

GROWTH STRATEGY AND CAPABILITIES BUILDING BY INDIAN ENTERPRISES¹

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The paper aims at examining the growth of Indian business enterprises and the changes in the economic and business environment over the last few decades. There are number of challenges before the Indian corporate sector. The implications of these challenges for capabilities building for Indian enterprises are discussed. The paper has been structured as follows: first, growth of the Indian business has been discussed, then changing business environment and the challenges are described, lastly the implication for capability building in Indian business is outlined.

Key words: Firms, Growth, Changing environment.

JEL Classification: L2, M2, O3, O4

1. Introduction

Change is the only permanent thing in the world. India has also witnessed significant change and dramatic shift in its economic and business environment over the last six decades. Its economy has become more open, liberalized and globalized from restrictive era of 1960s and 1970s. The relationship between state and business has also undergone significant change. The nature of Government and governance is changing fast. The government all over the world are running fewer things and regulating more. The numbers of regulatory agencies have increased substantially over time. In India, with the liberalization of several sectors by the government, the demand for regulatory agencies and independent regulator is growing.

The nature of business operation and management is also changing with the ever-changing nature of consumer and technology, opening up of new markets and sector, emergence of new competitors with new products, service-offerings and business models, growing demand for ethical and socially responsible business. All business enterprises need to focus on two basic things to survive for a long period: first, it must execute its current activities efficiently to survive today's challenges, and then adapt those activities according

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to the changes taking place in the environment to survive tomorrow's challenges. According to Beinhocker (2006), since both executing and adapting require resources, managers face an unending competition for money, people and time to address the need to perform in the short run and the equally vital need to invest in the long run. In technology sectors, the companies need to transform and reinvent themselves periodically to survive. All these necessitate that enterprises should have capabilities and keep on renewing their capabilities over time. The paper is structured as follows: first, growth of the Indian business has been discussed, then changing business environment and the challenges are described, lastly the implication for capability building in Indian business is outlined.

2. Growth of Indian Business

Growth is not just an indicator of a company's performance, but also the basis for its future success. Growth means getting both bigger and better. Only those companies that meet their customers' needs better, invest in innovation and service, penetrate new markets, improve their cost structure and so on are firmly on the path to long-term solid growth. Indian enterprises have shown many-fold growth during the last two decades. It has been possible because of the economic reforms initiated by the Government of India in 1990s and the strategic decisions taken by the entrepreneurial class of India. Indian enterprises took a number of steps that included modernization, technology upgradation, restructuring, right sizing, etc., to improve its operational efficiency. Indian enterprises have emerged as most cost efficient manufacturers and service providers in the world.

Since the year 2000, Indian enterprises have been aiming at global ambition and started acquiring domestic and foreign enterprises, forming strategic alliances, initiated mergers with other firms and internationalizing their operation to become multinational.

In today's turbulent environment where developed countries like the United States and Euro zone are struggling to stabilize their economies from recession, Indian economy is still growing at a respectable rate. This has been possible to a large extent because of Indian enterprises and its entrepreneurial class. Globalization of finance has helped large number of Indian enterprises and has helped Indian corporates to not just dream big but live that dream too.

The growth of Indian enterprises has been shown below in following figures and tables. Table 1 shows the structure of Indian corporate sector and its growth overtime. It is clear from the table that Government enterprises have declined marginally their dominance. Indian business houses are maintaining their share. Standalone Indian companies such as

Infosys, L&T etc have increased their presence substantially. The same is shown in figure 1.

Table 1: The Share of Sales across Ownership Type of BSE Firms, 1989-2008

| Ownership type | 1989 | 2000 | 2008 |
|-----------------------------------|------|------|------|
| Government Commercial Enterprises | 44.6 | 39.4 | 36.9 |
| Indian Business House | 40.8 | 40.1 | 42.4 |
| Indian Private Standalone | 3.6 | 9.4 | 11.9 |
| Foreign Firms | 9.3 | 9.5 | 7.4 |
| NRI Business House | 0.8 | 1 | 1 |

Source: Centre for Monitoring Indian Economy (CMIE)

