MANAGEMENT PROGRAMME

Term-End Examination

June, 2011

MS-3 : ECONOMIC AND SOCIAL ENVIRONMENT

Time : 3 hours

Maximum Marks : 100

(Weightage 70%)

Note : There are two Sections A and B. Attempt **any three** questions from Section - A which carry **20** marks each. Section B is **compulsory** and carries **40** marks.

SECTION - A

1. (a) Examine the interaction between economic environment and business management. How the environment and management influence each other ? Explain with suitable examples.   20

    (b) "The economic environment of business exercises a strong influence on the non-economic environment of business and vice versa". Briefly discuss citing specific interactions.

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2. "India today has one of the most diversified industrial structures in the world." Examine the basic structural changes in the economy in the light of the above statement.   **20**

3. What are the principal elements of Industrial Policy of 1980 ? Compare it with the Industrial Policy of 1991 and discuss.   **20**

4. "Foreign investment and technology will largely be beneficial to India's industrialisation and economic development". In the light of this discuss foreign investment policy and foreign collaborations in the post reform period.   **20**

5. Write short notes on *any four* of the following : **4x5=20**

   (a)   Changing role of Government

   (b)   Industrial Sickness

   (c)   Revenue Deficit

   (d)   Rao - Manmohan Model of Development

   (e)   Administered Prices

SECTION - B

Read the following case study and answer the questions given at the end.

INFOSYS IN CHINA

Introduction :

On April 14, 2006, Infosys Technologies Limited (Infosys), India's second largest software exporter, announced that it had crossed the milestone of US$ 2 billion in total revenues in the 25th year since its inception.

Infosys' revenues increased by 33.5% from Rs 71.3 billion in the financial year 2004-05 to Rs 95.2 billion in the financial year 2005-06. At the same time, Infosys announced that its Chinese subsidiary had incurred loss of Rs 166 million on revenue of Rs 260 million.

The reason for this loss, Infosys said, was that though it was able to secure some local clients, it was unable to attract foreign companies operating in China to procure its services. In 2004-05, the Chinese venture incurred a loss of Rs 83.9 million.

Infosys had 500 employees in China as of March 2006, against a projected 800 to 1,000 persons. Though Infosys had planned to enter China in 2002, its plans materialized only in 2004.

Infosys entered China as a part of its global expansion strategy. The most important reason for entering China was the soaring salaries of software professionals in India - a result of growing global demand for them.

The gap between the demand and availability of skilled manpower in India was likely to increase further, and India was estimated to witness a shortage of 250,000 workers in the IT industry by 2009, according to a study conducted by KPMG and NASSCOM.

China was the only place where the salaries and quality of infotech manpower were comparable and competitive with those in India. With a presence in China. Infosys planned to move to other neighbouring countries like Japan.

According to Nandan Nilekani (Nilekani). "We need a deep reservoir of talent as well as an alternative low-cost center like India as we

continue to grow. And only China can match up".

Another reason that encouraged Infosys to move into China was the rapid growth in the Chinese economy, which had drawn in several multinationals. The foreign companies entering China were looking at established players in the software industry, who could understand systems, procedures and standards in China and Infosys did not want to miss this high potential business opportunity. The market for software and IT services in China was expected to grow exponentially. According to Gartner, the Chinese IT services market, including call centers and back office operations, was expected to grow to US$ 27 billion by 2007. Indian IT companies were expected to account for 40% of this market.

Background Note :

Infosys was incorporated as Infosys Consultants Private Limited on July 02, 1981 by a group of seven professionals. From the beginning, Infosys relied heavily on overseas business. One of the founders, Narayana Murthy (Murthy) stayed in

India, while the others went to the US to carry out onsite programming for corporate clients. One of Infosys' first clients was the US-based sports shoe manufacturer Reebok. Infosys hired its first set of employees in 1982 from the Indian Institute of Technology, Chennai. These employees were provided training and were sent abroad for onsite projects.

After its revenues started increasing, Infosys started spending more on training and product development. The company's revenues in 1982 were at Rs 1.2 million.

