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Chapter 10
Business System in India

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Chapter outline

1. Culture, Institutions, and the Indian business system	2. Comparative advantage
3. The changing trend of the Indian business system	4. International activities of Indian firms
5. Corporate social responsibility, governance and ethics in India	

Chapter objectives

After reading this chapter you will gain an understanding of:

1. the essence of the Indian culture, institutions, and the business system
2. the dynamics of India's comparative advantage
3. the emerging shifts in India's business system and comparative advantage
4. the globalization of Indian firms
5. how Indian firms fulfill social responsibility

Introduction

Bounded by the Indian Ocean in the South, and the Himalayas mountain range in the North, India is the seventh largest nation in the world, with a total area of 1,222,559 sq miles. The northern and eastern India is home to the Ganges-Brahmaputra river system, the western India to the Thar desert, and the Southern India to the Deccan Plateau. With a population of over 1.2 billion, India is the largest democracy in the world today.

India has emerged as one of the most vibrant and fast growing economies since the mid-1990s, with a steady annual growth rate of 7-9 percent, up from a historical rate of 3.5% since independence. Even during the Great Recession worldwide, the Indian economy has maintained more than 5% growth. The growth has helped to dramatically reduce levels of poverty, albeit social inequities have also risen. There are growing challenges and demands for an inclusive approach. Indian culture is diverse and rich, and has formed the basis for her business system.

Culture

The GLOBE (Global Leadership and Organizational Behavior Effectiveness) Research Project suggests using a nine dimension framework to study culture (House et al, 2004). We use these dimensions below to study the culture of India, as it relates to the three elements of culture from a business system perspective: rationale, identity, and authority

Rationale: The cultural rationale for the business system can be understood through the GLOBE cultural dimensions of performance, future, and humane orientation. Some business systems are designed to emphasize the norms of performance and futuristic goals, while others seek to protect people's identities and traditional authority structures. Further, performance and wealth creation in some cultures is intended for specific stakeholders, such as the shareholders or other types of power holders, while in others it is founded on the principles of humanism, fairness, and universal justice.

Performance orientation: Indian society as a whole recognizes and celebrates accomplishments. Formal performance appraisal systems exist in most medium and large size organizations. At the same time, Indian society tries to not devalue failures; thus poor performance ratings are avoided. The leaders are accordingly expected to follow a nurturing style while maintaining a focus on performance (Chhokar, 2007). As such, weight is also sometimes given to an individual's identity and situational factors; for instance, seniority and suitability play a role in promotions, in addition to performance.

Future orientation: Indian society has historically put a priority on acting now for improving the 'hereafter.' Saving money and resources is encouraged in families as well as organizations. Reusing and recycling resources and products is a common practice; even in services, firms strive to develop refined and mature processes to conserve human effort. A related doctrine of *mahurata* states that if time is not auspicious, then the actions may not be as fruitful. Given this complexity of balancing *act now* with *act at the right time*, outstanding leaders in India are expected to be visionary and inspirational.

*Humane orientation***:** From very early times, India's culture has been characterized by a great sense of fairness in social and civic relations (Chhokar, 2007). Commenting on the culture of India in the 1st millennium BC, Basham (1967: 8) noted: '*The most striking feature of ancient India's civilization is its humanity*.' Managers in India tend to be highly sensitive to the rights of the workers, who are often seen as members of one's extended family. The worker and consumer rights are also well protected by law. There is a strong tradition of benevolent rulers in India.

Identity: The cultural basis of identity in the business system can be understood through the GLOBE dimensions of institutional and in-group collectivism, and assertiveness. Some business systems are designed to promote collective institutional identities, while others emphasize interests of the individual participants based on assumed differences in capabilities, motivation, and opportunities. Some business systems are designed along the lines of the belongingness of the members to various groups, while others dismiss group identities in terms of the irrational emotions and nepotism in business contexts. Finally, some business systems take a soft approach to the observed identity differences, while others take an assertive approach for negotiating the identity landscape.

*Institutional collectivism***:** The community is a fundamental principle in Indian society. It is about nurturing each other's voice despite differences, and unity in diversity, communal harmony, and democratic pluralism. Effective managers are those who are adept at finding a third solution as a way to reconcile the seemingly opposite interests. Simultaneously, defending one's self-esteem and uniqueness, in the face of oppressive, hegemonic, and homogenizing forces is also a critical aspect of India's culture. Leaders are expected to be introspective, keep important secrets, protect followers, and help save face.

*In-group collectivism***:** The family is one of the basic units of Indian society. Support from the family, particularly parents-in-law, is an important factor for women working in outside managerial and leadership positions. Key positions in family business management are often held by members of the extended family as well as close family friends and confidants. Professional managers in these businesses gain top leadership positions usually after having worked for several years (Gupta et al, 2008).

Assertiveness: One finds that humility, gentility, and charm go along with firmness in Indian society. Indian media encourages and seeks multiple sides of an argument. Culturally, meanings, reality, and interpretations are seen as multi-dimensional in India, just like the multiple forms of God. The leaders in India are expected to be decisive, diplomatic, and team integrators (Chhokar, 2007).

Authority: The cultural basis of authority in the business system can be understood through the GLOBE dimensions of gender egalitarianism, power distance, and uncertainty avoidance. Some business systems associate authority more with men, and expect considerable differences in the power of those in authority and those who are not. Further, some business systems use expert, bureaucratic, and technological mechanisms for reducing uncertainty and arbitrariness in the exercise of authority, while others consider such uncertainties to be sources of innovation and change.

