



Understanding
"India Way"
from
"Blue Ocean Strategy"
Perspective

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ABSTRACT

The purpose of this paper is to analyze the business practices prevalent in Indian enterprises, which is described as the “India way” by Cappelli, Singh, and Useem (2010), and understand how their unique business practices and situations bestow them with distinctive advantages in innovations. It uses the concepts of “blue ocean strategy” (Kim and Mauborgne, 2005 and 2005a) and “disruptive innovation” (Christensen, 1997) for understanding aspects Indian business practices. Our analysis shows that the Indian businesses' abilities to function in the face of lots of hurdles, such as lack of resources and entangled bureaucratic red tapes, plus their interest in contributing to the improvements of lives of general mass provide them with unique opportunities to innovate.

Keywords: Innovation, Jugaad, Blue Ocean Strategy, Disruptive Innovation

INTRODUCTION

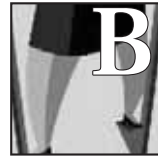
Since last few years, with their economy growing, Indian business practices have attracted some attentions from academia as well as business managers all over the world. And, *Jugaad* - a Hindi word, which means to adjust or get by in the face of resource constraints, bureaucratic red tapes and poor infrastructures (transportation and electricity supply etc.), has entered into business/ academic lexicon (e.g. Economist, 2010; Jaana, 2009; Prahalad and Mashelkar, 2010; Cappelli, Singh, Singh and Useem, 2010; Cappelli, Singh, Singh and Useem, 2010b).

As per Cappelli et al. (2010), in Indian businesses the central role is played by value proposition (i.e. innovation). And, its quest for innovation is supported by the “holistic employee engagement,” company missions (which are broad and include commitments for social good as well), and also by improvising and adapting (i.e. *juggad*) (Cappelli et al., 2010, Chapter 1).

Again, Cappelli et al. (2010) argue the role of “creative value propositions” as “meeting the need of persistent long term customers” (e.g. Chapter 5). One example of Indian innovation everyone likes to cite is Tata's Nano (a small size car with a price tag of \$2000). This “simpler” and “cheaper” version of car definitely underperforms the mainstream cars (Cappelli et al., 2010, Chapter 1). And, this is not geared towards fulfilling the needs of long term customers of cars, as Cappelli et al. (2010) suggest. This is an example of what Christensen calls “disruptive innovation.” Such products, at least initially, command lower profit margins and have smaller market size, making just marginal impact on the bottom-line of a big company like Tata (Christensen, 1997, pages xvii- xx). Such innovators seek to create market, targeting products towards hitherto “noncustomers,” hoping to benefit from the first mover advantage and avoiding direct competition from other car manufacturers in the overcrowded car industry. This is “blue ocean strategy” as described by Kim and Mauborgne (2005).

This paper endeavors to analyze and understand principle factors of “India way” as elaborated by Cappelli et al. (2010) and others using the conceptual frameworks of “disruptive innovation” and “blue ocean strategy” propagated by Christensen (1997) and Kim and Mauborgne (2005) respectively.

While, discussing and explaining the virtues of innovation, they (i.e. Christensen, 1997 and Kim and Mauborgne, 2005) have also elaborated on how culture, structure, and strategies, have often constrained (western and especially American) enterprises' capabilities and inclination to innovate. And, they have also devoted substantial portion of their books to discuss ways to overcome those constraints. Using their frameworks, this paper shows the advantage of “India way” in which culture, structure and strategy plays positive and enabling roles in innovation. By doing so, it draws crucial conclusions applicable for scholars/ researchers and practitioners working in such areas as business strategy and innovation.



“BLUE OCEAN STRATEGY” AND INNOVATIONS IN INDIAN ENTERPRISES

The following paragraphs discuss crucial aspects of “blue ocean strategy” as applicable in the context of business practices of the Indian enterprises.

