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CORPORATE STRATEGY IMPLICATIONS OF THE NEW ECONOMIC POLICY

by

Ramesh Mehta*

Indian Institute of Management
Bangalore

*Professor, Indian Institute of Management, Bangalore

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An Abstract

In this paper an attempt has been made to highlight the various implications of the New Economic Policy on the Indian Corporate Sector. Some of these implications are discussed in detail including widespread competition and internationalization. Next the author discusses the various opportunities for businesses that have been thrown open by the new policies. Finally, the Author discusses the organisational qualities that would be at a premium in the new environment.

The New Economic Policy (NEP) will have a far-reaching impact on the Indian Corporate Sector. Like the events in Europe and Russia, the NEP has generated enough momentum for one to anticipate the direction of future events. Therefore, it would be prudent if the corporate sector views the current events as something more than a passing phase. Assuming this to be the case an attempt has been made in this monograph to highlight the various implications of these events on organisations.

1. **Widespread Competition**

The Indian market will cease to be a protective market for all operators. Entrepreneurs who have been used to operating under monopolistic and protective environments are likely to face many surprises. The older generation of businessmen who are still at the helm of their enterprises have been used to an environment where production mean profits. The new policy will throw open most businesses to all players, resulting in widespread competition, and an end to protectionism. It may be a matter of time in some sectors, but competition will come.

a) **In existing Business** : In the business in which one is currently operating, if one is assured an attractive margin and an ever-growing market, expect some more players to step-in in a very big way. They will come with some product differentiation, quality improvement or simply price advantage.

There is likely to be less warning about a competition stepping-in for existing businesses than in the past. In the past the licensing system provided sufficient warnings to existing players. From now on, if your intelligence system is not adequate, you may only know about competition when your competitor begins to set up his distribution channels.

If you have a product whose quality and versatility are not the best, there is an entry channel for a competitor to come in. To protect ones market share, there may be a need for constant technological upgradation so that competition is kept at bay. How does the local entrepreneur acquire technology in the new system? NEP makes the options crystal clear. He can give away a part of the equity to a collaborator, he might have enough exports from existing business or can assure exports from the new technology to finance its acquisition.

b. **In Proposed Businesses** : Companies have traditionally vied with each other for licenses and then sat on those licenses. Traditionally Organisations spent years to decide on an investment and executed it after acquiring a license. Such lethargy in the future can be costly. There won't be any licensing system to cover one's inefficiency in decision making. Those of nimble feet, quick in decision-making will succeed. There will be a number of organisations willing to march ahead while an organisation is paralysed either in a mess of analysis or caught in the web of indecision.

2. **Internationalisation of operations**

A company just cannot operate on the domestic scene and expect to survive in the long run. One has to operate internationally in order to survive and grow. The government policies make it abundantly clear that in order to import equipments, raw material and accessories will have to generate enough exports. Besides, exports by itself will be a source of income even if these are not related to the basic business in which one operates. For both these reasons, it will be profitable to be in the export area sooner rather than later.

In order to be competitive, one needs to be as close to the "state of the art in technology" as possible in one's main business. As stated earlier, the only way to protect ones market share to nurture a collaborator who has the technologies to meet one's current and future needs. In order to facilitate technology shopping, one needs to have a broader horizon for technology and the desired internal competence. This will bring rewards, at least by protecting the domestic market.

Finally, there is the prospect of the rupee becoming fully convertible. The Government has given Indian businesses three years to prepare for it. The level of technological superiority attained by a firm's products, processes, and services during the next three years will determine its competitive position. If a firm has achieved this superiority, the convertible rupee will give it the basic strength to go global.

The convertible rupee will open the whole world to the Indian entrepreneur. The Indian corporate sector can become multinational on its own strengths. A start has to be made now and a clear-cut strategy has to be devised. Reliance is already thinking global. CMC has acquired a Lousiana software company and many more acquisitions are in the pipeline.

3. **Scope for Growth**

Barring problems of credit crunch, the industry could not have asked for a better environment for growth as is available now. This is an opportunity for creating a balanced portfolio of investments that will cover for the exigencies of the basic business. To stand still, to wait and watch, to procrastinate means being over and even getting killed. Assochem President Avijit Majumdar has stated rightly " some of us will fall by the way side and some of us will forge ahead " in this new environment.

The new policies have thrown open opportunities on many fronts. Some of these are :

a) **Expand in one's own business**

Since no licensing is required for expansion in most industries. this will be the most lucrative way for a company to grow if the basis business continues to have high growth potential, excellent margins, a good competitive edge and technological superiority. Existing management would find this option to be the most comfortable one and one can expect substantial investments being made in this area.

b) **Integrate either forward or backward**

There will be a substantial scope for companies to do this especially where inputs have been a major constraining factor for growth. There is the option of investing fully for this purpose. However, the new policy for small scale industries throws open the option of investing upto 24% in such industries and securing the benefits of integration and as well as the benefits of the small scale sector.

c) **Mergers, Acquisitions, Divestments and Alliances**

The new policy should give substantial impetus to all these activities. Acquisitions and mergers would be a very lucrative way to grow both in one's own business in order to expand capacity and to integrate. In the context of the growing credit squeeze, mergers and acquisitions could prove very attractive if ingenuity could be exercised in formulating merger formulas. Divestment will also become attractive in this environment as old investments which are less lucrative for an organisation can be attractive for another buyer who can generate better internal synergy. Divestments would also free financial resources which then can be used to finance other growth possibilities. This has become an attractive strategic option for many organisations during the last few years.

