CHAPTER 2

REVIEW OF LITERATURE

2.1 Introduction

Competitiveness, globalisation, the impact of globalisation on economies and different sectors of industries in different economies and the strategies adopted by different segments to meet the challenges opened by globalisation were all topics of research by academicians and practitioners all over the world.

2.2 Competitiveness

The world Competitiveness Yearbook published by International Institute for Management Development ranks the ability of a nation to provide an environment that sustains the competitiveness of enterprises. It covers 49 economies and analyses 314 business environment factors under four broad criteria:-

1. Economic performance
2. Government Efficiency
3. Business Efficiency and
4. Infrastructure

While they rate the factors that sustains competitiveness of industries in a country, this research work is proposed to identify the strategies adopted by an industry to Sustain Its Competitiveness In a globalised business environment.
2.3 Impact of Globalisation

Free trade, international competitiveness, world-wide market, selection of industries having competitive advantages, product adaptation etc. are the major benefits of globalisation. Technological inability, lack of innovation, technological interdependence, lack of infrastructure etc. are the challenging features of globalisation.

Increasing unequal competition, brand names, technology superiority, attractive marketing techniques etc. are the main threat for the indigenous industry.

Silva\(^9\) has studied the impact of globalisation on industrial relations and management in the book “Globalisation and the changing Face of Industrial Relations and Management”. As per the study, globalisation stimulates technology through increased competition; it diffuses technology through Foreign Direct Investment. It is also observed that competitiveness is increasingly being based on knowledge/innovation, skills and productivity. To be globally competitive Indian industries should be conscious and alert in quality, research and development, brand marketing, attracting foreign investments, inventory management, optimum utilization of resources, optimum finance mix, foreign collaborations, capacity utilization and human resource development.

2.4 Efficiency in Central Public Enterprises in Kerala.

A seminal work on the efficiency of Central Public enterprises is that of Antony (1992). An important characteristic of this study is that of an almost exclusive focus on the central government public enterprises and does not take into account companies owned by the state government. The study concentrates on the industrial and commercial undertakings in the public sector organised as companies. It excludes autonomous corporations set up under central or state laws, departmental undertakings and financial, promotional and developmental concerns. In the central public sector enterprises in India while the labour

productivity increased significantly, capital productivity showed a slight decline. This can be explained by the increase in capital intensity over time for almost all the industries. But total factor productivity showed an increase.

Among the selected enterprises in Kerala CRL showed a lower rate of value added than fixed cost, both at the current and at the constant prices. CRL showed an increase in labour productivity as well as a marginal decline in capital productivity. At the same time total factor productivity showed a decline. In CSL also the growth rate of value added is lower than the growth rate of fixed cost. The company showed a falling trend in labour, capital and total factor productivities. On the contrary, FACT showed a higher growth rate of value added than that of fixed cost. The company showed a significant increase in labour, capital and total factor productivities. A similar trend is shown by HLL. The company showed a higher rate of growth of value added than that of fixed cost. There is significant increase in labour, capital and total factor productivities. TCC also showed a higher rate of growth of value added than that of fixed cost. There is significant increase in labour, capital and total factor productivities. In sum the efficiency of central public sector enterprises in Kerala measured by the parameters capacity utilisation, profitability and productivity has been showing relatively better performance than the central public sector enterprises in India as a whole. Cochin Shipyard Ltd. alone is an exception to this. Power shortage and labour problem are the two important problems that hindered the still better performance of these enterprises.

2.5 reforms in State Public Sector Undertakings.

Study Group\textsuperscript{10} of Planning Commission conducted a study in 2006. The Study Group has collected information in respect of 747 Public Sector Undertakings and Corporations from 24 States and, the UTs of Delhi and Pondicherry. The Study Group has, in general, excluded departmental undertakings and cooperative enterprises from the purview of its study.(Para 3.30)

\textsuperscript{10} (volume 1, August 2002, Final Report, Planning Commission, Govt. of India)
During the period of planned development, a need for a review of the continued presence of the public sector in a wide range of activities has been felt from time to time. Central Government appointed several committees to suggest measures to revamp the public sector undertakings of the Centre. (Para 2.6)

In view of the growing resource crunch, it has become necessary to carry out reforms in State PSUs at a pace faster than witnessed till now to prevent further drain on resources caused by loss making enterprises. (Para 7.1)

