CHALLENGES FOR INDIAN MULTINATIONALS

- *A COMPILATION*

BACKGROUND MATERIAL

Introductory Paper -

A compilation by Dr. Guruprasad Murthy based on the works of Dr. Guruprasad Murthy and other acknowledged sources.

Special Compilation -

A compilation by Rajkumar Singh and Amitpal Singh, MMS, Second Year Students of Lala Lajpat Rai Institute of Management under the guidance of Dr. Guruprasad Murthy, Director, Dr. V.N. BRIMS and Mr. Kedar Nijasure, Research Officer, Dr. V.N. BRIMS.

17th May, 2006

DR VN BRIMS

Vidya Prasarak Mandal's

Dr. V.N. Bedekar Institute of Research & Management Studies, Thane

Challenges for Indian Multinationals

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From the Chairman's Desk...

Dear Sir/Madam,

I have great pleasure in presenting this research document on the topic "Indian Multinationals". This is a background material for the forthcoming seminar we are holding on the topic **Challenges for Indian Multinationals** to be held on Wednesday 17th of May 2006 at Thane. We expect a through discussion and interaction between all stake holders.

"Indian Multinationals" is the indication of shift in the mindset of policy makers.

1991 was the turning point and we have covered a good distance. India had adopted a socialistic, controlled and planned model of economy very similar or close to the Russian model after Independence. The Russian Empire collapsed and alongwith it the economic model on which the Empire stood. The ideological cousin of the Russian empire China also realized the utter failure of this model and adapted to market friendly reforms. The results are in front of us as China is becoming a manufacturing and economic power in the World today. Unfortunately in India we still have political units, which adhere to this failed economic model. Unlike China we have democracy and this political ideology of controlled economy and distrust of the market driven system is trying to obstruct the reform process.

Self-reliance did help us but isolationist mind set in today's World may prove rather disastrous to our economy. When rest of the world is Globalizing, we must accept the challenge instead of running away from the ground reality.

On this background, performance of some Indian companies is admirable and praise worthy. The ability to change, when opportunity is given, shown by some Indian companies is remarkable. This has shown us that Indians can do it if not obstructed by domestic policies. Our reform process needs to match this speed. Every month Indian companies are acquiring companies in every quarter of the world. Dr. Reddy's successful bid to acquire Betapharma of Germany, Tata steel's takeover of Millennium steel, VSNL's takeover of Tyco Global and Mahindra's takeover of Stokes speaks volumes of the economic ability of Indian companies. Ranbaxy, Wipro, Birla and many more are in the process of acquiring many units World over to become multinational.

We must take note of this change. This change is helping Indians to become competitive in skills and performance. This has helped us achieve 8% growth. India has become a noticeable entity in all World forums. Every country small or big is eager to have bilateral ties with us.

Now is the time to understand strengths and weaknesses along with threats and opportunities. Human resource is our strongest point both as consumer and educated employable human resource. Our IITs' and IIMs' have shown us the way. The next step is to model other similar professional organizations on the same performance level. Urgent reform is required in the educational policies. We need to get rid of controlled *License Raj* in the educational field. Indian multinationals are going to require large number of skilled human resources well educated in International Law, management practices and financial intricacies. Competitive, merit based educational model only can provide such skilled human resource. All populist, shortsighted policies should be resisted and opposed if required.

We should make all efforts at every level to help and promote Indian companies to be operational globally. This will generate more jobs, which is an engine of growth. If labor laws are reformed with all sincerity, the biggest bottleneck will be overcome. Similarly reforms in banking and legal sectors would complement this process with more success.

Companies cannot survive long on borrowed technology. As Indian companies are becoming global in their operations they should invest more in research and development. To make this process irreversible we need to educate our society.

The forthcoming seminar on " Challenges for Indian Multinationals" is a step in that direction. I am sure all stakeholders will co-operate with us to make this seminar a grand success.

Thanking you

Vijay Bedekar
Chairman,
Vidya Prasarak Mandal, Thane

Introductory Paper

by
Dr. Guruprasad Murthy

1. India Since 1991

1.1. There has been a paradigm shift in economic thinking and approaches to economic policy making, since 1991. The Narasimha Rao Government, at the instance, perhaps command, of the World Bank and IMF initiated several reforms to usher in a new era in the history of India. This new era was to be characterised by a major shift from centralised economic planning to decentralised decision making; development and regulation to pro-active development; controls, intervention regimentation, distrust and suspicion of enterprise to competition, market driven activity, trust and friendship with all stakeholders.

1.2. The theme of protectionism was replaced by survival of the fittest where, local enterprise would have to compete with foreign entrepreneurs in juxtaposition. There was a sea change in the ground rules of economic management at the macro level in terms of re-adjustments of macro economic policies and revised approaches to tackle the new environment. The changes had to subserve the intended goals of accelerated economic development through liberalisation, globalisation, and privatisation.

Box : 1

The President of India, while inaugurating the budget session of Parliament for 1970, categorically stated :

"It is my government's unswerving purpose to build, brick by brick, a society which is democratic and socialist. The problems of India require uniquely Indian Solutions taking into account our way of life, our history, and our tradition."

Box : 2

Smt. Indira Gandhi :
We advocate a public sector for three reasons ;
to gain control of the commanding heights of the economy;
to promote critical development in terms of social gain or strategic value rather than primarily on considerations of profit; and
to provide commercial surpluses with which to finance further economic development".

Box : 3

Smt. Indira Gandhi :

"The notion that maximisation of private returns on investment is the true measure of efficiency has long since been abandoned even by economists who are by no means socialists, for this kind of economy is a scholiastic apologia for exploitation. Economists now talk in terms of maximisation of social returns – returns which will maximise the gains to the nation"

Box : 4

Smt. Indira Gandhi :

" There is no such thing as public sector technology and private sector technology. It is the same with project planning, costing, research, marketing and the rest. The public sector must stand or fall, like the private sector, on the tests of efficiency, profit, service and technology advance. The only difference lies in the fact of social control and social purpose with regard to the public sector. The "philosophy" might be different. The operation is similar".

1.3.

It was the best of times
It was the worst of times...
The epoch of belief
The epoch of incredulity

- Charles Dickens

2. Socialism to IMF and World Bank Agenda

2.1. Market was to be the arbiter of economic activity and the otherwise interventionist State had to progressively allow State Capitalism to be replaced by private capitalism governed by rules of the market forces. Socialism had to be bid 'au revoir' and the 'volte face' of the Government policies was a 'fait accompli'.

