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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 for Indian firms. With the new government at the Centre, India seems keen to progress on 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

Period of study: 2011-2014

Paper Type: Research Paper

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Introduction

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 international competitiveness to grow and avoid stagnation or survival challenges many could not address well.

Clear verdict in 2014 parliamentary elections in India for a stronger government hints at desire of 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 on 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 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 has proven that it is possible to climb heights at youth stage. Most countries not only achieved balances, but reached multiples of their fair share of output in several industries.

Balances on 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 et al., 2013).

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 export beyond their primary product baskets for a long time. High reliance on the exports of primary goods leads to severe constraints in future development. 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, 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 and Jensen, 1999).

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 evolved several exciting patterns among polar industries.Based on the maturity and extent of internationalisation the industries are selected from each quadrant. A matrix of internationalisation vs. emergence was used to select polar industries for the study. The industries that were shortlisted for the study are emerging industries like the software industry which has high internationalisation (Terjesen & Siri, 2008) and the pharmaceutical industry which at the nascent stage of entering global market (Kale, 2007). Highly emerged industries that were selected are the Manufacturing (Steel and Automotive) and Construction industry having high and low international growth respectively.

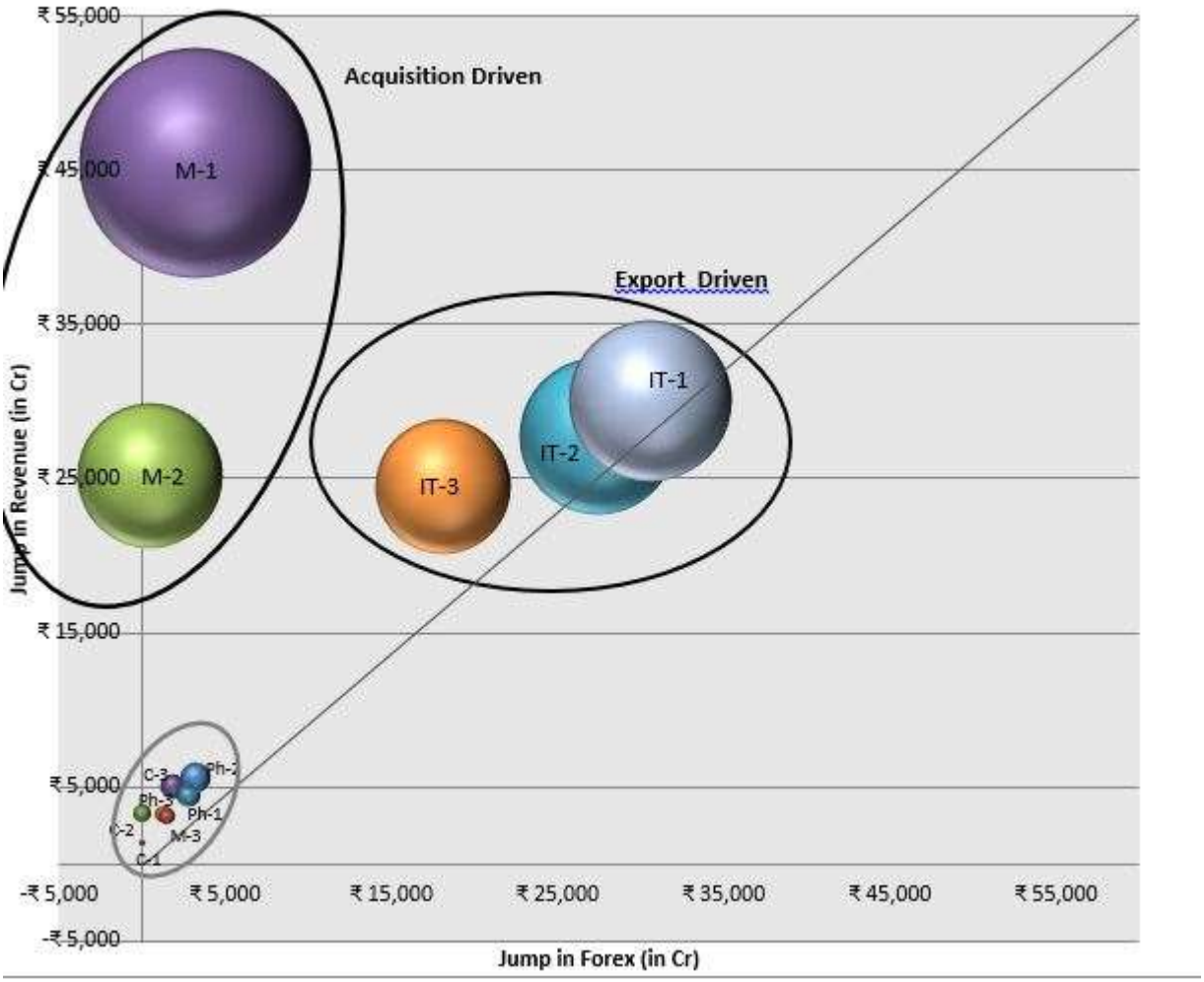
Post the 2008 mortgage crisis, a positive competitiveness effect of Indian firms has been the major contributing factor to accelerate the exports, and overcome the adverse effects of the exchange rate movements.In order to provide a glimpse of the role of export competitiveness on emerging firms and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

