CHAPTER -1

INTRODUCTION

1.1  Introduction

Indian economy underwent an unprecedented transformation as part of its endeavour to open a gate way to the global environment. The adoption of the New Economic Policy in 1991 in order to stabilise and restructure the Indian economy marked this opening. The new economic policy of the Government of India has brought in drastic changes in the Indian economy. The basic tenets of the policy of liberalisation and globalisation are market orientation, global competition, efficiency and transparency.

In order to boost domestic growth India had been practicing a number of restrictions ever since the introduction of the first industrial policy resolution of 1948. Hence it was necessary on the part of the government to withdraw these restrictions to provide conducive conditions of undeterred economic activities when it was decided to globalise Indian economy. Under the process of liberalisation India has moved in that direction by withdrawing some of the impeding restrictions and introducing certain conditions to ease the cord of restrictions so that business firms and individuals from other countries may be induced to operate their business in India, while Indians can operate abroad.1

The liberalisation of economy has exposed the Indian companies, which were under protection for over decades, to the process of globalisation. Prior to this some Indian companies considered it a prestige to export their products. After liberalisation they had to extend their operational canvass to other nations and had to improve their efficiency and quality to suit the global standard, in order to face the challenges of globalisation.

Deregulation of industry brought drastic changes in the corporate environment which witnessed unprecedented competition, rapid technological changes, higher employee expectation, active share holders and uncertainty. Multi

1.  S.C.Davan (2001) Competing is Easy
National Corporations (MNCs) were allowed free access to India for manufacturing and marketing of their products.

The Indian industries were forced to challenge competition from multinational corporations in providing quality products and services, both in India and abroad. Indian industries were used to an environment which lacked competition, an inner monopolistic market and a demand exceeding the supply position. Economic liberalisation demanded Indian Industries to change their priorities to face global competition. In order to survive in the global free market, industries had to cut down costs, increase efficiency, improve quality and reduce manpower.

The impact created by the new economic order has forced Indian business organisations to make various strategic responses. The advance of globalisation has led to debates in economics about the impact of the same on business in general and industry in particular.

Liberalisation had opened up new markets across the globe but few among the Indian companies only picked up the opportunity to explore this market. At the same time there are quite a few of them including Public sector enterprises like Bharath Heavy Electricals Ltd., Indian Oil Corporation Ltd., Bharath Earth Movers Ltd., etc., who did capture global markets through appropriate strategies and the right move at the right time.

To succeed in the new environment companies had to bring new insights into understanding the customer who is becoming increasingly demanding new and more customer friendly products of better quality at optimum price.

In the changed global business environment no company without a well framed business strategy to face the challenges of the liberalized economy could succeed in its operation. The successful companies are the ones who could identify and build up their strength vis a vis their global competitors for retaining their share of business.

In order to meet the challenges that have been thrown up by these changes, many industrial organisations responded by changing their portfolios of
businesses, products, markets, capital and even business units. Further, better technology, improved operational and managerial efficiency and full capacity utilisation were to be ensured. Some companies have entered into strategic alliance or collaborations with others to gain access to new technology, new products and new markets. This requires new processes, techniques and technologies to ensure that costs are being continuously reduced. The successful strategies included pro active steps in all areas of operation from production to manpower utilisation to market identification to sales recovery, resulting in improved profitability.

These and similar responses that made the industries in Kerala to remain competitive in the changed economic order is the topic of this study.

1.2 Globalisation

Globalisation implies undeterred business operations, transactions and interactions between firms and individuals from within the country and from abroad in a global manner. It means that the countries on the globe must provide facilities, conditions, opportunities and legal provisions for the economic activities to be carried out by individuals, business firms and economic entities without impeding restrictions.