2.2. The shibboleths of the earlier days, which were articulated as abolition of poverty, liquidation of unemployment, progressive reduction in income inequalities and evolution of an egalitarian state and classless society, had to be replaced by an agenda of reforms driven by World Bank and IMF which was to allow enterprise and all stakeholders to breathe a new air. Of course, there was resistance from different quarters. Enterprise which were used to a sheltered market, protectionist local environment, and sellers' market conditions had to gear themselves, albeit, with a new mindset, to take up the challenge. Several representations were made to provide for a level playing field and protection to local entrepreneurs who were infants to the idea of competition. Their toddler hood was used as a 'bait' for hand holding. However, the Government had little choice but to literally push the stakeholders into the arena to sink or swim.

2.3. Simultaneously the legislative framework governing economic management was altered. The Industrial Development and Regulation Act was by and large dismantled. Licensing was dispensed with. The Monopolies and Restrictive Trade Practices Act was also made proactive. The expression 'Unfair Trade Practices' was retained and monopolies and restrictive was eliminated. Similarly FERA (Foreign Exchange Regulation Act) became FEMA (Foreign Exchange Management Act) Over the years labour legislation interpretation has become pro-active and pragmatic. Earlier approaches did encourage incalcitrance, contumacy and unfettered freedom to obstruct rather than contribute positively.

3. Market Place – Changes

3.1. The opening up of the economy saw new players juxtaposed with old, veterans, may be Government players.

3.2. Indian Airlines had to rub shoulders with Jet Air, Modiluft, Damanias and now many others. Market driven system also showed its vigour and rigour - theory of survival of fittest at its best. Those units which could not meet the norms of effective and efficient resource allocation had to call it a day. Damanias and ModiLuft no longer exist as players. This has happened in other sectors too. ECTV, Western, and a few others which led the virgin market are not heard of. However, in the airline sector, new ventures Kingfisher, Deccan Air Sahara, Spice Jet and many other airlines are in the field. Similarly, in other sectors entry and exodus is a continuous process. That is the fundamental law of economics that marginal and extra marginal units have to leave and intra marginal units will expand and also will be followed by new healthy entrants. We have seen monopolies being replaced by oligopolies and even near perfect market conditions. The foreign brigades have re arrived as foreign ventures in India via Foreign Institutional Investors and Foreign Direct Investments. Thus the process of globalisation necessitated many changes.

4. Government Policies

4.1. The Government had to recast its fiscal policy and lower its tax rates to reasonable levels to sustain the motivation of earners and contributors to the coffers of the nation. Lower rates were to ensure better compliance and also greater respect for the fiscal authorities. The tax paying and computation processes were simplified and the attitude of distrust and suspicion was replaced by friendship, trust and 'may I help you attitude'. Much more change is required though, across the network of service providers in the Government, public, private and other segments of the economy and society at large.

4.2. The Income Tax Act is no longer a bonanza of fiscal incentives to make profit making enterprises a zero tax company. Through Minimum Alternative Tax (MAT) and withdrawal of other incentives viz. Investment Allowance and the series under section 35 of The Income Tax Act, Section 80J and many other hidden subsidies the Income Tax Act stands rationalised to that extent. In the Union Budget 2006-07, the Finance Minister has once again used MAT to cast the fiscal net with greater force.

5. Interest Rate Policy

5.1. Another important change is the interest rates policy. Unlike the theory of interest rates which suggests that interest rates are a function of the tenure of the loan, interest rates in India were inverted. Inverted interest rates meant that short term interest rate was higher than long term interest rates. Actually it should be the other way round. The World Bank objected to the inverted interest rate structure.

5.2. In India for historical reasons short term interest rates were higher because long term interest rates were pegged to artificially low levels to induce accelerated capital formation. The graph in Exhibit one is self explanatory. For the entire period 1972 to 1991, we can see the inversion of interest rates. However, post 1991 the position has been corrected and the interest rates bear semblance to what it should be. For the last few years short term and long term interest rates follow the theory, that interest rate levels are to be driven by the tenure of the loan.

Table One

INDIA - Interest Rate Profile (% p.a)

Year	Short Term	Long Term
1991	20.00%	16.50%
1992	19.00%	19.00%
1993	17.50%	19.00%
1994	15.00%	15.00%
1995	16.50%	19.00%
1997	14.00%	13.50%
1998	14.00%	13.50%
1999	12.00%	17.10%
2000	11.00%	14.00%
2001	11.50%	11.50%
2002	10.75%	10.20%
2003	10.75%	10.20%
2004	10.25%	8.90%

(Source : RBI Reports on Currency and Finance)

6. World Scenario, Indian Scene and Multinationals

The changes indicated through paragraphs one to five have taken place at a time when the World scenario had also undergone a sea change. The iron curtain was raised, USSR was liquidated, Germany was unified and there was a perestroika under the leadership of Michael Gorbachev. In fact, the USSR and USA were in dialogue for the first time since World war II on a proactive basis. Hence communism had to give way to other forms of "ISMS" and market was to re-emerge as the key arbiter of economic activities, allowing for decision making to disperse and drill down to individual, autonomous unit levels.

What a come back for capitalism – To start with Adam Smith's invisible hand as expounded by Ludwig Von misses then Oskar Lange on optimal resource allocation without the invisible hand and back to Adam Smith.

7. India since 1991 Again

7.1. The first issue was the balance of payments Arising out of new policies, Indian exports grew from 3.6 % in 1992-93 to 22.2 % in 1993-94. Indian exports in this period grew more than three times to Rs. 1,064,650 million. Further other aspects, include many changes. Thus the number of proposals approved for overseas investment grew by 115 % to 230 in 94 (compared to 1992). By 1994, Indian Companies had more than 500 overseas joint ventures spread over nearly 70 countries and nearly 300 wholly owned subsidiaries in various countries including US, UK, Germany and Singapore.

7.2. The offerings of Indian Companies through Euro issues in 1994 grossed more than 3.06 billion US dollars compared to a very small amount of 240 million US dollars in 1992. There are other figures to show the direction, extent and speed of change. Foreign direct investments in India increased from 68 million US dollars in 1991 to 1981 million USD in 1995-96. Again between 1991 and 1993 the combined cumulative investments from US, UK, Germany and Japan increased from 127 million US dollars to 1.7 billion US dollars. Similarly the stock market witnessed hectic activity. In September 1992 there were 23 stock exchanges listing about 6,500 companies. By June 1993, 22 foreign Institutional investors had registered with the Securities and Exchange of Board of India (SEBI). By August 1993 this number went up to 55 and the investments amounted to 150 million US dollars. Just a few months later (April 1994) there were 161 registered FII's with total investment of 1.76 billion US dollars. Again by March 1996 the number of FII's was more than 350 and the investment exceeded 5 billion US dollars. The foreign exchange reserves in December 1994 exceeded 20 billion dollars. The last three years ending 2004-05 show a staggering figure of foreign currency assets of respectively 72 billion USD in 2002-03 and 107 and 124 billion USD in the next two years. The rupee which was not as strong as it should be in 2002-03 (1$=Rs. 48) is now reasonably firm in 2004-05 at 1$=Rs. 45. The Government feels (March 2006) that the remittances are stable and the robustness of the external account can be vouched safe for its veracity.

