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STRATEGIC INNOVATORS

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Strategic Innovators

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Entrepreneurship & Private Investors

INSIDE THIS ISSUE

"I have always been driven to buck the system, to innovate, to take things beyond where they've

Sam Walton, Founder
Wal-Mart (1918-1992)

A N I I P M I N T E L L I G E N C E U N I T P U B L I C A T I O N

DARE TO DREAM; STRATEGICALLY! INNOVATIVELY!

Strategic Innovators

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Innovating India

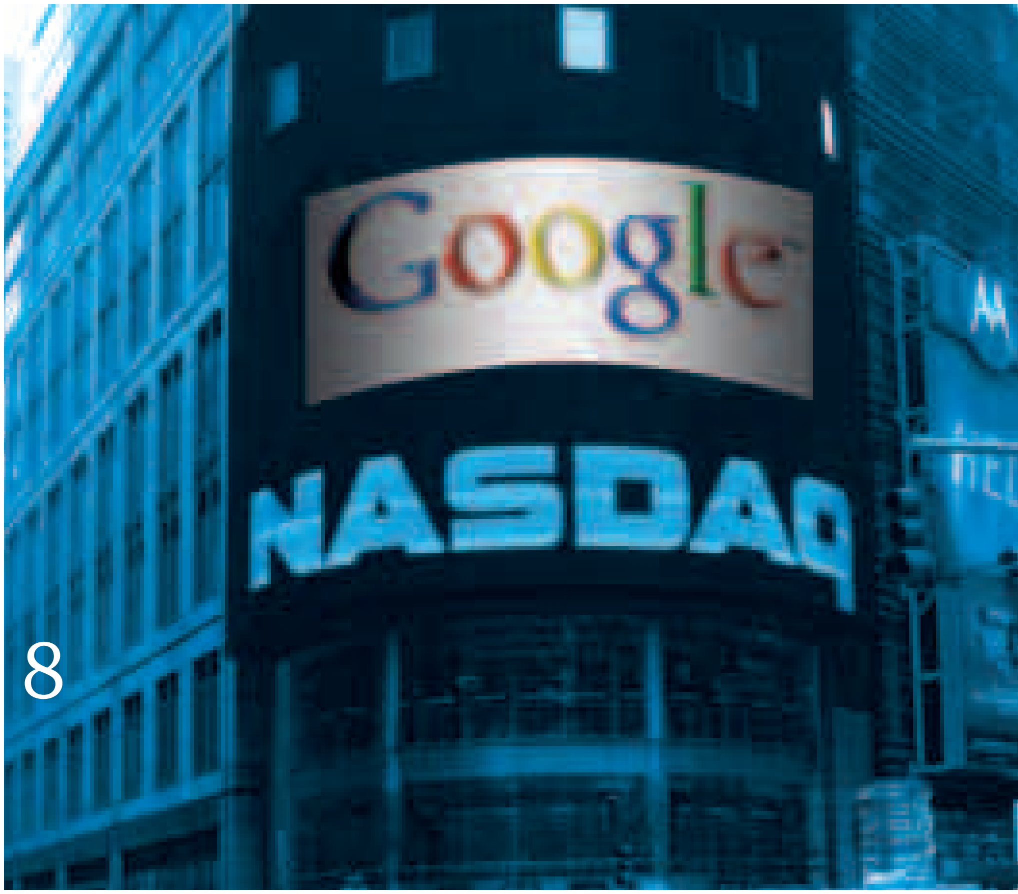
If there were a question on what could be the most important strategic innovation India could have hoped for, the answer, surprisingly though, would lie at the conflux of the corporate world and Indian society. Over the past ten years, IIPM's research has shown how Indian organizations have competed with panache with global leaders who have come to India and abroad, and amassed massive wealth, not only for their shareholders, but also for their management in terms of free cash.

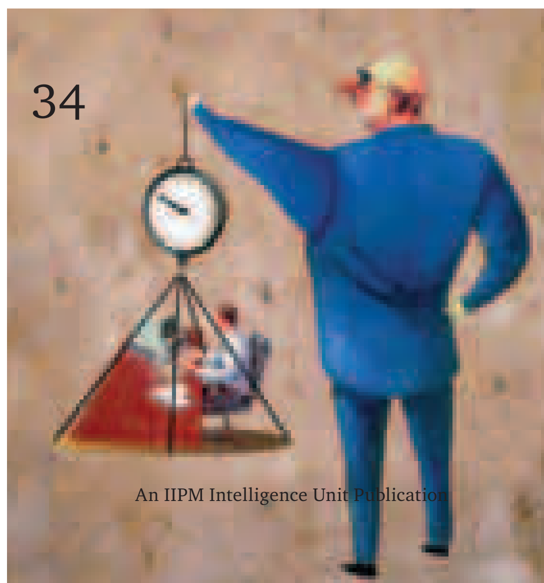
One simply cannot ignore companies like Wipro, Ranbaxy, Infosys, Bharat Forge and Dr. Reddy's laboratories while talking about India Inc.'s success globally. Ranbaxy hailed as the true Indian MNC today totally survives on foreign markets. More than 80% of revenues for Ranbaxy come from abroad. Infosys the "global leader in IT and Business consulting" with 98% of its revenue coming from outside India, is the perfect example of success of Indian companies abroad. Dr Reddy's laboratory is the first Pharmaceutical Company to be listed in NYSE from Asia. Bharat Forge, the 2nd largest forging company in the world and the largest Indian exporter of auto components is another glaring example of success of Indian companies on the global arena. This Indian corporate juggernaut is almost untamable.

Indians are a fortunate bunch; fortunate because they have been blessed with various governments since independence, that have more or less been thoroughly unsuccessful (deliberately though) in supporting any corporate advancement or social development through macro national economic initiatives; again, fortunate because this deliberate abstinence of successive governments has forced, India Inc. on one hand, to learn the tricks of growth by itself, and on the other, *Society Unincorporated* to fend for survival by itself. But unfortunately, the growth patterns have remained skewed and limited to only few firms and industries. It would not be cynical to state that this growth cannot be sustained if it is not scaled across the length and breadth of this country. And for all selfish reasons if India Inc. needs to grow at current levels in future too, then it has to be an active agent for overall development.

So it becomes a strategic imperative for the India Inc. that they on a continuous basis should engage themselves in various levels of development. India, (by both default and design) already possesses the advantage of being a young economy. And if this youth is well educated and healthy, fired with an entrepreneurial spirit it can go a long way to give India and its companies an indubitable competitive advantage. But to create this competitive advantage, perhaps today India Inc. is more competent and capable than ever before. Today it is equipped with all essential resources, but what it lacks is a collective and integrated initiative backed by a broad based vision. Interventions are required at micro-levels to create a reservoir of educated, healthy and employable human resource to offset any future growth impediments. Without any further deliberation, the corporations of India should necessarily take up the responsibility of ensuring that they give back to India, what India has given to them. It won't be long before rest of India joins in; but then, the first step is the toughest. And that first step of private initiatives in this development process, unarguably, is the most critical strategic innovation India could hope for, now more than ever!

Content





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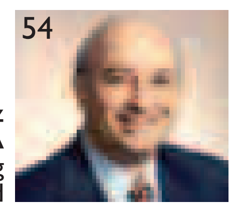

54


72


78


87

Welcome to the Google Economy!!!

Google seeks to change the status quo...

by Virat Bahri, IIPM DELHI

The Google story

Is it Bubbledotcom again? A company that was started by two students seven years ago with initial capital investment of $1 million has turned a Giant Killer. A lot has been said about the dotcom bubble burst and about how overvaluations ultimately lead to correction in the stock market. Three quarters of growth and Google market valuation touched just above 80 billion, and its shares have tripled in value on the New York Stock Exchange, ever since it went public in September, 2004. In the process, it achieved another distinction-that of overtaking Times Warner (valued at $78 billion) as the world's most valued media company. Hey then, is it time to raise a toast to the dotcoms again?

History

Google was started in September 1998 by Larry Page and Sergey Brin, graduates from the Stanford University. The objective was to solve the major problem of computing - how to retrieve relevant information from a huge reservoir of data; in short the search engine. Although it started in beta version, it was answering around ten thousand search queries a day by the time the company was officially launched. By February 1999, Google was answering around 500000 queries a day and was fast moving up as one of the top Internet companies of the world.

By June 1999, Google had managed to acquire a second round of funding and boasted of an illustrious Board of Directors including Mike Moritz (Sequoia), John Doerr (Kleiner Perkins) and Ram Shriram, CEO of Junglee. In September 1999, the beta tag was removed.

When Google started as a search engine, the first strategy it employed was a valuable innovation in search engine technology known as page rank. The link 'I am feeling lucky' connected the user to the most frequently viewed web page for the search words he keyed in.

Google continued to grow by acquiring clients like AOL, Virgilio and VirginNet. Enhancements continued unabated on search engine technology like Google directory, search via wireless and search engines in different languages (a global perspective). In May 2000, Google was awarded the Webby Award and the People's Voice Award for technical achievement. By 2000 end, Google was handling around a 100 million search queries everyday.

In 2001, Eric Schmidt, head of Novell, was appointed CEO of Google. The search queries now touched 200 million and Eric introduced the paid search advertising concept to Google. The system meant small text ads that did not irritate the user and pay per click advertising, a boon for advertisers since they now had to pay to Google only when their link was clicked by the Internet User. The technology - called AdSense - works thus: Advertisers create their own advertisements, give keywords to Google that link to their product/service and the advertiser pays when the subscriber clicks on the link. This represented a major 'thumbs up' for Internet based firms over traditional media like radio and television where the advertiser has to pay a flat fee irrespective of how many people listen to or view their advertisement.

The first strategy it employed was a valuable innovation known as page rank

Adsense resulted in a rise in revenue, but invited trouble from Overture (later taken over by Yahoo) which claimed that the technology behind Adsense was an Overture innovation. Google finally made an out of court settlement by giving Yahoo seven million shares, worth around $230 million, to resolve the matter.

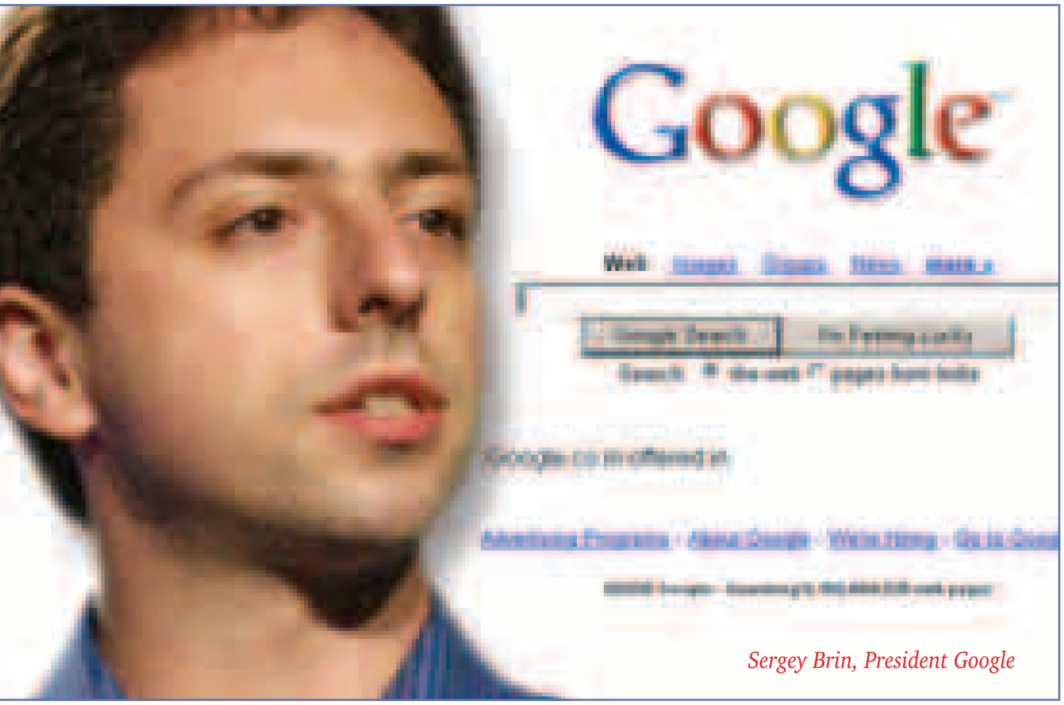
One of the few companies to survive the dotcom crash, Google steadily grew in advertising revenues, and further developed its search engine algorithms, adding features like Google Image search, Google News and Google Catalogs search. But Google faces tough competition from Microsoft and Yahoo, which have literally vowed to end Google's domination of the search engine space.

Google went public in September, 2004 and since then its share price has tripled. Revenues for Quarter 4 of 2004 reached a staggering $1.032 billion, a rise of 101% over the previous year. For Quarter 1, 2005, Google's net profits reached 369.2 million, or $1.29 a share, from $64.0 million last year, a 600% increase in profit. The gross Revenue nearly was $1.26 billion from $651.6 million in Quarter 1, 2004.

Too much growth burst the bubble

During dotcom boom time, Sun Microsystems was traded at $64, or 10 times its annual revenues. Sun chief executive Scott McNealy's analysis of the stupidity of his own shareholders after the crash makes for an interesting read. In 2002, he said:

"At 10 times revenues, to give you a 10-year payback, I have to pay you 100% of revenues for 10 straight years in dividends. That assumes I can get that by my shareholders. That assumes I have zero cost of goods sold, which is very hard for a computer company. That assumes zero expenses, which is really hard with 39,000 employees. That assumes I pay no taxes, which is very hard. And that assumes you pay no taxes on your dividends, which is kind of illegal. And that assumes with zero R&D for the next 10 years, I can maintain the current revenue run rate. Now, having done that, would any of you like to buy my stock at $64? Do you realise how ridiculous those basic assumptions are? You don't need any transparency. You don't need any



Sergey Brin, President Google

footnotes. What were you thinking?"

The meteoric rise of Google's profits and shareholder value is liable to be viewed with suspicion; the agonising memory of the dotcom bust is still very clear in the minds of people. The difference of course is stark: In the dotcom bubble of 2000, the valuations were based on the dumb eyeballs, now Google's growth is clearly on the basis of revenues; so in that sense some rationalisation has already happened.

In a Washington Post interview in 1999 Sergey Brin said, "Larry Page and I had a fundamental philosophy when we started Google - the user is never wrong. Other search engine developers would tell us "that query is too general" or "this query is poorly formed". We try to answer all queries well".

Going by the success of Google the strategy seems to have worked well. But when a company with revenues of around $3.19 billion is valued today at over $80 billion and compared to the likes of Times Warner, one of America's traditional media giants, it can be a cause for a lot of speculation. However, Google, for a company that's just seven years old, has an appreciable revenue base compared to Times Warner, which recorded revenues of $10.3 billion in the First Quarter of 2005.

Ian Carrington, Google's head of vertical markets, has stated on record that Easyjet spends £18,000 a day on Google advertisements, which explains the projected revenue of $5 billion for Google by the end of 2005.

There will be many analysts prepared to write an obituary in such circumstances for the share growth. But what is surprising is that the bear philosophy is present most predominantly within Google itself. The company admits that its competitors are gaining heavily in every aspect of the business. Also, Google admits that inexperience of the international market is going to cost it dearly and it is also going to face pressure on margins due to recruitments it needs to make to handle the supersonic growth. A case in point is Google News, which attracts 7 million users a month whereas its competition, Yahoo attracts 25 million users.

> "Larry page and I had a fundamental philosophy when we started google - the user is never wrong"
>
> *Sergey Brin, President Google*

Google's tiff with Wall Street

Google has been criticised for not helping in the rationalisation of the share value. A majority of companies listed on Wall Street advice shareholders against overvaluation to avoid the eventuality of the expectation catching up with the more realistic value. As a company whose core business is enabling access to information, Google is not exactly very informative when it comes to its own financials and stock valuations!

Moreover, Google's rise is bad news for Wall Street. The fee it gives to its underwriters is just 3%, rather than the market rate of 7%. On the other front is their conflict with underwriters. The undervaluing technique that underwriters employ for the benefit of investors (with whom they have long term relations) is a key aspect of their long term growth potential. The undervaluation technique, coupled with careful control of supply, ensures that the shares are bound to grow in the initial period at least. Investment bankers reward the top heads of companies with such shares and get prospective business in return.

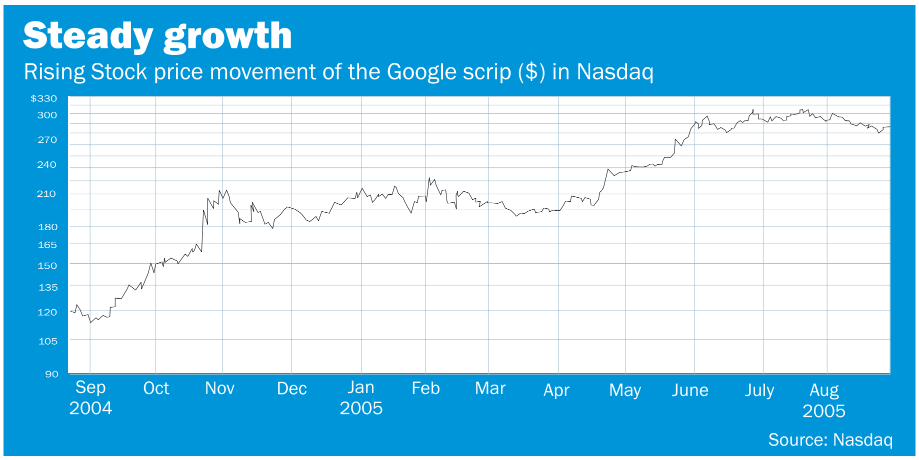
Google on the other hand has gone the auction way. The investors have had to bid for the shares in terms of price they are willing to pay and number of shares they are willing to buy. In this method, the average lowest bid price (LBP) is the approved price. All those who bid above the LBP have to end up paying the LBP. The catch is, all those who bid below LBP get nothing. In their public auction, Google reserved the right to increase the number of shares, thereby reducing the leverage of underwriters and investment bankers alike. So if Google succeeds – like it seems to be – more IPOs are sure to go the auction

The higher Google has gone, the more it has invited intense competition in its business.

way; and if does not – that doesn't seem to be happening though – the old method is the way to go.

Advertising on net: a brilliant idea

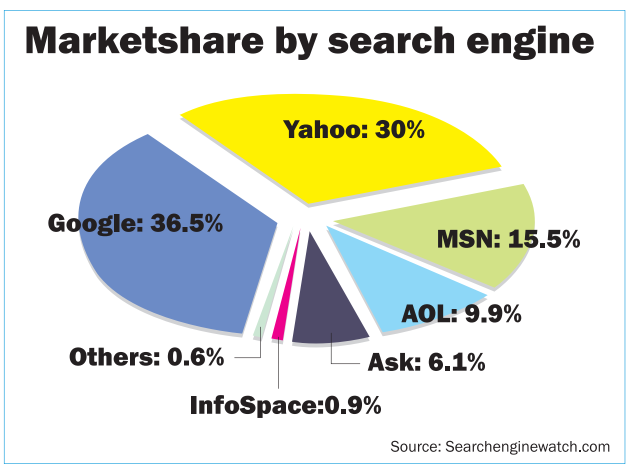
The ad revenues of Google and Yahoo registered record growth in 2004; and so did the industry. This indicates that internet search-based advertising is indeed the next paradigm shift for the industry.



The graph shows the market share of Google vis-à-vis competition in search engine space. Although Google is still the leader, the competition is indeed catching up. However, the buzz word is not growth, but stability. Top line growth is great, but an expanding company has to make huge investments in manpower, new offices, R&D and other related areas to maintain growth. Also, the dotcom industry is such where change is constant: The higher Google has gone, the more it has invited intense competition in its business. Since Yahoo and Microsoft have endeavoured to dethrone Google, it is for sure going to have difficulty in maintaining a definite rate of return to its shareholders. The market is bound to grow, and hence competition for advertising revenues, Google's mainstay, is going to intensify. Even the traditional media companies will expectedly fight to get back their share of the advertising space.

Gmail – a search engine in your mailbox

Google's core competence is search engines, which is not hard to duplicate, or better. All it needs is a better algorithm and a few overzealous researchers; the market will eagerly produce investors for the same, MSN and Yahoo being obvious contenders. The 'quality' of search is the differentiator. The company which provides a better search mechanism wins. Already Google's share of online searches is falling, though it is still above 50% in the US market.



These were perhaps a few considerations which Google had in mind when it launched the GMail – Google's e-mail facility with 2 GB of storage space – so you may never have to delete another message. Google has committed to offer 1 GB of space additionally to users annually. Currently the service is free of charge.

GMail is positioned as a huge reservoir of information that lasts the user's life, possibly even beyond it. Hence Google has included the search engine technology to help users search e-mails. The product also brings out personalised services, which has mammoth potential. If this works out well, Google will turn into a dream haven for advertisers all over the world. However, a key concern is privacy for users, and this is likely to inhibit growth. Froogle, another product of Google is a search for product comparisons on the web. Another key area which is currently small but potentially big is specialised search and analyses. However according to its CEO Eric Schmidt, Google does not have any plans for the same. Google currently operates on scale and not on niche markets. That in a way could be a drawback in the long term. Since search engine as a technology is replicable, Google must have alternate revenue streams.

In that sense, Google now will mean not only 'search' but also 'communicate' to the customer. In the long term, Google proposes to utilise its scale of operations in its search function (where it currently surpasses the competition) for the success of Gmail. But as a growing company, it has to control irrational investor valuations, which threaten to rebound on these investors and on the company as well. But if Google's past is any evidence to go by, Google should surely manage to achieve even irrational and impossible valuations. Well, didn't somebody define achieving the impossible as 'Vision'? ■

With cases of security breaches owing to customer disloyalty like the Mphasis case and the Karan Bahree case, the sunrise industry of offshoring in India seems to be under dark clouds. **By Asif Ahmed,** IIPM DELHI

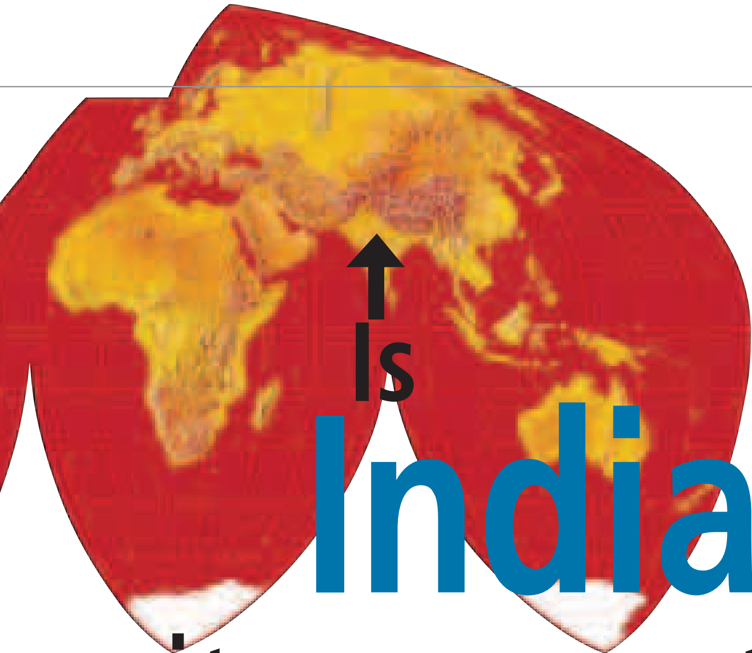
India has emerged as the preferred destination for business process outsourcing (BPO). In the outsourcing world, it is hailed as "the back office of the world." The importance of outsourcing can be judged by the fact that it became an election issue in the US elections.

Business process outsourcing strategically refers to outsourcing of non-core activities of a firm. When this outsourcing moves to a third party servicing company beyond the home country's shores, such a third party is called an "Offshore BPO." India holds around 80% market share globally of this offshore market. According to International Data Corporation (IDC) estimates, the BPO boom is expected to be as big as $1 trillion by 2006. India has been a dominant player in the offshore BPO market. But amidst tight competition from countries like China and Mexico, India's BPO is losing its competitive advantage, and at present is plagued with high attrition, poor infrastructure, price wars, regulatory tangles and increasing commoditisation of services.

A recent report of Gartner, the international research firm, predicts that India is likely to lose its market share in offshore BPO from the present 80% to 55% by 2007. Gartner's forecast is supported by The Associated Chambers of Commerce and Industry of India (ASSOCHAM) which also states that India's dominance in offshore BPO might be short-lived. Currently, much of the offshore work comes from the US. With other countries also trying to offshore their work, the pie will get bigger in the future. In 2002, offshore-BPO spending was $1.8 billion, of which India accounted for $1.2 billion. During 2003, India earned an estimated $2.3 billion, representing more than 80% of the global market. According to Gartner, offshore BPO spending is projected to grow to $24.2 billion by 2007, of which India will account for $13.8 billion, i.e., 57%. It is clear from the above that while India's offshore BPO earnings are set to grow in absolute terms, its market share will drop considerably from the position it presently enjoys.

Raison d'être

Has India lost its cost competitiveness and availability of skilled labor? Or does it not have sufficient infrastructure? The main reason for this downward shift is not that India is losing out, but other countries are realising their potential as attractive destinations and are working towards making

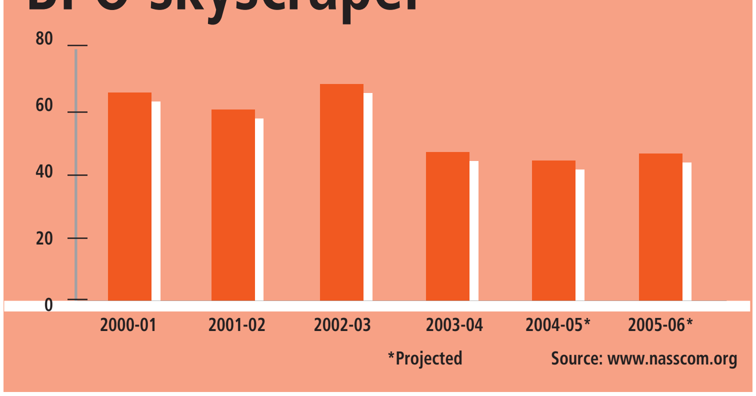


Is India losing its competitive edge in Outsourcing?

it even better. Of late, other nations such as Indonesia, Ireland, Philippines, Mexico, Ghana, South Africa, Malaysia, Mauritius, Thailand and China have realised the potential of this sector in job creation and revenue generation and are gearing up to compete for their own share in the market. These countries are working on several fronts such as upgrading their language (English) skills and infrastructure facilities, so as to compete better. China already has an upper hand in providing infrastructure when compared to India. Mexico and Canada are preferred destinations because of their geographical and cultural proximity to the US. Countries like the Philippines, Mexico, and Canada also have a sizeable number of English speaking people, thereby removing the language barrier.

Moving ahead, India could lose out due to its single-minded focus on the English language. India does not have sufficient people who speak non-English foreign languages such as Spanish, French and German. The cost of procuring language specialist manpower is extravagant. With the offshore BPO work growing globally, and UK and the European countries offshoring their work, the share of non-English work is set to rise in the future. When this happens on a large-scale, it could prove to be a hindrance for Indian companies. Other nations with foreign language skills will be able to take away specific businesses relating to this multi-language area. Indian BPO companies, such as ICICI OneSource, iGate Global Solutions, Progeon, Technovate and others offer some services in French, German, Spanish, Japanese, and Italian, but on a very miniscule scale.

BPO skyscraper



The cost advantage was the biggest USP for companies shifting business to India, but that advantage is fast getting eroded. India, being a forerunner in the business, has matured over time, and this maturity has also unfortunately led to increase in pricing by various players. The difference in the demand-supply gap is the reason behind this. In addition, the sheer proliferation of companies in this business has

Currently, the unregulated growth of the industry is resulting in a strain on the available infrastructure and resources

created a severe resource constraint. All these factors could be leveraged by other countries to successfully take away a portion of the offshore BPO pie. Indian BPO players have the exigent task of managing growth. Currently, the unregulated growth of the industry is resulting in a strain on the available infrastructure and resources. The industry is quite aware of the problem and has been urging state governments to take action, but without much success.

Another major problem in the Indian BPO market is maintaining and attracting the best talent in the industry. The attrition rate in the BPO sector is said to be around 20 to 40 percent. So, constantly training and attracting the best employees in the industry also adds to the employer cost. A report by the National Association of Software and Service Companies (NASSCOM), India's leading information technology industry association, says that the outsourcing industry is expected to face a shortage of 262,000 professionals by 2012. Given this background and the challenge faced, one is forced to question if India is losing its USP.

One other reason for prospective client companies to think beyond India is that there is now concern for the security of first-party information and data. Due to recent cases – like the one in Bangalore where two of the employees of a reputed outsourcing Indian company wrongly used end clients' data to misappropriate large amounts of money, or the Karan Bahree case where a British newspaper claimed that Bahree allegedly sold sensitive confidential information for money – prospective and current offshoring clients are becoming doubly careful about process migration and maintenance. With NASSCOM concerned with very broad information technology related areas, India still doesn't have an organized form of any regulatory body to look after the BPO and ITES industry; so concerns like security of data, quality of the work done and other concerns regarding cost and bargaining are becoming louder by the day. However, in reality the number of such security breaches is less than a handful. Yet because offshoring to India has become a controversial issue for many countries, such concerns have been magnified disproportionately.

Survival strategies

Consolidation

Gartner has predicted that by the end of 2005, 70% of the top 15 Indian-owned BPO start-ups that offer customer call center services will be acquired, merged or be marginalized. And its prediction is that by 2007, 80% of voice-based customer service and support centers with the primary goal of reducing costs will fail. In short, consolidation will become the survival mantra in the BPO space. In the venture capitalist backed BPOs, promoters are opting for buyout as an exit route due to their inability to scale up operations according to the customer's requirement and offsetting of their margins due to lowering of billing rates and increasing costs. Most BPO service providers have entered into the BPO space to exploit the growth opportunity, but many of them lack funds for scaling up and sustainable clients. Many providers, who lack economies of scale, are trying to differentiate their services, but are facing difficulty on the price and competence front. The best way that some of the players could add value in the future is to optimize their current operations and sell themselves to a consolidator or become consolidators themselves. As this market matures, there will be a shakeout and weak players will cease to exist.

Developing a Global Delivery Model (GDM)

A GDM will help the service provider to branch out to multiple global locations to manage geographical differences in cost, quality and skill sets. It consists of both offshore and onsite models (that is, units that are closer to the customers home countries). Technically, near-shore models undertake high-end work and offshore models undertake high volume and lower end of the process or project. Implementation of such models will help in maximising quality, while leveraging low-cost and expertise. These differentiated, yet in tandem, delivery models will also help in optimising skill set availability, cost advantages and retaining of clients. BPOs are developing global delivery models to keep pace with demand and mitigate the risks. They are trying to diversify systematic risk that is associated with sourcing from (or servicing in) a single country. These reasons range from geopolitical risks to language issues, currency fluctua-

Key mid tier M&A deals

DATE	ACQUIRER, TARGET, DEAL SIZE
Aug 2003	iGate, Quintant, $19mn
Dec 2003	i-flex, Supersolutions, $11.5mn
Apr 2004	Mphasis, Kshema Tech, $21mn
Jun 2004	Flextronics, Hughes Software, $226 mn
Oct 2004	Patni, Cymbal Tech, $68 mn
Nov 2004	i-flex, equinox, N.A.
Feb 2004	Mphasis, Princeton Consulting, $14 mn
Mar 2005	Mphasis, El Dorado, $16.5 mn
May 2005	MindTree, Lino Software, $10.12 mn

tions to specific political environments, and many others. However, companies will still have to face several challenges. The most important of these issues would be clash of company cultures and practices due to multi-country backgrounds.

Outlook

What we have seen so far in the BPO sector is only the tip of the iceberg. India, in order to retain its dominant position in the BPO sector, needs to draw up a long-term plan. Experts feel that the plan should be able to tackle issues regarding infrastructure, data protection laws and providing trained personnel. The government still needs to address the issue of supply of trained personnel for BPO. However, the private sector, seeing an opportunity in training people in BPO, is developing various courses that meet the industry's needs. Experts feel that the future work will involve more of high-end analytical processes such as banking, insurance, healthcare and marketing applications. The scale of operations is yet another issue. The Indian BPO market populated with numerous small and large players, who enjoy economies of scale, are few and far between. Consolidation in the industry is the need of the hour if the companies want to retain their business. BPO players seem to understand this only too well and have already started on the path of joining hands.

Another area where India needs to consciously focus on is moving up the value chain. India needs to develop its strategy to continuously innovate and add value to processes and provide an end-to-end solution to global clients. Delivering high quality and value-added work will help move up the value chain, thereby building value differentiators. This is to say that companies should build new competencies and competitive advantages, as cost competitiveness alone will no longer attract clients to Indian shores. Data analytics (as undertaken by companies like Fair Isaac and other captive outsourcing units like GECIS and American Express centers in India) is one particular area that has value chain enthusiasts clamouring up.

