Speech

VALEDICTORY ADDRESS*

Bimal Jalan

It is a privilege to be in the midst of this distinguished gathering to deliver the valedictory address to the National Management Convention this evening. This is the Silver Jubilee year of this Convention, and represents an important event in the history of the All India Management Association.

It is a fitting tribute to the Silver Jubilee year that this convention is devoted to such an important theme as strategies for strengthening competitiveness of Indian economy. The theme chosen for this convention constitutes the very substance of the recent Indian economic reform and the hope on which building a strong and prosperous Indian economy is based.

I am sure the deliberations in the convention over the past two days would have produced many valuable clues to our understanding of the competitive strength of Indian economy and current management challenges facing the economy. The Indian economy has been on the threshold of a major change since 1991-92. We are about to cross over the present millennium with some achievements. But the big question facing us is the challenges of the next millennium. This question is inextricably linked to how quickly and effectively we respond to the emerging global competition and constantly reorient ourselves to the changing requirements of the world economy. What I propose to do in my address is to highlight some of the management issues that are likely to assume importance in facing the challenges of the next century against the background of our history, current achievements and future requirements.

Management Challenges : The Core Issue

As we cross over to the next millennium in a few years from now, we would be faced with a world economy, which is more integrated, more competitive and substantially transformed in terms of trade opportunities. While most of the existing trade barriers among nations would have been significantly relaxed with the coming into being of a multilateral regime of free trade, the cross border restrictions on movement of capital, labour and technology are also likely to diminish over a period of time. What implication does this have for India?

It is clear that the expansion of global market and dismantling of protective barriers to trade and commerce would create a major impact in terms of enhancing growth opportunities for Indian economy. While trade opportunities grow, the protection advantages that a large domestic market offered to Indian industries would decline in importance as a source of growth of Indian industry. Our ability to penetrate both domestic and world market would depend on our relative competitive strength vis-à-vis other nations. Secondly, the source and nature of competitive strengths of nations in the twenty-first century is going to be characteristically different from that of the nineteenth and early twentieth century. In the earlier century, the world leaders in business mostly derived their competitive strength from breakthrough in major scientific inventions and their slow dissemination across countries. In the twenty-first century scientific innovations are not going to be based on capital alone, nor on the monopolistic position of a few nations. Today, both capital and technology are fluid. It is the disembodied technology rather than the hard ware, which is moving faster across countries in bridging technological gaps. In today's world - and more so in the next century - apart from technological leadership, competitive strength of nations would more and more depend on the strategic behaviour of firms, their adaptability to changing world environment and how they promote their core competence in several spheres. These challenges are to be primarily fought on management and technology front.

For countries which are deficient in investment, improving saving and investment performances poses an important challenge for building national capabilities to face global competition. This is a core issue for India at present, considering that our investment needs are high in several sectors. The stress on investment, however, has to be tempered with emphasis on productivity growth for facing competition. It has been an old dictum in economics that factor accumulation alone can not sustain the long-term impetus to growth. Or, the steady state growth conditions are not solely influenced by how much capital an economy is able to accumulate. The law of diminishing return would eventually bring down the rate of return on capital and slow down the growth rate in the absence of productivity growth. On the contrary, long-run growth depends on how effectively and efficiently the scarce capital and labour has been put to use. Hence efficiency, and its relative measure viz., competitiveness, forms a vital aspect of the long-run growth process of an economy. Technological progress, innovation and human skill development are some of the dominant forces that sustain long-run growth conditions and international competitiveness of an economy.

While in all this, firm-level performance plays a critical role, its effectiveness also depends on the nature of public policy environment under which firms operate and whether such policy conditions allow them to achieve the needed economies of scale and allocative efficiency in production. This is why macro economic policies and the nature of governance have received increased attention in the growth strategies of developing economies. It is not surprising, therefore, that much of today's struggle for survival and progress in economic field is centered around how to improve the relative competitive strength of an economy by adopting policies that are efficiency enhancing in nature and instil confidence among investors and promote long term stake in the economy. And the fact that the global markets have been getting increasingly integrated, the risk from non-performance on the policy front is high compared to a situation of autarky and closed financial market system. No country can afford to ignore this fact in today's competitive world.

Let me at this stage briefly draw your attention to our long experience with economic management and the lessons that we have learnt, which could help us in meeting challenges of the next century.

India in the Midst of Change

Even before a new modern nation state came into existence India had a remarkable history in the maritime trade, or what used to be called as emporia trade in the medieval times. India was not only exposed to free trade from a very early time but it also maintained its competitive position in world trade in several goods. Even during the colonial times, India's competitive strength remained fairly intact. It, however, lacked exposure to modern technology and a well-organised market and was to face internal price repression and a deluge of non-competitive imports. It would be surprising to note that even with this disability, India generated a large order of export surplus in most part of nineteenth and early twentieth century, the export surplus in some years rising to as high as about 40 per cent of export values. This was also a period, when a slow process of transformation was taking place in the industrial, educational and administrative infrastructure, that eventually gathered momentum in the post-independence period to provide a necessary base for the growth of a strong and competitive industrial economy. While the lack of technology and infrastructure - except perhaps railways - stifled India's industrial strength, the policy regime that the country had to face in the pre-independence period was not conducive for the healthy growth of a competitive industrial sector and whatever competitive strength that India came to possess was due to her access to cheap labour and raw materials.

