

AIMA News

Volume-17 Issue 3 September 2010

M A N A G E M E N T T I M E S



“I appreciate AIMA’s efforts towards the promotion and strengthening of the management fraternity”

*Smt. Pratibha Devisingh Patil
President of India*



Mr. Gautam Thapar
President AIMA and Chairman & CEO The Avantha Group



07

37th national management convention



25

Race to the Top: What Sets China and India Apart?



31

AIMA Happenings



43

Local Management Association News

INDIA'S DECADE OF DESTINATION

*-Dr. Jagdish N. Sheth
Emory University*



While India's political freedom is more than 60 years old, its economic freedom is only 20 years old. In 1991, the government abandoned the planned social economy model manifested in what was labeled as the "license Raj" in favor of capitalist market economy.

What has been achieved in such a short span of 20 years is impressive. First, it has become one of the fastest growing economies in the world (8-9% annually with moderate inflation) compared to the Hindu rate of growth (2% or less) prior to its second independence. Second, it has accumulated more than 500 billion dollars in reserves both through export growth especially in services sectors such as IT and ITES as well as by attracting all types of investment (stock market, private equity and foreign direct investment) in India. This is destined to cross a trillion dollars within this decade.

Third, India's stock market has performed extremely well creating significant wealth for all types of investors which include main street investors through mutual funds, foreign institutional investors (FII) and especially for entrepreneurs and promoters. Fourth, it has also produced several large new enterprises such as Reliance, Infosys and Bharati as well as re-energized traditional business groups including Tata and Birla and many public sector units (PSU) including Coal India, Maruti, SBI and LIC. The combined market caps of these enterprises since 1991 is nothing short of spectacular. Finally, India's economy has been

increasingly and steadily getting globally integrated both economically and politically.

Impact of Economic Reforms

So what has been the impact of this transformation of India's economy? First and foremost, it has created a new Image of India: India's image worldwide has dramatically changed from a country of roaming cows and snake charmers to one of an emerging superpower with talented people in all walks of life from contemporary literature and art, to science and engineering, to business and finance. Second, it has also generated new self confidence and "can do" attitude among its educated class as well as illiterate masses. In fact, nothing seems to be impossible if you are an Indian or in India. Third, it has produced altogether new large global enterprises such as Mittal, DLF, Reliance, Bharti, Dr. Reddy's, Ranbaxy, Infosys and many more.

Finally, it has also created a new middle class; I call it the call center couple: both husband and wife are college educated, both have to work, and neither wants their parents to live with them because they like and enjoy their privacy and freedom. The call center couple does not want to shop from the traditional merchant or the neighborhood provision store owner who home delivers daily groceries and toiletries with a monthly account settlement. Instead, the call center couple wants to shop at a modern organized retailer such as Big Bazaar and Metro, which offer branded, quality products (both domestic and imported) with fixed prices and checkout counters that accept credit cards as payment.

India in 2025

Where will India be in 2025? Here are some predictions based on accelerated projections of past impressive record. First, some of the largest global enterprises will be of Indian origin especially in basic industries such as copper, steel, aluminum and cement. India Inc. will transform into truly global enterprises not through exports but through large global acquisitions of world class companies with strong

technical, manufacturing or branding assets. Recent acquisitions by Arcelor Mittal, Hindalco, Tata (across many of its companies), Wipro, Marico, Crompton & Greaves, Essar and Avantha Group will be replicated by Reliance Industries, ONGC, and SBI.

Second, India will become the second (and in some instances the first), largest consumer market in many products and services surpassing the United States, Japan and Germany. This will include mobile phones, consumer electronics, appliances, garments, motorcycles, scooters, beverages, prepared foods, and agriculture products such as fruits, vegetables and grains as well as dairy products including milk, cheese and butter. As the second largest market in the world, it will attract global enterprises from around the world to make and market locally. This will also be true of global IT industry including IBM, Accenture, Microsoft, Google, Cisco Systems and Intel.

Third, India will partner with strange bed fellows in search of industrial, agricultural, energy and talent resources around the world. Think of its investment and business partnering with Bolivia, Peru, Venezuela, Iran, Malaysia, Kazakhstan, Myanmar, Egypt and several resource rich African countries. In other words, India's global alignment will be less on ideology (non-alignment movement) and more on markets and resources including human resources.

Finally, India will gain significant geopolitical clout by 2025. It is already a member of G20 nations along with China; it will be given a permanent seat at the UN Security Council, and will be asked to provide leadership talent to world bodies such as the ILO, WHO, World Bank and IMF.

Indeed, some economic experts and advisors believe that by 2025 India will catch up with China and will start to outdistance both the US and China like a good marathon runner.