Box : 5

" These Statistics, however, reflected only the tip of the iceberg. The underlying reality was much more drastic and turbulent. Not only more money had started flowing into India, the very nature of the business environment was changing in radical ways. The new economic freedom had released forces which were transforming the focus, strategies and practices of companies in ways unprecedented in Indian business history".

Source: Madhukar Shukla, Competing through Knowledge, p.33, sage publication,1997.

Box : 6

To name a few Coca -Cola , Akai, Kellogg, Sony Gold Star , Apple, Mercedes Benz, American Express ,Nescafe, Malboro, McDonald, IBM, Kenntucky Fried Chicken, Dominos, Allen Solly ,et al. Multinationals from other countries namely General Electric, Asea Brown Boverie, Ericson General Motors., Hero Honda, Mitsubishi, Matsishuta, Samsung. AT & T, Hitachi, Rayban were all a part of the foreign brigade in India.

Box : 7

In 1993-94, Dabur had a budget of Rs. 120 million as against HLL's budget of Rs.670 million. The Surf relaunch led by Unilever in nineties cost 100 million USD by way of advertising and promotions. Similarly, Kodak, Lux and Coca Cola have staggering promotion budgets.

8. Consumerism at Its Best

8.1. As a result of liberalisation the markets were suddenly flooded with new products and brands. The Indian consumer, once upon a time, used to mono product consumption given monopoly producers suddenly had a choice from amongst the best brands of the World. (See Box 6)

8.2. Moreover these organisations had massive advertising budgets as against tiny amounts of the Indian Companies. The budgets of multinationals was on the increase by manifold percentage to face the battle for market share.

8.3. Insofaras, the financial performance is concerned, the multinationals operating in India had a lean and mean profile with a ROI which was at least twice that of Indian Companies.(See Box 8)

Box : 8

Based on Business India Statistics (Super 100,1994). MNC's with just 9 % of the combined assets of the Indian Companies were able to generate 21 % of the combined profits. These multinationals enjoyed a return on assets of nearly 30 % as against a paltry 13 % of the combined companies.

8.3. Indian multinationals had to rise to the occasion if they wanted to survive. Along with the consumer boom in India, quantum of consumers in the middle income consumer class are a great source of effective demand. During the second half of 1980's, the size of this market grew by nearly 30% covering nearly 60 million households or approximately 400 million people, that is to say 40% of India's population (Rao,S.L. 'our consumers is to be yuppie', Business India 15th Anniversary Issue, 1993, p.117-18).

8.4 A gratifying point was that around that time, India had local multinationals i.e nationals companies which were producing on globally comparative scales as shown in Box 9.

Box : 9

Global Capacities of Some Indian Companies

* *KEC International, an RPG Group Company, is the World's second largest producer of transmission towers.*
* *The Aditya Birla Group is the World's largest producer of rayon fibre, and the second largest producer of palm oil.*
* *Bajaj Auto is the third largest two – wheeler producer in the World.*
* *Arvind Mills is the fifth largest producer of denim in the World.*
* *Lupin Laboratories is the World leader in the anti – TB drug, ethambutol, with 70 percent share in the World market.*
* *Hero Cycles is the World's largest producer of bicycles.*
* *Raymond Mills is the fifth largest manufacturer of worsted suiting.*
* *Nirma is the World's largest producer of detergents.*

Note : The above data are as on 1997. The impact of liberalisation or otherwise on India Inc. at that point of time has been presented. The situation today maybe sligtly or altogether different in either directions.

8.5 Indian entrepreneurs are therefore to learn to live in a World without boundaries and also in a World characterized by change - whose nature, extent, direction, speed, configuration and complexion has no parallel in business history of India. This process of Globalisation has resulted in tremendous opportunities for the MNC's and in the mid-nineties there were more than 37,000 MNC's with 1,700,000 foreign affiliates operating in the World. Their combined sales exceeded global exports by 1.5 trillion dollars and the top 100 of these multinationals controlled 33% of the FDI's World wide. Today, in 2006 there are about 63,000 multinationals all over the World.

9. Bitter Business Battle

India was then (1991), and now too is, in a bitter business battle against these giants and it is to be seen how the new davids will tackle the seasoned goliaths. Confronting the MNC's means many, amongst other things viz economic prowess, massive production capacities to cater to mass global markets, being ready for mass production, mass consumption and if necessary mass destruction, new changing rules of global trade and competition for doing business in a World without boundaries and a globe which is described as a global electronic village which never sleeps. To illustrate: (Source: Madhukar Shukla, Competing through Knowledge, sage publication,1997)

9.1.1. Nestle operates in more than 100 countries and has 8,000 products. 95% of its sales comes from outside Switzerland and 98% of its assets are outside home countries. Five out of the ten GM's are non-swiss

9.1.2. In 1994, the German company - Daimler Benz produced a new range for Mercedes Benz MB-700 series trucks for Indonesia. The components like transmission, axles, brakes and shock absorbers were from India and other crucial components were from Brazil, Argentina, Japan, Spain and Indonesia. More than half of these trucks were to be exported to South East Asia and Middle East.

9.1.3. Corning Inc. is a global network and participates in 40 joint ventures across the World, cutting across different nations and different industries. The partners include VITRO (Mexico), Siemens (Germany), Ciba (Switzerland), Samsung South (Korea), Doves Chemicals and Gennentech (USA), Mitsubishi and Asahi Glass (Japan).

9.1.4. ABB operates in 65 businesses in 140 countries through 1300 companies and it is monitored through 5000 independent autonomous profit centres. Its Head Quarters at Zurich includes only 100 people. The members of the Top Management team are from 600 different nationalities and are located across the globe.

9.1.5. Apple Computers has a joint strategic alliance with Motorola and rival IBM to invest in the Talleygent and also with AT&T and Sony to invest in General Motors. Sony on the other hand has a separate alliance with Apple's rival microsoft, while IBM is a supplier of memory tape systems to its own competitor digital equipment. Apple also has top strategic alliance with competitor Toshiba which has a separate alliance with IBM. These alliances are a part of the effort to display the symbiotic effects that can bring synergies to business in terms of top line and bottom line.

9.1.6. In India, for e.g. Peoguet has a stake in M & M but has tied up with Premier Auto to produce cars which will compete against Ford and M&M cars.

