PART - II

UNDERSTANDING THE DETRIMENTAL
FALLOUTS OF LIBERALIZATION
CHAPTER - 3
INDIAN INDUSTRY : STRUCTURE, CONDUCT AND PERFORMANCE

1.0 BUSINESS HOUSES : THE BASIS AND THE SOUL OF INDIAN INDUSTRY
   1.1 50 Business Houses : Performance 96
   1.2 Strengths and Weaknesses 97
   1.3 Survival of the Fittest : A Decline Foretold 98

2.0 CORPORATE INDIA : STATISTICS OF GROWTH 99
   2.1 Major Industrial Sectors : Trend Analysis 99
   2.2 Corporate Performance : Top Twenty 101
   2.3 Performance of PSUs : Top Twenty 104
   2.4 Business Environment : Issues To Ponder 106

3.0 STRUCTURE, CONDUCT AND PERFORMANCE 110
   3.1 Classification of Market Forms 110
   3.2 SCP Paradigm : Theory And Framework 112
   3.3 SCP Paradigm : Indian Industry 114

4.0 ROAD-MAP FOR FUTURE ECONOMIC REFORMS 117

5.0 SUMMARY 118
CHAPTER 3

INDIAN INDUSTRY: STRUCTURE, CONDUCT AND PERFORMANCE

1.0 BUSINESS HOUSES: THE BASIS AND THE SOUL OF INDIAN INDUSTRY

1.1 50 Business Houses: Performance

1.1.1 History and development of Indian industry are closely interlinked with Business Houses of India. Enterprising families graduated from trading to manufacturing over a span of about 100 years since 1900s. They founded industrial empires of various sizes and skills. Business Houses were founded in all parts of India.

1.1.2 There are 50 large Business Houses controlling a major portion of corporate Indian industry. Overall profile of these Business Houses has been developed as follows:

<table>
<thead>
<tr>
<th>50 Business Houses</th>
<th>Year: 1996-97</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Turnover</td>
<td>Rs. 167512 crores</td>
</tr>
<tr>
<td>Net Profits</td>
<td>Rs. 9484 crores</td>
</tr>
<tr>
<td>Total Assets</td>
<td>Rs. 213168 crores</td>
</tr>
<tr>
<td>No. of Major Companies</td>
<td>491</td>
</tr>
</tbody>
</table>
1.1.3 Financial performance of the Business Houses is not encouraging:

- Net Profits were low i.e. only 5.66% of total turnover in 1996-97
- Turnover generated was only 78.6% of total assets deployed in 1996-97

1.2 Strengths And Weaknesses:

1.2.1 Indian market has been expanding year by year, with practically unlimited demand from a population now nearly touching 1 billion mark. Under the circumstances, the performance of the Business Houses should have been better, vibrant and dynamic. The industrial and economic environment had been 'a protected one' and closed to major impact from foreign investment. In view of this background, the liberalization and reforms adopted since 1991 will have a significant impact on the Business Houses in the years to come.

1.2.2 'Strengths' of the Business Houses are:

- Familiarity with the economic, social and political environment
- Spirit of ambition and drive

'Weaknesses' of the Business Houses can be listed as below:

- Strategy is to lobby for protection
- Level of transparency is low
- Leadership quality is poor
- Decision making is opportunistic and instinctive

1.2.3 Indian economy is now open to FDI and Transnational Corporations (TNCs). Impact of the New International Economic Order (NIEO), as
examined in the previous Chapter, will be enormous. Business Houses will have to adopt a new approach:

- The roles of owners and managers must be divided
- Skills need to be acquired through professional training
- Decentralized decision process is essential
- Corporate governance will be necessary

### 1.3 Survival of the Fittest: A Decline Foretold

1.3.1 A survey conducted in 1998 by Business Today magazine indicated that only 14 Business Houses are likely to survive the process of liberalization, reforms and globalization. Summary of the findings is:

#### 50 Business Houses Year: 1998

<table>
<thead>
<tr>
<th>Survival Chances</th>
<th>No. of Business Houses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strong</td>
<td>14</td>
</tr>
<tr>
<td>Weak</td>
<td>12</td>
</tr>
<tr>
<td>Very weak</td>
<td>8</td>
</tr>
<tr>
<td>Medium</td>
<td>16</td>
</tr>
</tbody>
</table>

The 9 criteria selected for the survey were: Strategy, Leadership, Financials, Portfolio, Operations, Share Holders' Value Added, Market Performance, Adaptability and Stability.

1.3.2 If only 28% of the great Business Houses survive the new environment, despite the fact that these Houses have grown over a period of about 100 years on the home turf, the entire structure of Indian industry will change in due course. The key to survival and
growth will be global competitiveness in respect of the 9 criteria listed above.

2.0 CORPORATE INDIA : STATISTICS OF GROWTH

2.1 Major Industrial Sectors : Trend Analysis

2.1.1 Three major industrial sectors contribute to national economy:

- Agriculture and Allied Sectors : Primary Sector
- Industry : Secondary Sector
- Services : Tertiary Sector

As the economy grows, the contribution from primary sector i.e. agriculture and allied sector, decreases and secondary sector dominates. As technology matures and output of the industry grows, tertiary sector starts contributing more.

2.1.2 The trend of sectoral growth rates in India corroborates above observations:

<table>
<thead>
<tr>
<th>Sector</th>
<th>Growth Rate</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary</td>
<td>3.4</td>
<td>3.9</td>
<td></td>
</tr>
<tr>
<td>Secondary</td>
<td>7.5</td>
<td>8.0</td>
<td></td>
</tr>
<tr>
<td>Tertiary</td>
<td>7.4</td>
<td>7.9</td>
<td></td>
</tr>
</tbody>
</table>

Sectorwise GDP growth also indicates the emergence of secondary sector and tertiary sector as the major contributors to the national economy:
Sectoral trends in India are in-line with the world trends.

2.1.3 Changing face of Indian industry is well presented by corporate India's market capitalization trends. Investors in the stock markets look for shareholders' value. The signs of new economy can be seen as below:

<table>
<thead>
<tr>
<th>Year</th>
<th>Primary Sector</th>
<th>Secondary Sector</th>
<th>Tertiary Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950-51</td>
<td>24204</td>
<td>6451</td>
<td>8588</td>
</tr>
<tr>
<td>1970-71</td>
<td>41385</td>
<td>20209</td>
<td>20140</td>
</tr>
<tr>
<td>1990-91</td>
<td>69860</td>
<td>59493</td>
<td>59444</td>
</tr>
<tr>
<td>1995-96</td>
<td>77058</td>
<td>81536</td>
<td>88384</td>
</tr>
<tr>
<td>1996-97</td>
<td>82702</td>
<td>87102</td>
<td>96022</td>
</tr>
</tbody>
</table>

At factor cost; At 1980-81 prices
(Source: Economic Survey 1997-98, Government of India)

### Market Capitalization (%)

<table>
<thead>
<tr>
<th>Industry Sector</th>
<th>1992</th>
<th>1998</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer Non-Durables</td>
<td>15.26</td>
<td>23.73</td>
</tr>
<tr>
<td>Steel</td>
<td>11.25</td>
<td>3.89</td>
</tr>
<tr>
<td>Petroleum</td>
<td>8.97</td>
<td>7.86</td>
</tr>
<tr>
<td>Automobiles</td>
<td>7.87</td>
<td>10.74</td>
</tr>
<tr>
<td>Engineering</td>
<td>6.83</td>
<td>6.82</td>
</tr>
<tr>
<td>Cement</td>
<td>6.39</td>
<td>2.60</td>
</tr>
<tr>
<td>Fertilizers</td>
<td>4.76</td>
<td>1.80</td>
</tr>
</tbody>
</table>

Table continued on next page
Market Capitalization

<table>
<thead>
<tr>
<th>Industry Sector</th>
<th>1992</th>
<th>1998</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance</td>
<td>4.25</td>
<td>8.16</td>
</tr>
<tr>
<td>Textiles</td>
<td>4.10</td>
<td>0.98</td>
</tr>
<tr>
<td>Drugs and Pharma</td>
<td>2.87</td>
<td>6.39</td>
</tr>
<tr>
<td>Infotech</td>
<td>1.05</td>
<td>3.48</td>
</tr>
</tbody>
</table>

Market capitalization of shares of selected sectors

(Source: Business Today, 21 September 1998)

Focus in the economy is shifting from traditional industries to consumer oriented industries, indicating expanding market economy.

2.2 Corporate Performance: Top Twenty

2.2.1 Corporate performance can be analysed by comparing top twenty sectors of the industry in terms of market capitalization, total sales, total net profits and growth rates in sales and in net profits. Data have been compiled for 1997-98 and growth rates have been compared with 1996-97 trend as follows:

### Year: 1997-98

<table>
<thead>
<tr>
<th>Industry Sector</th>
<th>Ranking</th>
<th>Market Value Rs. crores</th>
<th>Total Sales Rs. crores</th>
<th>Sales Growth %</th>
<th>Total Net Profits Rs. crores</th>
<th>Net Profit Growth %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer Non Durables</td>
<td>1</td>
<td>45514.7</td>
<td>19651.0</td>
<td>16.7</td>
<td>1330.7</td>
<td>21.2</td>
</tr>
<tr>
<td>Automobiles</td>
<td>2</td>
<td>25718.9</td>
<td>26238.2</td>
<td>-6.0</td>
<td>1459.6</td>
<td>-28.9</td>
</tr>
<tr>
<td>Financial Services</td>
<td>3</td>
<td>21109.2</td>
<td>24817.3</td>
<td>19.2</td>
<td>3566.8</td>
<td>6.6</td>
</tr>
</tbody>
</table>

Table continued on next page
<table>
<thead>
<tr>
<th>Industry Sector</th>
<th>Ranking</th>
<th>Market Value Rs. crores</th>
<th>Total Sales Rs. crores</th>
<th>Sales Growth %</th>
<th>Total Net Profits Rs. crores</th>
<th>Net Profit Growth %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Petroleum</td>
<td>4</td>
<td>16283.7</td>
<td>15284.8</td>
<td>43.2</td>
<td>1636.6</td>
<td>14.7</td>
</tr>
<tr>
<td>Drugs &amp; Pharma</td>
<td>5</td>
<td>15876.6</td>
<td>10759.0</td>
<td>12.3</td>
<td>911.7</td>
<td>6.9</td>
</tr>
<tr>
<td>Engineering</td>
<td>6</td>
<td>15317.2</td>
<td>17496.6</td>
<td>0.9</td>
<td>1243.7</td>
<td>12.8</td>
</tr>
<tr>
<td>Cigarettes</td>
<td>7</td>
<td>8872.7</td>
<td>8427.8</td>
<td>12.2</td>
<td>569.1</td>
<td>43.8</td>
</tr>
<tr>
<td>Steel</td>
<td>8</td>
<td>13919.7</td>
<td>20030.6</td>
<td>5.0</td>
<td>558.4</td>
<td>-36.6</td>
</tr>
<tr>
<td>Diversified</td>
<td>9</td>
<td>8075.9</td>
<td>18076.5</td>
<td>10.5</td>
<td>633.1</td>
<td>-29.4</td>
</tr>
<tr>
<td>Aluminium</td>
<td>10</td>
<td>7258.2</td>
<td>2961.4</td>
<td>13.0</td>
<td>567.6</td>
<td>26.3</td>
</tr>
<tr>
<td>Chemicals</td>
<td>11</td>
<td>6738.2</td>
<td>6613.5</td>
<td>8.3</td>
<td>606.6</td>
<td>-4.3</td>
</tr>
<tr>
<td>Hotels</td>
<td>12</td>
<td>6321.7</td>
<td>2058.6</td>
<td>4.2</td>
<td>478.5</td>
<td>-10.9</td>
</tr>
<tr>
<td>Cement</td>
<td>13</td>
<td>6306.8</td>
<td>8797.7</td>
<td>5.3</td>
<td>179.0</td>
<td>-65.1</td>
</tr>
<tr>
<td>Infotech</td>
<td>14</td>
<td>6172.5</td>
<td>3286.0</td>
<td>28.1</td>
<td>405.7</td>
<td>31.5</td>
</tr>
<tr>
<td>Power</td>
<td>15</td>
<td>5529.2</td>
<td>7586.4</td>
<td>8.8</td>
<td>529.6</td>
<td>-4.8</td>
</tr>
<tr>
<td>Lubricants</td>
<td>16</td>
<td>4005.8</td>
<td>1272.7</td>
<td>15.5</td>
<td>166.9</td>
<td>65.9</td>
</tr>
<tr>
<td>Auto Components</td>
<td>17</td>
<td>3778.6</td>
<td>3981.9</td>
<td>3.5</td>
<td>276.3</td>
<td>2.0</td>
</tr>
<tr>
<td>Fertilizers</td>
<td>18</td>
<td>3214.9</td>
<td>9087.8</td>
<td>9.7</td>
<td>844.4</td>
<td>8.4</td>
</tr>
<tr>
<td>Tea, Coffee</td>
<td>19</td>
<td>2750.5</td>
<td>2079.8</td>
<td>23.7</td>
<td>246.0</td>
<td>134.7</td>
</tr>
<tr>
<td>Consumer Durables</td>
<td>20</td>
<td>2739.3</td>
<td>9094.2</td>
<td>12.9</td>
<td>165.2</td>
<td>-25.7</td>
</tr>
</tbody>
</table>

Sales growth has been low in sectors: automobiles, engineering, steel, chemicals, hotels, cement, power, automobile components, fertilizers.

