

Export Competitiveness of Select Firms from India: Glimpse of Trends and Implications

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Abstract

Competitiveness is becoming necessary for growth, balances, and sustainability of Indian firms. With the new government at the Centre, India seems keen to progress to next stages of competitiveness such as cooperation-driven or innovation-driven to boost employment, growth, and prosperity. Massive imports that accompany rapid growth are to be balanced with exports, an area of urgent catch-up by firms of Indian origin (FIOs). The paper used a database approach to identify differences in patterns of export performance of key firms in select polar industries using the concept of trade competitiveness index (TCI). While software players are visible giants, remarkable consistency in improvement was found in manufacturing also, and some exceptional firms were found in the auto sector. Considering the vast pool of Indian marketing and other professionals - some may be effective in international markets - the FIOs should try to balance trade through scale-up in exports. The concepts and levels highlighted in this paper may inspire other capable firms to aim high and build necessary capabilities to play the longer-term game of international competitiveness.

Keywords: trade balances, technological and industrial capabilities, international marketing, trade competitiveness index, cooperative strategies

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International competitiveness is becoming important as Indian firms build capabilities to catch-up in a rare window of opportunity. Competitiveness is a multidisciplinary area with relevance across levels: country, industry, and firm (Momaya, 2001). As competitiveness intensifies in India, even totally domestic-market focused firms and public sector units (PSUs) also need to think of international competitiveness to grow and avoid stagnation or face survival challenges many could not address well.

The clear verdict in the 2014 parliamentary elections in India for a stronger government hints at the desire of the masses in India to accelerate growth, even if it means short-term struggle in achieving balances. With a stronger government, India is keen to climb the next stages of competitiveness such as cooperation-driven or innovation-driven (Momaya, 2011), to boost employment, growth, and prosperity. There are hopes that it will not be just 'competition sans competitiveness' (Kathuria, 1999). Massive imports needed for that are to be balanced with exports, an area of urgent catch-up. Youth is the best time to strive for such balances and most countries have been very fast to achieve the balances. For instance, Japan achieved trade surplus soon after WW II and has sustained significant surplus on trade and investment accounts to multiply incomes. Korea and now China may be doing far

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better on the trade balance front, at least some firms and industries. India has contributed more than a quarter of world output for centuries and is at a rare window of opportunity before her largest youth population starts greying. Several Asian countries have proven that it is possible to climb heights at the youth stage. Most countries not only achieved balances, but reached multiples of their fair share of output in several industries.

Balances on the trade front can be considered a crude but widely used proxy for international competitiveness across levels: country, industry, or even firm (e.g. Momaya & Goyal, 2007; Mittal, Momaya, & Sushil, 2013). A robust eco-system for trade is imperative for the growth and development of a country, but the developing countries have been struggling to diversify their exports beyond their primary product baskets for a long time. High reliance on the exports of primary goods leads to severe constraints in future development. The export strategy in India confronts several issues (Mallik, 2005) and capable focal firms will have to take lead, even in face of volatile world economy or less responsive Indian policy frameworks. India is a progressive economy, and it is important for the Indian companies to gain an early competitive advantage through exports. The research data hints that exporting firms have a higher survival rate and achieve greater employment growth compared with non-exporters (Bernard, Jensen, Redding, & Schott, 2007).

This paper aims to explore an intriguing research question - what are patterns and the heights of export competitiveness that some firms from India have climbed?

Glimpse of Patterns in Forex as Driver of Revenues

A data-driven approach helped to evolve several exciting patterns among polar industries. Based on the maturity and extent of internationalization, the industries were selected from each quadrant. A matrix of internationalization vs. emergence was used to select polar industries for the study. The industries that were short listed for the study are emerging industries like the software industry which has high internationalization (Acs, O'Gorman, & Terjesen, 2008) and the pharmaceutical industry, which is at the nascent stage of entering the global market (Kale, 2007). Highly emerged industries that were selected are the manufacturing (steel and automotive) and construction industries having high and low international growth, respectively.

Post the 2008 mortgage crisis, a positive competitiveness effect of Indian firms has been the major contributing factor to accelerate the exports and overcome the adverse effects of the exchange rate movements. In order to provide a glimpse of the role of export competitiveness on emerging firms and established firms intending to grow, the patterns in the forex jumps of these fast-growing industries over a period of 2003-2012 was analyzed. Selected companies from various sectors were identified for the longitudinal study.