Despite increasing labor costs, service quality problems and competition from new geographies, India seems to be the number one choice for at least the medium-term, mainly due to the English language advantage. There are many other locations that are poised to compete with India, such as China, Mexico, Ghana, the Caribbean Islands, South Africa, Philippines, Malaysia, Mauritius and Thailand; apart from Australia that has traditionally been a base for many American and European companies' offshoring units. These countries have realized the potential of outsourcing and are aggressively promoting themselves as attractive BPO destinations by strengthening their infrastructure and enhancing their skills, mainly the English language. In such a situation, India cannot sit back and assume that everything will always be hunky-dory for the coming years. Indian companies need to constantly innovate to provide value to customers. To stay ahead of the others, ensuring differentiation through process expertise, end-to-end capability, global delivery, better security and privacy of information and service excellence will be critical for the industry. But the BPO industry in the long-term will see a hybrid outsourcing model (onsite, near shore, offshore) growing in popularity as the industry matures. ■

Business process outsourcing industry outlook: A.T. Kearney

The following are some key findings from the study of Indian IT services market dynamics and the forecast through 2008:

- During 2003, IT services witnessed a growth rate of 15% over 2002, to $1.66 billion. The market is forecasted to grow at a compound annual growth rate (CAGR) of 17.4 % through 2008, to $3.7 billion.

- Development and Integration (D&I) services revenue accounted for the largest share of the total Indian IT services market, 57%, growing at a CAGR of 16.4% from 2003 through 2008.

- Consulting services revenue saw a small decline of $2 million in 2003 and is expected to grow at a CAGR of 16.2% through 2008.

- Process management and IT management services are expected to grow at CAGRs of 17.4% and 21.9%, respectively, with a growing focus on core competence while outsourcing areas of less expertise. Service offerings are also expected to mature rapidly over this period, leading to more outsourcing.

- The banking, financial services and insurance sectors, and the telecom sector have been leaders in deploying IT in their operations. While these sectors will continue to remain large spenders, government spending on deploying IT is on the rise and also represents an attractive market. Enterprises in other sectors, such as manufacturing, services and utilities, are also increasing their IT spending and are becoming attractive to service providers.

- 2004 marks the onset of rapid growth in the IT market. Positive growth drivers are expectations of stable economic growth, increased global competitive pressures on local industry, improving infrastructure and growing investments in setting up offshore IT and business process outsourcing (BPO) facilities in India.

Repositioning o

After years of dancing under waterfalls, the Liril girl has moved along with the soap into the bedroom.
Will this new strategy work for the brand?

by Jayanta Chakraborti,
IIPM PUNE

Hindustan Lever Limited (HLL), the doyen of FMCG Industry in India, had embarked on a bold initiative this summer – they were involved in the process of radically overhauling and repositioning their three major brands – Lux, Fair & Lovely and Liril. First off the block was Liril. The latest avatar of Liril soap comes with a new feminine shape, and a complete new look with eye catching translucent green bits in a light green base. The new Liril promises to give consumers a completely new brand experience. The lime variant has been enriched by adding aloe-vera, which makes the skin soft and supple. The packaging of Liril has also undergone radical transformation. The new carton box has a "love note game and quiz" on its back which invites people to share the same with their spouse. There is also a host of promotional activities around the brand coming up that will go beyond the conventional touch points.

The theme of the advertisement to promote the new Liril variant is also quite fresh and much bolder. The now famous Liril Girl, the waterfall and the iconic jingle has been done away with – as the brand moves from a public venue to a private one – straight into the bedroom. The new Liril Soft Aloe-Vera and Lemon television commercial focuses on naughty intimacies among married couples instead of the erstwhile iconic "waterfall" campaigns.

The new commercial, created by advertising agency Lowe, attempts to inspire people not to lose the magic in their marriage, especially in the midst of stressful lives led by today's couples. It shows the consumers how playful love and intimacy can be discovered in the simplest of the moments. To justify the repositioning exercise, HLL opined that there has been an evident transformation among housewives. They are in full control of themselves, yet are stress prone and seek intimate moments in their routine activities.

The Repositioning Strategy

Why this repositioning exercise? Well, Liril did create a stir when it entered the soap market in the early seventies. But over the years, there have been a lot of me-too lime soap brands that have inundated the market and eaten away a big chunk of Liril's market

# of Liril Soap

share. The soap's parent company, HLL, has also been under a lot of pressure in recent times from local players like Nirma and Cavinkare, as well as from big giants like P&G. Both the bottom line and top line have flattened, as HLL went for frantic restructuring exercises by selling off or shunting out non-profitable brands and focusing their effort on 30 power brands.

HLL Brands	Market Share
Lifebuoy	**17.5%**
Lux	**15.0%**
Breeze	**6.8%**
Hamam	**3.8%**
Liril	**2.5%**

Source: AC Nielsen Survey-2004

How effective is a repositioning effort in lifting a sinking brand? Worldwide, as well as in India, there have been a lot of repositioning exercises that have rescued brands from precarious situations and heaped rewards for the parent company. And there are equal numbers of glaring examples where repositioning exercises lead to huge blunders. Some of the brands that went through successful repositioning exercises were Dettol, Cinthol, Cadbury Dairy Milk chocolates, Horlicks and Saffola.

Dettol Soap was not a winner when it was first launched. This was because Reckitt Benckiser launched Dettol soap on a premium platform, which was way off the brand's core properties of hygiene and cleanliness. As soon as the product bombed, it was quickly re-launched by Reckitt the following year as a "100 percent germ fighter." The changed positioning has worked so well for it that Dettol soap commands a share of 11 percent in the premium soap market today.

Another brand that went through a successful repositioning exercise – or rather a sex-change – was Cinthol. This soap accidentally got positioned as a male soap due to its masculine brand ambassadors Imran Khan, Vinod Khanna and Akshaye Khanna. Making matters worse, the overall male soap category started shrinking and women emerged as the key decision makers. A new strategy was devised for Cinthol, and the soap was first repositioned as a family brand with the "Tan Taaza Man Taaza" campaign. Later, women consumers were targeted with a re-launch campaign in 2001. Recently, Cinthol Skin Fresh has been launched with orange extracts, thereby extending the value proposition from just freshness to fresh and natural.

Cadbury Dairy Milk tasted major success with their repositioning exercise. In the 1980s, it was positioned as "the perfect expression of love", captured in the memorable copy: "Sometimes Cadbury can say it better than words." In 1994 came the path-breaking "Real taste of life" campaign, which created a remarkable change in the way chocolates were perceived.

The brand which had progressively become trapped as a gift for children was unshackled and repositioned to the "free child" in every adult.

Cadbury Dairy Milk was redefined as

Over the years a lot of me-too lime soap brands have **eaten away a big chunk of Liril's market share**

Sl No	Company	Major Brands
1	HLL	Lifebuoy, Lux, Liril, Breeze, Pears, Hamam and Dove
2	Nirma	Nima, Nirma
3	Godrej	Cinthol, Fairglow, Nikhar, Allcare, Ganga, Shikhakai and Evita
4	P&G	Camay
5	Colgate Palmolive	Palmolive
6	Reckitt Benckiser	Dettol
7	Wipro	Santoor Shikakai, Babysoft
8	Henkel Spic	Margo, Aramusk, Fa
9	KSDL	Mysore Sandal Soap

The soap category in India is one of the most **competitive markets with over 300 brands**

the perfect expression of spontaneous, shared good feelings, providing the "real taste of life" experience. The approach was rewarded: The Brand grew by over 50% in sales volumes. The next step in the growth of Cadbury was to popularize consumption in a social context, especially in more traditional settings like weddings with the punchline "Kuch Meetha Ho Jaaye."

GlaxoSmithkline Consumer Healthcare positioned Horlicks as an immunity enhancer and had acquired the image of a drink for the sick and those who are improving. The image of health drink was so deeply associated with it that people started presenting Horlicks to sick people.

Recently, the brand was relaunched with a great package, and the core essence of 'pleasurable nourishment' embodying modernity, youthfulness, vibrancy and vigour. The punchline, "Epang Opang Jhapang," made sure that the brand got instant recognition.

Similarly, Saffola was initially a "heart-problem-solution" brand. So, only the heart patients used Saffola and the brand remained restricted within a small band. The new positioning as "The Heart of a Healthy Family" helped them break this mindset and become a very good mega brand in the cooking oil category.

The brands that failed the repositioning test were New Coke, Onida and 7Up. In 1985, Coca-Cola's taste tests indicated that most consumers (and particularly young people) thought Pepsi tasted better than Coke. To make the product taste better than Pepsi, Coca cola changed its vulnerable secret recipe – which attracted younger customers – and attached the new taste to a new brand image: The New Coke.

But the feelings against the new product that started coming out from various quarters taught Coca-Cola that most of its customers, including many younger drinkers, care more about the emotional heritage of this classic brand than the taste of the actual product. Coke was finally forced to bring back the original taste under the brand name Classic Coke. Similarly, Onida TV had to bring back the Devil and 7Up had to recall Fido-Dido to boost up their brand image.

The soap market in India

The soap category in India is one of the most fiercely competitive markets. There are more than 300 brands – national, regional and rural – that are vying for the attention of consumers. The personal wash market is valued at Rs.45 billion (Source: ORG-MARG). The huge, diverse and constantly evolving Indian soap market can be broadly divided into four segments – health, naturals, beauty and freshness. Within these, there are three price ranges – discount, popular and premium.

The major companies that are competing in this market are HLL, Nirma, Godrej, Reckitt Benckinser, P&G, Colgate-Palmolive, Henkel Spic and Wipro.

The origin of soap has a very interesting story. Ancient Roman history says that the water that flowed down Mount Sapo was a great cleanser. The fact was that animals were sacrificed at that mountain, and the melted animal fat washed down from the sacrificial spot mingled with the clay to make a good cleansing material. Hence the combination of animal fat, clay and water emerged as a cleanser and mixing oil with potash and water resulted in soap. This formula evolved with time.

Pears, one of the earliest soap brands, was launched in 1789 in London by Andrew Pears,

It was transparent and had an oval shape. The next branded soap which followed was Lifebuoy. It was launched by Lever Brothers in 1895 and was positioned as a health-soap because of its carbolic acid content.

Comparatively, Lux was launched in India in 1929 and since then has been the leading soap brand in India.

The Liril story

Launched 30 years ago in 1975, Liril was conceived by a group of young managers from HLL and Lintas who were instructed to create a freshness-soap in the premium price segment. Their first attempt was a blue soap with the promise of fresh mountain breeze. This idea did not work too well in research. So, under the guidance of a young British marketing head, Derk Wooller, they developed a green marbled soap with a lemon fragrance.

The first advertisement, created by Alyque Padamsee, made history by creating the unforgettable image of a bikini-clad girl in green, frolicking in a waterfall. Pad-

After showing waterfalls for 22 years it was time to **interpret freshness in a new manner**

amsee's group had gained an interesting insight while conducting extensive research on housewives and young men for this specific advertisement. It was found that the Indian woman faces a lot of pressure in sustaining her family, which includes her in-laws and her children. She rarely gets a moment of freedom during her daily routine. Out of that insight came the Liril advertisement featuring a girl dressed in a green swimsuit frolicking with great zeal around a waterfall.

The moment of liberation that Liril provided appealed to the women of India; and it became the top selling premium soap overnight. No wonder, the brand became the market leader in its category within a year of its launch, overtaking brands such as Cinthol and Mysore Sandal.

The first Liril Girl was Karen Lunel, who took a break from her job as Air India airhostess to don the role. When the ad was released, the audience was bowled over. The blithe water sprite, the dancing waterfall, the catchy tune – everything was new and thrilling. The Liril girl became the metaphor for freshness and at a deeper level, for freedom from the mundane. It struck a winning chord with the Indian woman and Liril zoomed to the top of the premium soap segment.

After that, there were a series of glam-dolls who donned the image of Liril girls, starting from Anjali Jathar to Pooja Batra to Preity Zinta. The latest Liril models have been Hrishita Bhatt, Tara Sharma and Deepika Padukone. Except Deepika, almost all of them have ended up joining films; and of course, Preity Zinta happens to be one of the most popular Bollywood actresses today.

Alongwith the change in brand ambassadors, Liril has also undergone several transformations. An unrivalled market leader in the 70s and 80s, Liril faced a testing time in the early 90s. The girl-in-waterfall routine had become very predictable, the market became stagnant and competition was aggressive from a slew of me-too brands. To infuse variety, Liril introduced a shower gel, Liril Active Gel. The ad also changed dramatically. The waterfall was gone, and the new ad showed a leggy Miss Batra dancing in a burst of water, while doing a carwash and ending up as fresh as a daisy. The waterfall came back once more in the next film, and under it danced the dimpled, exuberant Preity Zinta.

In 1999, Liril turned blue for the first time with Liril Rainfresh, a blue variant of Liril Lime. In the new ad featuring Hrishita Bhatt, the waterfall was done away with, the Liril girl was brought to the city, and there was a supporting cast as well. In late 2004, Liril launched a new orange variant – Liril Orange Fresh with the zesty fragrance of orange.

Conclusion

So, for thirty years, the Liril girl had held steady. But thirty years is a long time for any brand icon. Asian Paints had quietly withdrawn Gattu to draw up a new brand image. Lalitaji, of Surf fame, was sent to retirement after twenty years of great service. The Rasna Girl was replaced with Karisma Kapoor. So did the mystique of the Liril girl finally wane?

There are two schools of thought. One, led by her creator, Alyque Padamsee, who emphatically states: "Bring back the waterfall and Karen." And the contemporary view which thinks that the Liril girl is dispensable. Executive Creative Director at Lowe, Balki thinks that the Liril girl has been romping under waterfall for 22 years and it was time to interpret freshness in a new manner.

Driving this change is also the fact that the Rs.1 billion brand's sales have been stagnant. Competition has also intensified with cheaper brands giving the same lime and freshness promise. The brand had been prodded earlier to deliver by launching new variants in the last few years; this time around it had to be a 360 degree overhaul. Everything had to change - from product to packaging to positioning. The target for the company is to double market share by the end of 2005, which is only at around 2.5% of the Rs.4,800 crore soaps category.

Liril's romance with running water is finally over and experts may contend whether it would help the brand, but HLL is keen to crystallise the new brand image in the minds of the consumers. Will the new strategy succeed?

Liril Girls	Theme	Variant
Karen Lunel	Waterfall	Liril Lime
Anjali Jathar	Waterfall	Liril Lime
Pooja Batra	Car Wash	Liril Active Gel
Preity Zinta	Waterfall	Liril Lime
Hrishita Bhatt	Dancing in Rain	Liril Rainfresh
Tara Sharma	Desert	Liril Lime
Deepika Padukone	Desert	Liril Orange Fresh

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Strategy is in a bad way - but the problem can and must be fixed, says

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Professionalising Strategic Management

How do you recognise a "profession"? What characterises the delivery of its professional services that lets you know you are in safe hands? How do you know that a doctor is diagnosing your complaint accurately, and prescribing the right treatment? How can you be confident that an engineer has designed a bridge reliably? How can you be sure that your accountant has prepared accurate accounts for your business? Unless you happen to be one of these professionals, you will have little capacity to check out their advice for yourself.

Since all kinds of organisations have such profound influence on our lives, it may be worth asking - to what extent those who practise and advise on strategic management can provide us with similar levels of confidence. This article first considers some answers to the question above and then assesses the extent to which "strategy" meets these answers. Finally, it considers the implications of any shortcomings in professional practice, and some possible benefits from addressing those shortcomings. Professions can point to a number of features to give confidence that their practitioners know what they are doing and will recommend and carry out sound courses of action:

- Standard terms. When one doctor uses the term "hypertension", any other doctor knows exactly what they mean. Any two engineers know what "stress" means, and accountants share a common understanding of terms like "debtors". There may be nuances of detail, but the central concept is widely understood. Professionals also have a shared understanding of what defines "good" performance - blood pressure within healthy limits, bridges that carry likely loads without falling over and businesses that are solvent.
- Well-established relationships. Professions build on a body of understanding about the relationships between different factors in their field. Often, this relies on underlying science; i.e. a fundamental explanation of "what causes what and why", such as the physics of materials science. Not all professions share a scientific base, however. Some rely instead on a cumulative knowledge base of what works in practice, such as double-entry bookkeeping.
- Incremental insight. Where there are variances around a norm, specialists do not readily throw away the core relationships on which they rely. Instead, they assume that there must be additional factors at play, and seek to add that knowledge to their understanding. Only rarely, when fundamental models get badly out of line with observations, do professions throw out old methods and start again.
- Standard procedures. Given a sound body of well-established relationships between commonly defined factors, professions develop procedures that

work reliably. Any two doctors will go through similar procedures to find out what ails you, and any two accountants will do pretty much the same tasks to prepare your year-end accounts.

- Proven solutions. Since they know what causes what and why, and follow reliable procedures to discover what is going on in any situation, professionals can have confidence in the outcomes from deliberate changes they make. Accountants can be rather sure of the impact of reducing outstanding debtors by a certain fraction. Engineers know the consequences of increasing the cable-size in a bridge. Doctors know how changes in diet, exercise or taking certain drugs will affect a patient. The more complex the situation, of course, the less they can be absolutely certain of the consequences of their interventions, but they at least start from what is usually effective.
- Standards of practice and training. Given the often large body of knowledge and understanding embedded in these relationships, procedures and solutions, professions generally require substantial education and training before practitioners are let loose on the unsuspecting public. There are often examinations of increasing difficulty, signalling that a professional has shown himself competent to tackle situations of a certain complexity, but no more.

Good practice in these and other professions is highly beneficial. We get great bridges from skilled engineers, wonderful health recovery from skilled doctors, and peace of mind from skilled accounting for our businesses. Conversely, poor practice is definitely exceedingly dangerous, and we will not tolerate the risk to life, health or financial well-being that results from unprofessional behaviour.

Most strategic initiatives taken by most organisations carry a very high risk of failure. Let's first distinguish the strategic aspects of management from others, such as leadership or general management. Whilst these other components are of course vital, they can be separated from the design, adaptation and policy-making that constitute strategic management of an enterprise.

It has been extensively argued, notably by Professor Henry Mintzberg and his followers that deliberate strategic management is neither necessary nor feasible. Strategy instead is said to be crafted, much as a potter or sculptor feels the emerging form of their work. It is also widely argued that a sense of purpose is far more important than strategy (tell that to the employees of Enron or Marconi!).

> Most strategic initiatives carry a very high risk of failure

These views, however, mistake how strategic management is practised, from how it could or should be practised. Then there is little evidence that amateurs who make things up as they go along make better strategic decisions than those who try to work out details and what might be best before acting. Furthermore, we can not know how well smart people might do if given better tools for the job of developing and delivering strategy.

When professions lack the essential features listed above, their clients are vulnerable to charlatans and quacks, pedalling snake oil in place of proven solutions. Are we then in this situation in strategy? We know that there is minimal usage of formal tools for building strategies or making strategic decisions. We also know that organisations "follow the herd", pursuing with half-blind faith the strategies of admired peers.

Leaders are encouraged in these ill-advised behaviours by advisers with a vested interest in pushing them into action. Equity analysts and traders would have little to do if companies simply pursued consistent strategies that worked, rather than sought constantly to change in pursuit of earnings targets that can only be achieved by damaging the business. Consultants urge management to throw out sound strategies in place of transformations that are costly and damaging or to reorganise so frequently that few of their people know what they are supposed to be doing. Investment banks constantly pester management with investments and acquisitions that will most likely deliver value only to the target company's shareholders and to the advisers themselves.

The price of this relying on gifted amateurs, advised by vested interests, is huge. Most strategic initiatives taken by most organisations carry a very high risk of failure, whether starting a new venture, developing a new market, or making an acquisition. These failures destroy wealth on a truly stupendous scale -the cost of the late-1990s technology bubble is well documented, but there are many more examples, from the endemic value destruction of the global airline and car industries to the tribulations of specific firms, such as Marks & Spencer, Vivendi or AOL Time Warner.

There is also a great human cost from this failure, with careers and livelihoods being destroyed when ordinary people get caught up in some fanciful enterprise led with "vision", but no strategy. In any other walk of life, such behaviour would get people sued and struck off for professional misconduct -in management, it earns large bonuses.

Finally, we should not ignore the fact that most other management functions do have professional standards - marketing, HR, logistics and research - and most have professional bodies that set those standards. This does not prevent especially gifted individuals from progressing in their careers without the endorsement of those bodies, but it does put the onus on them to prove their capability when competing against qualified individuals for jobs.

> Most "tools" in the field are qualitative checklists

If we accept that strategic management should be practised with a degree of professionalism, how does the field stack up on the features required to claim a professional status? Pretty poorly! We have no standard terms that mean the same thing to all members of the community. Phrases like "competitive advantage" and "core competence" are used indiscriminately. We do not even know what constitutes good performance. Most research in the field seeks explanations for profitability and return on investment - but shareholders value strong growth in cash earnings, which is badly undermined by a focus on current profit ratios.

Few relationships between observable factors carry any reliability. For example, being number 1 or 2 in a market seems to coincide with some sustained success, but which of these is 'cause' and which is 'effect' is far from clear. Research in the field is deeply discouraging, with most statistical studies finding only the flimsiest relationship between success (poorly defined) and its possible "causes". The field has also failed almost totally to build any cumulative knowledge. Instead of adding new nuances to a core of proven principles, we swing from one fashion to another - industry forces, scenario planning, core competencies, transformation, and so on. Any professional who offers to undertake standard analyses of fundamental data on a client's industry situation or internal factors in order to arrive at confident conclusions and make straightforward, well-reasoned recommendations is likely to be dismissed as out-dated. If you don't have "thought leadership", you lose.

This lack of reliable, cumulative knowledge results in there being few standard procedures for would-be professionals to follow in order to get from available evidence to a diagnosis of what is happening and why. Most "tools" in the field are qualitative checklists or two-by-two grids. We would be appalled if other professions on which we rely for our health, safety and financial well-being used such feeble methods to reassure us that their analysis and recommendations were sound. Yet in strategy, these are the tools of choice.

The strategy field has few proven solutions to offer to common challenges. It is entirely unclear, for example, whether striving to be the first-mover in a new opportunity is preferable to learning from others' lead. It is equally uncertain under what circumstances should new business development be home-grown - or acquired; and when should strategy switch from growth to maintenance, or when should withdrawal from an industry be the preferred strategy.

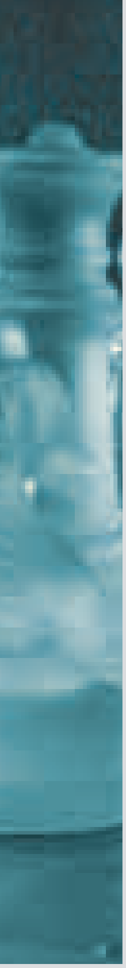
Finally there are minimal standards of practice in the field. Few MBA programmes include more than a few days' instruction on the topic, and some are even said to be dropping courses on strategy in the belief that there is too little teachable content. Some top consulting firms treat the MBA as little more than a signal of intellect, and set about training recruits in their methods from the ground up. The price of relying on gifted amateurs, advised by vested interests, is huge.

Many groups stand to benefit from seeing this problem fixed, including both customers and suppliers.

Amongst the ranks of consultants, investment bankers, and other advisors there are, of course, many consummate experts who genuinely provide excellent advice. But younger people building their careers, who are committed to delivering excellence, have a strong incentive to see standards of good practice in the field. Not only would this separate them from the amateurs and fakes who give their work a bad name, but they would also gain a substantial recognition that gives their career some validity.

NEED FOR FOCUS?

It is perhaps ridiculous for any firm to envision being either product oriented or (as Levitt puts it) need oriented . Nokia's example is quoted here. Nokia moved from being a paper manufacturer (rather a tree cutting company) to being a cellular phone manufacturer because management gurus claimed that Nokia had found a connection between manufacturing paper (which was used for communication) and manufacturing cellular phones (again, used for communication). This arguably seems not-relevant backward analysis. (Editor's note)



DUBIOUS STRATEGY DEVICES

In some cases, management theorists have even undertaken questionable methods to ensure that their theories are considered ground breaking. For example, in 1995, Fred Wiersema (a consultant at CSC Index, the consulting arm of the giant Computer Science Corporation) and Michael Treacy (a consultant who had previously worked on projects for CSC Index) came out with a book, 'The Discipline of Market Leaders'. The book sold 250,000 copies within a period of six months. But in August 1995, Business Week came out with a scoop of how these two consultants and CSC Index had actually used tactics that bordered on unethical. It was alleged that when Michael Treacy's book was released, various people commissioned by CSC Index went around book sellers all over the US buying copies of this book. By purchasing these copies, it was hoped that various newspapers and magazines across US would rate this book as a best seller, thus prompting more and more people to buy this book. Further ahead, such magnificent sales of the book were supposed to have provided CSC Index with more valuable clients. Not many people know that one of the co-founders of CSC Index is renowned re-engineering author, James Champy. And not many people know that CSC Index had used the same methodology of self-purchases when James Champy had written a book, 'Reengineering Management'. This is not to discredit the re-engineering theories of James Champy and Michael Hammer that are possibly amongst the most mind-moving strategic concepts of our times. This is just to show an example of the extent to which management consulting firms and consultants might actually shovel impractical philosophies down the throats of suspecting managers who are forced to move with the tide. (Editor's note)

A particular problem with the present situation is that strategy and corporate development are so undervalued that very few people even try to make a career out of it. A "proper" senior management career most often has to develop from a strong background in line management, finance or marketing - a powerful explanation for the woefully poor strategic management that is practised in all kinds of organisations.

Companies and other organisations should also gain from much better advice, whether provided by in-house advisors or independent professionals. Clarifying exactly what a professional analysis might look like in various situations would provide a reference against which to judge any new piece of work or advice. Many managers come across strategically important issues so rarely that they never have an opportunity to learn what to expect. Consequently, they can be impressed by hyped-up stories and fancy phrases, unaware that there is little substance behind the recommendations.

Senior management would benefit from becoming more discriminating in their reading and interpretation of business information in books and articles. A better-informed community of professionals would perhaps have less patience with the soap-opera stories and glib journalism that has taken over the magazines and books on offer at the airport bookstands.

The potential beneficiaries include other important groups, too. We have already mentioned the value destruction caused by bad strategy - the fixing of which no doubt would be of interest to investors. Pensions throughout the developed economies were devastated by the bursting of the late-1990s bubble - an episode that should have never happened, at least on the scale that it did. (And which need not have happened, as the expertise of Berkshire Hathaway and other investors makes clear).

Employees, too, would be happy to exchange anxiety, confusion and insecurity for the confidence that their leaders know what they are doing, rather than relying on inspiration alone. It is an indictment of the field that staff surveys consistently get low scores on the question "How confident are you in the direction your business is taking?" It is axiomatic that a strategy is much more likely to be successful if the people involved know how it is supposed to work and what their place is in its delivery. Introductory texts for non-professionals are available in finance, marketing and human resource management, so why are there so few in strategy?

Royal Dutch Shell is known to regularly undertake 'What-If' scenario planning (rather than any management model) that involves developing multi-probability scenarios for possible future industry situations -(Editor's note)

Against this army of winners, of course, there will undoubtedly be losers. The incumbents - weaker consultants, leadership personalities, even we academics - have a strong incentive to reject any suggestion that strategy is a trainable skill. It is far better for these groups that it retains its mysticism, so that they can continue to promulgate new fashions and sustain the constant activity that results from each new fad. We might, though, just have a window of opportunity right now to puncture this myth.

Publishers are having trouble finding buyers for their numerous books on heroic leaders. Investors are flexing their muscles to demand that management justify their strategies. Moreover businesses themselves are also questioning the advice they risk receiving when they pay huge fees to consultants and investment banks. This could be the right time to strike as the managements perhaps feel sufficiently confident to call out loud "Enough!", and demand that their advisors and specialists demonstrate some degree of professionalism. ■

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The **IIPM Think Tank**, an independent, India-centric research body, is inspired by **Dr. M.K. Chaudhuri's** vision of India as an economic powerhouse in the 21st century; a modern nation state where poverty becomes history and the underprivileged are not consigned to the dustbin of amnesia. The national presence (across seven nodes, News Delhi, Mumbai, Chennai, Pune, Banglore, Hyderabad and Ahemdabad), makes our understanding of the economy superior, where is many research fellows, senior research associates, research assistants, program coordinators, visiting fellows and etc embark on research assignments and network with global intelligentsia.

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The **IIPM Think Tank** is wholly free of ideology and looks at the Indian Development Paradigms, Purely modeled upon the basis of 'Objective Reality'. We passionately believe in the credo that we constantly seek to follow: rethink, edify and delineate. This enduring commitment has helped us foster and broaden the parameters of public policy debate and alternatives. Toward that goal, it strives to archive greater involvement of the intelligent, concerned change agents (reform minded politicians, public servants, media, socially responsible firms and citizens) in questions of policy and the ideation, furthermore, we ardently believe that the managers of tomorrow that are being groomed at IIPM today will play a decisive role in India's renewed tryst with destiny.

What we do..

As a premier 'ideas organization' in Asia The **IIPM Think Tank** is committed to enhance public awareness of policy issues an economics and management and to engineer solutions that will fulfill the 'Great India Dream'. By publishing the finding of its research, and though the active participation of its senior researchers in the media and policy, it aims to bring new knowledge to the attention of policy makers. Every year, The IIPM Think Tank commissions and publishes three quarterlys reviews and an annual review, on a wide range of policy issues including education, health, poverty, unemployment, agriculture, industry, services, FDI, external trade, infrastructure and environment. All these outputs meet the highest standards of scholarship, are accessible to a broad readership, and explore policy alternatives consistent with the philosophy of ours. The central theme of our issues are devoted to assess where the critical predicaments are, analyzing what needs to be done to annul the element of development deterrents in the economy and offer concrete proposals on how to accelerate welfare everywhere towards achieving inclusive development. The India Economy Review is a small manifestation of that vision. More than 1,000 students (seven nodes of IIPM0 have---and continue to-spent endless hours conducting primary and secondary research on contemporary issues that confront the Indian Economy. This research is then analyzed threadbare by at least 50 knowledge workers across the seven campuses. Brand new insights and policy recommendations that are provided by this core team are then crafted, honed and polished by 20 members Economy Research Group (ERG). This massive effort is spearheaded and led by the renowned economist and management guru, **Professor. Arindam Chaudhuri.**

Companies must adopt a scientific approach in being a responsible business while trying to be profitable, says

Marc Le Menestrel, ASSISTANT PROFESSOR

ECONOMICS AND BUSINESS, POMPEU FABRA UNIVERSITY

Corporate Social Responsibility: Science or Religion?

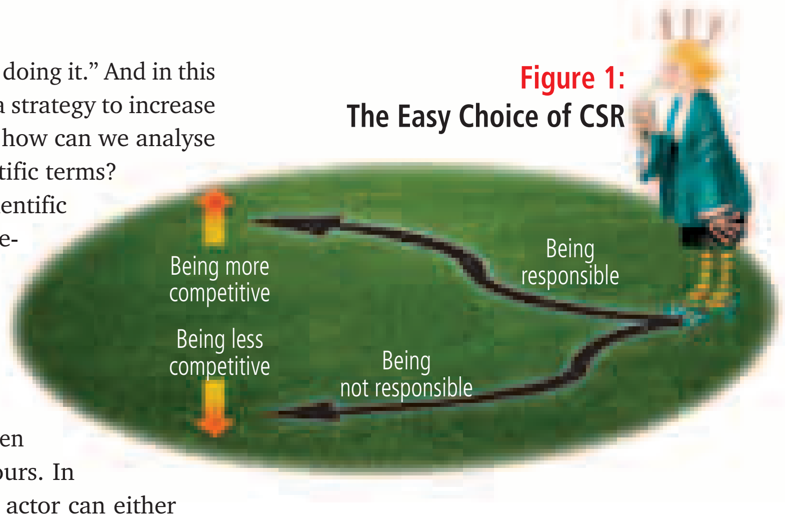
When I was at the 2nd colloquium of the European Academy of Business in Society, I heard Professor Michael Porter say that the field of corporate social responsibility (CSR) has become a religion filled with priests. Because of my research in decision sciences about the trade off between economic values and ethical values, I view myself as a scientist. Hence, I wonder whether I am one of the priests Michael Porter is talking about and whether this is compatible with my scientific status. Hence, the title of this talk.

The point of Michael Porter is that it is not clear why companies should be socially responsible. Exhorting companies to be responsible by saying "it is the right thing to do" or "it feels good" is, according to him, like religion; and 'exhorting' is neither a convincing nor a satisfactory argument.

Hence, as per Porter, CSR would be "right now, all a defensive effort, a PR game in which companies primarily react to deal with the critics and the pressure from activists." To make his point clear, Michael Porter asks, "Have you noticed how 'sensitive' industries like the petrochemical and pharmaceutical industries tend to give more than 'non-sensitive' industries? They need permits; they are under pressure, so they react." He further warns that this is a dangerous route of practising CSR.

Finally, Porter concludes, "business should be proud of what it is doing". It needs to engage in "proactive integration of social initiatives into business competitive strategy… Today's companies ought to invest in corporate social responsibility as part of their business strategy to become more competitive." And when this "corporate philanthropy is not related to businesses, competitiveness and skills, then governments and philanthropic organisations should be doing it." And in this manner, CSR can be a strategy to increase competitiveness. But how can we analyse this message in scientific terms?