Gender egalitarianism: Indian society has traditionally been male-dominated. Men primarily make the decisions in families, organizations, and society, and there are very few women leaders at the top of such arenas. At the same time, several women role models are celebrated in Indian folklore. These role models have been invoked by the social reformers focused on the re-empowerment of women within a merit-based framework. As Gandhi (1947/2003) observed, '*Women, and for that matter any group, should disclaim patronage. They should seek justice, never favors*.' To meet the challenges of skilled worker shortages, there is now an increasing emphasis on training, mentorship, and enabling social attitudes, family systems, and organizational structures for women in management.

Power distance: Indian society and businesses have traditionally been quite stratified. Historically, in the so-called caste system, Brahmins as educators were spiritual leaders, Kshatriyas as rulers were administrative leaders, Vaisyas as traders were business leaders, and Sudras as farmers and craftsmen were masters of their trade. During the colonial times, the British introduced a hierarchical system of governance for society and organizations. Social reformers have sought to give voice to the underprivileged. In addition, deference to elders is an integral aspect of culture, and so employees tend to be respectful of the leaders. The power distance corresponds with the autocratic-paternalistic style of leadership and micro management; but if the leaders are not nurturing, the employees may use their power of resistance or show dissent.

Uncertainty avoidance: Attempts to reduce and regulate uncertainty are common in Indian society. Life in India is guided by elaborate social customs and religious rituals, especially for major life events such as birth, marriage, and death. Experiential knowledge and oral knowledge passed across generations are held high, though in recent years, professional academic qualification has become a passport to fast track careers. The leaders in India are expected to be administratively competent, that is, to enact policies fairly and proficiently.

In summary, the cultural image of Indian businesses is one of an action oriented force of development and change. In general, Indian society prefers proactive, morally principled and ideological system of business, compared to reactive, pragmatic, and instrumental system. Contemporary Indian business system is designed for the humane mobilization of group loyalties, while carefully negotiating the reduction of dysfunctional hierarchical and male-dominated power stratifications. It seeks to focus group energies using an egalitarian approach for constructive future and goal-oriented endeavors.

Table 1 uses the GLOBE study to provide a comparative snapshot of the culture of India, with that of Confucian East Asian societies, Protestant Anglo and Northern European societies and Catholic Southern and Eastern European and Latin American societies. The scores on the nine dimensions of societal culture are on a scale of 1 = low to 7 = high.

Table 1: Comparative Snapshot of the Culture (Societal Practices) in India and the World

	India	Confucian Region	Protestant Region	Catholic Region
Performance orientation	4.25	4.58	4.23	3.84
Future orientation	4.19	4.18	4.28	3.53
Humane orientation	4.57	3.99	3.97	3.86
Institutional collectivism	4.38	4.80	4.46	3.99
In-group collectivism	5.92	5.42	4.09	5.29
Assertiveness	3.73	4.09	4.12	4.16
Gender egalitarianism	2.90	3.18	3.42	3.54
Power distance	5.47	5.15	4.82	5.27
Uncertainty avoidance	4.15	4.42	4.91	3.79

Source: Computed using House et al (2004).

Compared to the Protestant and Catholic societies, India in particular, and the Confucian Asian region also to some extent, stand out because of their (1) highly humane oriented, but moderately future oriented cultural rationale (India also has moderate performance orientation), (2) highly in-group collective identity (India also stands out for its soft identity and moderate institutional collectivism), (3) highly male and power dominated authority, which is only moderately regulated through uncertainty avoidance.

In the case of India, the cultural features reflect the presence of several internally cohesive groups, stratification of power within and amongst these groups, subjugation of the rights and power of women, soft assertion of one's rights, and a cultural sensitivity about inclusiveness. Caste is one major dimension of groupism, but there are other equally, and sometimes even more, important lines of cohesiveness including language, ethnicity, religion, education, and economic power. These groupings generate several differences, but underlying these divisions, a sense exists of human equality, as encapsulated in the deep ethos of unity in diversity.

In the case of the Confucian region, however, the cultural features reflect the comparative ethnic and/or ideological homogeneity of the groups within Confucian Asia, and a sense of social order. These groups acknowledge the authority of the families and members that are ahead economically or politically. Few special systems regarding women exist – they are either assigned subordinate positions, or encouraged to be gender-neutral and take up the same roles as men.

These cultural differences have important implications, particularly in relation to the roles of state and the civil society as discussed next

The roles of the State and the civil society:
The civil society is the space between the family and the state, and comprises of non-government organizations and social movements. This concept is central to the Gandhian mode of peaceful political conduct, and popularly referred to *Gandhigiri*. In the independent India, the civil society took shape beginning the 1970s, when activists began forming powerful broad-based social movements to advocate for interests perceived to be neglected by the state. The famer's movement organized hundreds of thousands of demonstrators to seek greater investment in rural areas. The Dalit movement sought to serve the interests of the underprivileged castes, the women's movement emerged to promote women's issues, and the environmental movement emerged to bring back respect for indigenous cultures and environment in the development agenda.

In India, the civil society organizations play four major roles as intermediaries between the State and the business system. First, they fill in the institutional gaps by directly serving the interests of their constituents - such as by innovating and experimenting with new approaches to social and economic problem-solving. Second, they create consciousness among the constituents of their rights and connect them with the policy infrastructure and enforcement mechanisms that already exist. Third, they use their formal and/or informal membership base and mass appeal to put political pressures. That includes, seeking preferential allocation of resources for the advocated causes, as well as advocacy for specific legislation – including through participation in the legislation bill drafting committees. Fourth, as watchdogs of the activities of the State at various levels, the civil society leaders and organizations have resorted to the use of public and social media, as well as of Pubic interest litigation (PIL) entailing taking support of the judiciary to direct the State to act to protect the fundamental rights guaranteed by the Constitution of India.