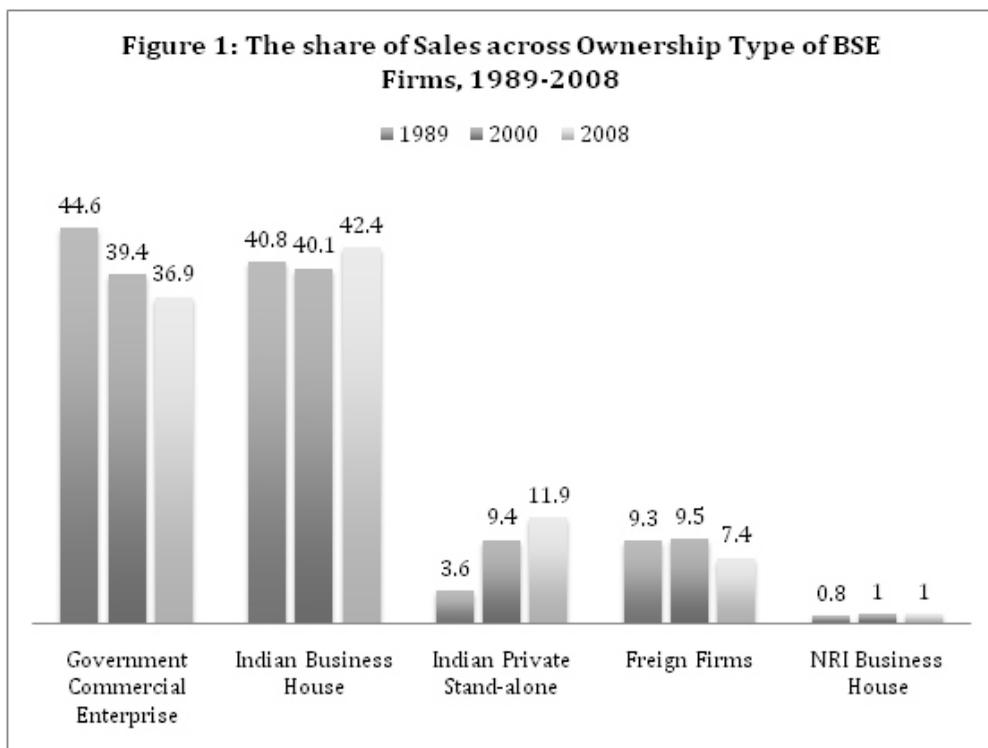
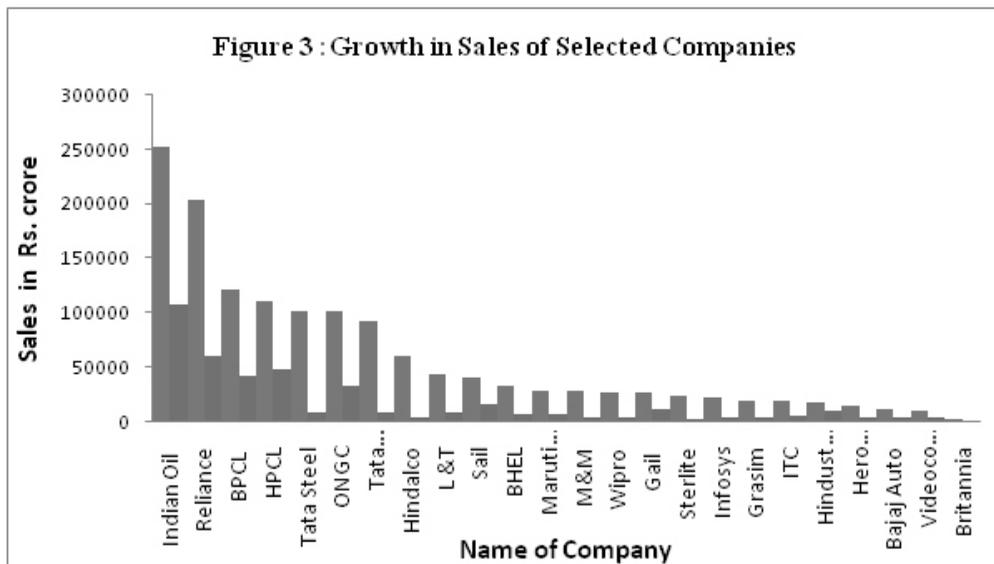
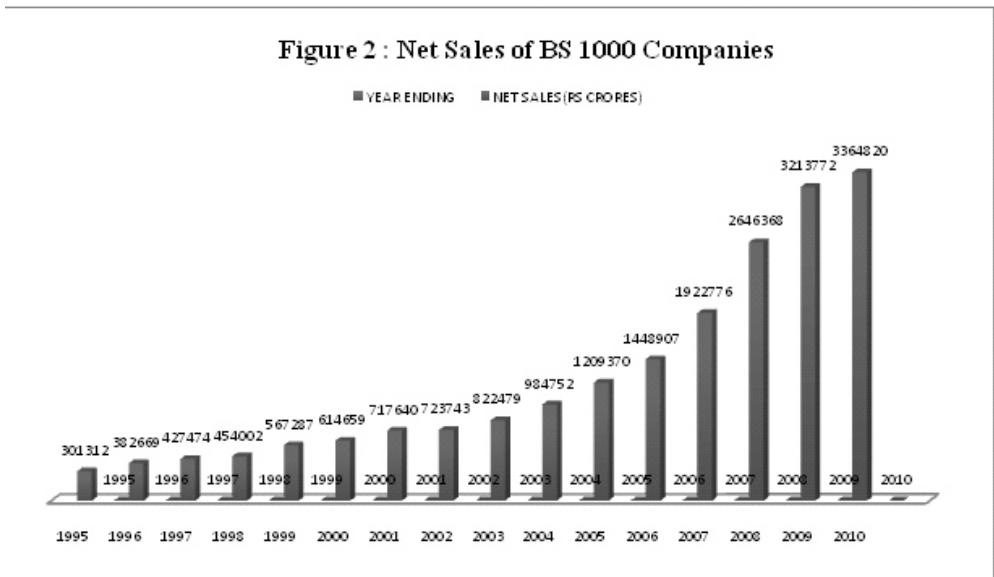