Figure 1: The Easy Choice of CSR



A foundational scientific approach to management sciences is the theory of rationality. In this approach, we start from an actor, a company or a manager, who chooses between two possible behaviours. In the present case, the actor can either be socially responsible, or not be socially responsible. Because the actor is assumed to be rational, he anticipates the consequences of his actions. He evaluates them with respect to his objectives, if possible quantitatively. In the present case, the actor can either increase its competitiveness, or decrease its competitiveness. We have been told that a business should be socially responsible when it increases its competitiveness. This is to say that between being responsible and more competitive on the one hand, and not being responsible and less competitive on the other hand, the actor should choose the former.

Big deal!

There is something more substantial in what Michael Porter says. Indeed, the most interesting case is when the actor has to choose between being responsible and less competitive on the one hand, and not being responsible and more competitive on the other hand (Figure 2).

As far as I understand, Michael Porter would prescribe businesses to remain competitive in the face of such ethical dilemmas. In these cases, he would perhaps prescribe business not to be socially responsible. This shows what happens when competitiveness becomes an end in itself. You end up prescribing others not to be responsible. It may become the end for us: But at what price for society and for our environment do companies pursue competitiveness?

As demonstrated by the social and environmental state of the world, this price too high. It is not sustainable. If we continue like this, a few competitive companies may be the sole survivors of a world deprived of social and environmental resources. And this is not a subversive statement. I know it may not be pleasant. I know it may be difficult. But please, look around you.

As Jacques Chirac said a year ago in Johannesburg: "Notre maison brûle et nous regardons ailleurs." Like many politicians, many businesses tend to look away. For businesses, like for everyone, responsibility is a moral obligation. Responsibility is not something we can choose to do at the end of the day if and only if it pays. Responsibility is something that, in everyday business, we always have.

Social and environmental responsibility of business goes hand in hand with its leading power in this global world. And don't tell us that social responsibility is only a matter of political regulation: don't we know how businesses can spend so much effort and money on influencing political regulation? The "game within the rules" has become "a game for no rules" where legal and political regulation, if not democracy, are pushed to the minimum in order to serve economic interests. If businesses fail to assume their social and environmental responsibilities, they should take responsibility for the destruction of society and of the environ-

Tobacco companies are known for their phenomenal spending when it comes to promotion. Companies like Phillip Morris squander millions of dollars just for showing their brands of cigarettes in movies, overlooking the fact that people smoke these brands that are heavily advertised. On the other hand players like British American Tobacco Co. have done significant work in the area of social development by eliminating child labour in tobacco industries. (Editor's note)

Country **Analysis**

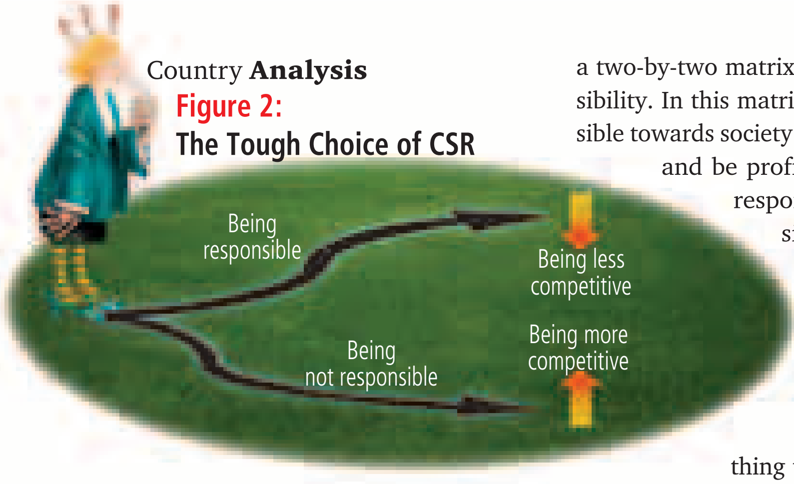


Figure 2:
The Tough Choice of CSR

ment. Basically, we cannot evade responsibility.

When we have power, it obliges us. When we have the choice, not being responsible is being irresponsible. Does this mean we should preach for responsibility? Clearly it is not sufficient to just say "be responsible" like some do. It is neither helpful to just repeat "be competitive". In fact, both of these discourses manifest "faithful devotion to an ultimate reality". In this sense, both of them are "religious." And their proponents are like priests. If we want to understand the rationale for corporate social responsibility, we need to understand the heart of economic rationality.

In particular, economic rationality considers that society and the environment are resources for the creation of economic value. The economy is deemed to exploit natural resources using social resources. It positions itself around society and the environment. But the economy is only one of the social dimensions. And the environment will always remain around us, by definition (Figure 3).

The contrary is however a dangerous illusion. Hence, economic rationality reflects an inversion of the means and ends of humanity. Economic rationality is not sustainable as a way of life. As a Cree prophecy warns us: "Money cannot be eaten". To realise this, we should not wait "for the last tree to have been cut down", "for the last river to have been poisoned" and "for the last fish to have been caught". Our responsibility is to act now and here. How?

A business ethical dilemma opposes two types of values: economic values on the one hand, social and environmental values on the other hand. This leads us to a two-by-two matrix for business responsibility. In this matrix, we can be responsible towards society and the environment and be profitable without being responsible, be responsible without being profitable and finally be irresponsible without being profitable (Figure 4).

What is the rational thing to do? Pragmatic discourses answer with the upper part of the matrix only. Pragmatics argue that the sole social responsibility of business is to increase profits. Rationality is reduced to profit maximisation: only profit matters. On the other hand, idealist discourses answer with the right part of the matrix only. Idealists argue that business should be responsible whatever the situation. In that case, rationality is reduced to responsibility: businesses should always do the right thing.

Today, a third type of discourse is in fashion. It argues that being responsible necessarily pays. In that case, rationality is reduced to the upper right corner of the matrix. Instead of raising the issue of corporate social responsibility, all these answers use rationality to deny ethical business dilemmas. These discourses deny that we can be rational when sacrificing money in order to be responsible, or that we can be rational when making more money by "cutting corners." There is plenty of theoretical and empirical evidence that prove these discourses are too limited.

We should enlarge our approach to rationality in order to face business ethical dilemmas. We should "open" our approach to rationality (Figure 5). Naturally, being irresponsible and unprofitable makes no sense. At least something is not arbitrary then. Thus, we are left with the three other possibilities.

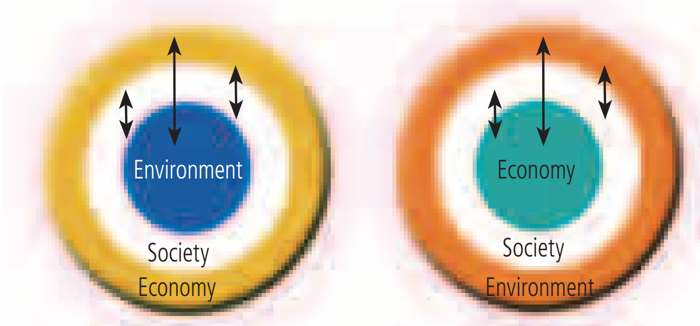
In the absence of a dilemma, a business naturally acts responsibly and profitably. In French, we say "joindre l'utile à l'agréable". This is the easy case and it is true we could better identify these win-win opportunities. Michael Porter gives many such examples. When in a business ethical dilemma, rational business actors have the responsibility to choose between social and environmental irresponsibility and economic sacrifice. This is the tough choice. In the face of business ethical dilemmas, a business should ask itself whether the gain is worth the lack of responsibility. It should also ask itself whether it could stand the consequences of the sacrifice.

In the face of business ethical dilemmas, business actors should enlarge the expectation of consequences, think long term and re-assess their goals. They should strive to find other means for reaching their ends. Eventually, a course of action will be chosen. And each of these three rational behaviours imply very different managerial strategies.

Take a profitable business actor acting irresponsibly towards the society and the environment. In the eminently social domain of discourse, he or she cannot publicly say 'this is irresponsible but I make a lot of money out of it'. Thus, businesses tend to keep irresponsibility confidential. When they don't "walk their talk", they hide it.

It is tempting in these cases, and this is indeed a booming business in itself, to rely on public relations to make irresponsible business behaviour appear responsible. There are also various ways to counter the critics. The tobacco industry documents re-

Figure 3:
An Inversion of Means and End



> **Apart from smoke and soot, US based ExxonMobil, is also responsible for spreading happiness in the careers of thousands of engineers. It has provided the largest financial aid to National Action for Minorities in Engineering and has contributed a lot towards the development of academic establishments. Another oil company UNOCAL provides education in the areas where it runs projects. The area surrounding UNOCAL's YADANA project in Myanmar, has 77% of children attending school, whereas elsewhere in Myanmar, 40% of children never go to school. (Editor's note)**

leased during legal actions provide exemplary evidence of the numerous tactics used by businesses to distort scientific research, to subvert political institutions, to destroy activism from inside and to manipulate public opinion. The convincing power of these PR campaigns is often overestimated. In fact, it costs a lot to cover the truth, and these costs are likely to increase.

If there is evidence that some irresponsible businesses have been profitable for a very long time, it is also true that, when we look at the dynamics of business strategy, increasing confidentiality and inhibiting communication may lead to unexpected costs. It can also intensify the inertia of the organisation; while managing the dilemma would require creativity and change. Bad faith, in them or in others, may not help to prepare for uncertainty. Bad faith has shown to give a backlash without warning. This issue of bad faith versus good faith also impacts businesses that are both responsible and profitable. In the context of a lack of trust, we have to pay to be credible about our social and environmental responsibility. Hence, an ambiguity remains when we succeed in combining responsibility and profitability.

This ambiguity explains, for example, the enduring conflict between activists and some profitable businesses that forcefully publicise their efforts to be socially responsible. Some actors of the oil industry that are making efforts to be more responsible and are still very profitable are good examples of this ambiguity. For responsible and profitable business not to be confused with irresponsible business, genuine transparency is needed. For some, overcoming bad reputation requires a sacrifice. When businesses choose to sacrifice, costs of responsibility must be treated as investments. New profitable business consequences should be explored, for example by emphasising the long-term and by repositioning the activity of the company. Since costs bring along some credibility, communicating intelligently about an economic sacrifice can lead to a comparative social advantage, also helping a business to differentiate and move up the matrix.

In this case, the dynamic is positive. Because no business wants to make sacrifice an end in itself, this naturally initiates a learning process. This can lead to a re-thinking of the strategy, sometimes an organisational transformation. Although we should be clear that nothing is necessary in this regard, an irresponsible choice may result in unexpected costs, whereas a sacrificial choice may lead to unexpected gains.

When I present these ideas, I know that this open rationality is not sufficient to solve business ethical dilemmas. But it can clarify discourses and behaviours and may unveil positive surprises. My hope is for these simple ideas to show that we can think before acting, that we can avoid reducing rationality to the mere justification of our actions, once we have made up our mind. In any case, Michael Porter's "end-of-pipe" corporate philanthropy will never be sufficient. Responsibility lies in the way we do business and questions the role of business in society. Instead of being possessed by its goals, businesses can re-take possession of them. Instead of being sick of their goals, businesses can choose their new roles. The role of a business in society also lies in business' hands.

Beyond preaching pure and unadulterated competitiveness, responsible business must re-invent its relation to political institutions, to society and to the environment. I know we are not always "angels". But we can choose consciously and intentionally the ethical and economic sacrifices that are needed to face the issue of corporate social responsibility. We should talk about this, with a rationality that is open but not arbitrary. We should talk about this together, with a rationality that is respectful of human, environmental and economic values. Instead of being denied, the conflicts between economic values and social and environmental values should be openly discussed. Business ethical dilemmas can then be shared among us through a concerted, methodical and practical effort.

I believe that behind the issue of corporate social responsibility lies one of the biggest challenges of our time. This is too important to be reduced to an issue of devotion and sermonic discourses. We should take a rational approach, one grounded in sciences, in all sciences, natural, social and human. ■

Figure 4:
An Inversion of Means and Ends

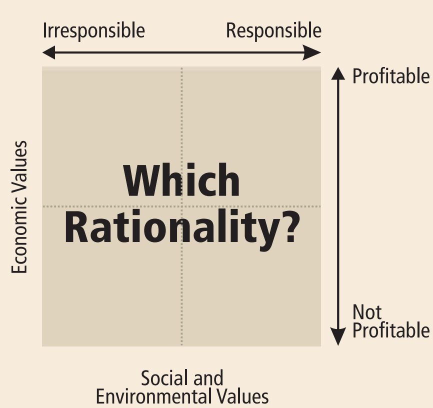
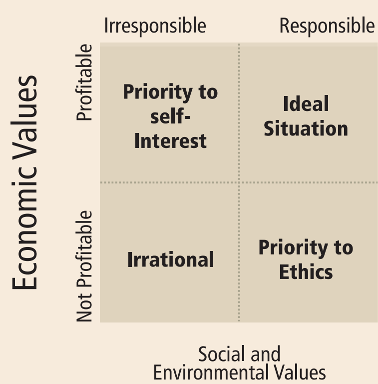


Figure 5:
A More Open Rationality



The preconditions necessary for a successful joint venture must be met to avoid failures resulting from an alliance

By Divya Joe, IIPM MUMBAI

Do Impressions last in a Joint Venture...?

What's in a name? Does it really make any difference to anybody? Think about it! Would it matter to you, if you were named as someone else? That too after a few years of contributing productively (or otherwise) to the world?

With the advent of globalisation and liberalisation, most companies have sought new ways of running businesses. It has become quite evident that today, to spread one's wings in bigger horizons, the mode used increasingly by companies is through Mergers and Acquisitions (M&As) and Joint Ventures (JVs).

Globally these Mergers and Aquisitions and Joint Ventures have in many cases led to paradoxical situations. While some companies have benefited from these activities many others have had to deal with a realisation of identity loss. This scenario has also been replicated in the Indian arena, where a bevy of companies have entered India using the Merger and Acquisition or the Joint Venture route. However, many of them have not been able to complete the process to the satisfaction of all concerned and it is these key factors that we'll attempt to address through this article.

For the records, going by the traditional book, before one really thinks about going ahead with an M&A or JV, one needs to bear in mind a lot of issues and areas, and look at things from a more holistic perspective. All issues should address one basic premise- What is in the deal for each of the partners?

While M&A or JVs within a country has its **complications**, the task gets even more complicated in case of an **international** deal

Before either of the companies enters into any kind of an alliance, each of them needs to ensure that the M&A or JV is congruent with their company's corporate strategies.

Other than financial technicalities, the other obvious issues that companies need to keep in mind before embarking on the ambitions of expansion through the route of M&A pertain to marketing, legal, human resources, operational and governmental. Certain important questions related to these issues also need to be answered: What would be the effect of the joint venture on the customers' front? How would they benefit from this joint venture? What pending suits remain on the legal front? What kind of additional exposures are possible, alongwith human resource issues, of combining different corporate cultures and handling downsizing of combined organisations? What governmental approvals are required? And of course, whether there is synergy in the deal?

While M&A or JVs within a country has its complications, the task gets even more complicated in case of an international Merger or Joint Venture. In an international scenario it becomes more important to understand the local culture, identify risks, handle personnel issues and simultaneously gauge the local environment. McKinsey & Company (Kevin Frick, Alberto Torres, McKinsey Quarterly, 2002), in separate empirical researches, has shown how a single-minded concentrated focus on achieving synergies has resulted in more than half of Mergers and Aquisitions across the globe failing to achieve prime objectives. However,

contrastingly, KPMG's 1999 report 'Unlocking Shareholder Value: The Keys To Success' showed that acquirers who focused on synergies "were 28% more likely to create shareholder value from their deal."

Other researches (Jarred, Poulsen, 90s, A. T. Kearney) have shown that perhaps it becomes easier for such Mergers and Aquisitions to become successful (in terms of shareholders' wealth maximisation) if the synergy focus is kept on straightforward soft objectives. These objectives could include easy to understand sales, market share and profit increases, operational cost savings and financial trade-offs.

But in India, the decision which lies at the core of all these issues is the one which connects the companies with the masses, i.e. after an M&A or JV, what is the brand interpretation of this merger in the minds of the Indian people who are in some way affected or benefited by the same?

M&A/JV… through the eyes of a corporation's customers, an India review

Foreign companies, using the JV or M&A route to enter into India have faced unique challenges. Typically in emerging markets like India, customers have not been exposed to brands in the same competitive manner as in developed markets, and are not sure about how to interpret them. They are also not clear about the impact of these brands or what these brands mean in their lives (ADIU report 2005, "Brand Perception in the new Millennium; India survey").

Ergo, in the case of India, where there has been limited exposure to global brands, there exists a lot of variance in what brands mean to different people. One needs to remember that perceptions are difficult to change, especially if they are formed over a long period of time. Therefore it becomes even more necessary that the conflict between the perception of the brand and its current communication, or rather representation, in the minds of the customers is minimised.

Customer perception is one of the key areas where marketers need to concentrate before getting into Mergers and Acquisitions or Joint Ventures

Customer perception is one of the key areas where marketers need to concentrate before driving towards an M&A or JV. They need to realise that in India, an M&A or JV between two companies can be successful if and only if the attitude of the customers, after the deal is through, is more favorable than their attitude before the venture. If the outcome of the venture shows a positive 'customer' sign for both the companies, it would definitely ensure a synergistic effect.

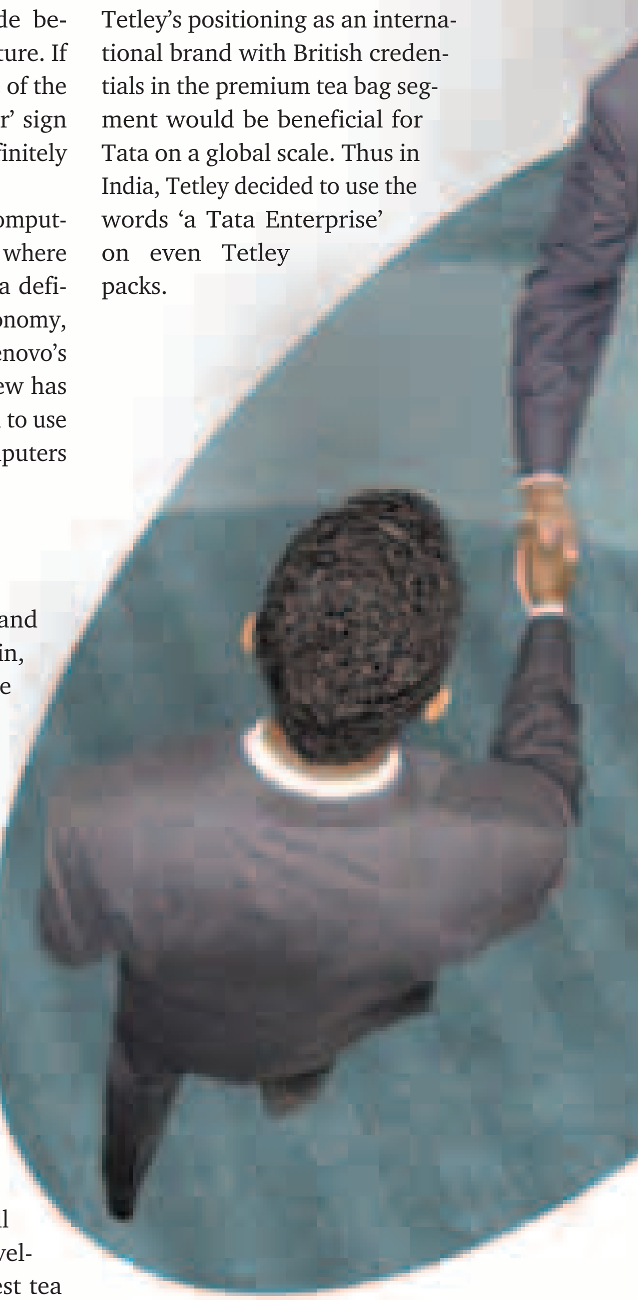
The takeover of IBM's personal computing unit by Lenovo is a case to point; where customer perceptions in India felt a definite downward skew (Business & Economy, Asia edition, July 2005). However Lenovo's strategy to fight this downward skew has been - ensuring that they are allowed to use the IBM name on their personal computers for the next three years.

Brands making the opportunistic move

With the new trend of Mergers and Aquisitions and JVs that have set in, almost every company wants to take part in this race. This trend has not just affected the companies per se, or the way they do business, but has also affected the consumer's day to day lives.

For example, the Tetley group based in United Kingdom at that time entered the Indian markets in the year 1992 through a joint venture with India based Tata which came to be known as Tata Tetley. This joint venture helped them signify a perfect blend, as Tata Tea was the leader in India for the packaged tea segment, with its brand being well settled and present even in the developed countries as the second largest tea brand in the world. Even for Tata it was the perfect platform to explore untested waters in foreign lands. It was through this joint venture that the Tetley brand, with their tea-bag technology, provided Tata access to European markets for its tea production.

In United Kingdom, Tetley has positioned itself as a brand for 'strength and flavor' and it has also associated itself with health and fitness. However, in developing geographies such as India, flavour is the prime marketing pitch rather than health and fitness. Irrespective of these differences, undoubtedly Tetley's positioning as an international brand with British credentials in the premium tea bag segment would be beneficial for Tata on a global scale. Thus in India, Tetley decided to use the words 'a Tata Enterprise' on even Tetley packs.



While, Tata's could be seen as a classic case for others to follow, there have been many others whose foreign ambitions were thwarted as they lost sight of the necessary synergies while pursuing these ambitions. A case in point is the market-entry experience of the Italian car maker Fiat.

Fiat entered the Indian market in the year 1997 through a joint venture with Premier Automobiles. Before that, Premier just had the license to sell Fiat cars. However, there was one very important factor that Fiat perhaps failed to study before it signed on the dotted lines- customer perception. The brand name of Fiat, coupled with the legacy of its car design through the years, had got ingrained into the minds of the Indian populace as an old-generation choice (much like the Cadillac in US markets).

Moreover, in cities like Mumbai, brand perceptions took another toll as most of the taxis (cabs) on the roads were Fiats (Unlike Germany, Greece and other European cities, where many Mercedes cars are run as taxis, in India, a taxi is perceived as a non-up-market commodity).

In order to overcome this predicament, Fiat tried to sell its Uno on the grounds of being 'a secure and reliable workhorse'. It applied some learning from its experience in South America. However it made yet another mistake when it assumed that the Indian market was probably the same as the South American market and thus it could market the Uno in a similar fashion. Unfortunately, in their attempt to differentiate the perception of the brand, they were further hit by global troubles of their parent company Fiat Italy, which was recording huge losses. In fact, January 2005 saw General Motors pull out at the last moment from taking over Fiat in a deal that could have saved the sinking company.

Comparatively, General Motors has followed a unique strategy of not branding the GM name tag alongwith the sub brand (as opposed to the branding strategies of Fiat, Honda, Toyota and others). For example, the Cheverolet (or the Chevvy as it is popularly known), or the Opel Astra – both GM brands – do not gain or suffer from the GM brand name, as the parent brand is not associated specifically with these sub-brands.

To place these branding cases within the perspective of the current issue of success in M&As and JVs it would be important at this point to look at certain other facts.

Not many would know that General Motors actually owns a majority of the Japanese global giant known as Suzuki. GM has ensured that the brands of Suzuki are kept distinctly separate from General Motors' brands. But in the case of Daewoo (the South Korean giant which collapsed early in this century), that General Motors owns, all the brands have been either merged within the GM brands, or are sold as GM products.

Similarly in the field of electronics, even though Aiwa is completely owned by Sony Corporation, the parent company ensures that these two brands are kept separately as far as possible. This strategy is crucial as Aiwa straddles the low price segment of the market, while Sony straddles the quality conscious market segments. However, Sony did not adopt the same strategy when it took over the Ericsson cellular phone business to enter into the mobile phone market. Rather than doing away with the Ericsson brand name, Sony decided to start selling its cellular phone globally (and in India) under the Sony-Ericsson brand name.

Lessons to be learned

Good, bad or ugly, Mergers and Aquisitions and Joint Ventures are here to stay. Wedged between the American, Japanese, Korean and of course, the Chinese brands that have launched a slew of products positioned in different segments, our Indian brands would find the going tougher. But then, the lesson is perhaps important for the foreign companies entering India through the acquisition or JV route. It is necessary for them to realise that India is a radically different market and that it is unwise to apply similar strategies used in foreign markets. The existing Indian markets, the cultural behaviour, the values people hold, and many of the buying behaviour patterns, are typically 'Indian'.

It is important to note that even a small player can be seen as a leader, not by being the biggest but by innovative positioning. The real value of a company, more typically in India, often lies outside its business, in the minds of its customers and other stakeholders. To sustain the value of a brand, it is essential that all communication related to it speaks in one coherent voice. For Mergers, Acquisitions and Joint Ventures can only guarantee entry into the promising Indian markets, only intelligent positioning would guarantee sustained competitive advantages. ■

India is **a radically** different market. Here people are **price sensitive** and quality conscious

Human Capital ASSESS Is India Inc. ready?

It is imperative that corporate India uses performance measurement as a strategic tool to retain and reward deserving employees

By Dipankar Sarkar, IIPM AHMEDABAD

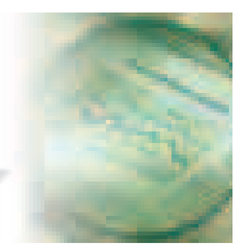
There is no denying the fact that human capital is the most important asset for an organisation. If sourced, nurtured, retained effectively and utilised efficiently, human capital can be leveraged to establish sustainable competitive advantages over long term. Yet, if we look into the practices of various corporates across the globe, it will be fairly apparent that appropriate measurement of human capital or people assets are not practiced in majority of the organisations. In some cases, measurement of human capital is reported internally but not externally to the general stakeholders.

Companies across the globe have perfected ways to measure returns from their operations - from ROI of new investments, success rates of new product introductions, productivity of their manufacturing operations, to return on the total capital employed. The reason for this is obvious- give better and newer products to the customers and devise better ways to retain them to optimise the return of the company's assets. As all these are critical factors for the company's success, without credible measurement of these areas management would be impossible. But even though people are the key to success of an organisation, human capital measurement is not widely used. Measurements of ROI on physical assets and liquid assets are commonplace but measurements of human capital ROI are not. The problem is that this was not a key issue during the times when competitive advantage was defined by the size of the company's physical assets and proprietary products. But now, competitive advantage is defined by the kind of people you have in your organisation.

Nevertheless, companies across the world are waking up to this reality of the leveraging of human capital, there is a conscious effort to try and measure human capital and its related investments. The fact is that the most successful organisations today and in the future will be those that are able to measure the business impact of their investment in people – whether that is investment in employee recruitment, performance management, skills development or benefits administration.

This concept is new to organisations in India although some companies like Infosys Ltd. have already pioneered the efforts and report on human capital assessment. The fact that India has always been late in adopting contemporary business practices probably justifies the reason. However, the most problematic area for human capital measurement and reporting is the fact that there are no acceptable guidelines to fa-

Human Capital Linked To Financial Performance



Source: Gratton, Lynda, "Living Strategy: Putting People at the Heart of Corporate Purpose" 2000

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cilitate holistic measurement of the human capital. Unlike the accounting principles such as GAAP, there are no such principles that would give direction on how to go about human capital measurement. Whereas the end of the financial year reporting is a statutory requirement for all registered companies, when it comes to human capital reporting, the guidelines are silent. This has been the primary reason for the concepts of human capital measurement and reporting not gaining wide acceptance in corporate India. The other reason has been the traditional outlook of Indian companies, which is to view their employees as an expense rather than as drivers of value, or in simple words, as assets. But the shift of focus from the manufacturing sector to the service sector should have enabled businesses to recognise the importance of the human assets and their value to the organisations' successes. It is no longer merely a philosophy that human capital measurement is critical in order to create and leverage a high-performing work environment. It is a matter of everyday business situations.

A Primer on human capital

Human capital is an all encompassing term for the overall pool of competencies that the employees of an organisation possess, which can be developed further and which can be leveraged to produce goods or offer services in the market place. Competencies include skills, abilities, knowledge as well as work behaviour. Human capital refers to things people have which may or may not directly translate into economic value for themselves and the organisations they work for unless leveraged appropriately. In fact, if one analyses the nature of human capital it becomes apparent that an individual on the one hand can have the skills, abilities, and knowledge which could be fairly evident but on the other hand, an individual can have self awareness, self esteem, and personal integrity which are not evident but which are needed to convert their skills, abilities and knowledge into work behaviour which can produce value for themselves and the organisation. These individual capitals, when accumulated, represent the entire gamut of intangible assets that an organisation can have. For example, the accumulated skills, abilities and knowledge represent the intellectual capital for the organisation and the accumulated self awareness, self esteem, pride, trust and inspiration represent the emotional capital of the organisation. These aspects, i.e., intellectual and emotional capitals as well as corporate culture (which is again an accumulation of the entire formal and informal relationships as well as all the group norms, ethics and values that employees of an organisation have), establishes the ways in which things are done, policies are put into practices and strategies are implemented

It is no longer merely a **philosophy** that human capital measurement is critical in order to create and **leverage** a high-performing work **environment**

Balance Scorecard

Financial	Return on Capital Employed
Customer	Customer Loyalty on Time Delivery
Internal/Business Process	Process Quality Process Cycle Time
Learning and Growth	Employee Skills

Sources: Adapted from Kaplan, Robert. S and Norton, David. P, "The Balance Scorecard", HBS Press, 1996

in an organisation. So, naturally it is the human capital which is the most important factor in a firm's performance. There have been quite a few models to suggest linkages between human capital and a firm's profitability or financial objectives. Gratton, Lynda, in her book, "Living Strategy: Putting People at the Heart of Corporate Purpose", 2000, proposed a simplistic model which explains the link between people and financial performance of the companies (Figure 1). The most famous and authenticated model for linking people assets with financial performance is perhaps the Balanced Scorecard proposed by Kaplan and Norton in their book "Balanced Scorecard", 1996 (Figure 2).

Adapted from Kaplan, Robert. S and Norton, David. P, "The Balance Scorecard", HBS Press, 1996

Human capital measurement: through the ages

There have been many studies on ways to measure human capital. Mark Graham Brown in his article, "HC's measure for measure," 1999 suggested that a simple human capital index made up of four submetrics is better than crude measures like turnover, education level, training attended and developmental plan objectives that some companies use.

The four sub-metrics in Brown's index are – (1) Level in the company, (2) Performance rating, (3) Variety of positions, and (4) Years in field/business. They are weighted so that the index produces a score out of 100. The weightage depends on the company's specific situation, and the importance of skill/competencies versus experience/performance. The benefit of such a measure is that it is simple. However, the disadvantage is that it is not an all-encompassing measure, and ignores other possible inputs that might be important to some companies.

Monti-Belkaoui, Janice & Riahi-Belka-

Implementation of the systems for measuring human capital would necessitate determined initiatives from top management executives

oui, Ahmed, in their book, "Human Resource Valuation: A Guide to Strategies and Techniques", 1995, suggested that human resource valuation should be based on value-addition, as it is a measure of wealth. Value-addition is defined as the increase in wealth generated by the productive use of the firm's resources before its allocation among its shareholders and other stakeholders. The Value-Added reporting became popular in the UK with the publication of the Corporate Report in 1975, a discussion paper published by the Accounting Standards Committee, which recommended, amongst other things, that a statement of value added showing how the benefits of the efforts of an enterprise are shared by employees, providers of capital, the government and reinvestment, be included in the external reporting. The statement of Value-Added provides a useful measure to help in measuring performance. By relating key figures such as capital employed and employee costs, the value added can be a significant indicator of performance.

This concept of value addition has been corroborated by Jac Fitz-enz in "The ROI of Human Capital: measuring economic value of employee performance", Amacom, 2000. Jac Fitz-enz has suggested various ways to measure human capital value added. He has argued that all human capital hidden costs like the cost of absenteeism and the cost of labour turnover along with the cost of pay and benefits should be considered to calculate the human capital value added. He proposed that all non-human expenses and human capital expenses (including the cost of absenteeism, cost of turnover and the likes) should be subtracted from revenue to find out the real human capital value added. Similarly, he suggested that to find out the human capital return on investment, one should use the real cost of human capital as the denominator, not merely the cost of pay and benefits. Jac Fitz-enz also suggested a format for writing a Human Capital Profit and Loss statement. Revenue from operations minus the non-human expenses appears as the revenue earned in the proposed statement. All the direct (pay and benefits, cost of acquisition, costs of training, etc.) and the indirect costs of human capital (cost of absenteeism, cost of turnover, etc.) become the expenses in the statement and the difference is stated as the net income from human capital.

What should one measure about human capital?

Given the nature of human capital and the interlaying complexities involved in understanding intangible assets, one may actually term human capital measurement in its entirety as not feasible. But the following factors, which could be compiled from the works of various authors, could give one a head-start in measuring human capital's efficiency and effectiveness.

