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PRODUCTIVITY AND VALUE CHAIN MANAGEMENT

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ABSTRACT

Human resources are main drivers for enhancing productivity and value in an organization. Emerging from an industrial age, the new 'knowledge economy' needs greater investments on human resources wherein the knowledge resides rather than tangible assets. Knowledge-based organizations such as consultancy firms, IT companies and pharmaceutical companies typically invest more on human capital, that may help enhance labour productivity or total factor productivity, which in turn boost economic parameters like economic value added, profitability and net worth. In this paper, it is attempted to present a case study on trends in growth of both labour and total factor productivity in a multi- business unit firm by fitting a statistical growth curve and then making more realistic productivity comparisons among business units.

In globalization era while foreign based multinationals may be in a position to spend more through internal R&D route, others such as new firms in developing countries may find more convenient to pursue their R&D goals through 'contract research' route. Similarly, as manufacturing is very expensive in most European countries including US, it makes great economic sense to outsource their manufacturing to countries like India where 'contract manufacturing' could be a cheaper alternative. Value chain partnerships are thus emerging as a practical strategy for outsourcing activities that were previously done internally within the company. While 'contract manufacturing' and 'IT outsourcing' is typically from western world to developing nations, 'contract research' flow is generally from developing to developed nations where research base is much stronger.

Value chain partnership is a strong and close alliance in which one company or business unit forms a long-term arrangement with a key supplier or distributor for mutual advantage. As long as costs of external services are lower than internal rates outsourcing is always beneficial but when volume of activity outsourced exceeds a limit that may be called cut-off limit, it may be beneficial to carryout that activity in-house. This paper presents a case study for determining a decision rule for outsourcing which offers a rational basis that can be employed in variety of situations where outsourcing economics depends on volume of activities. The case study assumes operating costs of the activity to be outsourced as a sum of fixed and variable costs. The paper also makes detailed review of several other factors such as acquisitions and alliances, diversification, knowledge and innovation, entrepreneurial initiatives, and empowerment that act as drivers for productivity and value creation.

Keywords: Productivity, value chain management, labour productivity, total factor productivity, outsourcing, value chain partnership, acquisitions, strategic alliances, diversification, knowledge, innovation and entrepreneurship, empowerment, VAT.

Introduction

A firm's survival depends on the value it creates by offering products and services at competitive costs. Value represents the worth of a product or service in monetary terms in a market. In

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business the word value carries divergent and expanded interpretations. Defining and measuring value of an organization is difficult as value is governed by a number of factors such as money, people, organization, technology and markets, significance of which is not the same for all stakeholders. Value thus has different connotations for different stakeholders. Stakeholders can be distinctly divided into two broad groups, internal stakeholders, namely, employees and external stakeholders covering shareholders, customers, suppliers, and society at large. In case of public enterprises, government as the owner of the firm is a major shareholder. An organization has to take care of all stakeholders in order to achieve overall value enhancement. Values in tangible forms are measures of expectations but which may not be fixed but varying from individual to individual, group to group and period to period.

A marketing professional achieves value of a product or service in terms of quality, pricing, customer satisfaction, after-sales-service, etc. A finance professional regards value as worth of product or service in terms of economic gain it brings to a shareholder. Shareholders typically evaluate their values in terms of earning per share, return on capital employed, economic value added, etc. Employees on the other hand have their value expectations in terms of salaries, perks, employee stock options (ESOP) benefits, etc. Each stakeholder has its own expectations and fulfillment of these is sum total of value created for the organization. Market capitalization of the company on national stock exchange in some way is composite measure of the net value it creates. Economic value added (EVA) or market value added (MVA) are some of the common parameters for measuring value creation.

Each organization has its own internal chain of value adding activities. A value chain is a link of value creating activities beginning with basic raw materials coming from suppliers, moving on to a series of value-added activities involved in producing and marketing a product or service, and ending with distributors getting the final goods into the hands of the ultimate consumer. Every product group has its own value chain and managing a value chain means achieving wider objectives than a supply chain. Value chain management (VCM) has emerged as a distinct branch of management literature over the years. VCM in broad terms means what type of structure; systems and processes, and policies organization should aim that serves interests of all stakeholders in best possible manner.

