CHAPTER 1

TRANSFORMING INDIAN BUSINESS FROM LOCAL TO GLOBAL

The transformation of Indian companies from domestic focused players to global companies went through three phases. In the first pre-reform 1991 phase, Indian business was under shackles, first from the British colonialism, and later the socialist policies post independence. The second post-1991 economic reforms phase necessitated a decade long corporate restructuring to make companies globally competitive. Now in the third phase, Indian companies are increasingly going global. Of course, these time periods do not describe any particular company but rather the general thrust of Indian business.

INDIAN BUSINESS 1947-1991: RICH OWNERS, POOR COMPANIES

Indian business from the country's independence in 1947 until the economic liberalization program of 1991 was uniquely shaped by the constraints imposed by three factors - Indian culture, British rule, and post-independence socialist policies. It resulted in a domestically focused, somewhat unique and perverse Indian business model that left companies in poor shape but their owners rather wealthy.

Influence of Indian Culture

Indian business has been highly dynamic, thriving under different, and often difficult, circumstances. But change is slow in ancient cultures like India, and key aspects of India's cultural and social history, especially Hinduism, practiced by 85 percent of

Indians, played an influential role in shaping the traditional Indian business model. In articulating the effects of Hinduism on business, it is important to note a caveat. As Fareed Zakaria observed in his excellent book, Hinduism is not a religion in the Abrahamic sense since it does not believe in universal commandments.[1] The only clear guiding principle appears to be "ambiguity," and over centuries, its remarkable absorptive capacity has allowed it to evolve continually. We cannot do justice to Indian culture and religion in a couple of pages. Therefore, the treatment here will cover only what is relevant to our thesis and is open to other interpretations.

A crucial element of Hinduism, the system of castes and sub-castes, functioned like medieval European guilds. It ensured division of labor and provided for training of apprentices. Over time, the caste system became a source of hierarchical differentiation in Indian society, where traders (Vysyas) and those engaged in business were placed above only the lowest Sudra caste, but below the priests (Brahmins) and warriors (Kshatriyas). Furthermore, as the four-caste system fragmented into hundreds of sub-castes, it restricted people from changing their occupation or aspiring to a higher caste.

Scholars believe that the caste system throttled initiative, instilled ritual, and restricted the market.[2] It also played two vital roles in shaping the Indian business model. First, respect for higher caste members was unquestioned. This laid the foundation for deference to one's superior in the workplace. Typically, Indian organizations were, and many still are, hierarchical and feudalistic. Second, entrepreneurial aspirations were not encouraged. In fact, an acceptance of the natural order of one's position in society meant that except for those belonging to the trader class, historically, Indians did not aspire to be entrepreneurs.

Another significant aspect of Indian culture is the traditional joint family system which infused the Indian business model. The joint family is a unit with the patriarch, his younger brothers, and their children and grandchildren, all living together under a single roof. The family pooled their resources and invested in business ventures with a view to allow each member to earn a respectable livelihood.

In the western world, nepotism holds unflattering connotations because competing on merit is a strongly held virtue. In contrast, Indian family business held responsibility for, and respect of family members as superior norms. The entire family participated in the business. When a son grew up, his elders would either assign him a role in existing businesses or launch him a new venture, not only financed by existing businesses but often engaged in significant commercial transactions (e.g., supplying, buying, or distributing) with those businesses. Consequently, family business houses, especially from the two trader communities - Gujarati and Marwari - disproportionately dominate Indian business.

Impact of British Rule

For centuries, Indians had traded with Europe, Middle East and South East Asia, manufactured products such as silk, textiles and handicrafts as well as agricultural products like pepper, cinnamon, and indigo. The British rule unfortunately stifled and distorted India's trade with rest of the world, barring Indian industry from competing with the British, especially in global markets, thus forcing Indians to focus either on developing cheap raw material for British factories or on distribution of British products

in India. While the British developed the railway, postal, and modern legal systems in India, this infrastructure supported the management of Indian resources for British gain.

For example, by 1830, India's thriving textile industry had been all but destroyed. By the mid-1800s, India was importing one-quarter of all British cotton textile exports. In the decades that followed, the British compelled Indian farmers to grow indigo, cotton and wheat for export to Britain. During the British rule, imported products received tariff and tax benefits while Indian industry was suppressed. The British focus on its interests hindered the development of a free trade environment, in which Indian multinational companies, similar to those sprouting elsewhere in the world in the late 1800s and early 1900s, could be born.

Yet, beyond the obvious benefit of imposing English as the *fait accompli* national corporate language, the British rule conferred another unintended benefit for Indian companies when they finally decided to enter global markets. Early in their rule, the British realized that it was impossible to transplant enough of their own citizens to India. Instead, Thomas Macaulay, who was advising the then Governor General of India, argued in 1834 that the British must, "Train a class of people Indian in blood and color but English in taste, in opinions, in morals, and in intellect."[3] Even today, "Macaulay's children" is a term used to refer Indians who adopt Western culture as a lifestyle. While usually used with a negative connotation, the fact is that this process meant that when the British did leave, there was a significant segment of Indians in the corporate sector who had superficially adopted British habits (e.g., a well tailored suit, using a knife and fork) which allowed them to interact with Westerners with relative ease. This was especially true for the Indian elites at the time of the country's independence, most of

whom had been educated in England. At times, these Indians even tried to outdo the British at their own game, and it is still jokingly said that the last Englishman on earth will be an Indian.

