities. India today is integral to the value chain of many foreign companies.

Innovation: It has been observed that the companies, appearing on the ‘Fortune’ list, are known for their innovation capabilities. One reason for their larger turnover was because they could innovate and stand apart from the rest of the crowd. India ranks 26th on the innovation parameter, which would include quality of scientific research institutions, company R&D spending, university/industry research collaboration, government procurement of advanced technology products, availability of scientists and engineers, and intellectual property protection.

Innovation, in terms of both products and processes, is required of Indian companies, who joined in the race quite late. Moreover, for Indian companies that fared well in the price-sensitive and quality-demanding domestic market, it is proving an easy feat to play the same in the international market where quality is paramount. Indian companies are getting a price-competitive edge in the global arena and also lure the foreign companies to set their production base in India. Even the government formulated apt policies to make all this happen.

India, whatever may be its standing, has emerged to be truly competitive economy in a not-so-open environment. Not all Indian sectors are competitive, but the ones that are, are proving to be truly one of its kind. Infosys co-chairman Nandan Nilekani raves, “The India model is evolving into something unique. On the one side, there’s this array of entrepreneurs and a large pool of inexpensive talent. And on the other we’ve created a very market-oriented mechanism for raising capital. Put those things together and there’s a real ferment. In India all it takes is a little deregulation, and whole sectors go from sleepy oligopolies to highly competitive environments almost overnight.”¹⁸

¹⁷ “Top 20 Countries With The Highest Number of Internet Users”, <http://www.internetworldstats.com/top20.htm>

¹⁸ Robinson Simon, “India takes on the World”, <http://www.time.com/time/magazine/article/0,9171,1561214-2,00.html>, November 20th 2006