Enhancing value of business is most sacred goal of value chain management which can be easily done by studying organizational performance in relation to the overall chain of value-creating activities of which business unit may be only one part in the value chain (Wheelen, *et al.*, 2006, p.78). Organizational excellence is thus directly linked with value chain management which aims at serving and balancing interests of all interest groups, namely, customers, employees, vendors, shareholders and society at large in optimum fashion (Wheelen, *et al.*, 2006, p.80).

Each of the company's product lines has its own distinct value chain. As most business organizations have their different products or services, an internal analysis of the firm involves analyzing a series of different value chains. The value chains of most industries can be divided into two segments, *upstream* and *downstream* halves. In the petroleum industry, for example, upstream refers to oil exploration, drilling and crude oil transportation to the refinery; and downstream refers to oil refining and petroleum products transportation to petroleum distributors and retailers (Wheelen, *et al.*, 2006, p.79).

Every firm performs activities involving marketing, design engineering, production and distribution. According to M.E. Porter (1985), a firm's primary activities usually begin with inbound logistics (raw materials handling and warehousing), and through an operation process

in which a product is manufactured, and continue on to outbound logistics (warehousing and distribution), marketing and sales, and finally to service (installation, repair and sale of parts), marketing and sales, and finally to service (installation, repair and sale of parts). Several support services, such as procurement (purchasing), technology development (R&D), human resource management, and enterprise infrastructure (general management, finance and accounting, strategic management, telecom, guest-houses, hospitality, building infrastructure, parking, fire-fighting, township maintenance, etc.), ensure that the primary value-chain activities operate effectively and efficiently.

All over the world services especially consumer services such as banks, airlines, hotels, etc. are promoted almost as vigorously as manufactured products. A service is intangible and to a large extent is an experience. Services are often dependent on local clientele, who can reach the service provider without spending too much time and money. A new service is usually perceived with more suspicion than a new product as the former can be evaluated only after it is availed. Thus, word-of-mouth communication (from someone who has used the service) plays a very large role in encouraging trial. Assessment regarding service quality is often governed by consumer expectation (Rajamani, 1999).

In a service organization service quality is differentiating factor for value creation (Rajamoni, 1999). The SERVQUAL model evolved by S. Persuraman is often used for analyzing service quality. Five parameters for analyzing quality include reliability (ability to perform the promised service dependably and accurately), responsiveness (willingness to help customers and provide prompt service), empathy (personalized and caring attitude), and tangibles (physical appearance and mannerisms). As competition grows in service industry, service firms need to be more knowledgeable about the pros and cons of service outsourcing.

Front-line employees become the face of the service organization for consumers more than the products or offerings of the firm. A service firm can create greater value by making professional supervisors behave more professionally with whom customers generally come in more frequent contact. A frontline officer can create value when he is competent (accurate, quick and efficient), experienced (seasoned, adaptive, and good at problem solving), friendly (warm and easy to interact), courteous (respectful and patient), knowledgeable (generally familiar with large areas of the company), empathetic, and resourceful enough to seek alleviation of customer problems.

Value can be created by raising productivity, nurturing and retaining talent, outsourcing non-core and low profit activities that are expensive to carry out in-house, forming strategic alliances, acquiring and merging with other firms, innovating that results in cost leadership or technology leadership, etc. However, such value drivers from different segments could often be in conflict with one another.

Value Creation through Productivity Growth

In business productivity growth can lead to more responsive customer service, increased cash flow, larger return on assets, and greater profits. More profits provide investment capital for the expansion of capacity and the creation of new jobs. Increased productivity levels may enable organizations achieve competitive edge within country and globally. As productivity plays major role in improving competitiveness and profitability, at macro level it is directly linked with the country's economic growth. When productivity growth occurs, standard of living automatically improves (Vrat, P., Sardana and Sahay, 1998, p. 67).

Productivity can be expressed in several ways. A number of measures have been devised which quantify productivity. In most common terms productivity is the ratio of output to input,

which is also the measure of efficiency. Thus, productivity can be viewed as efficiency of production. Poor organizational productivity is discernible in many forms such as high incidence of overtime, idle time, absenteeism, rework and rejection rate, low capacity utilization, frequent work stoppages, surplus manpower, etc.

The role of managers and first line supervisors is very important in productivity growth, as they are responsible for group performance. This can be achieved through goal setting, honest feedback and communications and holding free and frank discussion from time to time. Employees generally improve their performance when they are told what their existing level of performance standards are. Honest feedback is very important for productivity growth. In this 'knowledge economy' development of human capital is an effective approach in improving overall organizational value.

