

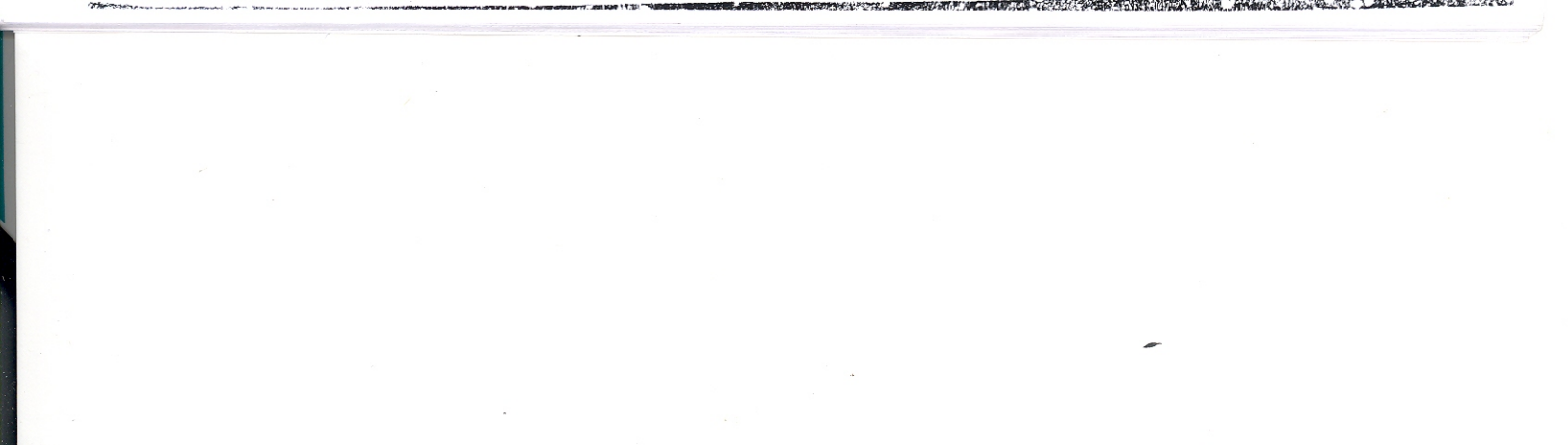
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COMPETING FOR  
THE INDIAN MARKET:  
LOCAL FIRMS VS. MNCs



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NEW DELHI



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# COMPETING FOR THE INDIAN MARKET: LOCAL FIRMS VS. MNCs

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## FOREWORD

India is at the economic crossroads, as the cliché goes. And the academia, especially those concerned with policy research, must respond to that situation by generating new ideas, subjecting old shibboleths to critical examination and developing national consensus through extensive national debate. The Institute which has always been at the forefront in analysing international trade issues through research and seminars has decided to start a series of occasional papers which will highlight areas of current concern in the field of international trade and business.

The major objective is to publish papers of major significance, across a broad spectrum of subjects, laying major emphasis on international trade, finance and marketing. The series aim to invite papers from experts, belonging to various streams of life, namely policy-makers, policy-advisers, researchers, academicians, legislators and experts on relevant fields.

In the recent past as well as now, the issue of level playing field for the Indian firms vs. MNCs has remained in public focus. The "Competing for the Indian Market: Local Firms vs. MNCs" written by Prof. Aneel Karnani, the first in the series of occasional papers brought out by the Institute squarely addresses this issue. While Prof. Aneel Karnani was a Unilever Fellow in the IIFT during 1995, he conducted the research for this paper. His paper draws varied lessons for India, extremely crucial from India's present and future business perspective. Prof. Karnani provides a set of guidelines for the Indian firms to compete successfully against the MNCs in a fiercely competitive global market place. He stresses that Indian firms are over-estimating their competitive disadvantage in relation to MNCs. He believes further that whatever little disadvantage is there can be overcome by adopting successful market strategies.

