MANAGING A BUSINESS IN INDIA

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"People must come to accept private enterprise not as a necessary evil, but as an affirmative good."

—EUGENE BLACK

INTRODUCTION

Since Independence, in various governmental policy statements and planning documents, the important role of private enterprise in the country's mixed economy has been stressed. It is necessary, therefore, to examine from time to time the conditions under which private enterprise is operating and guiding principles for its success.

This booklet incorporates excerpts from two speeches, one by the Chairman of a large company with 30 years of experience, and another from a young industrialist with a management background.

If the propositions in this booklet are carefully examined and implemented, the successful working of private enterprise in national economic development can be ensured.

MANAGING A BUSINESS IN INDIA

I

Relationship with Environment

by

T. Thomas

One of the most important roles of the Chief Executive in many parts of the world today is the management of the relationship with the external environment which consists of Government, the Media, the Trade Unions, Industry Associations and various Interest Groups. Of course, one should not belittle the importance of managing the business internally. Without strong internal management there is much less value in managing the relationship with the external environment. However, in many countries it is becoming increasingly evident that the long term prosperity and growth of large businesses will be determined as much by factors emanating from the external environment as from the internal functioning of the business. Because of this, the antenna of the business to the external environment has to be very sensitive and located very near, if not at, the top. This has, of course, resulted in the Chief Executive having to spend more of his time in understanding, interpreting and communicating with the environment.

Business in India is no exception to this near-universal phenomenon. A major difference is that in India, the Government is such an overwhelmingly dominant factor that I can confine myself to what has become the most important task of a Chief Executive of any large company in our country,

* This is an excerpt from the Chairman's speech at the Annual General Meeting of Hindustan Lever Ltd., in Bombay, on 20th June, 1980.

viz. the management of relationship with Government. Government in India has such an all-pervasive and predominantly restrictive influence over various aspects of business, e.g. industrial licensing which decides location, capacity and process; import licensing for machinery and materials; size and price of capital issue; loan finance; pricing; managerial remuneration; expansion plans; distribution restrictions and a host of other enactments. Therefore, a considerable part of the attention of the Chief Executive and his senior colleagues has to be devoted to continuous dialogue with various Government agencies to ensure growth and profitability within the framework of controls and restraints.

A distinct trend in the network of the Government controls in India has been that despite intentions and pronouncements to the contrary, it has become increasingly restrictive over the years. The Industries Development & Regulations Act which was originally meant and was in fact initially used for development of industries, is now very much more a restrictive instrument, along with the Companies Act, the Monopolies Act and many similar regulations which have been enacted over the years. As a country, we are prodigious in lawmaking and this is reflected in this sphere as well.

Another notable trend has been the manner in which decision-making has moved up the ladder of Government. Decisions which were taken in the early sixties by Joint Secretaries became decisions for Secretaries and decisions for Secretaries became decisions for Ministers as the decade progressed. In the seventies, these became decisions for Cabinet Committees and even for the whole Cabinet. This movement has had a significant effect, not only in slowing down decisions, but also in increasing the chances of negative decisions.

Obviously, there must have been many reasons why this upward movement of decision-making took place in Government. It is contrary to all principles of efficiency. As an organisation — in this case, Government — expands and diversifies its activities, there should be greater delegation of decision-making if its management is to be efficiently conducted. However, in the case of the Government of India, expansion and diversification have gone hand in hand with less delegation and an upward movement of decision-making with greater dilution of responsibility at the lower levels. This could be one of the contributory factors in the gradual slowing down in the growth rate in our economy. Incidentally, it has also resulted in increased Government overheads rather than in productive enterprise.

It is interesting to reflect on why Government has extended its controls over private sector and also why the decision-making has moved upwards. There are obviously many reasons for this. Perhaps the natural desire of all human beings to exercise power and patronage, whether in the public or private sector, is satisfied to a greater extent with the enlargement of controls.