Factors affecting productivity growth include: leadership, empowerment, dynamic and flexible work culture, cordial employee relations, high employee moral and motivation, supportive personnel policies; and management commitment for achieving higher productivity growth parameters. Productivity of knowledge workers can be enhanced by offering them necessary flexibility to act. Organizations can achieve value from knowledge workers by harnessing their capabilities and knowledge rather than making them work in moulds. Knowledge workers have to be treated like colleagues and they cannot be treated as subordinates. The very definition of a knowledge worker is one who knows more about his job than anyone else in the organization (Peter Drucker, *The Economic Times*, October 6, 2005).

Productivity measures the relationship between outputs (in the form of goods and services produced) and inputs (in the form of labour, capital, material and other resources). In real life situations measuring productivity involves complexities, but with certain assumptions, it is possible to carry out productivity trend analysis which can help identify weak spots for course corrections. Two types of productivity measurement are commonly used: labour productivity and total-factor or multi-factor productivity

Labour productivity is a partial productivity index which measures output in terms of hours worked or paid for. Out of several partial factor productivity indices, labour productivity is by far most extensively used. Its importance is due to the fact that man's role is central in achieving output in any setting. He is both the 'means' and 'end' of the productivity efforts. Labour is essential ingredient in any production process. Fortunately, productivity of this important resource can be quantified and measured easily. However, in high technology companies labour's role could be somewhat less significant than technology (Vrat, P., Sardana and Sahay, 1998, p. 67).

Total factor or multifactor productivity not only includes the labour input but also all or some of the plant, equipment, energy and material input. The main purpose in developing a total factor productivity index is to provide a single index which can project a relationship between aggregate of outputs to all inputs. However, when there is a change in a single-factor productivity ratio, it is important not to attribute the change only to one input factor as different inputs are themselves related to one another and changes in input factors other than labour may also be driving change in labour productivity.

A total factor productivity index helps achieve productivity growth by providing information about gain or loss in output vis-à-vis alternative mix of inputs. More importantly, this index discerns whether changes in output are due to efficient use of efficient resources or otherwise. It should be realized that changes in output could be due to several factors including inflation, profit margins, change in product mix, shift in mix of inputs, change in qualitative attributes of

inputs, changes in technology, etc. In view of these factors total factor productivity provides an overall aggregate picture of productivity trends after taking into account composite effect of all major factors though the analysis may not be very exact or precise.

Trend Analysis of Labour and Total Factor Productivity: A Case Study

This exercise relates to trend analysis of productivity growth of a multi-business unit organization with each unit comprising several production units equipped with expensive equipment and machinery and deployed with sizeable workforce of several thousand employees. All the four major business units of the company named as business unit A, B, C and D were set up at different time periods with a time lag of 3 to 5 years and accordingly they registered their productivity growth/ stability also with corresponding time lag. In order to study comparative productivity growth of the four divisions, base period for comparison purposes was accordingly chosen different for the four divisions with time lag (Table 1). The two productivity measures for analyzing productivity trends were (i) labour productivity (output per employee), and (ii) total factor productivity as a ratio of total output to total input comprising payroll, material, equipment depreciation and cost of capital (interest). Following relationship was analyzed to