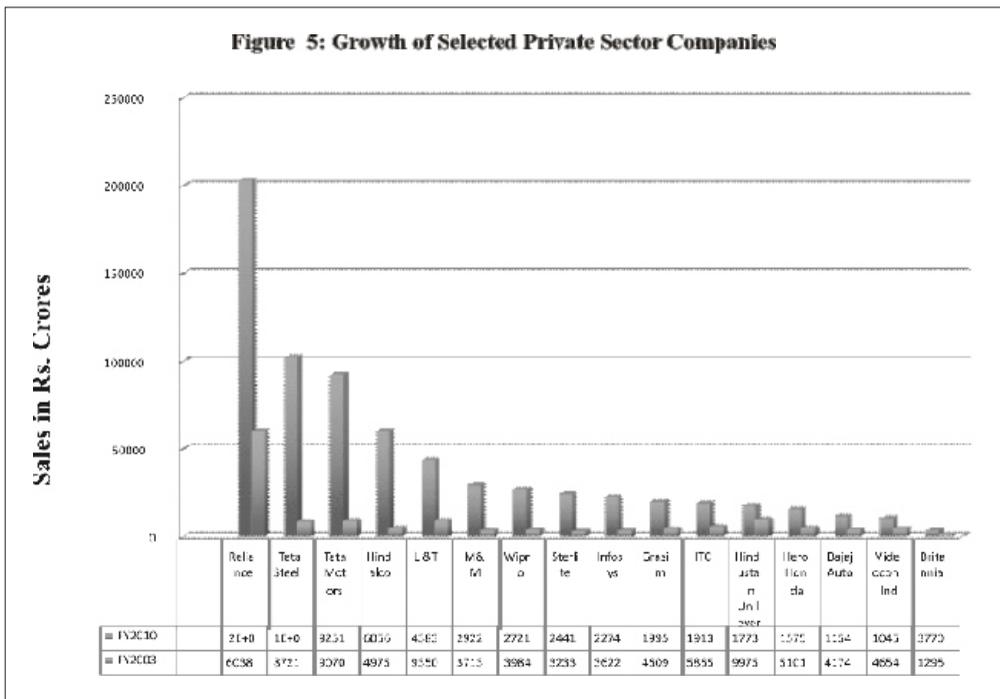
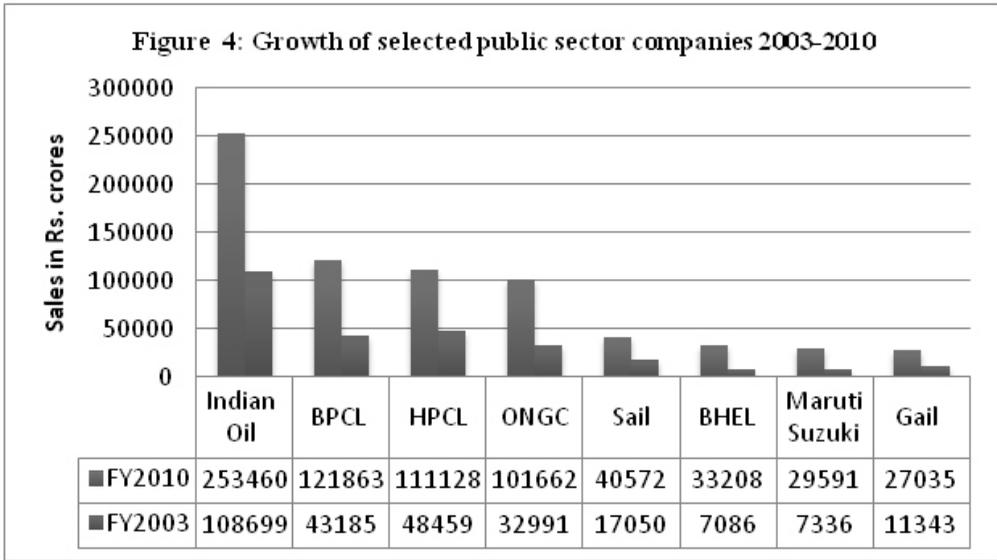