Profit growth has been low in sectors: automobiles, financial services, drugs and pharmaceuticals, steel, diversified industry, chemicals,
hotels, cement, power, automobile components, fertilizers and consumer durables.

2.2.2 India's top twenty companies are listed below:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Hind Lever</td>
<td>1</td>
<td>26636.24</td>
<td>8528.5</td>
<td>566.7</td>
</tr>
<tr>
<td>Reliance</td>
<td>2</td>
<td>15666.69</td>
<td>13759.3</td>
<td>1567.0</td>
</tr>
<tr>
<td>ITC</td>
<td>3</td>
<td>13543.52</td>
<td>6974.3</td>
<td>526.2</td>
</tr>
<tr>
<td>Telco</td>
<td>4</td>
<td>8136.00</td>
<td>7450.3</td>
<td>294.7</td>
</tr>
<tr>
<td>Bajaj Auto</td>
<td>5</td>
<td>6773.67</td>
<td>3447.8</td>
<td>462.6</td>
</tr>
<tr>
<td>Hindalco</td>
<td>6</td>
<td>6500.42</td>
<td>1792.0</td>
<td>496.2</td>
</tr>
<tr>
<td>IDBI</td>
<td>7</td>
<td>6232.76</td>
<td>7036.9</td>
<td>1501.3</td>
</tr>
<tr>
<td>Tisco</td>
<td>8</td>
<td>6065.48</td>
<td>7129.5</td>
<td>322.1</td>
</tr>
<tr>
<td>L &amp; T</td>
<td>9</td>
<td>4693.07</td>
<td>5841.0</td>
<td>531.4</td>
</tr>
<tr>
<td>HDFC</td>
<td>10</td>
<td>3866.65</td>
<td>1463.4</td>
<td>268.4</td>
</tr>
<tr>
<td>Colgate</td>
<td>11</td>
<td>3847.12</td>
<td>961.0</td>
<td>79.9</td>
</tr>
<tr>
<td>Castrol</td>
<td>12</td>
<td>3833.56</td>
<td>1020.7</td>
<td>158.2</td>
</tr>
<tr>
<td>ICICI</td>
<td>13</td>
<td>3802.19</td>
<td>5969.9</td>
<td>588.2</td>
</tr>
<tr>
<td>Mahindra</td>
<td>14</td>
<td>3609.84</td>
<td>3488.1</td>
<td>251.5</td>
</tr>
<tr>
<td>Ranbaxy</td>
<td>15</td>
<td>3427.40</td>
<td>1333.7</td>
<td>186.1</td>
</tr>
<tr>
<td>Tata Chemicals</td>
<td>16</td>
<td>2795.29</td>
<td>1661.6</td>
<td>288.6</td>
</tr>
</tbody>
</table>

Table continued on next page
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Nestle</td>
<td>17</td>
<td>2723.49</td>
<td>1434.8</td>
<td>74.3</td>
</tr>
<tr>
<td>Ponds *</td>
<td>18</td>
<td>2656.14</td>
<td>474.4</td>
<td>61.1</td>
</tr>
<tr>
<td>Indian Hotels</td>
<td>19</td>
<td>2413.47</td>
<td>623.9</td>
<td>138.0</td>
</tr>
<tr>
<td>ABB</td>
<td>20</td>
<td>2346.32</td>
<td>1084.0</td>
<td>64.9</td>
</tr>
</tbody>
</table>

* Now merged with Hind Lever

(Source: Business Today, 7 September 1998)

Out of the top twenty, seven companies are TNCs: 5 TNCs dealing in branded consumer goods, one in branded industrial product and one TNC in engineering and industrial equipment.

Three companies are in financial sector, home financing and the like.

Rest ten companies are in petroleum, automobiles, two wheelers, aluminium, steel, engineering, pharmaceuticals, chemicals and hotel industry.

It may be noted that all the seven TNCs have been in India for several years and are not the new entrants. It is likely that several new TNCs will enter Indian industry progressively, changing the entire perspective and spectrum. Indian industry will be slowly engulfed by globalization phenomenon.

2.3 Performance of PSUs: Top Twenty

2.3.1 In 1997-98, public sector undertakings performed well. Out of the top twenty PSUs, only one PSU posted losses:
<table>
<thead>
<tr>
<th>PSU</th>
<th>Ranking</th>
<th>Sales Rs. crores</th>
<th>Net Profit Rs. crores</th>
<th>Market Capitalization Rs. crores</th>
</tr>
</thead>
<tbody>
<tr>
<td>ONGC</td>
<td>1</td>
<td>15228.8</td>
<td>2677.8</td>
<td>872.4</td>
</tr>
<tr>
<td>Indian Oil</td>
<td>2</td>
<td>359832.1</td>
<td>1706.5</td>
<td>1068.2</td>
</tr>
<tr>
<td>MTNL</td>
<td>3</td>
<td>4577.7</td>
<td>1073.0</td>
<td>5470.8</td>
</tr>
<tr>
<td>SBI</td>
<td>4</td>
<td>15878.9</td>
<td>1861.2</td>
<td>140.2</td>
</tr>
<tr>
<td>Gas Authority</td>
<td>5</td>
<td>5736.1</td>
<td>1020.3</td>
<td>NA</td>
</tr>
<tr>
<td>HPCL</td>
<td>6</td>
<td>14382.8</td>
<td>701.2</td>
<td>5008.0</td>
</tr>
<tr>
<td>BHEL</td>
<td>7</td>
<td>6466.4</td>
<td>704.2</td>
<td>2893.3</td>
</tr>
<tr>
<td>VSNL</td>
<td>8</td>
<td>6129.7</td>
<td>898.3</td>
<td>1111.0</td>
</tr>
<tr>
<td>Steel Authority</td>
<td>9</td>
<td>15127.7</td>
<td>133.0</td>
<td>723.7</td>
</tr>
<tr>
<td>BPCL</td>
<td>10</td>
<td>11833.0</td>
<td>532.7</td>
<td>2090.3</td>
</tr>
<tr>
<td>National Aluminium</td>
<td>11</td>
<td>1854.2</td>
<td>550.9</td>
<td>647.8</td>
</tr>
<tr>
<td>Hind Copper</td>
<td>12</td>
<td>846.8</td>
<td>-130.6</td>
<td>38.9</td>
</tr>
<tr>
<td>BOB</td>
<td>13</td>
<td>4617.7</td>
<td>458.7</td>
<td>1148.2</td>
</tr>
<tr>
<td>BOI</td>
<td>14</td>
<td>4405.2</td>
<td>364.5</td>
<td>NA</td>
</tr>
<tr>
<td>Neyveli Lignite</td>
<td>15</td>
<td>1474.1</td>
<td>278.6</td>
<td>179.1</td>
</tr>
<tr>
<td>Container Corporation</td>
<td>16</td>
<td>602.1</td>
<td>115.2</td>
<td>822.0</td>
</tr>
</tbody>
</table>

Table continued on next page
As can be seen, PSUs have contributed a lot to the economy and have turned in large profits to the Government treasury. However, the market capitalization is not large, indicating their 'semi-government' nature i.e. basic industrial and economic activity to develop infrastructure for the private sector.

2.4 Business Environment: Issues To Ponder

2.4.1 'Big Is Beautiful': A survey of 107 companies in 1997-98 shows that large companies have economic strength to withstand recession and economic ups and downs, but the small companies are vulnerable.
<table>
<thead>
<tr>
<th>Sales Range</th>
<th>Increase In Sales Income (%)</th>
<th>Increase In Net Profit (%)</th>
<th>No. of Companies Surveyed</th>
</tr>
</thead>
<tbody>
<tr>
<td>More than Rs. 1000 crores</td>
<td>24.72</td>
<td>32.68</td>
<td>18</td>
</tr>
<tr>
<td>Rs. 500 crore-Rs 1000 crore</td>
<td>14.82</td>
<td>32.81</td>
<td>6</td>
</tr>
<tr>
<td>Rs. 100 crore-Rs. 500 crore</td>
<td>22.00</td>
<td>25.00</td>
<td>41</td>
</tr>
<tr>
<td>Rs. 10 crore - Rs. 100 crore</td>
<td>20.00</td>
<td>11.00</td>
<td>33</td>
</tr>
<tr>
<td>Less than Rs. 10 crore</td>
<td>-9.99</td>
<td>-13.00</td>
<td>9</td>
</tr>
</tbody>
</table>

The market forces in the liberalized economy and the entry of FDI and TNCs will force Indian companies to be competitive in terms of quality, cost and operations. 'Economies of scale' will have to be achieved. Smaller companies and businesses may disappear or merge or be taken over by larger companies, proving that 'Big Is Beautiful'.

2.4.2 'Mergers And Acquisitions': Corporate focus to grow, consolidate and improve profitability by mergers and acquisitions (M & A) became evident in 1995 through 1997:

<table>
<thead>
<tr>
<th>Year</th>
<th>Acquirer</th>
<th>Acquired</th>
<th>Year</th>
<th>Acquirer</th>
<th>Acquired</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>BBLIL</td>
<td>Milkfood</td>
<td>1997</td>
<td>Bagri</td>
<td>Hind Sanfo</td>
</tr>
<tr>
<td>1996</td>
<td>BBLIL</td>
<td>Kissan</td>
<td>1997</td>
<td>Wartsila</td>
<td>NSD India</td>
</tr>
</tbody>
</table>

Table continued on next page
These are only a few cases of M & A activity in Indian industry. Several other mergers, acquisitions, takeovers and amalgamations have taken place to improve profitability, reduce competition, achieve growth and stability. The trend is new in India but it is an universal phenomenon. The trend will increase and will continue perpetually, leading to oligopoly, market concentration and monopolistic competition.

2.4.3 'Credit Ratings': Foreign credit accreditation agencies like Moody's and S and P have rated Indian corporates low. The parameters for
ratings are: liquidity position, capital, foreign currency borrowing structure and outlook of Indian economy in general. Unless Indian corporates improve their creditworthiness, TNCs will have advantage over Indian corporates in terms of financial strength.

2.4.4 'Foreign Exchange Drain': A survey of 100 large, private sector companies in 1997-98 has revealed that 37 companies imported more and exported less, thus contributing to negative trade balance of India\(^7\).

The escalating trade deficit remains the most important area of concern for the government, the worst offender perhaps was the private sector. In 1997-98, the drain was Rs. 3539 crores. In 1996-97, the drain was Rs 3483 crores.

2.4.5 'Globalization of Market Prices': Globalization induces flow of goods internationally, leading to globalization of prices in domestic markets of individual countries. Global quality, global brands and global prices are the parameters of the new international economic order (NIEO). The trend will lead to formation of a 'global market place', imposing tremendous competitive pressure on Indian industry.

2.4.6 'Large Business Under the Garb of Smallscale Industry': The investment limit in plant and machinery at Rs. 3 crores classifies smallscale industry. However, with high technology and imported secondhand equipment, many large businesses are created under the garb of smallscale industry. Such a disadvantage is taken by both large Indian companies and TNCs. Adverse impact on the smallscale sector can be in terms of deindustrialization.
3.0 STRUCTURE, CONDUCT AND PERFORMANCE:

3.1 Classification of Market Forms:

3.1.1 In order to understand the nature of industry and its interaction with national economy, it is essential to understand 'market forms', since the interaction takes place in the 'market place'. The form of the market decides the conditions that rule the entry of FDI and TNCs, the entry of large domestic businesses in the market segments, the barriers to entry (BTEs) and the future course of direction a market is likely to pursue. Strategic business policy can be devised on the basis of the market analysis.