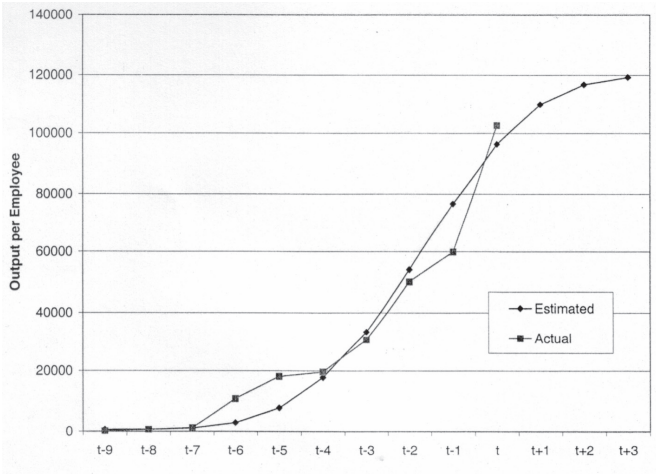

Table 1:Trends in Labour Productivity

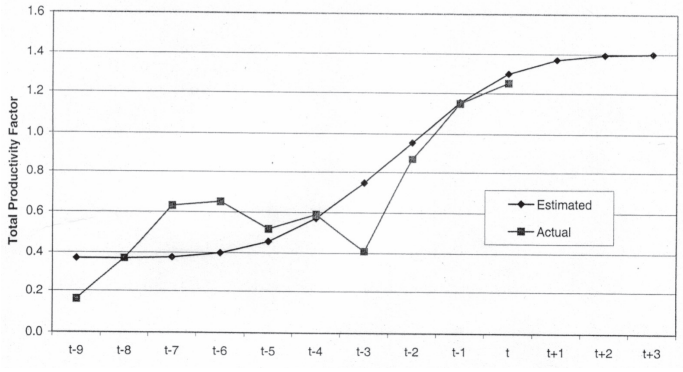

Figure 2: Trends in Total Factor Productivity

be the best fit from amongst the available options for analyzing the trends of the two productivity measures (Fig. 1 and 2).

$$Y = C + a [1 - \exp (-- b (t^4 - 1)]$$

$$\text{Total factor productivity} = \frac{\text{Output}}{[\text{Payroll+materials+depreciation+ capital cost (interest)}]}$$

$$\text{Labour productivity} = \frac{\text{Output}}{\text{Employee}}$$

where,

Y = Productivity measure

C = Productivity measure during first year of operation

a = Increase in productivity measure with respect to the first year.

b = A constant based on rate of growth with respect to the first year (Table 2 and 3 for computation of b for the two

Table 1: Labour Productivity and Total Factor Productivity Growth in Division A

Year	*Time period*	*Labour Productivity*	*Total Factor Productivity*
t – 9	0	146	0.16
t – 8	1	679	0.37
t – 7	2	1290	0.63
t – 6	3	10993	0.65
t – 5	4	18122	0.52
t – 4	5	19585	0.59
t – 3	6	30624	0.41
t – 2	7	50126	0.87
t – 1	8	59900	1.15
t	9	102700	1.25

Note: *t = 9 (immediate past period); t = 0 (nine year past period)*

Table 2: Intermediate Calculations for Estimation of Labour Productivity Growth Curve Parameters

Year	*Period t*	$t^4 - 1$	*Labour Productivity*	*a+c – y*	*Loga – log (a+c-y)*	*b*	*Estimated Productivity Measure*
t – 9	0	– 1	146				
t – 8	1	0	679	119321	000.00		
t – 7	2	15	1290	8710	0.0045	0.00030	1120
t – 6	3	80	10993	109007	0.0898	0.00112	3013
t – 5	4	255	18122	101878	0.1570	0.00061	7962
t – 4	5	624	19585	100415	0.1720	0.00027	17722
t – 3	6	1295	30624	89376	0.2880	0.00022	33343
t – 2	7	2400	50126	69875	0.5345	0.00022	54042
t – 1	8	4095	59900	60100	0.6850	0.00017	76404
t	9	6560	102700	173000	1.9305	0.00029	96394
t + 1	10	9999					109904
t + 2	11	14640					116791

Note: t = 9 (immediate past period); t = 0 (nine year past period)

productivity measures analyzed).

t = time period (year)

Table 3: Intermediate Calculations for Estimation of Growth Curve for Total Factor Productivity

Year	*Period t*	$t^4 - 1$	*Total Factor Productivity (y)*	*a+c – y*	*Loga – log (a+c-y)*	*b*	*Estimated Productivity Measure*
t – 9	0		0.16				
t – 8	1	0	0.37	1.03			
t – 7	2	15	0.63	0.77	0.59	0.03900	0.375
t – 6	3	80	0.65	0.75	0.61	0.00760	0.398
t – 5	4	255	0.52	0.82	0.53	0.00207	0.458
t – 4	5	624	0.59	0.81	0.54	0.00086	0.572
t – 3	6	1295	0.41	0.99	0.34	0.00026	0.745
t – 2	7	2400	.87	0.53	0.96	0.00040	0.955
t – 1	8	4095	1.15	0.25	1.71	0.00041	1.159
t	9	6560	1.25	0.15	2.22	0.00034	1.296
t + 1	10	9999					1.368
t + 2	11	14640					1.399

