been made. However, the reader is well advised to obtain prior familiarity with forecasting methods. Chapter two which deals with forecasting gives a reasonably good overview of some of the steps and techniques in environmental analysis. Techniques outlined include expert opinion, brainstorming, alternate scenarios, cross-impact analysis, relevance trees and morphological analysis. Among other techniques, the Delphi Study has been briefly but well delineated.

The other major thrust of Part 1 is on scenario building. Scenario building is a form of what-if or sensitivity analysis with respect to the aggregate external environment. As mentioned earlier, scenario building and the techniques of long term forecasting are considerably intertwined. As has been oft stated in the book, 'good scenarios' are challenging, plausible and internally consistent. They illuminate the uncertainties and issues that are critical for the future. Hence they should also help identify structural changes in the industry and market structure. Scenarios lead to better decisions if they improve our understanding of the world. The account of scenario building approaches used by Shell Corp and General Electric provides useful reading. Scenario building is well learnt through actual exercises keeping specific product-market and industry situations in view. Techniques for scenario building include brainstorming and focus groups.

Part 2, which deals with robust strategies does not impress considering the high expectations built in Part 1. For one, generic robust strategies, a variant of robust strategies, are simply those corporate or marketing strategies which are seen as benefiting long term objectives. Issues on brand loyalty, positioning, customer satisfaction and complaint handling are dealt with satisfactorily in conventional marketing but their specific relevance to long range marketing is not clear. However, sections on conviction marketing, catastrophe theory and AIUAPR purchasing model, make useful reading.

The incorporation of short articles by leading authors from journals such as *HBR* and *Management Decision* adds to the learning of the long range marketing process.

To sum up, long term forecasting and planning are of value if they help uncover structural drifts and discontinuities in the market and industry structure. For this, one needs to look beyond the obvious to the hidden turning points. Using them as an agenda for shaping the future, as it pertains to the environment of organisations, may be possible if the firm enjoys market support, lobbying power and the ability to leverage much needed resources on time. If neither objective is served then the concept of long range marketing is reduced to nothing more than a systematic exercise of becoming aware of what the future possibly holds. Such an awareness might not add to the extant knowledge of the decision makers; such knowledge having been obtained through experience, informal discussions and judgment. In either case, the role of marketing strategy in effectively anticipating and coping with the present and the near future in a dynamic fashion, giving due consideration to the external environment, is not mitigated.

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Forging Reform in China: The Fate of State Owned Industry

by Edward S Steinfeld, Cambridge University Press, 1998

In a recent book (a product of his Ph.D dissertation at Harvard), Prof Steinfeld of MIT addresses the paradox of Chinese 'reforms' aimed at firm level, resulting in the situation going from bad to worse! He analyses this through case studies of Chinese steel companies, which, having occupied the commanding heights, actually performed worse after the reforms. The explanation of the apparent puzzle is that enterprise level reform (which is all about 'rights' of entrepreneurs to enjoy the fruits of their enterprise, 'autonomy' of managers to exercise their discretion and 'liberalisation' of the firm from state controls) is not followed up with its corresponding obligations. There is thus no penalty for managerial misbehavior, in the form of a credible threat of bankruptcy of the firm if the rights are misused. The latter threat can be enforced only by complementary, and more difficult, external institutional mechanisms like tight bank supervision , transparent and consistent accountant standards, and a proper regulatory mechanism, which are absent in China.

The author traces the failure of corporate governance to a vicious loop of interactions— which he calls nested loop dynamic— where the various agencies of the Government arbitrarily extract firm-level profits out of the state owned enterprise (SOE) on the one hand, and the SOE managers seek rent by broadcasting erroneous signals regarding SOE performance, on the other. While the firm loses money, it still declares profits. Credit sales make an unusually large fraction of total sales. This makes for large receivables, which ultimately turn out to be non-performing assets, leading to the 'paper profits but actual losses' situation. The game is able to be played because there is no threat of bankruptcy, as the losses are bank-rolled. On the 'profits' so declared, the state collects its taxes. In the event, the firm ends up serving as a conduit for sucking in bank funds, that is, savings from households, to be appropriated by the State and the SOE management by their rent seeking activities. The firm produces outputs for which there are no buyers, sells to buyers who have no cash (and who do not intend to pay) and finances its production in turn by credit from suppliers and bank credit. This leads to a web of what the author calls triangular credit — of increasing receivables and increasing short term liabilities. The author illustrates the deleterious effects of the Government's well intended but incomprehensive moves through two main illustrations.