The economic aspects stressed in globalisation are trade, investment and migration. The globalisation of trade entails that human beings have greater access to an array of goods and services never seen before in human history. From German cars to Colombian coffee, from Chinese clothing to Egyptian cotton, from American music to Indian software, human beings may be able to purchase a wide range of goods and services. The globalisation of investment takes place through Investment, where multinational companies directly invest assets in a foreign country, or by indirect investment where individuals and institutions purchase and sell financial assets of other countries. Free migration
allows individuals to find employment in jurisdictions where there are labour shortages.2

Globalisation of business is viewing one’s business in a global perspective in terms of outlook and technology offering products or services, maintaining quality of global standards and satisfying the need of a global environment.

The wave of globalisation has been driven by policies that opened economies domestically and internationally. Governments have also negotiated dramatic reductions in barriers to trade and have established international agreements to promote trade in goods, services and investment. The process of liberalisation had maximum impact on industries, as it had drastically changed the business environment and future growth dynamics.

1.3 Globalisation and Indian Industries

The process of globalisation enables business enterprises in developed countries to develop new markets, to achieve new expertise, and to increase efficiency to global levels.

Flexible business policies of companies enable them not only to reach out to untapped market areas and countries but also in responding to business challenges in tune with the market conditions. Such companies only will be able to explore and open avenues for market expansion and to ensure continued profitability. Before the economic compulsion to face global competition, Indian companies hesitated to enter into the global market for fear of demanding quality standards and made minimum investments on building competitiveness to operate in a flexible market.

There are many companies which accepted the new challenge and extended their business abroad. Globalisation provided greater opportunities for Indian companies with vast Indian market, cheap production base, and with large influx of capital and technology by global players.

2 http://www.answers.com/topic/trade
Each industry’s contribution to growth in the economy’s output is measured by growth in the industry’s value added. Countries and regions can take advantage of globalisation and regional integration, in terms of higher levels of specification and large niche markets for their products, only if they are ready to face the competitive lead of innovating countries with the accelerations of their own rate of introduction of new technologies in a well defined direction, in terms of output elasticity, one which impugns upon their specific factors endowment and is able to make the best use of it.

The Indian manufacturing sector accounts for a little over 15% of the country’s economy. The share of manufacturing in India’s GDP has fallen in the last few years. It was more than 18 per cent in 1995-96, but has declined thereafter. The share of the public sector too, declined during 1990-95 after stagnating in the second half of the eighties. The importance of the chemical sector in India’s manufacturing sector has been on a continuous rise—its share in GVA has expanded four times from just five per cent in 1980-81 to close to 23% in 1999-2000. Together with rubber, plastic and petrochemicals, the sector accounts for 30% of manufacturing in India.

The budgetary support to public enterprises was drastically cut down, forcing them to improve their performance. Many areas reserved only for Public Sector was opened to private sector also. Public Sector disinvestment commission was set up to formulate policy on Public Sector Investment. Also, the Govt. while maintaining the public character of PSEs enabled privatisation of their equity to generate funds for supporting other infrastructural works.

1.4 Competitiveness

Competitiveness is essentially a concept that gains greater relevance in the presence of international competition. More open foreign trade offers a country’s consumers the option to source their requirements from overseas producers if they are more competitive on price and/or quality than the

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3 World Development Indicators, World Bank Report 2009
4 Cristiano Antonelli(2003) The Economics of Innovation, New Technologies and Structural Change
5 ET Knowledge Series 2005
domestic suppliers. It also provides nations/regions with scope to specialise in those activities, in which they are the most competitive. Thus, a country can choose to import all its cars and export its software, if its competitiveness structure suits that. Competitiveness is also a dynamic concept. “Competitive strength cannot be permanent. It’s not that we have it in 2001 and don’t revisit it till 2011”

“Analysing a nation’s competitiveness requires that the underlying factors influencing the competitiveness of individual firms and industries be examined”. (Porter, 1990) “Firms become more competitive by creating value through cost leadership or product differentiation.” (Porter, 1980) “More specifically, technology, attributes of purchased inputs, product differentiation, product economies, and external factors are primary sources of competitiveness” (Harrison and Kennedy, 1997)