Figure 2 shows the Business Standard 1000 companies and the growth of their sales over a period of 1995 to 2010¹. The total sales have grown by 10 times. To make the picture clear, the growth of the top 24 public and private companies listed on National Stock Exchange and Bombay Stock Exchange have been shown in figure 3. The same companies have been further grouped in Figure 4-5. Whereas public sector companies have grown by 2 and 3 times, Private sector companies have grown by 10 times during the same period during last 7 years.



³ This is sales figure on current prices with no adjustment of price rise over time.



There are number of issues of corruption and nexus between business and politicians and bureaucrats. However, the rise of these companies cannot be attributed to this only. There have been several strategic moves on the part of management by following organic, inorganic and mixed growth strategies.

3. Changing Business Environment and Challenges

The present global economic and business environment is not stable. It is very uncertain and turbulent. The economy of US is stabilizing and struggling to revive. Europe is facing sovereign debt crisis. Other countries are also facing several problems, for instance, political upheavals in Middle East, Earthquake and the nuclear crisis in Japan. China is consolidating and recent data shows the contraction in its manufacturing. India and other emerging markets are the growth drivers of the world economy. Bery (2012) noted that *the global economy of the future will be fundamentally different from what we have experienced in the last 60 years. It will be shaped by three important drivers: the halting recovery of rich countries from the present crisis, compounded by their ageing; the rebalancing of Chinese growth away from exports and investment towards domestic consumption; and the rise of the middle class in emerging markets throughout the world, most of all in Asia. The locomotive of global demand will increasingly be the world's poorer parts, while rising wages in China will mean that it may no longer choose to come in serving these markets. In 20 years, India will be roughly where China is today in terms of per capita income, while China could be approaching the current income levels of members of the OECD.*

At the enterprise level, the competition is becoming intense. In technology sector every enterprise is engaged in innovation and technology development and Patent Wars in several sectors are going on. Apple and Samsung are perhaps the most high-profile opponents. The two companies are in face-offs across at least 10 national jurisdictions, where they have sued and counter-sued each other for diverse patent violations. At last count, there were over 30 cases involving these two companies. But there are other, equally large players⁴. 'Obviously, anybody who does design a new feature, or a smarter and more efficient way to deliver an existing feature, would like to protect that. But an indiscriminate grant of patents and the complexities of their global application also encourage patent trolling. Somewhere, somehow, a balance needs to be found between patent protection and patent trolling, and it needs to be made to work globally'⁵.

In India also, there are regular emergences of wars in the market: wars for consumer, war for ideas/innovation, war for talent, etc. In a recent survey of CEOs, it was found that

⁴Business standard, The era of patent wars, Business Standard, 12April, 2012.