Faced with increased competition from the MNCs, he outlines three strategic options open to the Indian firms i.e. fight, surrender

or enter into strategic alliance. While entering into a strategic alliance with the MNCs, Indian companies must negotiate in terms of technological improvement without giving up the equity stakes.

The advantages that the Indian companies enjoy, namely operating in local market and environment, exploiting the sentiments and attitudes of the consumers, can really be of tremendous help for the Indian companies to score over the MNCs. Indian companies in order to thrive in the market must launch aggressive campaign of local products with local technology, aiming towards the middle and lower segments of the society.

We hope that readers will find the monograph extremely useful in clarifying the strategic issues involved and formulating appropriate corporate level responses.

**Dr. P.L. SANJEEV REDDY**  
DIRECTOR GENERAL

New Delhi

## Competing for the Indian Market: Local Firms vs. MNCs

*Aneel Karnani\**

**T**HE PROCESS of economic liberalization has led to widespread expectation that India, the "awakening tiger", will now enjoy sustained rapid economic growth. The markets for consumer products ranging from soft drinks to ice creams to washing machines to refrigerators have taken off fuelled by increasing purchasing power and a growing middle class. Indian firms in these industries enjoy tremendous opportunities for long-term growth in sales and profits, for victory on an unprecedented scale. Unfortunately, many Indian firms are managing to snatch defeat from the jaws of victory! Faced with increased competition from the MNCs, the Indian firms too often surrender rather than fight. I will argue in this paper that Indian firms are overestimating their competitive disadvantages in relation to MNCs, and with appropriate strategies can compete successfully against the MNCs.

Lowering of import barriers and increased access offered to MNCs have started the process of globalization of the Indian economy. Impressed by the sheer size of the Indian population and market potential, many MNCs have recently become very much interested in either entering or increasing their role in India. Most MNCs coming to India are interested in selling their products in the domestic markets rather than using India as an export platform. This has led to increased competition between the Indian firms and the MNCs for the Indian markets.

Faced with increased competition from the MNCs, Indian firms

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\* I thank the Indian Institute of Foreign Trade, where I was a Visiting Professor while conducting the research for this paper.

have three alternatives: fight, surrender, or enter into "strategic alliances". Indian firms can fight aggressively to create new markets, gain market share, or in some cases, hold market share. There are many examples of Indian firms successfully competing against MNCs: Nirma has created a new market segment for low-cost detergents and is holding its own against Hindustan Lever (a subsidiary of Unilever); Asian Paints has out-competed foreign firms such as ICI in the residential paints segment; Bajaj dominates the two-wheeler market against large international firms including Honda and Piaggio. At the other extreme, the Indian firms can surrender by selling out to a MNC or by gradually losing market share in a growing market. Parle sold out to Coca Cola; Tomco sold out to Hindustan Lever (a subsidiary of Unilever); Voltas, for long a major player in home appliances, has not exploited its headstart. A more subtle form of surrender is that not enough Indian firms are springing up to capture the high growth markets, thus leaving the field open to more aggressive MNCs. The emerging market for packaged foods is coming to be dominated by firms such as Brooke Bond-Lipton (also a subsidiary of Unilever), Nestle, Cadbury-Schweppes, and Pepsi Foods; the high growth white goods market (specially refrigerators, washing machines, and room air-conditioners) will probably be dominated by Whirlpool, General Electric, Electrolux, Carrier, and soon the Japanese and Korean MNCs; the soft drink market is already dominated by Coca Cola and Pepsi Cola. A recent study found that 37 of the top 62 brands in India belong to MNCs; the top 11 brands are all owned by MNCs.<sup>1</sup>

The third option, and one that has become increasingly fashionable among Indian firms is to enter into strategic alliances with MNCs. Many firms indeed boast about forming an alliance as if this was a sign of strength on part of the Indian firm. The business press too often reports about alliances as if they represent a major achievement by the Indian firm. What this view fails to take into account is that all alliances are not equal. Some firms enter into alliances from a position of strength and are really a

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<sup>1</sup> Cited in "Foreign No More", *India Today*, 11 March 1995.

form of aggressive competition in disguise. For example, an Indian firm with strong management and significant competitive advantage may be lacking some modern technology; this firm may enter into a *narrow* alliance with a MNC to acquire technology without giving up control over the brand name and marketing, and management, and not cede significant equity stake. Ideally, this firm should digest the technology it is licensing and should have the objective of becoming technologically independent of its partner. Such an alliance is a transition strategy to acquire or upgrade a specific skill. Unfortunately, such alliances, which are strategically sound, are also rather infrequent in India.