Competitiveness is relative – an industry has to be competitive relative to its counterparts in the other countries; and it also needs to be competitive relative to other industries in its national economy. One must also distinguish between competence and competitiveness. While the former is an absolute concept, the latter is relative. By enhancing its productivity, an industry could gain competence; but it would have to do so faster than its competitors to achieve competitiveness. Broad measures, such as market share and profitability, provide useful insights into overall competitiveness. The individual sources of competitiveness provide information with respect to specific strengths and weaknesses. Measured together, they provide information regarding the strengths to be maintained and exploited or the weaknesses that are prime targets for improvement. As countries or firms gain advantage through the various sources of competitiveness, relative market share and profits increase. An economy’s growth is measured by the change in the volume of its output or in the real incomes of residents. The 1993 United Nations System of National

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6 S Ramachander, Director, Institute of Financial Management and Research, Academy for Management Excellence.
Accounts (1993 SNA) offers three plausible indicators for calculating growth: the volume of Gross Domestic Product (GDP), real gross domestic income, and real gross national income.

1.5 Approaches to Competitiveness

Many writers have attempted to provide a holistic definition of competitiveness. For instance, Organisation for Economic Cooperation and Development (OECD) defines competitiveness as “the ability of companies, industries, regions, nations and supranational regions to generate, while being and remaining exposed to international competition, relatively high factor income and factor employment levels on a sustainable basis.”

Competitiveness based merely on factor endowments like availability of natural resources or cheap labour is often viewed as “lower order” competitiveness, which could be vulnerable to the discovery of new locations of similar competitiveness profile or intervention of new technologies.

The issue of competitiveness has been the subject of much economic debate for over a decade now. One can look at competitiveness at various levels – at the individual corporate firms' level, at the industry level and at the economy level. However, these three are not isolated. The competitiveness environment in which its industry and the national economy operate would determine a large part of an individual firm’s competitiveness. On the other hand, the competitiveness of an industry or an economy would be partly explained by the initiatives and innovations of individual firms.

“A firm’s product competitiveness is important than the cost competitiveness, in achieving the non price dimension of a competitive advantage. These dimensions or micro-environment factors involve design of product, quality of product, punctuality in delivery, and service facilities. Especially significant are innovations that differentiate the firm’s product and give some monopoly element for the firm’s products.”

7 Surinder Singh Kundu(2007)/Market Competitiveness in New World Trade Order
“With rapid globalisation and increasing market-orientation of organisations and institutions, has finally come the realisation that businesses can sustain themselves and grow, only if they are competitive.”8

A number of sources influence competitiveness. These sources can be grouped into two categories namely those that affect the firms relative cost of production and those that affect the quality or perceived quality of its products or business enterprise. Broad measures such as market share and profitability provide useful insights into overall competitiveness. From an international perspective competitiveness is reflected by the ability to profitably gain and maintain world market share. The factors which influence competitiveness manifest themselves through the indicators of competitiveness. These can be categorised through two general types of measures 1) those related to profitability and 2) those related to market share. In order to evaluate the current competitiveness of the public sector units in Kerala this study proposes to analyse the various factors related to profitability only.

1.6 Statement of the Problem

De-regulation of industry as part of economic liberalisation brought drastic changes in the corporate environment which witnessed unprecedented competition, rapid technological changes, higher employee expectations, active shareholders and continuing turbulence and uncertainty. The Indian industries were suddenly opened to challenges from international organisations in providing quality products and services. Indian Industries reacted differently to the above challenges. Many major and minor industries responded positively and reorganised their activities in different ways like increasing production, improving quality, cutting costs, re-orienting marketing functions and by downsizing. There are other industries which did not respond to the challenges or responded slowly and are facing threat of sickness or closure.

