DYNAMICS AND POTENTIAL OF NEW WAVE

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The *Vikalpa* Colloquium on the engagement of Indian companies with global markets raises a set of interesting questions. They are interesting because while the engagement of Indian companies with overseas markets *per se* is not new, the nature and the character of engagement of Indian firms with global markets has undergone a dramatic change over the last decade.

Historically, engagement of the Indian firms with overseas markets was with the export of traditional products like tea, coffee, iron ore, leather, apparel, gems and jewellery, etc. However, in the last ten years, largely on the back of the performance of firms in the Indian software and pharmaceutical industries and increasingly the auto component industry, Indian companies have been successfully participating in what can be broadly classified as 'new age' industries that are 'technology-knowledge-service-intensive.' Thus, the participation of Indian firms is no more restricted to 'commodity' like industries. Second, and more important, is the emergence of *globally competitive* companies in these industries. Infosys, Wipro, TCS, and Satyam in the software industry; Ranbaxy Laboratories, Dr.Reddy's Laboratories, and Aurobindo Pharma in the pharmaceutical industry; and Bharat Forge and Sundaram Fasteners in the auto component industry would be relevant examples. In sharp contrast, despite decades of exports of traditional goods listed earlier, India has not seen the emergence of a *single* firm that is a force to reckon with in those industries. Third, even though the competitiveness of these new age companies is still largely anchored in the country-specific advantage of low cost, the managements of these companies have sought to go beyond cost competitiveness by focusing on the organizational dimension. They have built *highly responsive organizations* that compete fiercely in the global markets, including, critically, in the most advanced markets of the world. Bharat Forge, for example, competes on the basis of its ability to respond rapidly to its customers' demands, which predominantly comprises the global auto majors.

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What led to the emergence of this new genre of companies? It is tempting to attribute the emergence of these globally competitive companies to the economic reform programme that the Government of India embarked upon in the early 1990s. However, that would only provide a partial explanation. The reform programme, by opening up the Indian markets to global companies, made the need to be competitive — to defend one's market position — a compulsion. It, however, did not make participating in global markets necessary. That was still a matter of choice for the top managements of the companies. Most of them including several large ones in the Indian industry do not actively participate in the global markets even today. Indeed, one could argue that it is their participation in the global markets, *by choice*, instead of compulsion, that has resulted in the successful emergence of the globally competitive firms cited earlier. In fact, the earlier policy regime did require companies to 'export' if they wanted to gain access to (the then) precious foreign exchange to import capital goods, input materials, etc. This compulsive characteristic of the 'export requirement' however, failed to result in the emergence of globally competitive companies. The 'exports' of most of the companies was largely a sham. They, typically, fulfilled the requirement by 'routing' exports of traditional products made by the traditional exporters through their books of accounts! Thus, Indian firms have been successful in making an impact on the global markets when the engagement has been voluntary. And not imposed by policy. However, policy regimes can enable. That is precisely what the economic reforms of the early 1990s did.

Similarly, it is tempting to attribute the successes achieved by the new genre of companies to the visionary leadership of these companies. That would be a facile explanation. Visionary leadership is a necessary but not a sufficient condition. Beyond leadership, what has led to the successes of these companies is the set of *difficult choices* they made. The most important of them was the decision to *pursue opportunities in the most competitive markets of the world*. Consider Ranbaxy. It is often cited as a stellar example of visionary leadership. Indeed, Dr Parvinder Singh, the late Chairman and CEO of the company, was a visionary. He did set the company on the path of globalization. However, what proved to be a critical inflection point in the company's successful journey was its decision in the mid-1990s to participate in the fiercely competitive US markets. Until then, Ranbaxy was exporting its products essentially to a number of what can be termed as India-look-alike (read developing) markets. In these markets, price is the key success driver. They are not demanding on other parameters like quality, delivery, innovation, etc. On the other hand, the advanced markets like the US and Europe are very demanding on these counts. In these markets, customers punish firms for underperformance on these other parameters. It is the commitment to serve demanding customers of the advanced markets of the world with the attendant *willingness to learn and critically invest in developing the requisite competencies* (regulatory and legal in this case) exhibited by it that made a crucial difference to Ranbaxy's performance in the global markets. This pattern of engagement with the most competitive markets of the world and display of the willingness to learn and invest in building the necessary competencies is discernible across this new genre of companies. Thus, one would argue that the commitment to engage with the most competitive markets and the concomitant willingness to learn and adapt to the requirements of demanding customers led to the success achieved by these companies in the global markets.