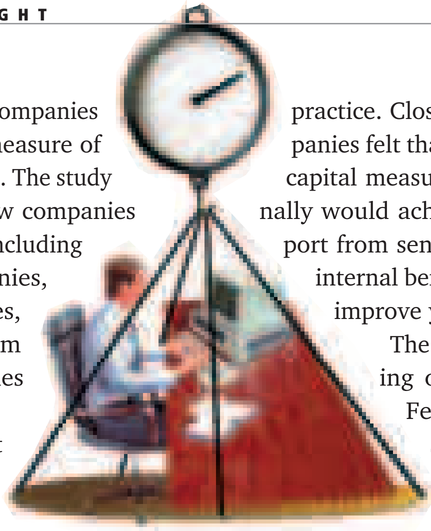
The factors are:

1. Turnover/ Retention/ Absenteeism statistics.
2. Workforce Profile which includes Diversity, Staff Headcount Analysis, Leadership Talent Pool, Workforce Demographics, Average workforce age and Average seniority.
3. Competencies and Training which includes Performance reviews and Appraisal Completion, Training per employee, Staff with professional qualifications, Competency ratings, Mistakes, Passing of exams, Quality of leadership and Average educational level.
4. Employee Attitude which includes Employee Satisfaction Surveys and Staff engagement models.
5. Employee Compensation which includes Remuneration Analysis, Percentage of staff with stock option plans and percentage of staff with variable compensation.
6. Recruitment which includes Staff acquisition costs and payback analysis, Graduate attraction and Short term tenure.
7. Employee Productivity which includes Profit per employee, Revenue per employee, Wealth created per employee, Cost per employee, Productivity measures and Overtime statistics.
8. Health and Safety.
9. Other Statistics which include HR Staff per employee, Customer complaints and compliments, Recourse to Fair treatment systems, Recourse to speak out system and Promoted persons.

Even a cursory look at these factors may make one understand that it is highly feasible to measure all of these parameters. One would only need to define certain data capturing methods and analytical models to make sense of the data or determine various statistics. Having said this, implementation of the systems for measuring human capital would necessitate determined initiatives from top management executives. Top executives would take initiatives and organisations would spend resources in measuring these only if the top business executives, collectively, have a favourable perception about the usefulness of measuring human capital and overall they think that it is feasible. This necessarily means that top business executives should be perceptually ready to implement the measuring process and they should believe that the measurement is feasible

Readiness of India Inc. to measure human capital

Evidences from a study of the readiness of India Inc. to measure human capital and perception about the feasibility of measurement conducted by the students of IIPM under the guidance of the author suggest that India Inc. is partially ready to implement the systems to measure human



Most HR managers mentioned that the reason they **did not carry out** Human Capital measurement was the lack of time and **resources**

capital and most of the companies studied perceived the measure of human capital as feasible. The study was undertaken in a few companies located in Ahmedabad including pharmaceutical companies, engineering companies, export houses, telecom companies, IT companies and hotels.

It was found that majority of the companies studied undertook some form of human capital measurement in the past financial year. The companies that did not undertake human capital measurement cited lack of time and resources as the reasons. Of the companies that did undertake human capital measurement, the most preferred approaches were HR benchmarking and HR metrics approach and the Balanced Scorecard Approach. The study attempted to find out how the companies were changing their practices to carry out human capital measurement. Almost all the companies revealed they were collecting quantitative data such as employee turnover and workforce composition; and undertaking exit interviews. But only one of the companies actually revealed that they were considering introducing new technologies to measure human capital.

Almost all the companies, however, perceived that human capital reporting would let them evaluate what contribution human capital management has made to the overall performance of the organisation.

The findings in the study could be analysed to reveal a Readiness Index of 48.20 on a base of 100. This means that the companies studied were 48.20% ready to measure and report human capital of their respective companies. About half of the companies believed that the major obstacles to human capital measurement are – (i) that such measurement was not a priority for the management; (ii) lack of clear guidance; and (iii) lack of universal practice. Close to 67% of the companies felt that reporting of human capital measurement figures externally would achieve buy-in and support from senior level and provide internal benchmarks on which to improve year to year.

The other significant finding of the study was the Feasibility Index of the surveyed companies, which gave an indication as to how feasible the companies thought it was to carry out human capital measurement and reporting. The Feasibility Index of the survey was calculated as 349 on a basis of 500, which translates into 70% feasibility in measuring human capital and reporting it. Which means that companies perceived the task of calculating human capital value added and creating a Human Capital P/L statement as feasible.

The final result was quite encouraging as it had shown that most companies believed that given a situation wherein they had to create a Human Capital P/L Statement, they would at least be perceptually ready to prepare it. Most companies also believed that the feasibility of measuring the factors that constitute a Human Capital P/L Statement were quite feasible to measure.

So, what is the bottom line?

There were clear contradictions as revealed by the study. The Readiness Index was only 48.20 while the Feasibility Index was 70. This simply means - whereas the companies perceived that it was feasible to measure human capital they were only half prepared to implement the measurement. As a matter of fact, one of the most significant findings of the study was that most HR managers mentioned that the reason they did not carry out Human Capital measurement was the lack of time and resources. Top management was seemingly unconcerned towards Human Capital management as a whole. The attitude was that 'India does not need to adopt the concept so soon.' There was an indication of lethargy on the part of the top management to undertake human capital measurement.

The reasons could be varied but there is definitely a need for companies to identify the importance of human capital measurement and develop systems to actually measure various parameters.

There is a need for clear guidance on the concept of human capital measurement and reporting. Unfortunately, the practice of human capital measurement, even in the international scenario is still in its nascent stage and it will be sometime before the trend catches up with the Indian industry. ■

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The **IIPM Think Tank**, an independent, India-centric research body, is inspired by **Dr. M.K. Chaudhuri's** vision of India as an economic powerhouse in the 21st century; a modern nation state where poverty becomes history and the underprivileged are not consigned to the dustbin of amnesia. The national presence (across seven nodes, News Delhi, Mumbai, Chennai, Pune, Banglore, Hyderabad and Ahemdabad), makes our understanding of the economy superior, where is many research fellows, senior research associates, research assistants, program coordinators, visiting fellows and etc embark on research assignments and network with global intelligentsia.

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Attracting Private

INVESTORS

By Frank Demmler

In a "normal" year, venture capital will invest in 2,000-3,000 companies in the United States. Of those, about half will be receiving their first round of institutional investment. This is in contrast with the total of about 14 million businesses in the United States of which well over 13 million have less than 100 employees. Every year, close to one million new businesses are launched. It has been estimated that private investors provide ten times the capital for small businesses as compared to that invested by institutional venture capital. The bottom line for most of the entrepreneurial readers is that your funding is much more likely to come from private sources than from institutional venture capital.

Not all the same

Private investors are not all the same. Quite often a first-time entrepreneur gets focused on raising money from an "investor." This "investor" becomes the sole focus of the entrepreneur as he seeks the "answer" to how to access and successfully solicit funding from that "investor." If only it were that simple. The private investor is as varied as your neighbours, as your classmates in the various schools you attended, as the drivers in all the cars fighting the traffic with you each day. Private investors are individuals first and foremost, with the same human differences that each of us has. As such, some may have an interest in your company and some won't. Some you'll want to be interested in your business and others you'll want to avoid. Some will have investment expectations that you consider to be reasonable, and some won't. Your challenge will be to identify the intersection of potential investors out of the universe of all investors with the deal structures that that are acceptable to you out of the universe of potential deal structures.

The role of perceived risk

The first thing you need to understand as you consider approaching potential investors is that their perception of the risk involved with your business (and their potential to receive a return) is the initial hurdle you must overcome. Their perception of risk is likely to be much different than yours. You need to be sensitive and responsive to that. A corollary to this is that this screen is pretty much binary. By that I mean the potential private investor will have an initial reaction to you, your company, and the investment opportunity. If that initial reaction is one of, "it's too risky," you can scratch that person off your potential investor list. Only if you pass this screen will you have an opportunity to try to convince the individual to invest and to influence the terms under which such an investment would occur.

As you proceed down the path of seeking private investment, the potential investor will be making a series of decisions. The outcome of each decision will be "no," or "maybe." Your goal is to get, "maybe," each time until you finally get the coveted, "YES!"

Advice to entrepreneurs

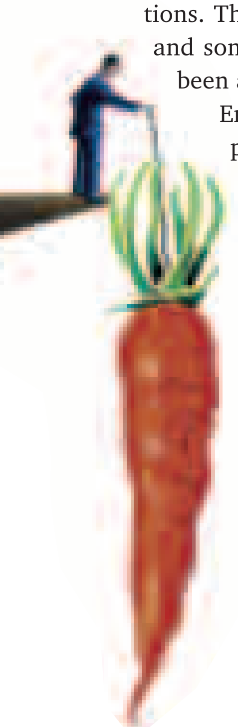
- In all probability, your funding is going to come from private investors, not institutional venture capital.
- There is no single "private investor." Each is an individual with his or her own views and sensitivities. Attracting an investment from such sources is not a "one size fits all" proposition.
- The potential investor's perception of risk will greatly influence whether he has an interest in investing in your company under any circumstances.
- If you approach a potential investor prematurely or inappropriately, you will lose that investor unnecessarily and for the wrong reasons.
- Surround yourself with professionals, mentors, and advisors who can help you level the playing field.

Perceived risk

- A bank will want to see profitable operations, positive cash flow, and sufficient assets to provide collateral for any loan it is going to provide. As such banks may fund your growth, but they won't generally fund your start up. According to this method of evaluating risk, your start up is "too risky."

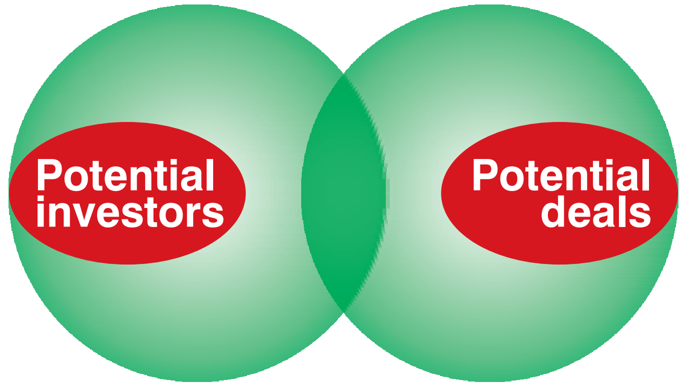
- Alternatively, venture capitalists may not be put off by your company's financial performance to date. In fact, they would probably be surprised if you satisfied any of the bank's criteria. They will want to evaluate the financial return potential of your enterprise and the inherent risk associated with your ability to realize that potential. They will do this evaluation in the context of their experience, their existing portfolio and other deals they are looking at and the investment criteria of the fund. The net of all this will be to come to a decision about the risk-adjusted return expectations of your venture.

These two examples represent the two poles of the financial sources scale. They share the characteristics that they are reasonably predictable with regard to their requirements for your ability to access their capital. The same could be said for other identifiable sources, economic development funds, technology grants, etc. They have stated criteria and an honest evaluation of your firm will help you determine whether you have any chance of qualifying for their funding. Too often, first-time entrepreneurs don't do their homework and/or don't have the sophistication to properly assess their qualifications. This can lead to disappointment, and sometimes anger, that could have been avoided.



Entrepreneurs have to gain the sophistication to understand what sources are viable for them and which aren't. The competition for those funds is often quite intense, and the people responsible for making the funding decisions have extreme time pressures placed upon them. You are not doing yourself any favors by aggressively pursuing a source of capital for which you don't qualify. Similarly, creating ill will by venting your frustration when you are inevitably turned down is not smart. Don't shoot the messenger, particularly when the source of the problem is your mistaken belief that these programs are set up for "you" and you are "entitled" to them. You are not entitled to any of these funds. Get over it. Compete for funds for which you are qualified, and compete well and from an informed base. Private investors are not so predictable. That's why you have to manage the process.

The first step in attracting private **investment** is to recognize how others will react to the risk of your **enterprise**



Sources of risk

The first step in attracting private investment is to recognize how others will react to the risk of your enterprise. While risk can have an almost infinite number of dimensions, there are two core sources of risk: the business and the people.

Business risk

The types of questions that a typical private investor might ask about the business include:

Is there a market opportunity worth pursuing? Is the business at hand a reasonable way to exploit the opportunity? Who are the competitors and how are they addressing the identified opportunity? Can a start up or early stage business realistically establish itself in such circumstances? Who are the customers? How are they accessed? How do they make purchase decisions? Can the venture successfully close sales? What is the role of technology in this venture? Does the company have proprietary intellectual property? Is the technology invented, or in a lab? Have customers used it and endorsed its value? Can it be effectively protected? The point is: Evaluating business risk can be quite daunting for the typical private investor.

People risk

Similarly, the types of questions that a typical private investor might ask about the people include:

Is the venture's team the one that will successfully exploit this opportunity and provide a desired financial return to the investors? Do they have relevant industry experience? Have they done it before? Can they grow to meet the venture's future needs? Will they accept advice and guidance? Will they attract quality people to the team and let them do their thing? Do they understand the value of a dollar in an entrepreneurial concern? Are they good people? Do I want them to win? Do I want to work with them? Do I like them? How do I know if they have integrity? How can I go beyond superficial impressions and really get to know them as a person?

Evaluating risk

Just as risk has many dimensions, evaluating that risk can go in many, many directions. In the private investor arena, the potential investor is unlikely to have the resources, time, or motivation to go a "professional" due diligence process. The private investor is rarely making investments in companies such as yours as his primary occupation. If it's "too hard" to evaluate your business, they will pass and move on to the next deal. Remember the previous advice:

- If you approach a potential investor prematurely or inappropriately, you will lose that investor unnecessarily and for the wrong reasons.

What are you to do then? How do you influence the perception of risk? For lack of a better way to express it, you need to evaluate how well potential investors know the business and know you. If a particular individual knows something about your business, he will either "get it" or not. If he "gets it," then his perception of risk will be significantly reduced, relative to someone who doesn't know the business. Similarly, someone who knows you and thinks well of you will perceive lower risk than someone who doesn't.

Advice to entrepreneurs

- Many sources of capital have defined criteria and processes for attempting to access that capital. It is the entrepreneur's job to learn what's what, and to honestly evaluate whether his company qualifies for consideration.
- Private investors are less predictable than institutional investors. The entrepreneur needs to understand and categorize potential private investors according to their perceptions of risk.
  1. Do they know anything about the business?
  2. Do they know you?
- Surround yourself with professionals, mentors, and advisors who can help you level the playing field.

Perceived risk

Taking a step back, how 'others' perceive risk is the important point, as we've discussed earlier. Let's take a look at the perceived risk of the four categories of potential investors represented by the above table.

Don't know you – Don't know the business

Think about it. If a complete stranger contacted you and asked you to invest in a business you didn't understand, what would be your response? Why? If you were like most normal people, your answer would be something like, "I will not invest in your company because I don't know anything about you or your company, so it appears to be extremely risky. I would have to devote a lot of time and energy to be comfortable to even consider an investment." Why would people you approach then respond any differently?

Without extenuating circumstances (and there are some we'll discuss later), if this group were to be your primary focus of fund raising, the characteristics you might expect would include:

- long decision time
- highest return required, due to the perceived risk
- lengthy due diligence process

At the same time, though, it does represent the largest pool of potential investment.

Know you – Don't know the business

This group of private investors that Jeffry Timmons, noted professor of entrepreneurship and author, calls the 3 Fs - Family, Friends & Fools. These are the people do not see a lot of risk because they know you and are often willing, or feel obligated, to invest with you. Quite often their motivation for investing has little or nothing to do with financial gain. Some of the characteristics of this group include:

- Quick decision
- Lower economic cost
- Highest potential psychological cost

The last point is worth commenting upon. The role of 3F investment is often hotly debated. Some investors won't invest unless you've tapped that source. If friends and family don't demonstrate their confidence in you, they'll say, why should they? If you say that you haven't approached them because you don't want them to risk their limited capital in your business, the typical response from an investor will be to challenge your level of confidence in your own business.

These attitudes are next-to-impossible to change. If you are comfortable including friend and family investment, or welcome it, for that matter, then it's not an issue. If you choose not to seek investment from this source, and another investor challenges you on it, thank them for their time and move on. You won't change that investor's mind.

Don't know you – Know the business

Someone in this category is likely to respond in one of three ways to your business proposal: "I don't agree"; "Ho-hum"; or "I get it!" If you get one of the first two responses, thank them for their time and move on. If you get the last response, you have reduced the risk significantly. Now you've only got to convince them that you're the right person to exploit the business opportunity. Some of the characteristics of this group include:

- moderate decision time
- great anchor & halo effect
- higher return expectations
- can add significant value

If someone from this group were to commit to an investment, their independent endorsement may significantly impact (lower) the risk perceptions of others, thereby motivating them to invest. Hence the reference to the anchor (locks in a deal) and halo effect (their participation, alone, impacts others favourably).

> If a particular individual knows something about your **business**, he will either "get it" or not. If he "gets it," then his **perception** of risk will be significantly reduced

Know you – Know the business

Again, the knowledge of the business is a very important distinction for this group. The interpersonal relationship, though, has its own implications. On the one hand, the decision making process may be shorter since both major risk areas are greatly reduced. On the other, the personal relationship may somewhat diminish the halo effect of this investor's participation.

Some of the characteristics of this group include:

- quick decision
- good anchor
- halo effect
- can add value

Not all investors are the same. Analyzing their differing characteristics can provide you with insight as to how to approach each type and when.

Advice to entrepreneurs

- A potential investor's perception of risk will greatly influence whether he has an interest in investing in your company under any circumstances.
- To be able to manage the fund raising process to your greatest advantage, you need to categorize your potential investors by their perception of risk.
- Using their knowledge of you and your business can be a useful method for categorization.
- Surround yourself with professionals, mentors, and advisors who can help you level the playing field.

Tactical plan for raising money from private investors

The first step in attracting any potential investor is to address the risk of the opportunity, as perceived by the investor. Venture capitalists do this by conducting due diligence, a structured, possibly lengthy and costly, process whereby they attempt to confirm the business proposition and the people who are proposing it. In the private investor arena, full blown due diligence of this type is rare. Most often, the substitute for due diligence is Affiliation Risk Reduction. In essence, it's a process of getting new investors to commit to an investment because of the investors who have already committed. The metaphors I can use to illustrate this point are many, so I will try a few:

- You are known by the company you keep.
- Set up the dominoes so that when you knock one over, the others will fall behind it. And for the cynics among you,
- Misery loves company.

The key point is that most private investors will never be able to understand your business, or your ability to run it. If they had to make an investment decision in isolation, it would most likely be negative. Recognising that, your job is to secure a surrogate whose judgment that private investor will be willing to accept as an endorsement to both.

Sequencing implications

Don't know you – Know the business

This is the best type of investor you can secure. If someone from this group were to commit to an investment, their independent endorsement will significantly improve the risk perceptions of others. Not only have they put their seal of approval on your business, but they have taken the time to make an independent, unbiased appraisal of you.

Know you – Know the business

This is the second best group, but may be the first one you address. Like the prior group, their endorsement of the business is meaningful, but their personal relationship with you may bring this person's objectivity into question. Still, someone from this group may prove to be an ideal conduit to someone in the first category.

Know you well – Don't know the business

This group is not perceived to have independent credibility. They should be actively solicited only after investors in the first two categories are moving in the right direction.

Don't know you – Don't know the business

If you do the preceding correctly, this group of investors will be anxious to get in on your "hot" deal.

Think about how this has changed the dynamics! If you went after this group first, as many first-time entrepreneurs do, you would face tremendous resistance and likely rejection. They don't know you. They don't know the business. Your proposal is extremely risky. With the approach suggested in this column, though, the fact that others with independent credibility have endorsed the deal reduces the perceived risk. The fact that the deal is

THE BUSINESS	
KNOW	DON'T KNOW
• Quick decision • Good anchor • Halo effect • Can add value	• Quick decision • Lower economic cost • Highest potential psychological cost
• Moderate decision time • Great anchor • Halo effect • Higher return expectation • Can add significant value	• Long decision time • Highest return requirement • Lengthy due diligence • Largest pool of capital

getting further commitments reduces the risk. The fear that the deal will be fully subscribed, and the investor might be prevented from participating, may induce a quicker decision!

Tactical plan

When you decide to launch fund raising, you need to have a game plan plotted out in advance.

WARNING: I am not an attorney. Some of what I'm about to write could violate securities laws if not done correctly. Make sure your attorney is aware of what you are doing. Prepare to launch your fund raising campaign

How much money do you hope to raise? What terms are acceptable to you? When would you like to close the deal? Are you prepared to devote the necessary time and energy? Have you assembled and prioritized a potential investor list? Have you prepared the necessary collateral that you will need to support your fund raising efforts?

- Business plan (no more than 25 pages, plus appendices)
- Mini-plan (3-to-6 pages that captures the essence of you r business)
- Executive summary (2 pages or less that leaves someone wanting to know more)
- One-pager (the elegance of brevity)
- The elevator pitch (the story you can tell a stranger on an elevator when travelling 3 floors that will make the strange want to know more)
- A 22-slide PowerPoint presentation (that can be reduced to 8 slides when necessary, or expanded to 60 when appropriate)

Begin the process of getting the word out

Create some positive buzz about your business through formal and informal channels. Perhaps share your one-pager (see above) with selected individuals as an update to what the company has accomplished and where it intends to go. DO NOT solicit any investment interest at this point. That's practical as well as legal advice.

Get commitments for 15-25% of the total deal from credible investors

Your goal at this point is to get an investment commitment from 1 to 3 individuals whose credibility is likely to get others to invest. If you were seeking $500,000 total, you would like to get commitments in the range of $75,000 - $125,000 at this stage of the fund raising process. From your list of potential investors, identify the 10-15 that fall into the two primary categories of people who know the business, whether they know you or not. Of these, who are the 6-10 that you and your advisors collectively think could invest and are likely to respond favourably to your pitch? Determine how you can get to each. If you've done the job right, you're likely to be only two introductions away from these people (in the context of Six Degrees of Separation).

Create some positive buzz about your business through formal and informal channels. Share your one-pager with selected individuals as an update to what the company has accomplished

Use that commitment to "knock down a few more dominoes"

With the core commitment in place, expand your reach to the next circle of potential investors. Up until this point, these people have expressed "interest" in your company and a potential investment, but haven't committed to invest, and really haven't had anything to commit to until this time. Prudent application of time, energy and pressure, should get the commitments to your deal to the 40-60% level.

Use momentum to drive to a successful closing

With the apparent momentum of the deal, and with a closing day in sight, you will have three powerful tools at your disposal by this time. You have a deal, so the fence sitters now have something to look at about which they can make a decision. You have a closing date, so they need to make the decision within that time frame. You have a dwindling amount of investment available, and with a "first come, first served" posture on accepting investment, there is pressure on the potential investor to decide sooner rather than later.

Advice to entrepreneurs

- Categorise potential investors with regard to their perception of risk of an investment in your business.
- Identify less than 10 individuals whose investment commitment will have a favourable impact on the investment decisions of others.
- Create a proactive fund raising game plan that you can execute to your advantage.
- Appreciate the dynamics of the fund raising process and use that to your advantage.
- Surround yourself with professionals, mentors, and advisors who can help you level the playing field. ■

NOTE: I would like to acknowledge Tom Canfield of Equity Catalysts (www.equitycatalysts.com) for his contribution to these articles. Much of what I'm sharing with you was developed by Tom and me when we worked together at The Enterprise Corporation of Pittsburgh, a predecessor organization that was merged with others to form Innovation Works in 1999.

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IIPM - Think Tank

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Who we are..

The **IIPM Think Tank**, an independent, India-centric research body, is inspired by **Dr. M.K. Chaudhuri's** vision of India as an economic powerhouse in the 21st century; a modern nation state where poverty becomes history and the underprivileged are not consigned to the dustbin of amnesia. The national presence (across seven nodes, News Delhi, Mumbai, Chennai, Pune, Banglore, Hyderabad and Ahemdabad), makes our understanding of the economy superior, where is many research fellows, senior research associates, research assistants, program coordinators, visiting fellows and etc embark on research assignments and network with global intelligentsia.

Who we believe..

The **IIPM Think Tank** is wholly free of ideology and looks at the Indian Development Paradigms, Purely modeled upon the basis of 'Objective Reality'. We passionately believe in the credo that we constantly seek to follow: rethink, edify and delineate. This enduring commitment has helped us foster and broaden the parameters of public policy debate and alternatives. Toward that goal, it strives to archive greater involvement of the intelligent, concerned change agents (reform minded politicians, public servants, media, socially responsible firms and citizens) in questions of policy and the ideation, furthermore, we ardently believe that the managers of tomorrow that are being groomed at IIPM today will play a decisive role in India's renewed tryst with destiny.

What we do..

As a premier 'ideas organization' in Asia The **IIPM Think Tank** is committed to enhance public awareness of policy issues an economics and management and to engineer solutions that will fulfill the 'Great India Dream'. By publishing the finding of its research, and though the active participation of its senior researchers in the media and policy, it aims to bring new knowledge to the attention of policy makers. Every year, The IIPM Think Tank commissions and publishes three quarterlys reviews and an annual review, on a wide range of policy issues including education, health, poverty, unemployment, agriculture, industry, services, FDI, external trade, infrastructure and environment. All these outputs meet the highest standards of scholarship, are accessible to a broad readership, and explore policy alternatives consistent with the philosophy of ours. The central theme of our issues are devoted to assess where the critical predicaments are, analyzing what needs to be done to annul the element of development deterrents in the economy and offer concrete proposals on how to accelerate welfare everywhere towards achieving inclusive development. The India Economy Review is a small manifestation of that vision. More than 1,000 students (seven nodes of IIPM0 have---and continue to-spent endless hours conducting primary and secondary research on contemporary issues that confront the Indian Economy. This research is then analyzed threadbare by at least 50 knowledge workers across the seven campuses. Brand new insights and policy recommendations that are provided by this core team are then crafted, honed and polished by 20 members Economy Research Group (ERG). This massive effort is spearheaded and led by the renowned economist and management guru, **Professor. Arindam Chaudhuri.**

This article deals with the key role of Strategic Planning for organisations in the current business environment and how it can lead them to the next level of organisational development, effectiveness, and success.

Revisiting and redefining strategic management

By **A. Sandeep**

"With over 50 foreign cars already on sale here, the Japanese auto industry is not likely to carve out a big slice of the US market" – Business Week, August 2, 1968

If you've been a diligent reader, I'm sure the statement by Business Week in August 1968 that I've mentioned in the previous page would not have escaped your attention. Business Week presumably at that time had not been exposed to concepts of Japanese perseverance as much as the US government is exposed to now in the new millennium. Business Week in 1968 probably had no idea of how Japanese corporations would one day rule some of the most powerful brands in North America. Even though many Japanese companies were inherently at a disadvantage when they wished to enter the North American markets, they tried and still made it.

The US market, not only in its geographical expanse & the sheer logistics problems, but also in its cultural separation from Japanese, had posed a lot of problems for various Japanese companies. But Japanese companies, in sectors encompassing automobiles to electronics, successfully competed and became powerful players in the US market. To an extent that in the last decade, for a considerable time, Japanese companies manufacturing cars in the US were exporting more cars out of the United States to Japan than the number of cars that top US manufacturers combined were exporting to Japan! And Business Week was still busy commending Ford on being the first truly American company to have brought out a right-hand drive car especially for the Japanese market. Not that there is anything wrong with that, but the question remains as an example, why were the US automobile corporations not able to make similar inroads into the Japanese automobile market, as the Japanese had done in the US market?

The Americans initially loved blaming the Japanese Government's restrictive trade practices. A part of that is true. The US & Japanese have fought over many other things than the Second World War. Import restriction was one area. Foreign exchange controls was another one of the areas. The US Federal Reserve had & has been quite regularly concerned about the value of Japanese Yen against the US Dollar. As they feel that in case the Japanese Yen falls in value against the US Dollar, the US suffers in various areas. For example, the Japanese corporations exporting to the US would have an advantage in pricing their products or services cheaper in the American market as compared to US manufacturers, thus beating American companies in their own geography. How is that possible? A Japanese manufacturer who manufactures a product in Japan for say 90 Yen and wants a 10 Yen profit margin would import the product to US for 1 $ in the US if the exchange rate is 100 Yen = 1 US $. In case this exchange rate becomes say 200 Yen = 1 US $, then the same Japanese manufacturer, while maintaining his profit margin of 10 Yen, needs to sell the product for only 50 cents in the American market as 50 cents would be equal to 100 Yen after the devaluation of the Japanese currency. So much for the calculations, but the fact remains that albeit the tussles between the Japanese & US Governments over political decisions, it was not just this that had made the Americans not succeed in the Japanese market.

Were Japanese companies excellent in strategic management for them to enter the American markets and be successful? In general, the answer would be an emphatic 'No'! At that time (1960s & 70s), Japanese companies were not oriented towards planning in detail, or strategising till the last point, while entering global markets. But what they did not lack was the vision! Japanese corporations knew that they had huge opportunities if they were to go global. The Japanese automobile industry is so often quoted because it is a case to point, but many other Japanese companies (e.g. Yamaha-musical instruments, Sony-electronics, Toshiba & Sharp-Flat Screens) replicated the success of the Japanese automobile industry, not just in the US, but also in other continents. In Asia, for example, Japanese automobile companies have beaten their US counterparts in almost every country they operate and compete in. In India, in the year 2003—2004, Maruti Suzuki (owned by Suzuki Japan), sold three times more cars than the nearest competitor. And the nearest competitor wasn't an American company either, but a South Korean corporation called Hyundai, whose takeover of Kia motors in South Korea has enabled it to become another gigantic leader in Asia.

In the last decade, for a considerable time, Japanese companies manufacturing cars in the US were exporting more cars out of the United States to Japan than the number of cars that top US manufacturers combined were exporting to Japan!

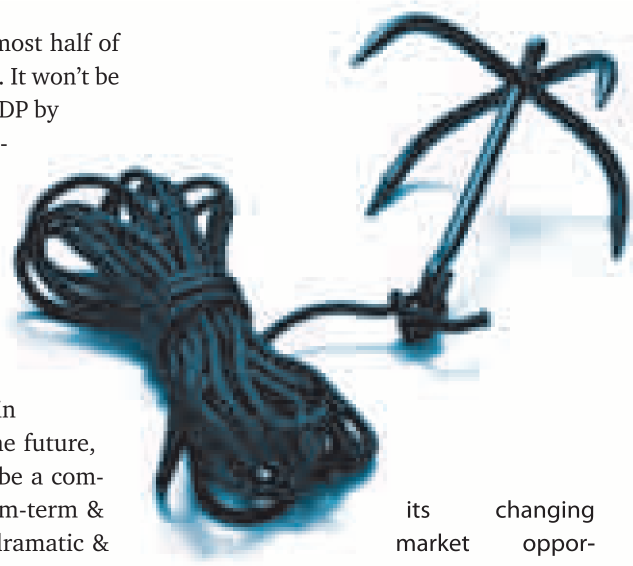
Going back to the 60s & 70s, Japanese companies were not sticklers for detailed planning. They believed more in entering the global markets first and then developing strategies as they become more conversant with customers and competition. That's the part about vision; where a JVC went into the market competing against Ampex of US.A and ended up being the creator of the world-standard VHS technology in VCRs. It might have taken JVC more than 20 years to refine its competence in this area, but the vision never lost out, that one day, they could beat the $50,000 Ampex recording machines by making recording affordable to households.

When Honda decided to enter the US market (with their motorcycles) during that period of early 60s, there was no practical focused research that they had undertaken with respect to consumer buying behaviour, investments required to hit the market, advertising plans, employee staffing, dealer network management… Practically no planning at all. They just entered! Three of the key Honda executives, headed by a person called Kihachiro Kawashima, decided to sell motorcycles of different varieties (of different cubic capacities, from the lower end to the upper end).

They decided to start sales in one part of Los Angeles where there was a sizable community of Japanese expatriates. This was not to say that the expatriates were the target market. They decided to bring equal numbers of different motorcycle models without any particular research. Honda's bikes, according to the Chief of Honda in an interview at that time, had handles with shapes that looked like the eye of Buddha. The Chief claimed that this was one of the more important reasons to look forward for success as it was an auspicious sign. Honda also decided to publicise their bikes by making the management (consisting of around three executives) drive around town in their low-end models. When it came to finally working on a formal promotion strategy, it wasn't either Honda or their ad agency (Grey) that created the world-famous punch line, 'The Nicest People Drive A Honda' A summer intern sold the idea to Grey; it was chosen from out of various other punch lines because 'the Chief liked it'.

If one analyses the statements above, it's quite easy to see that Honda's pre-entry and entry strategies were quite unimpressive, lacking structured action plans, and more based on personal likes & dislikes of top Honda executives. Honda had no idea that motorcycles sales in the US were seasonal. Neither did they realise that motorcycles in the US were driven faster and longer than in Asian countries. This led to quality issues in Honda bikes within a few months of their introduction. Customers started complaining about leaking oil. To the credit of Honda, they worked on the product issues quickly. But as much as was visible, Honda was just 'Fire-fighting'. But how did they succeed despite such lack of planning? Because they had the vision to enter the US market, and once within the market, they were convinced that they had to 'amaze' their customers and not just satisfy them. Their main strategies came into place only once they entered the US market and got a feel of the market. The concept of turning away consumer perception of motorcycles away from Harley-Davidson men to sweet family transport vehicles was planned only after Honda understood the typical mentality of the American consumer. The shift in power dynamics in supply chain, wherein Honda after a few years in the US market, forced dealers to pay-up in advance for their purchases, also occurred after Honda understood the typical bargaining power of American motorcycle dealers. This was the philosophy of almost every other Japanese company during those decades. Enter first, plan later! This was the philosophy that has created some of the world's leading Japanese corporations. And I'll attribute this to a lot of luck, what I generally refer to as being 'Vision-lucky'.