The civil society movement and organizations have become increasingly sophisticated, with some also mobilizing the support of international community, Indian expatriates overseas, and of the social, religious, and cultural celebrities, educated professionals, and corporate leaders. The growth of the civil society has been accelerated because of the funding offered by the State to non-government organizations through budgetary allocations, and recognition of their important role in inclusive and sustainable development, that is representative of the voice of all, includes all, and serves all in the developmental process. As a result, there is heightened sensitivity for responsible institutions and business system. The reforms and the features of the institutions and the business systems are discussed next.

Institutions

Financial Capital:
The financial system in India is dominated by banks, with commercial banks accounting for 60 percent of the financial assets, and cooperative banks accounting for another 5 percent. Insurance firms dominate the non-bank segment, accounting for 20 percent; followed by mutual funds who account for 6 percent. Reserve Bank of India (RBI) is the

Central Bank that acts as a multi-faceted and primary regulator, supervising the banking sector, the foreign exchange market, the credit and the settlement market, and the government securities. As of 2011, Public sector banks account for about 74% share in the commercial banks, foreign banks for about 7%, and the private sector banks for about 19%. Since the liberalization of the Indian economy in the 1990s, financial reforms have resulted in reduced concentrations and improved profitability in the banking industry. This is partly due to the ability of the private and foreign banks to allocate a greater share of their assets to more profitable private credit market, since the public sector banks are mandated to invest a greater share of their assets into less profitable government and approved securities. Overall, banks are allowed to lend up to 75 percent of their assets, but 40% of the public sector bank lending must be in the priority sector, versus only 32% for the private and foreign banks.

Following a series of reforms since the 1990s, India now boasts of modern, transparent financial market of international comparison. There is a robust regulatory framework, led by Securities and Exchange Board of India (SEBI), and shared by the Ministry of Finance, the Ministry of Company Affairs, and RBI. The number of listed domestic companies surged from about 200 in 1990 to about 1400 in 2010; while the market capitalization rose from a few billion US dollars to about 5000 billion dollars. The market liquidity increased tremendously because of the huge inflows from the foreign institutional investors, but that has also made India vulnerable to the global financial meltdown. Weak foreign equity flows and growing concerns about the commitment of the government of India to further economic reforms and to take a strong action against corruption, have contributed in nearly 50% depreciation in the value of Indian currency over the past few years.

Retail participation in the equity market remains low, although growing because of the rise in the mutual funds. The penetration of banking services and resource mobilization by banks, measured as the ratio of bank credit and bank deposits respectively to gross domestic product, are also low and less than 50 percent in India, which is comparable to that in Brazil, Germany and the United States, but significantly less than China, Japan, and the United Kingdom where they are more than 100 percent. Therefore, the firms have been forced to rely more on the internally generated resources, on the international capital markets, and on the private placement, to fund their capital requirements, especially as the disclosure requirements have been tightened. The private placements are the dominant mode, because of their cost and time effectiveness, capability for being tailor-made, possibility of bypassing disclosure and other norms, and not needing detailed compliance. Most of the private placements receive triple or double A credit rating. A downside is that the dominance of private placements further discourages retail participation, the companies are forced to enter the market frequently to raise funds through small tranches, and the trading of these bonds in the secondary market is low because of limited transparency. The government is taking steps to fix the issues of credit assessment, transparency, and regulatory framework that have limited the development of public corporate bond market.

In the fiscal year 2010-11, in the total corporate securities, private placement accounted for $53.4 billion, Euro issues for $2.1 billion, and domestic public issues for only $5.6 billion. Of the total $61 billion of corporate securities issue, $45.2 billion were in the form of debt; and more than 95 percent of this debt was privately placed. Both central and state governments mobilized bulk of the resources, through $130.7 billion of government securities issues. Corporate debt as a percent of gross domestic product is only 3% in India, compared to 10.6% in China and 42% in Japan. Outstanding corporate bonds (new plus existing) are just $200 billion.

In the fiscal year, 2010-11, the public investment in infrastructure accounted for about 5% of the gross domestic product and the private investment for about 3%. Of the total investment, 45% was budgetary outlay, 41% was debt financing, and 14% eas equity financing. The Planning Commission of India has projected a need to double the investment in infrastructure over the next five years, to sustain a 9 percent rate of growth, creating urgency for further financial market reforms. Banks who account for about half of the debt financing are already overstretched, with excessive exposure to infrastructure and rising non-performing asset ratios and mismatches of asset-liability maturities. The government is seeking to simplify procedures, tap retail market through infrastructure debt funds, and more aggressively pursue public-private partnerships (Kohli, 2012).

Human Capital:

In the global surveys, Indian youth (16-29 year olds) have been found to be the happiest in the world. The AC Nielson Consumer Confidence Survey also finds that since 2001, Indian consumers are most optimistic in the world, with faith in their personal finances (90% optimistic) and job prospects (94% optimistic). At the same time, Indian men and women also wish to balance family and social life, and are not solely focused on work.