Note: t = 9 (immediate past period); t = 0 (nine year past period)

$$b = \frac{\log a - \log (a + c - y)}{t^4 - 1}$$

Average b = 0.000247

$$b = \frac{\log a - \log (a + c - y)}{t^4 - 1}$$

Average b = 0.00035

Productivity and Value Chain Partnership

Value chain partnership is a strong and close alliance in which one company or business unit forms a long-term arrangement with a key supplier or distributor for mutual advantage (Wheelen, 2006, p.119). Value chain partnerships are becoming increasingly popular as more companies and business units outsource activities that were previously done within the company. As manufacturing is very expensive in European countries and US, it makes economic sense to outsource some manufacturing jobs to countries like India through 'contract manufacturing'. As a case-in-point, many book publishers in US refer to outsource book production to Indian firms due to cost differentials, a phenomenon that was in existence even before the advent of full-fledged globalization that received impetus in India from1991 onwards.

Value chain partnerships are particularly common in the pharmaceutical industry. Private sector accounts for more than 80 per cent of the healthcare delivery. Indian pharmaceutical industry is estimated at $8 billion, while the healthcare industry is put at $20 billion. As long as western firms are ready to partner with Indian companies, it is a win-win situation for both the sides. While western companies possess superior capabilities in bioinformatics, biochemistry, genomic technologies, Indian firms enjoy strong base in chemistry, pharmacology and clinical

research.

Several Indian pharma firms outsource their new drug development work (new drug discovery) to foreign pharma companies as without such partnerships, firms spend huge sums on R&D infrastructure in-house and still with no certainty that it would lead to new drug discovery. Indian companies still consider that purely indigenous drug discovery is a high-risk project with relatively less chance of success.

Indian firms thus prefer to organize clinical research and bio-statistical analysis for new drug developed only till it is patented. In these value chain partnerships, while Indian firms are large leading firms, their western partner is almost always a small company, usually a recent start-up. In recent periods a number of Indian pharma companies such as Zydus Cadila, Nicholas Piramal, Ranbaxy, Dr. Reddy's Laboratories, Biocon Ltd., Orchid, Suven Life Sciences, Connexios, Syngene, etc have formed value chain partnerships with foreign firms for outsourcing drug R&D.

Process of forming value chain partnership for new drug development gathered momentum in 2001 when Zydus Cadila partnered with US-based Onconova for developing cancer drugs; Biocon Ltd. with the Cuban Institute CIMAB for developing anti-cancer drugs; Orchid Pharmaceuticals with the US-based Bexel Pharmaceuticals for developing anti-diabetes and anti-inflammation drugs; and Ranbaxy with the Geneva-based Medicines for Malaria Venture (MMV) for developing anti-malaria drugs.

In 2005, Nicholas Piramal entered into value chain partnership with the Canadian firm Biosyntech, a company that makes gels for regenerative medicine; Suven Life Sciences with Eli Lilly for nervous systems disorders; and Institute of Biological Sciences and UK based drug discovery company Morvus Technology for researches in dug delivery systems, vaccine technology and new drugs development for cancer, diabetes and arthritis. These firms have set target of 4-5 years to market their indigenous 'blockbuster drugs' or new chemical entities (NCEs). These NCE molecules include Glaxo's Zantac, Eli Lilly's Prozac, Pfizer's Viagra or Lipitor (*The Economic Times*, November 7, 2006).

Nicholas Piramal in 2006 signed two licensing agreements with the Morvus Technology to develop and commercialize two of the Morvus Technologies. Under the first agreement the company gets the right to develop and commercialize the Morvus's platform technology that allows identification of novel genes and proteins associated with programmed cell death, thus opening the way for therapeutic programmes to attenuate their effects. Nicholas Piramal on the other hand is responsible for developing the technology to generate new drugs in areas of diabetes and rheumatoid arthritis. The second agreement relates to developing a combination therapy for cancer treatment that utilizes 'cyclin dependent kinase' inhibitor to enhance the effectiveness of existing anti-cancer drugs (October 28, 2006).