Major industries of Indian economy were chosen on a preferential basis of polarity. Sub-sectors that are major contributors to the GDP are shortlisted, while exploring their extent of internationalisation and the stage in their life cycle. The sectors that were selected for the study are -India's manufacturing sector which have a contribution of 15.3% to the GDP, Construction (7.8%), IT services sector (9%) and Pharmaceuticals (1.71%)in 2013 (RBI, 2014).

For the firm level assessment of the export companies, three companies were selectedfrom 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 have 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 in the figure, a positive correlation has been observed between the jump in forexand the jump in revenue.Indian software players have emerged as global powerhouses within a short period, while remarkable consistency was found in matured manufacturing sectors like automotive and steel (Figure 1).

Figure 1: A glimpse of patterns of jump in forex and revenues taking 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, Manufacutring 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

After developing several alternatives and review of clusters, best cluster seems to emerge with jump in forex on 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 feel the pace at which Indian firms can move.

Table 1: Indicates how highest jumps in Forex and Revenue of best companies

Highest Jump in Revenue (in Rs. Cr)	
Tata Motors	**45465**
Time period (2003-2012)	10 years
Average Rate of Revenue Jump (per year)	4546
Highest Jump in Forex Earnings (in Rs. 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 deg 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 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, 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 Manufacturing industry as of 2012 is 2.1% when compared to China (22.4%), US (17.4%). It may be too early to discuss about long term implications of the acquisitions in terms of employment, exports, forex and finances.

The trade statistics implied 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 on what is the patterns of forex earnings and determine if it is on the growth quadrant or the declining path.