India has strong educational and training institutions, including for higher education in various specialized fields, and many research and policy institutions as well. There is considerable gap in the theoretically oriented and bookish education in the vast majority of educational institutions, and the practical realities of the globally relevant soft and technical skillset demanded by the industry. However, efforts towards academic accreditation, faculty development initiatives, industry-academic collaborations, and global academic exchange are gradually helping to improve the quality of entry-level human capital. India now also boasts of a qualified and effective mid-level executive cadre, capable of leading a very young workforce – given that those age under-25 constitute a majority of the workforce. Top-level executives in India are highly sought after by even the leading foreign multinational firms, because of their global mindset, technical knowledge, and innovative and creative leadership approaches.

Institutions in India put considerable emphasis on the diversity initiatives for broadbasing and augmenting talent at all levels, particularly at the mid- and top-levels, that have traditionally been dominated by urban men, mostly those belonging to more privileged castes. Three types of diversity initiatives are prominent –affirmative action involving underprivileged castes and tribes, engaging the base-of-the pyramid (the segment of population that lives on less than $2 / day of income) particularly those living in the rural areas, and gender mainstreaming. Diversity in terms of alternative ability (e.g. physically handicapped) is less recognized, though a 2012 television show *Satyamev Jayate* (Only Truth Wins) hosted by Bollywood Superstar Aamir Khan showcased a Pune-based company where the entire workforce is physically handicapped and able to perform all tasks proficiently, with an intended purpose to promote awareness and action.

The issue of affirmative action involving underprivileged classes and tribes carries strong political tone, and defines the agenda of several State political parties, and through them, of the multi-party coalition governments at the Center. Nearly half of the public sector positions in many States of India are reserved for these classes and tribes, despite controversies about whether quota based reservations hurt the overall human capital strength of the organizations. While there is strong public concern about the base-of-the-pyramid segment, non-government organizations have taken a lead in the programs to develop and advance this segment and to promote entrepreneurial initiatives by connecting with the public sector and the private sector frameworks.

Private sector firms have been most prominent in taking leadership around the gender diversity, and these initiatives deserve some elaboration. The proportion of women employees in new economy businesses is twice the average urban rate of 15%; and the percentage of women in managerial positions has doubled from 6% in the late 1990s. However, many firms experience 50% attrition in the women employees by the age of 30, because of marriage and/or childbirth. Firms such as IBM India, who have managed their gender-centering programs well, report single-digit overall attrition rates, an even lower attrition rate for female employees, and an ability to rapidly and successfully scale up local operations.

Social Capital:

Institutions enhance social capital of the businesses by promoting trust-based transactions. Though there has been a gradual improvement over the recent years because of the vigilance of the civil society, the formal institutions in India are generally weak, characterized by huge backlog of cases in the judiciary system, weak enforcement of laws, high degree of corruption in public life, and generally low levels of transparency in management and governance. There is therefore a greater reliance on the informal institutions based on business and social relationships.

De & Singh (2009) examined the extent to which informal inter-firm relationships are relational contracts that constitute social capital. They conducted interviews with a sample of 141 small and medium enterprises (SMEs) regarding their reliance, perceived importance, and dependence on informal business and social relationships for receiving and extending trade credit over a ten year period 1996-2005. SMEs, as a whole, are estimated to account for over 40 percent of value-added in the manufacturing sector in India. Findings show that informal relationships offer certain benefits for the firms in relationships, such as more trade credit from other firms, attributable to more information being available about each other. However, firm profitability declines if the firm obtains relationship-based credit, but not if it extends credit, indicating asymmetric cost implications of relationship-based credit. The effects of credit receiving and extension are generally cost and profit neutral when the relationship among the parties is open. This is true in most cases, where the firms have access to other firms outside the current network of relationships, including the anonymous market system. Put differently, informal relationships do enhance access to credit for the firms, but do not reduce the cost of credit for the borrowers; on the positive side, they do not increase the cost of credit either. Further when the parties are highly dependent on their relationship, i.e. when a firm extends credit to a customer who has few or no other suppliers, then the firm extending credit tends to enjoy a profit premium, while the firm receiving credit in fact suffers from an excess cost of credit. In summary, the business system of India does offer its firms social capital based on their informal business and social relationships.

These benefits are related more to improved access and offsetting any growth or profitability disadvantages for the underprivileged members of the community, and less to any significant profitability or growth advantage. Overall, thus, one can say that the institutions offer a moderate degree of social capital to the businesses.

The traditional nature of the inter-firm relationships offers additional insights into the reasons for the moderate level of institutionalized trust in India. Traditionally, Indian businesses have been differentiated along the different parts of the value chain system. Members of the same community occupy a given link of the value chain, and engage in trading relationships with the members of other communities who occupy other vertical and horizontal links in the value chain system. This reflects the principle of community-based specialization and division of labor, prominent in India from the ancient times, and also the original basis for identifying the sub-castes within the business community. As noted earlier, identity in this culture is in-group and family based. Since different families within a community tend to operate and compete in the same market space, the level of identification with the firms who occupy supplier or customer relationships tends to be more limited.

Business System

Ownership:

The major forms of ownership in India include the government-owned public sector, the professional entrepreneurial firms, the foreign owned firms, the cooperatives, the non-government organizations, and the closely held family businesses and /or inter-linked family business groups. There has been a reduced emphasis on the public sector, especially since the 1990s when the government launched a major divestment program. Since then, there has been a growing emphasis on using public-private partnerships for major infrastructural projects. Since the 1990s, many entrepreneurial firms have also been set up by co-founding professional partners, using venture capital and other sources of funding. Many foreign firms have invested in India, using joint ventures, acquisitions, as well as new investments. Consistent with her grassroots democracy culture, India also has a large number of cooperatives, such as Amul, comprising of a large number of individual and small dairy producers who collectively organize operations and share profits. Many non-government organizations (NGOs) also work with the underprivileged members of the community, and are engaged in business activities.