There has been no noteworthy Committee set up for the review of the working of State PSUs at a national level although individual States have been setting up such committees especially since the mid-1980s. A Committee headed by H.K.L.Kapoor, the then Chief Secretary, Govt. of Gujarat had carried out a broad review of the State PSUs after categorising them into 13 groups. However, this Committee, which submitted its report to the Ministry of Home Affairs in 1977, was not able to suggest a financial goal for these categories of PSUs and the varying rates of return that should be earned by them. The Seventh Finance Commission, for the first time, mentioned the need for the State PSUs to earn a rate of return. The Eighth and Ninth Finance Commissions suggested a five-fold categorisation of these enterprises to develop the targeted rates of return that these enterprises should have earned. They divided State PSUs into five categories, viz, manufacturing, service and trading, financial, promotional and welfare. The suggested optimal rates of return to be earned on capital employed by these enterprises were 12 per cent, 10 per cent, 9 per cent, 8 per cent and 5 per cent respectively. (Para 2.9)

A Study on State PSUs was conducted by the Indian Institute of Cost And Management Studies & Research (INDSEARCH), Pune for the Comptroller and Auditor General of India (CAG). The data used by INDSEARCH for this study was also provided by CAG. The study covers the period between 1985-86 to 1996-97 and its State-wise reports have been submitted in October, 1998. The study is quite comprehensive but one of its major shortcomings is that while it analyses the investment and performance indicators of each State individually as well as sector-wise and has prepared State-wise reports on this basis, there
is no inter-State comparison, nor is there an All-India report prepared by integrating the State-wise reports.

Panday et al. (1997) analyses how the strategic approaches of top management team helps the turnaround of Public Sector Enterprises in India. It also details how the top managers in Public Sector Enterprises transient the conventional roles of arbitrating conflicts or dealing with day to day pressures to increasingly play the role of strategist, leader, organisational innovator and institution builder.

In the first Chapter of the book, Ramnarayan presents an overview of the organisational change in public sector enterprises. The results of a study undertaken among 22 central public sector enterprises to examine how these organisations cope with changing environment is also discussed in detail. These firms were spread all over India and were confronting a rapidly changing environment and were concerned with moves towards greater globalisation. The purpose of the study was to examine the nature of organisational process associated with effective organisational improvement or organisational adaptation.

Though this study was limited to the process of organisational improvement it addresses the attempts on adaptation of Indian public sector industries to the liberalised environment and hence throws light on many factors of competitiveness.

The study revealed six areas which were considered by the respondents as areas of strength for the Public Enterprises and eleven areas of concern. Areas of strength and areas of weaknesses in Indian PSUs are as given below:

**Areas of Strength:**  
(a) The top management is committed to a set of well-defined organisational priorities.  
(b) The new administrative systems and programmes are adopted after careful preparation and testing.  
(c) Faced with unexpected outcomes or results, key decision makers do not hesitate to make midcourse corrections.  
(d) The top managers and planners scan outside
developments for information and opportunities. (e) Leaders back up organisational change with visible support and energetic action.

Areas of Concern: (a) The Senior managers are caught up in day-to-day work and firefighting. (b) Individual functions consider their areas to be more important. (c) The junior and middle managers wishing to initiate change, experience too many organisational constraints. (d) Top managers do not make conscious attempts to sense problems/dissatisfactions at operating levels.

(e) Junior and middle level managers do not participate in organisational reviews. (f) Innovations are not rewarded and management do not review and support innovative ideas. (g) Employees are not clear about long term plans and priorities of the organisation. (h) Leaders do not learn from their colleagues and subordinates. (i) Absence of proper systems to quickly pick up global trends and non transmission of information to the concerned personnel. (j) Employee development does not receive due priority. (k) No encouragement given for differences with prevailing views and for raising fresh options and alternatives.

In the second portion of the book certain specific successful turn around programmes initiated in public enterprise/s in different countries is analysed with specific reference to the role of Chief Executives.

Among the different cases analysed, the turn around programme of Travancore Cochin Chemicals Ltd. (TCC) under the leadership of Sri T.N. Menon is also included.  (Page 69) Based on SWOT analysis the following areas were identified by T.N. Menon as key result areas.