Targeting Non-Customers

The most important principle of the blue ocean strategy is to look across the industry boundary and established customer base to create new “market space.” For example before Ford started mass produced - model T, cars such as Cadillac and Buick, which were available to American public were hand crafted by skilled artisans. Naturally, their availability was limited and cost high. When Ford made Model-T, it was not targeted towards these car owners. Rather, it was geared towards the “noncustomers,” who would be commuting on horses or horse drawn wagons. Its pricing reflects that strategy very well. Initially, it was priced at \$850, which was half of the lowest priced car at that time and twice the price of horse drawn carriage. By doing so, they avoided direct competition with other car manufacturers, and more importantly created themselves a new “market space” (Kim and Mauborgne, 2005, p 194; Kim and Mauborgne, 2009).

Similarly, the Tata's Nano car is not targeted towards conventional car buyers, but rather towards the vast middle class Indians who ride scooters for their daily commutes. Accordingly, Tata targeted it to be priced at less than 50% of the cheapest car available in India, which is made by Maruti (Cappelli et al., 2010, Chapter 1; Scanlon, 2009). This is a strategy reflective of Ford did about a century ago with its Model-T.

As of writing this article, there were models of Maruti priced around \$6000 (@ \$ 1= Indian Rupees 49) (<http://www.marutisuzuki.com/prices.aspx>). Furthermore, the price of Maruti Swift (which is described one of the popular cars in India) ranges from around \$9000 to more than \$13000 (<http://www.cardekho.com>). However, the base model of Tata's Nano costs around \$2750 (<http://www.infibeam.com/static/tata-nano.html>) - a price closer to motorbikes from Bajaj- which is around \$1500 on average (<http://www.bajajauto.com/pulsar/Pulsar/pulsar135.html>).

Blue ocean strategy focuses on serving new customer by creating new demand rather than competing on the existing markets, by providing cheaper or better versions of existing products. Kim and Mauborgne (2005) call this type of innovation as “value innovation,” They say it needs a synchronization of “utility, price and cost position” (pages 12-14). This innovation is similar to what is popularly known as “frugal innovation” (Economist, 2010) or what Christensen (1997) calls “disruptive innovation.” For example in 1980's when desk top computer was created, it was a knock down version of the mainframe or minicomputer, which were favorite of the mainstream business. But, it created new market for itself in every home, by providing requisite utility

with affordable price for the general people (Christensen, 1997, p 226-230).

Further, Kim and Mauborgne (2005, page 29 and 2005a) state that products pursuing blue ocean strategy can be judged on the basis of four action frameworks. These are as following-

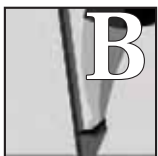
- Which factors should be eliminated?
- Which should be reduced below industry standard?
- Which should be raised above industry standard?
- Which should be created that Industry has never offered?

Nano can be judged against these four factors. Tata eliminated things like air conditioning, power brakes and radios, which are standard in many cars these days, from its Nano. They reduced the maximum speed of the car. This would not matter, given the congestion in Indian roads and highways. By changing the design, Nano interior is made 20% wider for its size giving more space and leg room for commuters. And, it is made car lighter using aluminum and lighter steel, Nano can achieve 50 miles per gallon of gas (Cappelli et al., 2010, Chapter 1).

Again, ICICI- one of the most admired and innovative banks of India can provide another example. In India, there are vast number of people, spread across small towns and hamlets, with income level of around \$500 per year, who have no banking accounts and credit history. ICICI created a new market space by extending credit card and other services to this un-bankable group. They eliminated the need to check the credit score- as normal western bank would want, but developed its own scoring system. They provided ATM service and online banking and brokerage service- well above the industry standard in India. Their ATM is especially designed to handle Indian notes which have become soiled wet and sweaty notes, because they pass through many hands in Indian humid climate (Pahalad and Krishnan, 2008, p 62-77; Khanna, 2007, p 105-110; Cappelli et al., 2010, Chapter 4; Kanter, 2009, Chapter 4).