More common are alliances that are really a surrender in disguise. In this type of alliance, the Indian firm is scared of the increased intensity of competition and enters into an alliance from a position of weakness. This firm, either gradually or quickly, gives up control over technology, high value-added manufacturing, brand name, and management. Given its increasingly weaker position, the Indian partner is often forced to reduce its equity stake, while the equity stake of the MNC increases; the alliance for the Indian firm is essentially a surrender delayed. Another outcome becoming more common recently is that the MNC starts a new 100 per cent owned subsidiary. "Not only are the old affiliates being kept out of the new activities. Some of the most profitable businesses of the [old affiliates] are being transferred to the new wholly owned subsidiaries.... Proctor & Gamble, Unilever, Cadbury-Schweppes, Hewlett-Packard, and Asea Brown Boveri are some of the firms adopting this new gambit, preventing Indian shareholders from sharing the benefits of their expanded business."<sup>2</sup> Hewlett-Packard is going in for software expansion, an activity already handled by its joint venture with Hindustan Computers. Gillette will be marketing its branded razor blades, which have been popularized by its old affiliate, Indian Shaving Products.

Faced with increasing competition from imports and MNCs

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<sup>2</sup> "Asset Shuffles Take Shine Off Multinationals", *South China Morning Post*, 21 August 1995

operating in India, too many Indian firms are either surrendering or entering into alliances that will soon lead to surrender. With the Indian economy finally on the threshold of an economic take-off, the Indian firms are giving up the opportunity for explosive growth on a sustained basis, and instead settling for short-term profits. If this trend continues, India will have a growing economy but one that is dominated by foreign MNCs. As far as the consumers and the workers are concerned this will be a major improvement over the old "license raj", but it still will be a failure on the part of Indian entrepreneurs and managers. The solution is not to legally restrict the MNCs; that is a solution that has already proven to be ineffective in India and several other countries. Rather the solution lies in the fact that the Indian firms should compete more aggressively against the MNCs in a free-market environment.

The Indian firms need to understand when to fight and not to fight against MNCs—this distinction should be based on the underlying economics and the fundamental nature of the industry. In some industries the economies of scale on one or more dimensions (such as technology, manufacturing, sourcing, distribution, marketing, customer relations, etc.) are so large that only global MNCs with a significant share of the global market can succeed. In such *global* industries, Indian firms should surrender or enter into alliances in which the Indian firm is likely to be the junior partner. In other industries, often called *multi-domestic*, the economies of scale are not so significant and it is feasible for local firms to compete against MNCs—it is in these industries that Indian firms should compete more aggressively.<sup>3</sup>

The process of globalization has led to a desire and an active discussion of creating Indian MNCs. This is certainly a commendable objective. However, right now the first priority for most Indian firms is to aggressively fight for the Indian market rather than to compete for the foreign markets through operations abroad. Virtually all MNCs started by successfully competing in

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<sup>3</sup> Michael Porter, "Competition in Global Industries: A Conceptual Framework" in Michael Porter, (ed.), *Competition in Global Industries*, 1986.

their home markets, and this will hold true for Indian MNCs also.

Assessing their competitive position, Indian firms often see themselves at a disadvantage compared to MNCs on five dimensions: scale economies, technology, brand image, capital resources, and management expertise. I will argue that the Indian firms are over-estimating their disadvantages, and recommend strategies for how Indian firms can achieve at least parity and even a competitive advantage over the MNCs.