3.1.2 Classical market forms are listed below:

<table>
<thead>
<tr>
<th>Market Form</th>
<th>Number of Firms</th>
<th>Nature of Product</th>
<th>Price Elasticity of Demand</th>
<th>Degree of Control Over Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Perfect Competition</td>
<td>Large</td>
<td>Homogenous</td>
<td>Infinite</td>
<td>None</td>
</tr>
<tr>
<td>Monopolistic Competition</td>
<td>Large</td>
<td>Differentiated, but close substitutes</td>
<td>Large</td>
<td>Some</td>
</tr>
<tr>
<td>Pure Oligopoly</td>
<td>Few</td>
<td>Homogenous</td>
<td>Small</td>
<td>Some</td>
</tr>
<tr>
<td>Differentiated Oligopoly</td>
<td>Few</td>
<td>Differentiated, but close substitutes</td>
<td>Small</td>
<td>Large</td>
</tr>
<tr>
<td>Monopoly</td>
<td>One</td>
<td>Unique, without close substitutes</td>
<td>Very Small</td>
<td>Very Large</td>
</tr>
</tbody>
</table>

* For an individual firm
3.1.3 'Perfect Competition' is generally an unrealistic concept, although certain industries like smallscale industries manufacturing components, parts and fitments of general nature for engineering industry may come close to the concept.

3.1.4 'Monopoly' is also generally an unrealistic concept in the backdrop of industrial development that has taken place worldwide. In practice, a firm controlling 33% or more market sales is called a monopolistic firm.

3.1.5 Most likely market forms are: monopolistic competition, pure oligopoly or differentiated oligopoly and a mix of these forms. These forms are called 'imperfect competition'.

3.1.6 However, 'oligopolies' are becoming an increasingly important feature of the modern economy and industrial behaviour. A small number of firms account for a large proportion of output, employment etc. Essential features of an oligopoly are:

- High degree of interdependence among the decisions of the firms
- Policy of price collusion
- Competition by product differentiation and not by price i.e. non-price competition.
- Prices well above costs.

Later in the thesis, it will be seen that formation of oligopolies will be one of the major detrimental fallouts of liberalization process.

3.1.7 Liberalization of economy and reforms in Indian industrial policy are essentially for creating competition, which may benefit consumers in
terms of quality, prices and choice. It is in this context that the market form will decide whether the expected end-results are achieved or not.

3.2 SCP Paradigm: Theory and Framework

3.2.1 In the discipline of Industrial Economics, industrial environment is studied and characterized by 'Structure- Conduct- Performance' paradigm, popularly known as 'SCP paradigm'.

3.2.2 'Structure' of an industry is judged by a parameter called 'Concentration Ratio' (CR) based on firm-sizes and market shares. 'Conduct' of an industry is judged by parameters like price collusion, non-price competition e.g. advertising, research and development, barriers to entry, excess capacity and product differentiation. 'Performance' of an industry is evaluated by its profitability, technological progressiveness, growth, capacity utilization levels, employment provided etc.

3.2.3 The SCP paradigm is an useful tool to draw conclusions about the performance of markets. More mature markets in terms of technology and consumer tastes are likely to give results closer to the reality.

3.2.4 'Market Concentration' is the degree to which a relatively small number of firms account for a significant proportion of output, employment and the like in an industry. When a small number of large firms account for a substantial share of market, the market is called 'highly concentrated'. The 'oligopolies' discussed earlier are closely related to highly concentrated markets.

3.2.5 Measure of market concentration is 'Concentration Ratio' (CR). Hirschman-Herfindahl Index (HHI) is the best known CR tool. It is
calculated by summation of squares of the output of the firm divided by total output of all firms in the market:

$$HHI = \sum_{i=1}^{n} S_i^2$$

Where, $S_i = \text{the market share of } i^{th}\text{ firm.}$

When HHI is 1.0, monopoly exists. Nearer to zero, HHI indicates perfect competition in the market place.

3.2.6 An illustration of market concentration can be given by a study conducted by US Department of Commerce, Bureau of Census in 1977.

<table>
<thead>
<tr>
<th>Industry</th>
<th>Concentration Ratio *</th>
</tr>
</thead>
<tbody>
<tr>
<td>Motor Vehicles</td>
<td>93</td>
</tr>
<tr>
<td>Cigarettes</td>
<td>NA</td>
</tr>
<tr>
<td>Organic Fiber</td>
<td>78</td>
</tr>
<tr>
<td>Aircraft</td>
<td>59</td>
</tr>
<tr>
<td>Construction Machinery</td>
<td>47</td>
</tr>
<tr>
<td>Petroleum Refining</td>
<td>30</td>
</tr>
<tr>
<td>Meat Packing Plants</td>
<td>19</td>
</tr>
<tr>
<td>Newspapers</td>
<td>19</td>
</tr>
<tr>
<td>Commercial Printing</td>
<td>6</td>
</tr>
</tbody>
</table>

* Four-Firm concentration ratios i.e. Four firms controlling more than 60% of market share.

3.2.7 One of the important findings has been that international trade affects domestic market concentration i.e. concentration ratio is reduced. Foreign competition sets an upper limit to profit margins in an
economy where imports compete with home producers over the entire range of output:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjusted to international trade</td>
<td>41.3</td>
<td>39.3</td>
<td>37.6</td>
<td>35.9</td>
</tr>
<tr>
<td>Non-adjusted</td>
<td>49.0</td>
<td>51.4</td>
<td>50.9</td>
<td>50.1</td>
</tr>
</tbody>
</table>

Average 5-Firm concentration ratios in U.K.

(Source: P.R. Ferguson, Industrial Economics, 1988)

### 3.3 SCP Paradigm: Indian Industry

#### 3.3.1 SCP paradigm and characteristics of Indian industry were studied in 1996 based on following parameters:

- MRTP definition of dominance used i.e. a market share exceeding 25% is considered to indicate 'oligopoly' instead of monopoly.
- CRs calculated for 'one firm' by averaging upto CR 4 i.e. CR value averaged by dividing by number of firms, upto 4 firms.
- One-firm CR above or equal to 6.25 is 'high concentration'.
- One-firm CR below 6.25 is low concentration.
- Data pertained to 1984.

#### 3.3.2 Findings of the study are summarized below:

- 'High concentration' industries were:
  
  Matches, batteries, asbestos cement, aluminium, cigarettes, wool: pressing and baling; brewing; leather; motor vehicles and parts; transport; insulated wires and cables; cement,
structural clay products; tyre and tubes; pulp, paper and paperboard; engraving; block making; envelope printing.

- 'Low concentration' industries were:

Hydrogenated and vegetable oils; sugar; food; cotton: spinning, weaving, composite; jute: pressing & baling; silk; copper, brass, zinc and other non-ferrous metals; locomotives, wagons, coaches; electrical appliances, machine tools and parts; industrial machinery: food and textiles; agricultural, mining, domestic and other machinery; casting and forging; metal products; drugs and medicines; paints, varnishes and lacquers; pottery and chinawares; rubber footwear; containers and boxes; plywood; glass and glass products; newspapers and books; plastic products.

3.3.3 A comparison with UK statistics indicates that CRs are lower in India:

<table>
<thead>
<tr>
<th></th>
<th>UK</th>
<th>India</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>9.86</td>
<td>6.38</td>
</tr>
<tr>
<td>Median</td>
<td>8.80</td>
<td>5.40</td>
</tr>
<tr>
<td>Maximum</td>
<td>20.00</td>
<td>28.20</td>
</tr>
<tr>
<td>Minimum</td>
<td>2.00</td>
<td>0.80</td>
</tr>
</tbody>
</table>

One-Firm equivalent CRs

(Source: U.S. Kambhampati, Industrial Concentration and Performance)

UK market structure is more oligopolistic than Indian market structure.
3.3.4 Main characteristics of Indian industry are given below:

- Concentration ratios in private sector in India are lower than those found in advanced industrial economies like UK.
- Level of concentration is significantly determined by economies of scale and market size.
- The decrease in concentration ratios in India is largely influenced by the growth of demand in the industry.
- 'Collusion' is an important factor in determining the profitability of highly concentrated industries in India. Large firms are often more efficient than the small ones.
- Profitability across industries in India is influenced by concentration ratios and by economies of scale. Industrial policy and economies of scale have been found to be the most effective barriers to entry in Indian industry.
- Strategic barriers to entry, like advertising, do not seem to be significant.
- Growth of firms is marginally higher in high-concentration than in low-concentration industries. In high-concentration industries, growth is positively related to firm's profitability.
- Mobility is lower and leadership stability is higher in more concentrated industries.
- High-concentration industries enjoy larger profit margins and their profitability tends to continue for extended periods.
3.3.5 It is clear from the above that the factors that will decide the future of Indian industry in the liberalized economic policy and in the context of FDI, TNCs and globalization are:

- Indian market is growing constantly, making it attractive for FDI, FPI and TNCs for investment in it.
- Concentration ratios are low i.e. barriers to entry are low. Large Indian companies and TNCs can enter the industry without difficulty.
- Large firms are more profitable and more efficient than small firms.
- Leading firms continue to hold leadership position in high-concentration industry and over a longer period.

3.3.6 SCP paradigm of Indian industry is an open invitation to large Indian companies, FDI and TNCs to enter into the vast and growing Indian market without barriers to entry and to consolidate, acquire, merge or takeover businesses, leading to oligopoly in due course of time. Liberalization policy will turn Indian industry and Indian market into a 'global environment', quickly and irreversibly.

4.0 ROAD-MAP FOR FUTURE ECONOMIC REFORMS:

4.1 Government of India has declared from time to time that the liberalization of economic policies and reforms will continue vigorously. Relevant recommendations made by a taskforce set up by the government are:

- Reduce government equity in banks, financial institutions and insurance companies.
• Sell non-performing assets (NPAs) of banks and financial institutions.

• Abolish Board For Industrial and Financial Reconstruction (BIFR).

• Sell real assets and aggressively disinvest from PSUs even at discounts to market prices.

• Increase disclosure norms of corporates and to align Indian accounting standards with international norms.

• Set up an Investment Promotion Board (IPB) different in form and features of Foreign Investment Promotion Board (FIPB)

4.2 The road-map is the charter of a free economy, without government controls.

5.0 SUMMARY:

5.1 The history and the present status of structure, conduct and performance of Indian industry, as established above, will provide the background to study the impact and the fallouts of liberalization policy on Indian industry.

5.2 The origin and the growth of Indian industry are traced to the Business Houses that Indian business families established. About 50 Business Houses have a significant presence in Indian industry currently. On the basis of financial analysis and the strengths and weaknesses, the Business Houses are likely to decline sharply in numbers and in terms of their role in the industry.

5.3 Sectoral growth in Indian economy is in-line with the world trends i.e. secondary sector and tertiary sector are contributing to the economy more than primary sector and the shift of emphasis from primary sector to secondary sector to tertiary sector is evident.
5.4 Market economy is expanding. Traditional industries are making way to consumer industries. Out of top 20 companies, 7 companies are MNCs of a long, established history in India.

5.5 Although the top 20 PSUs performed well, their focus remained to develop basic and infrastructure activity for the benefit of the private sector.

5.6 Changing business environment has generated new guidelines: Big Is Beautiful; Credit ratings will affect financial strength of Indian business; Mergers and Acquisition will lead towards oligopolies, Large number of Indian companies are importing more than generating foreign exchange by exports; Globalization of market prices will increase competitive pressure on Indian industry in terms of imports into India and entry of TNCs in Indian market place; Large businesses can be generated under the garb of smallscale industry.

5.7 SCP Paradigm of Indian industry clearly shows the likely face of Indian industry in near future: Large Indian companies, FDI and TNCs to generate an oligopolistic industrial structure by their entry into the market and by consolidation, acquisitions, mergers and takeovers.

5.8 'Liberalization' is 'Globalization' and all the parameters and the environment in Indian economy and Indian industry are conducive for the same presently, as examined in Chapter-1, Chapter-2 and Chapter-3.
CHAPTER-3 : REFERENCES

12. The Times of India, 17 December 1998
CHAPTER - 4

TRANSNATIONAL CORPORATIONS :
VANGUARD OF INTERNATIONAL BUSINESS DOMINATION

1.0 TRANSNATIONAL CORPORATIONS :
GENESIS AND THE ENTITY

1.1 Business History
1.2 Think Global, Act Global : Borderless World of Business
1.3 Organization : Modern Capital Structure
1.4 Mission And Operational Focus : Theory of FDI

2.0 TRANSNATIONAL CORPORATIONS :
BUSINESS STRATEGY AND BEHAVIOUR

2.1 Strategy Vehicles : International Objectives
2.2 Transfer Pricing : A Manipulative Strategy
2.3 Mergers And Acquisitions : USA Leads
2.4 Market Concentration And Barriers to Entry
2.5 Beckoning Frontiers of Technology : Future Industry

3.0 TRANSNATIONAL CORPORATIONS : PRINCIPAL ISSUES

3.1 General Impact And Economic Development
3.2 Management Issues
3.3 Human Resources Development
3.4 Special Features
3.5 Legal Issues

4.0 INDIA AND TRANSNATIONAL CORPORATIONS

4.1 FDI : Need For Forex
4.2 The Return of East India Company

5.0 SUMMARY

PAGE
122
122
123
126
128
131
131
134
135
136
139
140
140
141
141
142
142
144
144
121
CHAPTER-4

TRANSNATIONAL CORPORATIONS:

VANGUARD OF INTERNATIONAL BUSINESS DOMINATIONS

1.0 TRANSNATIONAL CORPORATIONS:

GENESIS AND THE ENTITY

1.1 Business History:

1.1.1 History of transnational corporations (TNCs) starts with American gun manufacturer Colt, building a factory in UK in 1850. By 1914, over 40 American TNCs had factories overseas, including today's well-known names like Coca-cola, Gillette, Heinz, Quacker Oats and Ford. The communications giant ITT began operating telehpone systems in Mexico, Uruguay, Argentina and other Latin-American countries in 1920s. Rapid growth of American TNCs started after second World War, beginning in 1950s. USA is hence, the home of TNC phenomenon.