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Participation in the advanced markets of the world, however, was not an option to the Indian software industry. Yet, Indian firms have achieved spectacular success in this industry despite, even more interestingly, the absence of a robust or a well-developed domestic market for their services. While one could argue that the huge demand for software services and availability of low cost software engineers was the prime reason for their success, it would not do justice to the achievement of firms in the industry. While these two factors provided the initial window of opportunity, they were not all. The firms of the industry have not only achieved phenomenal growth in terms of revenues and profits, but have also displayed a remarkable resilience and importantly consistency in their performance. This is truly laudable considering the technological and business volatility that this industry was subjected to over the last decade. Their emergence as world-class players can be traced to a series of complementary and continuous *managerial innovations* that they unleashed. For example, they pioneered the off-shore model of software service delivery. They overcame the traditional concerns with outsourcing to a remote location by innovatively leveraging software process quality certifications under the capability maturity model (CMM) developed by Software Engineering Institute (SEI) of Carnegie Mellon University. For example, they used it to overcome the 'country of origin' bias that firms from 'developing' countries like India typically confront, particularly in knowledge-intensive industries like software. To assuage fears over 'loss of control' over remote location operations by client personnel, they developed a set of metrics and governance mechanisms that were anchored in the well-accepted SEI-CMM framework. While the metrics enabled 'output' control by the clients, the governance mechanisms developed around them gave them a strong sense of 'behaviour' control over the operations and mitigated their apprehensions.[1] Thus, the success achieved by the firms in the software industry suggests that, in addition

[1] See Mukherji, S and Ramachandran, J, " Complementary and Continuous Innovations: Case of the Indian Software Industry," *Journal of Academy of Business and Economics*, forthcoming, for a detailed exposition of this thesis.

to choice of markets to compete in, execution matters. And, more importantly, *innovation in execution matters.*

The success achieved by the new genre of companies is also due to their *careful selection of the market segments to participate in*. For example, the Indian software majors largely participate in the service space and not in the product space. Similarly, the pharmaceutical majors essentially participate in the generic segment of the pharmaceutical industry and not in the research-intensive new-to-the-world products segment. The companies in the auto component industry too supply relatively 'standard' products like crankshafts and radiator caps. They do not, as yet, offer 'original' products designed and developed by them on their 'own' technology platforms. The advantages of participating in these kinds of market segments are multi-fold. First, the decision-making process at the customers' end would be more rational than impulsive. Second, communicating the compelling nature of their value proposition (*competitive quality at low cost*) to these kinds of customers is relatively easy. Third, evaluation of their ability to perform and their subsequent performance by these customers is fairly straightforward. Witness the high retention rates of customers by these companies. Fourth, they do not need to invest heavily in building complementary assets like product brands or distribution that are critical for success in other segments of the industry. In most of these cases selling is direct to the customers, and where access to distribution channels (as in the case of pharmaceutical products) was required, they were easily available. That does not mean customer acquisition is easy. These firms needed to compete, and compete vigorously, with other suppliers. However, the parameters of selection are relatively well-specified (largely cost, quality, and delivery) and that makes the task of customer acquisition that much less complex as compared to, say, the FMCG industry.