Tata Consultancy Services (TCS) in 2006 signed an agreement with the Eli Lilly for providing drug development services including clinical trial data management, biostatistical analysis and medical writing. At present, most clinical trial services are being offered by clinical research organizations. In 2006, Dr. Reddy's Labs formed three partnerships with UK-based firms – with Argenta for developing Asthma drugs, Clin. Tech. for developing anti-cancer molecule, and Rheoscience for developing anti-diabetes molecule. In 2006 again, Syngene, the services subsidiary of the Biocon Ltd., signed a deal with the Swedish firm Innate Pharmaceuticals to develop anti-infectives. Investments for partnerships between Indian and foreign firms for innovative drug research is thus continuously growing and expanding.

Outsourcing and Value Creation

Outsourcing in both manufacturing and service sectors has had a long history. What is more recent is the globalization of outsourcing worldwide in every possible way. A wide range of activities in manufacturing and services is becoming increasingly tradable due to technology, opening up of foreign direct investments (FDI) and new kinds of organizational arrangements. Outsourcing in recent years has acquired strategic significance not merely as a cost cutting strategy but also as one that serves customers better. Infosys Technologies follow a policy what they call 'collaborative distributed development' which not only reduces costs but also serves customers most speedily by sourcing capital from where it is cheapest, sourcing talent from where it is best available, producing it where it is most cost effective, and selling where the markets are (Narayan Murthy, *The Economic Times*, May 16, 2006). All these factors have collectively transformed outsourcing as an important element of corporate strategy to create new value.

Based on commonly understood dictionary meaning outsourcing is 'the procuring of services or products… from an outside supplier or manufacturer in order to cut costs.' Outside can be interpreted to mean outside the firm, as also outside the country. Media and political attention seems firmly focused on international outsourcing, even though domestic outsourcing is also common. Generally, activities of core competence are kept within, and non-core activities outsourced. Recent advances in the ICT sector have created mechanisms for serving customers efficiently. Although firms were able to relocate abroad in past, they had to give something up – their closeness to important markets, for example. With the new technologies, they can retain these links while also obtaining access to cheap but well-trained labour (Amiti & Wei, 2004).

Global outsourcing as part of foreign trade has anyway been normal practice for long. Outsourcing though term became popular recently was anyway being practiced as material supplies between buyers and suppliers for long but what is now different is that outsourcing is from developed nations (mostly in the west) to many developing countries including India and China for services, a phenomenon which did not exist before (Shiri Gandhi, 2004). If books can be cheaply produced in India or automobile parts can be manufactured cheaply in India then why these be expensively produced in US. Service outsourcing has been steadily increasing globally, but it has still to outperform global material supplies.

Advent in IT and web-enabled technologies has made service outsourcing an easy task which was not so till then. Even then global procurement of materials continues to be higher than services as former has been traditional mainstay in global business. IT jobs and book publishing are examples how services are being traded globally. Emergence of newer markets in fast developing countries such as India and China and many other parts of the world have provided fillip to business process outsourcing, knowledge process outsourcing, legal process outsourcing, etc. (IIMB, 2005). Thus, firms based in industrial countries that outsource services are often criticized for 'exporting jobs' to developing countries in areas like running of call centers or software development (Amiti & Wei, 2004).

Many harbour apprehensions that with outsourcing they loose more jobs than create. Even if outsourcing leads to some shedding of labour, the increased efficiency could lead to higher production and an expansion of employment in other areas. Growing evidence suggests that job losses in one industry often are offset by jobs created in other growing industries (Amiti & Wei, 2004). With increasing expansion of IT enabled services in the organization, even when some people become redundant and leave, the company may decide to enlarge its R&D base, and create value for absorbing more people (Amiti & Wei, 2004).

As firms that outsource become more efficient, they serve their customers at lower costs, which in turn may boost demand of their products. This higher demand could be met by the increased productivity of existing staff, or, if demand growth is sufficiently strong, it could lead to further job creation, which could, in principle, offset the direct job losses caused by outsourcing. The process however creates varying job mix (Amiti & Wei, 2004).

A survey conducted by global consultancy firm Frost and Sullivan has ranked India as the top destination for shared services and outsourcing (SSO) across the globe though it faces stiff competition from China, Ireland, Singapore, Malaysia, Mexico, Czech Republic, Poland, the Phillipines and Canada. Global outsourcing industry at compound annual growth rate (CAGR) of 15 per cent is expected to reach a market size of $1,430 billion by 2009 end. According to the report, China is fast emerging as formidable rival as outsourcing destination for IT, biotechnology, R&D, procurement services. Singapore and Malaysia, which have excellent infrastructure and low attrition rates, have also emerged as ideal outsourcing hub; posing challenge to India's outsourcing industry in the long run (*The Times of India*, July 23, 2007).