Post-independence, large Indian firms who could have adopted an Indian language or the Indian national dress as organization-wide practices chose not to do so. Instead, most Indian firms with national presence adopted English language and British Indian work practices that were considered more neutral. This allowed them to avoid having to negotiate the conflict between the large regional and language differences that existed amongst their work force. Because of British rule, Indians learnt to manage the duality of their work and home lives. At work, the managers were all similarly "British"; at home, they reverted to the language, dress, and food of the region from which they originated.

Perhaps, this duality explains why Indian managers have been more successful, compared to their Chinese or Japanese counterparts, reaching the higher echelons of Western companies. And, the Indian expatriate communities have maintained their racial and social identity regardless of whether they have been settled for more than a century and a half as in Mauritius, South East Asia, and West Indies, or whether they have emigrated in the past fifty years as in Canada, United Kingdom, and United States.

Post-Independence Socialist Model

At the end of colonial rule, India inherited an economy that was one of the poorest in the world. A stagnant economy, stalled industrial development, and an agriculture base that could not feed the rapidly accelerating population. India suffered

from one of the world's lowest life expectancies and a largely illiterate population. By 1950, Britain's legacy of profound structural economic issues proved a significant challenge for India's first Prime Minister, Jawaharlal Nehru.

Influenced by the British socialist Fabian Society, Nehru adopted the socialist economic model hoping for strong growth through a centralized economy to increase the standard of living among India's poorest and to encourage the growth of critical manufacturing and heavy industries. Tragically, the earnest romantic vision of the socialist ideal proved wholly inadequate in dealing with the real challenges in the Indian economy.

In India's centrally planned economy, government planners determined the output allowed in each industry because they did not want to see "overinvestment" and "waste" in a country with limited resources. Therefore, companies needed licenses for everything - from setting up a business, expanding capacity, laying off workers, and closing down a factory. As a result, the central bureaucrats in Delhi became enormously powerful and popularly known as "license raj," translated as license rule. Favored entrepreneurs formed large groups during the "license raj", though some like the Tata and Birla groups date from early twentieth century.[4] Yet, even the Tata group received several projects as reward for the group's consistent support of Nehru's freedom movement.[5]

Indian Business under License Raj

Licenses were so precious that to obtain one you needed either a "connection" to a major politician (e.g., only new automobile manufacturing license granted between

1950 and 1980 was to Sanjay Gandhi's Maruti Udyog) or the ability to pay a large bribe, or both.

Exploitation of licenses by established business houses. The large family business houses learned how to game the system as they would use their "connections" to get follow up on their files, organize bribes, and win licenses.[6] They used the licensing process to foreclose competition, often by applying for a competitor's license so that the competitor's application would be rejected because industry capacity had already been licensed. Then the company with the license would simply sit on the license without using it to build any capacity.

A license for a new business gave the owner the right to put up an operation capable of producing a pre-determined level of output specified on the license. As banks and financial institutions were nationalized by the 1970s, the license owner then approached these public sector lenders for financing. A substantial part of the public sector financial institution's mandate was to aid the economic development of the country. Therefore, they frequently lent as much as 90 percent of the total investment required. This meant that the promoter or owner of the license needed to invest only 10 percent of the project costs to control the company. Usually this 10 percent was through cross holdings from existing companies of the promoter supplemented by money raised in the domestic capital market from individual investors. This was necessary because with 90 percent plus individual tax rates on income and a punitive wealth tax, few promoters could openly demonstrate the ability to fund large projects with their personal wealth.

Most of the licenses granted were for major industrial and infrastructural projects.[7] Setting up these operations required having a large plant built by a foreign multinational company as these capabilities typically did not exist within India. International vendors would be invited to compete for these capital projects. One of the conditions for being awarded the order, which of course would not appear in the contract, was that the foreign supplier would fully or at least substantially reimburse the promoter's initial equity investment into the promoter's offshore and undeclared bank account. As a result, the entire project would be completed without the promoters having any of their own real money in play, but complete management control despite shareholdings of ten of less than 10 percent.

For example, if the project was budgeted at $100 million, the promoter would be obliged to invest $10 million with the remaining $90 million obtained as loans from public sector financial institutions and banks. A $100 million contract would then be awarded to the winning international vendor for building the factory or power plant. The understanding would be that the international vendor would have hidden into its winning bid, a $10 million transfer to a foreign bank account of the promoter. After the plant was operational, if it made a profit then the promoter owned a profitable company. On the other hand, if the company becomes unprofitable, the promoter hands over the "sick" firm to the public sector institutions who had lent the $90 million and walks away with no real losses out of pocket. The government would then continue to operate the company to avoid dismissing the existing workers and adding to the large pool of unemployed people. No wonder, licenses were so coveted that bureaucrats sanctioning them as well as bank managers approving the loans, required a "facilitating" payment.