Family businesses are the dominant form of business organization in India. Most family businesses have closely held ownership structures, but many create inter-linked ownership structure among the group firms to retain management control while enabling access to the open market capital. These structures allowed the Indian family businesses to become well diversified conglomerates. In the 1990s, among the top 50 business houses, such as the Tata Group, there was an average of 18 businesses. To meet competitive challenges of the new economy, many diversified family businesses have gone through family splits since the 1990s. Managers often use family splits to recognize the synergies among different business operations and make each business group more focused and cohesive (Goswami, 2000).

Networks:

Indian business system is characterized by reliance on both vertical networks, as well as horizontal networks. Vertical networks represent inter-firm relational contracts, i.e. close and long-standing relationships between suppliers and customers. Automotive industry illustrates a case where a large network of component suppliers is linked to a few leading large automotive firms, and where a few leading component firms are also linked to a fairly large network of smaller automotive firms (Parhi, 2008). In the 1950s, several indigenous automotive firms were established within the context of a policy framework that through reservations and local content requirements encouraged vertical disintegration, and proliferation of small-scale automotive components firms. In 1982 1980s, Maruti was founded through a joint venture between Suzuki of Japan and the Government of India, under a phased program requiring increasing local content. The market for cars grew rapidly, with Maruti taking over about 80 percent share of the market by the end 1980s. Following the practices then prevalent in Japan, Maruti relied on closer buyer-supplier collaboration including exclusive supplier relationships with some of the most technologically capable and reliable local component suppliers, and offered reduced uncertainty for the peripheral firms to also invest in technology upgrading to meet its exacting quality standards. In the 1990s, the passenger car industry was de-licensed, and foreign firms were permitted to form joint ventures with a majority equity stake. This offered opportunities for some of the leading automotive component firms to develop close relationships with several new players (Parhi, 2008).

Information technology enabled services sector is another notable example of vertical buyer-supplier networks, but here buyers are overseas customers who engage in business process outsourcing to the local vendors in India. Rathinam (2008) investigated the role of network relationships between the foreign clients and the Indian vendors. Results suggest that the Indian software firms rely on their reputation, particularly in the form of formal quality certifications and repeated long-term relational contracting, to economize on the costs of writing costly contracts while dealing with complex high-end projects. Their reputation, based on their high quality and long-term relationships, gives foreign customers the confidence to forego legal protection.

Horizontal networks have been long prevalent in India, in the form of highly specialized regional clusters that are known for agglomerating a large number of firms within a particularly industry. Several regions are known for being centers of excellence in particular niches, such as in different farm products, handicraft products, manufacturing, and services. Well known examples include Mumbai’s Bollywood and financial services sector, Pune’s automotive component sector, Bangalore’s software sector, Hyderabad’s business process outsourcing sector, and Jaipur’s handicrafts sector. Many regional clusters play an important global role, through exports and inter-firm relationships. Network relationships within clusters are sustained through community links, third party support, and government and non-government organizations.

Management:

Pre-British and British colonial roots have influenced management-labor relations and managerial discretion in India. This influence has resulted in attempts to correct some of the past injustices after independence in 1947, and the adoption of some of the world’s best practices after liberalization of the 1990s. The early model of human resource management in India was created in the British colonial factories (Ramaswamy, 1997).

In busy times, the workers, including women and children, ‘had to work 22 hours a day for seven consecutive days’ (Report of the Indian Factory Labor Commission, 1908). ‘Those working these excessive hours frequently died’ (British Parliamentary Papers, 1888). The indigenous welfare movement gained pace with the setting up of the Dorabji Tata Graduate School of Social Work (later renamed as the Tata Institute of Social Sciences) by the Tata business family in 1936. The Tata School offered training in casework, group work, and community organization techniques to deal with individuals, group, and community problems in the workforce.

Under the 1947 Industrial Disputes Act, the Indian government established an elaborate management-labor dispute labor mechanism. In the public sector, industry-level bargaining on a nationwide scale is common in core industries such as coal, steel, banks, insurance, and ports. In the private sector, industry-level bargaining on a regional scale flourishes in industries such as textiles, plantations, and engineering, where professional managers from the industry association, the Confederation of Indian Industry (CII) negotiate region-cum-industry agreements for the member firms. Basic wage rates, benefits, and working conditions decided at the company level are adjusted for local conditions at the plant level. Guided by the concept of the Welfare State in the Constitution of India, the collective agreements cover every aspect of business that influences the workforce, including compensation, work norms, staffing arrangements, transfer and promotion procedures, job and income security, techniques, and technologies (Venkata Ratnam, 1998). While about 90% of the workforce in the public sector has been unionized, the private sector has sought to minimize the union effects by subcontracting to small and medium firms.

In the 1980s, private firms in India began pioneering approaches for flexible restructuring to cope with the restrictive labor legislation and the emerging global competition. There has been a shift from regional and national-level unions to enterprise-level unions, often not linked with the National Federations, to negotiate willingly on the basis of the business conditions of companies. The restructuring of the larger private sector firms has opened up subcontracting for the small units in the informal sector.

Since the late 1990s, more dramatic changes have occurred in human resource (HR) management. To manage growth, the firms have scouted for talent deep in the smaller cities. They have rapidly escalated the metrics to support HR’s contribution to their organizations and help measure effectiveness. Many firms deal with attrition rates as high as 70%. The firms with lower attrition rates are focused on increasingly complex, integrated, and challenging projects to generate higher unit values and to keep the more valuable employees from leaving. Many local firms have formed collaborations with universities to start specialized programs. Similarly, some US firms have used their corporate universities, such as Motorola University and Cisco networking academies, to collaborate with vendors in India to provide training in soft and technical skills (Srivastava, 2007).