### Scale Economies

The single biggest problem facing the Indian firms is that in a particular business they are too small compared to the MNCs. In global industries which are very scale intensive such as, automobiles, video electronics, semiconductors, computers, the Indian firm is at a major competitive disadvantage and it has to surrender or enter into an alliance. However, the scale economies in many other industries (multi-domestic industries such as fast moving consumer goods) are rather limited and probably exhausted within the Indian market alone. Even in certain industries characterized by significant scale economies, the Indian market is already very large or has the potential to be very large in the near future and this will make it possible for Indian firms to be scale intensive. By dominating the two-wheeler market in India, Bajaj has exploited scale economies to become the low-cost producer.

The government regulation that reserves several industries such as toys, garments, ice creams for the small-scale sector exacerbates the difficulty of achieving scale economies. The toy industry is populated by over 500 small firms who do not have the scale to compete against the recently liberalized imports. The fragmented ice cream producers do not have the scale to compete against Kwality-Walls (owned by Unilever). While waiting for the government to change this archaic regulation, certain firms have found an effective strategy to achieve scale economies in spite of the regulation, i.e. they sub-contract the manufacturing to small firms while performing all other functions on a large scale. For instance, Arvind Garments sub-contracts the stitching of its

Newport jeans to several small factories run by hand-picked entrepreneurs but has put up a world scale facility with state-of-the-art computerized machines for cutting the fabric and for the critical "washing" operation which gives the jeans their distinctive colour and it also exploits its scale economies in design, marketing and distribution.

Many Indian firms are reasonably large but are broadly diversified and hence are too small in any one business. This a legacy of the "license raj" when political connections and protectionism made conglomerates common and successful. But, these firms today face competition from more focused MNCs and therefore they need to restructure themselves in order to remain in the contention. There are at least two obstacles to this restructuring. First, the market for corporate control is not well developed in India making difficult for a conglomerate to divest some businesses and acquire others to achieve scale economies. Second, many Indian firms are family owned or controlled and often they are emotionally attached to their diverse businesses. They see any divestment as a sign of failure. If these conglomerates do not reduce their diversification then they run the risk of becoming marginal players in each of their businesses.

Indian firms have often diversified without paying enough attention to the economies of scale. For example, there are synergies among refrigerators, washing machines and room air-conditioners. In fact all the Korean, Japanese and most American appliance firms operate in each of these three markets; whereas the Indian appliance firms operate in only one or two of these three closely related markets and do not achieve scale economies in sourcing, manufacturing technology, processing, branding and distribution. Another problem is that Indian firms are often vertically integrated. This itself is a legacy of times when markets for intermediate products were not well developed. A high priority for these firms is to focus on the parts of the value chain where they have a competitive advantage and sufficient scale by out-sourcing the other activities to a network of suppliers.

A major strategic option available to Indian firms to achieve

scale economies is to target the large, middle or lower segments of the market. In a poor country like India where unequal income distribution is clearly visible there also exists a small segment to serve the upscale urban consumers who can afford Western style products. There is a much larger (certainly in terms of units, and often also in terms of value) segment of a cheaper product which satisfies the functional needs of lower and middle income consumers. The market can be expanded even more by including the semi-urban and rural population.

The MNCs typically target the upscale urban market segment because it is similar to what they are used to in the developed countries. Unfortunately, the leading Indian firms also tend to target the same high-end of the market. For example, the leading Indian hotel chain companies target the upper end of the market. In fact, there is a significant opportunity to use modern professional management and exploit scale economies to serve the lower and middle segments of the hotel industry. As another example, the market for room air-conditioners is only about 300,000 units per year, although it is growing rapidly. This market is served by several Indian firms and one MNC (Carrier), is likely to attract new entrants, both Indian and foreign, in the near future. The market for evaporative air-coolers is much bigger at about 2.5 million units per year and also growing rapidly; yet this market gets very little attention from the leading appliance firms. In fact, some of the Indian firms want to sell not only air-conditioners but upscale air-conditioners such as models with remote controls and "fuzzy logic". Given the high initial cost, the high operating cost, and power shortages, it is not surprising that the market for air-conditioners is so much smaller than that of air-coolers. Yet this large market for air-coolers is being left to the unorganized sector and small local firms (the company Symphony may be an exception and seems to be focusing on the air-cooler market).