1.1.2 First British TNCs developed in 1880s and by 1994, there were hundreds of British owned TNCs operating factories in Europe, USA and all over British empire. Pioneering British TNCs include Lever Brothers, J and P Conts and Dunlop.
1.1.3 German TNCs are traced to Siemens, starting a factory in St. Petersburg in Russia in 1855. By 1913, over 150 German chemical companies were active overseas.

1.1.4 The TNCs from Japan started their business when Mitsui Bussan established a foreign trade in 1876. Japanese focus on textile manufacturing in China dates before second World War. Japanese mainly concentrated on Asian countries.

1.1.5 Business history of TNCs is, thus, about 150 years old. Today's economic giants i.e. USA, Japan and Germany, were the pioneers of TNCs. It is interesting to note that some of the earliest TNCs are also the leading TNCs of today, indicating their accumulated inherent strength in business worldwide.

1.2 Think Global, Act Global: Borderless World of Business

1.2.1 New international economic order (NIEO), as discussed in Chapter-2, is in the process of globalizing world economy, led by TNCs - mainly by FDI and by international business. Globalization of capital and enterprise are the features of TNCs. Global quality, global products, global brands, global prices and global market is the fundamental business philosophy of TNCs.

1.2.2 Concept of Multinational Corporations (MNCs) is now outdated. MNCs were incorporated in a country, with main business focus being that country. However, the globalization process has changed that focus to a global market. Stages of procurement, manufacturing, assembly, finishing and sales are carried out in different locations in
different countries, as per business requirements and for economy. Capital, expertise, technology and skills have no national borders.

1.2.3 Worldwide mergers of businesses have blurred the original identities of companies operating internationally and in several countries, as can be seen from a list of top mergers and acquisitions worldwide recently.²

<table>
<thead>
<tr>
<th>Target</th>
<th>Acquirer</th>
<th>Business</th>
<th>Value * ($ billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Travelers Corp</td>
<td>Citicorp</td>
<td>Bank</td>
<td>72.6</td>
</tr>
<tr>
<td>Ameritech</td>
<td>SBC</td>
<td>Telecom</td>
<td>61.0</td>
</tr>
<tr>
<td>Bank America</td>
<td>NationsBank</td>
<td>Bank</td>
<td>60.0</td>
</tr>
<tr>
<td>MCI Com</td>
<td>WorldCom</td>
<td>Telecom</td>
<td>43.4</td>
</tr>
<tr>
<td>Chrysler Corp</td>
<td>Daimler-Benz</td>
<td>Automotive</td>
<td>35.0</td>
</tr>
<tr>
<td>Bank of Tokyo</td>
<td>Mitsubishi Bank</td>
<td>Bank</td>
<td>33.8</td>
</tr>
<tr>
<td>Nynex Corp</td>
<td>Bell Atlantic</td>
<td>Telecom</td>
<td>30.8</td>
</tr>
<tr>
<td>Ciba-Geigy</td>
<td>Sandoz</td>
<td>Pharma</td>
<td>30.0</td>
</tr>
<tr>
<td>RJR Nabisco</td>
<td>KKR Tobacco</td>
<td>Food</td>
<td>29.5</td>
</tr>
<tr>
<td>Taiyo Kobe Bank</td>
<td>Mitsui Bank</td>
<td>Bank</td>
<td>23.0</td>
</tr>
<tr>
<td>BAT Industries</td>
<td>Zurich Versi</td>
<td>Insurance</td>
<td>18.4</td>
</tr>
<tr>
<td>Capital/ABC Inc.</td>
<td>Walt Disney Co.</td>
<td>Amusement</td>
<td>18.3</td>
</tr>
<tr>
<td>McDonnell Douglas</td>
<td>Boeing</td>
<td>Aerospace</td>
<td>15.8</td>
</tr>
<tr>
<td>AirTouch Corp²</td>
<td>Vodafone Plc</td>
<td>Telecom</td>
<td>56.0</td>
</tr>
</tbody>
</table>

* Transaction Value In US $
Global identity, global customers and a borderless world of business is the operational framework of TNCs.

European companies are also creating TNCs by worldwide mergers and acquisitions. In 1998 Europeans have announced nearly 300 acquisitions of US companies for a total of US $ 143.3 billion as against US $ 38.1 billion in 1997.

Financial strength of TNCs can be seen from the data below, giving profits of some of the top TNCs from USA:

| Year : 1997 |
|------------------|-------------------|
| **Company**      | **Profits (US $ billion)** |
| Exxon            | 8.46              |
| General Electric | 8.20              |
| Intel            | 6.90              |
| Ford Motor       | 6.90              |
| General Motors   | 6.70              |

It is likely that in near future, there will be no American, German or Japanese companies, there will be only the successful, global companies.

The economic impact of TNCs on developing countries can be judged by a comparison of relative sizes of TNCs (by sales) and developing countries (by GDP).
US $ billion  

<table>
<thead>
<tr>
<th>TNCs / SALES</th>
<th>Country / GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mitsubishi - 175.8</td>
<td>Indonesia - 174.6</td>
</tr>
<tr>
<td>General Motors - 152.2</td>
<td>Thailand - 143.2</td>
</tr>
<tr>
<td>Ford Motor - 128.4</td>
<td>Turkey - 131.0</td>
</tr>
<tr>
<td>Daimler-Benz - 74.0</td>
<td>Malaysia - 70.6</td>
</tr>
<tr>
<td>Mobil - 66.8</td>
<td>Colombia - 67.3</td>
</tr>
<tr>
<td>IBM - 64.1</td>
<td>Philippines - 64.2</td>
</tr>
<tr>
<td>Siemens - 52.1</td>
<td>Chile - 52.0</td>
</tr>
<tr>
<td>BMW - 25.6</td>
<td>Bangladesh - 26.2</td>
</tr>
<tr>
<td>NEC Corp - 43.3</td>
<td>Egypt - 42.9</td>
</tr>
</tbody>
</table>

The influence TNCs can exert in some of the countries is obvious from above - in national economies, in policies and in business.

In the context of liberalization and reforms introduced in economy and industrial policy, India will have to face the TNC phenomenon squarely and fully.

1.3 Organization: Modern Capital Structure

1.3.1 Global operations and global ownership of TNCs have given TNCs a unique organizational structure and a modern capital structure. There is a clear separation of management and ownership of TNCs. The entity, TNC, is managed by professional managers, who are the 'trustees' of the enterprise. Managers' efforts and performance are recognized by the 'market-value' of the stock of the company. If the management is efficient, the stock value in stock exchanges will be high. Managers
also look forward to the financial benefits that will accrue to them and to the professional satisfaction. Maximization of stock value is, thus, the criterion of TNC management performance.

1.3.2 'Ownership' of TNCs is in the hands of 'investors'. The investors are only interested in the stock value and dividend returns on their investment. Ownership, in essence, is transient in the context of sale and purchase of stock by investors as per stock value. Investors are basically 'outsiders', who find it difficult to have complete trust in the management and believe in market value of the stock as the only parameter of the success of the company.

1.3.3 Contrast between TNCs and Indian companies is obvious. Indian management is either family-members in cases of business houses, aided by professional managers or the management is in the hands of 'promoters' of the company, aided by professional managers. There is a relatively close bond between management and ownership in Indian companies. Advent of TNCs is likely to change the organizational and capital patterns in Indian corporates.

1.3.4 Conventionally, capital structure consists of equity and debt as main components. Emergence of TNCs has led to a fundamental change in capital structure by means of diverse sources by capitalizing operating cash flows, generally called 'Slicing' as below:

<table>
<thead>
<tr>
<th>Cash Flows</th>
<th>Investors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Value of Short Term Debt</td>
<td>Stakes for Short Term Lenders</td>
</tr>
<tr>
<td>Market Value of Straight Bonds</td>
<td>Stakes for Holders of Straight Bonds</td>
</tr>
<tr>
<td>Market Value of Convertible Bonds</td>
<td>Stakes for Holders of Convertible Bonds</td>
</tr>
<tr>
<td>Market Value of Common Stock</td>
<td>Stakes for Shareholders</td>
</tr>
</tbody>
</table>
Claims on the total cash flows are divided between four groups of investors.

Capital market in India has changed a lot after liberalization of economy and financial reforms. Capital can be raised now, mainly in infrastructure projects, by pledging future cash flows. Convergence of Indian capital market with modern capital structure of TNCs is taking place gradually.

1.3.5 Arrival of TNCs will herald basic changes in Indian corporate structure - in terms of management, ownership, investment and capital market - in tune with the worldwide trends.

1.4 Mission And Operational Focus: Theory of FDI

1.4.1 'Maximization of Profits' is the only mission of TNCs. The nature of ownership and modern capital structure of TNCs, as discussed above, shows that profit is the sole motivation for their business activities. FDI is the main vehicle of TNCs for their global enterprise.

1.4.2 Five theories have been put forward to explain why TNCs prefer FDI as the main vehicle for their activities:

- **'Product Cycle Theory'** - Establish plants in countries with abundant unskilled labour rather than sell or license the technology.

- **'Firm Specific Theory'** - Reluctance to sell or license firm-specific knowhow e.g. Coca-Cola.
• 'Oligopolistic Theory': Successful firms expand, less successful firms disappear; eventually only a few firms remain in the marketplace, say 4 firms to 8 firms.

• 'Financial Advantage Theory': Return on investment (ROI) is the criterion for FDI.

• 'Country Specific Theory': Advantage a host country offers e.g. market size.

Expansion and spread of TNCs is thought to reflect that TNCs are more efficient than the national firms they displace; their efficiency gains resulting from their success in reducing costs by centrally organized marketing, production and financial activities. It is also seen that generally the cost of capital to TNCs is lower than the cost of capital of national firms.

1.4.3 Worldwide FDI flows indicate that TNCs make more investment in developed nations than in less developed countries:

<table>
<thead>
<tr>
<th>Year</th>
<th>Total FDI in US $ billion</th>
<th>Share in (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>All Nations</td>
<td>Developed Nations</td>
</tr>
<tr>
<td>1990</td>
<td>203.8</td>
<td>169.8</td>
</tr>
<tr>
<td>1991</td>
<td>157.8</td>
<td>114.0</td>
</tr>
<tr>
<td>1992</td>
<td>168.1</td>
<td>114.0</td>
</tr>
<tr>
<td>1993</td>
<td>207.9</td>
<td>129.3</td>
</tr>
<tr>
<td>1994</td>
<td>225.7</td>
<td>132.8</td>
</tr>
<tr>
<td>1995</td>
<td>314.9</td>
<td>203.2</td>
</tr>
</tbody>
</table>
In 1997, worldwide FDI was US $424 billion. A United Nations report concluded:

- FDI is clearly contributing to the increasing internationalization and integration of economies.
- 7% of global GDP is now generated by production of foreign affiliates of TNCs.
- An important factor behind the increase in FDI was the cross-border mergers and acquisitions which were facilitated by ongoing FDI liberalizations and deregulations across the world.

1.4.4 Operational focus differs from TNC to TNC and as per the economic environment where a TNC has its origin. US based TNCs operate in an entirely different manner when compared with TNCs based in Japan.

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>USA</th>
<th>Japan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Objective</td>
<td>Maximize Shareholders' Wealth (ROE)</td>
<td>Maximize Japanese Employment</td>
</tr>
<tr>
<td>Decentralization Relationship</td>
<td>Large Temporary</td>
<td>Small Longterm</td>
</tr>
<tr>
<td>Type of Risk</td>
<td>Financial</td>
<td>Business</td>
</tr>
<tr>
<td>Control of Risk</td>
<td>Disclosure</td>
<td>Interlocking</td>
</tr>
</tbody>
</table>

1.4.5 TNCs, as an entity, are the enterprises with global reach, global vision and global plans for maximizing business profits and operate in a borderless world of business.
2.0 TRANSNATIONAL CORPORATIONS:

BUSINESS STRATEGY AND BEHAVIOUR

2.1 Strategy Vehicles : International Objectives

2.1.1 Usual business strategies used by TNCs to further their global activities are:

- 'Contractual Agreements': In production, marketing, distribution and franchise.
- 'Strategic Alliances': Non-equity alliance, minority equity alliance, equity joint venture with minor, majority or equal stakes.
- 'Mergers and Acquisitions'.
- 'Greenfield Projects': In distribution, sales, manufacturing and R & D.