Comparative Advantage

The developments in the institutional framework and the business system have correlated with the shifts in the national competitive advantage. Indian managers migrated from a mindset focused on opportunistic resource accumulation and trading that traditionally prevailed as the basis for the unrelated diversification strategy. In general, they started building a cost leadership, thereafter enhancing service leadership, and finally evolving into a recognized technology leader in the global marketplace (Das, 1999).

The traditional trading business families were not cost leaders— indeed they sought to keep their business within their communities, if not families, so they would not be undercut. Even today, an employee in a typical family-run *saree* (the dress traditionally worn by women in India) store unfolds a hundred sarees within minutes, trying to sell just one. Similarly, waiters in most family-run *dhabas* (the traditional Indian restaurants) deliver a customer's *thali* (a set meal) in two minutes. Many managers are now rediscovering the secrets of service leadership. Service leadership generates value by delivering superior service through trained knowledge workers.

Technology leadership*:* Since mid-1990s, Indian companies have shown the highest return on equity in Asia – about double that in China. India has followed a business-to-business model globally. However, domestically, the focus has been on a business-to-consumer model. Increasing salaries have resulted in increasing consumer expenditure. It has allowed many entrepreneurs to make large investments and benefit from economies of scale. By 2012, India boasted of the second highest number of billionaires in Asia – 45 people, valued at US$195 billion; it also had more than one million millionaires.

India's comparative advantage is led by value-added designs and services, which show a higher growth potential at the international level, as compared to the low wage manufacturing center for exports model of comparative advantage traditionally pursued by China. Considering the world's top 50 companies in terms of market capitalization, India boasts the highest intangible component as percentage of total enterprise value – 75% – same as that of the US. In 2007, the global average among 32 nations was 65%, with China at 58% (Dhobal & Pande, 2007). While the growth in the 1990s was driven by information technology (IT), IT-enabled services, and off-shoring, since the 2000s several other sectors are growing at double-digit rates including aviation, entertainment, real estate development, financial services, and hospitality (Government of India, 2007).

The Changing Trend of Indian business system

India's institutional policy and business systems have evolved from over a period spanning several decades, centuries, and millennia. India was perhaps the wealthiest nation of the ancient world, and aptly nicknamed the 'Golden Sparrow.' India became a British colony by the 18th century after the 1765 Treaty of Allahabad. The British introduced a bureaucratic business system, characterized by a leisurely work ethic (*aaram*); things being left as they are (*chalta hai*); elaborate procedures and numerous approvals (*red tape*); expectation of private rewards for official work (*corruption*); public resources used for private indulgence and family favors (*nepotism*); an expectation of favors for bosses (*yesmanship*); and superficial employment (*employees who have little actual work*). To facilitate colonial administration, postal, telecom, and railroad technologies were introduced into India in the 1850s as 'engines of social improvement' (Bear, 1994). The interior of India was substantially altered. English machine-made goods, made from Indian raw materials, squeezed out skilled Indian village artisans, and transformed them into unskilled workers doing jobs in the colonial British factories.

At the time of independence in 1947, India's agricultural sector was growing at a mere 0.3%, and its manufacturing sector was miniscule (INSA, 2001). India's first Prime

Minister, Jawahar Lal Nehru, advocated adoption of the Soviet type Five Year Planning system, along with a Non-Alignment Policy (Nehru, 1936/1972). The 'Mixed Economy' policy entrusted heavy industry projects, such as steel and hydro-power, to the public sector, and introduced a 'License Raj' to regulate the investments of larger private sector companies. The public sector firms built '**extension service**' networks with small-scale enterprises for sourcing various intermediate inputs. Similarly, the private sector subcontracted to the smaller enterprises in order to bypass licensing restrictions.

With foreign aid, in particular from the US and the former Soviet bloc, institutions of higher education in management and technology (engineering), and medicine were created, and modern infrastructure created for agriculture and capital goods production. The policy allowed India to become considerably self-sufficient in capital goods, but substantial consumer goods supply constraints emerged, along with economic stagnation, inflation, unemployment of the educated, and urban poverty.

In the 1980s, the government policy called for an integrated development of software for the domestic and export markets. The imports of knocked-down computer kits were liberalized, allowing the rise of many software development firms. Indian software development firms created customer facing onshore sites particularly in the US, which enabled them to develop capabilities to perform increasingly complex work for the foreign clients offshore in India (Mulhearn, 2000).

In the 1990s, a major liberalization of Indian markets was undertaken, and the markets were opened to the foreign multinational firms. The charge for the economy was handed over to the private sector. Unviable public sector firms were closed, while the potentially viable ones were disinvested. A majority of the Fortune 500 companies outsourced their IT services to India (Raipuria, 2002). India rapidly evolved from the world's software programmer to the world's back office to the world's laboratory, where the knowledge workforce made the cost of risk-taking affordable for companies around the world. For many foreign companies, new India became a design house, a tooling center, a components base, and a manufacturing hub. For instance, Germany's Heubach group produces pigments in India, 90% of which are exported to help paint the cars of Mercedes, General Motors, and other major auto firms in the US, Europe and Japan (India Brand Equity Foundation, 2007). Concurrently, the strategy of large private sector firms relying on imported technologies, services, and capital goods lost its early momentum. Many technology collaborations with foreign firms fell. Several large private sector firms, such as Reliance, started emphasizing internal R&D, rather than continuing to depend on imported know-how.