A second bonanza to the established Indian business houses accrued in 1973 when the Foreign Exchange Regulation Act (FERA) was passed. The government restricted foreign companies from holding more than 40 percent share. This required foreign multinationals to rapidly dilute their holdings in their Indian subsidiaries. Since most foreign companies were uninterested in minority shares, they began looking for the exits. Established Indian business houses were not surprisingly able to acquire these Indian assets of foreign companies, especially British companies, at throwaway prices. Often these transfers were done at between ten to twenty cents on a dollar.

Impact on corporate sector and consumers. The prevailing policies led to concentrated family ownership of Indian business assets, exercised through pyramids, with significant divergence between the promoter family's having almost complete "control rights" but typically much smaller "cash flow rights."[8] Institutional gaps meant that new ventures by established business groups could rely not only on capital infusion from the group, but also benefit from the group brand name, internal talent transfers, and reduced contractual costs.

To grow, Indian business groups had little choice but to pursue unrelated diversification.[9] For example, the Birla Group operated in diverse industries such as automobiles, cement, dairy, electricity, jute, newspapers, plastics, sanitary ware, shipping, steel, sugar, tea and textiles. Whilst, the RPG group had interests in agribusiness, cable, carbon black, electricity, engineering, fiber glass, financial services, music, radio, tires, tea, and typewriters.

A focus on core competences leads to "product relatedness" within the group to exploit linkages between the different lines of businesses. In contrast, diversified Indian groups relied on "institutional relatedness," a dense network of ties with dominant institutions, which allowed them to exploit non-market forms of capital such as social, political, and reputational.[10] Unlike the results for American companies, where diversification resulted in lower returns, there was a "diversification premium" for Indian companies during this era.[11]

Research demonstrates that during this era, because of policy distortions, informational imperfections, and entrepreneurial scarcity, groups, like Tata, with high institutional relatedness and low product relatedness performed best. In contrast, groups, like TVS, with high product relatedness and low institutional relatedness suffered from the worst relative performance. In other words, groups pursuing unrelated diversification strategies were more successful compared to those groups who were focused on related products or industries.

Despite being dominated by established business groups controlled by powerful families, there was some room for entrepreneurial ingenuity. Existing business heads and new entrepreneurs differed in their ability to cultivate close relationships with politicians and in their business acumen. As a result, there was turnover in the relative rankings of the Indian business groups. Only three of the top ten groups in 1964, also featured in the top ten in 1990.[12] Furthermore, new groups did form, the most famous of which was Reliance. Unknown in 1964, Dhirubhai Ambani, a classic rags-to-riches story, built Reliance into the third largest Indian group by 1990, behind only Tata and Birla.

Unfortunately, because of the omnipresence of state planning, controls and regulations, Indian business focused towards dealing with the state planners. Indian companies were characterized by poor quality and productivity, neglect of customer needs, and short-sighted attitudes towards product development.[13] The widely quoted observation of Indian business at the end of this era was, "Indian businesses may be poor but their owners are rich."

The production controls imposed in the face of India's burgeoning population led to chronic shortages. To obtain a scooter one had to wait two years, for a car one year, and a telephone line could easily take four years in the late 1980s. Even an everyday product like butter, where two companies controlled most of the production, was in severe shortage during the summer when consumption rose. Black market prices for these items could be 50 percent higher and the government response was to institute a policy where every company had to state the maximum retail price at which an item could be sold. Of course, this was immediately circumvented by consumers paying bribes to the middlemen.

The highly favorable climate for large Indian business houses, and the resulting strong monopolistic positions made them more prone to stay at home in the sheltered domestic market. The institutional environment of licensing and limited competition led to domestic success without developing the unique competences, the resources, or the viable scale necessary for competitive advantage in international markets.[14]

The severe shortage of foreign exchange meant that companies had to apply to the country's central bank, The Reserve Bank of India, for any expenditure denominated in foreign currency. If an Indian business person wished to travel overseas in the 1970s

the government limited their purchase of foreign exchange currency to $8 a day! Foreign capital was in such short supply, that the question of overseas acquisitions by Indian firms never even arose.

There was however a small silver lining. Whilst, the greater technological self-reliance and import substitution forced on Indian companies by regulation led to inefficiencies, it did help create some unique assets. Indian companies had to learn how to run imported capital equipment in the absence of ready availability of spare parts and service networks. And, frequently, import substitution meant having to reverse engineer foreign products. Thus, Indian companies were forced to develop a very broad base of technological competence.[15] They were quite innovative in adapting and improving existing technology for the local Indian context. Even after a technology was abandoned in developed markets, Indian companies were still improving them for their resource constrained market. As a result, a few business houses found opportunities to expand operations on the back of such technological competence into other emerging markets in Africa and South East Asia.

The total equity overseas investment by Indian companies rose from $2 million in 1970 to around $100 million in 1980.[16] Not a large amount and highly concentrated - the top seven Indian investors accounted for at least three-quarters of the total foreign equity. The Birla group alone accounted for 40 percent and Tata's another 9 percent.