Again, the famous Dhirubhai Ambani prodded his sons to make communication network for (middle class) Indians, so that they can make local calls at a price “less than what it costs to send a postcard” (Cappelli et al., 2010, Chapter 5). That became mantra for Ambani owned Reliance Communication, and also to its upstart rival Bharti Airtel. They basically extend the cell phone service to people who did not even have a land line (Pahalad, 2012; Pahalad and Mushelkar, 2010).

Kim and Mauborgne (2005, p 100-115) argue that with blue ocean strategy letting companies to avoid direct competition can lead to a path of fast growth. Today, ICICI is a leading bank in India. And, Bharti Airtel is leading the field by providing cell phone service charging less than 1 cent/minute. No wonder it had already signed up 100 million customers by 2009 (Pahalad, 2012; Pahalad and Mushelkar, 2010).



BUSINESS STRUCTURE

Targeting right market with right product and price is a first step; next step would be adjusting the production process to bring the cost down. Ford's strategy would not have

been succeeded had it not standardized the parts and automated the assembly line. Just by using unskilled labor in place of skilled artisans, as was the practice then, they reduced the labor cost by 60% (Kim and Mauborgne, 2005, p 132 & 194, Kim and Mauborgne, 2009). Now, Tata is making Nano car completely modular, which could eventually be assembled at distributors' end, lowering production and distribution cost for Tata (Cappelli et al., 2010, Chapter 1; Scanlon, 2009).

Similarly, ICICI reckons that average deposit from its customer base would be around \$100. In order to serve them it needed structure, which could be operated at one hundredth of the cost of typical western bank. Traditional bank would open branches in its new service area. Pressure to lower the cost made that difficult for ICICI. So, they turned to technology, and established a biggest network of ATM machines, in India. These machines are adjusted to Indian condition by making them capable of handling notes which have become soiled and sweaty by passing through many hands in humid climate, besides reading and scanning checks and also offering extra service such as making offers to famous but remotely located temple. Similarly, they turned to Internet banking and allowed its customer to invest online (Pahalad and Krishnan, 2008, p 62-77; Khanna, 2007, p 105-110; Cappelli et al., 2010, Chapter 5).

Again, Bharti Airtel, which grew too fast to be able to adjust its business process and expand its infrastructure, choose to totally outsource its operations and networks, while keeping customer relations and supporting roles for itself (Pahalad, 2012; Pahalad and Mushelkar, 2010; Cappelli et al., 2010, Chapter 5).

No Dilemma For Indian Innovators

Christensen (1997) and Christensen, Kaufman and Shih (2008) discuss, the “dilemma” of American and western enterprises. In America generally more successful the company higher the hurdle rate they have for new investment to be acceptable. Otherwise, stock market will punish their share values. Managers, paid with stock options, would not like that either. Christensen (1997) presents many instances in computer industry where new innovative ideas were not pursued for not crossing the hurdle rates. That is why in most cases dominating company in one generation have lost their leadership position when next generation of computer became the main stream.

In India, stock market is not yet that punishing. And, many of big enterprises are still controlled by founding families, and employees are not paid in stock options. That means they are not under pressure from their stock markets to increase their returns every quarter (Cappelli et al., 2010, Chapter 7). So, investing in small margin products meant for fringe market would not be that much of a problem. For example, Ford would never have invested in something like “Nano,” the way Tata did. Remember, in the past big three car companies allowed Toyota to gain a foothold with small cars, which has lower margin than the big full sized ones (Fujimoto, 1999; p 45-46).

Even though, India makes big news with its fast growing economy and sleek software industry, their per capita income is just little above \$1000. And, out of more than a billion people,

only about 270 million are counted as middle class- this too by defining anyone earning \$2 per day as a middle class. Growth opportunities at “bottom of pyramid,” (as suggested by Prahalad, 2012), do not naturally attract attention of established multinationals.

So, big western multi-nationals could focus on just small sliver of its high/ upper middle class market. That is what all most all the (foreign based and India based) car companies, in India are doing. (Just looking at Wikipedia (Automotive Industry in India) reveals that there are seven indigenous car companies and fourteen foreign ones manufacturing cars in India. Besides, India is importing twenty-eight different models of cars.) Similarly, in banking business foreign banks like Citibank would only focus on the credit-card business of high-worth individuals in big cities (Khanna, 2007, p 105-110). This allows (and forces) Indian companies to engage in “value innovation” and pursue “blue ocean strategy” (Subedi, 2010; Prahalad, 2012; Prahalad and Mushelkar, 2010).