2.1.2 'Alliances' are used mainly for core or related businesses. 'Acquisitions' are used for core businesses. Entry into new geographic markets is by alliances; while acquisitions are preferred in existing geographic markets.

2.1.3 For forming alliances, following parameters are important:

- Choice of strong performing partners.
- Choice of partners with specific functional strengths.
- Choice of partners with compatibility and cultural fit.
- Even split of ownership, if possible, with management control.
- Plan for eventual 'buyer' or 'seller' of the business position.
• Protect strategic interests against termination of alliance and potential threats from the partners.

The aim, as can be seen, is to take full ownership or disinvestment in the business in a reasonable span of time.

2.1.4 A study based on the survey of 150 top companies with at least one partner from USA, Japan or Europe has revealed the following analysis:

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Equal Partnership</th>
<th>Majority / Minority Partnership</th>
</tr>
</thead>
<tbody>
<tr>
<td>Success Rate</td>
<td>61%</td>
<td>40%</td>
</tr>
<tr>
<td>Management</td>
<td>Autonomous or by lead partner</td>
<td>By Majority partner</td>
</tr>
<tr>
<td>Median Life</td>
<td>8-9 years</td>
<td>6 years</td>
</tr>
<tr>
<td>Termination</td>
<td>Typically acquired by partner with greater presence</td>
<td>Typically acquired by majority owner</td>
</tr>
</tbody>
</table>

(Source: McKinsey and Company Inc Presentation)

Alliances of TNCs in a country are thus only for a few years, normally less than 10 years; after which the local partners lose the business and TNCs own it fully.

2.1.5 TNCs, other than TNCs from Japan, do not have any financial participations from their respective governments. In case of some Japanese TNCs, Ministry for International Trade and Industry (MITI) helps in promoting business interests overseas. MITI encourages corporate sector and commercial banks to work together. A typical investment structure is given below\(^2\):
In this complex investment pattern, Japanese TNCs have a complete hold over their overseas ventures, aided by Japanese Government support.

2.1.6 A strategy adopted by TNCs to reduce costs of operation within their transnational network is called 'intra-firm' trade. Some operations are more efficiently carried out within different divisions of a TNC e.g. vertical integration economies, savings in transaction costs, flow of information and elimination of credit risks. This practice is also called 'production - sharing' i.e. parent and affiliates in each country contribute to the final product according to the different cost structures in the countries in which they are located

<table>
<thead>
<tr>
<th>Trade</th>
<th>1977</th>
<th>1982</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufactured goods:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Intra-firm Exports</td>
<td>40.1</td>
<td>34.3</td>
</tr>
<tr>
<td>• Intra-firm Imports</td>
<td>50.3</td>
<td>45.2</td>
</tr>
<tr>
<td>Non-Manufactured goods:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Intra-firm Exports</td>
<td>36.7</td>
<td>26.5</td>
</tr>
<tr>
<td>• Intra-firm Imports</td>
<td>36.5</td>
<td>28.2</td>
</tr>
</tbody>
</table>
Intra-firm trade, however, has a negative fallout, criticized and condemned world over - it is called 'transfer pricing manipulation'.

### 2.2 Transfer Pricing: A Manipulative Strategy

2.2.1 'Transfer pricing' mechanism is used by TNCs for intra-firm trade. It refers to the prices for internal transactions between the units of a TNC. Transfer pricing manipulation reshuffles sales and profits of a TNC to maximize profitability by crossborder transactions.

Motivations for this unethical practice are:

<table>
<thead>
<tr>
<th>Motivation</th>
<th>Action by a TNC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate profits tax savings</td>
<td>Underpricing</td>
</tr>
<tr>
<td>Customs duties:</td>
<td></td>
</tr>
<tr>
<td>• Imports</td>
<td>Underpricing</td>
</tr>
<tr>
<td>• Exports</td>
<td>Underpricing</td>
</tr>
<tr>
<td>Repatriation of profits or capital</td>
<td>Overpricing</td>
</tr>
<tr>
<td>Exchange Risk</td>
<td></td>
</tr>
<tr>
<td>• Claim in strong currency</td>
<td>Overpricing</td>
</tr>
<tr>
<td>Capitalizing machinery</td>
<td>Overpricing</td>
</tr>
<tr>
<td>Supporting claims for price increase when Government fixes prices</td>
<td>Overpricing</td>
</tr>
<tr>
<td>Responding to anti-monopoly charges</td>
<td>Overpricing</td>
</tr>
<tr>
<td>Responding to dumping charges</td>
<td>Overpricing</td>
</tr>
<tr>
<td>Mitigate claims for Wage increases</td>
<td>Overpricing</td>
</tr>
<tr>
<td>Joint Ventures</td>
<td>Overpricing</td>
</tr>
<tr>
<td>Supporting an 'infant' foreign affiliate</td>
<td>Underpricing</td>
</tr>
<tr>
<td>Enlarging market share</td>
<td>Underpricing</td>
</tr>
</tbody>
</table>
Transfer pricing manipulations are harmful to a country on account of loss in tax collection and in revenue generation.

2.3 Mergers And Acquisitions: USA Leads

2.3.1 As discussed earlier, TNCs use mergers and acquisitions (M & A) as one of the strategic business policy to enhance their global operations. The magnitude of M & A activities is very large. In 1997, USA based TNCs spent a record US $ 333 billion to acquire firms in other countries, as against US $ 275 billion in 1996. There were 48 mega-deals involving US $ 119 billion. Average crossborder purchases costed US $ 64 million per deal to USA based TNCs.

2.3.2 In 1997, USA based TNC led the M & A wave worldwide. Deals targeting American companies declined because of the strong dollar.

The reasons for the M & A surge is attributed to following factors:

- Advances in technology and increase in competition reduce a product life cycle drastically; M & A is the only way to remain ahead.
- Regulatory changes in fields like utilities and banking have unleashed major new players to crossborder investment.

2.3.3 M & A are the products of economic 'booms' or the products of a depression - prosperity sequence. The continued strong, expanding USA economy with low inflation is the 'boom' period, reflecting in USA led M & A activity in 1997 and after. Two important facets of M & A activity are:
• M & A may contribute more to size maximization than profitability.

• M & A may generally facilitate 'market concentration' phenomenon.

Liberalization of Indian economy and relaxation of M & A and takeovers regulation by Securities and Exchange Board of India (SEBI) have already unleashed the process of M & A and takeovers by Indian large corporates and by foreign companies across Indian industry. It is likely that M & A activity will gather more speed and more magnitude in near future, mainly dominated by FDI.

2.4 Market Concentration and Barriers to Entry:

2.4.1 Entry of TNCs in a country's market leads to an 'oligopolistic' market structure, reasons for the phenomenon being:

• TNCs have greater access to special assets e.g. advance technology, managerial experience, marketing knowhow and resources.

• TNCs need to maximize the profits by FDI to yield in the longer run a return abroad higher than in their home country to outweigh risks and transaction costs.

• Imperfect market structure in the host country i.e. relative absence of free competition.

• Economies of scale arising out of advanced technology.

• Limitations due to government policy on industry and trade.

2.4.2 Rivalry of TNCs in their home country extends internationally too.

Oligopoly from the home country flows into the host country in the
form of FDI. This is mainly because TNCs view the world as one
global marketplace for their business. Evidence of this phenomenon
has been seen in Canada, Mexico, Central America, Peru, Chile and
Malaysia.

2.4.3 Formation of oligopolistic market structure helps TNCs to generate
more profits. TNCs are generally more profitable than domestically
owned firms due to the advantages enjoyed by TNCs as discussed
above.

Efficiency and output per worker are greater for TNCs run businesses
because they operate in an environment of highly concentrated market
structure with advantages of modern technology, economy of scale and
product differentiation.

2.4.4 Evidence of TNCs performing better in the countries where they have
FDI can be seen from the experience in India\textsuperscript{17}:

\begin{table}[h]
\centering
\begin{tabular}{|l|c|c|}
\hline
\textbf{Company} & \textbf{BSE} & \textbf{NYSE} \\
\hline
Gillette & 102 & 26 \\
Bausch and Lomb & 60 & 17 \\
Unilever & 50 & 22 \\
Nestle & 48 & 13 \\
ABB & 34 & 13 \\
Colgate Palmolive & 32 & 26 \\
Glaxo & 51 & 38 \\
Ingersoll Rand & 27 & 12 \\
American Home & 46 & 28 \\
Procter and Gamble & 41 & 27 \\
\hline
\end{tabular}
\caption{Price-Earning Ratio}
\end{table}
2.4.5 Entry of TNCs in the market eventually leads to barriers to entry (BTEs) to domestic, local firms due to oligopoly created by TNCs. Usual BTE environment creates following impediments:

- Aggressive response by TNCs: In view of their high specific assets, high market share, excess capacity and reputation.
- Incumbent advantages of TNCs: In the form of precommitment contracts, licenses and patents learning curve effects and pioneering brand advantages.
- Substantially high exit cost anticipated by TNCs.

2.4.6 Process of liberalization of economy is not different in different countries; the process is same since essentially it globalizes capital and enterprise. Indian liberalization process, hence, will result in following fallouts, like in other countries:

- Oligopolistic market structure, dominated by TNCs
- Extension of international rivalry of TNCs into Indian market
- Higher profitability and better efficiency of TNCs as compared to local industry
- BTEs to domestic, local industry by TNCs

Indian industry will need to formulate a strategic business policy to counter the fallouts of TNCs phenomenon, for new businesses and for survival and growth of existing businesses.
2.5 Beckoning Frontiers of Technology: Future Industry

2.5.1 Competing with TNCs today or a survival and growth strategy for the present will not be sufficient for Indian industry. With their superiority in advanced technologies, TNCs are developing future technologies and future industrial format for global business in earnest. Technologies of future will alter the lives of global citizens fundamentally. Indian industry will have to plan for the future; otherwise domestic, local industry will remain a 'backwoods industry' in near future.

2.5.2 Some of the emerging technologies and their sectoral impacts are listed below:

<table>
<thead>
<tr>
<th>Sector of Impact</th>
<th>Technologies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>Genetic Engineering, Enhanced Chips,</td>
</tr>
<tr>
<td></td>
<td>Artificial Intelligence, Robotics, Imaging,</td>
</tr>
<tr>
<td></td>
<td>Advanced Polymers, Lasers, Synthetic Fuels,</td>
</tr>
<tr>
<td></td>
<td>Structural Ceramics, New Alloys, Optoelectronics</td>
</tr>
<tr>
<td>Services</td>
<td>Microcomputers, Telecommunications, Speech</td>
</tr>
<tr>
<td></td>
<td>Recognition</td>
</tr>
<tr>
<td>Agriculture</td>
<td>Tissue Culture, Remote Sensing, Monoclonal</td>
</tr>
<tr>
<td></td>
<td>antibodies, Biomass</td>
</tr>
</tbody>
</table>
2.5.3 Japan's target industries for the near future are given below:\(^{20}\):

<table>
<thead>
<tr>
<th>Year</th>
<th>Industries</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>Electric data storage safe from human errors, viruses, natural disasters</td>
</tr>
<tr>
<td>2001</td>
<td>Artificial organs not rejected by human body</td>
</tr>
<tr>
<td>2002</td>
<td>Space robots with artificial intelligence</td>
</tr>
<tr>
<td>2003</td>
<td>International digital communications network. High performance materials for space travel. Semiconductors and medicines produced in space</td>
</tr>
<tr>
<td>2005</td>
<td>Reverting cancer sells to normal cells</td>
</tr>
<tr>
<td>2011</td>
<td>Room-temperature super conductors for industrial machinery</td>
</tr>
</tbody>
</table>

2.5.4 Inherent strengths and resources of TNCs will enable them to lead the industries of future, creating monopolies or oligopolies globally.

3.0 TRANSNATIONAL CORPORATIONS: PRINCIPAL ISSUES

3.1 General Impact And Economic Development:

3.1.1 Several major issues have emerged in the context of TNCs interaction with political economy of the world and their spectrum with political economy of the world and the spectrum of their global activities. Impact of TNCs on indigenous entrepreneurship, technological capabilities and export development is yet to be established.

3.1.2 Least developed countries get marginalized in world economy and are likely to turn into 'banana republics' of TNCs.

3.1.3 TNCs have interfered with political processes of the countries, in certain cases.
3.2 Management Issues:

3.2.1 In the process of globalization, it is necessary to acquire 'global knowledge management' expertise by the local industry. However, it is unlikely that TNCs will pass on such expertise to local competitors. This will be a critical management issue for Indian industry.