In the post-independence period, the problem of transforming an agrarian economy to an industrial one, building domestic capability in crucial sectors and addressing the immediate need and aspirations of people weighed heavily as a management challenge to a newly independent nation. The role of government in the economic management, therefore, grew in relative importance. Nevertheless, a strong foothold for private sector was maintained alongside a dominant public sector.

The management challenges in recent years are significantly different in nature than in early years of our independence. The role of market forces in the economy has increased considerably with the dismantling of industrial licensing and control system, liberalisation of foreign investment and technology transfer, gradual deregulation of financial sector and reduction of domestic protection through lowering of tariffs. The industrial sector has been exposed to both internal and external competition. As a result, a process of restructuring has started with respect to firms' core competence and long-term strength, need for diversification, leveraging position, strategic alliances, marketing strategy and research and development need. This change in approach is seen in both private and public sector. The industry has become more and more conscious of building advantages in technology, technical skill and cost competitiveness. A perceptible difference is observed in the attitude of entrepreneurs and managers in giving importance to consumer preferences, forward looking planning, and devising unique firm specific strategies to improve the share in the market.

The growth of a consumer-focussed management culture has been at the heart of the modern day economic liberalism. Its necessity stems from the primacy of 'choice' and 'individual initiative' as the basis for improving efficiency. Hence, the role of government management has accordingly changed to a more complementary position of providing macro-economic stability, protecting citizens' rights and creating equal opportunities.

India's long history of economic management has led to consolidation of strength in many areas. Among the significant areas of strength are the emergence of a strong and diversified industrial sector, gaining of self-sufficiency in food, growth of indigenous technological capability in several core areas and a steady growth of higher education which has helped create a large pool of technical talent. The country has a fairly developed institutional infrastructure in financial, legal and corporate governance, which are essential for the growth of markets. The overall growth of the economy remains good. Domestic saving and investment rates are high. On the productivity front, although long term trends do not indicate a strong position, in recent years there have been evidences of significant improvements. For example, some studies have estimated the total factor productivity growth in the Indian economy at 2.3 per cent during the eighties, surpassing that of many fast growing economies.

There have been also areas of weakness. These mainly relate to instituting a stable and sustained investment environment, providing for enough physical and social infrastructure, promoting competition and demonstrating the required degree of managerial drive that could let the domestic capabilities translate into international competitive advantages. Our share in world exports remains very small. India's competitiveness score as revealed by the global competitiveness indicators also remains low. However, it is interesting to note that in terms of subjective assessment of business respondents, India's ranking of competitive strength is high (according to Global Competitiveness Report, 1997). This indicates that investors' perception regarding the growth prospects of Indian economy remains stronger than what is indicated by the competitiveness index. This is a positive indication as far as long term investment prospects are concerned. Our high potential competitiveness needs to be translated to quantitative performances in future.

In short, India has come of age through its long development experience. It has acquired the potential that would require a society to emerge as a competitive economy. The steady progress, which has been recorded by the economy in the recent years, show positive indications of India's rising competitive strength. With its present level of domestic strength, India is poised to take maximum advantages of the greater cross- border flow of trade, capital and technology created by growing openness of world economy. A growing open economy also exposes firms, investors and the economy to external competition. It poses the challenge of cutting through several rigidities that could pose potential risk to the industry and the economy. This is where the management challenges are at their toughest test.

Meeting Management Challenges

As I have tried to bring out in the previous sections, our management challenges are primarily on the front of improving international competitiveness of firms through strategic orientation and by adopting policies and practices that improve productivity and efficiency in the economy. As the cream of the best professional talents in India, I am sure, the distinguished gathering here is more informed and competent than me to judge our present competitiveness standards and chart out a road map for future. In what I have to say in this regard, I would merely repeat some of the obvious aspects.

The Indian industry has already demonstrated the kind of resilience and strength required in withstanding external competition and eking out a strong presence for them in both domestic and international market. The industry has been going through a process of restructuring in the recent period and the managers have responded to growing competition with enthusiasm and competence. This is reflected on the cost of transition to the economy, which has been exceptionally low, compared to many developing countries in Latin America and Africa that have recently embarked on reforms. Let me place before you a few of my thoughts on the possible ways we should respond to the intensified global competition that is to follow in the next century.