As the indigenous capabilities of the Indian firms evolved, the decade of the 2000s saw an unprecedented rise of the Indian firms as multinational corporations, and the worldwide expansion of the Indian firms as discussed next.

International activities of Indian firms

Historically, constrained and shepherded by the policy environment, most Indian business groups competed on country-specific advantages built on the reengineering of the Western know-how for the factor conditions of India, and were unable to internationalize through FDI. But a few large business groups went beyond reengineering of the Western know-how, and constructed indigenous-based manufacturing and marketing advantages that were appropriate to the conditions of the emerging markets. They excelled in entrepreneurial adaptation of foreign designs to local conditions of the developing nations such as nonavailability or prohibitive costs of raw materials, peculiarities of local consumers, the climate and geography (Athukorala, 2009).

Since the 1990s, the government policy has shifted towards global integration. Based on the deep internal and external reconfiguration of the core competencies, many Indian businesses realized that they already had a rich history of accumulating firm-specific advantages. In order to leverage and augment these, however, they needed to develop appropriate global linkages, encompassing financial channels, vendor networks, client networks, and various systems and processes. As the government liberalized capital controls, several business groups moved rapidly to acquire targets overseas to augment their firm-level technological bases. They also sought to construct vendor bases in other emerging markets to complement their capabilities to serve the global markets. Through exports and foreign direct investments, many Indian businesses have become important players in the global market, and taken market share leadership in a range of domains.

The global financial and economic meltdown over 2007-2009, and the ensuing Great Recession continuing through 2012, have brought forth several challenges for the international growth of the Indian firms. Many Indian firms have responded by striving to explore opportunities for growth in the domestic market. In this scenario, the inadequacies of the Indian institutional structures have become increasingly apparent, as corruption, corporate frauds, and policy failures contributing to billions of dollars of public losses have become apparent. The civil society, led by the judiciary, the media, and the non-government organizations, has played a key role in fighting for transparency.

Corporate Social Responsibility, Governance and Ethics in India

Historically, managers of Indian businesses sought to ensure multi-generational continuity of firms' values and resources by satisfying a variety of different interests of community and showed eco-centric values (Sundar, 1999). After independence, the government began enforcing social altruism values. Some public sector companies invested up to 5% of their profits on corporate social responsibility (CSR) activities. The conventions of the International Labor Organization heavily influenced public policy. The high corporate and personal income taxes of up to 55% and 98.75% respectively, however, encouraged widespread tax evasion.

In the post 1980 era, the new professionally owned firms saw the government as a partner (Sidel, 2000). The Confederation of Indian Industry, India's largest industry and business association, developed a voluntary code of corporate governance conduct in 1996 for the listed companies, ahead of the East Asian crisis. The initiative has propelled the capital market regulatory authority of India – SEBI – to introduce a statutory code to elevate the corporate governance to the international standards. The financial institutions have adopted an aggressive market-oriented stand, lifting their unconditional support of management. They have begun converting their outstanding debt to equity, and selling their shares in under-performing companies to professional entrepreneurs and managerial groups.

The policy framework has sought to resolve the 'shareholder vs stakeholder' debate by promoting the rights of shareholders, while ensuring that the interests of other stakeholders are not adversely impacted. Secured credits such as banks, financial institutions and insurance companies offering long-term debt have the right to appoint their representatives as 'nominee directors' on the board of the client companies. They have exercised this right with almost all major listed companies that have a sizeable debt. Well-defined laws protect the interests of employees, insofar as the labor market is very restrictive, where adjustments, retrenchments, and downsizing are difficult to implement. Increasing popularity of equity stock options, particularly for the managerial and leadership level, has aligned employee and shareholder interests.

As the firms have faced competition for capital, human resources, customers and public goods, the pressure groups have become vocal, asking for support in poverty alleviation, addressing unemployment, fighting inequity and carrying out affirmative action. Similarly, foreign clients have demanded new CSR activities, including advancing women to managerial and leadership teams, and grass-roots action for eliminating adverse impacts on the environment, human rights and child rights. The Indian CSR initiatives have evolved to cover employees, customers and stakeholders, as well as sustainable local and national development through corporate citizenship

India has gained the dubious distinction of having the world's largest slum population. In Mumbai, half of the population now lives in slums, because of the migration from rural areas and real estate values that are reputed to be the highest in the world. Therefore, many public, private and nonprofit firms have launched initiatives for making urban life accessible within the villages. For instance, the State Bank of India introduced the concept of no-frills accounts to give poor and rural people access to banking, affordable credit, and financial literacy. Through a range of IT-enabled initiatives, corporate India is blurring the line between corporate philanthropy and business (Soota, 2007).

In 2011, India ranked 95th out of 183 nations on the Transparency Index of the Transparency International. Public institutions continue to be compromised by corruption. In 2005, the Right to Information Act was passed to allow civic institutions to hold public institutions accountable and create an empowered citizenry. Indian judiciary has also supported Public Interest Litigations as a way to spur public bodies to positive social action. The economic growth has resulted in improved social indicators such as reduced poverty, morbidity and mortality rates, and higher literacy levels, with rapid improvements in the Human Development Index. However, with growing income inequalities, India's rank on Human Development Index in 2011 was 134 out of 187 nations, with a score of 0.5.

Given the vast scale of the challenge, Indian managers recognize that for sustainable development, they need to take a greater responsibility for linking economic growth with social development. In addition to improving the overall quality of life and increasing social stability, it will also make India an international destination of choice for 'socially responsible investment' and differentiate Indian firms for long-term, high quality investors.