India's Resource Advantage

The key reason why this possibility will become a reality is India's resource advantage. India has six key comparative resource advantages. First and foremost is its demographics. India's population will have the largest pool of young educated workforce in the world by 2025. In contrast, it is expected that China's historical one child policy over two generations as well as its rapid affluence will make it the largest aging nation much sooner than expected. In other words, by 2025, China will look like Japan, South Korea, Singapore and other advanced economies of the world as its population ages and ages rapidly. China's growth

is likely to slow down to less than five percent beyond 2025 while growth of Indian economy will continue at a higher rate.

Second, India is also blessed with natural resources. It has a large fertile land capable of crops (cotton, wheat, rice), fruits and vegetables suitable for different climates. It has a vast coastal area of marine life. It is blessed with industrial raw materials including coal and iron ore. And finally, it is the home of largest livestock. It produces and consumes more milk than any other nation, for example.

A third major resource advantage is its Diaspora of more than twenty million Non Resident Indians (NRI). It is not only the size of the Indian Diaspora but it is also spread across the globe. Indian Diaspora is highly educated and increasingly in the leadership role in the respective countries where they have settled. Many are second or third generation but still identify with their original roots in India. Finally, and most importantly, Indian Diaspora has accumulated enormous wealth through hard work, savings and entrepreneurship in all types of industries including cut diamonds, gas stations, hospitality (hotels and motels), and of course, the Silicon Valley. This Indian Diaspora is increasingly becoming interested and committed to India for at least two reasons: India offers as good and often better career and business opportunities; and contributing back to motherland is made easier by changes in government attitude and behavior toward its NRIs. More and more, they are recognized as a great asset for the ascendancy of India as a globally integrated economic superpower.

A fourth key resource advantage is its diversity. It is more diverse than the European Union. However, unlike the European Union, it has achieved a national identity above and beyond its subcultures. It is hard to imagine in the foreseeable future that a German, French and Italian will think of themselves as Europeans first and Germans, French or Italian second. And this is a functioning diversity across languages, cultures, geography and to a large extent, across religions. This is complimented by a functioning democracy. It has demonstrated over sixty years that changes in political leadership take place peacefully and smoothly. This functioning democracy and rule of law makes India even more attractive to the rest of the world. It is not just the language advantage. Its legal, accounting and financial systems are comparable to other commonwealth nations and are getting organized to be compatible with European and American systems.

A fifth resource advantage is entrepreneurship and innovation. Entrepreneurship is universal and transcends literacy, gender, age and religion. The most literate as well as the most illiterate people can be equally entrepreneurial, and both men and women can be equal entrepreneurs. India has learned to innovate despite, and often, because of its poor infrastructure, frustrating red tape and acute shortage of resources. The multiplier effect of innovation and entrepreneurship is much greater in India because of the rise of the new middle class. As a consequence, it is destined to become the largest or second largest consumer economy in the world.

Legacy Obstacles

Despite these great resource advantages, India also possesses significant legacy weaknesses (some of them critical enough to become major liabilities for the nation).

The first and foremost weakness of Indian economy is that it is highly fragmented. It lacks scale advantage. This is due to several reasons. First, the government's historical policy to limit the production capacity by licenses resulted in fragmentation of the industry. There are, for example, too many banks, too many cell phone operators, too many cement producers and so on. Industry becomes efficient through shakeouts and mergers and ultimately results in three large scale suppliers. The only place in India one sees scale advantage is in the public sector industries.

This fragmentation is compounded by two additional factors. First, most businesses are family owned and managed even though they are publicly listed companies. The family businesses tend to be reluctant to sell to each other because of the expectation and desire to provide a career for their children and grandchildren. In other words, competitive forces which encourage scale efficiency are counterbalanced for family reasons. Second, and most importantly, it is simply staggering to know how large percentage of Indian economy is served by the unorganized sector. For example, it is still more than half of the total capacity in molded luggage, in garment manufacturing as well as in most services. The inherent advantages of the unorganized sector companies (lack of compliance, cash transactions, tax avoidance, and low wage workforce with no employee rights) provides no incentives to sell to others.

The evolutionary market process is simply too slow to achieve scale efficiency. It will require active government policy to increase the domestic scale of Indian enterprises by encouraging industry consolidation and by reforming the unorganized sector into organized modern SMEs.

A second major obstacle to the rise of India is, of course, lack of modern infrastructure throughout the value chain from production to consumption. This includes modern seaports, cargo airports, logistics and high speed roads. It also includes financing, warehousing and retailing. The transition from the agriculture to services economy, resulted in investing in the ICT (information communication technology) infrastructure especially the mobile phones. Today, it is possible to reach practically anywhere in India by digital mobile phones and wireless computing.

However, what we need is modern infrastructure for manufacturing. Just as the government through policy reforms, permitted the private sector to participate in the ITC industry, it needs to encourage private investment in the manufacturing infrastructure. Without a strong manufacturing base, a nation does not become a global sourcing destination despite its large domestic market.