And finally, (Cappelli et al., 2010, Chapter 1) emphasize that Indian businesses see themselves as having broad social mission to support national economic growth. Then, this mission should also naturally lead them towards “value innovation,” which can create affordable products and services for most of its population.

So, it was natural for Tata to be looking at 50 to 100 million people, who would want more than what a \$1000 scooter could provide and still would not be able to afford a \$6000 for a car (Scanlon, 2009). And, same goes for ICICI, who was looking for opportunities to expand, to look towards around 100 million people with \$500 income per annum, who were hitherto out of purview of banking industry (Khanna, 2007, p 105-110; Cappelli et al., 2010, Chapter 4, Kanter, 2009). Similarly, it was also natural for Dhirubhai Ambani to prod his sons to provide the convenience of phone, at prices of postcard, to general public in India (Cappelli et al., 2010, Chapter 5).

“Jugaad” as Enabler of Innovations

An important characteristic of the India way is getting things done somehow or other, even when resources are not adequate. This is named “jugaad.” It allows/ forces employees take “pragmatic approach” while trying to work towards “grand agendas” of their organizations. And, naturally trying novel ways to get things done and also accepting failures are part of this pragmatism (Cappelli et al., 2010, Chapter 5; Cappelli et al., 2010b).

Moreover, it is said that Indian enterprises' relations with their employees are quite different, compared to those of western counterparts. It is said, Indian companies invest in the employees to continuously improve their capabilities, and empower and enable them to make decisions. And, they also urge them to use these skills and authorities on behalf of the companies. Moreover, job contract in India is different. Indian enterprises like to offer to take care of the employees and their family in exchange of employees looking after their interests (Cappelli et al., 2010, Chapter 5; Cappelli et al., 2010b). In effect the ties between the employees and the companies are more bound by cultures and less formal as compared to what we find in western businesses.

This means they are less likely to complain about lack of resources- another hurdle described by Kim and Maugorbne (2005), and also more likely to seek and support the opportunity to innovate. They also discuss other hurdles such as lack of motivation among the employees to forge the change necessary for developing new markets. Political leg-pulling often prevent people from taking initiative (Kim and Maugorbne, 2005, p 147-148). They also point how fear among employees as to whether they will end up getting raw deals or even lose their jobs because of the impending changes, lead them to drag their feet in implementing such changes (Kim and Maugorbne, 2005, p 171-176).

Kim and Maugorbne (2005) elaborate on another hindrance. This is called the “cognitive” hurdle. Generally, it is very difficult to convince on the merit of new project and enlist necessary support without adequate data and convincing analyses. For disruptive innovation targeted towards new market, such data may not exist (Christensen, 1997, p xxv and Kim and Maugorbne, 2005, p 147-155).

On the other hand, Cappelli et al. (2010, Chapters 1 & 3) emphasize that the strategies in Indian companies are described not in terms of market share or return on investment for example, but in terms of long-term overarching goals like what the organizations intend achieve, and how they want to contribute towards improving lifestyle of the Indian society etc. Naturally, employees of such organizations can have better comprehension on the benefits of such innovations.



FINDINGS

This paper analyses the examples of Indian business practices as identified by Cappelli et al. (2010), with the framework of “blue ocean strategy” (Kim and Maugorbne, 2005) and “disruptive innovation” (Christensen, 1997).

Relationships in Indian enterprises, which are mostly for gedon family-like relationships along with the need to utilize informal network to get things done, force them to be flexible and pragmatic (jugaad). Companies, have to rely on the capabilities of their employees, along with their abilities to connect, communicate and coordinate with each other and even outsiders. These practices have made them more inclined towards experimenting and risk taking, which are required to bring innovative products and services to the market (Cappelli et al., 2010, Chapters 4 & 5).