What is needed for the Indian firms is to further expand or create markets for lower priced products so that it will be better suited to the Indian income levels. A successful example of this strategy is Nirma in the detergents market. The major players in

the detergents market, including Hindustan Lever, were focused on the upper end of the market selling for the higher income urban households. Nirma insightfully created a new market for a much cheaper detergent targeted at lower income urban and rural households. Hindustan Lever subsequently reacted to the market situation by introducing Wheel, a similar product of its own. Nirma, however, has held on to a leading market share in that segment. Asian Paints has successfully adopted a similar strategy by introducing Utsav in the residential paint market. Arvind Garments has targeted the middle priced segment with its Newport jeans.

### Technology

The second dimension on which the Indian firms see themselves at a disadvantage *versus* the MNCs is that of technology. In some high technology industries such as semi-conductors, biotechnology, aircrafts, the MNCs clearly enjoy a major headstart and scale economies over the Indian firms. There are several other industries where the level of technology is relatively low (such as many packaged consumer goods) and the Indian firms are at only a minor disadvantage; even in industries with somewhat higher levels of technology (such as many chemicals, home appliances), the Indian firms can catch up with appropriate strategies.

The first issue here is whether a developing country like India should adopt the latest technology or continue with old technology. There is a note of wounded pride in a frequent statement made by Indian managers, "Why should we Indians have anything less than the latest technology?" The decision is better made on the basis of economics and business strategy rather than on emotional pride.

There are, of course, some industries where Indian firms should go in for the latest technology. As a broad generalization, the case for adopting the latest technology is stronger in the case of process technologies than product technologies. The latest process technologies often result in superior performance on dimensions

such as quality, consistency, flexibility, exploiting scale economies. In some cases, the latest product technology is significantly superior to the older technology on both performance and price dimensions; for example, newer computers are both less expensive and more powerful than older computers. In some other industries, the price adjusted performance of the latest product is so much superior to the older product (for example fibre optic telecommunication cables *versus* copper cable) that even a developing country like India should adopt the latest technology.

However, in many industries, the stark fact is that the consumer in India is poorer than the consumer in more developed countries, and will have to settle for less than the latest technology. For example, in scooters, Bajaj is competing successfully against Honda by targeting the lower price segment with a "lower technology" product having fewer features. Similarly, the cost of labour in India is much cheaper than many developed countries which makes a lower level of process automation often more appropriate for India. In industries where the latest technology is not appropriate for India, the local firms are not at a major disadvantage *versus* the MNCs, that means the Indian firms need to better discriminate which are these industries.

Where the Indian firms are at a technological disadvantage, the first option to explore is imitation, legally of course. There is a lot of technology and know-how that is not protected by patents, copyrights and trade secret laws. Where it is legal to do so, there need not be hesitation in copying. An old proverb goes "Good artists copy, great artists steal". It is absolutely critical that Indian firms honour intellectual property rights but there is a lot of potential for imitation and at the same time respecting intellectual property rights. Therefore, there is an imperative need for the Indian firms to become externally oriented and remain as the benchmark for the rest of the companies in the world, even if they are not direct competitors. One way to upgrade the technological competence of the firm is to recruit people from the leading firms in the world and again this should be done and can be done within the legal boundaries of protecting the intellectual

property. Indian firms have not fully exploited the resources of engineers, scientists and managers who are of Indian origin, working in American companies. In contrast, the Taiwanese and Korean firms have done a great job of attracting their talented nationals to return to their native lands especially from the USA.