The business environment in Kerala remained static but for the changes in the economic environment consequent to the liberalisation policy of the

8Mukesh Ambani, MD, Reliance Industries as quoted in ET Knowledge Series 2005 pp24
Government of India. The drastic changes in the economic policy of the Government of India which affected the business environment had also influenced the functioning of the business organisations in Kerala. Both the traditional as well as the modern industries had undergone drastic changes, both planned as well as accidental. Many industries which flourished in the pre-liberalisation scenario started showing symptoms of downfall whereas many other industries which were limping in the pre-liberalized business environment started showing signs of progress. So was the case with the traditional industries where some of the major players improved their working performance whereas the tiny units lost their relevance. Many major industries both in the private and public sector which were rated as the major players in their field of activity in Kerala had to either close down their business or are running in their skeletal form. Examples are industries like Aluminum Industries Ltd., Travancore Electrochemical Industries Ltd., Indian Aluminum Industries Ltd. KELTRON, Salycylates and Chemicals, Kerala State Drugs and Pharmaceuticals, TATA PHONE, HMT, etc. Those did survive or turn around irrespective of the unprecedented changes in the business environment includes companies like Cochin Shipyard Ltd., Kochi Refineries Ltd., Hindustan Newsprint Ltd., Malabar Cements Ltd., Kerala Minerals and Metals Ltd., Travancore Titanium Products Ltd., HLL Lifecare Ltd., Excel Glasses, MRF, Apollo Tyres etc.

Industries in Kerala responded differently to the challenges opened up by the new economic scenario. Many industries in Kerala especially those in the Public Sector, which were making profits and were healthy started showing signs of sickness whereas some other industries could retain their level of competitiveness or could improve their performance in the new environment.

The purpose of this study is to identify those strategies successfully adopted by Industries with special reference to the public sector industries in Kerala for remaining competitive in the liberalised economic environment.

The various factors that contributed for the overall success of the industrial enterprises were identified by the researcher on the basis of literature study and also from own experience of working in various public sector enterprises in
the state. These factors included technical capability of plant, volume of production, quality of products and long term investment on research and development. The initiatives of the Public Sector Enterprises in manpower reorganisation, involvement of employees at different levels in the overall activities of the company and the effectiveness of the communication system in creating awareness among the employees about the challenges of the new economic order, were also identified as major factors that could contribute to competitiveness.

The strategies adopted by the different industries needs examination for replicating the same in other industries for the successful turnaround in case of declining industries and for strategic adoption in the new and proposed industries. Hence it is proposed to study the factors that contributed for the competitiveness of those successful industries and the factors that affected the decline of nonperforming industries.

1.7 Objectives of the Study

Main objective of the study is to identify the specific strategies that were adopted by public sector undertakings in Kerala to retain their competitiveness in the liberalised economic environment.

Specific objectives of the study are;

1. To analyse the performance of the selected public sector undertakings in Kerala with special reference to their capability to survive and develop in changing economic scenario.

2. Identification of specific strategies like technology updation, quality improvement, productivity factors, marketing strategies, use of Information Technology and focus on Research and Development adopted by the industries in Kerala to meet the new challenges.

3. Tracing the impact of the strategies and the extent of achievement of competitiveness

4. To make recommendations based on the study regarding strategies suitable in Kerala context.
1.8 Hypotheses of the Study

Based on the literature review and the knowledge gathered by the researcher with his experience in working with Public Sector Undertakings in Kerala the following hypotheses were formulated for the study:

1. Technology is one of the important determinants for the success of a firm as well as the economic and social development of a nation. Hence it is hypothesised that technological improvements contribute for the competitiveness of an industrial undertaking.

2. Sustainable competitiveness of an industry stems from its productivity - how efficiently the industry applies itself to the factors of production. In order to be competitive in a global market, the productivity norms are also to be balanced with global standards. Hence it is hypothesized that by enhancing its machine or labour productivity an industry could gain competitiveness.

3. The introduction of innovations and new technologies play a major role in changing the efficiency of use of inputs and hence output levels as per unit of input. Hence is hypothesized that the use of Information Technology tools enhances competitiveness.

4. The firms that succeed in global competition will be those that maintain an edge in product quality as demonstrated by their quality certificates. Hence it is hypothesized that improvement in quality contributes to competitiveness.