A. Management Development and Training
B. Improvement of Plant operations
C. Maintenance Management
D. Financial discipline and cost control
E. Improvement in Industrial relations
F. Improvement in Marketing

G. Materials Management

The book details the various actions initiated by T. N. Menon for making the company successful in a short span which includes technical upgradation, cost saving measures, training programmes, incentive schemes for workers and reorganisation of finance, purchase and marketing functions. Costing and control systems were also streamlined. Direct communication with workers was another approach which was effectively utilised for bringing in the desired changes.

The major features of TCC turn around were noted as follows:

The turnaround effort was a highly energetic one and required the total involvement of top management. A wide range of actions were taken. This included efforts to diagnose the causes of decline, efforts in communicating with employees at all levels, efforts of rehabilitation and modernization etc. The turnaround however was achieved by improving work climate and strengthening the existing systems and functions rather than by major new diversifications. The chief agent of turnaround was not a technical man and not an insider. But there was relatively little reliance on outside consultants. The leadership style was one of empowering subordinates through information, training, discussions and encouragement.

The case of TCC shows how the right type of organisational leadership can regenerate an organisation that has been operating in a difficult market and regulatory situation.

2.6 Chemical Sector in India:

The advantages, Weaknesses, Opportunities, Threats and Remarkable points of manufacturing high class chemical products in India are as follows:

Advantages

- Friendly Government of India policies

11 http://business.mapsofindia.com/globalisation/india-industry
• Low cost labour
• Low and world class infrastructure
• Strong technical education
• Large number of science and engineering graduates
• Quality output
• Highly skilled workforce
• Usage of innovative process
• Good client relationships
• Huge scope for innovation
• Expansion of existing relationships
• Huge demand in overseas markets
• Availability of more technical work force
• Increased number and quality of training facilities
• Large and very fast growing Indian petrochemical market
• Huge trained talent pool
• Competitive labour cost

**Weaknesses**

• Insufficient basic infrastructure for the chemical industry
• High feedstock cost in comparison to Middle East countries
• Prevalence and use of old and outdated technology
• Synthetic fiber industry is unorganized and operates in small clusters

**Opportunities**

• Huge demand for polymer and synthetic fiber
• Great opportunity for product development
• Low consumption of polymer in comparison to global consumption rate
• Ever increasing size of domestic markets

**Threats**
Stiff competition from other regional players like, china and the Middle East countries
• Stiff rational pricing pressures
• Environmental hazards concerns
• Low market recognition
• Relocation of manufacturing sites to region with abundance of feedstock

**Remarkable points**
• It share stands at 2% of world market
• Annual rate of growth of the Indian chemical industry is 10%
• Its business is worth US$ 30 billion
• Profit incurred is around 14%
• Wide variety of products
• Basic components are petrochemicals, inorganic chemicals and fertilizers
• The Indian states of Gujarat, Maharashtra, West Bengal and Andhra Pradesh have the largest concentration of chemical and petrochemical units

The chemical industry has been traditionally been developed in protected environment. The globalisation posed several challenges to the Indian Chemical Industry. The Indian Chemical manufacturers were not globally competitive and hence they struggled to deliver quality products. Another challenge the Indian Industry faced is the environmental regulations forced by the policy makers due to the International pressure. The entry of Foreign Players like Dow Chemicals, Akzo Noble and BASF has made the Industry more competitive. The foreign players use the world-class technology which
gives both, Cost effective as well as better quality products. The import duty has been reduced after opening the economy. This has made Indian producers suffer especially, the smaller players were affected adversely. The earlier years of 21st Century saw closing of many small scale players in India. This hinted Government of India to take up initiatives such as Cluster Development approach for the Development in India. The Indian Chemical Industry faces the challenges of dumping which is also a result of Globalisation. This has made the import cheaper and local producers less competitive. This also resulted into shift of focus towards export markets for the Industry. The Lower Capital and Labour cost make Indian Exports competitive. The stringent environmental regulation in USA and Europe, the exports market for dyestuff has opened up. Indian dyestuff industry has hence seen tremendous growth in the past few years. The rise of so many small scale export oriented manufacturers can be attributed to this fact.\(^{12}\)

2.7 Globalising Indian Industries

Rajan (1998) deals with the conceptual frame work of globalisation in his book on “Study on Globalising Indian Industries – Strategies and Management”. In order to study the various aspects of globalisation he has studied 20 Indian Companies representing five industry segments and has analysed the motivation, means and management of globalisation of these companies. He has also attempted to forecast the future of globalisation process that has taken place in India at company as well as industry segment level.