Outsourcing industry in India is experiencing consolidation and SSO providers are moving up the value chain, expanding their onshore presence to strengthen global delivery capabilities. However, some formidable challenges are also coming up fast. These are on account of high attrition rates, poor infrastructure, rising wages, rupee appreciation in relation to dollar, pound, euro, and other leading world currencies. Increases in service outsourcing should go hand in hand with attempts to improve labour productivity. This may become easier when firms relocate their least efficient parts of production to cheaper destinations. Low labour costs and abundant supply of skilled manpower are key for India's leading position as outsourcing destination (*The Times of India*, July 23, 2007).

Decision Rule and Economics of Outsourcing: A Case Study

This study aims to determine 'decision rules' to decide between 'buy' (from the market) and 'make' (within the organization) decisions should be based on calculating the economic costs and benefits for both the options and choosing the option that has higher net benefit (Table 1). Given near perfect market conditions, specialized suppliers in the market would be more efficient producers than an individual organization that may be having core competence in some specialized segment. In the final assessment, a make or buy decision can be determined by comparing the cost that an organization would incur in conducting the activity within its boundaries and the costs it would incur in procuring the same from the market. Activities like photocopying which are part of enterprise infrastructure services are standard candidate for outsourcing as long as the total cost of going to the market is less than the total cost incurred to do the activity in-house, i.e., Total Cost $_{market}$ < Total Cost $_{in\ house}$ and it would be beneficial to do it in-house only when Total Cost $_{market}$ > Total Cost $_{in\text{-}house}$. This is a very simple common decision rule which works in most outsourcing situations for determining cut-off point (Mukherji & Ramachandran, 2007).

The study covers one of the machines maintained in the corporate office of a large business enterprise. Total cost covers both fixed and variable costs comprising fixed operating costs, depreciation, variable power costs, variable costs of consumables, and variable costs of stationery. When the volume of copies to be taken per day is less than the cut-off limit, it is economically beneficial to outsource it till the cut-off limit is exceeded. However, when the volume of photocopies to be taken is higher than the cut-off limit, it is economically beneficial to do it in-house. It becomes cheaper and cheaper to do it in-house as volume further increases. The cut-off limit is nothing but the rate at which the external service provider charges for

Table 4: Economic Gains of Outsourcing Photocopying Services and Determination of Cut-off Limit for Carrying Out Economically Inhouse

Copies per day	*Copies Per Year*	*Paper cost (Rs.)*	*Depre-ciation (Rs.)*	*Annual Fixed Costs (Rs.)*	*Annual Variable Power Costs (Rs.)*	*Annual Variable Costs (Fixed+ variable) (Rs.)*	*Total Annual Costs (Fixed+ variable) (Rs.)*	*Operating Costs per copy (Rs.)*
50	15,000	1,500	69,617	27,725	51.3	3442.5	102335.3	6.82
100	30,000	3,000	69,617	27,725	102.6	6885.0	107329.6	3.57
150	45,000	4,500	69,617	27,725	153.9	10237.0	112322.9	2.49
200	60,000	6,000	69,617	27,725	205.3	1377.0	117317.2	1.95
250	75,000	7,500	69,617	27,725	256.5	17212.5	122311.0	1.63
300	90,000	9,000	69,617	27,725	307.8	20655.0	127304.8	1.41
350	1,05,000	10,500	69,617	27,725	359.1	24097.5	132298.6	1.25
400	1,20,000	12,000	69,617	27,725	410.4	27540.0	137292.4	1.14
450	1,35,000	13,500	69,617	27,725	461.7	30982.0	142286.2	1.05
500	1,50,000	15,000	69,617	27,725	513.0	34425.0	147280.0	0.98
600	1,80,000	18,000	69,617	27,725	615.6	41310.0	157267.6	0.87
700	2,10,000	21,000	69,617	27,725	718.2	48195.0	167277.2	0.79
800	2,40,000	24,000	69,617	27,725	820.8	55080.0	177242.8	0.73
900	2,70,000	27,000	69,617	27,725	923.4	61965.0	187230.4	0.69
1000	3,00,000	30,000	69,617	27,725	1,026.0	68850.0	197218.0	0.65

providing the service. If the prevailing rate of photocopying service is Rs.1 per page than as long as number of pages to be photocopied per day is less than 500, it is never economically beneficial to do it inhouse and outsourcing is better option in economic terms.