Critically speaking, if Honda were to use the same methodology (of no pre-entry & entry strategies, rather just 'vision') today to enter a new market, it would have to face failure & demolition as today's competitive scenario does not run just on hope and belief. Competition in today's world has attained new paradigms. To be the leader, any corporation has to run on a combination of structured strategic actions focused on concrete alternative goal-achievement scenarios, backed up by an astounding and path-breaking vision. Strategic management has to necessarily encompass pre-planning, feasibility studies, blueprints for action, implementation, control et al… It cannot run on the old Japanese philosophy of enter first, plan later. Wal-Mart will not enter a country just to test it out. The company has a stupefying vision, an amazing sense of objective setting, and excellent logistics management as one of its core competencies. But it does not enter markets until they satisfy corporate strategic entry conditions. Wal-Mart is today the world's largest corporation with almost 300 billion dollar turnover that is almost half of India's Gross Domestic Product. It won't be surprising if they beat India's GDP by 2008. Fortunately, many Japanese companies today have understood the shift in strategic orientations and have succeeded in adapting to the present environment. But what about the Alvin Toffler future?



The crux of the matter lies in the fact that for leading for the future, strategic management has to be a combination of long-term, medium-term & short-term plans focused on dramatic & radical objectives that qualify to be called visionary. Any definition of strategic management can qualify to be a definition only once it satisfies these criteria. Past definitions given by well known management scientists have probably never understood the importance of future planning as much as management gurus like Hamel & Prahalad have. Planning for the future has only remained a visible word in the past definitions, rather than being the soul of the definition.

Philip Kotler, the king of various marketing management theories, has changed his definitions of strategic planning over the years. He now titles the same as, 'Market Oriented Strategic Planning'. He believes that Marketing plays a critical role in the strategic planning process. True. But I believe not less critical is the value of other functional areas like Human Resources, Finance, Production, Systems, and Logistics etc. His definition goes like this,

"Market-oriented strategic planning is the managerial process of developing and maintaining a viable fit between the organisation's objectives, skills and resources and its changing market opportunities. The aim of strategic planning is to shape the company's businesses and products so that they yield target profits and growth."

General Motors owns more than a third of the shares of Suzuki Japan, but maintains strict discipline & non-interference policies.

Notwithstanding the over-emphasis on 'Market-Orientation', this is a wonderful definition till the point one starts thinking about planning to manage stakeholders. That is, should not planning look at maximisation of shareholders' wealth? Should not strategy be oriented towards employee management? Should not there be policy measure to manage political linkages & government interactions? For the sake of criticism, Philip Kotler's definition suffers from the absence of various extremely important perspectives in strategic planning and from the presence of a singular focus on market-orientation. For the sake of judgement, apart from his definition, his various 'marketing' models and 'marketing' strategies are some of the most excellent primers for market development and consolidation.

Then what is the proper definition of strategic planning. Let's analyse a few more definitions provided by various management experts.

Kenneth R. Andrews, credited with the honour of being one of the first management researchers to have structured a practical definition of corporate strategy, gives the following gist,

"Corporate strategy is the pattern of decisions in a company that determines and reveals its objectives, purposes or goals, produces the principal policies and plans for achieving those goals, and defines the range of business the company is to pursue, the kind of economic and human organisation it is or intends to be, and the nature of the economic and non-economic contribution it intends to make to its shareholders, employees, customers and communities."

The point where this definition scores over Philip Kotler's definition is the inclusion of shareholders, employees, customers and communities (including governments, dealers, suppliers etc). But Kotler's definition still scores in understanding that strategic planning can be successful only if there is a visible connection between the organisation's resources (and weaknesses) and the market opportunities (& threats).

According to Lawrence R. Jauch (Biedenharn Professor in Management at Northeast Louisiana University) & Late Professor William F. Glueck (Distinguished Professor of Management at University of Georgia till 1980),

"A strategy is a unified, comprehensive, and integrated plan that relates the strategic advantages of the firm to the challenges of the environment. It is designed to ensure that the basic objectives of the enterprise are achieved through proper execution by the organisation."

The reason all these definitions are written out here is to understand that no one definition of strategic management has encompassed all aspects. Some are too broad; some miss out on essential objectives, some on strategic fits. So we'll take this opportunity to develop a structured definition of strategic management, which is what we preach and practise to our consulting clients at Planman Consulting & IIPM:

The statement is much focused to point out that Strategic Management is about maximising shareholders' wealth. Everything else comes secondary. This is not to say that the organisation should not focus on profits, or employees, or customer satisfaction. But this is to say that if the achievement of profits or other objectives conflicts with maximisation of shareholders' wealth, then the management should have no issues in choosing shareholders' wealth.

For example, when Compaq was finally sold off to Hewlett-Packard (& formally launched as the new HP) on May 7th 2002, the ground motive for Michael Capellas, CEO of Compaq, was not profit maximisation but shareholders' wealth maximisation. As the CEO, he knew that he could attempt to continue competing against HP, Dell, and Sun Microsystems in respective areas, but the alternative proposition from HP's head Carleton (Carly) S. Fiorina was also an attractive strategy. The trade-off was extremely easy to choose because the most important objective for him was maximisation of his shareholders' wealth. HP & Compaq were merged in an all-stock deal, and later on Michael Capellas was eased out of his position of President in the new HP within one year of the merger becoming effective. A true example of how a manager should be ready to sacrifice his position, power, future career for the sake of shareholders. Capellas, like so many hostile takeover incidents, could have fought on to oppose the merger. But both he and Carly Fiorina maintained a stoic & steadfast focus on the merger, despite repeated attempts by various HP shareholders to oppose the same. This was easier because Carly & Mike were able to convince the majority of shareholders on the basis of facts and figures, properly researched and tested, rather than using gut-feel.

Japanese companies in the 60s & 70s lacked structured strategic approaches while entering global markets but were never short of Vision. These companies were called Vision-lucky as their Vision itself was enough to ensure amazing global success. But if companies today were to use the same methodology (of no pre-entry & entry strategies, rather just 'Vision') to enter new markets, they would have to face failure & demolition as today's competitive scenario does not run just on hope and belief. Competition in today's world has attained new paradigms. To be the leader, any corporation has to run on a combination of structured strategic actions focused on concrete alternative goal-achievement scenarios, backed up by an astounding & path-breaking Vision. Strategic management has to necessarily encompass pre-planning, feasibility studies, blueprints for action, implementation, control et al.

A dime a dozen: Is the Strategic Business Unit (SBU) concept still worth its while?

The concept of SBUs was initiated when large organisations started redefining their structure into separate businesses for independent assessment of contribution levels of these businesses. Dividing a conglomerate into separate businesses enables transparent evaluation of each part of the conglomerate; consequently helping the management to decide the future course of action on these businesses. That is, whether to further invest, maintain, prune or divest these businesses. This is not to say that a trade-off does necessarily exist with the concept of synergy emanating from combined operations of any firm's various resources. What this means is that once any organisation is divided into SBUs, these different units of businesses, by their very definition, many times do not operate in coordination with each other, sometimes even competing with each other, thus defeating the concept of synergistic & unified operations of any organisation. In the same

HERE WE GO AGAIN: THE NEW DEFINITION, ONE MORE TIME

"Strategic management is the combined set of long-term, medium term & short-term plans, policies & strategies, implemented at various levels of management in conjunction with the mission & vision of the organisation, continuously matching the organisation's aggregate competence & incompetence to exploit effectively the environmental prospects & dangers in order to achieve the organisation's objectives, primary being shareholders' wealth maximisation, and others being in conjunction (e.g. profits, market share, customers satisfaction, contributions to employees, societal responsibility, satisfying other stakeholders like Government, associations etc)."

way as shareholders have independence to decide whether to invest in a company or not, the Corporate Level has the independence to decide various factors with respect to each SBU, e.g. investment planning, resource planning, manpower planning, overall strategy delimiters etc. The bottom line is that, transforming an organisation into separate SBU driven units has empirically proved to be more result-oriented and successful. But the top line is, should we presume that this separate SBU driven approach should succeed in the future? Or is there a thrillingly better approach? We'll consider that question later.

Each SBU would have focused functional teams in areas like marketing, customer service, sales, finance, human resources, administration, maintenance, systems, logistics, public relations, communication, advertising, promotion and production. The size & need of each functional team would depend solely on the SBU's requirement. E.g. a services consulting SBU might not need a production functional team at all. Sometimes, a non-critical functional team might double up for more than one SBU. E.g. an organisation with various SBUs operating from the same premises might have one common maintenance department, but totally separate & dedicated customer service departments. The Manager of the any SBU obviously gets working synergies from sharing customer databases and learning experiences with other divisions; but this practice of synergistic operations should be coordinated from the corporate level. As mentioned before, all SBU managers, more or less, are focused on

their particular businesses. SBU managers have the independence in various decision areas e.g. whether to build, maintain or discontinue product/service lines, whether to continue functional departments like customer service, public relations etc. But the 'Big Brother' control of the Corporate Level should ensure that wrong decisions do not destroy the SBU; in the same way as top level management cannot take any major decision of moving into or moving out of businesses without clear approval from Prime Stake Controllers.

Consolidating an example of how various levels are structured in modern business corporations, let's view the new HP. The new Hewlett Packard, after the merger with Compaq, now has an increased number of Prime Stake Controllers (including shareholders), some from HP and some from Compaq. The Board of Directors in the new HP comprise representatives from PSCs, management, other stakeholders and independent/dependent executive/non-executive directors. At the Corporate Strategic Level, the new HP had Michael Capellas as President and Carly Fiorina as Chairman & CEO. Remember that the decision to explore and initiate a merger proposal between HP & Compaq was a Corporate Level strategy. Notwithstanding this, the approval of various PSCs (shareholders, US Federal Trade Commission, European Commission etc) was necessary before implementing the decision. This Corporate Level also decided how many SBUs to have, how much to invest in each SBU, and which SBUs to discontinue. After Michael left the new HP, (in fact, my take is that the post was simple created for Michael to have a smooth transition out of the new HP), Carly became the unarguable leader and later sacked in April 2005.

Each SBU in the new HP has managers in charge of independently deciding how to run the business. The Manager of the Imaging & Printing Group SBU gets working synergies from sharing customer databases and learning experiences with other divisions; but again, this practice of synergistic operations is coordinated from the corporate level. SBU managers in the new HP have strategically decided to discontinue a few product lines over a period of time. Even though this strategic decision seems to be an SBU level strategic decision, it's quite clear that such decisions to discontinue product lines have not been undertaken without clear approval from the top level management. Current customers of discontinued product lines are amongst the first parties affected due to such discontinuation. The SBU managers again have taken independent decisions to continue this functional level of customer support for the discontinued product lines. The SBU managers have laid out a clear cut strategy to support such customers of discontinued products. The strategy is basically to continue providing hardware support to customers for a definite period of time from the date of the sale of the product.

Thus, all SBUs in the new HP are in the process of integrating dedicated functional teams in various areas like Human Resources, Marketing, Communication and Customer Support according to their assessment of needs & requirements in product lines.

Irrespective of such independence in decision making provided to SBUs, sometimes, due to Corporate Level intervention in SBU decisions, pseudo-conflicts arise between companies, their SBUs and third parties. In the year 2001, Qualcomm, the company that invented the CDMA technology, signed an agreement to invest up to US$ 200 million in Reliance Infocomm, a company providing telecommunication services & products in various parts of India, and an SBU of the Reliance group, India's largest Public Limited Corporation not owned by the Government. Due to Reliance Infocomm's changing and advantageous market position, Qualcomm decided to exercise its option of investment in the year 2003 and communicated the same to Reliance Infocomm's top management.

TYPICALLY, AN SBU HAS THE FOLLOWING CHARACTERISTICS:

- An SBU is an independent business under a conglomerate corporation. Viewed separately, an SBU behaves like an autonomous self-regulating firm that is answerable to just one Prime Stake Controller, namely the conglomerate corporation's top level management.
- However independent an SBU might become, it finally has to operate under the broad umbrella of the overall corporation's mission, objectives and limiting conditions.
- An SBU, apart from having its own competitors, can compete with another SBU of the same conglomerate corporation, provided that the same does not go against the principles of the top management.
- An SBU would generally be headed by its own management & functional teams that function specifically for the SBU's operations and objectives, but the teams are answerable to the Corporate Planning Level in the SBU's parent corporation.
- This management team would generally have self-determining and independent control over various issues relating to achievement of objectives, for example, investments in growth areas, introduction of new products & services, advertising & promotion strategies etc.

However, the top management of Reliance group declined the offer and publicly declared that as Reliance group did not wish to dilute their equity in their SBU Reliance Infocomm, they were not interested in taking up Qualcomm's investment offer. It's quite clear in this example that whatever might have been the preference of the SBU managers of Reliance Infocomm, they had to fall in line with the preferences of the Corporate Level in Reliance group.

Questions that have to be answered by the Corporate Level teams in traditional and modern organisations are as follows:

• **Investment Planning**: Whether to invest in an SBU, how much to invest, in what time frame, or whether not to invest.

• **Resource Planning**: Apart from investments, what other central common corporate resources should be allocated to each SBU (e.g. knowledge & research support, sharing of learning curves and best practices etc).

• **Manpower assignments**: Who will lead critical positions at each SBU?

• **Overall Strategy Delimiters**: Should the SBU manager be allowed to focus on growth, or should the focus be just maintaining the business?

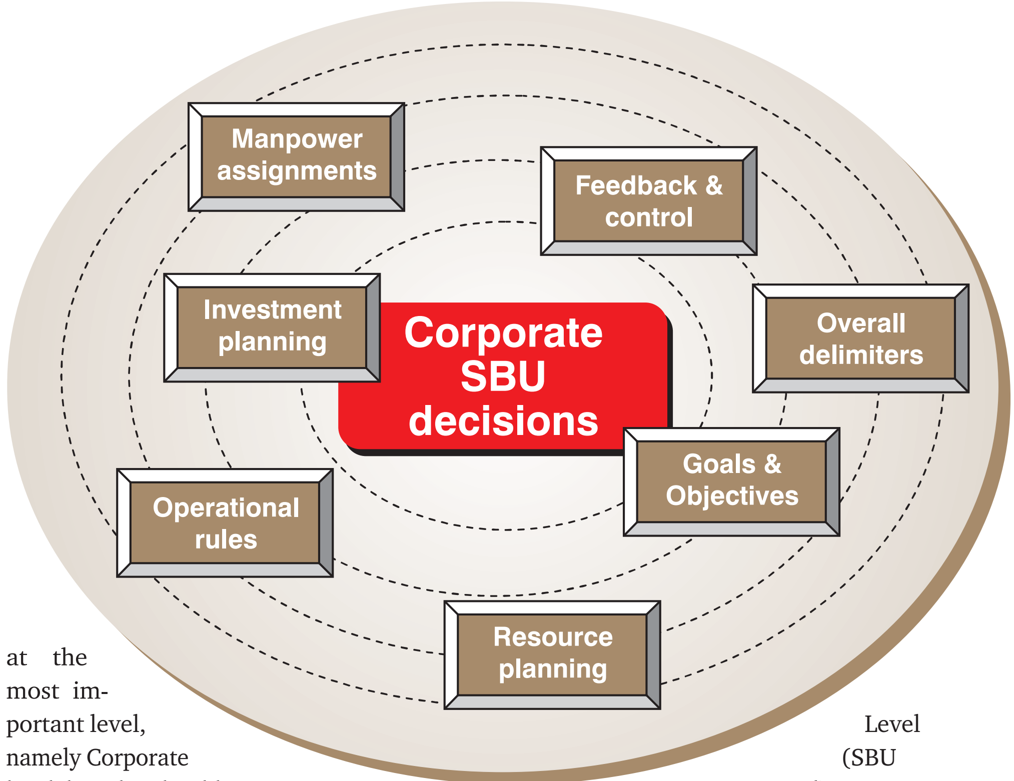
• **Operational Rules**: What should be the scope of operations allowed to each SBU? Should the SBU be allowed to compete with another SBU from the same company?

• **Objectives**: What should be the goals & objectives of these SBUs in terms of profits, market share, sales, new product/service introductions, cash flows, social contribution etc? Are these objectives set alongwith participation from the SBU management or is the decision taken top down without SBU involvement?

• **Feedback, Control & Ap-**

praisal Methodology: Should the SBU be truly a profit centre, or should it be an investment or cost or revenue or cash flow centre; or should it be seen according to its contributions in non-economic areas? What should be the forums & tools of appraising the performance of the SBU? Should the Corporate Level interfere in day-to-day operations of the SBU? If not, then what should be the regularity of controlling & appraising the performance of the SBU?

There are business corporations that do not follow the SBU model due to various reasons. One of the reasons is that organisations sometimes have singular businesses, that is, businesses that more or less fall under the same category. The argument was that if there is, say, only one business that the organisation has, then there is no need for an SBU structure as the complete organisation itself becomes an SBU. For example, according to the argument, a company like Steel Authority of India Ltd should not be following the SBU model because there is more or less only a singular set of businesses, that is, steel production. Well, the answer to that is the concept of MetaSBU, that is, an SBU within an SBU. ■



Conclusion

Planning, Implementing & Controlling strategies should generally not only remain at the most important level, namely Corporate level, but also should transcend these current modern paradigms sometimes to focus deeper on the strategies at Business, Functional & Sub-functional levels. While various business strategy gurus would recommend (and we should beg to differ whenever apposite) that different styles of strategies should be adopted for the Corporate Level (Top Management) as compared to the Business Level (SBU Level) & Functional Level, it is correct to understand that the basic philosophies guiding strategic decisions remain the same. Our attempts through this article have been to always focus on understanding the basic structure of decision-making and implementation so that later on, whenever we need to analyse decisions, we should be able to modulate our strategy models according to what the situation demands. We've tried to consolidate the learning from our consulting interactions with various of our clients, including American Express, GE Group, PricewaterhouseCoopers, United Nations Development Programme, World Bank Institute (Washington D.C.), Sony, Ernst & Young, BAT, Columbia Tri-Star, Amway, Hewlett-Packard, Motorola, Citigroup, Standard Chartered, Fuji, Wipro, PepsiCo, Hero Honda, Reliance Group, ICICI Group, various Ministries in Government of India, and many more. But then, don't take our word for it; because if strategies could be learnt from reading, then Ph.Ds would be billionaires... But then again, aren't some of them already?

In the financial year 2003, one of the very well-known Indian pharmaceutical companies, Morepen Laboratories, decided to raise finances through a Global Depository Receipt (GDR) issue. They eventually decided to hive of their health goods division (Doctor Morepen) into a separate Strategic Business Unit. Alongwith that, the Corporate Level management at Morepen Laboratories decided to give complete independence to Doctor Morepen's SBU managers to mobilise, through equity or debt, all future investments required by the SBU in the retail business. This is a typical example of how organisations create new SBUs, and in order to enhance effectiveness and accountability provide them with independence in critical areas of decision making.

A. Sandeep, Dean - Center for Advanced Consulting and Research, IIPM.

Eric Flamholtz

Madhavan Nayer

Shalini Lal

Unitech Systems has used an innovative approach to strategic planning as a vehicle of organizational development and change. Although strategic planning is much maligned and misunderstood, the experience of Unitech will demonstrate that strategic planning is a powerful tool that can add significant value

Strategic planning for a turnaround

The case of Unitech Systems

By **Eric Flamholtz, Madhavan Nayer** & **Shalini Lal**

Unitech Systems today

Unitech Systems, Inc. provides Information Integrity® software solutions that help major corporations assure the accuracy, consistency, and reliability of their operational, financial, and management information. It is a pioneer of the information integrity space.

Today with nearly 200 team members, and offices in major cities across North America and Europe, Unitech Systems is a world leader in its industry. The organisation has both an innovative set of products and a range of customised control services. Over 400 of the Global 2000 use Unitech's products and services. The Unitech Systems award for excellence in information integrity has since 1995 recognized organisations that have demonstrated exceptional progress toward achieving Information Integrity.

Company history

Unitech Systems was founded by Madhavan Nayar in 1982. It began as a one man consulting firm. Nayar, who holds degrees from universities in India and the Illinois Institute of Technology, pioneered the concept of "information integrity" software solutions at a time when few had realised the need for specifically designed systems that helped customer organisations ensure the validity and accuracy of information. Unitech's founder, Madhavan Nayar, has described the need for information integrity as follows: "For us to effectively harness the benefits of the information revolution, and avoid the costs of widespread information pollution, we need to recognise and treat information as a shared, universal resource. We need to develop the science, technology, products and services to measure, monitor and manage its integrity, much like the environmental science, technology and industry emerged in the wake of the industrial revolution to answer our need for clean air, pure water, reliable power and safe food."

In 1982, Unitech developed its first software product, U/ACR, for, and in partnership with the Blue Cross Blue Shield of Illinois. During the next two decades, the company successfully developed a number of other products through similar strategic customer partnerships. Through 1992, the company grew rapidly, reaching $12 million in revenue and a cumulative annual growth rate of 65% for the first 10 years.

Beginning 1993, the company initiated a series of changes, many of which, in retrospect, may have impeded its continued rapid growth, but contributed to organisational learning. In 1993, the company decided to decentralize sales management by hiring Area Sales Managers in North America and establishing a separate International Sales Group. By the end of the year, however, no Area Sales Managers had been hired, and there was no revenue growth. Also in 1993, the senior leaders of the company learned about the management philosophy of W. Edwards Deming, and after several months of study and deliberation, decided to adopt and implement it. The decision was implemented by holding a weekend retreat for influential team members from different groups in the company and then a two-day off-site meeting for everyone. The Deming philosophy was adopted on April 1, 1994.

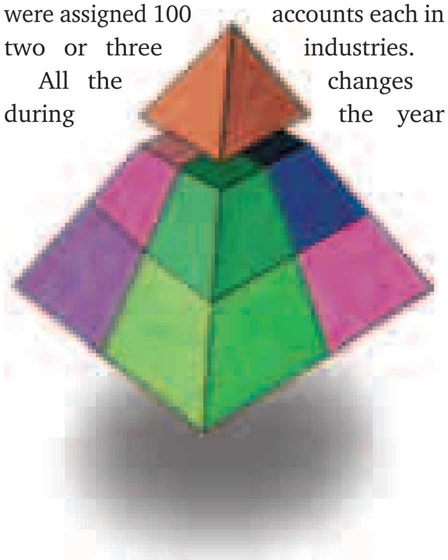
Impact of Deming philosophy

The implications of the Deming philosophy were radical and extensive. Quotas and other numerical objectives linked to incentives and compensation were discontinued. Formal performance evaluations and salary adjustments tied to performance evaluation were also eliminated. All processes within the company were to be mapped, defined and improved.

The reaction of most of the team members of the company was sceptical, if not negative. Many of the "star" sales people left the company, and over the next 18 months, almost 95% of the sales force turned over. Company wide, employee turnover exceeded 50% in 1994. An employee survey revealed that employee morale was far below industry average.

In 1994, it was also decided to organise the company into four geographic divisions: three (East, West and Central) in North America and one international. The senior executives (Group Leaders) in charge of Sales, Marketing and Finance were assigned the responsibility for the three North American Divisions. The International group already had a Group Leader. Additionally, each division was organised into Business Units. Business Units were established in Dallas, San Francisco, Atlanta, Cleveland, Boston, Philadelphia, Chicago and Paris. Each Business Unit included three Sales Executives and one Application Consultant. The Sales Executives were assigned 100 accounts each in two or three industries.

All the changes during the year



resulted in a great deal of uncertainty and anxiety throughout the company, especially among the Group. In February 1995, while Nayar was in Europe for a speaking engagement, all the Group Leaders met to discuss their concerns and decided to present a list of issues and recommendations to Nayar upon his return. The issues concerned primarily Nayar's leadership style. One of the recommendations was for him to play the role of a non-executive "Chairman" and for the Group Leaders to run the company. Shortly thereafter, two of the Group Leaders resigned from the company.

In early 1995, the three divisions in North America were reorganised into two geographic locations: East and West. The Product Development function was distributed among the three Group Leaders responsible for East, West and International Divisions. For the third year in a row, there was no revenue growth in 1995.

There were relatively few changes and a modest revenue growth in 1996. At the end of 1996, it was decided to combine the two North American divisions into one and designate a single Group Leader for North America.

In April 1997, to help revive the company, "Project Oxygen" was launched. It consisted of establishing industry focused "Customer Teams" in the Business Units (now renamed "Customer Units"); each Customer Team consisting of a Sales Executives, a Solution Consultant and an Account Representative. Each Customer Team was responsible for a handful of major accounts in a specific industry group (banking and finance, insurance and healthcare, communications and utilities, distribution and manufacturing.) All other existing customer accounts were assigned to the Customer Teams based on geographic proximity.

> Unitech Systems was founded by Madhavan Nayar in 1982. It began as a one man consulting firm.

Project Oxygen was a significant effort, which required the hiring of over 50 new people in the field, and training all of them for three weeks at the Home Office in Naperville, IL. However, some of the Unit Leaders were new, and there was much confusion about how the "team" concept was deployed and practiced. Some teams performed exceptionally well, while some others were dysfunctional and had to be rebuilt or disbanded.

In 1998, it was decided to align the Customer Unit Leaders also along industry lines. This meant that all the teams in a given industry group (for example, banking and finance) would be supported by a Customer Unit Leader for that market-sector. This was a major change for the teams and the Unit Leaders. Most teams no longer had a local leader they could go to, and the Unit Leaders had to travel and oversee the activities of teams based in several locations.

By 1998, Unitech had grown to be a $20 million company with offices in North America and Western Europe.

Taking Unitech to the next level via strategic planning

Planning has always been a part of Unitech's culture. The company has always had a well established strategic planning function, and the leaders of the operating groups have always prided themselves on their strategic capabilities. However, the growth and diversification experienced during the 90s demanded a new scale of planning altogether. Management needed to address not only new industry segments and larger operating units, but increased organisational complexity as well. The strong entrepreneurial spirit and autonomy that had long been part of Unitech's culture now presented a management challenge. While it had at one time helped to create a vibrant, nimble operating environment, it had also resulted in counterproductive organisational "silos" that resisted cooperation.

The catalyst for change

In March, 1999, Nayar attended a Forbes Presidents Conference where he heard Eric Flamholtz make a presentation about a framework for building successful organisations. In late 1999, he invited Flamholtz to work with Unitech Systems and apply his approach.

Strategic innovation at Unitech Systems

The organisational development process began with a series of interviews with selected Group Leaders and Unit Leaders during the summer of 1999 to provide Flamholtz with an understanding of Unitech Systems and its developmental issues. The next step was a strategic planning retreat, attended by all Unitech leaders in early December. The retreat was to introduce all of Unitech's leadership team to the Management Systems pyramid framework and take Unitech to the next level of planning capability. While Unitech already had a formal strategy and planning process, the key was to improve the existing planning system and ensure that it became a way of life. The strategic planning process would also be the tool to align the objectives of the various business units.

At the retreat, a management planning simulation revealed the areas that needed to be strengthened internally. The group discovered that its planning was too grandiose to be feasible. The group also discovered that it had a tendency to get distracted by "noise."

The Flamholtz approach

There are two major components to Flamholtz's approach to strategic planning: 1) a conceptual framework that serves as a platform for strategy, and 2) the strategic planning method per se. Both are described in turn below.

The platform for strategy

The platform created by Flamholtz for the development of strategy consists of an organisational effectiveness model that serves as a "template" for the strategic organisational development of a business or subunit. This template is known as the "Pyramid for Organisational Development." It is shown in Exhibit 1. This is a framework developed by Flamholtz and used to assess the strengths and limitations or developmental needs of companies.

This template was used to assess the strengths and areas for further development at Unitech Systems. It was clear that Unitech was relatively strong at the bottom four levels of the Pyramid, but needed further development at the top two levels, which include management systems and culture management. It also required some redefinition or fine tuning of the business foundation to fit the founder's (Madhavan Nayar) vision.

Although there are many approaches to planning, Unitech Systems chose to adopt the method developed by Eric Flamholtz . He had previously developed and used this methodology with such diverse companies as Starbucks, PacifiCare, American Century Investors, Simon Properties, and Navistar International, as well as with many other companies, including entrepreneurial companies like Unitech Systems.

The planning framework used is shown schematically in Exhibit 2. The process begins with an environmental scan to assess the market, competition and trends. Once the external assessment is completed, the next phase is an organisational assessment. This involves determining the strengths and limitations or areas for development of the organisation in several key areas. The organisational assessment component of this process is based upon "The Pyramid of Organisational Development," as shown above in Exhibit 1.

Once these assessments have been completed, the organisation then reviews its "business foundation." This involves reviewing the business concept, strategic vision or mission, and core strategy of the organisation. The "new" business foundation then becomes the basis for the development of objectives and goals in each of the company's "key result areas," the critical areas of organisational success or performance. These are operationally defined as the six strategic building blocks contained in the Pyramid of Organisational Development. Research has shown that there are six key "building blocks" of successful organisations: markets selected, products or services offered, resources and how they are managed, operational systems, management systems (including the planning system) and corporate culture.

Research has also shown that these key variables are linked to financial performance and explain approximately 55%-75 % of financial performance, measured in terms of gross margin and EBIT (Earnings Before Interest and Taxes). Objectives are developed in each of these key result areas. Objectives are defined as things that the organisation wants to achieve in each key result area. For example, an objective might be to increase market share or increase profitability. The objectives are broad and relatively undefined. They are accompanied by "smart goals," goals which are specific, measurable, actionable, realistic, and timed dated.

Applying the framework at Unitech Systems

As noted above, the base of the Organisational Development Pyramid is the "business foundation." This consists of three components: 1) a business definition; 2) a strategic vision; and 3) a core strategy.

By the end of the initial planning workshop, the leadership team had defined their business as that of "helping Global 2000 organisations improve the quality of their information through information integrity systems." This meant that the organisation was going to evolve from one, which was currently focused upon selected tools for automated balancing of accounts and statements, to a total information integrity solutions business. An intermediate step was for Unitech to evolve from its current product portfolio, to a business with automated controls, services, and processes for information integrity. This was to happen through three stages:

Stage 1 - Pre 1999: Automated balancing/manual

Stage II - 1999: Automated controls + services + processes

Stage III – 2003: Unitech will be true Information Integrity business

Building upon the business foundation

Once the new business definition and strategic vision for the organisation had been established, there was need to complete the plan to the level of developing goals and assigning priorities and roles. Another related key challenge now was to make planning a way of life. A "secret" key to this was to hold a series of quarterly planning meetings. At some organisations, planning is episodic. It occurs and then stops. The plan is there, but it is not reviewed on a regular basis or updated. At Unitech Systems, planning was done on an ongoing basis.

Quarterly planning retreats facilitated by Flamholtz and Management Systems would become an opportunity for the organisation to reflect on the progress through the quarter and to set goals for the next quarter.

Developing a key set of "priority objectives"

Although there are many objectives in any strategic plan, a well thought out set of "Priority Objectives" (key objectives that receive the most management focus) is another of the "secret ingredient" that was important to make planning work at Unitech Systems. These objectives are derived from the strategic vision and related key result areas.

Creating a strategic management system for performance optimisation

Another strategic innovation at Unitech Systems was the creation of a unique "performance optimisation system" that combined with the planning system to create an overall "strategic management system." In order to strengthen the levels of accountability and enhance the execution of the strategic plan, a 'performance optimisation' process was introduced. 'Performance optimisation' is a term we have coined at Unitech Systems to refer to an innovative variation on the conventional notion of performance management, as described in chart 3.

This model links several critical features of the organisation, such as the planning system with operations and measurement of results, and this in turn with the evaluation and reward systems within the organisation. One thing that is very different about the concept of performance optimisation at Unitech, as compared with the conventional concept of performance management, is that the former does not link performance directly to rewards. This is for philosophical reasons (examined below), and suggests an important difference in the culture at Unitech Systems.

Madhavan Nayar, Unitech System's Company Leader believes strongly that rewards ought to be based upon company performance rather than individual performance.

The overall objectives of Unitech's rewards philosophy are:

1. To attract top industry talent compatible with the unique characteristics of the Unitech environment
2. Retain team members in a long term development relationship
3. Foster an environment which promotes teamwork through collaboration and cooperation
4. Foster an environment for personal and professional development
5. Maintain equity across the Company
6. Compensate Leadership Group members based on overall company performance and
7. Manage fixed costs by providing higher variable pay

Thus the term "performance optimisation" used at Unitech Systems is intentionally different from the more conventional term "performance management." The latter term would include rewards as a key component of the system, while performance optimisation intentionally does not include rewards for the reasons outlined above.

Implementation of the strategic management method at Unitech

While it was relatively easy to introduce the model to the core team at the quarterly planning retreat, several internal issues would require resolution for the model to really work effectively. There were elements of Unitech's special culture which made it difficult to integrate the model into the organisation. These were to come up many times before they could finally be resolved.