In this post-independence era until 1991, everything was loaded against Indian firms with global aspirations. Indian companies were not in great shape to compete in global markets, or even at home against global competitors.

CORPORATE RESTRUCTURING 1991-2001: BECOMING GLOBALLY COMPETITIVE

In 1991, India suffered a major economic crisis as a combination of the effects of oil price shocks (resulting from the 1990 Gulf War), the collapse of the Soviet Union (a major trading partner and source of foreign aid), and a sharp depletion of its foreign exchange reserves (caused largely by large and continuing government budget deficits). In 1991, India had to service the country's $70 billion external debt, which had trebled over the previous decade, as well as pay for the burgeoning costs of imports, especially oil. The country's foreign exchange reserves dipped below $1 billion, barely enough to pay for two to three weeks of imports. In addition, with the collapse of the Berlin Wall in November 1989, the viability of socialism as an alternative model to capitalism had crumbled before the world's eyes.

Economic Liberalization

The government was forced to accept that the socialist model that had prevailed since Independence had to be abandoned. Fortunately, the Indian government had in place what is now considered an economic dream team of Manmohan Singh (Finance Minister), P. Chidambaram (Commerce Minister), and Montek Singh Ahluwalia (Commerce Secretary). To reform the economy, several new policies were adopted:[17]

- Industrial licensing was drastically reduced, leaving only eighteen industries subject to licensing.
- Import tariffs were reduced from an average of 85 percent to 25 percent combined with rolling back quantitative controls on imports.

- The rupee was devalued, and made convertible on the trade account.
- The Controller of Capital Issues which decided the prices and number of shares firms could issue was abolished.
- Indian firms were permitted to raise capital on international markets by issuing Global Depository Receipts (GDRs).
- India's equity markets were opened to investment by foreign institutional investors.
- Procedures for foreign direct investment approvals was streamlined, and in at least thirty-five industries, automatically approval of projects within the limits for foreign participation.
- Foreign direct investment was encouraged by increasing the maximum limit on share of foreign capital in joint ventures from 40 to 51 percent with 100 percent foreign equity permitted in priority sectors.

The effects of the reforms were immediate and dramatic. The GDP growth rate between 1950 and 1991, which had averaged between 2-3 percent per annum, has instead averaged about 6 percent per annum since 1991. More recently, since 2004, growth has exceeded 8 percent. The foreign exchange reserves that had dipped to a low of $1 billion are now approaching $300 billion.

More importantly, the economic growth has had a significant impact on the reduction of poverty levels. Within two decades, between 1985 and 2005, the percentage of the population living on a dollar a day had been reduced by almost a half from 93 to 54 percent.[18] Compared to if they had stayed at 1985 levels, it is estimated that 431 million fewer Indians live in extreme poverty today.[19] McKinsey expects Indian incomes

to triple over the next two decades, lifting another 290 million people out of poverty and boosting India's middle class to 580 million. More optimistic surveys show even greater progress on poverty reduction, with estimates as low as 319 million Indians currently living at under a dollar a day in India.[20]

In the 1990s, India was one of the fastest growing economies in the world in terms of productivity as Indian average productivity levels were doubling every sixteen years.[21] It was estimated in 2001, that if that pace of growth would be maintained, in sixty-six years (2066) India would reach the real GDP per capita level of the United States prevailing in 2001. The contrast with the pace of growth before 1980 was remarkable, when India average productivity levels were doubling only every fifty years. At the 1980s rate, India would have expected to approach America's 2001 GDP per capita level not in 2066, but in 2250![22]

Corporate Restructuring

The post-1991 reforms changed the environment for Indian business. Indian companies realized that the traditional Indian business model appropriate for "sheltered firms" had to be abandoned. First, the liberalization of industrial licensing meant that new domestic players could easily emerge in what were previously tightly controlled industrial sectors. As a result, companies went through a tough corporate restructuring program to enhance *domestic competitiveness* in the face of a more aggressive marketplace. Second, as import tariffs were cut and entry barriers for foreign companies were reduced, international players began to view India as a potential market. Subsequently, they brought to India their world class products and services. This forced even Indian firms

with no global ambitions to become *globally competitive* to survive against these foreign competitors in India.

The transformation of Indian companies and business houses post-1991 was a crucial step in preparing Indian companies for the global marketplace. And not surprisingly, some of them have eventually gone on to become global players. The decade long Indian corporate restructuring program had four essential elements of cleaning the balance sheet, improving competitiveness, focusing on core business, and strengthening management.

Cleaning the balance sheet. The balance sheets of most Indian companies in 1991 were poor. Many established companies, who had the ability to raise money from banks, had done so at relatively favorable rates. These borrowed funds which were in excess of what the business could itself utilize. Instead the money was placed in an investment portfolio and invested in other group companies. As mentioned in the previous chapter, these cross-holdings allowed the ultimate promoters of these companies to control a vast network of group companies with very little of their own funds. The "other" shareholders in these companies disliked this but there was practically nothing they could do about it as the regulatory regime did not empower them or protect their interests.