This can explain partly also the trend for decision-making to move up in the hierarchy. But one reason for lesser delegation, which is often not recognised and which is worth bringing out, is the anxiety of individual Ministers and officials to protect themselves against possible questions and accusations by certain political factions, who, in any case, do not believe in the survival of the private sector in our country. It is high time that such intrinsically negative attitude of such factions is treated with the attention it deserves rather than the Government having to be constantly on the defensive and taking a posture of being more restrictive towards private sector. As a result, most Chief Executives and others in private sector have to spend a considerable part of our time explaining our problems and our view points to politicians and bureaucrats in Delhi. Some people have felt that doing business in India is like being constantly under surveillance. It will be interesting to trace the evolution of this attitude to private sector. Fortunately, it has not been based on any deeply thought-out political philosophies or ideologies and therefore, it should be possible to modify them by learning from experience during the past 30 years.

When the history of independent India is written, perhaps in the next century, one of the major paradoxes which will emerge is that while India has some of the ablest people in large numbers, and most of the natural resources required, yet we have one of the lowest and most erratic rates of economic growth compared to many less well-endowed countries in Asia and Latin America. In my view, one of the major contributory factors for this state of affairs has been the lack of trust and understanding between Government and private industry in our country. Many people in India, including politicians, admire the achievements of Japan, and rightly so. Yet, if you study the history of Japanese economic progress, it was based on a deliberate policy of Japanese Government from the days of Meiji restoration to nurture and strengthen Japanese private industry. Because they had no natural resources, Japan had two important early advantages over countries like India. Firstly, the conquering European traders of 16th to 18th centuries did not take any great and damaging interest in Japan—unlike in India, East Indies, etc. Secondly, the Japanese people had to develop skills of international trading from the very early days to procure their basic necessities—and this led to the growth of the large and resourceful Japanese trading houses which have been the corner-stones of Japanese business and industry and the growth of Japanese economy.

But the most notable feature of the Japanese economic policy which has relevance to India is the way successive Governments have trusted and worked closely with large scale private enterprise. When Japan set up its steel industry in the last century, the Government handed it over to private sector with assured orders for steel for the railways. Even today, there is a free exchange of top people between Government and industry and the policies of both are directed towards a common goal of economic development. This does not by any means imply that Japanese businessmen or politicians enjoy or insist on any superior moral codes of behaviour as compared to the ones advocated by our own politicians and businessmen.

In India too, throughout the freedom movement, there was close understanding between Government and private enterprise. Gandhiji trusted and used a successful businessman and patriot like Birla. But the unrelenting attack on private enterprise over the last thirty years has gradually led to the present state of affairs where a small minority whose political philosophy eschews private enterprise is able to create an atmosphere of distrust and more controls and curbs on private enterprise. Yet it is the enterprise of individuals and groups of people that has to be the main driving force in the development of our country. It is time for us to challenge this trend and to restore faith in enterprise in our own country and people. Throughout the world Indians have succeeded in trade and commerce and lately, in industrial enterprise. We should harness this great skill within our own country without constantly chastising it or indulging in self-flagellation.

We should pause and think as to what meaning words like social justice, equality, adult franchise, freedom and democracy will have for an individual who sleeps with his ailing wife and under-nourished children on a broken foot-path on Bhulabhai Desai Road in Bombay with only a polythene sheet to keep out the monsoon—not knowing whether tomorrow he will find any work or bread; or to a landless labourer in Alipur village of Etah district in UP; or to an educated, unemployed but intelligent young man in Midnapore or Kottayam. We as a country can provide meaningful answers to their problems only through faster economic development. With the net rate of growth of 1.4% p.a. which we have achieved over the last three decades, it will take us 50 years to double our miserably low per capita income of Rs. 1200 p.a. During that time, the rest of the world would have gone ahead at least 4 or 5 times from their present already advanced level and we will probably have to satisfy the needs of another 800 million people in India! If things do not change drastically and improve, people will be tempted to experiment with other forms of social and political organisation, some of which may lead to points of no return—

at least for a while. If we are to achieve the 7% p.a. rate of economic growth, with probably a 10% + p.a. growth rate in industry, we should take two sets of bold steps, viz. (a) release Indian private sector industry from the shackles of Licensing and Controls and (b) improve the working and limit the role of the public sector strictly to those areas where it is the only possible choice.