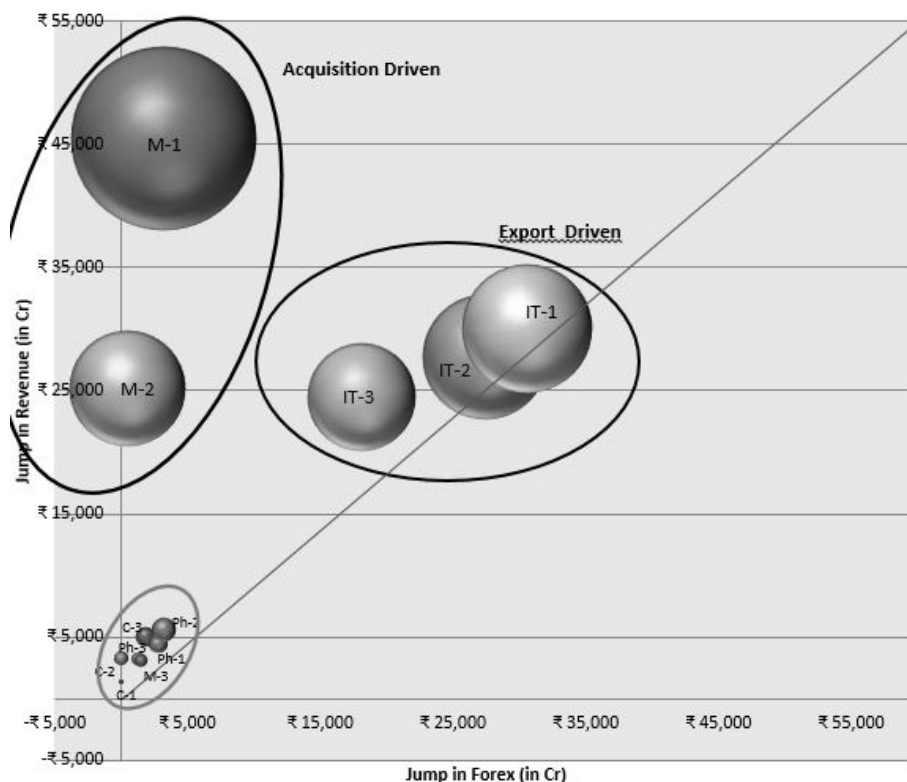
Major industries of the Indian economy were chosen on a preferential basis of polarity. Sub-sectors that are major contributors to the GDP were short listed, while exploring their extent of internationalization and the stage in their life cycle. The sectors that were selected for the study are - India's manufacturing sector, which made a contribution of 15.3% to the GDP, construction sector (7.8%), IT services sector (9%), and pharmaceuticals (1.71%) in 2013 (RBI, 2013).

For the firm level assessment of the export companies, three companies were selected from each industry based on their turnover, and the ET 500 rankings 2012. The sample for the study included some of the most respected companies in the industry.

In contrast to other studies, we used the jump in forex earnings (over the period 2003-12) as a proxy to measure the export competitiveness of these companies. For the companies plotted on the Figure 1, a positive correlation has been observed between the jump in forex and the jump in revenue. Indian software players have emerged as global powerhouses within a short period, while remarkable consistency is found in matured manufacturing sectors like automotive and steel (Figure 1).

After developing several alternatives and review of clusters, the best cluster seems to emerge with a jump in forex on the X-axis. Two dominant clusters of growth emerged and are named as export-driven and acquisition-driven, reflecting two major paths of internationalization. Best players in terms of highest jump in revenues and exports were identified and averages were calculated (Table 1) to get a feel of the pace at which Indian firms can move.

Figure 1. A Glimpse of Patterns of Jump in Forex and Revenues : Taking the Case of Polar Industries (Period 2003-2012)



Notes: 1. Industry acronyms: C – Engineering construction, IT – IT Services, Ph- Pharmaceuticals, M- Manufacturing (Automotive & Steel)
 2. Formation of Clustering of Companies -> IT industry high on forex jumps, Manufacturing high in revenue jump, Construction low on both fronts
 3. Size of bubble refers to size by 2012 revenues
 Source: Developed based on financial data obtained from CMIE Prowess Database

Table 1. Indicates Highest Jumps in Forex and Revenue of Best Companies

Highest Jump in Revenue (in ₹ Cr)

Tata Motors	45465
Time period (2003-2012)	10 years
Average Rate of Revenue Jump (per year)	4546

Highest Jump in Forex Earnings (in ₹ Cr)

TCS	30614
Time period (2004-2011)	8 years
Rate of Forex Jump (per year)	3827

Source: Developed based on financial data obtained from CMIE Prowess Database

In the Figure 1, the 45 degree line depicts that the jump in revenue of the firm is equal to the jump in the forex over the period, implying all the companies taken for the study are growth firms. As highlighted, the IT service companies are observed to have the highest jump in the forex. This proves the assumption of the high technology sectors having a powerful position in exports.