9.1.7. In India again we have Godrej, Nestle and HLL in a similar kind of entanglement. The three use Tomato Puree as an input to manufacture

Tomato Ketchup. They are staunch competitors (literally foes) in the market in which the product is sold. However, Godrej which has surplus capacity of Tomato Puree supplies tomato paste to HLL. HLL also supplies tomato paste to its competitors Nestle for making Tomato Ketchup which competes with its own Kisan Ketchup. The messages are loud and clear as spelt out in Box 10.

Box : 10

The new rules of business, display a great learning experience to operate with strange bed fellows with symbiotic alliances in the factor market and bitter business battles in the output market. The rules of the game have changed so much and so fast that there is turbulence and chaos arising out of the actions and interactions of friends and foes who are all the same. It's as if that in a football match while the game is on the size of the ground could change, players could exchange sides, umpires could change rules, goal posts could be shifted, duration of the match can be altered after the game has started and the ground itself could be in motion while the game is being played.

9.2. The Indian entrepreneurs have to learn to stay ahead of others i.e. to say maintain a winning or competitive edge, in this kind of an environment. Thus, the moral of the story is that the rate of learning should be greater than the rate of change all the time expressed in the equation form $L > C$.

9.3. Indian companies need to integrate with the rest of the World and operate with global hearts and local peripherals.

Box : 11

" We have now accepted as our major goal, integrating India into the global community and re-orienting our economic policies to suit the market economies of the rest of the World" (Shri Vaghul, ICICI)

10. Quick Decision Making

10.1 Indian enterprises need to use modern technology and take decisions within decreasing reaction of time. Corporate and Government bureaucracies need to wake up to the reality of the competitive global business World.

Box : 12

A firm in Boston has its suits and dresses made in Hong Kong but has improved quality and speed considerably by hiring direct satellite time between Boston and Hong Kong so that models in Boston can wear the dresses and show the details to the tailors in Hong Kong television.

11. Local Model Required

11.1 Indian enterprises have to operate with global hearts and local peripherals and need to avoid mechanical transportation of business models that have succeeded else where. The model must be Indian, firmly rooted in local soil and extended for use, application and replication, *muttatis mutandis*, by the rest of the World.

Box : 13

Swami Vivekananda :

"India should continue to be what she is. How could India ever become like Japan, or any other nation for that mater of fact ? In each nation, as is music, there is main note, a cultural theme, upon which all others turn. Japanese have taken everything from the Europeans, but they remain Japanese all the same, and have not turned European; while in our country the terrible mania of becoming westernised has seized upon us like a plague"

Box : 14

*The flip side of Indi*a's *Competitive Edge in Global Markets is 'very poor productivity'.*

Box : 15

According to Michael Porter -

" *Competitive Advantage grows fundamentally out of the value a firm is able to create for its buyers. It may take the form of prices lower than competitors,for equivalent benefits or the provision of unique benefits that more than offset a premium price".*

Box : 16

Competitive Advantage stems from the value an enterprise is able to create for its customers in excess of the firms cost of creating it. Value means what buyers are willing to pay : If the issue is global success a firm must be capable of creating 'superior value'.

Superior Value means -

* *lower prices than competitors for equivalent benefits;*
* *unique benefits that more than offset the higher premium or price.*

Box : 17

Competitive Advantage has two dimensions -

* *Cost Leadership;*
* *Product Differentiation.*

12. India's Productivity:

12.1. We have a comparative advantage in terms of plenitude of labour and other natural resources, but a competitive disadvantage, stemming from poor productivity. The contrasting position of India and Japan and India and the rest of the World provide interesting insights into the situation. India has a comparative advantage in many areas but suffers from lack of competitive advantage. For e.g. India has the highest livestock population in the World but the lowest lactation yield. The Scandinavian countries without enjoying, *a la* India, a comparative advantage in the form of abundance of resources, in this regard, enjoy not only global success but acclaim for animal husbandry activities and dairy products. Japan with limited factor endowments enjoys, owing to its efficiency, a competitive edge over most countries in the World. Of course, the emergence of the little Tigers - South Korea, Taiwan and Singapore has altered the number of players and led to hopefully healthy competition.

12.2. However it is gratifying to note that in India productivity improvements have also taken place. This has happened through massive reduction in work force in many companies in the public and private sectors through downsizing / rightsizing. The other issues on productivity include reduction in wage costs and working compliments. In a sample (ET survey 125 Companies) wage cost declined by about 0.5% in 2001-02, However the share of wage cost as a percentage of turnover has gone down by a healthy 1.3% in the wake of an increase in the overall salary bill between 2000-01 to 2001-02. Keeping in mind the need to stay ahead of others using global benchmarks India Inc. is divesting in unproductive workforce and reinvesting in skilled, quality and knowledge drive human capital. Thus labor productivity has improved through a multi pronged approach of reduced quantity of labor and improved, increased if necessary, numbers of quality human capital.

(Table : 2) 1996-2002

Company	Work force Reduced by
SAIL	20.00%
BHEL	27.00%
L & T	13.00%
Bajaj Auto	36.60%
Grasim	36.60%
ACC	21.27%

Box : 18

For instance: Mukund a steel company produces 255 tonnes of steel per man year. The companies abroad produce four times.

Box : 19

Again, a Japanese labourer costs the equivalent of about 25000 GBP per annum which is probably around twenty times more than what corresponding Indian workers would get. But if you visited a modern Japanese food factory which makes millions of packets of food items per day, you will find that it has less than twenty people for working three shifts. If one were to visualise a similar factory in India we will probably have over 3000 people.

Box : 20

Ten Tyre companies compete with each other in India. These companies are not able to withstand competition on a global basis.

Mukand's 300,000 tonnes per annum is less than half of what it would be in Europe. Mahindra and Mahindra is a giant at home with a capacity of 10,000 light weight trucks per annum. But in Japan, the capacities are at least 8 times more.

Box : 21*

A report on World Competitiveness (1990) shows India to be at the bottom of the ladder. Out of 10 countries - Taiwan, S.Korea, Singapore, HongKong, Malaysia, India, Thailand, Indonesia, Brazil and Mexico, India got the 6th rank for Economic Dynamism ; 4th rank for Future Orientation; 8 th rank for Market Orientation and Financial Dynamism; 9th rank for Industrial Efficiency and Political Stability ; 10th rank for Human Resources and External Orientation.

Further ranks were given for export flexibility, employee productivity and product quality.

India had the 10th rank for export flexibility and product quality and ninth rank for employee productivity. The ninth rank was obtained because information was available only for nine of the ten players cited earlier. Again our employee productivity is amongst the lowest in the World. And that is not surprising. The bottom position runs contrary to our immediate need to improve the competitive prowess to be a successful global player to emerge as a healthy economic unit of the globe. Again the mandays lost between 1985-92 are a staggering figure of nearly 30 million. This also bears testimony to the low productivity levels.