Unlike the USSR and China, we have been fortunate in India to have achieved our freedom without a bloody revolution or dictatorship. As we are a democracy, we do not need the public sector as an essential part of political control over people. If we look at Britain, the first democratic country which went in for public sector and from which the major inspiration for our political institutions and public sector was largely drawn, the lessons are perhaps more appropriate. Most public sector in Britain has been inefficient and the present Government are exposing them to a process of improvement. The traumas that British Steel and British Leyland have recently passed through—strikes, closures, large scale redundancies, loss of market to domestic and foreign competition, revolt of rank and file workers against entrenched Union leaders, etc. — are all part of that process. These institutions are being released from the shackles of Government and at the same time being made accountable for their performance and financial viability against competition.

One important lesson that all this holds for us is that in a democracy, ownership of public sector by a Government, places it in a very weak position when it comes to dealing with public sector employees. No politician can afford to be tough with an organised and dominant group of potential voters. By owning public sector enterprises, the Government is weakening its own ability to manage the economy. By entrusting industry to private sector, Government can mediate between different interests rather than become a party involved in conflicts and confrontations. Therefore, in terms of economic strategy, Government should plan to have the least possible direct exposure through public sector. Experience in India with State Electricity Boards, even for

Leftist Governments, provide the most telling example of this inherent weakness.

However, one must not lose sight of the powerful vested interests in favour of public sector. Firstly, there are those who see the public sector as an ever-expanding vista for themselves. Thus, unwittingly, these individuals and the leftists in our country have developed a common interest in expanding public sector and restraining private sector. As the permanent Establishment in Government has the most effective voice in formulation of policy and the longest staying power, it would require very strong political leadership with firm faith in the private sector to change the current policy.

Then we have some of the politicians who are wedded to public sector. Some are well-meaning politicians whose ideals are based in the 1930s where they are unfortunately transfixed. They have only to look at what is happening in the UK or Italy with public sector or how on the other hand, the Socialists in Germany have forged ahead on the back of private enterprise (with minimal public sector). As a nation, we cannot afford the luxury of having to go through the traumas resulting from political philosophies that retard growth. It is probably a very useful exercise to send our politicians to visit other countries like Japan, Malaysia, Indonesia and Thailand in Asia and also Argentina, Brazil, Columbia, Mexico, etc. in Latin America or Nigeria, Cameroons, Kenya, etc, in Africa, to see for themselves the policies adopted and the consequences. Our officials also may benefit from having opportunities to work in countries like Japan and Mexico. Living in India and being obsessed with domestic developments is to some extent making us insular to trends and lessons from the rest of the world. Although we are one of the poorest countries in the world, blessed with the most talented people, we are making the most inefficient use of our resources — capital and people — because of our obsession with public sector and suspicions of private sector. The conduct and behaviour of our big houses are not very different from their counterparts elsewhere. The skill of the politician has to be in harnessing and using these national enterprises as they do, for instance, in Japan or Mexico, rather than curbing and destroying them.

Trying to set up a new industrial unit in India is like running an obstacle race, except that in this case, as you go along, the obstacles are increased both in numbers and complexity without prior warning. We have estimated that it takes about 7 years from the conceptual stage to the production stage for any significant investment to take place in India. Out of this, at least 50% of the time is spent in procedures to satisfy Government regulations. In any 3-year period of such delay, the cost escalation in modern times will be almost 50%. In our protected economy, the Indian consumer ultimately pays the price for this cost escalation. At the same time, our exports become less competitive. A further consequence of the delay is that in many cases, we are compelled to import or lose the export potential for longer periods.

Another major obstacle for industry in India is the curb to growth through licensing of capacity. This "stop-go" system does not help either the investor or the consumer, because it has led, on the whole, to intermittent shortages of almost all vital products.