Indian firms should improve their technology by investing resources in technology development. India has world class engineering schools and produces excellent engineers. Indian firms need to tap and better utilize this talent. Moreover, producing engineers in India cost much less than producing engineers in many developed countries, and yet they are equally competent. The problem is many Indian firms are willing to invest in tangible assets, such as land, buildings, and machines, but are less interested in investing in intangible assets such as technology, even though much competitive advantage rests on these intangible assets. The senior managers often do not understand the technology and so do not feel confident enough to make the judgement in order to invest in such a risky venture. They are often more comfortable with licensing technology and paying a royalty fee which they believe they can easily expense against annual revenues rather than making an upfront risky investment. The end result is that Indian firms tend to under-invest in technology development and then conclude that they cannot compete against the MNCs because of a technological disadvantage.

Finally, if an Indian firm concludes that it needs new technology, knowing fully well that neither the technology could be imitated nor would it be possible to develop, then it should possibly enter into an alliance with a foreign firm to secure the technology. The guideline here is that the firm should enter into the narrowest possible alliance needed to secure the technology. If you only need technology, you do not have to give up an equity stake nor control over brand name and management. It may be better to source technology not from the market leader in the world but from a relatively less successful firm which has the technology

but lacks some other skill or resource such as capital, distribution and brand name.

Once a firm licenses technology, it then needs to digest the technology and make it its own. Only then can the firms go on to improve the technology and become independent of its licensor. This was the classic strategy of many Japanese firms in the 1960s and 1970s in the industries such as electronics and even some of the Korean firms have adopted the same strategy these days in the industries like automobiles, electronics, etc. If a firm licenses technology but then does not digest it, the firm will become perpetually dependent on its technology partner. For example, an Indian firm licensed the technology in reciprocating compressors from an American firm. When the Indian firm needed the next generation of technology, namely the rotary compressors, it had to go back to its licensor. Sometime in the future, the Indian firm may want to move to the current generation of technology, the scroll compressor, and it will have to license the technology again. In fact, this Indian firm admitted it could not even design a new reciprocating compressor on its own today after twenty years of being a licensee. In other cases, the Indian firms have broken off the licensing arrangement without digesting the technology and have become very outdated in terms of technological advancement. For example, Indian firms still produce brand new cars that were essentially designed in the 1960s; there may be a tiny niche market to sell them as new antique cars! Many Indian firms view technology licensing as an alternative to doing their own R&D. A more appropriate view would be that licensing is a supplement to one's own R&D. Initially, the objective of R&D is to digest the licensed technology and become technologically independent. Subsequently, the objective of R&D is to improve the technology and sustain a position at the technological frontier.

### **Brand Name**

Indian firms often see themselves at a significant disadvantage when competing against MNCs with well recognized global brands. Many Indian firms seem to believe that consumers prefer

a foreign product to an Indian product, just by virtue of the fact that it is foreign. As an extension of this belief, Indian firms seem to believe that linking their products to a foreign location, however implausibly, will get them upmarket acceptance. For example, Faze 3, a Haryana manufacturer of dhurries advertises that its products "adorn some very upmarket stores like K-Mart"! Vicco Vajradanti, the toothpaste and toothpowder so popular in small towns and among the non-sophisticated consumers, claims to be "popular the world over"! Godrej, a leading manufacturer of refrigerators which now has an alliance with General Electric, stretches in its advertisements for a foreign linkage by appealing to you "the international Indian" who works "like hot-shot consultants in New York and London".<sup>4</sup>

Research by Prof. Rajeev Batra (University of Michigan) shows that Indian consumers do indeed prefer foreign brands to Indian brands, but only in two categories of products: (1) personal image conscious products, such as cigarettes and fashion products, and (2) high technology products, such as VCR. In other products, the global brands do not enjoy an inherent advantage over the local brands. Many Indian firms which believe themselves to be at a major disadvantage against MNCs by virtue of global brand image are labouring under a misperception about their consumers' beliefs and behaviour.

As argued earlier, more Indian firms should be emphasizing the middle and lower segments of the markets. In these segments the advantage of a global brand is further diminished. For example, in the market for jeans (a product with strong American connotation, to begin with) the upscale consumers might prefer to buy a foreign brand such as Levis; similarly, in this market, the Indian brands such as Newport have been successful in the middle segments. Several Indian companies (specially Phoenix) have been outcompeting Bata in the footwear market.