Box : 22

INDIAN TALENT RESPECTED ALL OVER THE WORLD

Jerry Rao has opined that the concept of a Hundi (Bill of Exchange) was invented in India. And Prakash Tandon says:

"*Indian bankers usually worked independent of one another and the most important among them had branches in different parts of their province and even outside, managed by munims or agents, whose honesty and integrity are proverbial. They readily helped members of their fraternity. Their establishments were small, efficient and economical, their accounting procedures simple but accurate, with no auditing or balance sheets and they were personally available to clients at all times of day or night. Their borrowers were intimately known to them, which made it easier to gauge their creditworthiness and keep a watch. They rarely failed to lend whenever there was a demand, and their readiness to meet any emergency gave confidence to the traders and the public"*

***These statistics pertain to the period when India had just started its reforms.**

Box : 23

A French traveller, Tavernier had said:

"*All the jews who occupy themselves with money and exchange in the empire of the Grand Sergneur, pass for being very sharp, but in India they would scarcely be apprentices to these changers*".

13. Indian Inc.: Pygmalion by Global Standards

13.1. As mentioned earlier, Indian enterprise are becoming visible in global markets and so is Indian talent respected all over the World. Yet the competitive edge of Indian Business in global markets will improve if and only if Indian multinationals come of age by global standards in terms of size. In all humility and not ignoring the ethos of the nation or the self esteem of economic nationalism, if Indian corporates have to be recognised as multinationals in the true sense of the word – size of key parameters like sales, profits, assets and production capacities, we need to go a long way in a short period of time. A comparative table showing the pygmalion size of Indian Companies, in relation their the counterparts in the continents of Asia, and America speaks for itself. Further exposition of the pygmalion size of India Inc. vis-a-vis the corporates of other countries is a work of supererogation.

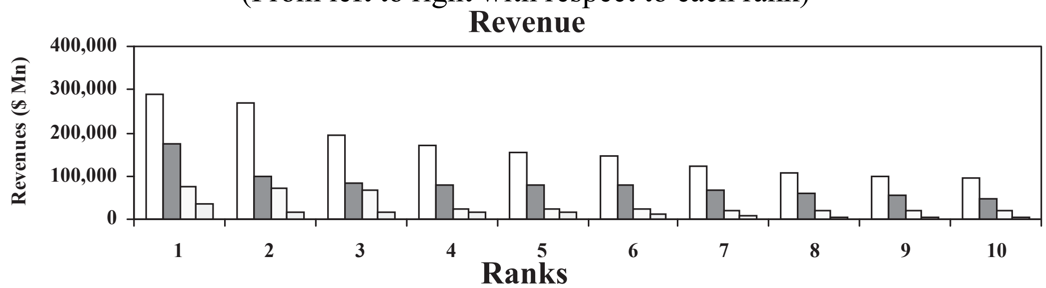
Revenue (Table: 3)

Rank 2005	US Companies	Revenues ($ Mn)	Rank 2005	Chinese Companies	Revenues ($ Mn)
1	Wal-Mart Stores	287,989.00	1	Sinopec	75,076.70
2	Exxon Mobil	270,772.00	2	State Grid	71,290.20
3	General Motors	193,517.00	3	China National Petroleum	67,723.80
4	Ford Motors	172,233.00	4	China Life Insurance	24,980.60
5	General Electric	152,866.00	5	China Mobile Communications	23,957.60
6	Chevron	147,967.00	6	Industrial & Commercial Bank of China	23,444.60
7	Conocco Phillips	121,663.00	7	China Telecommunications	21,561.80
8	Citigroup	108,276.00	8	Sinochem	20,380.70
9	American International Group	97,987.00	9	Shanghai Baosteel Group	19,543.30
10	IBM	96,293.00	10	China Construction Bank	19,047.90
Rank	Japanese Companies	Revenues ($ Mn)	Rank 2005	Indian Companies	Revenues ($ Mn)
1	Toyota motors	172,616.30	1	Indian Oil Corporation Limited	34,924.60
2	Nippon Telegraph and Telephone	100,545.30	2	Bharat Petroleum Corporation Ltd.	16,977.60
3	Hitachi	83,993.90	3	Reliance Industries Limited	16,778.10
4	Matuchita Electric Industrial	81,077.70	4	Hindustan Petroleum Corp. Ltd.	15,765.40
5	Honda Motor	80,486.60	5	ONGC	14,307.10
6	Nissan Motor	79,799.60	6	State Bank Of India Limited	10,201.50
7	Sony	66,618.00	7	Steel Authority Of India Limited	7,743.80
8	Nippon Life Insurance	60,520.80	8	NTPC	5,391.10
9	Toshiba	54,303.50	9	Tata Motors Limited	5,205.90
10	Tokyo Electric Power	46,962.70	10	Mangalore Refin. & Petrochem. Ltd.	4,788.40

(Graph:1)

Legend: a) US b) Japan c) China d) India

(From left to right with respect to each rank)



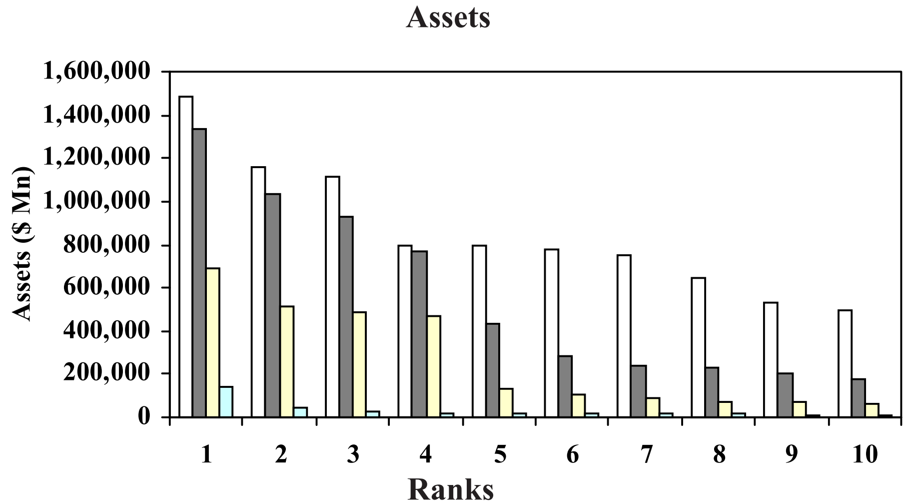
Assets (Table: 4)