⁵ One could argue that it is stretching common sense to award a patent for designing rounded (or spiky, or arbitrarily-shaped) corners. "Business method" patents such as Amazon's famous "1-click" transaction have also been treated differently in various jurisdictions. Some sharp operators specialise in buying up obscure patents and then threatening litigation rather than running businesses. The calculation is: sooner than undergo litigation, many companies will just settle up. The rising tide of IP litigation could actually lead to an innovation roadblock. This would mean an unnatural, unhealthy concentration of IP firepower in the hands of existing businesses with large legal departments. New under-funded businesses don't possess the resources to search for, and avoid the violation of existing patents. It is also difficult for, say, an Indian company to search for, and apply to, different patent offices in different jurisdictions for patent grants.

there is sense of despondency over lower growth, policy paralysis, the rupee's sudden fall and rise, problems in the power sectors and higher interest rates.

It is very obvious that with the prevailing uncertainty about the global economic problem, domestic consumption is the main driver of growth. This makes understanding of consumer essential for every enterprise. The consumer profile of the Indian is changing rapidly due to urbanization, changing consumer preferences due to rising income, and a young workforce. Besides, a new consuming class is pushing its way up from the bottom of the pyramid. India is special case where both the markets for consumers at the bottom of the pyramid and for luxury items are big and also growing fast.

Along with all these developments, the rise in living standards, globalization, and expansion of choice and high disposable incomes has also led to increases in consumer spending and indulgence. This has been at the cost of consuming massive natural resources. This is **threatening the most basic need of sustaining human life—a clean and healthy environment**. This in turn has raised the issue of sustainable society, sustainable corporations, etc.

There are many other political and regional problems linked with mining, tribal and development issues which are likely to threaten the congenial environment for business in India.

4. Challenges Ahead

There are several challenges that Indian business has to face. There is a need to take up these challenges to move ahead. Kaul (2012) discusses the challenges as follows:

- (a) **Globalization of business:** Business has become global. The process of globalization is continuing. Those expecting that the present economic crisis in the United States and Europe that started in 2008 will reverse the process of globalization will be disappointed. There may be more instances of government increasing the regulations on unethical business behaviour, but the process of internationalization will continue. There is a need to learn the rule of the game in international markets. Indian companies globalizing its operations need to learn the management of global business.
- (b) **Technological changes and innovation:** Technological change has accelerated over time. The potential of Internet in innovation and operation of business activities is well known. New technologies and products are being developed in the area of

automobiles, pharmaceuticals, non-conventional energy, IT, biotechnology, nanotechnology and material sciences. Cloud computing is another big move. The implications of all these for business are immense. There is a need for business to keep track of the technological changes and develop the capability to use these for its own purpose. The companies can either participate in the development of the new products in new technology areas or need to form alliances with such companies to take advantages of the new development.

- (c) **Energy and Raw Material shortages:** The shortage of energy and other raw material is becoming serious challenges for growing enterprises.
- (d) **Talent shortage:** There are lots of reports that the new areas and expanding business need talent to man its several skilled and unskilled positions. There is a need to take this as a serious issue and identify a possible solution. Many business enterprises are forming relationship with educational and training institutes to take care of this. This is particularly true in case of IT, financial services and knowledge-based industries.
- (e) **Business ethics and social responsibility:** As the Indian businesses internationalize their activities and raise capital from the international market, they need to follow the global governance standards in their operation. Even the civil society is also becoming more assertive and expects the business to behave in an ethical and socially responsible way.
- (f) **Recurrence of crisis:** As most of the economies of the world are adopting the capitalist mode of operations and moving towards market economy, the offshoots of such system in terms of recurrence of crisis are also becoming commonplace. Looking at the past 50 years will reveal that the economic, financial or other related crises keep on occurring in one part of the world or the other. There is a need to take care of such crises. Added to such crises are natural crises, which are also growing. There is a need for all Indian companies to take this fact into account in their decision-making.
- (g) **Growing unrest and global terrorism:** Globalization and the growing gap between the poor and the rich have created more unrest in a section of society all over the world. Politicians and other people are making use of this unrest to gain politically. There are growing instances of terrorism. Indian business also needs to take precaution of this trend.