The government initiated a profit contracting agreement with the steel major Anshan (referred to as Angang) in 1987, for a nine-year period from 1987 to 1995. Angang's primary responsibility was to submit profits to the state at an increasing rate of three per cent per annum. These profit submissions in effect constituted income tax. Any profits above the annually increasing baseline submission level would be retained by the firm. The firm's incentive to increase profits and productivity, was the right to the excess. There was only one stipulation to prevent all this from being distributed to the employees and managers; the total wage bill was not to increase by more than the rate of pre-tax income.

Angang's profit before tax was healthy for five out of six years from 1990 to 1995, yet it had a cash squeeze. Angang in 1994 increased its revenue by six per cent over the previous year, but collected cash for only 38 per cent of its sales. The company needed RMB 1.38 billion to maintain production, but achieved cash returns of only RMB 640 million (46 per cent). This gap was being financed from increase in current liabilities, partly from suppliers' credit and the rest from bank credit. This made the firm extremely vulnerable during tight money policy regimes, during which the bank credit would not be easily forthcoming. Yet, during the 90s the firm was carrying out expansion programmes even as the demand was contracting. The author contends that the firm was deploying internal resources for long term expansion, while funding the operations through short term borrowings. In short, the firm was operating without any clear budget constraint.

The second example is the case of Ma'anshan Iron & Steel company which was 'corporatised' and whose shares were listed in Hong Kong stock exchange, in October,1993. Here, corporatisation — in the absence of the threat of bankruptcy aided by soft money from banks—led to worse results due to firm level autonomy abetting managerial misbehavior. The firm increased its assets while the sales decelerated in 1994 and declined in 1995, and profits fell off sharply. There was also a sharp increase in current liabilities to finance operations and the increase in the 'triangular debt', signifying increase in bad debts masquerading as receivables. The firm also increased its fixed assets at the time of falling revenues. Current ratio steadily sank. Asset quality declined, in the sense that the liquid assets consisted of the most illiquid category, receivables, and unproductive assets increased as a fraction of total assets.

The author does well to accept a progression of joint stock restructuring, starting with

- Evaluation of firm level fixed assets and issuance of shares
- Transfer of stocks from government agencies to special state holding companies emanating from the banks and financial institutions
- Large SOEs issuing shares on domestic and international stock exchanges.

However, he seems to prefer classifying Magang's listing of its stocks in Hong Kong stock exchange as 'corporatisation' rather than as partial privatisation. Here, it must be noted that the stocks were actually traded, with the share value dropping to nearly half its initial value. (Certainly the Chinese authorities cannot be criticised for selling the family silver for a song, an accusation that is plaguing the British, Russian, Brazilian and even some Indian privatisation!)

The author seems to leverage most of his conclusions from fairly sparse data. Basically two large steel companies were studied, apart from one more whose data were used to make a point. More specifically, the link between some of the conclusions reached and the data offered to support them appears to be tenuous. For instance, there are figures only for two years post-corporatisation of Magang, on increased receivables and these are inadequate to conclude that they will perforce turn into bad debts. Similarly he has provided data for increase in receivables or payables for just one year. While it is a problem if there is an unsustainable increase year after year, there is no problem if the level is maintained, whatever it may be, as long as there is positive working capital. Thus, the author fails to indicate any conclusive test by which he identified the corporate cancer of credit sales turning bad and resulting in cash squeeze for the firms. There is also inadequate evidence for 'soft budget' to operate, because

- after all the government budget support was cut off
- banks had reasonable discretion and the extent to which government could 'direct' the banks particularly for short term funds is not clear
- some of the 'expansion' for fixed capital may be due to prior commitments for projects with long gestation periods.

The accounting figures themselves cannot form the sole basis for suggesting an impending economic catastrophe. Time alone can confirm his prognosis. There is also some mix up of accounting flows and cash flows; in one instance the author finds net profits to be only 1% of the revenue, because part of the profit is returned towards loan repayment.

The author also seems to assume that hard budget constraint and a credible threat of bankruptcy will set things right in the context of an SOE. Perhaps not. In the case of some loss making Indian SOEs, the managers have told me that they are not worried because even if government funding is stopped and the firm faces a hard budget constraint, it will not wind up in their lifetime and that is what matters! They eat out of the firm's vitals by selling valuable assets like land. In other words it takes privatisation, hostile raids and threat of individual job loss to improve the performance.

Yet one cannot help but agree with the author in his broad conclusions, that 'economic reforms' conducted in a half baked and piece-meal fashion would do more harm than good. This advice is timely, coming as it does, when many world bank consultants straddle the globe and keep chanting the mantras of commercialisation, corporatisation and privatisation to unwary customers, without addressing core issues like the amendment of labour laws and whether in the ultimate analysis the nonperforming firm can fold up!

— V Ranganathan

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