As the Securities and Exchange Board of India (SEBI) began adopting reforms in corporate governance and empowering small shareholders along the lines of the American stock markets, companies were forced to shed these investments and cross-holdings. The complexity and ubiquity of corporate cross holdings meant that its

disentanglement was a time consuming process. But every major Indian business group has had to address it.

The balance sheets also suffered from substantial distortions in the valuation of assets. Many firms had assets on their books at inflated values. These needed to be written down to their real market value. On the other hand, there were other assets on the books, usually property, cars, and art, which were valued much below their market price. The logic here was that these undervalued assets would at some stage be sold to the promoters at book value. It was essentially a mechanism for transferring funds from the firm to the owners with the controlling interest, at the cost of the other minority shareholders. Large Indian companies had to go through a painful process of cleaning up their balance sheet to bring the assets in line with market values. The boom in property, and therefore, its revaluation to reflect the rising prices, helped companies write down the overvalued assets.

Strong balance sheets were essential for companies to attract new share capital from domestic and foreign sources. The infusion of capital helped reduce the historically high debt to equity ratios in Indian firms. More critically, it was needed to make the necessary capital investments to become competitive in the new deregulated marketplace. Finally, funds were also required to ramp up capacity to keep pace with the rapid domestic growth that followed the liberalization program.

Improving competitiveness. Under protection of the benign environment pre-1991, Indian companies had become bloated without the discipline of a tough competitive marketplace. Costs, productivity, and quality, had all become victims as it was possible

for companies to pass on inefficiencies to the consumer. Companies had little choice but to seek dramatic improvements on these fronts if they were to survive the new marketplace.

To reduce costs and improve productivity, companies became more demanding on their suppliers and employees. Traditionally, Indian firms, because of the high import duties had relied exclusively on Indian suppliers, and frequently substituted cheap available labor for sophisticated capital equipment. Baba Kalyani, who led the transformation of Bharat Forge from a labor intensive to a technology intensive manufacturing firm, observed the conditions that forced firms to make inappropriate choices: "You waited a year for an equipment-import license, got less than you wanted, then paid an 80 percent import duty."[23] Even computing the import duties was a nightmare. For example, a new Burroughs computer imported by TCS in 1974 attracted a tariff of 101 percent, including import duty, auxiliary duty, countervailing duty, and a levy to help pay for the war in Bangladesh![24]

In the 1980s, Maruti with its partnership with Suzuki of Japan, brought to India the concepts of tight cost control and process engineering. At that time, there were no auto component manufacturers in India capable of producing to Japanese standards. Yet, the Indian government required Indian indigenous content in Maruti cars. Suzuki was responsible for the first wave of modern component technology in India with its concept of Indian entrepreneurs and Japanese companies together supplying Maruti plants. It launched a Japanese backed supplier development program, where Japanese component manufacturers often took small stakes in the Indian auto component manufacturers, helping them achieve world class quality and costs standards.

In family controlled firms, suppliers were frequently relatives of the promoter. These suppliers had been set up in business by the promoter to allow them to make a decent living. The procurement managers were keenly aware of these relationships, and therefore, did not lean too hard on the suppliers with respect to prices, quality standards, or delivery reliability. The new competitive environment forced, and liberalization allowed, firms to access the global supply chain and obtain inputs on par with global standards at competitive prices.

Most Indian firms were overstaffed with strong, militant unions who protected the employees. In the new environment, companies began downsizing the workforce by providing incentives for workers to retire early. In addition, even unions began to be more flexible in the private negotiating rooms. Union bosses initially realized that layoffs were inevitable, and later that jobs were available elsewhere as the economy was rapidly expanding. For example, at Mahindra and Mahindra, in 1994, where it used to take 1,230 workers to manufacture seventy engines a day had improved to the point where 760 workers could produce 125 engines a day.[25]

Finally, India always had a very poor reputation for quality and customer focus. Pre-1991, the problem for consumers was finding products rather than for companies finding customers. Reflecting on this era, Baba Kalyani, Chairman of Bharat Forge, remarked: "The concept of quality used to be that if it works somehow, it's okay, but it doesn't need to work all the time."[26] Clearly this had to change if Indian brands were going to compete with each other, and especially against the multinational companies entering the country.

The IT sector in India was a beacon in demonstrating that India could achieve world class standards. The Capability Maturity Model (CMM) from the Software Engineering Institute at Carnegie Mellon University assesses software companies for quality. Level 5 is the highest level on the maturity scale and Motorola's software centre at Bangalore became the world's second CMM Level 5 unit in 1994 (the first was at NASA). By 2003, there were eighty software centers in the world that were assessed at CMM Level 5, and of those, sixty were in India.