India is a great resource rich nation and must refocus on value added manufacturing rather than export its raw materials. To attract manufacturing, it need modern infrastructure. This is very strategic as the world is looking for a dual sourcing strategy from China and India. In fact, due to their large domestic markets, both nations are becoming de facto sourcing destinations for world markets and especially the United States. This is already happening in textiles, for example. It will also happen in automotive components and pharmaceuticals. In my estimation, investment in modern infrastructure will generate additional 1.5% GDP growth without inflation.

The third obstacle is lack of enforcement. Despite all of the faults of communism, it did lay the foundation for three advantages to ex-Communist nations as they embraced capitalism and market reforms. They enforced discipline on their people whether in going to school or going to work. They also invested heavily in high school and technical education; and finally, they created gender equality which provided them twice the human capital compared to most non-Communist nations. India needs governance and it needs it urgently and badly. Without the governance and civic mindset, it has the potential to disintegrate into a society of powerful mafia groups who extort wealth from the economy. Without governance and civic mindset, it is easy to regress to lawlessness as witnessed in many transition economies.

A fourth major weakness is lack of investment in education and health. There is no better resource than a healthy,

educated population. Unfortunately, India is one of the poorest nations in the world on a per capita basis in its investment in education and health. The only way to attract resources to health and education is to reform existing rules and regulations related to education and health comparable to economic reforms it undertook (out of necessity) in 1991. In my view, urgency about education and health cannot afford to wait for political dialogs and grid locks.

Finally, the government at all levels still has the culture of license Raj and a fundamental mistrust of capitalism and competitive market economy despite what has been achieved in the last fifteen years. Rather than act as enabler for its citizens, consumers, entrepreneurs and businesses to realize their potential, it still acts as a gatekeeper, especially in attracting foreign direct investment (FDI).

Call for Action

So what should be done to maximize its resource strengths and minimize its legacy weaknesses? First, India needs a sense of urgency and purpose. Its “chaltahai” culture, especially in the government bureaucracy and political leadership, needs to change to a mission driven deployment of its abundant resources. Second, we all have to ask ourselves what we can do for the nation rather than what the nation can do for us, to paraphrase President John Kennedy. In other words, collective self interest does not necessarily result in public interest as advocated by capitalism unless it is guided by purpose. Third, massive investment in infrastructure, as mentioned earlier, is a must. If you analyze the rise of all super economic powers whether England, Germany, Japan, America and most recently China, investment in public infrastructure has been the foundation of economic growth and prosperity.

Fourth, India must refocus on manufacturing anchored to its resource advantages. Its transition from agriculture to service economy has resulted in enormous and ever widening disparity between the rich and the poor. Fortunately, I believe India’s manufacturing will be revitalized due to its inherent resource advantages. Unlike China (which began with low end consumer electronics, toys, shoes and appliances), its manufacturing can be at high end of technology such as aerospace, military and industrial technologies. This is already happening in pharmaceuticals, petrochemicals, automotive parts and high-end electronics.

Fifth, India must embrace inclusive growth and reduce the expanding gap between the rich and the poor. Most political revolutions against incumbents have invariably occurred by

the revolt of the masses and the oppressed whether it is the Czars of Russia, dynasties in China or democratic elections. Reducing poverty among the Base of the Pyramid population earning two dollars/day or less will require a totally fresh perspective as the traditional approaches of subsidies, paternalism and platitudes all have failed in the past. Unless the nation democratizes wealth (and not just income) among its masses, poverty will invariably persist. While the rise of the manufacturing sector will provide some relief in that direction, it needs massive efforts of enabling entrepreneur among the illiterate and the less educated by such methods as micro businesses and successful cooperatives of farmers, for example, AMUL in dairy products.

Finally and probably most importantly, India needs massive political reforms to achieve full potential of its economic reforms. It is a virtuous cycle. Political reforms led to economic boom. Now, the economic boom needs to trigger more political reforms. The most pressing are reforms with respect to political contributions from vested parties or interested individuals. Making these contributions transparent and legal is far superior to the present system. In this instance, it may be best to emulate and adapt the American system of fund raising by political candidates and parties. A second area of reforms is to reduce the fragmentation of political parties. This may become increasingly necessary as mutations and fragmentation of parties multiply. The current fragmentation forces unholy alliances and coalitions among political strange bedfellows. This results in constant shuffle of union ministers and political leaders resulting in political gridlocks and arbitrary changes without a vision for the nation.

A third initiative is computerization of the government and governance; it is the fastest way to reduce corruption. It will speed up enforcement of rules and regulations, and mandate compliance for better and equitable governance. Finally, I strongly believe we need to shift focus on those who corrupt the system and not just the corrupted. A strong enforcement of existing laws on people who corrupt the system is equally necessary.

Conclusion

Despite these obstacles of India, I am optimistic about the future of India for a very simple reason: It will not be India or the Indians, but the rest of the world who will deliver its destiny. This is because the world, including China, needs India more than ever today for global growth.