The problem before the Indian companies is not that they lack a global brand name but what they face is the absence of

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<sup>4</sup> "Reaching for the World", *Indian Express*, 2 April 1995.

sophisticated marketing and a quality product. First, the Indian firms need to better understand their consumers and convince them that the products deliver the benefits that the consumers are seeking. Instead it is quite common for Indian firms to emphasize the technology in their advertisements. For example, an advertisement for sandals emphasized the chemical composition of the sole, without mentioning the benefits it delivers. Consumers do not understand nor do they care about the chemical composition of the sole of a sandal. This tendency to emphasize the technology (rather than the benefits delivered) is even more pronounced in technologically better well-equipped industries such as home appliances and consumer electronics. This overemphasis on "selling" technology is due to the fact that the companies do too little market research and do not understand sufficiently what the customer wants. Another implication of this lack of market research is that Indian firms do too little of market segmentation and instead view the market as an amorphous whole.

In many cases where the customer prefers a foreign product to an Indian product, it is often not because of the brand image but because of a real quality gap. Many Indian firms have not laid the appropriate emphasis on product quality. Their poor brand image is due to shoddy product quality and not being Indians. In most consumer packaged products, Indian firms have given too little emphasis on packaging quality.

### Capital

Indian firms often argue that they cannot compete against MNCs because the MNCs command much larger resources and have strong financial backing. It is argued that the MNC can afford to and does lose money for a long time in order to develop its long-term competitive position and that the Indian firm cannot sustain. There are series of problems emanating from this argument.

Given the size and "efficiency" of capital markets, competitive advantage does not come from the accessibility of capital, rather

capital flows to those firms with a competitive advantage. In the past, capital markets in India were quite thin and meagre and access to capital was rather restricted. In that environment, access to capital was a source of competitive advantage. This is one of the major reasons why conglomerates thrived in India. However, today capital markets in India are quite large and much more efficient compared to its earlier days. Indian firms need to better utilize local and foreign capital markets and the firms need to convince the capital markets that they have a strategy for building, sustaining and exploiting competitive advantage which will then result in earning their return on investment greater than the cost of capital.

Many Indian firms are themselves responsible for the lack of capital to sustain a fight against MNCs. First, Indian firms tend to be too diversified and are thus spread out too thinly in terms of financial capital and managerial resources. Indian firms need to restructure and focus their capital on fewer industries where they have a competitive advantage and can compete aggressively in those industries. The second problem is that many Indian firms are family controlled and families are reluctant to aggressively tap equity capital markets for fear of diluting or even losing control.

Indian firms are also probably overestimating the deep pockets of the MNCs. A frequent complaint of managers of country subsidiaries in a typical MNC is that the headquarter is too stingy with capital and has a very short-term orientation. A MNC may have more capital resources than the Indian firm but it is also competing in several countries. The MNC cannot concentrate all its resources on India alone but has to spread them over many fronts on which it is fighting. MNC managers often complain that their shareholders are forcing them to be short-term oriented and that the local family controlled firms have "patent capital" and can afford to take the long-term perspective. The grass is greener on the other side!

### Management Expertise

Many Indian firms argue that they cannot compete against the MNCs because they do not have the same quality and depth of

management expertise as the MNCs. This is often a valid argument. However, this is a self-inflicted wound and the Indian firms can and should take steps to improve their management skills.

Indian firms need to professionalize management. The stumbling block here is that many Indian firms are family owned and this family ownership leads to family control of the companies. Further, family control often leads to family managed for many firms. The challenge for the Indian business families (and firms) is to break both these linkages, i.e. you can have family ownership without family control and you can have family control without family management.