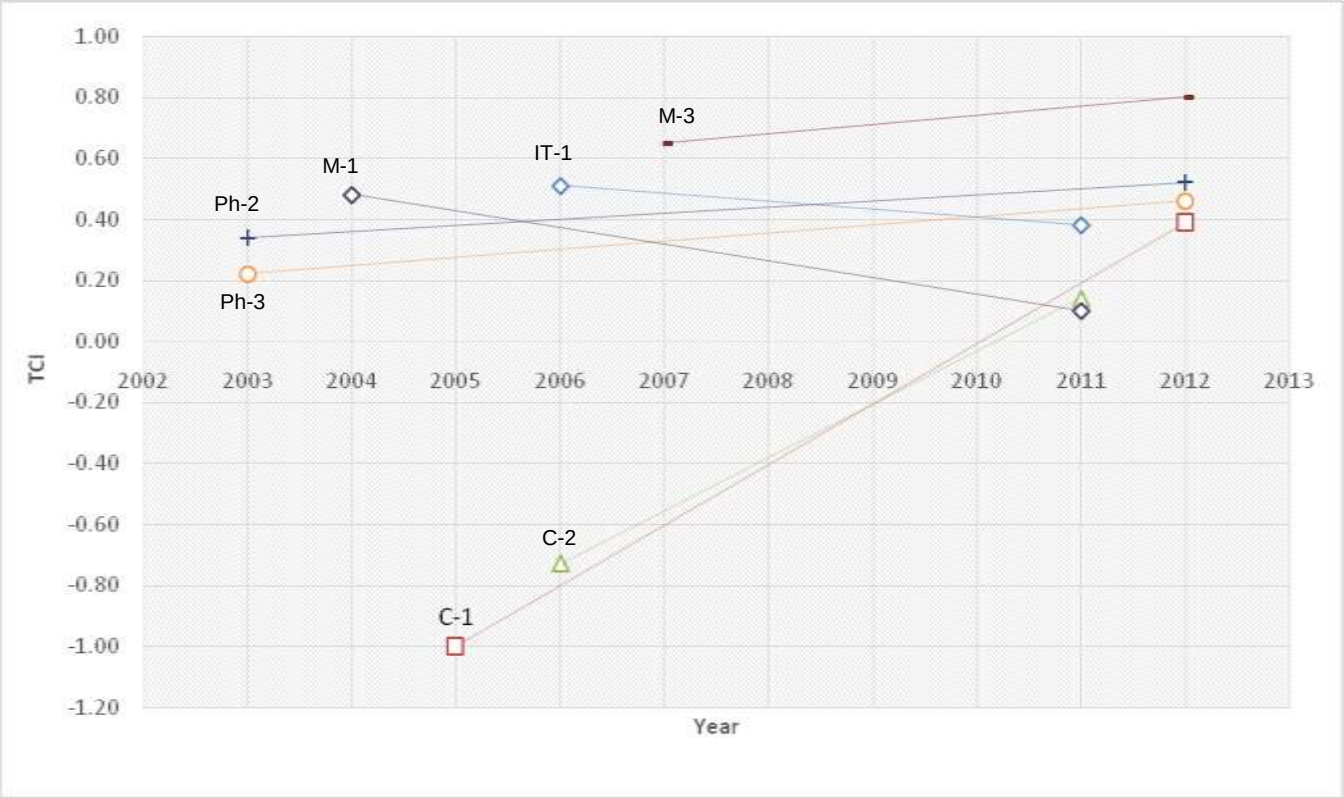
Trade Competitiveness Index

Using a simple concept to measure heights that firms can climb may help improve execution of strategies, 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 equation below (Momaya and 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; 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.

$$TCI = \frac{FX\ Earnings\ -\ FX\ Expenses}{FX\ Earnings\ +\ FX\ Expenses}$$

Trends in TCI were assessed longitudinally for each company and peaks were marked to identify exceptional firms. Most firms have positive trend (Figure 2), symbolizing increasing competitiveness of this small set of firms

Figure 2 Longitudinal patterns of trade competitiveness index for select firms



Note: Only the positive jumpers in TCI over the given period have been plotted

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

The manufacturing industryhas been observed to have positive jumps, with Bharat Forge 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

Exploratory nature of emerging findings indicatethat we focusour discussion to 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 persistenttrends of recordtrade 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 industriesin 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 inforexearnings.The ITcompanies lead here (Figure 1)asthe revenues aremajorly from forex earnings through exports.The scale-up for them can accelerate, when they evolve better business models for next phase of competitiveness (e.g. hardware business 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 forexearnings vs. jump in revenue.The data of over 10 years gives a glimpse of theFIOs that have sustained adverse exchange movements.

With a vision for India to emerge as a major export hub among the Asian countries,FIOsneeds to develop uniqueresources for sustainable export growth. Despitedifficult market conditions for Indian goods, there are vastuntapped opportunitiesforIndian 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 US, 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. Recent jump inforexearnings of the manufacturing firms such as Tata Motors, Tata Steel aredue tomajor 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 is only 2.8% when compared to China's 19% in 2013.Capitalising 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.

Limitations

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 potentialfor the future. The export intensity in the 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 continuesto rise, suggesting a similar rise in the trend for India as well. The capacity for expansion of Indian service sector to drive exports is immense, identification of competitive sectors, such as providing high-tech logistics support, within service industry is limited as of now.

Scope of Further Research

Vast gap between capabilities and current performance of Indian firms in world exports means 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 andthe USA, and with the‘Most InnovativeFirms’. The TCI is an effective criteria, but need to be complemented with other criteria to have better inferences.

With the programs such as‘Make in India’, India has potential to emerge as an epicentre for manufacturing and exports. PM Modi’s innovative ‘Make in India’ campaign by turning India into a manufacturing hub will be realized only with 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.

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 unique opportunity to catch-up on competitiveness that most have neglected for decades. Export competitiveness is a must for any capable firm with aspirations to grow

internationally. Since not many firms know about heights other 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. 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. Group on competitiveness (GoC) has envisioned that Indian will start achieving trade balances through export competitiveness before 2020. With cooperation from professionals such as you, we feel confident of achieving even next level targets.

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