Unitech had an organisational philosophy that was different from most companies; the unfamiliarity with many of the elements of the Deming philosophy necessitated a greater degree of communication than may have been required in many other companies. Discussions at the planning meeting revealed that the Deming philosophy had in fact often been misinterpreted to mean that organisational members didn't need to worry about their jobs for these would be there for them, whether or not they performed. The lack of a formal statement articulating the desired organisational culture further exacerbated the problem.

There were similar difficulties of understanding the accountabilities and responsibilities within self-managed work teams. There were several situations where team members could take advantage of the system to suit their needs. This had several important implications for Unitech's competitive position within the industry, with more recent entrants threatening Unitech's industry leadership.

Use of measurement in Planning and Performance Optimisation

One of the key things that ultimately contributed to the success of Unitech's strategic innovation with planning and performance optimisation was the development of detailed measurements for objectives. As one CPA once told an author of this paper, "What gets measured gets counted!" This means that the things that get measured are the ones which are most important in influencing people's behaviour in organisations.

At Unitech Systems, a great deal of time and care was put to the development of measurements of goals. In part, this is because Unitech is a highly intellectual organisation, filled with many well educated and highly technical people. In addition, this is the orientation of the company leader, who is very precise about terminology and the need for operational definitions. The net result is that it led to a detailed set of measurements for every objective and goal. These measurements are critical to making the plan operational and specific.

3. The performance optimisation system

Results and benefits of the system at Unitech

The strategic planning/performance optimisation system at Unitech remains a "work

The reaction of most of the team members of the company was skeptical, if not negative.

in progress." Nevertheless, significant benefits (both tangible and intangible) have been realised.

First, there is a clarity and focus to the vision of the company, which did not exist to the same extent in the past. People understand that Unitech is in the information integrity business. This broader concept has replaced the more narrow focus upon specific information integrity products, such as automated balancing and controls. People now also understand that its long term vision is to help create, and ideally to dominate, the information integrity space. This provides a "big picture" context for short term decisions and actions. One of the company's "growing pains" was that a relatively large number of people did not understand "where the company was headed." This is no longer the case.

Another benefit of the planning/performance optimisation process is greater focus on priority objectives. In a business, there are always almost countless things to deal with.

The Unitech plan provides focus upon the priority objectives. People understand what the priorities are and where the emphasis must be for the company to achieve its longer range vision.

A third benefit concerns the productivity and accountability of people. The specificity of the measurements has increased the extent to which people are accountable for specific results rather than just vague responsibilities. The plan provides a tool which can be used to monitor overall performance of the company as well as that in specific business units on a systematic basis.

Another benefit is that, as a result of the strategic innovations described above, there has been a cultural change at Unitech Systems. One dimension of this is that planning and performance review have become a way of life at Unitech. It is part of the "Unitech Way." This, in turn, has led to other significant aspects of cultural shift at Unitech. Specifically, at the commencement of this process, the organisation was operating in "silos," and there was a considerable degree of internal conflict. One of the by products of this process has been "team building." By continually discussing the issues and working to resolve them, the leadership team tends to come together with a common mind set and focus. During this type of process, there is some turmoil as certain leaders are shown not to have bought in or committed to their own agendas. Over time, these people tend to leave or change, with the result that the company develops a more cohesive leadership team. This was the case at Unitech, and there was significant turnover. However, today the company has a core team of capable senior leaders who operate as a true team.

One of the ultimate tests of a company is its financial performance. Like other information technology companies, Unitech has had to deal with the collapse of information technology investment since the boom that led up to Y2K. Unitech is a privately held company, and financial information is proprietary. Nevertheless, we can say that the company is strong financially and has gotten stronger over the past five years in contrast to some of the larger companies in this space like Compaq, Hewlett Packard, and Sun Microsystems. The ultimate criterion for any company is: are we stronger at the end of a time period than at the beginning? The answer for Unitech Systems is definitely yes. ■

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Madhavan Nayer, Company leader, Unitech Systems, and
Shalini Lal, Anderson school, UCLA

[1]Eric Flamholtz, "Managing Organizational Transitions: Implications for corporate and human resource management," European Management Journal, 13 (1), 30-51.

[2]For further discussion of this method of strategic planning see, Eric Flamholtz and Yvonne Randle, Growing Pains: transitioning from Entrepreneurship to Professional Management, Jossey-Bass publishers, 2000, chapter 7.

[3]See Flamholtz and Aksehirili (2000); Flamholtz and Hua (2002 A); Flamholtz and Kurland (2005).

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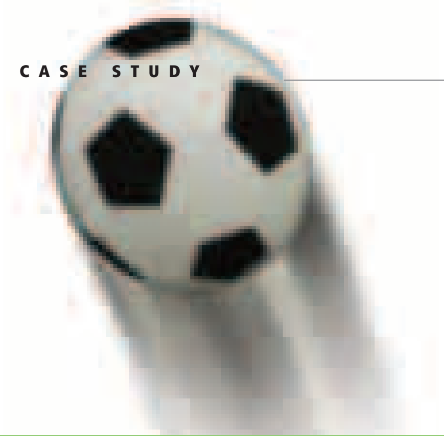


The rise and fall of the club: a victim of internal conflicts of the management team

By Jayanta Chakraborti, IIPM PUNE

Mohun Bagan Athletic Club - An Empire Under Seize

Subrata Bhattacharya was having his dinner when his cell phone rang. "Dada, clubke bachan (brother, save the club)" wailed a voice from the other side. Subrata needed no explanation to understand that his favourite club Mohan Bagan had been beaten once again and was now sure of getting relegated from the first division elite group of National Football League (NFL). The most shameful moment in the club's history had finally arrived!

The situation at Mohun Bagan was not always that bad. In fact, the institution which has been honoured as the National Club of India, has several impressive feats under its belt including the NFL title, Federation Cup, Durand Cup and Rovers Cup. At home, they were crowned the Calcutta League Champions 25 times and lifted the prestigious Indian Football Association (IFA) Shield on 21 occasions.

Mohun Bagan Athletic Club was established in 1889. At that time, Indian football was in its infancy. One particular match against the British was the start of the glorious era. The British team, against whom Mohan Bagan was going to play, was a formidable playing side. To the dismay of the 'Brits', in the year 1911, a bunch of 11 bare footed Bengali players – much like the Indian blockbuster movie Lagan – became the first Indian side team to win the much longed for IFA shield defeating the finest of British combination, East Yorkshire Regiment. The win was also significant as it symbolized the win of the then perceived weak Indians over the mighty British; a win over foreign rulers.

From then on, the club went ahead from one victory to another. They broke the hegemony of British Military teams and became the first native team to participate in the Durand Cup in 1923 at Shimla. The Durand Cup was started in 1888 and has the distinction of being the second oldest football tournament after England's FA cup. Subsequently, Bagan was also invited for the Rovers Cup Tournament; and thus started the glorious saga of the club.

Two players of the club, Chuni Goswami and Sailen Manna, have also been bestowed the Padma Shree. Besides football, Bagan has also produced outstanding sportsmen and achieved honours in other sports like Cricket, Tennis and Athletics. Very few would know that the star of hockey tournaments, Major Dhyan Chand, has also played for the club during his visits to Calcutta. Mohun Bagan also holds the distinction of having produced a number of Olympians in hockey.

Football has always been a fascinating sport for Indians, especially in states like Bengal, Punjab, Goa, Kerala and North-East. Although Indians started with a bang in the international arena by winning two Asian Games Gold Medals (1951 and 62) they slowly started losing ground to the physically superior Arabs and their agile East Asian counterparts. India missed a golden chance to play the World Cup in 1950, when they qualified to play for the final round but the AIFF declined to participate after FIFA prohibited barefoot play.

Meanwhile, at the national level, the derby clash between Mohun Bagan and East Bengal (another well known club) used to be the talk of the town. People used to flock in thousands to watch the clash of the titans. Those who could not manage tickets would sit glued to their radio sets.

Both Mohun Bagan and East Bengal also had a cult-like supporter base. The Mohun Bagan supporters were *ghotis*, the tribe of Bengalis who were the original inhabitants of Bengal. They spoke *shuddho bangali bhasha* (pure Bengali language) and ate *chingri maach* (lobster). The East Bengal supporters were migrants from Bangladesh, who spoke *bangaal bhasha* (a hybrid Bengali language) and ate *ilish maach* (the hilsa fish). So, if Mohun Bagan won the derby title, the price of lobster in the fish market would shoot upwards; and if East Bengal won, the price of *hilsa* fish would be at a premium.

It was also considered a matter of prestige to be in the governing body of these clubs. Many bureaucrats, retired judges, doctors and other prominent people became active members of these clubs, and later also got into the governing body. These wealthy patrons also donated handsomely. Best of players and display the best of talent. The two clubs also earned good money through ticket sales, participation in tournaments, leasing of ground facilities, organizing events and playing exhibition matches. However, mismanagement of funds slowly started creeping in and soon became a sore point for the club.

Football started losing popularity after India's spectacular victory in World Cup cricket in 1983. The disappointed fans of football were resigned to the fate that India could play well but perhaps never win. Kapil Dev and his dare-devil boys changed this notion. They slaughtered the invincible West Indies cricket team (which boasted big names like Clive Lloyd and Vivian Richards) and brought home the Prudential Cricket World Cup. Industrial houses soon started splurging money on these new found heroes. Youngsters picked up willows and red balls and started dreaming of becoming Kapil Devs and Sunil Gavaskars. While cricket grabbed the headlines, football slowly took the backseat.

The next blow to football was dealt by cable televisions. Before the advent of satellite TV, Indians were content with the sloppy run of their home-grown idols. When India encountered big giants like Russia or Hungary in international tournaments (like Nehru Gold Cup), the score line would inevitably read 0-5, 0-6 or even

Mismanagement of funds started creeping in and soon became a sore point for the club

> **Controlling Alok was easy for the rival factions but controlling footballers was difficult for Alok**

0-7. But public memory was very short and they would soon start glorifying the fallen stars in the next Mohun Bagan-East Bengal derby clash. But when ESPN, Star Sports and Ten Sports started beaming live English Football League, Bundesliga, FA Cup, European Cup and the FIFA World Cup, the spectators got a taste of elixir. The fast paced excitement of these tournaments blunted out the lackadaisical approach of Indian footballers. And once the fans got a taste of the real thing, the number of spectators going to the stadium to watch a Mohun Bagan or East Bengal match started dwindling very fast.

A temporary relief came when Mohun Bagan started recruiting foreigners. Jose Marcio Barreto from Brazil was one of the prominent players among foreigners to be recruited by Mohun Bagan. Barreto brought in a whiff of fresh air into the team and soon it was back among winning ways. The combination with Edu, another Brazilian recruit was deadly, and saw many teams vanquished in due course of time.

But lady luck did not smile on Mohun Bagan for long, as they got caught in a myriad of controversies. While East Bengal reformed their management structure and got members elected to the governing body through free-and-fair-elections, Mohun Bagan got caught in ugly factionalism between two groups, lead by opponents Balram Chowdhury and Anjan (Tutu) Mitra who were trying to wrest control by any means. Whatever one group would like to initiate, the other group would destroy. Barreto got caught in one such controversy, and was humiliated and forced to leave. Mohun Bagan officials filed a complaint against Barreto at AFC & FIFA so that he became ineligible to play for any other club in India or abroad. Barreto, who had provided yeoman service to the club and had a strong role in winning several trophies, left with tears in his eyes. But very soon, the curse of Barreto would return to haunt Mohun Bagan.

An earlier victim of factionalism had been coach Subrata Bhattacharya, who was thought to be a rebel and straight forward person. His honest opinion about the sorry state of affairs at Mohun Bagan earned him many enemies. A plot was hatched and Subrata was also humiliated and shown the door. The new coach was Alok Mukherjee, a polite and demure person, who strived hard to steer clear of controversies.

Controlling Alok was easy for the rival factions of Mohun Bagan, but controlling footballers was difficult for Alok. The footballers exploited his weakness and started

Major Trophies Won by Mohun Bagan

SI	Name of Tournament	No. of Times Won	Year
1	National Football League	3	1997/98, 1999/2000, 2001/02
2	Federation Cup	11	1978, 1980, 1981, 1982, 1986, 1987, 1992, 1993, 1994, 1998, 2001
3	Calcutta Super Division	25	1939, 1943, 1944, 1951, 1954, 1955, 1956, 1959, 1960, 1962, 1963, 1964, 1965, 1969, 1976, 1978, 1979, 1983, 1984, 1986, 1990, 1992, 1994, 1997, 2001
4	Durand Cup	16	1953, 1959, 1960, 1963, 1964, 1965, 1974, 1977, 1979, 1980, 1982, 1984, 1985, 1986, 1994, 2000
5	Rovers Cup	14	1955, 1966, 1968, 1970, 1971, 1972, 1976, 1977, 1981, 1985, 1988, 1991, 1992, 2000
6	Sikkim Governor's Gold Cup	9	1984, 1985, 1986, 1989, 1991, 1992, 1994, 2000, 2001
7	Bordoloi Trophy	7	1974, 1975, 1976, 1977, 1996, 2001
8	Airlines Gold Cup	6	1989, 1991, 1993, 2000, 2002, 2004
9	Sait Nagjee Cup	2	1978, 1981
10	Punjab National Bank Centenary Invitational football Trophy	1	1995
11	McDowell's Cup	1	1996
12	DCM Trophy	1	1997

to break the discipline with their whims and fancies. They would not come regularly for practice sessions, and would conveniently disappear before crucial matches. Where East Bengal was conquering one milestone after another under the wily-but-very-strict Subhash Bhowmik, Mohun Bagan sank to the nadir of all times.

Mohun Bagan tried desperately to fill up the vacant space left by Barreto, but in vain. None of the foreign recruits were even close to matching the brilliance of Barreto. The ones that finally survived were Beto, Edu and Babalde. Beto was a prodigal goal misser and was finally nicknamed *betho ghora* (useless horse) by club fans. Edu showed brilliance only in flashes. Babalde, a Nigerian recruit, was famed to have played for the Nigerian national squad. But he was past forty and was suffering from liver enlargement.

The administrative doldrum the club had been going through led to doubts and mistrust

Mohun Bagan's problems were becoming more deep-rooted. The administrative doldrums the club had been going through led to doubts and mistrust among a section of officials and that percolated to the players, members and supporters.

Globally, a new trend was coming into the football arena during the turn of the century. As the clubs vied with each other, the price of talented players rose to astronomical heights when Zinedine Zidane from Juventus became the highest paid player of all times. The Spanish club paid $66 million for his transfer. The next most expensive player was David Beckham, who commanded a tag of $41 million. Now, it was impossible for clubs to survive on earnings from memberships, match fees and exhibition matches. In sheer desperation, the clubs turned to corporates, businessmen and politicians for help. Russian tycoon Roman Abramovich created a stir by buying Chelsea football club for £140 million. Soon, other businessmen got interested – US tycoon Malcolm Glazer bought over Manchester United. Some clubs like Tottenham, Leeds, Southampton and others raised money by getting listed on the stock exchange. Corporates like Vodafone and Sony became official sponsors and the jerseys of footballers started reflecting the names of the sponsors.

In India, the same trend started with corporates like J.C.T, Salgaonkar, Mahindra & Mahindra, Dempo, Vasco and Eveready running clubs with their own names. There were public sector undertakings like Food Corporation of India, Indian Bank, Air India and others backing their own teams. Even defence forces like Border Security Force, and police units like Kerala Police and Punjab Police jumped into the fray. The erstwhile Goa sports minister created a precedent by buying a club and naming it Churchill Brothers. But the man who changed the rules of the game was Vijay Mallya, the liquor baron turned politician turned airlines owner. He offered good money to both East Bengal and Mohun Bagan, subject to the condition that they corporatised themselves and wore his brand logos. So East Bengal became Kingfisher East Bengal while Mohun Bagan took refuge under McDowell's brand.

While East Bengal readily corporatised itself, Mohun Bagan again got entangled in a slew of court cases slapped against each other by the rival factions. One group claimed that the name 'McDowell Mohun Bagan' was inadmissible, given the cultural lineage of the club; and therefore, any attachment to the UB Group was despicable. To add to ironies, the group which was in charge of the Mohun Bagan club thrived on UB moneys outside the club. But then, whether for arguments or counter-arguments, the case hasn't been withdrawn yet either.

The situation got so bad that finally the Calcutta High Court had to intervene. The division bench of the High court comprising Justices M. H. S. Ansari and Arun Mitra ruled that the working committee of Mohun Bagan AC should keep its hands away from working matter and appointed a committee to run the game. This new committee comprised Justice Umesh Banerjee, Justice Sanyal Sen (from Governor General of Bengal) and Indrajit Sen, senior advocate. The ruling noted that though the executive committee would exist, it would look at the matters other than the game. Unfortunately, it also noted that McDowell & Company could not form any company with Mohun Bagan, unlike East Bengal.

The result: Under the aegis of huge financial backing, Kingfisher East Bengal marched ahead from one glory to another. They won the NFL title twice; they even won the AFC Club Cup in Bangkok and the San Miguel Cup in Kathmandu. On the contrary, Mohun Bagan got mired into more and more controversies.

But whichever way the pendulum swings now, many questions have to be answered: Was it lack of skilled players or lack of finances? Was it the popularity of cricket or increasing competition from other corporate owned clubs? Or was it because of the internal strife within the management that Mohun Bagan failed to move ahead on the path of greatness? It's time for the club to answer these questions and get their act together if they don't want to disappear into oblivion. ■

What ails

The one time leader of the footwear industry is now trying hard to keep up with tough competition from other players. However, solving the numerous problems will not be easy.

By **Jatindeep Singh Behl,** IIPM PUNE

If we take a look at the history of footwear industry in India, we shall see that Bata India has been the emperor of footwear products. Bata had such a good run that it almost became a generic name for shoes. People used to go to shops and just ask for Bata and not any other brand.

But today, the brand is facing stiff competition from other players. A host of other problems have cropped up and added to their woes. In this case, we shall try to examine how Bata slipped down and what they are doing to reclaim the lost throne.

The History

Bata was established by Thomas Bata on August 24, 1894 in Zlin, Czechoslovakia. The company was incorporated in India in 1931.The production of footwear started in 1933 in rented premises at Konnagar, near Kolkata, where for the first time rubber and canvas shoes were manufactured in India.

The first manufacturing unit was set up, at a place called Batanagar. The factory shifted from Konnagar to Batanagar in 1936. In 1940-45, during World War II, the factory's production was geared to meet war requirements. In 1950, Bata successfully launched the brand Hawaii. In 1952, one of Asia's largest tanneries was set-up at Mokamaghat, Bihar. In 1988, The Bata factory was set-up in Peenya, Bangalore. In 1993, Batanagar factory became the first Indian shoe-manufacturing unit to receive ISO 9001 certification.

Currently, the production units of the company are situated

Bata India ?

in Batanagar (West Bengal), Faridabad (Haryana), Bataganj (Bihar), Mokamaghat (Bihar), Bangalore (Karnataka) and Hosur (Tamil Nadu). Bata India Limited manufactures and markets all types of footwear, footwear components and leather products. In addition, the company markets products related to footwear, accessories, garments, sports goods and other merchandise.

> Over the years, Bata earned a reputation of trust, which added to its strengths and it soon became a generic name

Bata world

Bata is one of the world's most widely spread companies, with operations in 68 different countries. It employs over 50,000 people in retail, manufacturing and wholeselling operations. The company has over 4,700 self-owned retail stores, and over 100,000 independent retailers and franchisees distributing Bata footwear. Bata annually manufactures over 140,000,000 pairs of shoes in 46 production facilities, and over 30 million square feet of leather in nine tanneries. Bata companies serve almost one million customers each day.

Bata has the largest retail network in India and has over 1000 shops and around 600 franchisees. It is a brand that Indians have grown up with. In spite of such an illustrious legacy, Bata's performance has slipped in recent times. A traditional SWOT analysis could well provide an understanding of the current situation:

Strengths

1. The widespread retail network of the company owned and franchisee stores allows the company to serve customers across the country.

2. The company's own tanneries in Batanagar and Mokamaghat ensure uninterrupted supply of raw materials.

3. The company, being a part of Bata Shoe Organisation, has easy access to new designs, brands and production technologies.

4. The brand has earned a reputation of trust, which adds substantially to the strengths of the company.

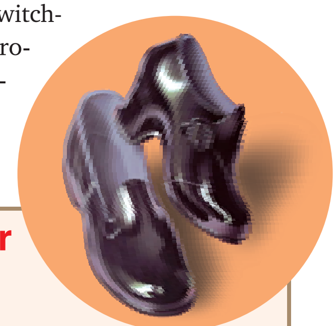
5. In addition to the eight internationally renowned brands - Bata, Hush Puppies, Marie Claire, Bubble Gummers, Power, Sandak, North Star and Weinbrenner – the company also offers a wide range of domestic labels like Quo Vadis, Jubilee, Featherlite, Ambassador, Signor, Hawaii, Naughty Boy and Tennis.

Weaknesses

1. The company has a large labour force resulting in high employee costs.

2. The company has been in existence for more than seven decades and faces a challenge in switching to new production technologies.

3. Poor fi-



Key statistics of the Indian footwear industry are summarised below:

	Units	2001-02	2002-03	2003-04
Production	Million pairs	170.10	178.55	185.81
Export Quantity	Million pairs	49.22	52.05	62.19
Export Value	Rs. in million	19,308.00	20,962.00	26,073.00
Import Quantity	Million pairs	2.37	2.75	4.54
Import Value	Rs. in million	386.00	414.00	654.00
Sales Value	Rs. in million	51,000.00	52,000.00	53,000.00
Market Size	Rs. in million	51,386.00	52,414.00	53,654.00
Domestic				
Consumption	Rs. in million	32,078.00	31,451.00	27,581.00

Sources: Industry Market Size & Shares. Dated February 2005, Economic Intelligence Service, Center for Monitoring Indian Economy Pvt. Ltd.

nancial position in the market has resulted in Bata incurring huge losses for the past four years.

4. Unorganised top-level management; facts: 28 directors have been changed in last three years. Eight resignations from key top managerial personnel since 2001

5. The inability of the management to deal with a highly unionised factory and sales staff is yet another major problem as the organisation wastes considerable time to resolve labour disputes and strikes.

Opportunities

1. Footwear being an item of mass consumption has immense demand potential in Indian market.

2. Products like Bata Aquastatic, Bata Airsystem and Bata Lavorazione Artigiana, which are very well known as premium brands in other foreign markets, hold huge promise for Bata.

3. There is a massive potential for the company to leverage the Bata brand and retail coverage for marketing merchandise consumer products other than footwear.

Threats

1. The Company faces stiff competition from various regional players like Action, Lakhani, Mesco's, Relaxo and Liberty, which are able to sell footwear at even lower prices due to lower overheads and manufacturing costs.

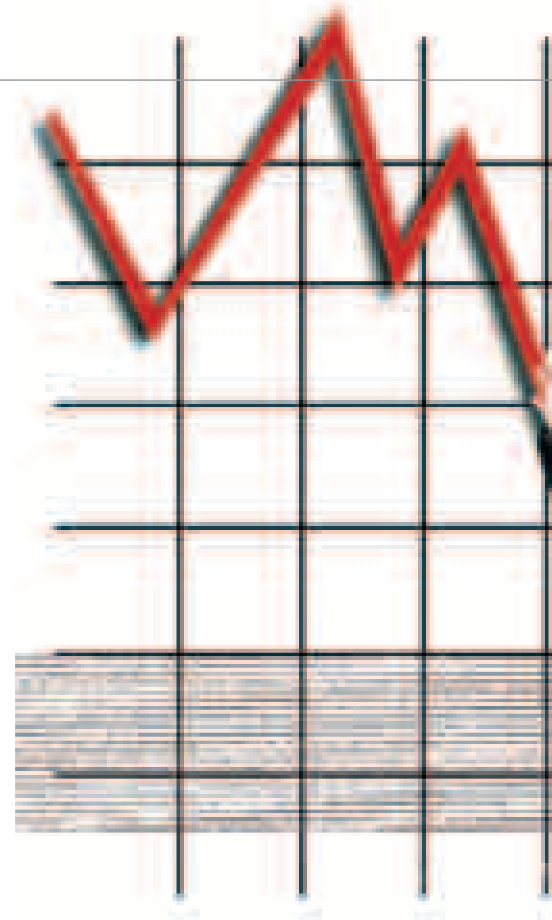
2. Opening of the Indian market to imports has resulted in the company facing competition from cheap imports as well.

3. Change in the taste of consumer towards lifestyle statements like Sprandi, Catterpillar, Stacy Adams and others has created another challenge for Bata in the high end market.

4. The problems which the company is already living with – high manufacturing costs – has been coupled with increasing employee costs year on year.

Bata's 2004-05 financial results are not yet available (at the time of going to print), however, net loss for FY03 was Rs.241.23 million, as against the net loss of Rs.113.02 million for FY02 and in the year 2004 till September it got worse, net loss further increased to Rs.404.61 million. Bata's exports revenues and sales have decreased dramatically up to 50% or even more in the last few years.

Now these figures clearly show that while the footwear industry is growing, Bata is struggling to make profits because of their huge expenditure. There are also several other factors, some of which are detailed below:



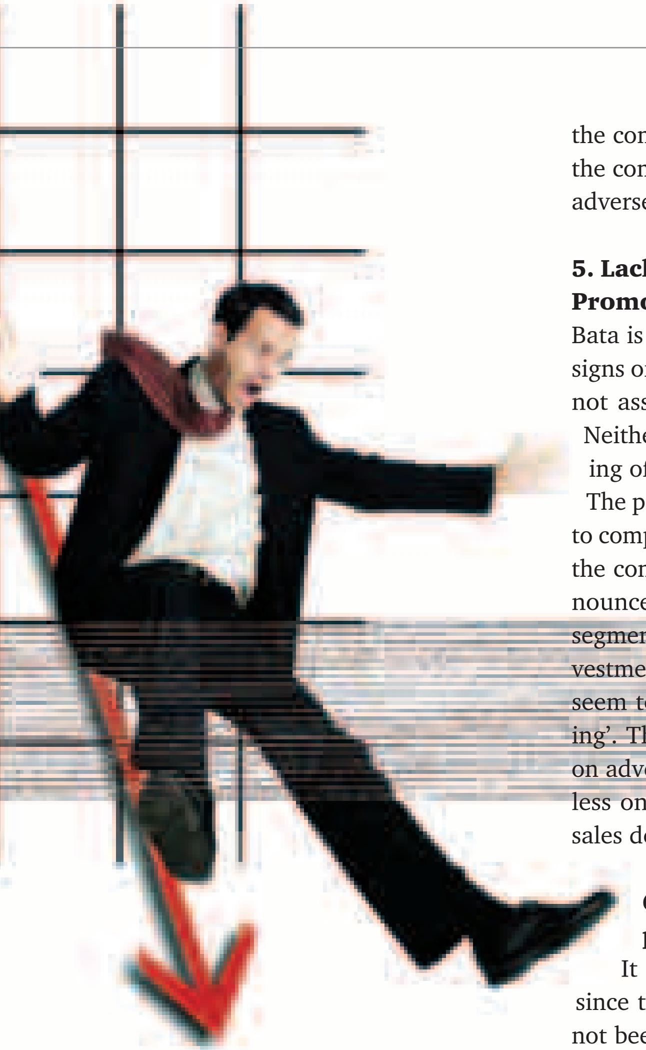
Consolidating the factors affecting Bata's performance:

1. Workforce & Expenses:
The company has a large workforce, resulting in high employee costs. Their operating expenses are quite high; and in retail operations, the said cost is as high as three to four times more than their competitors. Bata has five manufacturing facilities and a nation-wide retail and wholesale distribution. Reducing employee costs and restructuring and streamlining its operations are the major challenges and risks which, if addressed properly, can solve a lot of problems.

2. Relations between Top Level Management and Trade Unions:
There are eight recognised trade unions in the company and the company management has had a history of disputes with these trade unions and has been fraught with labour unrest. Quite recently, there was another call for a strike, but the management succeeded in avoiding it.

Lets look at the financial statement of Bata India (Rs in million)

Income	For the year ended 31st December				
	2000	2001	2002	2003	2004 (Till Sept.)
Sales + Incentives	7582.17	7102.57	7013.12	7146.47	5044.40
Expenditure	7321.36	7085.66	7132.25	7389.73	5456.20
Net Profit/(loss) before Tax	260.81	16.91	(119.13)	(243.26)	(411.80)
Net profit/(Loss) after Tax	167.24	15.03	(113.02)	(241.23)	(404.61)



3. Trends and Lifestyle:
With the era of consumerism and globalisation, footwear has progressed from being a necessity to becoming a fashion statement. Bata has to be innovative in manufacturing technology and devising new marketing strategies, so that it is able to maintain and expand its customer base. The company faces competition from not only high end footwear products, but also from unbranded products produced by the large unorganised sector that compete on lower costs.

4. Globally competitive business environment
With the opening of the Indian economy, Bata now faces competition from international players, along with existing competition from the national players. Though the company has taken steps, like importing readymade shoes with attractive design and styles, to score over competitors, it might have to reduce its prices because of the competition. This may in turn reduce the company's revenues and hence might adversely affect its business.

5. Lack of Sustained Advertising and Promotions:
Bata is continuously introducing new designs of footwear; but the company is still not associated with being 'fashionable'. Neither the promotion, nor the advertising of the company, is strong.

The premium segment competitors seem to completely overshadow the presence of the company. However, Bata has not announced any new products or business segments in recent times. Further, the investments on advertising and promotions seem to be 'following' rather than 'leading'. That is, rather than spending more on advertising, Bata has started spending less on advertising, as a direct result of sales decreasing.

6. Non existence in garment products
It has been almost seven decades since their launch in India, but Bata has not been able to mark its presence in the garments sector. Because of non-existent promotions, not even 1% of the population is aware of Bata's presence in shirts and trousers. Bata could leverage their strong retail presence to move into such sectors in a planned manner.

Internationally Bata continues to be a strong brand, but in India it died long ago

7. Totally dependent on promoter group for technology
The company entered into a technical collaboration agreement dated December 29, 2000 with Bata Limited, Canada (Bata Canada) for a period of 10 years, for receiving various services from Bata Canada, including engineering, construction and architectural, research and development, testing and quality control services, footwear technology and general technical services, environmental, health and safety services and brand development services. On one hand, this agreement provides Bata India access to most modern technologies. At the same time, on the other hand, it shackles Bata India's domestic innovative capacities.

8. Trademark infringements by domestic unorganised sector
Small companies are copying the trademark of the company and selling the footwear at significantly low prices as compared to company's prices. The company is trying to adopt legal proceedings against such competitors to prevent them from using the designs. But such counterfeiting has had adverse effects on the company's businesses and profits.

The situation now

Bata's brand equity in India has been and continues to be under threat. However, internationally it is still quite a strong brand. Though the market share of Bata is not very high, its market position is definitely significant. There is no real premium commanded by the Bata brand, since Bata is synonymous with durability and "value-for-money" footwear.

Bata is now going through a mass upheaval. The company is recruiting young executives, who can bring in innovative ideas to match the competition. In 2003, Bata tried to reposition itself from a manufacturing company to a marketing company, after recording losses of nearly Rs.119 crores in 2002. Bata has also started focusing on 'quality sales' with a heavy stress on consumer satisfaction, as it found that quantity sales could increase the turnover, but quantity without quality would only destabilise the consumer confidence that had taken ages to build up. Now as Stephen J. Davies, MD of Bata India, plans out various new strategies, the question remains on what strategies should the new MD focus on so that the company regains the lost pride in years to come? ■

Planning your IT architecture for competitive advantage

An organisation in the brave new economy is as good as its IT architecture. Thus, companies need to tread the IT path wisely.

By Tareque Laskar, IIPM BANGALORE

In May 2003, Nicholas G Carr raised a storm by claiming in an article in the Harvard Business review that 'IT Doesn't Matter'. He argued that the strategic importance of information technology had diminished remarkably due to its ubiquity.[2]

Two years and a lot of debate on Carr's article later, IT seems to be doing fine as a potential enabler of competitive advantage. This article examines a generic blueprint that organisations (Especially the CIO and other CTOs) need to keep in mind while deploying IT or the IT architecture.

THE DIGITAL PARADIGM

'Digital' is perhaps the second most used word in the world today (although it would probably be a distant second to 'God' even in this increasingly godless world) and crops up almost in any conversation.

We have digital entertainment, digital business, digital enterprise, even digital newsreaders! But what exactly is digital all about?

It is all about the amount of information we have with us codified into 0s and 1s. Why is that important? Simply because if you can convert anything – a piece of news, a picture, a song, a stock quote, game score – into 0s and 1s, you can transmit, store and/or manipulate it phenomenally fast, thanks to the ubiquitous computer. That means that the world connects and exchanges information faster; which impacts everything from the way businesses run, to the way we cook food! As Bill Gates had remarked, "Every Year, better methods are being devised to quantify information and distil it into quadrillions of atomistic packets of data."[3]

Increasing digitisation is possible today thanks to accelerated innovation in processors and processing speeds. This has meant that more and more information can be digitized, transmitted, retrieved and referenced through connected networks, not least prominent of which is the World Wide Web. As a citizen of the world going increasingly digital, we should see that technology is rightly leveraged to ensure that the benefit reaches the end user without entangling him in too much of a web.