Focusing on core businesses. The highly diversified Indian business groups quickly realized that they needed to focus on a few industries, where they could obtain leading domestic positions. Building these positions would require significant investments. Focusing the portfolio would not only free up resources from non-core companies but their divestment would generate additional capital which would be available for the core business. In the early 1990s, many large business groups in India went through an exercise of identifying their core businesses. For example, the RPG Group went from twenty to six areas. Even Tata in 1998, reduced the number of group affiliated companies from eighty to thirty by trimming their lines of businesses from twenty-five to a dozen.[27]

The focus on a few core areas allowed companies to consolidate their domestic positions and had a subtle impact on their aspirations. Firms were no longer satisfied by claiming that they were number one or two in India, instead they began touting their world ranking. For example, MRF tires started asserting it was among the top fifteen tire manufacturers in the world, whilst Ranbaxy emphasized its position amongst the top ten

generic pharmaceutical producers in the world. Slowly, but surely, Indian companies began benchmarking themselves against world competitors. It was a first step for Indian firms towards global ambitions.

Strengthening management. In a populous country with relatively few opportunities in the corporate world, managerial talent was never seen as an important source of competitive advantage by companies. Compensation levels were extremely low. In the 1980s, it would not be surprising to have top executives earn as little as $5,000 per annum! Instead of the best and most competent talent rising to the top, it was relationships, loyalty, and trust that were valued in professional managers. This was especially true in family owned firms where many critical positions were occupied by family members. This explains the common usage of the term "professional" manager in India to distinguish them from the "owner manager" and family members.

Often these family firms were run on feudalistic norms with a powerful promoter through whom all important decisions had to flow. This frustrated competent professional managers, and their only refuge, were the few Indian subsidiaries of multinational companies. Some of these multinational companies, like Unilever and Imperial Tobacco, recognized that there was managerial talent available in India at a relatively low cost and raided them for their operations overseas.

Post-1991, Indian firms, especially the family business houses realized that professional managers had value as they could take responsibility and deliver results. Not surprisingly, they began to scour the Indian subsidiaries of multinational companies for management talent and move away from "one-person" rule. In the ensuing war for

talent, professional manager salaries went up dramatically. In addition, variable pay and stock options were introduced. Beyond competing for the best talent, these managers were empowered and firms began investing in their training. Today, Indian managers, relative to their peers in other countries, probably have the highest standard of living in the world. These managers brought world class practices and processes they had learnt at multinational companies to Indian companies, thereby getting Indian business ready to be globally competitive.

The role of owners. As would be expected, the general corporate restructuring program described above varied in its implementation between business groups and companies. Some firms started the restructuring process even prior to 1991, whilst others are still struggling with it. There were substantial differences between the owners, and to a large extent, this is what determined the degree to which the painful restructuring medicine was adopted by the group. Some of the heads of family business groups and companies were rather aggressive in changing the old ways. Other business groups suffered from poor leadership and family splits of assets. As a result, some renowned family business houses witnessed an unprecedented decline in the 1990s. The important point here is that owner-promoters in Indian companies, rather than the corporate resources available, played the major role in distinguishing between subsequent winners and losers.

The new regulations made it impossible to exercise control of companies with small equity stakes and helped spur consolidation within industries. Furthermore, the liberalization allowed new companies to emerge in sectors such as IT, media, pharmaceuticals, and property. Several of these relatively new companies and groups, like

Dr. Reddy's, Satyam, Subhas Chandra, and Wipro, had by 1999 entered the list of top twenty Indian business groups. This was possible, because with liberalization, unlike in the pre-reform era, groups with high product relatedness and low institutional relatedness were the relative top performers in the 1990s.[28] The ability to exploit institutional gaps became less critical than the ability to effectively manage a business. The more traditional, textbook business success factors of articulating a clear vision and strategy, understanding customer needs, focusing on core competences, innovation, and implementation, have instead become important.

UNLEASHED - HOW INDIAN COMPANIES ARE TAKING ON THE WORLD

The corporate restructuring brought confidence to Indian business. Indian companies transformed from domestic players, scared of global competitors, and constantly seeking government protection in domestic markets, into confident players building Indian multinationals. As they have gone from being passive resistors to active promoters of globalization, they are continuing to force a change in government policies towards a more open Indian market and business environment.

As stated in the introduction, we conducted face to face interviews with leaders of global Indian companies in our sample. This research was further supplemented with secondary research and follow up telephone interviews. The interviews were conducted to ascertain how Indian companies went global, what challenges they faced in doing so,

and how these challenges were overcome. We found two factors clearly emerging as drivers of globalization: overcoming the mindset barrier and having a dominant lever.

Overcoming the Mindset Barrier

"We asked ourselves: Why don't we become one of India's MNCs in manufacturing? By doing so we will have better access to the market, better access to knowledge, better access to new developments," explained Baba Kalyani of Bharat Forge, elaborating on their incentive to go global.[29] Nevertheless, he added, it took Bharat Forge seven years to find their first customer as they had to battle all kinds of doubts regarding their capability and technology because they were from a so-called under-developed, low cost country. The three issues to overcome the mindset barrier, brought up by the Bharat Forge experience came up repeatedly in our interviews: making a leap of faith, persistence in the face of initial setbacks on the path to globalization, and overcoming the liabilities of "Made in India" origin.