Rank 2005	US Companies	Assets ($ Mn)	Rank 2005	Chinese Companies	Assets ($ Mn)
1	Citigroup	1,484,101.00	1	Industrial & Commercial Bank of China	685,135.10
2	J.P. Morgan Chase& Company	1,157,248.00	2	Bank of China	515,972.00
3	Bank Of America Corporation	1,110,457.00	3	Agricultural Bank of China	484,959.60
4	American International Group	798,660.00	4	China Construction Bank	471,791.80
5	Freddie Mac	795,174.00	5	State Grid	134,300.40
6	Morgan-Stanley	775,410.00	6	China National Petroleum	110,396.20
7	General Electric	750,507.00	7	Hutchinson Whampoa	84,170.60
8	Merill Lynch	648,059.00	8	Sinopec	74,941.20
9	Goldman Sachs Group	531,379.00	9	China Life Insurance	69,351.70
10	Wachovia Corp.	493,324.00	10	China Telecommunications	65,332.70
Rank 2005	**Japanese Companies**	**Assets ($ Mn)**	**Rank 2005**	**Indian Companies**	**Assets ($ Mn)**
1	Mizuho Financial Group	1,337,648.40	1	State Bank Of India Limited	144,103.10
2	Mitsubishi Tokyo Financial Group	1,031,081.30	2	ICICI Bank Limited	40,906.40
3	Sumitomo Mitsui Financial Group	932,413.10	3	Punjab National Bank	29,368.10
4	UFJ Holdings	771,810.70	4	Bank Of India	21,802.40
5	Nippon Life Insurance	437,336.60	5	Reliance Industries Limited	18,640.70
6	Dai-Ichi Mutual Life Insurance	279,687.90	6	ONGC	17,981.90
7	Meiji Yasuda Life Insurance	235,942.10	7	Indian Oil Corporation Limited	17,913.20
8	Toyota motors	227,512.90	8	NTPC	15,202.50
9	Sumitomo Life Insurance	198,897.50	9	Oriental Bank Of Commerce	12,395.60
10	Nippon Telegraph and Telephone	178,556.50	10	HDFC Bank Limited	11,790.20

(Graph : 2)

Legend: a) US b) Japan c) China d) India

(From left to right with respect to each rank)



Profits (Table: 5)

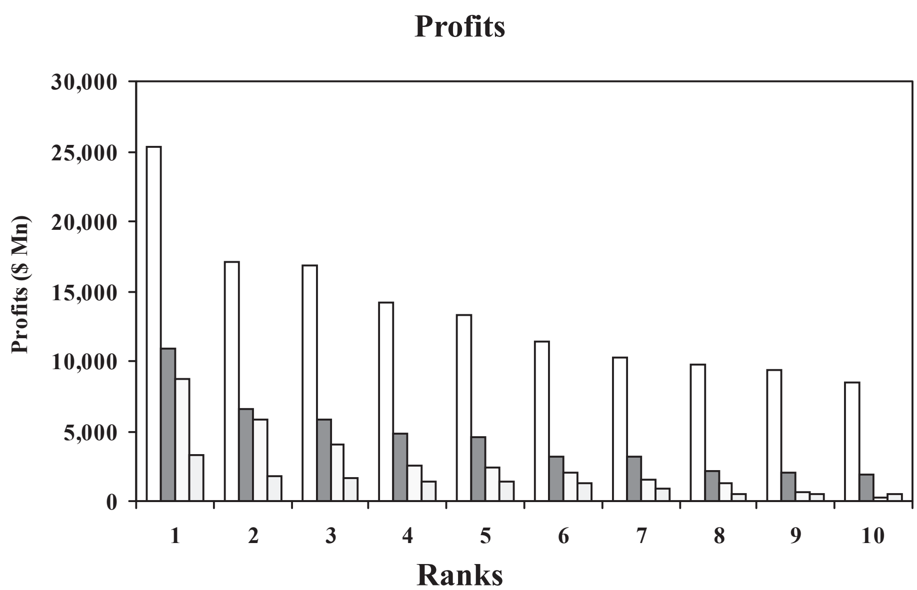
Rank 2005	US Companies	Profits ($ Mn)	Rank 2005	Chinese Companies	Profits ($ Mn)
1	Exxon Mobil	25,330.00	1	China National Petroleum	8,757.10
2	Citigroup	17,046.00	2	China Construction Bank	5,846.20
3	General Electric	16,819.00	3	China Mobile Communications	4,077.90
4	Bank Of America Corporation	14,143.00	4	Bank of China	2,529.00
5	Chevron	13,328.00	5	China Telecommunications	2,422.00
6	Pfizer	11,361.00	6	Hutchinson Whampoa	2,070.70
7	Wal-mart Stores	10,267.00	7	Shanghai Baosteel Group	1,537.30
8	American International Group	9,731.00	8	Sinopec	1,268.90
9	Altria Group	9,416.00	9	State Grid	694.00
10	Johnson & Johnson	8,509.00	10	China First Automotive Works	293.40

Rank 2005	Japanese Companies	Profits ($ Mn)	Rank 2005	Indian Companies	Profits ($ Mn)
1	Toyota motors	10,898.20	1	ONGC	3,326.80
2	Nippon Telegraph and Telephone	6,608.00	2	Reliance Industries Limited	1,748.80
3	Mizuho Financial Group	5,837.60	3	SAIL	1,594.10
4	Nissan Motor	4,766.60	4	Indian Oil Corporation Limited	1,378.30
5	Honda Motor	4,523.90	5	NTPC	1,333.90
6	Canon	3,175.30	6	State Bank Of India Limited	1,255.70
7	Mitsubishi Tokyo Financial Group	3,148.90	7	TISCO	832.00
8	Tokyo Electric Power	2,104.50	8	ITC Limited	518.30
9	Nippon Steel	2,052.60	9	BPCL	480.80
10	Nippon Life Insurance	1,886.30	10	TCS Limited	472.30

(Graph : 3)

Legend: a) US b) Japan c) China d) India

(From left to right with respect to each rank)



(Table : 6) Top US investors in India
(Amount in million rupees)

Collaborator	Sector	State	FDI Approved
Coca-Cola South Asia Holding Inc, Atlanta	Food Products	---	Rs.23,870.00
Mission Energy Company	Power	Tamil Nadu	Rs. 15,414.89
Flour Damiel Inc.	Power	Andhra Pradesh	Rs. 11,394.00
CMS Generation	Power	West Bengal	Rs 9,465.00
Ford Motor Company	Passenger car	Maharashtra	Rs. 8,635.00
Hughes Electronics Corp.	Cellular / Basic telephone service	---	Rs. 79,999.90
Public Power International Ltd	Power	Orissa	Rs. 7,440.00
Soros Fund Management	Power	Madhya Pradesh	Rs.7,000.00
Panda Energy Corp. USA & its associates Texas	Power	Orissa	Rs. 5,950.00

(Source : Indian Embassy Washington)

14. World as a Global Electronic Village

14.1. The integration of the World, through computer led electronic media has, to reiterate, converted the sprawling universe into a global electronic village. The World is shrinking and slowly, albeit steadily, integrating. The integration is not, merely the erasing of national boundaries for the purpose of business, but also for evolving a reasonably uniform mind sets regarding the kind of economic system which will govern the World's economic affairs withing the country and also between countries and continents.