The primacy of “professionalism” and “organisational effectiveness” as national standards can not perhaps be over-emphasised in the context of meeting global challenges. Competition, by its very nature, distinguishes the weak from the strong. With growing openness of world economy, this aspect will receive even more significance, since what is strong domestically may not be that strong internationally. It is the professional standard - be it in dealing with customers and client groups or improving quality standards and business effectiveness - from where the western countries derive most of their competitive advantages. Professionalism is a product of both individualist pursuits such as respect for values and mutual trust and the organisational effectiveness of a group or firm that harnesses these individual attributes collectively. This organisational effectiveness of a society is often referred to as social capital of a nation. It has been argued by sociologists that although United States and Japan belong to two different social values - the former driven by individualism and the latter by group-oriented society - they share the common spirit of high trust societies and high professional standards, that give them an edge over others in terms of improving professionalism and organisational effective-ness. As Francis Fukuyama, a noted social scientist observes :

“The future may belong to neither large nor small companies per se, but rather to those societies that can innovate and create the appropriate organisations to meet needs of 21st century business.”

Improving professionalism and organisational effectiveness applies both to private and public sector and this is where our social values will play an important role in shaping our competitiveness in future.

Another challenge stems from preparing for greater degree of openness in trade and moving away from a protection syndrome. The successive tariff liberalisation attempted since 1991-92 has already reduced the degree of domestic protection to industry to a substantial extent. Industry has also responded well to this challenge by readjusting to competitive environment. With global trade integration and obligations under Uruguay Round of GATT agreement, India’s tariff rate would have to be further aligned to international level. This would require further adjustment by way of improving the flexibility with which an industry can diversify its operation to gain competitive advantage.

The most important element of sustaining competitiveness is to build internal strength of a company by imparting a long-term focus to its planning and developing its unique strength in the market. This requires identifying our core competence and investing to strengthen this unique strength. Given the long history of India’s corporate strength, building core competence on the lines of our comparative advantages should not pose an uphill task. The Indian firms already enjoy a pre-eminent position in several products. There are many Indian business firms that have excelled in quality and cost competitiveness in these products to sustain a long-term domestic and international clientele. In order to face increased global competition, it is important to concentrate on our long-term competitive strength and gear our research and development, technological requirement and managerial strength towards that end.

Meeting challenges on the policy front also assumes a great deal of importance in a more open world economy. It needs to be mentioned that firm specific strategy to be successful requires an enabling policy environment, which promotes competitive-ness and efficiency. Here the role of government comes into focus as a confidence builder, a catalytic agent and a mediating agent. Let me note three major areas which assumes significance in this context. First, in an interconnected global market, macro-economic policies need to be geared towards reducing uncertainty and risk to investors and savers. This would require ensuring internal and external stability in the economy through maintaining sustainable policies and putting in place a proper safeguard system for the financial sector against adverse international shocks and limiting exposure to risk. The macro-economic fundamentals of the Indian economy remain strong as reflected in our relatively low inflation rate, low current account deficit in balance of payments, the large order of fiscal compression that has taken place and the prudential norms in the financial sector limiting exposure to systemic risks. These fundamentals will assume much more significance as the world economy becomes more integrated.

The second important area of policy priority is increasing investment in physical infrastructure. It is difficult to think of gaining a long-term competitive strength without substantial improvement in the power, transport and communication situation. There is at present a large gap between the demand and supply of infrastructure and compared to some of the fast growing developing nations, our infrastructure deficiency is very apparent. For example, according to available statistics, the electric power generation per 100 persons was 9.2 million kilowatts in India in 1992 compared to 165.4 million kilowatts in Japan, 154 million kilowatts in Hong Kong, 61.7 million kilowatts in Korea and 22.1 million kilowatts for Thailand. Reducing this infrastructure disparity is a task, which needs to be addressed through both public and private investment. World over the general trend has been to involve the private sector in infrastructure investment. For example, in some Latin American countries private sector investment in infrastructure is as much as or even more than the public sector. While in Chile and Argentina about 50 per cent and 70 per cent, respectively of infrastructure investment is private, this share is comparatively less at around 12 to 18 per cent in East Asia, and lesser than that in India. Increasing public investment in infrastructure and involving private sector in infrastructure development is a key task for the future.

The third major area of policy emphasis for meeting challenges of the next millenium is on building social infrastructure. Our ability to face competitive pressures of a globlised world depends on our effort to raise productive efficiency of the human capital. Sustainable economic growth is linked to the productive efficiency of the labour force which, in turn, is positively influenced by nutritional adequacy, health care, educational attainment, skill formation and other basic needs of the people. High investment in physical and human capital has been the centerpiece of many success stories of the world. The general quality of life in India has improved substantially during the past several years of development effort. The next millenium would present us with the challenge of bringing about a significant improvement in this regard, if we were to remain globally competitive.

Conclusion

Let me conclude. India has a history, surpassing hundreds of years. It has come through several difficult challenges with many achievements in different spheres. It has a strong industrial base, a highly educated and skilled lot of professionals, rich technological capability and entrepreneurial skill, and a mature democracy with sound rule of law. The management challenges for the next century are in the field of technology, organisational restructuring, skill development and public policy. India's current position in these spheres, though impressive, would require further strengthening in order to enable us to face the next millenium with confidence. In the context a more open world economy, it is the relative competitive strength that would matter. India now has the skill and the will to take maximum advantage of the new opportunities in technology, industry and services.

*** Valedictory Address by Bimal Jalan, Governor, Reserve Bank of India at the National Management Convention, Calcutta on September 19, 1998.**