Trends in manufacturing show a dominating leap in revenues over the given period, a large part of that may be attributed to acquisitions. They have not been able to capture sufficient share in the global market. India's global

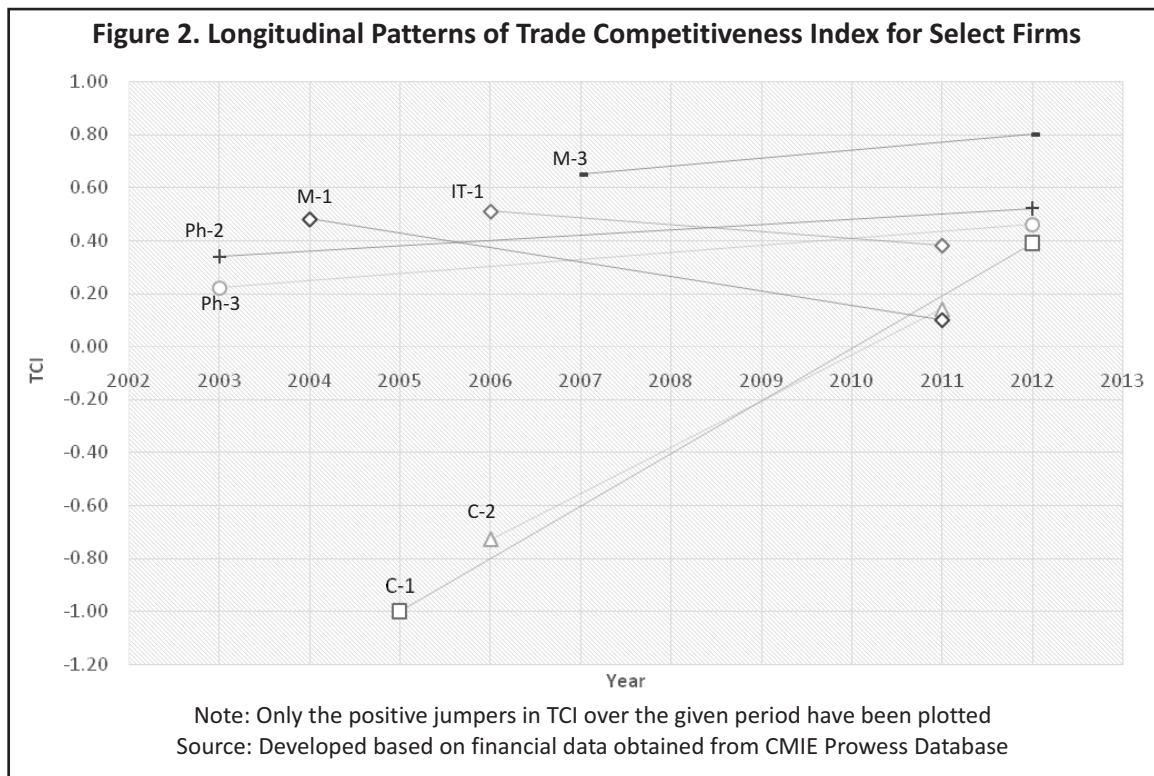
share in the manufacturing industry as of 2012 was 2.1% when compared to China (22.4%) and the U.S. (17.4%). It may be too early to discuss about the long term implications of the acquisitions in terms of employment, exports, forex, and finances. Trade statistics have revealed that the exports share of the manufacturing sector grew steadily from 1990-2000, attaining almost 80%. However, in the last decade between 2000-2012, the manufacturing exports fell down below 60%.

For the IT industries, which are more technology intensive, the FX is above 90% over the period. The FX is increasing at an increasing rate. These patterns imply that IT has a healthy growth in exports, even after recession. It is an ideal path for all the growth industries in order to gain an advantage in export competitiveness. A company needs to assess what are the patterns of forex earnings and determine if it is on the growth quadrant or the declining path.

Trade Competitiveness Index

Using a simple concept to measure heights that firms can climb may help improve execution of strategies, and international competitiveness can be measured on several criteria (Momaya, 2001), but few are as flexible and versatile to be applied across levels as trade competitiveness index (TCI). TCI can be formulated as ratio of forex (FX) balance to total forex as given in the equation below (Momaya & Goyal, 2007), it can be used as a proxy to determine health of foreign trade. The range for this ratio will be from -1 to 1; the higher ratio being indicative of higher international competitiveness. Though there is found to be positive correlation between the profits and forex earnings, we cannot blindly conclude the increase in the profits is due to the increase in the forex earnings.

$$TC = \frac{FXEarnings - FXExpenses}{FXEarnings + FXExpenses}$$



Trends in TCI were assessed longitudinally for each company and peaks were marked to identify exceptional firms. Most firms have a positive trend (Figure 2), symbolizing increasing competitiveness of this small set of firms. The manufacturing industry has been observed to have positive jumps, with Bharat Forge being a remarkable exception. Dominance of Chinese companies has strengthened the external environment for low-cost manufacturing goods (Pitterle & Zhang, 2013).