14.2. Today, the globe continues to be characterised by a process of liberalisation, globalisation and privatisation. Moving towards economic liberalism is nothing but a call for increased free trade across national frontiers. More free trade is another way of saying that competition in business all over the World, will be of an enhanced order. However, competition is not a very good 'word' either for capitalists or socialists. For the capitalists particularly the babus (bureaucrats), business barons and barons in the political arena are a formidable trisection to help invade any system and spell its death knell when need be.*

14.3. Competition means allowing for the invisible hand to play its role as an umpire or arbiter of economic activity. It also means seeing the law of economics, namely continuous entry and exodus of firms, in motion. Further, it means to the capitalist foregoing chances of supernormal profits which a non competitive environment could have made it possible. Such profits may stem from vested groups of a society through monopoly or duopoly or oligopoly or sheltered protected market with tariff barriers and or quotas. The same message or criticism is applicable with equal force to socialism with the State and all its adjunct arms and allies being the vested group with all its do's and don'ts.

14.4. In both the systems it is the law makers and law keepers who tend to be law breakers. This is where any system collapses and digs its own grave. A system that gives a *carte blanche* to brazen and unfettered greed is a system in peril and danger of collapse. While unfettered profit maximization is the extreme form of capitalism allowing for survival of fittest socialism takes, in fact took, the issue to the other extreme namely "to each according to his needs and from everybody according to their ability". However, excess of anything is an unmitigated nuisance.

14.5. If either capitalism or socialism was to function without the overdose of protagonists on the plus points and the antagonists on the minus points, perhaps either system would function effectively and efficiently.

14.6. In the context of political economy this is an *El dorado* par excellence. Unbridled capitalism will be disastrous and indiscriminate socialist policies, may be equally bad and spell doom. The 20th century collapse of controlled economies bear eloquent testimony to the same. A balance between the two as an alternate has also not produced the desired results – though the spirit of freedom has been upheld, thanks to Indian democracy.

14.6. **Issue was and will never be choice of *'isms':*** In the words of Pandit Jawaharlal Nehru "It is not a question of theory of communism or

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* "Corruption is our protection.
Corruption is what keeps us safe and warm.
Corruption is why we win"
From the Film : **Syriana** - Directed by Stephen Gagan
Film Review - Times of India dated 11/03/2006.

socialism or capitalism. It is a question of hard fact. In India, if we do not ultimately solve the basic problems of our country – problems of food, clothing, housing and so on – it will not matter whether we call ourselves capitalists, socialists, communists or anything else. If we fail to solve these problems, we shall be swept away and somebody else will come in and try to solve them. So ultimately, the major problems of the day are not going to be solved by argument or by war but the method that succeeds in delivering the goods. That method need not necessarily be an extreme method belonging to either of these two rival ideologies. It may be something in-between."

In the same vein Swami Vivekananda had said many years ago

Box : 25

"So long as the millions live in hunger and ignorance, I hold every man a traitor, who having been educated at their expense, pays not the least need to them" .

Challenges for Indian multinationals is to remember its role in business, under all 'isms' in the above context.

14.7. **Contrarian View:** Further in India there is a contrarian view too. Such a view believes that the turnaround of the 'Indian Economy' sinces 1991 is an optical illusion, the high forex reserves are a hoax and that divestments have been done at a throwaway price. The danger lies in foreign investors acquiring good assets at abnormally low prices because it will be very difficult to take back the possession of assets passing to foreigners. Thus, it is rearrival of American Capitalists vice British Imperialism. To the extent that market comes in and pricing exists, sacredness is lost.

Box : 24

Schumacher says:

"*To the extent that economic thinking is based on the market, it takes the sacredness out of life, because there can be nothing sacred in something that has a price."*

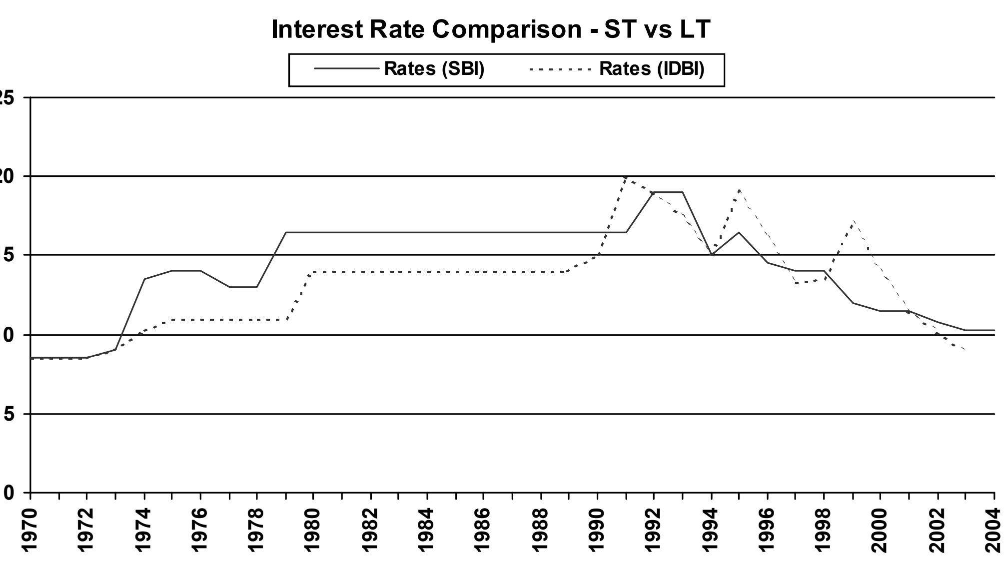
14.8. **Competition to Stay:** However competition local and foreign (intra group and inter group) is to stay in all walks of life. Society might as well, atleast for the time being, learn to adjust to notwithstanding the 'ism' in vogue, the chaos, turbulence and bitterness of the acts and actions in the market place. In fact competition may increase further.

Further as the US President Mr. George Bush has said “While we would not succumb to protectionism, India also has a responsibility. It should lift caps on FDI and open up its markets for American agriculture products and services” (The Times of India, 4.03.06,p.14)

14.9. In the wake of the new era of liberalisation, privatisation and globalisation in the twenty first century we have to accept competition, capitalism and its inveitable concomitant viz market forces as an arbiter of the economic activity. These are facts of life World over. Of course people will start asking again “how could billions of disconnected selfish interactions ever yield an outcome that is collectively right. (The Economist, London,28.6.2003). The antagonists are likely to invoke Schumacher’s view - see Box 24.