Leap of faith. For an Indian company to go global requires, at some level, a leap of faith into the unknown. In the face of skepticism, the entrepreneur or owner made the decision to go for it despite what may have seemed like long odds to unbiased observers. Anand Mahindra, in his interview, mentioned how he was disappointed that while pursuing his MBA at Harvard Business School, there were no case studies or examples of Indian global brands. It fired his ambition and led him to decide that when he took over the family business, Mahindra would be a global brand. Much later he did just that: "We decided that we weren't going to be in any business that wasn't global... You're not safe if you're only at home. You can't compete in a small pool anymore."[30]

Similarly, Ranbaxy, a generic drug maker in India, had been exporting its products since 1975, but it had never really made any money on these international sales.[31] In 1993, the then CEO, Parvinder Singh, challenged his organization to become an international research based pharmaceutical firm. When questioned by his managers, whether in a country like India it was possible to build such a firm, he responded that Ranbaxy cannot change India but what it can be is a pocket of excellence. Ranbaxy, he argued, must be an island in India. Today it is one the world's top ten generic producers with presence in twenty-three of the twenty-five largest markets, and manufacturing facilities in eleven countries.[32]

Persistence in the face of initial setbacks. Becoming a global corporation is a learning game. In most of the companies that we researched, it was not a straight line process. There were initial setbacks. For example, the first attempt by Essel Propack to acquire a piece of land for their operations in China led to the vendor absconding with the money. Anand Mahindra described his firm's first international incursion into Greece as a chapter on "how not to do it!"[33] Staring at these initial setbacks, for all of these companies, in light of a growing and profitable domestic business, it would have been easy to retreat from global markets. Yet they persevered, and learnt from their mistakes.

The initial hotel properties acquired in the 1980s by the Taj group in cities such as Chicago, New York, and London were "B" level properties. But they were what the Taj Group could afford because of the foreign exchange limitations placed on Indian companies by the government. These sub par properties were not consistent with the upscale Taj image. Taj executives were not motivated by these international properties, and as a consequence, these hotels soon deteriorated in terms of customer experience,

whilst also being largely unprofitable. Taj realized that its competence was in running five star hotels. Later, when Taj became serious about their international operations in the developed markets, they had to shed all of these initial hotels that had been acquired.

Learning from this experience, in their next sortie into developed markets, they acquired prestigious hotels like the Ritz Carlton in Boston, Campton Place in San Francisco, The Pierre in New York, and Blue Sydney at top dollar. What made them persevere was the realization that going global was an imperative. R.K. Krishna Kumar, vice chairman of Taj Hotels said: "The Tata Group has always recognized that the world marketplace is not divisible…There's a strategic compulsion to go outside India for many of our businesses because we believe the global market is one marketplace."[34]

Overcoming the liabilities of Indian origin. Until a decade ago before the IT outsourcing boom, the image of India was detrimental to Indian business. At its worst, India was identified with abject poverty. Most images and stories in the international press on India reflected this with pictures of starving masses, natural disasters, and famines. At its best, India was seen as an old and mystical culture. The images most frequently associated with this picture were snake charmers, historical palaces, temples and holy men. While both of these were, and still are, reflective of India's reality, they missed another India - an India populated by pockets of technological sophistication, an entrepreneurial private sector, and a well educated work force.

Given India's image, it was really difficult to convince global customers that an Indian supplier could be a reliable source of good quality products made by a technologically sophisticated company. When Indian companies began knocking on the doors of large multinational companies, who had many choices with their global supply

chains, it was difficult to close the sale. Imagine a decade ago, an Indian executive trying to convince the big three US automakers to buy from Bharat Forge, or persuade Procter & Gamble that Essel Propack should be its supplier in the USA.

In competitive global markets, Indian firms learnt there was always another supplier willing to match the low prices of the Indian firm. Therefore, Indian companies had to recognize that price was a weapon which could only take you so far. To obtain the order required more than that: Indian firms had to demonstrate they had world class capabilities (assets, processes, and knowledge) in place to compete in international markets. Only then would global customers be reassured.

Dominant Lever

Following the research, the hope of an academic is to discover some common patterns so as to collapse the firms into a few generic global strategies. For example, Ramamurti and Singh propose four generic international strategies of India's emerging multinationals, with an illustrative example for each: local optimizer (Mahindra & Mahindra), low cost partner (Infosys), global consolidator (ArcelorMittal), and global first mover (Suzlon).[35] We were unable to fit all our cases neatly into this typology, and in some categories like global first mover, unable to identify any Indian company beyond Suzlon. Instead, we discovered that the companies in the sample chose very different strategies in their paths to having an international footprint. And, this could not be faithfully arrayed in any simple typology. Each company in our sample had a dominant lever which they exploited to access international markets.

We were interested to see how these companies used their dominant lever to launch their globalization once they overcame the country-of-origin liability. While no company used a single dominant lever exclusively, our nine case studies demonstrate nine different dominant levers.

ArcelorMittal saw an opportunity in the fragmented steel industry, recognizing that national champions would lose to a global champion. Consolidating the fragmented steel industry created a truly global company with the ability to reduce risk and leverage capabilities across markets. His unique vision changed the industry.