Another area in which industry is adversely affected is that of price restraints and price controls. The only surest way of bringing down prices is through competition which means providing more production capacity than is immediately required. Any form of price control will only lead, in the longer term, to greater shortages as investment will shift away to more attractive avenues. The study by the National Council of Applied Economic Research in 1977 is probably the best documentation of Indian experience on this subject.

According to this study, the effects of price control as applied to India in the last decade were as follows :

(a) Erosion in quality of products over a period of time as a result of industry trying, with diminishing success, to maintain adequate return.

(b) Shortages which lead to blackmarketing of increasing proportions of total production of articles under price control.

(c) Lack of investment in the price controlled industries due to inadequate margins and this resulting in accentuated shortages.

(d) Generation of considerable sums of black money leading to the creation of a parallel economy.

(e) Attraction of a class of investors to price controlled industries whose basic objective was to generate and enjoy the use of black money.

(f) Corruption in bureaucracy which was invested with vast discretionary powers.

(g) Abuse of shortages by trade as it was difficult to control the actual price charged by retailers.

(h) Total neglect of consumer needs and feelings by the producer who did not have to face any competition or obligation to attract the consumer.

(i) Decline and erosion of financial resources of major producers.

Price controls have been traditionally applied to essential commodities. Therefore, all the above ill effects have visited the most essential segment of industry. Thus, while luxury industries have thrived without hindrance of price control, the essential article production was adversely affected. This in turn aggravated the problems of the consumer.

The broad conclusion to be drawn is that price control is not a remedy to problems of inflation or shortages. It can, at best, be only a temporary crisis measure. The real solution lies in increasing supplies which is the opposite of what price control will achieve.

During the two years of Janata rule, there was a lot of well-meaning but misguided talk about 'small vs large' scale and there was an attempt to shift artificially the growth in industry to small scale. This resulted in uncertainties and shortages of production in the organised private sector which was constantly threatened with reservations, vacation, etc. It has to be realised, that nowhere in the world has small scale sector of industry grown except hand in hand with large scale. "Small is beautiful" is meta-economics or philosophy as Schumaker himself has admitted. In other words, it is incapable of standing up to quantitative analysis. Cynics may even say that concepts like "small is beautiful" and "appropriate technology" have been designed to keep the less developed countries in a state of under-development with a peaceful acceptance of this in a suitably philosophical manner! India has to develop industrially if we are to make progress. For that, large industry is essential. Small industry grows only as a part of that overall process of growth and not by itself. So it is high time to get away from the mirage of 'small vs large'. The reality is 'small with large'.

Financing has been another major constraint on private sector in India. Having nationalised all sources of finance, the attitude towards private sector is that all long-term finance comes from public sector financial institutions and therefore bureaucratic control is to be accepted as an inevitable part of borrowing. The truth, however, is that almost all finance comes from either the savings or the tax paid by private individuals/institutions. Therefore, private sector industry has the right to obtain loans on commercially justifiable basis without having to subject themselves to conversion clauses and management intervention, etc. which are non-commercial. The convertibility clause is probably one of the most pernicious instruments designed by bureaucrats. One consequence is that well-managed companies are most reluctant to borrow from the institutions who, as a result, end up with large portfolios of sick companies!

Dependence on an increasingly inefficient public sector for the supply of essential inputs like electricity, coal, petroleum products, transportation, communications and banking services is another major problem of private sector in India. The average efficiency of public sector electricity generation and distribution is 45% whereas for the Tata Hydel system, it is 85%. The result is that a company like ours has to instal and utilise in our factories throughout the country, between 50% and 70% of our power requirements with captive diesel generators whose power output costs several times more than what power from large scale generating units would cost. In the case of public sector banks, the quality and dependability of service is constantly deteriorating. In some places, we have to institute a parallel system of verifying whether cheques drawn against customers have been actually collected and credited by our bankers! Yet, we as a nation are capable of managing power systems, banks and a host of other services very efficiently. Do we have to make even the private sector inefficient by the encircling dependence on public sector?