5. Implementation of VRS is a strategy widely used to curtail production expenditure on wages and to weed out employees with outdated and inappropriate skills. Hence it is hypothesized that manpower restructuring enhances competitiveness.

6. Having a separate marketing and distribution system, doing direct marketing of products and formulating a focused marketing strategy are critical factors for competitiveness. Hence it is hypothesized that marketing orientation contributes to competitiveness.
7. Research and Development efforts are a major contributing factor for the sustained competitiveness of any business organisation in the liberalized environment where innovation and creativity can only provide competitive edge over others. Hence it is hypothesized that *the substitution of key technology through upgradation based on in-house R&D effort enables the organisation to build competitiveness.*

1.9 Research Design

The methodology adopted for the study is described as under

1.9.1 Nature of the study

The study is analytical and descriptive in nature. The data regarding various initiatives of the industries covered under the study was collected through questionnaire and analysed for the correlation with profitability of the Unit.

A descriptive evaluation of the various actions taken by the six public sector enterprises from its inception and also the new initiatives after the liberalisation of the economy is made on the basis of the information gathered from the senior managers and top executives of the companies.

1.9.2 Selection of Units and Data Collection

The comparable public sector industries in chemical sector in Kerala were selected for this study. There are 11 industries in Chemical Sector in Kerala. Out of this six industries were selected. The remaining 5 industries were excluded since three units namely Kerala Soaps & Oils Ltd., Kerala State Detergents & Chemicals Ltd., and Kerala State Salycylates and Chemicals Ltd. are not functioning and one organisation namely Kerala State Mineral Development Corporation Ltd., is not into commercial activity and another public sector namely, the Pharmaceutical Corporation (IM) Kerala Ltd., stands apart from other industries because of the uniqueness of their products. The following six chemical industries were selected for the study.
1. The Kerala Minerals & Metals Ltd.
2. Kerala State Drugs & Pharmaceuticals Ltd.
3. Malabar Cements Ltd.
4. The Travancore Cements Ltd.
5. The Travancore Cochin Chemicals Ltd. and
6. Travancore Titanium Products Ltd.

A pilot study was taken up in TTP, Trivandrum. Based on discussions with the senior managers the questionnaire was prepared and the same was tested to assess the relevance of the answers collected through the questionnaire. Based on the data collected in the pilot study the questionnaire was validated and was used for collection of data.

The study made use of both primary and secondary data

The primary data regarding the performance of these undertakings and the strategic responses adopted by them were collected through interview of senior executives of the selected companies using structured questionnaire. Data was also collected through discussions with the current and former Chief Executives of the company and also from the top Management Representatives.

Data regarding various initiatives of the individual enterprises were collected from ten senior executives from each company to ensure validation of the collected data and also to ascertain whether it was a group decision taken by the management team and also to identify whether it was a planned intervention by the management.

Secondary data were collected from the Review of Public Enterprises in Kerala published by The Bureau of Public Enterprises, Government of Kerala for the period 1995-96 onwards and from the Balance sheets of the companies.

Data pertaining to the various performance parameters of the selected units like annual turnover, profit, rank among the top ten profit making companies, the ratio of receivables to sale and the number of employees are collected and
presented in tables. Details like annual expenditure on Research and Development, exports, foreign exchange earnings etc. are also collected from units where it is available and presented in tables. All the above data are graphically presented in figures.

The data collected from senior managers representing the various companies were analysed on the basis of the six selected factors namely technology, productivity, information technology, Research and Development, manpower restructuring and marketing strategies and are also presented in tables.

**1.9.3 Period of the Study**

The study is based on data collected for the period from 1995-96 to 2007-08

**1.9.4 Analysis of Data**

Data are presented in tables for comparison between profit making and loss making Public Sector Enterprises. The significance of the selected factors on the competitiveness of the units covered under the study is discussed on the basis of the result of chi-square analysis. Comparative analysis and evaluation of the result in respect of the profit making units and loss making units are also presented.