Bhattacharya and Chaudhari (2000) analyses globalisation and its impact on the Indian economy, polity and society. The study brings out the unprecedented economic and technological changes unfolding in the wake of globalisation and stresses the need for coping with the new challenges and opportunities in a holistic and long term frame work.

2.8 Response of Indian Industries To Liberalisation.

Palande (2000) has analysed in detail the response of Indian industries to liberalisation. The medium and large scale industries have broadly reacted to liberalisation in two ways. Those industries which were into business just because they could get a license and thrived on subsidies with no emphasis on the quality of the product and services find themselves in a spot and face closure or take over. In contrast quality manufacturers or service providers who were willing to change their policies according to the marketability of their products or services, in face of competition were not only able to survive but showed a sharp growth.

Subramanian (2003) in his book “Regional Industrial Growth under Economic Liberalisation” reviews the trends in regional differentiation in Industrial growth and income convergence across the state regions in India during the nineties. The book also attempts an in-depth analysis of industrial development of Kerala as a case study to draw some generalisations on selected issues of the pro-market liberalisation policy constraining industrial growth of poor state regions.

The book examines in detail whether the economic liberalisation policy based on free market and open economy helped industrial growth of the initially poor state regions or reduces regional differentiation.

The book also contains a case study of Kerala state with particular significance to understand the relationship between industrialisation and regional development. Although the study was about the industry the scope was limited to the manufacturing industry and that too in the organised sector.

The study concludes that the environment created by the Central Governments paradigm shift in its basic development policy to pro-market economic liberalisation has not been as effective as anticipated in theory in promoting industrial growth of Kerala, a state which already has the enabling
condition of high levels of social and human development, during the post liberalisation era.

2.9 Impact of Deregulation on Public sector

Subramanian (2004) has studied the impact of deregulation on a Public sector firm. This paper explores the manner in which state owned telecommunications equipment manufacturer Indian Telephone Industry was affected by the radically altered market conditions brought about by the opening up of the economy and loss of its monopoly status. Through a detailed study of the impact on ITI, of the removal of entry barriers to the telecom equipment manufacturing segment, this paper considered the decisive role played by state policies in shaping the destiny of public enterprises. Apart from radical changes in the business environment and in the company's relations with its tutelary authority, a third factor critical to its health was technology. As an audit inspection report ominously warned, 'Unless the Division obtains sufficient orders or plans for diversification there will be enormous under utilization of capacity and consequent loss'

Paradoxically, although ITI had drastically pruned its workforce from 30280 in 91-92 to 19692 in 2002-03, a reduction of almost 35% mainly through VRS, its salary and benefits bill continued to show a near unbroken upward trend from the mid 1990s onwards. Between 1995-96 and 2002-03 manpower costs shot up by nearly 32% and represented on average over 22% of the company's turnover as against an industry norm of 5-7 %.

2.10 Impact of liberalisation on Kerala’s Manufacturing Sector

Rajesh (2004) in his paper on the “Structure and Growth of Kerala’s Industry during Post Liberalisation Period” analyses the contribution of the industrial sector of Kerala to the State income before and after the liberalisation of economy. Kerala with a share of 3.34% of the total Indian population accounts for only 2.19% of the gross output and Gross Value Addition (GVA) of the factory sector of Indian Industry.
In order to understand the impact of liberalisation on Kerala’s manufacturing sector, the structural change and growth of the manufacturing sector in the State was compared with that of all India for the period 1981-82 to 1999-2000. There was seven per cent increase in the food products sector in post liberalisation period compared to its share in 1980’s. In chemicals, chemical products, rubber, plastic, petroleum and coal, production has fallen in 1990. The average share of capital goods industries was also around 10% during 1980's as well as 1990's.