As per our analysis, there are few other important factors that can explain the Indian enterprises' advantage on “value innovation” to follow “blue ocean strategy.” First, Indian enterprises are less focused on their performances on the share markets, allowing them to accept lower growth rate and take long term view (Cappelli et al., 2010, Chapter 7). Secondly, because of the state of development in India, they have to target their innovation to the people who are yet to benefit from the products and services offered by the mainstream of the market thus far (Subedi, 2010; Prahalad, 2012; Prahalad and Mushelkar, 2010). Besides, Indian enterprises also put emphasis on their social responsibilities, and make improving the lifestyles of general mass (by providing innovative

solutions their needs) as one of their goals (Cappelli et al., 2010, Chapter 1).



DISCUSSIONS AND CONCLUSIONS

The discussions in this article show that Indian enterprises have natural advantages in "value innovations" as compared to their more advanced and established western multinationals. Excited by the similar examples, it is suggested that impact of "jugaad" in management theory and practice could be as significant as those of "total quality management" or "quality circle," for example (Janna, 2009).

In my view, such comparisons can be taken with some caveats. First, the examples discussed above elaborate on the success stories of some of the Indian business during the last one and half decade. So, while "jugaad" could be the compulsion of all the India enterprises, these examples can just be taken as the way of management in the most successful amongst them.

More importantly, Toyota (whose name is attached to TQM or quality circle) started making car for domestic consumption in small scale after Second World War. But, it had already surpassed productivity of American car manufacturers by 1960's. And, by seventies it had improved the quality of its cars, and started to export them. Then, during eighties, when Toyota started having transplant factories in the United States, its products were already well appreciated for quality and price and manufacturing and business processed was already structured, matured and codified. For those reasons, the processes of American transplants corresponded to those of Japanese counterparts and products of similar quality and cost structure, in spite of obvious cultural differences and language barriers (Fujimoto, 1999, p 38-49). "Jugaad" has a long way to go if it is ever to make a serious impact in management theory and practice.

At the same time we can see that Indian innovations, such as Nano, ICICI's credit cards and Bharti Airtel cellphone service etc., do not have any attraction for American/ western customers. However, that does not mean they have implications for their businesses. There are significant indirect impacts. First, with saturated market and slow growing

economy, American/ western business would definitely like to grow in the emerging markets like India. And, Indian enterprises' competitiveness, based on their innovative prowess, is limiting such growths (Bhattacharya and Michael, 2008).

For example, the total market share of American and European car manufacturers in India is very small (Automobile Industry in India; Gupta and Shekhar, 2010). Similarly, foreign banks, like City bank or HSBC, have only marginal market share there, while Indian banks like SBI and ICICI dominate the scenes (Economist, 2011). So,

That's not all. Disruptive innovations are named as such, because products/ services which "underperform" the "expectations in mainstream market" today, improve quickly enough to meet them (Christensen, 1997, p xxviii). The story of prowess of Indian software which started as cheap suppliers for American businesses is well known. There are other examples as well. Mahindra and Mahindra always made low horsepower tractors; good enough for India's fragmented land pieces and lower buying power. Now, it has upgraded its technology making it suitable for the American hobby farmers, who don't need tractors as powerful as those of the professional farmers. As a result, Mahindra is the second biggest seller of tractor after John Deere (Khanna, 2007, page 10-12; Subedi, 2010).

Even GE, which is based in America, is designing and building medical devices with Indian need and paying capacity in mind. These devices are also then upgraded to be used in the hospitals in the US itself (Immelt, Govindarajan and Trimble, 2009).

So, even if it is too early to see any sustained impact or "jugaad" or Indian management or innovation practices in contemporary business theory and practices, it is about time to start researching, understanding and discussing how these practices are developing, evolving and impacting business in India and the world. Starting (or participating on) such discussions could be considered an important contribution of this article. In order to do so, it has taken the assistance of frameworks (blue ocean strategy and disruptive innovation) well-known to management theory and practice.

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