Where there are financial and other business constrains for expansion judicious business alliances with organisations can prove strategically rewarding. Though uncommon in our country these days, alliances have become a major means of collaboration internationally. As competition becomes sharper and technological and market dynamism become efficient more and more alliances should be feasible on the Indian scene also and it would be beneficial for companies to begin planning along those lines now.

d) **Move into unrelated business**

The new licensing policies throw open the whole gamut of Indian businesses for all. The consumer electronics company, Bush, is talking about setting up a brewery plant and a mineral water plant. Organisations should be looking for high growth prospects with products having a high technological edge. Investments in areas that will generate a long run technological collaboration or ones where NRIS provide substantial financial backing can become attractive if the right business is identified.

e) **Privatisation of the Public Sector**

The new policy of opening up areas which were reserved for the public sector can be attractive if they provide certain business. A wide number of areas have been opened up for this purpose. All of them are not equally lucrative. Most of them happen to be in areas which could be difficult to manage operationally. Many of them have operational linkages with other areas controlled closely by the Government. So an entrepreneur needs to be cautious with regard to some areas. However, there can be scope in selective areas which provide synergy to a particular company.

A part share in some public sector companies is what is likely to be offered by the Government for privatisation. This may not be a more lucrative option for an industry today. Unless there are specific

Organisations important for their own synergy, generally entrepreneurs may not find it attractive to seek part shares of even the best run public sector organisation. In this context, it is noteworthy that in most cases where sector has entered into areas of the public sector they have not found these businesses very lucrative or easy to manage.

In order to pursue the above growth prospects, the organisational qualities that would be at a premium in the new environment would be

i) an ability to generate a breadth of projects/schemes to match with one's organisational characteristics and to judiciously evaluate them. Some people have called this ability of "opportunity finding" and "problem finding".

ii) a flexible financial base to take advantage of the internally generated programmes. The ingenuity of capital restructuring would come in handy here. A special mention must be made about family-owned businesses. Here leveraging has been constrained by the convertibility clause in long-term borrowings. Consequently, many family-owned businesses have wrongly resorted to short-term borrowings to meet long-term needs. There are examples galore of companies becoming sick where this has been done excessively or where the basic business has collapsed due to environmental reasons resulting in short interest cover. Hopefully, changes in the convertibility clause will bring about more dynamism and lead to greater risk-taking in such companies.

The new policy provides an opportunity on the foreign equity front. A good foreign collaborator with technology and financial resources can be a source of indigenous growth. Each such collaborator will provide multiple benefits in the form of latest technology, improved product quality, foreign exchange equity, and a larger base to leverage on. Planned and balanced efforts on this front can be very rewarding.

iii) a good human resource base would be another source of advantage for companies. There will be a high premium on people of the right type - the right types are - ones with collaborator knowledge - market knowledge, business opportunities knowledge, technology knowledge, domestic and international capital market knowledge etc.

iv) a vibrant management that will lay out decision processes to facilitate quickness of action and involvement of the right individuals for the task at hand.

v) in the past management of Government bodies bureaucracy was at a premium. Now management of business will be important. A risk averse top management, a CEO willing to take hard decisions and one who can execute strategies effectively would be essential.

4. **Cash Crunch**

Credit market in India has never been as tight as it is likely to be this year. One hopes that if the inflation is contained, the credit market will open up in the near future. The strategy implication of this can be both short-term and long-term. In the short term, working capital management becomes extremely important. Creating consciousness among operating departments on inventory management, among marketing departments on credit policies and collections becomes important now.

While many organisations play the above game well, problems once in judicious rationing of capital funds. In the environment of abundant opportunities, the short-term cash crunch should not act as a dampner to such opportunities. Effective management of the corporate capital structure should generate funds for planned investments which need not be postponed.

5. **Inflationary Environment**

The rate of inflation this year is likely to exceed 12% same as last year. An inflationary environment throws up its own set of management opportunities and threats. Not only does it pose challenges on the cash management front, it impinges on the area of purchase management, inventory control and investments planning. Organisation should look at their own situation and identify the opportunities and threats thrown up by inflation.

6. **Demand Recession**

Heavy industries and appliance industries could face substantial demand recession in the near future. In response to this managers have to act to gain competitive advantage. This recession is likely to be short-lived and therefore, one need not allow the organisation to over-react but prepare it for an eventual turnaround.

7. **Soft and Hard Business Options**

The new industrial environment is going to throw out substantial challenges to industries. The corporations have a choice of going for a set of sot options or be enterprising enough to choose the hard ones. The soft options include going in for cost reduction, postponement and delay in promoting new products or expansion, resorting to low capacity utilisation, short-term savings like reduction in advertising expenses etc. These are hip-pocket reactions to the present conditions.

A dynamic management has to look beyond the present demand recession, towards opportunities made available by the new business environment. Decisions on technology collaborations, new product development expenses, technology upgradation etc., are the hard options that organisations can and should take now to avail of the opportunities that lie ahead. As mentioned earlier to standstill (with soft options) is a sure way of getting wiped out in the current environment.