**1.9.5 Operational Definition of Concepts**

For the purpose of the study the following concepts are operationally defined as under:

a. Technology factors: The type of technology, frequency of upgradation of the same and the speed with which new technologies are adopted and implemented.

b. Productivity factors: Improvements in machine or labour productivity implemented through in production of new equipments and machinery or process changes and productivity agreements.

c. Information Technology: Use of IT tools for faster and accurate response to business challenges as indicated through the level of
computerization, application of Enterprise Resource Planning tools and e-commerce activities.

d. Research and Development: Research and Development indicates development of new or improved products or efforts for the same and improved manufacturing process to gain cost advantage or efforts for the same and setting up facilities for indigenous Research and Development activities.

e. Manpower Restructuring: Restructuring of human resource through outsourcing or implementation of VRS and is indicated through the extent of outsourced labour utilized and the number of contract employees engaged for routine activities.

f. Marketing Strategies: Building of brands for products and brand loyalty and the efforts taken for marketing of the products and also the strength of marketing department with capability to improve market share of the products.

1.10 Scope and Limitations of the Study

This study is focused on the various factors that affected the competitiveness of the industries in Kerala in the changed economic environment. We have data available on competitiveness indices which talk about the national economy’s capability to produce growth on a sustained basis. The present study concentrates on the factors that are likely to affect the performance of the selected industries and not on the environmental factors that shape the competitiveness of industries.

The objective of the study is to identify and analyse the different strategies adopted by the industries to remain competitive in the post-liberalised economic era. It was decided to limit the study among the Public enterprises in Kerala for the following reasons:

1. Kerala is having the maximum SLPEs.

2. Similarities in management policies, capabilities, business philosophy etc., since all of them are controlled by the Government of Kerala.
3. The easy availability and access to data regarding various performance parameters.

4. The relevance of success in PSUs in the overall economy of the State.

Public Sector Enterprises in Kerala in the chemical sector were selected for the study for the following reasons.

a) Since the 112 PSEs in Kerala are classified into 14 categories by the State Bureau of Public enterprises, one sector is chosen for the purpose of comparative study.

b) Comparable industries are available in the chemical sector.

c) External and environmental factors and market conditions are similar and hence comparison of strategies adopted by them will be more logical.

Since the categories vary from development and infrastructure to chemicals, engineering, electrical, plantation, traditional, welfare agencies etc., it was found not advisable to compare the different categories of industries. It was decided to select similarly placed industries for a comparative study between profit making and loss making enterprises in the same sector so that the external and environmental factors will not justify differential strategies adopted by the selected industries. Comparable industries were available among the chemical industries in public sector in Kerala and hence the study was limited to the chemical industries.

1.11 Organisation of the Study

The study is presented in seven chapters. The first chapter gives an introduction to the study covering the statement of the problem, objectives, hypotheses, research design and scope and limitations of the study. Review of Literature covering previous studies undertaken on similar and related topics are given in chapter two. The third chapter details the process and impact of globalisation measures, and the liberalisation of Indian economy. The fourth chapter analyses the role and functioning of the public sector industries in India. The fifth chapter presents profile of the six industries covered under the
study. The sixth chapter contains analysis of the collected data from different industries. The last chapter concludes the study furnishing the summary, findings, suggestions and the scope for further research.

1.12 Conclusion

Liberalisation of economies has been one of the important underlying factors fostering competition in the industries. The Corporates no longer enjoy the advantages of protectionism. Research evidence is limited and cannot provide an overall generalization concerning the impact of a given structure on a firm’s growth and profitability. This is partially because growth and profitability are functions of many other factors such as market and economic conditions, political and legal conditions and the firm’s monopolistic leverage in the given markets. The organisational effectiveness in fact is more a function of a capability of underlying organisational strategies which have a far greater impact on the competitiveness of a firm. In order to sustain the efficiency in the long run, the firms need to possess a sustainable competitive advantage.

This study is proposed as an attempt to assess the process followed in the selected industries to develop a strategy for building sustainable competitive advantage.