A major setback to honest private enterprise in our country was the illogical restraints placed on remuneration. I shall not elaborate on this as I had spoken about it last year and because everyone expects the Government to adopt a more rational policy now. However, the whole principle of not being allowed to recognise and reward responsibility and achievement can only lead us more towards a non-achieving society.

I have listed the above problems mainly to provide the setting for some of the suggestions that follow. Lest this should lead to exaggerated gloom about the present state of affairs, I would like to record most gratefully that India has one of the most open and accessible Governments in the world. This is probably a reflection of our joint family tradition as well as the traditions of ancient rulers who devoted a considerable part of their time listening to problems of people. The hours put in by Ministers and Civil Servants in India and the patient hearing they give to all comers are remarkable achievements in themselves.

Furthermore, we have some of the finest and most intelligent Civil Servants in the world and politicians who are sincerely committed to progress of the nation. These are great assets on which we can build if a more positive attitude is adopted towards private sector.

Like all dynamic organisms, an industrial unit has to grow continuously. If the growth of any unit is artificially curbed, it will lead to increasing costs, which will either ruin the unit or will have to be passed on to consumers. Neither of this is in the public interest. Therefore, we must recognise the need for continuing growth for units in each industry. For all existing industries, Government must allow growth at 5% p.a. on a cumulative basis for the next 5 years. This will still leave enough room for new entrants as our industrial growth rate has to be at about a minimum of 10% p.a. In any case, such a policy can be laid down for the next 5 years and a review can be provided at the end of that period. Much of the current shortages in our economy is due to artificial restraints to growth. Addition to capacity is required not only to meet increased domestic demand but also to create the necessary surplus for exports in which India is still a small participant.

The cost of fixed capital required for the same level of capacity has increased between 3 to 5 times during the last 7 years. Simultaneously, the optimum size in many industries has also gone up substantially. Therefore, it is only logical to increase the exemption limit for industrial licensing, MRTP, etc. on the basis of an index that takes into account inflation in capital costs. Such indices are already available from Government sources like RBI. Adoption of this policy will reduce the number of applications and the consequent delays.

Our country has a very great potential for exports due to cheap and skilled labour and management available in plenty. But exporters, both domestic and foreign, have been discouraged mainly by the very cumbersome restrictions on industrial licensing and the constant changes in policy.

It will be to our advantage for all licensing and permissions for export oriented units to be placed under the special care of the Ministry responsible for stimulating exports.

Another important step for stimulating exports will be to treat any factory that is engaged in producing for exports —with a minimum proportion of production (say 25%) being for exports—as a free trade zone. It is unrealistic to expect that anyone will invest normally in a 100% export oriented factory as it is very risky, or that he will locate it in remote areas like Kandla. It is more realistic to accept that exports will be complementary to domestic production, and to give the necessary stimulus to such complementary production in any location. If we adopt a sensible export policy, many countries in the world have cause to worry as one of my Dutch journalist acquaintances pointed out to me! He was talking mainly about motorcars and TV sets. If only we opened up our frontiers to export oriented industries, we can make better and cheaper cars than European countries or Japan because our labour costs are much lower for the same level of skills. We have to shed some of our blinkers and see the world as one of opportunities for a gifted nation to exploit rather than one of imaginary snares set by unfriendly tribes.

Efficient use of resources, innovation and better service to consumer will all point towards the growth of large scale enterprise. Even the quality and numbers in employment are better with large scale industry. Therefore, we have to accept the logical evolution to large scale industry in industries like textiles, sugar, engineering, etc. If we want to give a measure of protection to small scale industry, let us do so through excise concessions which are a charge that society has to bear in order to sustain these inefficiencies. How much of this a society like ours can afford to bear is a question which politicians have to decide. But let us not in the meanwhile hold back the progress of large scale industry because of some philosophy which will only take us backwards to a pre-industrial society where the benefits of science and technology and its innovative management would be denied to the consumer. This will require the scrapping of the system or reservations for small scale industry which, in any case, is only a form of issuing passports to inefficiency and obscurantism. However, one should not under-estimate the forceful resistance to this suggestion which should be expected from the 'instant' establishment created in the recent past to take us to the promised land where everything will be small! A pragmatic policy would be to explore how greater co-operation can be developed between the inevitable large scale and the desirable small scale in each segment of industry.