Phansalkar, (2005) in his book “Opportunities and Strategies for Indian Business” examines how companies have survived waves of industrial depressions. He also examines the behaviour of Indian business, during the process of economic transition underway for the last thirteen years to identify underlying patterns of conscious strategic thinking. The book also examines the relevance of the concepts of business strategy to the way Indian businesses behaved and continue to behave. The author discusses in detail the factors that lead to successful performance, as well as factors that lead to stagnation and failure of businesses in the Indian context.

2.11 Strategic Response of Firms to Economic Liberalisation

Phansalkar (2005) also refers to the thesis titled ‘Strategic Response of Firms to Economic Liberalisation’ submitted by Roy.S at Indian Institute of Management Ahmadabad in 2002. Based on a survey of 110 firms, Roy notes that Indian Industry has responded by:

Aiming for higher growth and better returns
Increasing the scale of operations
Diversifying into new products and business lines
Expanding geographically, both in domestic and export markets
Widening the product range and sharing the tangible and intangible resources across business units
He concludes the chapter on Understanding Business Response to Economic changes, narrating the behaviour of the corporate firms in the form of decisions and actions as follows:

- Introduction of new products
- Repositioning of existing products
- Changes in capacity, technology of production or logistics of production, storage and transport
- Changes in personnel policy, organisation structure etc.

Surinder Sing Kundu (2007) in his book “Market Competitiveness in New World Trade Order” attempts to elucidate the competitiveness of the Indian cotton textile industry in international market in the New World Trade Order and tries to catch the explanation to tackle the challenges before the textile industry. While analyzing the factors of market competitiveness in Chapter 3 of the book he cites various general studies taken up in India on competitiveness of which the following are relevant in the context of this study on competitiveness:

Ahuja [1998] concluded in her paper that internationalisation of the world economy created a situation in which the emergence of global village has become a reality. According to her, competitiveness is one of the major prerequisites for commercial success at the global level. In the era of increasing competition survival would depend up on product development strategies, consistent innovation and customer friendly approach. A clear understanding of the determinants of competitiveness such as identification of niche markets, technological upgradation, flexibility in design, quality, cost and delivery is vital for ensuring the greater marketability of the output at global level.

### 2.12 Industrial Performance in Kerala During the 1990’s

Akyuz et al. (1998) pointed out that the pressure of competition has led the companies to enlarge their ability to develop a creative response, and
disperse their innovations world wide. They have also observed that the global competitiveness requires the simultaneous optimisation of scale, scope and economies in factor cost along with the flexibility to cope with unforeseen changes in exchange rate, taste and technologies. Effective configuration and co-ordination of assets and capabilities of company resources can also be helpful to achieve the competitiveness at global level.

The study also indicates that the liberalisation policies of 1990’s do not seem to have an effect on diversification of production structure of Kerala industries.

Regarding employment generation also, the study indicates a concentration in few industries during the 1980’s which increased during the post liberalisation period as well.

From insignificant growth in the 1980’s to highly significant growth of 20% per annum in the 1990’s was recorded in food sector which is the highest variation observed between two periods in individual industries.

The overall growth rate of employment in Kerala has increased from relative insignificant in the pre-liberalisation period to a significant 2.5% in the post reform period.

While examining the trends in the working climate in the Kerala industries the study found that the man days lost due to industrial dispute showed a decreasing trend during the 1990’s.

The study concludes that although the industrial performance in Kerala during the 1990’s has not been favourable in terms of the output growth, particularly in the factory sector, but it has been relatively favourable in terms of employment growth as well as the growth of informal and small scale sectors.

2.13 Conclusion

The above studies have covered the impact of Globalisation on Indian economy, the strategic response of Indian industries to liberalization, the impact of deregulation on public sector, opportunities and strategies for Indian business, market competitiveness in the new order and how industries
responded to the pressure of competition. There were also studies on reforms in state public sector undertakings taken up by the planning commission, efficiency in central public sector undertakings in Kerala and advantages and threats for Chemical Industries in India consequent to liberalization and the challenges to which they are open to as a result of deregulated environment.

However no serious attempt has been made in any of the above studies to trace the specific strategies adopted by the Industries in Kerala especially those in the Public sector to face the challenges of the liberalized economy or to build up competitiveness in the liberalized economy. There are no studies taken up so far covering the Chemical industries in Kerala. This study proposes to identify the strategies adopted by public sector Industries in Kerala in the Chemical sector to face the challenges of the liberalized economy.