Companies like Infosys and I-Flex were *born* global, because they understood that while there was a huge human capital advantage in India, the fulfillment had to be global. "Infosys started with no brand, no technology, no faith in marketing capability, and no access to foreign exchange," recalled Nandan Nilakeni.[36] Infosys, and more generally, the IT sector (Satyam, TCS, and Wipro in particular) was instrumental in sparking the imagination of Indian entrepreneurs to seek "born global" business models which exploit India's large pools of reasonably priced skilled workers. From Hollywood studios outsourcing animation to lawyers outsourcing preparation of briefs, the potential for India's skilled workers to be the world's workforce are substantial.

Bharat Forge employed the reasonably priced engineering talent to transform itself by going from an 85 percent blue collar workforce to an 85 percent professional workforce. Replacing unskilled workers with engineers on the plant floor led to a significant advantage in design capabilities. The product development time of two-to-three weeks (versus industry standards of six-to-twelve months) delivered the wow factor to prospective clients.

Essel Propack's induction into the global circle began once it convinced Procter & Gamble that it could be their best supplier – a quality supplier and a process-oriented supplier. It went out of its way to build a relationship with Procter & Gamble, which subsequently allowed them to enter Egypt, China, and finally the USA as a supplier.

A transformational merger is a frequently employed strategy to become a global firm. Hindalco did exactly that with its 2007 acquisition of Novelis, a world leader in aluminum rolling and can recycling. By combining its previous upstream focus with Novelis' dominance of downstream operations, it became an integrated global major in the industry. Several other Indian firms, such as Tata Tea and United Breweries, have also used acquisitions as a path to globalization.

Other companies like Tata Motors, Godrej and Marico have utilized the specific product competences developed for India to enter other emerging markets. With India's size, domestic leadership often confers global scale, as seen at both Mahindra & Mahindra and VIP. As Anand Mahindra observed, "India is the largest tractor market in the world, and if you are the largest tractor maker in India, it is a disservice to India if you are not a global force."[37]

Ratan Tata, the group Chairman, has been a transformational leader in making this relatively sleepy giant dance in the global markets with bold acquisitions for individual group companies that leverage the combined financial muscle of the entire group. As in Suzlon and the other companies we examined, the role of the leader has been an important catalyst for those Indian firms who have made the transition to global.

CONCLUSION

The first seminal study of India's multinationals was done twenty-five years ago by Sanjaya Lall, where he discussed the patterns of foreign direct investment by Indian companies in the 1970s.[38] The global strategies of Indian companies today can be contrasted with those identified by him. One observes four dramatic changes in how Indian companies are pursuing global strategies in this decade vis-à-vis the 1970s.

First, the pattern of foreign direct investment was highly concentrated with seven family business groups accounting for at least three quarters of it. In contrast, the companies featured as case studies, except for Hindalco (Aditya Birla group), Tata group, and Mahindra & Mahindra, either did not exist, or if they did, were not included in the list of the largest twenty Indian business houses of 1980. What has really inspired Indian companies to go overseas, including the more aggressive internationalization of the Birla and Tata groups, is the success of the "born global" IT sector and Lakshmi Mittal. It is these latter two, rather than any of the old family business groups, that are responsible for waking up Indian business to seriously examine global opportunities. Today, the overseas footprint of corporate India is drawn from a much broader set of Indian firms.

Second, prior to 1980, 80 percent of Indian overseas activity was manufacturing based. The success of Indian outsourcing has changed the nature of Indian global operations towards the service sector. It reflects the change in India's economy over the past three decades. Services now account for 50 percent of India's gross domestic product, with industry and agriculture accounting for the remaining 25 percent each.[39] This is a very unusual profile for a developing country, where the economies, and especially exports, tend to be manufacturing (e.g., China), natural resources (e.g., Middle East), or agriculture (Latin America) dominated.

Third, observing the success of the IT sector in the USA, Indian companies are now focused on expansion opportunities in the developed markets of North America and Europe. This is in contrast to the 1970s, where most of the foreign investment of Indian firms flowed to other developing markets like Africa and South East Asia. Indian firms today have the confidence that they can succeed in the most demanding markets of the world.

Fourth, as they focus on the developed world, Indian companies recognize that they do not have the appropriate brands, product lines, or distribution networks. As many of them are impatient to go global, they have chosen to acquire these resources. Almost every Indian firm in our study has made some acquisition in the developed markets. And instead of taking minority positions in foreign joint ventures as was the practice in the 1970s, Indian companies are now either setting up wholly owned subsidiaries or buying majority interests. They do not seem to have any interest in being a minority partner. Thus, the *relative* focus of Indian companies globalizing has shifted from favoring greenfield operations and minority stakes in developing countries to taking controlling positions through acquisitions in developed countries.

Indian companies are no longer the traditional low price bidders for foreign assets and companies, slow to appoint international advisors. Instead, they have become self assured and savvy investors, financing large deals and paying global prices. The world class management and improved earnings has given them the ability to access global liquidity and financial markets. The future will no doubt bring financing foreign acquisitions with their own stock. And, who knows future rupee convertibility may lead

to rupee acquisitions! All of this was unimaginable in 1991, even by the biggest of India bulls.

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