One of the major problems in the administration of Government regulations is the lack of trust and understanding between businessmen and officials. Each has a stereo-type image of the other with some exceptions. While the businessman is compelled by circumstances to gain a deep understanding of the working of Government systems and rules, there is no corresponding opportunity for a Government official to gain an insight into the working of a private sector company. The basic training of IAS officers still retains the emphasis on Government administration. Perhaps it is time to recognise that unlike in the past, a significant portion of several Government officials' time is taken up today in dealing with industry and trade and general economic activity. Therefore, as a part of their training and development at a certain stage in their career, they should be given an opportunity to work as officers in a private sector company. This can lead to much greater mutual understanding and trust. Implementation of this suggestion will require a measure of co-operation and openness, especially by the private sector industry. We have an adequate number of large and well-run companies which could provide suitable training opportunities for officials. Training at Staff Colleges, Business Schools, Seminars, etc., while being valuable supplements, are not a substitute for say, a 2-year spell in an actual job in a company. After that, any form of academic training will be even more meaningful and effective.

One of the major weaknesses of Indian public sector is that the curb on imports coupled with increasing restraints on domestic private sector, has placed most of our public sector enterprises in monopolistic positions. Where they are not in a monopolistic position, they are adequately feather-bedded by assured injections of capital from the Government.

The price for this monopolistically-sustained inefficiency is paid ultimately by the hard-pressed Indian consumer — whether it is in the price of coal, electricity, kerosene, cement, steel or railway freight. It is often assumed by most of us that when there is a power cut, it affects only industry and people in urban areas to some extent. But some of the worst affected people are the farmers in remote parts of India and the landless labourers who depend on agricultural work for their livelihood. Without electricity they cannot get water for irrigation and their entire livelihood is disrupted. Therefore, the inefficiency of public sector is affecting the poorer people on an increasingly large scale in all parts of the country. At least for their sake, let us hasten to improve this sector.

One of the immediate remedies available to Government is to impose cash limits on public sector enterprises as the UK Government have successfully done in the recent past on their nationalised steel and automobile industries. This will induce both management and labour to realise that the future of their enterprise will depend on efficient functioning. Simultaneously, the Government will have to throw these sectors open to private enterprise. Why cannot we have electricity generation in industrial centres like Bombay, Calcutta, Madras and Delhi entrusted to private enterprise increasingly by making the return on capital more in line with present cost of capital and removing archaic restrictions which are meant only to preserve uneconomic state monopolies? Why don't we allow private sector in the steel industry? Why should we not like Nigeria or Indonesia or indeed Britain, allow private oil companies to explore for oil offshore and share in the benefits on terms advantageous to our country? Is it not better than paying vast sums of money to oil exporting countries and even having to subject our political interests to their own dominant interests? Are we not large enough, competent enough and confident enough to trust our own private enterprise to control and use their collaborators from other countries in these areas of higher technology — where even advanced European countries have to admit their dependence?Is it not a better proposition than being so dependent on foreign sources of oil? If a private sector oil company were to produce oil off the coast of Bombay or Bengal, it would be almost entirely under our control. Now we are at the mercy of foreign governments who control the quantity and price of oil supplied to us. One can extend these and similar questions to a whole range of industries.