Chapter summary

1. India is fast emerging as a major economic power. India has retransformed herself from a lower income to lower middle income nation. The role of government has shifted from that of tight control to partnership with the private sector for inclusive and sustainable development.
2. The backbone of the growth of India's economy has been information technology, but new areas such as biotechnology are fast emerging as new growth drivers.
3. The civil society has emerged as an important advocate for the rights of the underprivileged groups, and champion of inclusive initiatives.
4. The informal institutions help build substantial social capital within communities, and help to remove the disadvantages of being less dominant. However, they do not necessarily offer a profit or growth advantage. Indian business system relies on both vertical and horizontal networks.
5. The Indian management style is built on craft traditions and community values. However, it also received an imprinting of British bureaucratic and human rights exploitation and welfare-oriented socialist policy.
6. Women are playing an increasingly important role as entry-level workers and as managers in Indian companies, although the number of women in leadership remains quite limited.

Key concepts

Business-to-business model: Direct relationship between two businesses or business partners.

Business-to-consumer model: A relationship where businesses interact with the end-consumers.

Cost leadership: Developing an ability to compete on the basis of low cost structure.

Extension Services: Services offered by an academic or public institution to the larger public.

First generation family business: Family businesses that are owned and run by the founders.

Green Revolution: A significant increase in agriculture productivity arising from the introduction of scientific methods and systematic management models.

License Raj: The bureaucratic system of controlling the economy through license permits for investment capacity and production outputs.

Mixed Economy: A system of economic governance where the public and private sector collaborate and play an equally important role.

Review questions

1. Describe the rationale, key historical influences, identity, and authority in the Indian business system.
2. Explain the characteristics of financial capital, human capital, and social capital in the Indian business system.
3. Describe the aspects of ownership, networking, and management in the Indian business system.
4. How are Indian firms integrated in the international economy?

5. How would you describe the CSR in India? What role has the civil society played in the Indian business system?

Learning activities and discussions

1. Search for Indian businesses in your community, and evaluate them broadly (in terms of price, quality, ethnic uniqueness, product diversity, inclusiveness, and service). What distinguishes them from similar businesses from other countries in your community? Think about whether and how the features of these Indian businesses can be related to the peculiarities of Indian management.
2. Imagine you are working for an Indian company. Discuss with your classmates how you would be able to deal with the Indian management style, and what would probably be the biggest cultural challenges for you to accommodate in such an environment.

Mini case: Jaipur Rugs empowers the grassroots in India

N.K. Chaudhry founded Jaipur Rugs in the city of Jaipur as a small family business in the 1970s, and started exporting in 1986. By 2008, Jaipur Rugs was the largest manufacturer and exporter of Indian hand knotted rugs, and also produced tuffed and flat woven styles.

The Chaudhry leadership was guided by a deep concern for the welfare of the weavers. The traditional, unorganized rug industry in India, as in many other low-income nations, was characterized by the use of similar traditional designs and materials. The firms faced significant competition, selling primarily in the local market, and commanding low prices. To remain viable, the use of low-cost child labor and women labor was rampant, while men were deployed to instruct, supervise and control this illiterate and impoverished labor.

Mr. Chaudhry began by removing the males from their middlemen and supervisory roles, and provided looms directly to the women weavers, organized into small groups, who worked together weaving a rug on their loom. More experienced women weavers were designated as leaders, who worked as weavers but also offered instructions to fellow less experienced weavers, who worked on the different part of the rug alongside. This was possible because depending on the size and design complexity, a rug might require several women to work simultaneously for up to one year. Former experienced weaver supervisors, who had a deep appreciation of the weaving techniques associated with different designs, were retrained as designers. Since they were all illiterate, they were trained to work in a computer-based design center using customized visually-based design software. Latest international design books were provided for inspiration, enabling creation of fusion contemporary designs, which commanded strong interest by wholesale rug buyers in the international markets – particularly the US, the initial country of focus. Those who had some education were appointed to the different managerial positions in the company.

The weavers were paid per piece (depending on the size, complexity of design, and quality of finished product in terms of defects and amount of rework required). Thus, rewards and punishments were built in the payment system. While most women weavers earned only the legal minimum wages when translated into daily wages, many chose to work for fewer than eight hours. The looms were situated in the villages at or near their homes, in order to provide a more humane working environment. That allowed women to take time off to take care of their household chores and children. Significantly, Jaipur Rugs was competitive and was able to scale up its model and its international demand, without the need to cut down on the wages or to hire child labor or to use exploitative methods. Further, women weavers were assured year-round consistent work because of the international demand, in an industry traditionally characterized by cycles of work and idling.

Mr.Chaudhry sent all his five children for higher education in the US. Two of his eldest daughters opened a marketing office in Atlanta, USA. His eldest son and the youngest daughter had returned to India to help with operations and marketing respectively. His youngest son was an undergraduate at a university in Boston. Mr. Chaudhry was now looking to scale up the model of social responsibility that he had prototyped, and bring in the fresh ideas led by the next generation of his family and by the professional hires.

Questions

1. Which internal and external factors have helped Jaipur Rugs to succeed?
2. In which aspects has the management at Jaipur Rugs been typical for Indian management? In which aspects has it been atypical?
3. Do you think Jaipur Rugs has to transform itself fundamentally to remain successful in the future, as the second generation of family assumes leadership roles? Why or why not?

Interesting web links

On the story of India: india.gov.in
On the success story of Brand India: www.ibef.org
On news from India : samachar.com

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