> "Eat or be eaten"— motto for adapting your company to the internet[1]

As a senior manager, the digital paradigm perhaps has even more significance. It can make your business faster and more responsive, but at the same time it would increase competition too. Consumers would make decisions (and change them) even faster. That means the business' strategy has to be aligned with its IT infrastructure to make sure it is ready to handle this paradigm.

THE NEW ENTERPRISE ARCHITECTURE

The business world today appreciates the importance of a real time, sleek and scalable information architecture and its positive impact on profitability. All the rhetoric about the digital and information revolution apart, the inescapable reality remains, that an enterprise in this brave new economy is as good as its IT architecture. An architecture, which not only ensures timely and decongested flow of information, but also empowers the employees and delivers business intelligence.

The question that's most pertinent then is: What comprises the enterprise IT architecture?

It's basically city planning for IT – an overarching plan of the total data, business processes and IT assets inside a company, how they're used, and how they should be built and shared.


ENTER

According to research by Gartner, a leading IT consultancy, an average company wastes 20% of its corporate IT budget on purchases that fail to achieve their objectives. That's around $500 billion (!) wasted!! The malaise lies in how organisations manage information to deliver business intelligence. The first thing (even before the physical architecture comes into place) is to get a proper information management system in place. What happens with organisations is that their information systems are already in a mess, and technology only lands them in a faster mess.

If we look at the business scope today [Exhibit 1], it is easy to conclude that technology is driving businesses today, as opposed to the other way round earlier. The interesting thing to note in the continuum is that the customer now has a lot more access to technology, and that has meant businesses have had to respond rather than relegate technology to a support role.

Pointing out what constitutes IT architecture in any organisation is easy. Unfortunately, determining how the organisation got there and using it as a frame of reference for future decisions regarding architecture is the difficult part. That IT architecture needs continuous evaluation and up-gradation is taken as given in today's information driven economy. More often than not, these decisions are dictated by a set of influencers who are technocrats rather than business men.

THE NUTS AND BOLTS OF ARCHITECTURE

According to Yogesh Malhotra, there are five levels of architecture planning that are required:

Business Architecture: It takes into consideration the business strategies of the firm, its long term goals and objectives, the technological environment, and the external environment.

Information Architecture: This level is primarily a map of the overall information needs of the firm, based upon the firm's Business Strategy. The Information Architecture basically encompasses the application level aspects (e.g. Competitive Intelligence System, Market Research System) that map the information needs on the firm's specific business needs.

Data Architecture: At this level, the business needs to define its current and future needs for accumulation, usage, renewal, maintenance, and transfer of data within, and outside the firm's boundaries.

Systems Architecture: At this level, decisions about specific systems that the firm is going to deploy, the demands made by the business applications, the data requirements, and the hardware and software that will support them, are taken. Examples include issues such as the Client Server Architecture, Intranets, and the various Networking Protocols.

Computer Architecture: This level is primarily made up of the specific hardware and software that constitute the technological base for the above architectures.

All the above mentioned areas are huge by themselves. But I would like to dwell mainly on the information architecture, since it overrides the others and is of paramount importance for gaining strategic advantage.

INFORMATION, NOT JUST TECHNOLOGY

Information is available today fast, cheap and worryingly in humungous quantities. An information management system has to act as a sieve to separate the wheat from the chaff. According to recent statistics, the amount of data in the world currently stands at around 55 Exabytes (that's 1018 Bytes!) and will grow to 180 Exabytes by 2006-07! Now that's a lot of information.

What a business requires is an Information Life Cycle management model (ILM). [Exhibit 2] Here's how it works. There are seven aspects that need to be mapped. After defining the business need for the data, the following are considered – how will the data be captured (or collected), how will it be organised, what will be done to protect and/or monitor it, to whom would it be made available, how much would be archived and finally, when and how would it be deleted or destroyed.

The most critical is that the information should be as real time as possible. Real Time, as the term suggests, is about quick reactions, about having all the information as it happens, about doing everything without cumbersome lags or delays. Imagine a financial services company that has its clients' credit ratings updated as soon as they are revised. Good? Now imagine this: Not only is the rating updated, but a new target product profile and specifications are drawn up simultaneously. How? Because the data was seamlessly transferred to the product development department as well, along with the finance department. Now that's a real time enterprise.

PLANNING FOR INFORMATION SYSTEMS

The five paramount considerations for planning an Information System are:

1. Interoperability
2. Performance
3. Scalability
4. Flexibility
5. User Friendliness

The five issues were identified from empirical research by the author through discussions with CIOs of some leading Indian organisations.

Planning for the physical infrastructure consists of three parts – the hardware (User terminals, printers, PCs, laptops, storage etc.), the software (OS, platforms, application software, database software) and the communication technology (physical cables, lines, communications technology). The first estimation that needs to be done is how much share each of these components will have in the total architecture pie.

The next issue to be resolved is whether these will be picked up off the shelf or custom made. A rule of thumb is that you buy off the shelf for routine processes and custom make for unique processes that your business might have.

It is not possible to plan IT procurement more than 2-3 years in advance because 30%-40% of the existing technology would be obsolete by then. But CIOs would do well to go in for 'Information Protection Plans', wherein the company enters into an agreement with the vendor that the vendor will, free of cost, take care of any up-gradations within the agreement period. Currently, corporations like Hewlett-Packard offer such plans on services.

The best idea is to go for a scalable and modular approach so that upgrades are never an issue. The concept involves designing an application programming Interface, which is independent of platforms or databases, and which can be sort of 'plugged into' the existing back-end to help users access and process data. As against the existing perceptions, a business cannot be competitive, flexible, profitable and capable to face the world with standardising, mapping and controlling IT and its assets. As a result of this, the IT efforts either fail to achieve the objective for which they were implemented or become too IT centric.

But now, advances in integration technology – primarily intelligent and flexible middleware and Web services – are providing new ways for designing more agile and more responsive enterprise architectures that provide the kind of value businesses have been seeking.

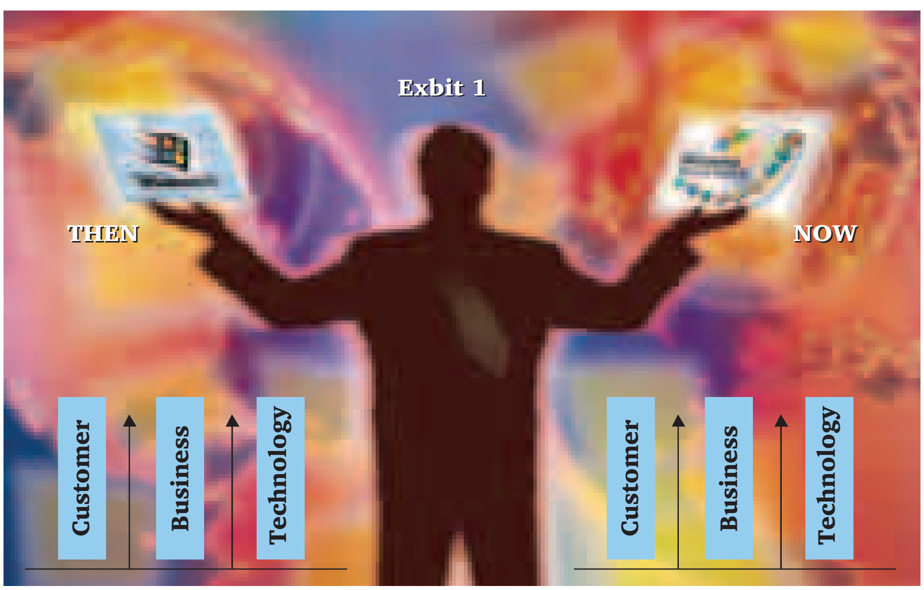
There are five simple questions that, if answered, will set the stage for the organisation to stand on a solid IT architecture. Tom Murphy, of Gartner, in his book Achieving Business Value from Technology: A Practical Guide for Today's Executive outlined these as the Five Pillars of Benefits Realisation:

- Strategic Alignment: Will this investment help us achieve our strategic goals?
- Business Process Impact: What is the impact on our ability to transform business process?
- Architecture: What is the impact on our IT architecture?
- Direct Payback: Will this investment deliver more revenue, cost savings or better management information?
- Risk: What business and technology risks could arise from this investment?

India Inc. has not been left behind in the race to leverage IT for outstanding performance. A quick look at these examples makes that clear:

- ASIAN PAINTS invested Rs.900 million in IT in the last three years. Because of this linkage with their suppliers and distributors, Asian Paints has been able to cut down the time required for monthly account closure from 20 to 4 days.
- HLL's RSNet (Redistributor Stockists Network) has helped them plan inventories better.
- INFOSYS, which earmarks almost Rs.2.25-2.50 billion a year as its IT budget, has taken a phenomenal 90% functions online (from HR to Finance).
- UTI, the mutual fund company, has been able to allot units to investors in a day (as contrasted to 25-30 days earlier) and to slash its phone bills by a whopping Rs.10 million.

Despite my exhortations about information overload, it appears I have also supplied a lot of it here. But the central theme remains uncluttered and simple. Whether it's planning for IT architecture or Information Systems, it's the business process and the value it delivers to the customer that should be of prime importance. ■



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Technological innovation is crucial for creating value in the marketplace. Investing in today's innovation projects will create tomorrow's jobs. It is universally accepted that innovation is central to the success of technology companies. In spite of this, there is a paradox: few CEOs have as a top priority a striving to make the innovation process more effective in their company. The new approach of distributed innovation is a proactive approach to help top management resolve this paradox and to develop high value-creating offerings.

Resolving the Innovation Paradox in Technology Companies

By Georges Haour PROFESSOR TECHNOLOGY AND INNOVATION MANAGEMENT IMD LAUSANNE

A turn-around world

We are living in an increasingly interdependent world where change is occurring at a very rapid rate and with great amplitude. This has been particularly true in the years following the economic crisis triggered by the oil shocks in the 1970s. In the course of this period, science and technology have been crucially shaping our world, particularly in the areas of life-sciences and ICT (Information and Communications Technology). Trade and exchanges have grown at a spectacular pace. As a result, technology flows have grown exponentially, as exemplified by the fact that, in less than ten years, the amount of licensing royalties have been multiplied by seven to reach $142 billion worldwide in 2000.

Responding to these changes, businesses have carried out extensive restructuring. Companies have tended to focus on their core activities and to outsource portions of their operations. When it comes to developing technical innovations, however, firms have been more cautious in adopting a less internally centered approach. It is high time for companies to envisage technical innovation in a new perspective.

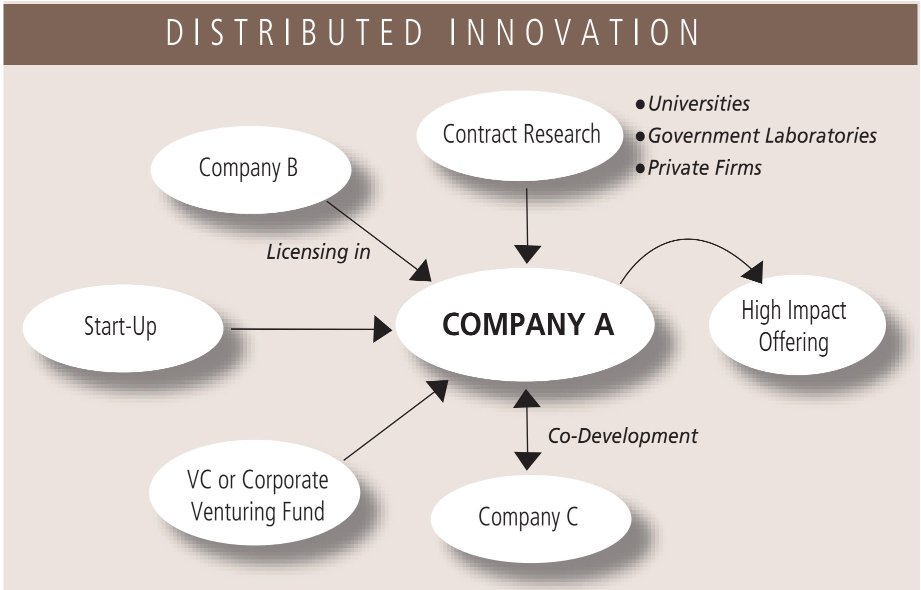
Although the phrase "innovation is a key to profitable growth" is universally accepted, most CEOs of technology companies are not truly committed to making sure that the innovation engine works effectively in their firm. In order to resolve this paradox, the environment around the CEO must indeed contribute to give him or her the courage to be a true champion of innovation. Also, as mentioned above, it is high time that we envisage innovation in a new perspective. The new approach of distributed innovation offers a way to resolve this paradox.

A new perspective on innovation

As they develop innovations, technology companies currently rely excessively on their internal resources. It is proposed that they should extensively access inputs from external actors. This distributed innovation approach is represented in Figure 1.

The starting point of this new approach is the market. On occasion, the firm needs to identify a 'ground-breaking' or 'high impact offering' - product and services that will give it a competitive edge by defining its future business. This approach is envisaged in an entrepreneurial perspective: as an entrepreneur, the firm "sees" the opportunity in the marketplace and then mobilises resources in order to develop it.

Among the required resources is a technological component. In this approach, this component results from combining



In distributed innovation, Compny A first defines the 'high impact' offering it wants to bring to market. In order to develop this offering, the company then extensivelydraws on extensively draws on external technical resources from a variety of sources

expertise internal to the firm together with extensive input "imported" through various channels from external sources: other firms, start-ups, laboratories, as outlined in Figure 1. In this way, the firm is able to mobilise a much broader technical base and has more options available to define and implement the development of the targeted "high impact" offering.

Samsung, Intel and pharmaceutical companies are examples of this approach. In the case of Samsung, distributed innovation was used, not to develop a given product, but to enter a whole new industry of advanced electronics components in the 1980s. For this, in addition to hiring appropriate staff and developing its own R&D, Samsung bought licenses, entered into co-development agreements and acquired companies. By tenaciously driving this learning process, the company succeeded in becoming a world leader in Direct Random Access Memory (DRAM) chips.

In the case of Intel, the company uses two main channels to "import" technology: collaboration with universities and corporate venturing. Intel invests $4 billion per year in internal R&D. It also maintains a number of projects with universities: this effort represents $100 million per year. Intel is particularly attentive to effectively leverage these collaborations: an R&D person is assigned to each project, in order to monitor it, as well as to make sure that its findings are utilised by the company. When it comes to venturing, Intel is the largest venture capital company in the US. Intel Capital has a portfolio of some 500 investments in companies that will support the development and use of Intel's products. Intel calls them "ecosystem investments".

Of all industrial sectors, the pharmaceutical industry has pioneered the extent to which companies can leverage external technical expertise. Johnson and Johnson, in particular, has been successful in the delicate process of "internalizing" external innovations. More generally, pharmaceutical companies heavily complement their own drug development efforts by channelling external expertise. They invest in start-ups; 18 in the case of Novartis in 2001.They also secure "windows on technology" by financing funds which invest in start-ups and engage in extensive in-licensing and collaborative developments. It is estimated that by 2010, some 40% of all pharmaceutical development will be "outsourced" to third parties.

These examples highlight some of the channels constituting the "distributed innovation system". In the case of Samsung, partnering and acquisitions were used exceptionally in order to acquire the expertise needed to build a new business. Intel taps into external sources of technology essentially through the channels of university projects and venturing companies. Pharmaceutical companies make use of a broad range of channels.

In none of these cases, however, do we have a bundling of external inputs together with internal capabilities in order to more effectively develop a pre-defined target offering. These examples thus do not truly represent the practice of distributed innovation, which implies the proactive, coordinated channelling of external expertise, aimed to develop 'high impact' offerings.

Although today very few companies practice distributed innovation, technology companies will, no doubt, increasingly apply this model in the future. The reason is simply that, alongside their internal innovation process, this approach allows firms to more effectively leverage technical expertise to secure better options for developing offerings with enhanced potential for value creation and growth.

Practicing distributed innovation

In order to practice this new approach, several requirements must be met. The main ones are:

- At the center of the process, the CEO must take the responsibility for identifying and selecting the project, as well as developing it. He or she must be seen as having the courage to take the risks involved.

- Scanning the external environment must be particularly effective. Beyond the traditional techno-business watching, the firm must gather intelligence helpful to identifying the groundbreaking offering. It must also be very aware of external sources of technologies that may be available.

- Project leadership: "Seamlessly" integrating external and internal contributions is much more complex than managing a predominantly internal process. The development of sophisticated project leaders is thus an even more critical requirement than at present.

- Knowledge management: Far from being

immune to external inputs, the firm must have a strong capacity to scout, locate and absorb knowledge from the outside. This in turn demands that internal knowledge is well managed, including a clear policy on what leading-edge knowledge must be maintained within the organization.

Underlying most of these requirements is the fact that the staff, particularly the technical knowledge workers, will thus develop a highly outward orientation: towards the market, potential sources of technology and possible partners. Such characteristics will be increasingly important to the success of firms in the future.

The way forward

A primarily internally focused innovation process is too constraining. What is needed is to engage external contributors much more proactively. Technology firms have to considerably extend their innovation perimeter. They must create a seamless connection between internal and external actors in the innovation process. This must be done for specific, carefully selected projects that are critical for the growth of the company.

Until now, outsourcing of technology has often been done in an opportunistic way and in a piecemeal manner. What is now needed is to outsource with a clear purpose.

- Marshal the various inputs, external and internal to the firm, with an aim to provide the best possible technical toolkit for the commercial success of 'high impact' innovation projects. The inputs of external technology flow through various channels.
- License-in technology from third parties.
- Buy innovation projects from other firms or laboratories.
- Invest in a start-up to access its valuable technology.
- Activate additional external channels as well. These include university laboratories - be curious about their research to stimulate your own - as well as relevant contract research organizations.
- Monitor their activities to see where they can contribute, as they may be able to add other pieces to complete your technology puzzle.

By working towards the distributed innovation model, companies will more effectively leverage external technical expertise for commercial success. This 'high risk, high reward' approach provides new options for effective value creation and growth. Distributed innovation truly takes into consideration the fact that there is much more going on outside the firm than there is inside. It involves fusing external and internal inputs "seamlessly".

The entrepreneurial perspective of this approach is what is needed in technology companies. The world of corporate technical innovation has been fairly impervious to the discipline of value creation characteristics of the Venture Capital (VC) industry. The VC perspective, applied to the 'high impact' projects, is fully consistent with our objective of strong, profitable business growth over the longer term. With it comes the useful notion of due diligence to evaluate innovation projects, as well as assessing external technical input. It is time to inject such a perspective into the way technology companies approach the innovation process today.

Technology firms have to considerably extend their innovation perimeter. They must create a seamless connection between internal and external actors in the innovation process. By working towards the distributed innovation model, companies will more effectively leverage external technical expertise for commercial success

With distributed innovation, the company's main actor in technical developments, R&D - Research and Development - increasingly acts as a broker of technology. This implies a schizophrenic dimension, since technical professionals working on internal developments may recommend that their firm buy a technology, which might make their own obsolete. This creates yet another tension in the management. In making distributed innovation work, it is particularly crucial that top management handles the human factor with great care, not only to maintain the conditions for a high motivation level, but also a strong atmosphere of trust.

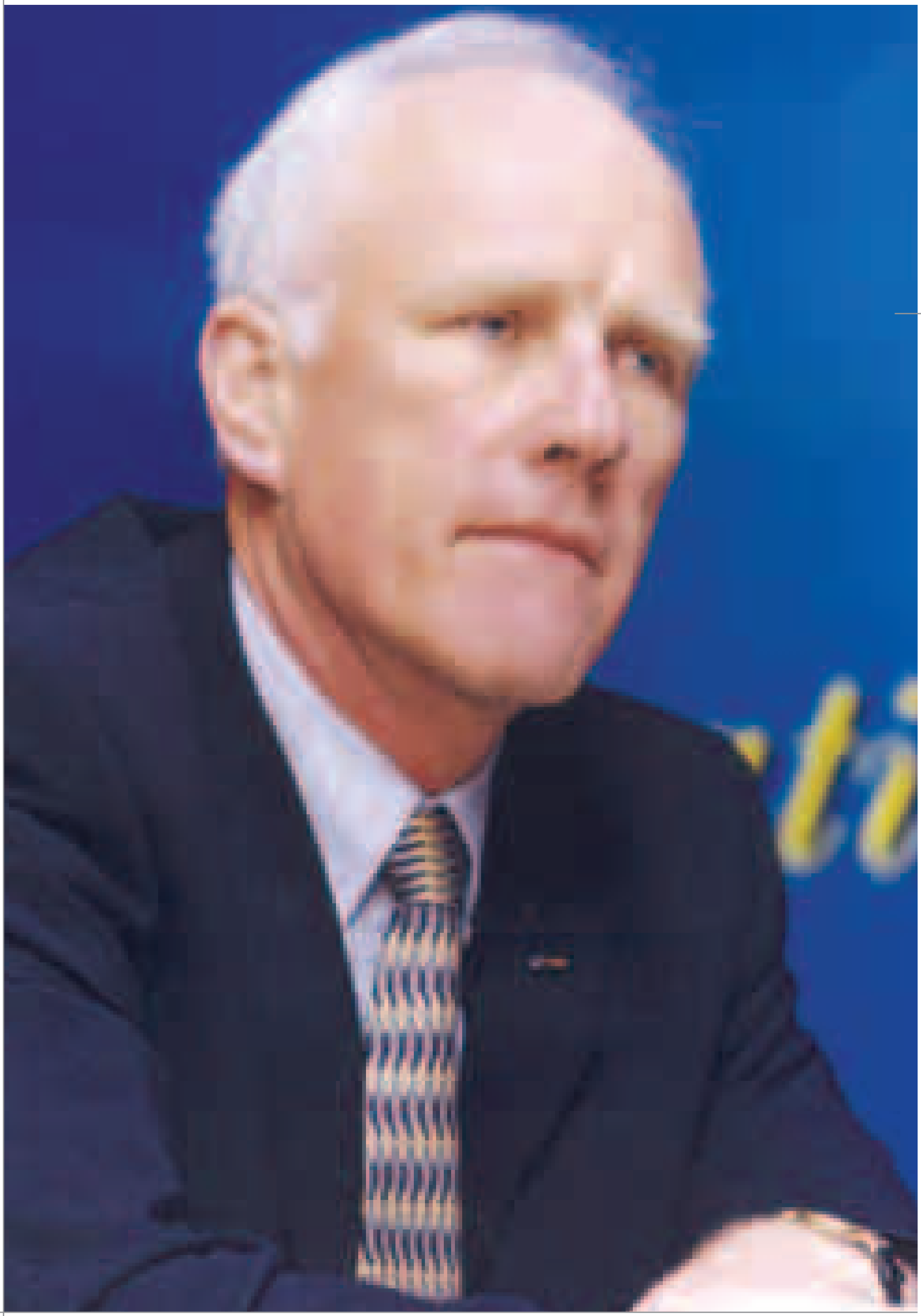
Because it relies so much on scanning and evaluation of the external environment, distributed innovation will powerfully reinforce the outward perspectives of the staff in the firm. It will also constitute a great stimulus for learning.

Above all, distributed innovation is an occasion for the CEO to facilitate a process enhancing the value creation for the firm. It is the key to resolving the innovation paradox. Technology companies will thus increasingly become architects of innovation. In this way, they can define their target product developments with fewer constraints than if they were to mainly rely on what they can do in-house.

Companies will continue to need the strong technical expertise of the internal R&D function. First, R&D will play a key role in driving innovation projects - those using distributed innovation, as well as the more traditional, internal ones. Second, such a strong function is needed to enable the firm to be an effective scout and buyer of external technology.

By extensively opening their innovation system to external actors, technology companies will unleash potential for growth and job creation. They will thus more effectively convert the pool of existing technical knowledge into economic value. ■

This article provides some highlights from the latest book by Professor Georges Haour. Entitled "Resol ving the Innovation Paradox - Enhancing Growth in Technology Companies", the book is published by Palgrave Macmillan. For more information, see www.innovationparadox.com. (Originally published by IMD)



Canon India, guided by its CEO is on a major expansion spree

Alan Grant, CEO Canon

MAPPING INDIA THROUGH DIGITAL IMAGING

"A pessimist sees the difficulty in every opportunity; an optimist sees the opportunity in every difficulty."

Alan Grant, the president and CEO of Canon India, is a flamboyant and dedicated leader, and these words by Winston Churchill constantly inspire him. Grant is credited with helping Canon Indian Pvt. Ltd. (CIPL) register a growth of 270% since he took over the India business as president and CEO in January 2000. However, contrasting with his on the job approach, Alan D. Grant prefers to keep a low profile rather than harp about his achievements in the media.

With an experience of almost 20 years in Canon, he has steered the India operations towards achieving the ISO 9000 quality standard besides redefining the strategies of the Indian operations. Alan D. Grant was born on November 13th, 1947. Grant has worked with several manufacturing companies globally during his tenure with Blue Circle Cement in Indonesia, giving him extensive experience in Finance and marketing. He joined Canon UK in 1985

"Our expertise in imaging and printing combined with our focus on innovation and R&D capabilities uniquely position Canon to take the digital lifestyle to the next level"

and will soon complete 20 years in Canon. Prior to joining Canon India in December, 1999, he was working as Managing Director of Canon Scotland.

Grant is known never to take a superficial view of things. He believes in showing the way from the front. He is of the opinion that "If you demonstrate strong ethics, fairness and integrity, you will never be let down." Since Grant took over the reins of the company, Canon India has earned recognition as India's only complete digital imaging company and has launched multiple product portfolios into the Indian market. It launched an impressive range of 28 products in the digital camcorders in April, 2005 including digital cameras, projectors and printers segments which are aimed at exploiting the growing market for TV sets in India. Grant has successfully countered HP's strategy by focusing on small towns and zonal distributors in response to HP's distribution strategy of metros with large redistributors. Truly, Grant has implemented his strategy of maintaining a consistent approach towards "employees, customers, suppliers and business partners."

Referring to this recent strategy of bombarding customers with new products in digital imaging entertainment Grant said, "Digital Imaging Entertainment is about enabling consumers to enjoy, manage and interact with all kinds of content from any source in a simple, easy way." According to him, it is also part of Canon's vision to put a human face to technology.

The company plans to tap the emerging markets in India as part of the long term strategy to ride on the huge retail boom anticipated in the country. India has been ranked first in the world in the report on attractiveness of countries as retail destinations according to A. T. Kearney's July 2005 Global Retail Development Index.

Canon has three retail focus initiatives- IT, Photo and Audio Visual. It has launched 21 Canon Retail Stations and plans to take the number up to 30 by the end of 2005. The Photo initiative involves setting up of 30 Digiclick zones by the end of 2005 (there are currently eight). The company has already launched seven Home Cinema Centres in India and will reach 18 by the end of 2005 as part of its strategies regarding projectors.

"...Successful leadership in a company like Canon depends on the two 'P's – products and people. We are fortunate that Canon's innovative products make that part easy!..."

Ask Grant about how people may perform best, and he emphasizes on the value of teamwork and goals. "...Most goals however cannot be achieved alone and require the cooperation of different people..." Regarding the practicality of such a scenario, he is certain that organizational culture can achieve it. Apart from teamwork, the culture he has developed is one in which leadership is a collective responsibility. Accordingly, Grant does not shy of debate, as a leader. He has created an atmosphere where "people can debate, discover and plan the best course of action for dealing with a complex situation."

Grant contends that "Great leaders must master three fundamental skills: inspiring employees, building leaders at every level and delivering results." Leaders, according to him have to "grow their arsenal of leadership tools and resources" else they will soon be left behind other leaders in the industry.

According to Grant, leadership is about creating a compelling vision for the organisation. Canon is poised for extensive growth in India. He said, "Our expertise in imaging and printing combined with our focus on innovation and R&D capabilities uniquely position Canon to take the digital lifestyle to the next level." Obviously the journey is hard, but as Grant agrees taking the example of Edison, "it's a long hard journey from inspiration to realization." With his determination for innovation and out of the box thinking however, Canon India is poised to fire from all cylinders. ■

CANON INDIA

Canon India is a 100% subsidiary of Canon Singapore. Canon India is marketing the digital imaging product range including photocopiers, multi-functional peripherals, fax-machines, printers, scanners, digital cameras, Camcorders and multi media projectors since its beginning in 1997. Canon currently has 281 channel partners, 36 retail stores, over 100 service centres and more than 2700 IT resellers across India.

Canon India launched 51 new products in 2004 (a record) and its gross revenues amounted to Rs.2.64 billion. It aims to be No. 1 in all major categories of the Digital imaging Market.
Canon India has one of its' six cutting edge Software Development Centres located in Gurgaon. The centre is ISO 9001:2000 certified and was awarded the CMM level 3 status in April 2004.

About Canon

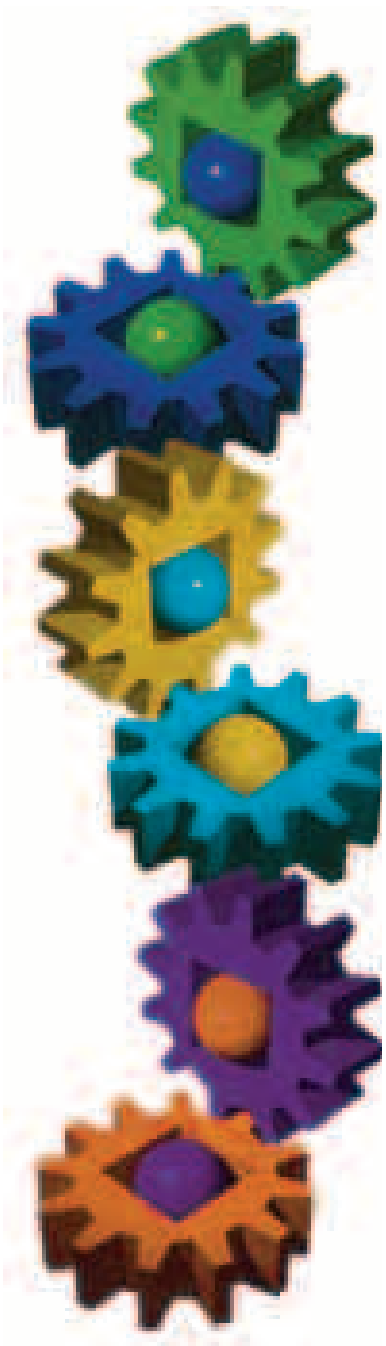
Canon as a company was set up in 1937 and is now ranked 67th on the Fortune 500 list. It has now a name in Digital imaging as well, whereas earlier its sole purpose was to make the best camera in the world. Canon has established 195 companies, employs over 100000 people and has won 19902 U.S. patents and 1992 in 2003 alone. It is No. 2 in the US in terms of no. of patents. 10% of Canon's revenue goes into R&D.

Canon works on the kyosei principle of "living and working together for the common good" and seeks to create perfect harmony between business priorities and environmental considerations.

Growth opportunities are different from the core business. They require different skills and metrics and a thorough understanding of customers' priorities

By Adrian Slywotzky and Richard Wise

6 principles to make growth initiatives work



Most senior managers know intuitively that relying on the inspired efforts of a few maverick managers to find and nurture new-growth opportunities is a recipe for stagnation. The odds of success are long, even for the best ideas; and in most companies the number of talented mavericks can be counted on one hand. Putting the whole burden of change on their shoulders will only produce frustration for the mavericks and stagnation for the company.

Adrian Slywotzky

Success in creating new growth again and again lies in developing a systematic, organisational capability to identify, shape and nurture new-growth initiatives. And the responsibility for doing that lies with the CEO and the entire senior management team.

Of course, achieving that goal isn't easy. Most senior managers who recognise the urgency of new growth get hung up on a series of thorny issues:

- Creating innovative new-growth initiatives without losing discipline and focus on the core business
- Reconciling the pressure for short-term earnings with multiplying requests for seed funding
- Supporting innovative thinkers and risk takers without signalling neglect of the core business
- Sorting out the opportunities that could truly move the stock price from those that are likely to produce only marginal improvements
- Finding the time to guide and coach new-growth teams without neglecting the other burning issues on the agenda

Managing these tensions is a long-term discipline rather than a problem to be solved once and for all. No single set of formulas will fit all companies. However, an examination of the practices of firms that have successfully fostered new-growth initiatives suggests that there are six principles that managers can apply to ensure that these initiatives succeed. Those principles are:

1. Make operational excellence in the core business your cornerstone.
2. Treat growth as a discipline to be pursued at all levels throughout the company.
3. Develop many small, maverick ideas, not a few large ones.
4. Shift resources from product and technology innovation to customer and business innovation.
5. Organise to suit the needs of the new business as much as the core business.
6. Use selective acquisitions and alliances to catalyze growth.

These principles are described in detail in this article.

1 Make operational excellence in the core business your cornerstone

It may sound like a paradox, but having an efficient, profitable core business based on high-quality products and services gives you the license to go further in solving customers' problems. It also gives you the funds to support new-growth initiatives. The core business helps uncover other customer needs that involve using products more effectively: No product sale, no surrounding needs to serve.