I believe that we have arrived at a stage where we should place more faith in our private sector and also allow them to collaborate more freely with private sector throughout the world. Let us not shut out the world lest the world shut us out. We have enough skills commercially, technically and managerially in our country that we can confidently let our private sector collaborate more freely. One could almost draw a lesson from our tradition of tolerance in religion and culture. India is a country that created as well as received and exported religious and cultural institutions. We received the Aryans and evolved the Hindu ethic which has carried us through 5000 years. We evolved the Buddhist philosophy and exported it and then created a Shankaracharya to revive and restore the purity of our own culture and beliefs. Christianity came to this country and was tolerated and survived from the first century A.D. Later, we absorbed the Zoroastrians who also have enriched our sub-continent. Islam added another dimension of culture and heritage to our country

Again, in more recent times, it was only when people like Gandhiji and Pandit Nehru, who had firm roots in our own culture and tradition, absorbed the philosophies of the liberal West, that we were able to emerge from political bondage. A similar change in attitude is required for us to emerge from our economic backwardness. Perhaps the younger generation will have less inhibitions and more confidence. Let us revive our private enterprise because that is the root of all enterprise, as even Russia and China are now discovering.

II

Guiding Principles for Business Success

by

Dilip Piramal

Guiding principles for the successful management of any business or enterprise are :

(a) Sustained economic viability of the enterprise through growth and diversification;

(b) Maintaining a set of high moral and ethical standards; and

(c) Pursuit of excellence in every field of business activity.

(a) Sustained economic viability of the enterprise through growth and diversification : Traditionally and historically, a business firm has been regarded as an economic institution and it has developed a measurement of efficiency i.e. profit, which is common and yet unique to business. "Profit-seeking" or "maximisation of profit", therefore, could be the most important business objective.

In today's context, however, when remaining ahead of others is the very essence of every dynamic enterprise, mere profit or profits made over a given period of time are not enough. It is the continued and sustained state of profit-making in the long run that should be the objective.

* This is an excerpt from the convocation address at S.I.E.S. Institute of Management Studies, Bombay, on 12th July, 1980. Mr. Piramal is Managing Director of Morarjee Goculdas Spinning and Weaving Company Ltd., and Chairman of Blowplast Ltd.

Remaining profitable in the long-term, therefore, is what I call "sustained economic viability". To remain profitable one has to grow continuously. Profitability without growth may well get eaten up by inflation and the shrinking value of money. Growth and diversification of an enterprise, therefore, become a means to the end rather than an end in itself.

In our country, where "growth" of all types is frowned upon, managing the growth of an enterprise be it public or private — is indeed a challenging task. What is this "growth" that I am talking about? To us, this has meant —

Growth of the organisation

Growth in its volume of sales

Growth in profits

Growth in net-worth

Growth of our people

Growth in holdings of stock-holders

Growth of consumers

Growth of our suppliers and associates

Growth of the market we are catering to.

To manage growth, one has to carefully manage profits or the wealth of the organization. The wealth of any organisation is dependent on 3 basic resources which are :

— physical, i.e. plant, machinery, inventories
— monetary, i.e. money, credits,
— human, i.e. the people — their quality, commitment, involvement.

These resources get converted into goods or services which are then sold to consumers and a return is obtained. As you well know, better the management of resources employed, higher would be the returns and, more the returns, better would be the Company's position for growth and diversification.

In order to diversify, a Company must **renew** itself. New resources must be brought in for a vertical diversification or diversification into a related field, and new technology, new products and new markets must be developed for a horizontal or a diversified diversification. Many key phases of such a self-renewal activity have very long **lead-times** and, therefore, during the good times of a Company, it must commit its resources to such long-term needs as Research and Development, management training and development, new plant and equipment, recruitment of professional managers, etc.

In a nut-shell, therefore, for an enterprise to achieve a state of sustained economic viability through growth and diversification, it has to keep up its good operating results, remain in a strong competitive position vis-a-vis the environment and diversify into new opportunity areas.

(b) Maintaining a set of high moral and ethical standards : Having talked to you about growth and diversification leading to sustained economic viability, let me go on to some of the evils that sometimes find berth in highly successful, growth-oriented enterprises. Politicking, nepotism, backbiting, corruption, heavy expense accounts, glamorous living, are but a few of such evils — not that these are the monopoly of only successful, growth-oriented enterprises. In fact, few are such enterprises which are not riddled with some or most of these evils. And, even fewer are those that recognise the danger of such evils to the enterprise and make it a corporate objective to keep the enterprise free from them.