14.10. Shorn of its abuses an malpractices which may have disfigured its working in the past . capitalism is a potent instrument to tap the springs of private enterprise. The effectiveness and adequacy of any system or ‘ism’ will depend not on the promptitude or thoroughness with which the evils that cling to the system are removed but with the energy, enthusiasm and enterprise with which the system is made used of for the right purpose.

Exhibit One



Important Challenges For Indian Multinationals

1. Learn to work in a multicultural set up with no bias, as far as possible, to any sub-division or segment of society. The example given in para 9.1.1 - bears testimony to how some multinationals are in operation - Nestle in Switzerland. Fortunately for us, we live in a multi-racial, multi-lingual and multi-religious society. This is a forte and needs to be taken full advantage of.

2. Learn to improve the productivity of the work place by leaps and bounds. India enjoys plenitude of resources. However, we have a comparative advantage but competitive disadvantage. This needs to be corrected as soon as possible to be up to speed with international competition. In fact, even today our productivity is amongst the lowest in the World.

3. Learn to learn and keep the rate of learning greater than the rate of change. The equation 'L>=C' should be meticulously followed for implementation at all times. India is moving into the knowledge society and is a great repository of knowledge. We have to maintain this lead.

4. Learn to live with a currency which is going to be on the ascent. A devalued currency helps to stimulate exports driven revenues and export propelled growth. A currency on the ascent works in the reverse direction and appropriate financial strategies and approaches need to be evolved to retain the competitive edge in the global scenario. To the extent that other currencies appreciate more than ours, our exports are still protected though.

5. Learn to take decisions within decreasing reaction of time. The World never sleeps. Hence, business is always on in some part of the globe or the other. Decision making processes have to be fast and responses and reflexes must be alert, agile and active *a la* Reliance (Refer to Prasanna Channdra, Financial Management - Theory and Practice, Fifth Edition, Chapter 18 - Capital Structure Decisions, page 464). Further see Box 12.

6. Learn to live with a low interest rate regime and identify lower interest rate regimes World over for opportunities to minimize cost of capital and maximize the present value of future benefits from existing and proposed investment proposal. (Refer to the reference citation in para 5 above). Shareholders' wealth maximisation is an important factor to be reckoned with.

7. Learn to live and do business in a business environment where there is continuous change, - whose speed, direction, pace, configuration and complexity has no parallel in business history of our country.

8. Learn to avoid mechanical transplantation of business models which may have succeeded elsewhere. What we need first of all is a local design and development efforts with local resources. While import of knowledge should be freely accepted, mechanical transplantation of ideas that have succeeded abroad can be not only inimical to the development but it may hasten degeneration because of the mental attunement to the idea of being incapable of providing solutions to local problems. As observed by Late Professor K.S. Basu: "Various institutions begin to grow which do not have their foundation on local soil and do not develop in response to local needs. They become foreign, artificial and imitative. They develop a desire for continuing sustenance from outside and sometimes a scorn for whatever is local or traditional. There is danger for their slowly losing their self-respect and self-reliance. There is a danger also of very worthy institutions being pushed out of the scene merely because they have their own patterns of development and are not prepared to conform to a pattern suggested by the donor."

9. Learn to accept size as a key factor in influencing competitive edge. Compare India Inc. which is pygmalion by global standards vis-a-vis America, Japan and China in that order. It is a contrast rather than comparison. If size improves, production volume improves and unit cost productivity can be achieved to improve cost competitiveness and the consequent price effectiveness.

10. Learn to improve the quality of human resources with respect to credentials of skills, attitude, motivation and above all acceptability of personalities in a global context for business interaction – articulation, gesticulation, behavior, manners, mannerisms, style, poise, attitude, attire *et al*.

11. Learn to understand that India is still a poor country and many millions are living below the poverty line and any development at micro or macro level should be geared eventually to provide basic necessities to every Indian, till we get rid of poverty. See Box 25 and para 14.6.

12. Learn to accept quality as a way of life in all aspects of business. With improved quality, productivity automatically improves.

13. Learn to take a medium and long term perspective of business rather than a short sighted myopic approach. The payoffs are better if shortsightedness is avoided.

14. Learn to accept *dharma* - 'rectitude and righteousness' as the key ingredients of ethics in business. The foundation of corporate governance

philosophy at Infosys is that "*it is better to lose a billion dollars than to act in ways that make one lose a night's sleep*." This is a signal of how a role model enterprise should function.

15. Learn to grow and develop by merging, mixing and matching with global scenario, yet retain the Indian identity and the ethos of the nation not through regional economic nationalism but by subscribing to the cause of onward march of human progress in a global context.

Foreword

The compilation of Rajkumar Singh and Amitpal Singh on the theme – '*Challenges for Indian Multinationals'* makes interesting reading in the broader context of issues discussed in this introductory paper. The compilation explores a brief review of multinationals and their prowess on a global scale.

It is followed by an economic review of the past and the current economic environment. Further, different aspects of multinationals have been explored such as the impact of globalization, modes of operations, advantages and disadvantages of multinationals, organizational design, advent of Indian multinationals, multinationalism by India and in India and different operational areas of Indian multinationals. It also provides global statistics in the context of multinationals across Asia and America, bringing into juxtaposition India, Japan and China from Asia and the USA from the continent of America.

The compilation acts a stimulant to all those interested in the subject matter of the theme – '*Challenges for Indian Multinationals'*.

Research Team at Dr. V. N. BRIMS,
Dr. Guruprasad Murthy
and
Shri K. Nijasure
Assisted by,
Rajkumar Singh and Amitpal Singh

Preface and Acknowledgements

Under guidance of Dr. Guruprasad Murthy, we, Rajkumar Singh and Amitpal Singh, present to all readers the study carried out on Multinational Companies. The aim of this study is to develop a complete understanding of what multinationals are and where Indian multinationals stands. This compilation brings out the results of the study in the simplest manner possible.

It is enlightening to know that the first multinational made it's appearance in 1602. From then onwards they have nurtured themselves to become massive colossal corporates, colossal to such an extent that the sizes of their revenue exceed GDP of some countries and their market capitalization is larger than that of the BSE and the NSE put together. An overview of what these corporates are, is exactly what this material spells out.

Many must be acknowledged for this small success beginning with Dr. Guruprasad Murthy, Dr. V.V. Bedekar, Mr. Kedar Nijasure, Mr. Sandeep Bhavsar (Librarian), Mr. Rajgopal Iyer (I.T. Centre), the Library staff, the administrative staff and all others who have put in their efforts in every possible way.

Rajkumar Singh
and
Amitpal Singh

‘Challenges for Indian Multinationals’
A
Special Compilation
by
Rajkumar Singh and Amitpal Singh

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