At this time, computers were not manufactured in India. A task like importing a computer required a license and the process would take several months. Infosys did not have the required space to install many computers. So the computers it purchased were installed in the premises of one of its customers. Where the new employees were trained and products like proprietary banking software were developed. At the same time, Infosys focused on acquiring domain knowledge in segments like retailing

finance, distribution and telecommunications. In 1987, Infosys formed a 40:60 joint venture with Kurt Salmon Associates (KSA), a management consulting firm, to expand its marketing efforts in the US....

Need for Entering China

Meanwhile, many of Infosys' US-based clients were setting up operations in China and Infosys wanted to replicate its software development model in China to cater to those clients.

Unlike in some of the American and European countries where Infosys operated without a local presence, Infosys realized that catering to clients in China demanded a local presence. Knowledge of Chinese and an in-depth understanding of the complicated rules and regulations in China were a prerequisite to address the needs of these clients. Chinese programmers were better equipped to understand and analyze material written in Chinese and to customize programes for the Chinese market. Analysts believed that Indian IT companies like Infosys were simply following their multinational clients to China. If the Indian IT companies did not establish a presence in

China, they would surely lose their clients to local players....

Entering China

Infosys had planned to establish a branch office but was not able to obtain the required permission from the Chinese government and faced several bureaucratic hurdles. Infosys was given permission to set up a joint venture with the government, but the company was against the idea.

It felt that both the parties would have conflicting agendas, with the government looking at reducing costs, while Infosys would be aiming at maximizing profits. According to a spokesperson of Infosys, "We are working with them to create a basic framework, but its execution requires a lot more time than anticipated." Infosys then established a representative office and started working towards obtaining permission to establish a development center. The issues that delayed Infosys' Chinese venture concerned the ownership structure, repatriation of profits and the shareholding pattern. At a time when several foreign multinationals were praising China for

minimum bureaucratic hurdles. Infosys had to face several problems...

Plans for the Future

In a span of five years, till 2010, Infosys planned to invest US$ 65 million in new centers at Shanghai and Hangzhou. These centers were to accommodate 6,000 employees eventually.

The 25,000 sq.m. Shanghai Center required an initial investment of US$ 10 million. The Hangzhou center was to be constructed in an area of 100,000 sq.m Infosys has chosen these locations as they have the required infrastructure and availability of talented people. The new centers were to undertake projects related to software development, IT - enabled services and IT services. Infosys planned to include training and research centers in these facilities apart from recreational facilities for employees. The investment of Infosys was one of the largest foreign direct investments from India into China. The revenues of ITSCo for financial year 2007- 08 were projected at US$ 50 million. Infosys hoped its Chinese operations would contribute 10% of its total revenues by 2015....

Looking Ahead

Industry analysts point out various benefits and drawbacks of operating in the IT industry in China as compared to India. The software development skills in China were good enough and the entry level salaries were competitive.

While in 2004 the salaries for IT professionals in India were up by 15-25% on the previous year owing to the 30% growth in the demand for IT services, in China, the salaries in this sector grew only by 4% in the same year. According to an analyst. "India's advantage has always been the large pool of inexpensive, English-speaking talent. But now salaries in India are jumping at 25 percent or more annually.

So India's cost advantage may not endure. We don't see that in China yet. Bearing Point Inc. opened its office in Shanghai, as it found that manpower costs in Shanghai were 40% lower than in Bangalore....

The case describes the entry and expansion strategies of Indian software major Infosys, in China. Infosys entered China in 2004 to cater to its multinational clients operating in the country and to take advantage of the quality manpower

available at competitive costs as compared to India. Infosys also planned to offer software services to the leading Chinese companies which were growing at a rapid pace. The company aimed to have its second largest development center in China with Chinese operations accounting for 10% of the total revenues by 2015. The case also examines the challenges faced by Infosys in establishing its operations in the country.

Questions :

1. Compare the environmental factors present in India and China to be considered by Infosys at the time of entering IT Industry in India and China respectively.

2. What is the significance of cultural environment in entering into any country ? Discuss the significance of cultural important for Infosys while entering in China.

3. Draw ETOP (Environment Threat and Opportunities Profile) for Infosys as a company wanting to enter Chinese market in Information Technology area.

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