It is a pity that in today's world, in the pursuit of business or economic objectives, moral and ethical scruples fall prey to neglect and finally, decay. In fact, more often than not, concern for such scruples is considered either an idiosyncracy or a pursuit of outdated values

In my opinion, concern for ethical values is supplementary and not contradictory to achieving the economic objectives of an enterprise. Unfortunately, scientific knowledge is indifferent with respect to the uses of ethical values. Scientific knowledge can be used for good or evil purposes; it can be used to help mankind or to destroy him, as we have seen in the case of application of nuclear physics. It is obvious, therefore, that the more professional the manager becomes in his use of scientific and/or management knowledge, the more professional he must become in his sensitivity to ethical values.

Management and private enterprise in this country have unfortunately become synonymous with glamour, high living, profiteering and what have you! Added to this, have been the restrictions placed on them through legislations such as the Company Law, the MRTP Act, Labour laws etc. many parts of which have become impediments rather than a help to the development of an enterprise. All these should be seen as the society's and the Government's concern with the ethics of management. Whether the manner, in which this concern is being expressed, is right or wrong is a matter I leave for you to debate.

As progressive managers, we should only see the positive side of the coin and become more sensitive to human values and exert self-control through a positive, conscious, ethical code. It is this approach which not only keeps the environment within an enterprise clean but also characterises the concept of "social responsibility" of management about which we hear so much today.

It is natural to expect management to be committed to the economic objectives of the organisation. At the same time, in a country like India where tradition counts a lot, the society at large will support that organisation where human values are preserved and protected. Professions like medicine, education and law which generally have maintained high ethical standards did and do continue to command respect because they are apt to exert considerable influence on human beings. Similarly, we in management who are engaged in directing the human resources of the organisation must maintain high ethical standards if we are to command respect from our fellow beings.

(c) **Pursuit of excellence in every field of business activity:** If an enterprise and its managers are consciously committed to ethical values, pursuit of excellence in their fields of activity should come but naturally. Taken as an objective of an enterprise, it signifies the importance the management lays on perfection because it is through the search for perfection that excellence is attained.

"Management" says Peter Drucker "is work, and as such it has its own skills, its own tools, its own techniques". If this is so, then management, according to me, is a craft and we the managers are the craftsmen and like a sculptor or an artist who strives to excel and produce a masterpiece, we too should strive towards that excellence in what we do.

Effective management is the achievement of managerial tasks by a set of people — the managers. Each of these tasks has its own skills, its own tools, its own requirements. The total management task requires their integration. The tasks of management — i.e. economic performance; making work productive and the worker achieving; managing social impact and social responsibilities; and doing all this in a balance between the demands of today and the demands of tomorrow — are the things in which the public at large has a stake. It rightly is concerned with performance :

— the consumer is concerned with the performance of the products;

— the dealer or the retailer is concerned with the company's ability to pull customers to his shop;

— the supplier is concerned with his timely payments and orders;

– the banker is concerned with the liquidity of the enterprise;

– the stock holder is concerned with the returns he gets from investments made in the company; and so on.

An enterprise, therefore, in order to do well in the eyes of the public has to excel in all the above spheres and, like a craftsman who excels and strives to create a masterpiece, each manager in the enterprise, trained and skilled in his own field of production, marketing, finance or personnel has to :

— provide to the consumer excellence in the quality of the product;

— obtain excellence in the over-all performance of the enterprise;

— maintain excellence in dealings with people and organisations.

It is the genuine recognition and practise of this philosophy — that of pursuit of excellence in every field of business activity — that, in my opinion, will keep an enterprise well fortified against the demands of today and tomorrow.

Excellence in management, therefore, is striving for perfection and excelling in every task that the manager is engaged in. Excellence and perfection, like a masterpiece, are achieved by master craftsmen.

"Free Enterprise was born with man and shall survive as long as man survives."

—A. D. SHROFF
(1899-1965)
Founder-President,
Forum of Free Enterprise.

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