Cardinal Health, based in Dublin, Ohio, is an outstanding growth innovator that has never let up on operational excellence in its core business, distributing drugs to pharmacies, hospitals, and managed-care providers. Even as it pursued new businesses such as pharmacy management, reimbursement services, and contract drug packaging over the past decade, Cardinal was steadily consolidating and improving its distribution centres.

In 1994, Cardinal had 40 distribution centres with average annual centre sales of $125 million. Today, it operates only 24 centres with average annual sales of $900 million, well above the industry average of $450 million. Every dollar saved on distribution costs becomes a dollar available for new-growth investment. This relentless focus on efficiency has allowed Cardinal to stay profitable and fund new growth (Exhibit 1).

Moreover, the value that Cardinal delivers in its core transaction helps give it access to many of its upstream and downstream businesses.

By making core business excellence a cornerstone of growth, senior managers can alleviate concerns about losing momentum and discipline as people become excited by the new-growth concepts

By making core business excellence a cornerstone of growth, senior managers can alleviate concerns about losing momentum and discipline as people become excited by the new-growth concepts. However, just watch out for the trap at the other extreme: Using the focus on core operations as an excuse to defer any serious focus on new growth. This can easily become a permanent state of mind. While there is always some improvement or change to be managed in the core business, improvements must be managed simultaneously with efforts to pursue new growth, not at the expense of such efforts.

2 Treat growth as a discipline to be pursued at all levels throughout the company

Companies that treat growth as within the sole purview of a corporate strategy or business development group rarely create meaningful, serial growth. While their participation is important, such groups by themselves may lack sufficient funds or operating experience to spearhead serious new growth. Innovative growth also needs to include operating managers as part of their day-to-day interaction with customers and the marketplace.

At Cardinal, there is no corporate unit in charge of growing new businesses. Instead, everyone at the company from CEO Robert Walter to down below makes growth the central concern of every day's decisions. Every manager knows that growth is a critical component of his or her report card.

Cardinal managers focus on two dimensions: Absolute growth and relative growth. The absolute rate of growth supports overall financial health, generates profits to reinvest in the business, and helps attract and motivate the best talent. The relative rate of growth is important because Cardinal competes in the fast-growing healthcare sector. Growing at a high absolute rate while trailing the overall market's growth rate would not be acceptable at Cardinal, because it would mean that Cardinal's offerings were being viewed as mediocre or less relevant by customers. Over time, the company would lose ground.

How does Cardinal get harried operating managers to focus on growth strategy?

By imposing a standard that holds them responsible for the success of their businesses.

Managers know that they can't perform on the metrics of absolute and relative growth without a relentless focus on growth strategy. Of course, they also realize that building new businesses and achieving growth targets provide the critical funds they need to invest in future growth opportunities. As a result, Cardinal has grown faster than the healthcare distribution market by over 50 percent annually, not including acquisitions.

Managing growth is demanding and scary. It's also creative and energizing. Don't hoard the experience at the top executive level. Instead, distribute both the responsibility and the opportunities to grow as widely as possible through your organization. That's how unexpected champions can emerge from the ranks.

3 Develop many small, maverick ideas, not a few large ones

A culture of growth alone is not enough. Someone has to come up with the breakthrough ideas and translate them into real offerings. In addition, bad ideas have to be killed quickly, before they consume significant time and money. How can senior managers unleash broader creativity to fuel next-generation growth while keeping new initiatives from running amok?

Part of the answer lies in devolving authority and responsibility for growth to the operating managers closest to the action. Another part of the equation is illustrated by an approach to grass-roots innovation taken by Milwaukee-based Johnson Controls. During the 1990s, the firm shifted its focus from assembling automobile seats, a commodity product, to providing auto makers with integrated interior modules and, more recently, with complete cockpits. Thus, it moved from providing a high quality product to addressing auto manufacturers' needs to reduce the risk and complexity of vehicle design and improve efficiency in vehicle assembly.

Johnson Controls encourages people to spend time pursuing unconventional paths of inquiry. But it also imposes a staged evaluation process with the goal of "failing fast" on bad ideas. Jim Geschke, vice president and general manager of electronics integration, describes the innovation process this way: "We have an innovation machine. The front end has a robust series of gates to go through. Early on, we'll have many ideas and spend a little money on each of them. As they get more fleshed out, the ideas go through a gate to decide whether to continue or stop. A lot of ideas get filtered out, so there are far fewer items, and the spending on each goes up." (In simple terms, the gate consists of a cross-functional team, based within the business unit, which meets periodically to discuss new ideas and review the progress of every initiative. The team makes the crucial funding decisions.)

"Several months later, each idea will face another gate," Geschke continues. If the idea passes, that means it's a serious idea that we are going to develop. Then the spending goes way up, but the number of ideas goes way down. By the final gate, you need a credible business case in order to be accepted."

Having an idea turned back at a gate is not viewed as a catastrophe or career setback. Indeed, it is expected in most cases. "We learn a lot from failing," Geschke explains, "So if you don't pass the gate, that's not viewed as a miss, that's viewed as a hit, because now we know what not to do."

Is the Johnson Controls system for innovation the best one? Not for every business. You need to tailor gate-keeping techniques to the economic and marketplace realities of your own industry. Examine your industry, your markets, and your customers, and then develop an informed sense of the breadth of new-growth opportunities available. Then create a process finely tuned to encourage and support the right number of maverick ideas, winnowing them as needed to focus on those with real profit potential. Your new-growth process is every bit as important to your company's future as your manufacturing process or your financial analysis process, and it deserves the same kind of attention.

4 Shift resources from product and technology innovation to customer and business innovation

Most CEOs will tell you that growth is one of their top three priorities. Yet in terms of the time and energy they actually spend on various activities, growth usually ends up fifth or sixth. And most spend hardly any time on nurturing new forms of growth.

That's because new growth is hard. It involves leading the organisation, the board, and even investors in uncomfortable change. New-growth initiatives deserve resources commensurate with their importance. Most large companies spend hundreds of millions, if not billions, of dollars on product R&D without any certainty about what will actually turn into revenue and when. By contrast, most new-growth initiatives are starved for funding, subjected to onerous budget reviews and held to impossibly high standards of certainty about their payback potential. Since companies can't afford to invest willy-nilly, senior managers should consider devoting 10-15 percent of their product innovation budget to customer innovation instead. Air Liquide is a great example of how a century-old, tradition-bound supplier of industrial gases was able to make this shift.

Paris based Air Liquide, had always excelled at technical innovation, but by the late 1980s and early 1990s, revenues and operating income were stagnating and technical innovation was leading nowhere – until it was unleashed in a way that helped improve customers' systems economics.

In the early 1990s, Air Liquide launched technology that allowed a smaller gas production facility to reside on the customer's site, instead of large centralised plants. On-site production was less capital-intensive and products could be customised for individual customers. One important side effect of on-site production was a higher level of ongoing interaction between customers and Air Liquide staff. The on-site teams soon discovered that their industrial customers had a variety of pressing needs that Air Liquide might be able to address, such as minimising risk, improving quality, reducing emissions, and improving their supply chain systems. Because of a company reorganisation that gave more autonomy to local teams, on-site staff now had the authority and the mandate to act on new opportunities to help customers in a variety of ways. Air Liquide began to realise that all of its R&D and production knowledge, which it had struggled to turn into meaningful product differentiation, was relevant to customers' industrial processes.

The company gradually expanded from its core commodity gases to offer a set of new services, ranging from gas management contracts to performance guarantees, chemicals management and consulting, supply chain management, clean energy alternatives, environmental consulting, and licensing of software tools and systems. By seizing these new opportunities, Air Liquide has expanded its potential markets, gained a greater share of customers' wallets, and improved customer loyalty.

The financial results have also been impressive. From 1996 to 2001, Air Liquide has seen a 10 percent average annual growth in revenue, a 14 percent growth in operating income, and a 9 percent growth in market value.

5 Organise to suit the needs of the new business as much as the core business

Next-generation opportunities are often materially different from the core business, with different economics, capital structures, and methods of capturing value. To succeed, these businesses need to be understood and structured in this light.

This might seem obvious, but most companies have spent considerable time and effort creating common metrics, rewards, titles, pay grades, and organisational structures in order to better align their organisations. The last thing senior managers want to do is open a Pandora's box of exceptions. However, form must follow function, and different business structures make sense for initiatives that are different from the core operations.

John Deere Landscapes (JDL), which operates over 200 outlets where landscapers can buy landscaping and sprinkler products, has thrived in part because it is separate from the parent, Deere & Company. Managing the relationship between parent and offspring represents an ongoing challenge for Dave Werning, who heads the landscapes business, and the Deere team. They master the differences between the economics of distribution and those of manufacturing. The financial hurdle rates set for JDL are currently the same as those for Deere's other divisions. In time, they will need to be adjusted; but for now, since JDL is growing quickly, the pressure to meet targets that may not be realistic is minimal.

Werning, John Jenkins (president of the Commercial and Consumer Equipment Division) and CEO Robert Lane, also must work hard to keep the JDL business separate from the equipment business. JDL was launched with a tacit agreement among the three executives: There is a wall between JDL and the rest of Deere that contains a one-way window: Werning and his lieutenants can look into Deere and borrow ideas and resources, but the reverse cannot happen. At least during its initial growth phase, JDL is insulated from the financial, strategic, and administrative pressures of the parent company.

In some cases, insulating JDL may be a matter of survival. The debate over co-locating dealers with JDL's outlets is an example. It's tempting for Deere management to push JDL to create new store branches in locations that work for Deere dealers but would not work for JDL. That would amount to hijacking JDL's business in an attempt to benefit the core business. Adapting that strategy could cripple or even kill JDL.

6 Use selective acquisitions and alliances to catalyse growth

Many companies that decide to pursue new-growth opportunities try to do so entirely with home-grown resources. In terms of staff, responsibility is often passed to strong performers who are already stretched thin or to people who have been passed over for other opportunities, and who may be mediocre performers. In terms of hard assets, companies often try and make do with what they already own rather than look outside the company. While it is important to save money and use available assets when possible, most new-growth businesses require people and assets that differ from the core business in some important way. Selective acquisitions can fill this gap.

Johnson Controls' 1996 acquisition of Prince, a supplier of vehicle interior components, is a good example. An environment that promoted innovation at Prince complemented the culture that Johnson was building in its automotive business and Prince's product line helped Johnson rapidly expand the scope of its offerings.

Johnson continues to look for good ideas from outside by partnering with leading companies from complementary industries to develop new products. This approach saves resources for both firms while shortening the time to market. Started as a way to help build scale and scope rapidly in the electronics segment of the business, the approach is now a part of all product areas. A word of caution about acquisitions and partnerships: Unlike traditional acquisitions, which are often focused on cost savings or synergies with the core business, the acquisitions that matter most in a new-growth context are those that speed development, bring in required skills, open doors to strategic markets, and otherwise improve the odds of success for your new-growth initiative. Keep profitability in mind when making acquisitions, but in the context of a new business, that may take extra time to bear fruit.

Keen insight and a great business design are important to achieving new growth outside the core business. But the most demanding work is executing the plan. And time is of the essence, because the value that a new initiative can create depends on speed to market.

Executing new-growth strategies will never be easy. That's true by definition, since a new-growth initiative is a discovery expedition into unknown territory. The precise methods you should use to develop the business are ones that you will discover as you travel and they will be different for every company. The general principles presented in this article have been gleaned from our study of companies that have created new growth, as well as others that ended up on the rocks. Only you can decide where these principles can take your company. ■

(Adrian Slywotzky and Richard Wise are managing directors of Mercer Management Consulting, Boston, Mass. They are co-authors of How to Grow When Markets Don't, Warner Business Books, 2003.)

Path Breaker: Sam Walton (1918-1992)

Walton's strategies established that it's not just doing different things but also doing things differently that can go on to make one of the biggest companies of the world.

In the fall of 1945, an ex-army captain, who had fought for the US Army in the Second World War, decided to set up a Ben Franklin franchisee department store in Newport, Arkansas with savings of $5000 and a loan of $20,000 from his father-in-law. This store soon became the leading store in sales and profits among all the Ben Franklin chain stores in a six-state region. The 27-year-old store owner could have been happy with being just another link in the chain, except that the owner was Sam Walton.

Born on a farm near Kingfisher, Oklahoma on March 29, 1918 to Thomas Gibson and Nancy Lee Walton, Sam grew up during the Great Depression. From milking cows to selling newspapers to waiting on restaurant tables, he had done it all to make money. However, his first brush with retail happened just three days after he graduated in 1940 and joined as a management trainee at J. C. Penny's in Des Moines, Iowa. But in 1942, this retail experience was cut short as he had to leave the job in order to join the army. Then again, perhaps it was this first brush that led to Sam's future greatness.

When he came back from the war, he set up his first department store in Newport, as his wife insisted on settling down in a place with a population of not more than 10,000 people. The idea of opening up a department store was perhaps not a revolutionary move, but the strategies that he adopted to become a market leader went on to become a revolution, and rightfully bestowed the title of a path-breaker upon Sam Walton.

The Ben Franklin store owned by Walton becomes a success:

In 1945 more than 1.7 million retail outlets opened in US. While most of these outlets shut down, the sales of Sam's retail store increased to $105,000 in the first year of full ownership; and it went on to make a profit between $30,000 and $40,000 in its fifth year, besides registering a compounded annual growth rate of over 28%.

One of the major reasons for the remarkable success of this store was the close watch that Sam kept over the moves of his competitor John Dunham, who owned the Sterling Store just across the street. Sam's regular visits at Dunham's store ensured that he always stayed ahead of competition. Moreover he was very astute in keeping a variety of products and

having a steady supply of stocks, which were sold at amazingly low prices. He could afford to keep the prices low because he found suppliers who were willing to give him products at lesser prices than usual. He decided to pass on the concession to his customers and thus, instead of the usual profits on margins, he brought about a shift to profits on volumes. He also kept his store open later than other stores during high purchase seasons like the Christmas holidays.

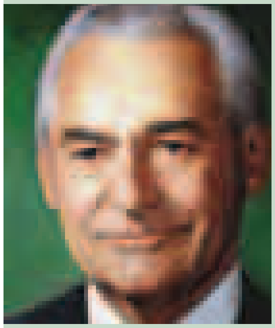
Ironically, in spite of the fact that his first store did extraordinarily well, it was the success that forced Sam to sell off this store. His landlord did not renew the lease of the store as he wanted to pass on the highly successful store to his son. Thus began a search for newer horizons for Sam to start his other Ben Franklin Stores.

Not much moved by the failure in keeping his first store, Sam went to Fayetteville and started the chain of stores with the name of Walton 5&10; the strategies and planning that he adopted made these stores as successful as the initial one.

Strategies for Walton 5&10 stores

Sam Walton continued to do what he did in his first Ben Franklin store, that is, use strategies which made him seem different from the other retail shops. He kept the prices very low and passed on the benefits that he got to the customers. He started the first 5&10 store as a variety store, always kept it clean, and gave special consideration to the requirements of the local customers. He also unabashedly poached into the talent tank of other companies.

But then, Sam Walton wanted to start Walton shopping centres. However, such centres at that time were not usually very successful. Sam therefore decided to concentrate on his retail store concept and moved on to other places. Whenever he opened a new store, all his employees were asked to contribute $1000 each initially, and not because Sam was short of cash. This innovative technique was primarily intended to bring a sense of ownership into the employees; and truly so as Sam later on would also share the store's profits with them. Finally in 1962, Sam Walton opened the first Wal-Mart in Rogers, Arkansas,



Sam as a man of family and society

Though Sam Walton will always be remembered as one of the most enterprising dare devils in the field of business, he also had a very emotional side and was devoted to his family as well as society.

As a kid Sam wanted to be a big insurance sales man like his dad. He was very influenced by his father and was very close to his mother. As a retailer he wanted to be the best and not the biggest. He was a guy who believed in good ideas and innovations all the way. In a conversation, somebody once asked him, "Could a Wal-Mart type story still occur in this day and age?" He answered, "Of course it could happen again. Somewhere out there right now there's someone – probably hundreds of thousands of someones – with good enough ideas to go all the way. It will be done again, over and over, provided that someone wants badly enough to do what it takes to get there. It's all a matter of attitude and the capacity to constantly study and question the management of the business."

Even as a child, Sam was different and was involved in many other activities besides studies. After he moved with his family to Missouri from Kingfisher, he became an Eagle Scout at the age of 13. He was a student leader, basketball star and quarterback in a state championship football team at Hickman High School in Columbia. He graduated from the University of Missouri at Columbia in 1940 with a B.A. in economics. Self-reliant from an early age, he earned his expenses in high school and college by delivering newspapers. After graduating he was voted as the "most versatile boy."

While he was waiting to be inducted in the army for the Second World War, he met his future wife Helen Robson, whom he married on February 14, 1943. Within a year, their first son Samuel Robson was born (Rob); second son John Thomas was born in 1946, third in line James Carr (Jim) in 1948, and Alice in 1949. Sam was a dedicated father and a loving husband. He started his first retail store in a town because his wife Helen was not ready to shift to a crowded city, which worked out well as a strategy also.

He received the Presidential Medal of Freedom, the highest civilian honour, from President, George Bush Sr. His work still gives employment to many people and helps in the development of the entire city in which Wal-Mart sets foot.

which went on to become not only the number one retailer, but also the top company of the world in terms of sales.

Strategies for Wal-Mart

Having a 36% stake in Wal-Mart, in 1992, Sam Walton was given a well-earned accolade of being the richest man alive. But surprisingly, the strategies that stood out for Wal-Mart reaching such heights were great because of their simplicity.

First of all, Wal-Mart targeted the middle and lower middle class of America as their prospective clients. Wal-Mart had a simple strategy of providing the customer with lowest possible price; and that legacy has carried on even now. The current punch line of Wal-Mart still carries that legacy, "Always Low Prices, Always!" Sam was able to pass on these low price benefits to his customers by following a seemingly simple concept of economics- 'Economies of Sale'. He was able to do this by buying from low cost original product manufacturers in bulk. Sam always forwarded almost all such benefits to the consumers in the following ways:

EDLP: Every day low price
ROLL BACK: By passing on cost savings to the consumer
SPECIAL BUY: Giving special offers on goods; like giving one product free with another, special discounts etc.

> If one had to identify the most important legacy that Sam Walton left behind in this world, it would be nothing else than the spirit of entrepreneurship

Apart from these, Sam differentiated his stores from other stores on various other parameters. He used to put a variety of things on his stores; these could be famous and branded or even local goods. They could start from a simple pin, to fast moving consumer goods, to even having separate areas for photo shops. This strategy of providing a number of options to the consumers worked wonders.

Another tactic that Sam employed was the concept of "people greeters". The customers who came to Wal-Mart to shop were greeted by shop employees with a shopping cart in their hand; these employees were called 'people greeters'. This gave a personal touch to the entire shopping experience of customers. In fact, the idea of 'self service' was also introduced by him. Customers were supposed to take a cart and move around the store picking and choosing the goods of their choice, and would pay at the end of the counter. This developed the now famous 'convenience buying' method which has revolutionised the way convenience stores run their business. Whenever, he opened a store in a new location or country he took care that the ergonomics of the store suited the tastes of the local people and also the location where he opened these stores. But most importantly, besides looking after his customers, Sam also took care of his employees.

Sam Walton was also a visionary in terms of seeing the potential of information technology in streamlining businesses. He connected all his stores with the help of information technology networks to centralise controls, billing and inventory systems. Wal-Mart stores were the first to use bar coding systems integrated with their computer systems. Even today, Wal-Mart stores use the latest of technologies like RFID (Radio Frequency Identification Device) and others.

After Sam passed away in 1992, his son S. Robson Walton became the successor. What Sam Walton left, today is a company with a market capitalisation of $199.9 billion and an enterprise value of over $220 billion, with centres in 10 different countries of the world, having a total of 1,353 discount stores and 1,713 super centres within US. It maintains the largest database and accounts in the world, and not to forget, the largest chain of discount stores in the world, with gross annual revenues of almost $290 billion. It is not one of the world's largest; it is 'the' world's largest corporation, leaving many gigantic automobile behemoths and oil giants behind in its wake. For if one had to identify the most important legacy that Sam Walton left behind in this world, it would be nothing else than the spirit of entrepreneurship; and that is why Sam would always remain in the annals of history as the indomitable path-breaker. ■

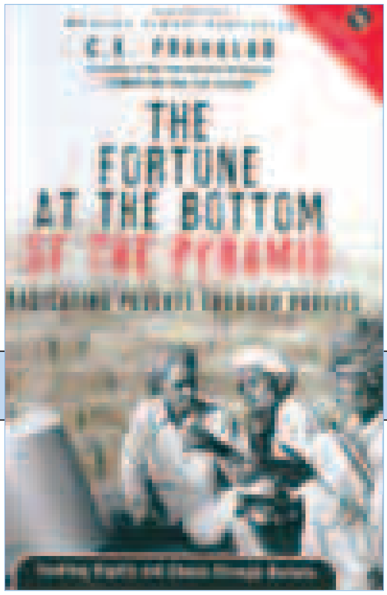
THE WAL-MART CHALLENGES:

Every entrepreneur faces problems and so did Sam Walton. The fact that Wal-Mart turned out to be the largest retail chain in the world, itself invited competitor troubles and other consequent challenges.

- The latest reports indicate that Wal-Mart is fighting 38 different state and federal lawsuits filed by hourly workers in 30 states, accusing the company of systematically forcing them to work long hours off the clock. There are other cases against Wal-Mart for illegally blocking efforts to unionise workers and accusations that "low prices" often came courtesy of sweatshop labour overseas. Many non-government and social activist bodies in the US have spoken against Wal-Mart regarding these issues.
- A federal judge recently commented to the press that a recent case of employee discrimination against Wal-Mart can lead to a class action. Many women employees in Wal-Mart are up in arms against the sex discrimination in terms of paying different salary rates and lower promotional opportunities to female employees. This case is currently the largest civil rights suit in the United States.
- The other hurdle in the way of plans of going global is the reluctance of many developing countries like India, Philippines and Indonesia to open up their economies. Many activists in these countries are against the entry of Wal-Mart. In fact, governments in countries like India have still not allowed FDI in the retail sector to foreign companies.

VILLAGES-WORLD'S LARGEST UNTAPPED MARKETS

Fortune at the Bottom of the Pyramid



A review of the book written by C.K. Prahlad — Virat Bahri

"The villages of India, China and Brazil are the markets of the future…"

At least that is what Prof. C.K. Prahalad will have us believe. The author has identified the Bottom of the Pyramid or the BOP market of the world, which consists of 4 billion poor people, to be the growth market of the 21st century. According to him it should be considered as a separate business model by corporations, rather than just as an extension of their existing products/business models.

Why does the BOP then not get its due attention? The reason according to Mr. Prahalad is that all the players involved suffer from false perceptions of the reality of BOP. The Government of India for example perceived entry of private sector in the country to be bad for the poor; hence it gave the inefficient and corrupt public sector unnecessary protection and gave India the infamous "Hindu rate of growth". Even now voices are raised in the Parliament, although we all know how India has dramatically progressed since liberalisation. The private sector (including MNCs) believes that the BOP market cannot be tapped profitably and hence does not figure in their scheme of things. The NGOs distrust the private sector for being too greedy and hence not interested in social welfare. The aid agencies feel that they just cannot perform without the private sector.

The BOP sector is a different market and hence has to be approached differently. For instance, we perceive the BOP customer to be price conscious, but Prof. Prahalad argues that the punch word is not price but the value proposition at that price which matters to the BOP customer. The value proposition must be at least 50 to 300 times greater than that for a normal market. A typical example is Reliance India Mobile that started a Monsoon Hungama scheme where it gave its CDMA phones in instalments to customers with down payment of just Rs.500 and attractive features like R world games and news match score updates. The scheme created a flood in the market and all major players like Airtel and Hutch were on the defensive. Evidently, the price packaging had created immense value; suddenly everyone (read e-v-e-r-y-o-n-e) wanted a mobile. Also, according to Prahalad, since the value proposition is so high the company must operate on large economies of scale, that is, the product has to be scalable across markets.

Prof. Prahalad admits that the problems are immense, like infrastructure, educating the customer on product use and corruption. In fact he cites this as a primary motivator for companies to tap these markets. Once the company succeeds in the BOP sector, it can easily replicate the success in the upper class markets. He opines that corruption can be removed over time, taking the example of Andhra Pradesh Chief Minister Chandrababu Naidu's popular eGovernance program. The book starts with theoretical analysis on the BOP as a potential market, and the rest of it contains important examples of companies that have tapped the BOP successfully through their marketing programs.

'Corporatisation' of the process of sourcing the farmer's produce is an excellent example given by Prof. Prahalad of utilising the potential of the poor. By doing so, the farmer gets the best rates in the market and is not oppressed in any way.

The book is an excellent example of reality being different from perception. Chandrababu Naidu for all his innovations was ousted by the people in the next elections. Prof. Prahalad has not focused much on the key problem – infrastructure. For a country like India, its main cities like Delhi and Mumbai suffer from the lack of power, water, proper roads and much more; we can only just about imagine the plight of the interiors. He claims that there are not many defaulters among BOP customers in terms of loans; whereas Reliance Infocomm suffered heavy losses from defaulters on the Monsoon Hungama Scheme. The rural market is a very complex and distributed market. Isolated success stories are there, but the inherent problems are too many.

Typically the experiments Prof. Prahalad talks about are possible for large MNCs like Unilever, since the investment involved of time and money is huge in understanding and profitably tapping the BOP market with the economies of scale being referred to in the book. Otherwise, small/medium scale enterprises already in the BOP market that can take the initiative to expand their business territories with Government/NGO support. Since distribution channels are now well established, other firms must take advantage of these networks rather than doing an encore on their own. Moreover, the rurl poor must be beneficiaries of development to make it sustainable. ■

JUDO STRATEGY: Turning your competitors' strength to your advantage

David B Yoffie
Max and Dorris Starr
Professor of International
Business Administration,
Harvard Business School

Why do some companies succeed in defeating stronger rivals, while others fail? This is a question that all ambitious businesses eventually face. Whether you're a start-up taking on industry giants or a giant moving into markets dominated by powerful incumbents, the basic problem remains the same: How do you compete with opponents who have size, strength, and history on their side?

The answer lies in a simple but powerful lesson: Successful challengers use what we call judo strategy to prevent opponents from bringing their full strength into play. Judo strategists avoid forms of competition, such as head-to-head struggles, that naturally favour the large and the strong. Instead, they rely on speed, agility, and creative thinking in crafting strategies that make it difficult for powerful rivals to compete.

This is not, of course, an entirely new idea. It has long been recognised, for example, that by first securing a foothold in an undefended market, a company can improve its chances of ultimate success. However, judo strategy offers important contributions to thinking about unequal competition. Rather than focus on a single insight, such as the importance of niche-picking, it provides an overarching framework that ties together a wealth of strategic ideas. Moreover, the judo strategy approach seems particularly timely today. In the go-go years of the Internet boom, tilting with giants was all the rage. But in the vast majority of cases, it was the upstarts, not the incumbents, who found themselves facing defeat. Does this mean that competing with giants is a doomed enterprise? No, but it surely means that would-be challengers must find smarter ways to compete.

Judo strategy is an approach to competition that emphasises skill, rather than size or strength. In developing this framework, we were inspired by the work of two economists, Judith Gelman and Steven Salop, who coined the term "judo economics" to describe a strategy that allows a company to use a larger opponent's size to its advantage by ceding a fraction of the market than cutting prices across its entire customer base. The central idea behind this model—turning an opponent's strength into a disadvantage—has enormous appeal. But judo economics also has important limitations. For example, it's very difficult to implement. It's one thing to say that you won't threaten bigger competitors. It's quite another to convince

Judo strategy is an approach to competition that emphasizes skill, rather than size or strength in dealing with stronger rivals

Companies can win against larger or stronger competitors by mastering three core principles: movement, balance, and leverage

them that you mean what you say.

Judo strategy picks up where judo economics leaves off. Judo strategy provides a set of tools that allow you to do more than just survive in the face of daunting competition; they show you how to thrive and grow. Building on the insights of both judo economics and judo, its original source, we argue that companies can win against larger or stronger competitors by mastering three core principles: movement, balance, and leverage.

In judo, these principles work closely together. As one expert wrote, "Through movement the opponent is led into an unbalanced position. Then he is thrown either by some form of leverage or by stopping or sweeping away some part of his body or limbs" (Yerkow 1942). Analogously, each principle provides a different piece of the business strategy puzzle. Through movement, managers can seize the lead and make the most of their initial advantage. By executing what we call the "puppy dog ploy," managers can stay under the radar screen of larger competitors until they have built a position of strength. With the principle of balance, managers can successfully engage with opponents and respond to rivals' attacks. Here, companies can implement ideas, such as "push when pulled." When your competitors attack, use their tactics to your advantage – and never respond in kind. And finally, by exploiting leverage, firms can transform their competitors' strengths into strategic liabilities.

Leverage is ultimately the most important principle. In judo, your opponent's body becomes a lever in your hands. In judo strategy, a competitor's assets, partners, and rivals can all play a similar role. By leveraging your opponent's assets, you can transform a competitor's strengths into sources of weakness. Similarly, by leveraging your opponent's partners, you can turn an opponent's allies into brakes on his ability to respond. Finally, by leveraging your opponent's competitors, you can confront a rival with a double challenge: first deciding to cooperate with his competitors and then convincing them to cooperate with him. Detailed practical examples of all of these principles can found throughout the book.

At its heart, judo strategy is about developing a deep understanding of your competitors and espying the potential weaknesses that lurk among their strengths. This is no science. There are no easy formulas for victory. Instead, judo strategy demands discipline, creativity, and the flexibility to mix and match techniques. But the power and promise of this approach are equal to the investment it demands, for by mastering the principles behind judo strategy, you can use your competitors' strength to bring them down. ■

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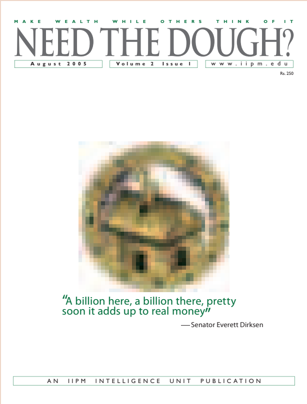

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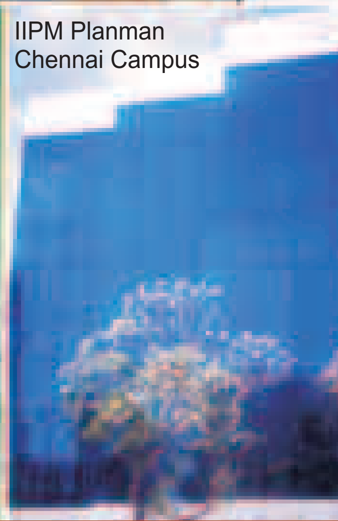
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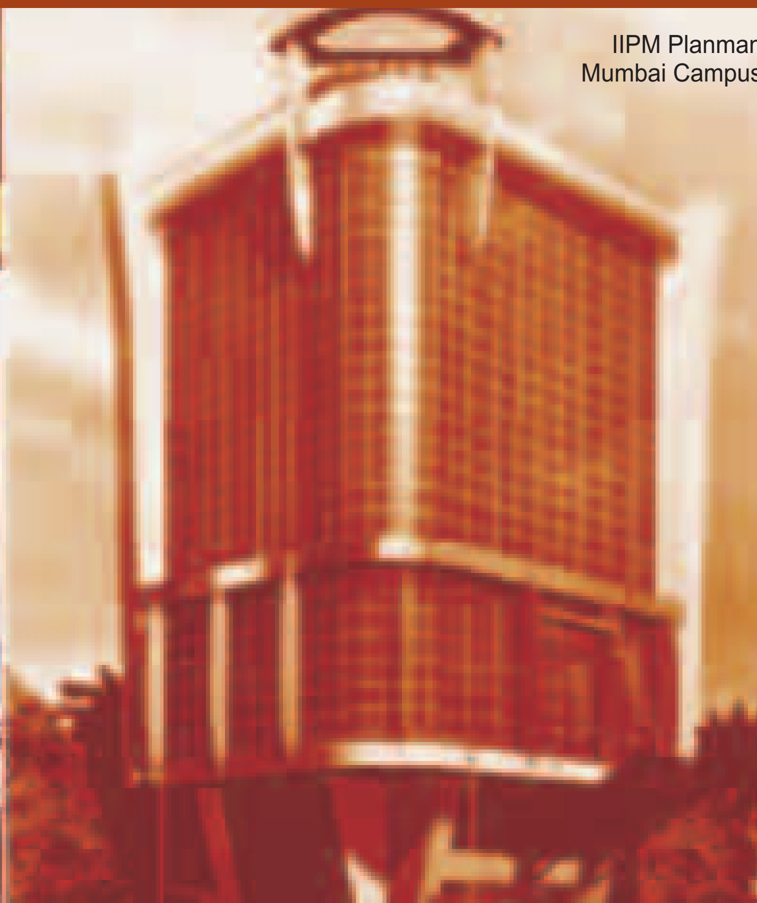
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