Discussion and Implications for Leaders

The exploratory nature of emerging findings indicates that we focus our discussion on implications for select relevant leaders. We have also given specific implications for leaders in marketing. We cannot always blame the externalities for decades of imbalances on trade and other fronts. If the slowdown in the forex earnings is much beyond our control, we must strive to improve balances by controlling imports. The persistent trends of record trade deficit for India must be reversed ; this demands cooperative strategies among at least key stakeholders. We tried to understand the patterns of top companies taking polar industries in this study.

The study addresses the question “how high and fast can firms of Indian origin (FIOs) climb the export competitiveness ladder”. The height is best depicted by jump in forex earnings. The IT companies lead here (Figure 1) as the revenues are majorly from forex earnings through exports. The scale-up for them can accelerate, when they evolve better business models for the next phase of competitiveness (e.g. hardware businesses - as examples of Apple, Microsoft to Samsung - hint at). The speed of the jump over the period can be understood from the plot of the jumps in forex earnings vs. jump in revenue. The data of over 10 years gives a glimpse of the FIOs that have sustained adverse exchange movements.

With a vision for India to emerge as a major export hub among the Asian countries, FIOs need to develop unique resources for sustainable export growth. Despite difficult market conditions for Indian goods, there are vast untapped opportunities for Indian companies to catch-up internationally. Identification of the right markets and analysis of the competitive scenario is crucial while entering a foreign market. The ease of doing businesses in the places like U.S., EU zones for high-technology firms can be leveraged further by turning them into profit hubs.

Manufacturing exports by FIOs have not been able to make major impact on world markets. This is evident from comparison of India's position with other emerging economies such as China. The recent jump in forex earnings of the manufacturing firms such as Tata Motors and Tata Steel are due to major acquisitions outside India.

India's prominent position as an offshore hub for IT and IT based business services does not translate into a general specialization in sophisticated products. India's share of world high-tech exports was only 2.8% when compared to China's 19% in 2013. Capitalizing on India's growth potential and favourable macro environment for the pharma industries, emerging markets, which have a potential of 40% incremental growth in the next decade should be the major focus.

The simple concept of trade competitiveness index (TCI) can be a powerful tool for setting targets, detecting patterns, and can also help with diagnosing causes across levels. Progressive firms may learn from leading firms to evolve their journey of international competitiveness and meet expectations from key stakeholders.

Conclusion

With the largest youth population in the world, India is at the most fortunate time in centuries. Firms and other organizations in India have a unique opportunity to catch-up on competitiveness that has been neglected for decades. Export competitiveness is a must for any capable firm with aspirations to grow internationally. Since not many firms know about heights others have climbed, this paper gives a glimpse of heights firms in different industries have already climbed or sustained using a simple, but powerful concept of trade competitiveness index (TCI). Used judiciously in conjunction with volume of exports, TCI can give quick views of trends, benchmarks, and potential. The findings clearly hint that it is possible for Indian firms to reach high levels of TCI and sustain, even in manufacturing. Capable firms should plan early and evolve alternate strategies of exports to climb heights

of international competitiveness. The Group on Competitiveness (GoC) has envisioned that India will start achieving trade balances through export competitiveness before 2020. With cooperation from professionals, we feel confident of achieving even next level targets.

Limitations of the Study and Scope for Further Research

The very focused scope of this study means several limitations and considerable scope for further research. The study is limited to select firms from four diverse industries, and hence, the implications need to be adapted. For any research, there is an ambiguity that the past performance cannot be a true indicator of the true potential for the future. The export intensity in modern-services is heavily faced by external competition. While the richer economies have taken a domination path from agriculture to large-scale manufacturing to create employment opportunities and increasing the GDP, India is struggling at creating core competencies. Globally, the share of income spent on services continues to rise, suggesting a similar rise in the trend for India as well. The capacity for expansion of the Indian service sector to drive exports is immense, identification of competitive sectors, such as providing high-tech logistics support, within the service industry is limited as of now.

A vast gap between capabilities and current performance of Indian firms in world exports means a lot of opportunities for further research to bridge gaps. There is a need to identify new industries for internationalization so that portfolio quality of the exports from India can be improved fast. The exports of Indian companies can be further benchmarked with the world exporting giants in the respective industries, from China, Germany, Japan, Korea, and the USA, and with the 'Most Innovative Firms'. The TCI is an effective criterion, but it needs to be complemented with other criteria to have better inferences.

With programs such as 'Make in India,' India has the potential to emerge as an epicenter for manufacturing and exports. PM Modi's innovative 'Make in India' campaign by turning India into a manufacturing hub will be realized only with the provision of world-class R&D facilities in India. To achieve this, India would require a major shift in the FDI flowing into manufacturing to acquire both capital and the know-how to jump-start a large export industry. Impactful achievements on such program demand aligned execution excellence for competitiveness.

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