3.2.2 Continued growth of TNCs is likely to classify TNCs in 'micro-TNCs' and 'macro-TNCs', with distinct requirements of management practices.

3.3 Human Resources Development:

3.3.1 Competitive dynamics of TNCs is currently based on 'technology advantage and managerial advantage' over their competitors. However, a 'jobless growth' is not in the interest of a national economy. It is essential to develop human resources as the national competitive advantage.

3.3.2 Integration of TNCs with culture of a country can be achieved by 'cross-cultural' training of local managers and expatriates. A specific effort will be necessary in this respect.

3.4 Special Features:

3.4.1 Two issues of importance are noted below:

- TNCs must contribute to development of 'renewable resources' in the country they operate, since natural resources of the country are exploited by TNCs.

- As 'services trade' increases globally, 'tradability of services' must also increase internationally.
3.5 Legal Issues:

3.5.1 Since TNCs operate worldwide, there is a need for an international framework of laws and regulations pertaining to TNCs. The legal framework will have to be integrated with local laws of a country.

3.5.2 FDI is the instrument used by TNCs for their global operations. A distinction needs to be made on a legal framework for FDI and legal framework for TNCs, as TNCs are impersonal entities while FDI is an economic process.

4.0 INDIA AND TRANSNATIONAL CORPORATIONS:

4.1 FDI: Need For Forex

4.1.1 Balance of payment crisis and trade deficits have affected Indian economy repeatedly in the past. Unless exports are more than imports, this situation will continue to plague the economy. Indian exports are meagre, about 0.5% of the world exports, despite consistent export development efforts. It is unlikely that the exports will increase dramatically and to the extent that it helps in building up a trade surplus and a healthy balance of payment position; the main reasons being:

- Quality of Indian products does not meet international quality standards.
- Small populations, advanced technologies and a Maximum Efficient Scale (MES) of production are reasons developed countries capture world markets by exports.
- Indian exports are not price-competitive in the context of Real Effective Exchange Rate (REER) i.e in comparison
with inflation in India and in the importing countries. Devaluation of Indian currency may help, REER at about Rs. 75 to Rs. 80 per US $ currently estimated, although the studies have shown that devaluation has not helped Indian exports to grow

- Studies have also shown that price elasticity of demand for Indian exports is low and lack of competitiveness and market diversification have hindered export promotion.

4.1.2 Under the circumstances, FDI is the only route to build forex quickly and in a stable manner; since FPI is a short term, transient and speculative forex flow and external debt is expensive, servicing the debt is a long term commitment and it can lead to financial crisis like the Asian meltdown in 1998.

4.1.3 Export surplus and FDI contribute to a nation's economic health, the examples being China, Japan and Germany and enable participation in global economy and prosperity on equal terms. Recognizing the need for FDI, Government of India has welcomed it and has taken steps to expedite it by quick clearances for FDI by Foreign Investment Promotion Board (FIPB) where needed and by liberal economic policies and reforms. There is no more a 'negative list' for FDI and export oriented sectors find easier access to FDI.

4.1.4 Entry of TNCs in India is now unavoidable, permanent and essential as they bring in the much needed FDI to the country, with the attendant fallouts as discussed above. TNCs are a necessary evil, as mentioned by the then Industries Minister in 1998.
4.2 The Return of East India Company:

4.2.1 Since liberalization policy has opened the doors to FDI and TNCs to enter India, the infamous East India Company announced its return to India for trading. The very cause of 200 years of misfortune of India, East India Company, is back with plans to trade in beer, porcelain, silks, spices, tobacco, tonic water, furnishing fabrics, gin and antiquities. The East Indian Company claims that its administration still forms the basis of Indian bureaucracy and that its corporate structure was the earliest example of a joint stock company. However, it will find a different India this time - modern, progressive, economically stronger, industrialized and globalized. It will have no monopoly to trade and exploit. It will have to compete and survive against efficient competition - both by Indian companies and by TNCs. The return of East India Company will warn India against the detrimental fallouts of TNCs, since East India Company is one of the earliest TNCs in the world. Its history is one of the darkest periods in Indian history.

5.0 SUMMARY:

5.1 The role of TNCs as the vanguard of international business domination and globalization is outlined above. The phenomenon of TNCs has grown over last 150 years from strength to strength worldwide. USA, Japan and Germany remain the leaders of TNCs phenomenon, since it originated. Some of the earliest TNCs remain the leading TNCs of today, indicating their sustainability and accumulated strength in business worldwide.
5.2 TNCs operate in a borderless world, with a global policy to maximize profitability. Global products, global prices, global quality and global strategy are the pillars of TNCs operations.

5.3 TNCs have acquired a global identity by mergers and acquisitions among TNCs; their original identities have been blurred. They have a unique ownership and capital structure that will herald basic changes in conventional corporate structures in tune with worldwide trends.

5.4 FDI is the main mode of TNCs entry into a national economy, with alliances and acquisitions as main vehicles of business strategy. Intra-firm trade and manipulative transfer pricing are noted features of TNCs strategy.

5.5 Fallouts of the entry of TNCs in a national economy are significant from the point of view of survival and growth of domestic, local industry. TNCs create oligopolistic market structure, dominated by TNCs. International rivalry among TNCs extends into a nation's economic and industrial environment. TNCs create barriers to entry to domestic, local industry. Due to the inherent advantages, TNCs have a better profitability and operating efficiency as compared to domestic, local industry.

5.6 TNCs will dominate the future industry worldwide by developing and exploiting frontiers of new, emerging technologies, leaving conventional domestic, local industry as a 'backwoods' industry.

5.7 Several principal issues have surfaced worldwide due to TNCs phenomenon. Impact on indigenous entrepreneurship, technological capabilities and export development is yet to be established. Marginalization of least developed countries as 'banana republics' and interference in political processes have been noticed. Other principal issues pertain to: transfer of global knowledge
management expertise to domestic, local industries; management practices of micro-TNCs and macro-TNCs; jobless growth; cross-cultural integration; development of renewable resources; tradability in services and legal international framework for TNCs and FDI.

5.8 Process of liberalization and reforms has brought India to the threshold of globalization. Entry of TNCs in India is now unavoidable, permanent and essential for the much needed FDI for a better forex environment.

5.9 Indian economy and Indian industry must understand the strengths, weaknesses, opportunities and threats arising out of TNCs phenomenon to plan and implement a strategic business policy for survival and growth and to counter the detrimental fallout of liberalization, globalization and reforms policies.

5.10 The return of East India Company, so to say, has issued a notice to Indian industry to be proactive, vigilant and plan for its survival and growth.
2. The Economic Times, 12 May 1998
4. The Economic Times, 14 August 1998
5. The Times of India, 21 August 1998
10. The Times of India, 4 September 1998
15. S.R. Reid, Mergers, Managers and the Economy (1968)
18. S.M. Oster, Modern Competitive Analysis (1990)
20. S.M. Tatsuno, Created in Japan: From Imitators to World-Class Innovators (1990)


23. The Economic Times, 10 January 1998

CHAPTER - 5

THE DETRIMENTAL FALLOUTS

1.0 THE ENVIRONMENT : THE WINDS OF CHANGE
   1.1 The Four Forces
   1.2 Unfolding Directions
   1.3 Pre-empt Casino Economy Syndrome
   1.4 Amartya Sen Speaks : Development Economics

2.0 THE DETRIMENTAL FALLOUTS :
   FUTURE TABLEAU OF INDIAN INDUSTRY
   2.1 Determinants of Entrepreneurship Spirit
   2.2 The Four Generic Detrimental Fallouts
   2.3 Loss of Ownership
   2.4 Loss of Market Share
   2.5 Loss of International Trade
   2.6 Deindustrialization

3.0 THE HYPOTHESIS : FOR ENGINEERING INDUSTRY IN
   PUNE
   3.1 Generic Detrimental Fallouts Matrix
   3.2 The Hypothesis
   3.3 Testing The Hypothesis : By Case Studies
   3.4 Survival Of The Fittest : Evolving Strategic Business Policy

4.0 SUMMARY
CHAPTER-5

THE DETRIMENTAL FALLOUTS

1.0 THE ENVIRONMENT : THE WINDS OF CHANGE

1.1 The Four Forces :

1.1.1 The first four Chapters established 'The Environment' : the current status of Indian economy, the world economy, Indian industry and the global enterprise. Characteristics of the environment are 'four forces' that will guide and transform Indian industry and business in future :

- Potential to prosperity
- New international economic order (NIEO)
- SCP paradigm of Indian industry
- Transnational corporation (TNCs)

1.1.2 The first Chapter established that India has made a remarkable progress in 50 years after independence - from economic stagnation to a vibrant, diversified, large and expanding economy. The stage is set to move on from a 'maturity' status to a 'high consumption - better living standards - globalization' status. Good macroeconomic indicators have been forecasted for the first quarter of 21st century. 'Potential to Prosperity' - the first force - has been demonstrated. Liberalization and reforms have gradually led Indian economy to the threshold of globalization.
1.1.3 The second Chapter examined the 'New International Economic Order (NIEO)' - the second force - developed worldwide during the same period of 50 years. A political economy led by USA, Japan and Germany and a monetary system decided by IMF, WB and WTO are the parameters of NIEO. Trade policy is the foreign policy and GATT, TRIMS, TRIPS, GATS define the scope of the international trade. Regional trading blocks, NTBs, VERs and OMAs are the obstacles to free trade. NIEO is the outcome of the 50 year journey of the world to globalization.

1.1.4 The third Chapter established the 'SCP paradigm of Indian Industry' - the third force. Indian market is large and expanding. Market concentration ratios are low, indicating low barriers to entry (BTEs) by large Indian businesses and TNCs in Indian market. Sectoral growth is in line with the world trends i.e. the economy has moved into secondary and tertiary sectors. Old Business Houses are on the decline. These are the positive indicators for globalization of capital and enterprise on Indian soil.

1.1.5 The fourth Chapter examined the phenomenon of 'Transnational Corporations' - the fourth force. TNCs are the vanguard of globalization and international business domination. TNCs have demonstrated a long history of sustainability, accumulated strength and an universal scope - global policy, global products, global technology, global quality. They operate in a borderless world of business with inherent advantages of better profitability and better efficiency. TNCs will lead the world by introducing emerging, new frontier
technologies. India's adoption of liberalization and reform policies is the setting for TNCs advent and entry in Indian economy and industry - unavoidable, permanent and essential for the much needed FDI. The enormity of the transformation TNCs will usher in India can be seen from following facts:

Year: 1994

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Data</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of operating TNCs</td>
<td>37,000</td>
</tr>
<tr>
<td>Number of foreign affiliates</td>
<td>200,000</td>
</tr>
<tr>
<td>Value of TNCs production</td>
<td>Exceeded world exports</td>
</tr>
<tr>
<td>TNCs contribution to world GDP</td>
<td>25% to 30%</td>
</tr>
<tr>
<td>TNCs direct employment</td>
<td>73 million people</td>
</tr>
<tr>
<td>TNCs employment</td>
<td>10% of world employment in non-agricultural activities</td>
</tr>
<tr>
<td>TNCs Control</td>
<td>60% of non-agricultural world trade and 75% of world stock of private innovatory capacity</td>
</tr>
<tr>
<td>Rate of growth of FDI</td>
<td>Higher than growth rate of world GNP and world exports</td>
</tr>
</tbody>
</table>

1.1.6 The 'four forces' of the current 'Environment' will also introduce several detrimental fallouts in Indian industry, as examined later in this Chapter.

1.2 Unfolding Directions:

1.2.1 Before analysing the detrimental fallouts, it is necessary to discuss the factors that have a direct bearing on the environment created by
liberalization policy and reforms. These factors pertain to national policy, macroeconomy and social justice. Directions are essential to guide the future course of actions.

1.2.2 Economic resources are limited and they need to be applied in activities that will ensure an overall brighter future for the country rather than to those activities that merely create an illusion of prosperity.

1.2.3 High inflation will devastate economy, benefiting traders, stockists and manufacturers but not the population in general. High inflation can lead to a numerical growth in GDP but the economy can be bankrupt. High priced imports can induce cost-push effect and inflation.

1.2.4 An integrated view of reforms must cover cultural, ethnic, village industry aspects, not only as an economic activity but as a cultural and social activity and rural development.

1.2.5 Industrial policy of future will have to promote investment in industries with attributes of dynamism, innovation and high growth, high R & D contents and economy of scale. Only such a policy will lead India to international competitiveness.

1.2.6 Paucity of infrastructure continues to hamper industrial growth. Infrastructure is the lifeline for economic growth.