Significant components of the value chain of these companies are located in India. And, *rightly so*, considering the fact that they are essentially leveraging the country advantage of low cost—both for manufacturing operations and talented human resources. The pharmaceutical majors have acquired some local manufacturing facilities. But, these have largely been done to gain a toehold in these markets. Textbook distinctions of 'going global' vs. 'going international' are largely irrelevant in an increasingly globalizing world. *The impact on competitiveness should drive the choice of activities to locate in different geographies*. Not academic niceties! These companies seem to have followed this edict. For example, most have, quite appropriately, located the customer acquisition function closer to the customer in the various geographies they participate in. Similarly, many of these companies have opted to mobilize funds from the international capital markets. In addition to lowering their cost of capital, mobilizing funds from global capital markets signalled the willingness of the managements of these companies to subject themselves to high standards of corporate governance providers of capital in global market. Additionally, raising financial resources from international markets brought these companies within the radar of global investment bankers all of whom started tracking and reporting the performance of these companies. This resulted in high visibility and, more importantly, accorded credibility to these firms and subtly aided their customer acquisition process.

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Increasingly, this new genre of companies, as they seek to move up the food chain by offering more sophisticated products and services, are enhancing their overseas presence, largely through acquisitions. However, they have been highly selective in their acquisitions. They have typically used acquisitions to *access the difficult-to-build competencies of the acquired companies rather than to achieve scale*. Even where companies have preferred the green-field route, their overseas initiatives have been driven by the need to access skills (leading edge research talent in the case of Dr. Reddy's and consulting skills and talent in the case of Infosys) than scale.

A final interesting characteristic of this new genre of companies is the visible influence they seem to be subtly wielding over each other. Perhaps because they are, by global standards, individually (and collectively!) small, or perhaps because they are so few in number in a large country like ours, or perhaps because the country as a whole is looking up to them as a group of pioneers who are making an impact on the global markets, or perhaps because of the significant recognition accorded to them by a very competitive media which has given them a near iconic status, *peer level competition seems to spur the managements of these companies on!* Thus, in addition to the traditional stimuli of opportunity exploitation and capability leverage, peer influence that is pan industry in character seems to drive Indian firms to go overseas!

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What is the message from the performance of this new genre of companies for the rest of the Indian industry, especially the large companies that dot the country's industrial landscape? First, it can be done. Second, it calls for something more than visionary leadership. It requires commitment to compete in the advanced markets of the world. Third, to choose market segments that offer opportunities to gain a rapid toehold in these markets. Fourth, to do what it takes to win. Specifically, it requires a willingness to learn and invest in the development of the requisite competencies. Finally, and most importantly, to focus on building an organization that constantly seeks to innovatively exploit opportunities that the global markets offer as the firms in the software industry did.

What next for the new genre of Indian companies? Their achievements are commendable. They have attained critical mass. That gives them a platform. They would need to convert this platform into a springboard. That calls for them to go beyond leveraging country-specific advantage of low cost and develop firm-specific advantages, preferably one that is anchored in intellectual capital. Cost and quality competitiveness have today become qualifying conditions. *Intellectual competitiveness,* competitiveness anchored in difficult-to-imitate knowledge, defines the winning conditions.

LEVERAGE INDIA ADVANTAGE THROUGH GLOCAL APPROACH

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The single biggest driver behind the globalization of Indian companies is the liberalization process ushered by the government in the early 1990s. Liberalization did several things. High tariff walls were lowered, encouraging imports and opening up the domestic market to international competition. Foreign companies were encouraged to set up shop in India exposing Indian companies to global products and practices. Liberalization also allowed more Indians to travel abroad for business and pleasure.

Our management costs, our scientists, our legal brains — all of international calibre — offer a cost to value proposition that cannot be found anywhere else in the world. Even overseas companies have recognized the India Advantage.

All this led to a great churn in the Indian industry—on the one hand, companies started upgrading quality of their products to compete with the world's best; at the same time, they innovated to cut costs and become globally competitive. Good policies often beget unforeseen beneficial consequences. Overseas companies, which came to India to tap the large Indian middle class market, discovered India's potential as a low cost but skilled production base to tap overseas markets. Automobiles and auto component industries are perhaps the best examples. Companies like Hyundai have made India a global hub for small cars.

The realization of India Advantage emboldened Indian companies to aggressively explore offshore markets. Let me give the example of the pharmaceutical industry. The cost of setting up a modern pharmaceutical plant in India would be one-sixth of what an identical plant in Europe or the US would cost. It is not a question of wages as often made