A problem with implementing my prescription of professionalizing management is the shortage of good (professional) managers in India. India has only a handful of good business schools. This has led to a recent explosion in the salaries of managers, specially good senior managers. Indian firms, specially family controlled firms, have been reluctant to pay the market salaries. The MNCs are not only willing to pay these high salaries but are largely responsible for creating the upward mobility in terms of market salaries. Indian firms need to realize that the market for management talent is quite efficient but if you pay poorly, only the poor managers are willing to join your firm.

Indian firms compound this problem by doing very little to develop the management skills of their managers. Given the size of India and its economy, there are very few business schools or other private organizations offering programmes for executive education. Very few Indian firms conduct such executive education programmes in-house. In fact, many Indian firms do not even have a budget item for management development. Indian firms need to recognize that management excellence is a prerequisite for competitive success in a free market environment, and to put in appropriate human resource management policies in the areas of recruitment, compensation, career paths, training and development.

As Indian firms compete against MNCs, they need their managers to have greater international exposure. One way to achieve this would be for the Indian firm itself to become a multinational firm and set up operation in other countries. Some Indian firms have done this successfully and more should aspire to do so. However, for most Indian firms becoming a MNC is a distant, and perhaps improbable objective. But, there is a relatively easier way for Indian firms to increase the international exposure of their managers, i.e. Indian firms can recruit managers who have studied and/or worked abroad. There is a large pool of Indian origin engineers and managers all over the world, specially in the USA. Given the explosive rise in compensation levels in India and the opportunities for growth, there are many more Indians abroad today (than in the past) who are considering to return to India. Indian firms can send their managers abroad for short executive development courses; aside from what they learn in the classroom. This on the whole broadens the perspective of the Indian managers. Indian firms can use alliances with foreign firms as a way to develop the management skills of their managers. Trips to visit the foreign partner should be seen as a skill development tool rather than a jealously guarded perquisite.

Finally, Indian firms need to cultivate a corporate culture in which managers can grow and flourish. Some characteristics of such a culture are: openness, communicative, participative, non-hierarchical, team-oriented, empowering employees, encouraging learning, tolerating dissent and encouraging risk taking.

### **Advantages of Indian Firms**

There are some dimensions on which the Indian firms have an advantage over the MNCs. Indian firms should have better knowledge about the local environment, more specifically knowledge about consumers, distribution, labour practices and regulations. Indian firms should also have an advantage in building relationships with local firms (customers, distributors, suppliers), trade associations, unions and government agencies. In a dynamic market like that of India, today, firms have to be able to move fast and make decisions quickly. Managers of MNC

subsidiaries in India are at a disadvantage because they have to deal with a distant headquarters and an additional layer of control. Indian firms should exploit this as a source of competitive advantage. Indian firms should also have some cost advantage over the MNCs which often have high overheads and expensive expatriate managers.

#### Competitive Success

The process of liberalization of the Indian economy presents dramatic opportunities for business success. It will be a shame if the Indian firms and entrepreneurs do not fully exploit these opportunities and cede the Indian market to MNCs based on the mistaken belief that the Indian firms have little or no chance of winning in the competition against the MNCs. Indian firms should be more self-confident and ambitious. They should not be awed by the sheer size of the MNCs. Many Indian firms are competing successfully against MNCs for the Indian market. More Indian firms should learn from these examples and compete more aggressively for the Indian market.

subsidiaries in India are at a disadvantage because they have to deal with a distant headquarters and an additional layer of control. Indian firms should exploit this as a source of competitive advantage. Indian firms should also have some cost advantage over the MNCs which often have high overheads and expensive expatriate managers.

### Competitive Success

The process of liberalization of the Indian economy presents dramatic opportunities for business success. It will be a shame if the Indian firms and entrepreneurs do not fully exploit these opportunities and cede the Indian market to MNCs based on the mistaken belief that the Indian firms have little or no chance of winning in the competition against the MNCs. Indian firms should be more self-confident and ambitious. They should not be awed by the sheer size of the MNCs. Many Indian firms are competing successfully against MNCs for the Indian market. More Indian firms should learn from these examples and compete more aggressively for the Indian market.