1.2.7 Uncontrolled capital movement has affected many countries - Mexico, South Korea, Indonesia and Thailand to name a few. Economic meltdown can wipe out a lifetime's gains. Control on capital movement and FDI is required as a regulatory mechanism.
1.2.8 Several issues pertaining to TNCs and FDI will need to be addressed to, for example:

- Impact made by TNCs on Indian entrepreneurship, technological capabilities and on export development. Is there a significant impact so far?
- Have TNCs transferred global knowledge management expertise to local industries?
- Status of cultural integration in TNCs and local employees.
- Issues pertaining to development of renewable resources and jobless growth.
- Legal framework for TNCs and FDI.

1.2.9 These are the unfolding directions for India's integration with the world and globalization.

1.3 Pre-empt Casino Economy Syndrome:

1.3.1 Advent of unrestricted imports, FDI and TNCs can create a situation of an illusion of prosperity, but not generate domestic, intrinsic value in a national economy. Such a situation is called 'Casino Economy Syndrome' or an 'enclave economy'.

1.3.2 Vast portions of the economy remain backward and neglected, while superficial economic activity benefits FDI, TNCs and the global lenders, as a consequence of the Casino Economy Syndrome.

1.3.3 So far, India has avoided the Casino Economy Syndrome consistently and has demonstrated its industrial and economic progress.
1.4 Amartya Sen Speaks : Development Economics

1.4.1 Nobel Laureate Amartya Sen has pointed out that the lopsided economic progress can make a country more vulnerable to negative effects of globalization. "The market economy flourishes on the foundation of social development - a lesson which India has yet to learn" he said.

1.4.2 The neglect of basic education, elementary healthcare and land reforms is alarming. "The road ahead for India will depend much on the integration of different concerns such as preservation of democracy, rapid social progress and further economic changes. India has suffered, in the last half a century, from ignoring the need for such integration and the tendency to neglect social development in particular has very far reaching consequences" Amartya Sen added. More equitable sharing of social and economic opportunities is necessary.

2.0 THE DETRIMENTAL FALLOUTS :

FUTURE TABLEAU OF INDIAN INDUSTRY

2.1 Determinants Of Entrepreneurship Spirit :

2.1.1 'Entrepreneur' is a person who starts or organizes a commercial enterprise, especially one involving financial risk. 'Enterprise' is a project or an undertaking, especially one that is difficult or needs courage.

The functions of the entrepreneur are as follows :

- Supply of capital i.e. investment
- Organize production by buying and combining inputs
• Correlate output and demand

• Bear the risk involved in these activities

'Profits' constitute the income of the entrepreneur and his encouragement and motivation.

2.1.2 Entrepreneurship and enterprise are the basics of the concept of 'Firm'.

A firm is a business company. Underlying theory of the firm is that 'the firm maximizes profits'. A firm undertakes following functions:

• Decision of rate of output

• Level of utilization of inputs

• Price in the marketplace

• Maximization of profits

• Maximization of growth

Motivations for a firm are 'profits' and 'growth'.

2.1.3 Entrepreneurship, enterprise and a 'firm' constitute the fundamentals of the theory of markets. A 'market' exists where buyers and sellers exchange money for goods and services respectively. The concept of the market is the basis of 'free market economy', to which Indian economy and Indian industry are headed to in view of liberalization and globalization policies.

2.1.4 A market is not confined to any particular geographical location.

Characteristics of a market are:

• Market forces

• Market share

• Market structure

• Market supply
Entrepreneurship, enterprise and a firm maximize their 'profits' and 'growth' by balancing market forces, market structure and market supply by maximizing 'market share'.

2.1.5 The determinants of entrepreneurship spirit are, hence, following:

- Investment
- Profits
- Growth
- Market Share

These determinants are fundamental and form the basis of any entrepreneurship - by individuals, firms, corporations, TNCs or any other form of business enterprise, anywhere in the world.

2.2 The Four Generic Detrimental Fallouts:

2.2.1 The 'four forces' of the 'Environment', as discussed above, will introduce winds of change in Indian industry. India has demonstrated a potential to prosperity, coupled with a large and expanding market. It has adopted liberalization and reforms policies in-line with the world trends. New International Economic Order (NIEO) is encompassing the world economy and business policies. SCP paradigm of Indian industry is prone to entry by large domestic companies and TNCs and offers no barriers to entry (BTEs). Transnational corporations (TNCs) operate with a global identity and a global mission to maximize profits. They will find the environment conducive for investment in India, probably the last, large market on the earth.

2.2.2 How will the 'four forces' introduce detrimental fallouts in Indian industry - obviously by adverse impact on the fundamental
determinants of entrepreneurship spirit i.e. investment, profits, growth and market share.

2.2.3 'Four generic detrimental fallouts' can be identified in the context of the four determinants of entrepreneurship spirit:

- Loss of Ownership
- Loss of Market Share
- Loss of International Trade
- Deindustrialization

'Loss of Ownership' is the loss of right of possession of the business enterprise by the entrepreneur - losing out everything for which a financial risk was undertaken by making investment.

'Loss of Market Share' means denying the business enterprise its survival, growth and profitability.

'Loss of International Trade' denies the business enterprise its rightful place and participation in globalization process and global prosperity.

'Deindustrialization' is the contraction in industrial activity and in industrial economy. The contraction can take place in several forms. The four generic detrimental fallouts affect all forms of business enterprise and the nation as well.

2.3 Loss of Ownership:

2.3.1 In the context of liberalization policy, loss of ownership can occur due to following factors:
• Low barriers to entry (BTEs) to the market encourage large Indian businesses and TNCs to enter the market by takeovers, mergers and amalgamations.

• Securities and Exchange Board of India (SEBI) permits a flexible, wide-ranging takeovers and acquisitions policy, both for Indian businesses and TNCs.

• Market concentration and oligopolistic nature of TNCs operations, as examined in earlier Chapters, lead to a fierce competition in the market and consolidation of the industry.

• Extension of the international rivalry among TNCs into a new market invariably leads to market concentration and oligopoly.

2.3.2 Maximization of economic rent and profitability can be achieved by a long term interest and ownership. This is the reason why large Indian businesses, FDI and TNCs will resort to obtain ownership and control. Takeovers, acquisitions and mergers are the quickest ways to growth in business, diversification and for controlling a market. For example, several good bargains available for takeovers were identified: 197 established companies in India were available on the 'Shopping Mall' of Indian industry. These companies had good visibility and liquidity, favourable price: book value ratio, value for money, adjusted return on capital employed (Adj. ROCE) above 15% and good management. Some of the companies identified were: Advani-Oerlikon, Antifriction Bearings, Ashok Leyland, Balmer Lawrie & Co., Hindustan Motors, Indian Card Clothing, Indian Hume Pipe Co., Ion Exchange, Kilburn

It can be seen that companies mentioned above are wellknown in Indian industry and that many of the largest companies in Pune are included in the list.

2.3.3 There are several factors that lead to loss of ownership:

- 'Joint Ventures' (JVs) with TNCs start with a low TNCs equity participation, gradually increased to above 50% and upto 100% as may be permitted. In the process, Indian ownership is reduced to minority or full ownership is acquired by TNCs as the case maybe.

- 'Operational Management' may remain in the hands of the foreign partner.

- Takeover bids will result in change in controlling interest.

- Cash-strapped companies may sell-out a part or full equity.

- Control of equity over 90% permits de-listing from stock exchange, thus denying access to other investors and distributed ownership.

- In cases where companies are in economic distress, 'vulture funds' can buy outstanding debt at cheap rate and sell it to
others when economic climate improves or convert debt into equity to control the company.

- Foreign investors may start 100% owned subsidiaries in India in addition to JVs. The subsidiaries will control brands, investment and rights, while JVs will remain only the operating arms.

- Marketing rights may remain with a foreign partner.

- PSUs will privatize by sale of strategic stake, for strategic partnership.

2.3.4 Loss of ownership can occur because of the planned strategy by TNCs to buy-out a JV after 8 to 10 years, as seen in earlier Chapters. Many JVs have failed in Indian industry due to this strategy adopted by TNCs, notable among them are:\(^5\):

DuPont-Thapar, Godrej Soaps and P & G, ITC-Peregrine,

PAL-Peugeot, HCL-Hewlett Packard, Modi-Lufthansa, GEC-Alsthom-

Triveni, Godrej-GE, NOCIL and Shell and Escorts and Ford.

2.3.5 TNCs may adopt a strategy, first to supply an advanced technology and then restrict the access to it, making Indian ownership vulnerable to a forced buyout by the TNCs. Government of India has approved 5358 foreign technology agreements during 1991-97 period\(^6\). The enormity of the possible loss of ownership by Indian industry can be seen in this context.

2.3.6 Other reasons for loss of ownership are listed below:

- The liberal tax concessions, investment allowances and disguised subsidies given to TNCs by their countries of
origin make them stronger financially to capture the world business.

- 'Might of Dollar' makes Indian companies look cheap buys vis-à-vis the prospects of a large, expanding market in India. At the current forex rate of US $ 1 = Rs. 43, one can see the advantages enjoyed by TNCs in the Indian marketplace.

- Low credit ratings of Indian companies affect their capability to raise forex loans for acquiring sophisticated machinery, knowhow and advanced technology; thus making Indian companies vulnerable, financially weak and unable to withstand competition from TNCs and their strategy to achieve a status of oligopoly and market concentration.

2.3.7 'Loss of Ownership' is the first detrimental fallout of liberalization, leading to oligopoly and concentration of control and ownership in the hands of TNCs and large Indian companies, as the case may be.

2.4 Loss of Market Share:

2.4.1 In the context of liberalization policy, loss of market share can occur due to following reasons:

- Import of products at international prices, which are generally cheaper at equivalent quality.
- Import of products at an artificially low price, called 'dumping', by TNCs for capturing market.
- Import of products at a 'transfer price', lower than the market price, by TNCs.
• Use of sophisticated, high technology by TNCs to achieve scale economy, superior quality and lower price.

• SCP paradigm of Indian industry helps large, domestic companies and TNCs to achieve oligopoly and market concentration.

• Inherent advantages of better operational efficiency and better profitability enjoyed by TNCs, as discussed in earlier Chapters.

• Advantages of using global trademarks, brands and identities by TNCs.

Market share of medium and small domestic companies is, thus, eroded by TNCs and large domestic companies, as the case may be.

2.4.2 Japanese have always invested worldwide with 'market share' as the main, long term business strategy. In addition, Japanese have adopted 'better quality at cheaper rate' principle to increase the market share. Such policies have helped Japanese to capture world markets. In the long term, income from sales is manifold augmented by sale of spare parts, if the market share is large. With this philosophy, Japanese have now entered Indian industry and their ever increasing market share is already evident in industries like electronics, telecommunications, automobiles, financial services and entertainment equipment, at a loss in market share of domestic industry.

2.4.3 Other reasons for loss of market share can be:

• Ability of TNCs and large, domestic companies to achieve continuous product innovation and product improvement.
- TNCs have normally adopted the practice of encouraging their original vendors from their own country to follow them in new markets. For example, South Korea auto giant Hyundai's automotive component vendors have followed it to India by investing about Rs. 500 crore\(^7\). A host of joint ventures have been set up for this purpose.

- When a JV splits, the foreign partner may start his own business and market the products with the foreign brands and capture a market share e.g. parting ways, Timex started production and sale of Timex brand watches in India, reducing market share of Titan watches.

- A stepwise business strategy can be to import equipment or products for sale in the first stage, followed by local manufacturing supported by imports in the second stage and finally fully local manufacturing in the third stage.

2.4.4 'Consolidation' of business for market share has already started in India, mainly led by the entrenched TNCs like Hindustan Lever. Mergers, acquisitions and amalgamations are the major strategies for market share. Hindustan Lever acquired Brooke-Bond, Lipton, Ponds, Lakme and many other businesses to create a personal products and consumer products giant entity: in tea, soaps, personal care products, refined oil, atta, salt, jams and jellies, ice-creams and ketchups. 'Consolidations' are taking place in commodities and industrial products businesses; for example, Grasim Industries is consolidating
cement business by merger of cement divisions of Indian Rayon, both Birla Group companies.

Shakeouts, buyouts, takeovers and acquisitions and mergers are changing the characteristics of Indian industry - both by Indian large, domestic businesses and by TNCs - for market share, for survival, growth and profits.

2.4.5 Onslaught of globalization has also commenced. TNCs are setting up sales and distribution channels in India for products manufactured outside India. Relaxation of import policy in-line with WTO requirements has helped direct imports in India of world-known products, for example, Fedders announced their sales and distribution channel in India for their world-famous airconditioners. The strategy will result in loss of market share for domestic, local industry manufacturing room airconditioners.

2.4.6 Importance of 'market-share' for survival, growth and profitability of a business has led Strategic Planning Institute (SPI) of Europe to conduct a continuing audit to generate a databank, called Profit Impact of Marketing Strategy Data - PIMS Data - based on experiences of 3000 businesses, both in products and services. Some of the important findings of PIMS Data are:

- Return on Investment (ROI) rises steadily in-line with relative market share.
- It is difficult to make profits unless the company has one of the leading three brands.
• Quality is of very real significance in the improvement of profit performance.