5. Implications for Capability Building

The changing business environment and challenges before the Indian business have its implications for Indian business. As mentioned in the introduction, companies need to manage their present operation efficiently, and keep on adapting to the new challenges. These companies also need to reinvent themselves over time. Presently, there is a need to build innovation movement in India. Innovation is required not only as a competitive strategy, but also to meet several economic and social problems. India's economic environment was heavily skewed against the innovators. It was only in the mid-1980s that these mistakes were realized and some freedom was permitted to private enterprises. The results were the innovation-oriented, knowledge-intensive firms that created new drugs, discovered new molecules and wrote innovative softwares. All these things have its implication for capability building at the corporate level and at the national level.

5.1. At the National Level

There are lots of opportunities and challenges for Indian enterprises for innovation. The convergence of trends that have been running in parallel so far - demands for energy security, need for materials and resource efficiency, the imperative of environmental sustainability, scientific breakthroughs in the biosciences, and the indispensable role of information technology - offers both the opportunity and the challenge for India. If these technologies and capabilities are not harnessed, India's economic competitiveness will gradually erode while simultaneously widening the technological gap between India and other great and emerging powers. Indian ingenuity might currently derive from the constraints that its entrepreneurs and innovators face but it cannot be the basis of long-term technological leadership. Money is not enough; an innovation ecosystem is needed.

India has insufficient competition, scale or a mindset. India does not have infrastructure for hard-core innovation. The link between institutions and industry is missing. There is need to provide right environment which foster innovation. Indian universities are turning out unemployable engineers. They need to orient themselves. For innovation to happen, it needs people, industry and organization to believe and invest in innovation, and most importantly, an eco-system of technologists and engineers. Silicon Valley is able to come up with innovations because it has the necessary ecosystem⁶.

There is need to double R&D spending, with greater private sector contributions.

³ Arunabha Ghosh, Innovation needs an ecosystem, Business Standard, 26th February, 2012.

Further, there is need for inclusive innovation to focus on India's food, energy and water security. Too often, however, innovation is linked with levels of spending. Instead, there is a need for dynamic ecosystem for R&D and innovation with several crucial ingredients: financial investment of course, but also human, physical and natural capital, knowledge acquisition and transmission, laws and regulations, and institutions.

5.2 At the Enterprise Level

Indian enterprises need to transform themselves to meet the challenges of global competitive environment. These enterprises need to focus on the followings:

- **Changing Short-term Orientation:** Business enterprises must change their short-term orientation and revamp incentives and structures in order to focus their organizations on the long term.
- **Serve All Stakeholders:** Executives must infuse their organizations with the perspective that serving the interests of all major stakeholders—employees, suppliers, customers, creditors, communities, the environment—is not at odds with the goal of maximizing corporate value; on the contrary, it's essential to achieve that goal.
- **Sharpen Operational and Strategic Capabilities:** Indian enterprises need to **sharpen their Operational and Strategic** capabilities to be more innovative. Operational capabilities are needed to manage the existing resources, technology and people to produce efficiently to satisfy the consumer needs. Strategic capabilities are required to compete effectively in the present and future market. Strategic capabilities include the capabilities to anticipate the changes taking place in the environment and their implication for the enterprise. Further, it requires developing capabilities to formulate innovative products and business models to cater efficiently to the diverse segments—like the upper middle class, the emerging middle class, working women, etc.
- **Innovation Strategy:** Innovative company has a focused innovation strategy, a winning overall business strategy, deep customer insight, great talent and the right set of capabilities to achieve successful execution. In recent studies by Jaruzelski et al (2011) and Jaruzelski et al (2010) on Innovative companies in the world, three different types of innovation strategies have been identified: need seekers, market

readers and technology drivers. All the three different strategies require different types of capabilities and culture in the organization. The most crucial factors in innovative companies are strategic alignment culture that support innovation.

- **Sustainable Business Model:** All Indian enterprises also need to **create business and economic models that are sustainable**. Some companies and organizations have started working on consumption as well as production with environment care as the central theme. This should become the essential part of the future strategy of all the companies.

6. Conclusions

The change in the global and domestic economic environment has created large number of opportunities and challenges for Indian businesses. In order to meet these challenges and exploit the opportunities, these enterprises need innovation that in turn requires right type of capabilities. These capabilities can be created through investment over time, can be acquired by mergers and acquisition, and can also be developed through strategic alliances. These capabilities need to be renewed over time. All these require a leader at the top- a transformational leader. One of the key characteristics of such leader is to create change leaders in the organization who can keep on building organization with the changes in the environment.

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