• High market share and high product quality is the best strategy.

• Attempting to buy market share by marketing expenditure alone is unlikely to be successful.

• For companies with weak market share, there is evidence to suggest that increased capital intensity alone can damage ROI.

2.4.7 'Loss of Market Share' is the second detrimental fallout of liberalization, affecting growth and survival of average Indian businesses and their profitability.

2.5 Loss of International Trade:

2.5.1 In the context of liberalization policy, loss of international trade can occur on account of following reasons:

• Non tariff barriers (NTBs), justified or unjustified, by governments on account of specifications, standards or quality, as discussed in earlier Chapters.

• Rules and regulations on international trade in the framework of WTO, GATT, TRIMS, TRIPS, GATS and regional trading blocks, as discussed in earlier Chapters.

• Unjustified restrictions in the form of VERs and OMAs, as discussed earlier.
Avoidance of anti-dumping regulations by TNCs in the form of supplies from various locations worldwide, when necessary.

Trade wars, actively encouraged by governments; for example, Chinese government supporting exports of metallurgical coke\textsuperscript{10} and US government supporting exports of steel\textsuperscript{11}.

2.5.2 TNCs have advantage of their global operations in international trade.

International trade by TNCs takes forms of:

- Intra-companies trade
- Exports to various countries and imports from various countries, as normal trade.
- Use of global sales and distribution channels developed by TNCs.
- Blocking exports of domestic, local companies by TNCs network worldwide by dumping, low price tactics, by transfer pricing and by their business clout.
- Technological superiority of products in terms of quality and utility.
- By barriers to entry (BTEs), as discussed in earlier Chapters.
- Use of global brands and associated product strength and reputation.

2.5.3 Indian large businesses are also gearing up to share larger international trade, mainly the entrenched TNCs. For example, Hindustan Lever is the largest exporter of tea from India with 20% of the country's tea
exports by value. It is also the largest exporter of castor oil, supplying 23% of the world demand\textsuperscript{12}.

2.5.4 Indian must export more, possibly more than it imports, for economic strength and stability. Loss of international trade, mainly the exports, will result in forex deficit, bop crisis and bankruptcy. TNCs ever increasing global search for markets will certainly create formidable obstructions to India's international trade.

2.5.5 In the longer run, substantial imports of intermediate and capital goods and repatriation of profits, interest, management fees etc. will reduce forex earnings of the country.

2.5.6 'Loss of International Trade' is the third detrimental fallout of liberalization, leading to a weak national economy, an internationally dependent domestic industrial infrastructure, playing second fiddle to TNCs.

2.6 Deindustrialization:

2.6.1 'Deindustrialization' is the contraction in industrial activity and in industrial economy. Deindustrialization is a widespread, systematic disinvestment in the nation's basic productive capacity. It has social, cultural and political repercussions on a national scale.

2.6.2 In the context of liberalization policy, the reasons for deindustrialization can be as follows:

- Liberal imports of components, raw materials, intermediates, semi-finished or finished products etc. directly affect and reduce the viability of local, domestic small, medium or large industries and the very need for them.
• Entry of TNCs and large, domestic businesses may result in market concentration, oligopoly and driving out and closure of small and medium scale industries and financially and technically weak large industries.

• Barriers to entry (BTEs) by TNCs and large domestic businesses will prevent new entrants in domestic markets.

• Advanced, high-technology of TNCs will derive advantages of scale economy, superior quality and low prices, eliminating local competition.

• Non availability of advanced, high technology to average local industry will result in technical and commercial disadvantages and disparity and loss of market share.

2.6.3 Deindustrialization phenomenon can become manifest in the form of:

• Reduction in industrial employment.

• Non-transfer and loss of technical skills to industrial workers.

• Reduction in local, industrial expertise and infrastructure built and accumulated over last 50 years or more.

• Dissipation of industrial knowledge base.

Deindustrialization raises several serious issues. Unemployment is a problem, if alternate employment avenues are not available, which is the case in India. Decline in industrial activity will retard the national growth.

2.6.4 Effects of liberalization and globalization have been observed in advanced economies in terms of loss of employment:

13
Employment In Industrial Sector in millions

<table>
<thead>
<tr>
<th>Year</th>
<th>UK</th>
<th>USA</th>
<th>Germany</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960</td>
<td>11.3</td>
<td>22.2</td>
<td>12.2</td>
</tr>
<tr>
<td>1970</td>
<td>10.9</td>
<td>27.0</td>
<td>12.7</td>
</tr>
<tr>
<td>1975</td>
<td>10.0</td>
<td>26.2</td>
<td>11.5</td>
</tr>
<tr>
<td>1980</td>
<td>9.4</td>
<td>30.3</td>
<td>11.4</td>
</tr>
<tr>
<td>1985</td>
<td>7.8</td>
<td>30.0</td>
<td>10.3</td>
</tr>
</tbody>
</table>

As can be seen, in advanced countries, the employment in industrial sector either decreased or remained almost without growth.

2.6.5 Entry of TNCs in local industry can introduce deindustrialization in view of following factors:

- TNCs adopt a 'sales approach' i.e. less production on ground and maximum production at home.
- TNCs have a short term focus for profits rather than a long term view for development and stability.
- TNCs deploy expatriates as CEOs rather than local CEOs.
- As compared to their size and turnover, TNCs investment level is low.
- TNCs concentrate on high profit, short gestation products.

2.6.6 'Jobless growth' is a major fallout of deindustrialization as seen from the data below.¹⁴
In a period of 25 years in South Asia, growth rate in GDP is much more than rate of growth in employment.

2.6.7 For India, 'Jobless growth' and deindustrialization are serious issues, particularly because of high basic unemployment and very low sectoral employment elasticities:

### Year: 1981 - 1991

<table>
<thead>
<tr>
<th>Sector</th>
<th>Employment Elasticity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary</td>
<td>0.74</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>0.19</td>
</tr>
<tr>
<td>Construction</td>
<td>1.12</td>
</tr>
<tr>
<td>Trade &amp; Commerce</td>
<td>0.37</td>
</tr>
<tr>
<td>Transport, Storage &amp; Communications</td>
<td>0.34</td>
</tr>
<tr>
<td>Other Services</td>
<td>0.65</td>
</tr>
<tr>
<td>All Sectors</td>
<td>0.45</td>
</tr>
</tbody>
</table>
Projection of unemployment in India are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning 1990</td>
<td>28</td>
</tr>
<tr>
<td>By 2000</td>
<td>106</td>
</tr>
</tbody>
</table>

2.6.8 Other reasons for deindustrialization are listed below:

- Foreign partner may stop technology support to a JV.
- Foreign consultants may recast industry in a mode not suitable in Indian environment.
- A TNC may encourage its home country vendors to start businesses in India for supplying components to the TNC's operations e.g. Daewoo Motors and Hyundai Motors have helped their Korean vendors to come to India.
- TNCs decide on preferred clients and discontinue relationship with non-preferred clients.
- Privatization of PSUs has resulted in loss of 2.17 lakh jobs by Voluntary Retirement Scheme (VRS).

2.6.9 'Deindustrialization' is the fourth detrimental fallout of liberalization - a fallout that is so serious that it can have adverse effects on local economy and on national economy. It can wipe out all the gains of economic progress achieved by India in last 50 years. It can jeopardize global competitiveness as well as local competitiveness of Indian industry. It can result in a regress - economic, industrial and social. Deindustrialization can push India into back woods of the world economy, dependent internationally, a puppet nation without intrinsic...
value. Deindustrialization can destroy all that India built and achieved so far.

3.0 THE HYPOTHESIS: FOR ENGINEERING INDUSTRY IN PUNE

3.1 Generic Detrimental Fallouts Matrix:

3.1.1 Based on the discussions above, a matrix can be formed involving 'The Environment', the determinants of entrepreneurship spirit and the generic detrimental fallouts - in the context of liberalization and reforms:

The 'Environment' has created 'four forces' that will introduce winds of change in Indian industry and Indian economy.

The 'four determinants' of entrepreneurship spirit form the basis of any business enterprise. The 'four generic detrimental fallouts' will have adverse impact on Indian industry and industrial economy.

**GENERIC DETRIMENTAL FALLOUTS MATRIX**

<table>
<thead>
<tr>
<th>The Environment</th>
<th>Entrepreneurship Spirit</th>
<th>Generic Detrimental Fallouts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Potential to Prosperity</td>
<td>Investment</td>
<td>Loss of Ownership</td>
</tr>
<tr>
<td>New International Economic Order (NIEO)</td>
<td>Profits</td>
<td>Loss of Market Share</td>
</tr>
<tr>
<td>SCP Paradigm of Indian Industry</td>
<td>Growth</td>
<td>Loss of International Trade</td>
</tr>
<tr>
<td>Transnational Corporations (TNCs)</td>
<td>Market Share</td>
<td>Deindustrialization</td>
</tr>
</tbody>
</table>

Four Forces → Four Determinants → Four Fallouts
3.2 The Hypothesis :

3.2.1 The predictive statement of the hypothesis behind this study can now be made in a clear, precise, specific manner and in most simple terms:

"Engineering industry in Pune is vulnerable to the four generic detrimental fallouts of liberalization. A strategic business policy is to be evolved to counter the detrimental fallouts for survival and growth".

3.2.2 The environment of liberalization and reforms policies is relevant to the engineering industry in Pune.

3.3 Testing The Hypothesis : By Case Studies, Empirically

3.3.1 Verification and validity of the hypothesis are established by case studies. Eleven case studies are undertaken involving following engineering companies in Pune:

- Kirloskar Oil Engines Ltd.
- Bharat Forge Ltd.
- Kirloskar Pneumatic Co. Ltd.
- PMT Machine Tool Automatics Ltd.
- Divgi Metalwares Ltd.
- Vanaz Engineers Ltd.
- Atul Electro Formers Pvt. Ltd.
- Techno Four Pvt. Ltd.
- Mithsagar Electro Systems Pvt. Ltd.
- Efficient Machine Accessories Pvt. Ltd.
- Desai Engineers
3.3.2 Details of the case studies are presented in the later part of the thesis.

3.4 Survival of The Fittest: Evolving Strategic Business Policy

3.4.1 As in the nature, survival of the fittest is the ruling principle of economic Darwinism. Monopolies, oligopolies, restrictive trade practices, barriers to entry and globalization will weed out weak and unprepared businesses. Proactive, vigilant and strong businesses will survive by devising strategic business policies.

3.4.2 Engineering industry in Pune must take a cold, hard look at itself today to enable it taking a step in the future that presents a potential to prosperity.

4.0 SUMMARY:

4.1 In this Chapter 'The Environment' created by liberalization policy was examined based on the background discussed in the first four Chapters. Four forces of the environment were identified as: potential to prosperity, new international economic order (NIEO), SCP paradigm of Indian industry and transnational corporations (TNCs). The factors having a direct bearing on the environment in terms of national policy, macroeconomy and social justice were also examined as the unfolding directions.

4.2 'The Environment' can have adverse impact on the four 'Determinants of Entrepreneurship Spirit' i.e. investment, profits, growth and market share. Four 'Generic Detrimental Fallouts' were identified arising out of the adverse impact of the environment on the determinants of entrepreneurship spirit: loss of ownership, loss of market share, loss of international trade and deindustrialization.
4.3 The factors, reasons, situations and ways in which loss of ownership, loss of market share, loss of international trade and deindustrialization can take place were discussed in details in the context of liberalization.

4.4 The relationship between the Environment, the Determinants of Entrepreneurship Spirit and the Generic Detrimental Fallouts was distilled in the form of a 'Generic Detrimental Fallouts Matrix' in the context of liberalization.

4.5 The hypothesis behind this study is that the engineering industry in Pune is vulnerable to the four generic detrimental fallouts of liberalization and that a strategic business policy is to be evolved to counter the detrimental fallouts for survival and growth.

4.6 The hypothesis will be tested by case studies of eleven engineering companies in Pune and a strategic business policy will be evolved and recommended for survival and growth.

4.7 The study is timely, critical, essential and futuristic in view of following aspects:

- It is now 8 years since adoption of liberalization policy by India on 24 July 1991. The detrimental fallouts are becoming apparent rapidly and are likely to gather further momentum on a wider scale.

- Indian economy, Indian industry and engineering industry in Pune will enter the next millennium in few months from now, for which a long term strategic business policy is imperative.

- Engineering industry in Pune is the lifeline of Pune's economic, cultural, social and industrial existence. Detrimental fallouts of liberalization will affect Pune fundamentally.

- A step in right direction now will lead the way to future prosperity, stability and progress for engineering industry in Pune.
CHAPTER -5 : REFERENCES

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