Value Creation through Acquisitions and Alliances

Acquisitions and alliances help create stronger business and enhance values for shareholders in ways shareholders cannot do better for themselves. In fact, acquisitions and alliances are two separate mechanisms which companies use to make their value curves move up. The two strategies differ in many ways. Acquisition deals are competitive, based on market prices, and risky; alliances are cooperative, negotiated and not so risky (Dyer, Kale & Singh, 2004). Value

creation occurs due to their potential ability to increase the competitiveness of one or the other of the firms involved. 'Mergers and acquisitions' as the popular phrase goes as a concept bring in the individual business unit increased visibility and improved image that create favourable impact on value added. Acquisitions can be divided into two stages, pre-acquisition and post-acquisition integration. Pre-acquisition management involves planning for human, organizational and cultural aspects of acquisition.

It should be realized that effective value creation takes place only when mergers and acquisitions have been properly implemented. A firm needs to address specifics of how it will improve competitive advantage following acquisition, and cultural harmonization following integration of the two organizations which have separate cultures. Acquisitions are often characterized by managerial conflicts that stem from feelings of inferiority in the acquired firm and feelings of superiority in the acquiring firm (Nord, 1994). Apparently, companies don't cope very well either with acquisitions or alliances.

In view of such factors, the track record of success with mergers and acquisitions is not always very encouraging. A study conducted by McKinsey & Company found that only 23 per cent of mergers examined over a 10-year period generated returns in excess of the costs incurred by the deal (Fisher, 1994). Thus, firms need to spend adequately in managing post-acquisition integration process.

Partnership or strategic alliances with large corporate enterprise may provide a business with markets or distribution channels it could not access on its own. In knowledge age corporates create value by defining into strategic partnerships. The impressive gains in value creation by partners often arise from the compressed cycle time in the value creation process and the scalability of knowledge assets (people, processes and customer base) they would share (Raval, 2001).

Wal-Mart, the world leader in retail business, has been trying for long to enter Indian market but could not succeed due to political opposition from the GOI within the backdrop of safeguarding small traders' interests. However, its decision to form strategic partnership with Bharti Enterprises, which anyway had the GOI's permission being the indigenous firm, paved the way to enter Indian markets in retail business, in a manner mutually beneficial to the interests of both the partners. Whereas for Wal-Mart the advantage is entry into the Indian markets in the midst of opposition from the GOI in view of its concern for small traders, for Bharti Enterprises, the benefit is availability of high degree of professionalism in retail business from the beginning of its diversification as its forte has been in telecom sector.

Diversification and Value Creation

Diversification creates values for shareholders in ways shareholders cannot do better for themselves (Lubatkin, 1988). It is effective route for value creation but best results come when the company's core competencies are allowed to benefit the diversified business. This is because when a corporation that builds on core competencies, every business unit that utilizes them, strengthens their respective value chains that synergies competitive advantage. Every core process and each of the major activities in the value chain reinforces core competence. This makes all business units more productive as a whole, than when they function individually, without capitalizing company's core competence.

Value creation can take place more easily when diversified business has enough similarity to existing businesses to benefit from the corporation's core competencies. At least one element of the value chain must require similar skills in creating competitive advantage in order for the

corporation to capitalize on its core competencies. This is one reason why related (concentric) diversification is more profitable than unrelated (conglomerate) diversification on average.

Black & Decker, a leading firm in power tools and household appliances, has its core competence in developing products with small electric motors and rechargeable batteries, and accordingly it rightly diversified this competence from small power tools for woodworking into higher-margin items such as electric kitchen appliances, miniaturized vacuum cleaners, and rechargeable flashpoints, resulting in substantial value addition.

Coca-Cola's diversification into leisure clothing is a case-in-point about the commonality of core competence at least in one element of the value chain in the diversified business. Leisure clothing had one commonality that both soft drink and clothing needed the same trademark for marketing which has worldwide appeal. In soft drinks, its core business, Coca-Cola emphasizes marketing as a key component of its value chain by building demand through strong customer awareness. Coke used this same expertise in marketing an image to successfully introduce a line of clothing bearing various Coca-Cola trademarks (Sloan, 1986).

Value creation can provide sustainable competitive advantage only when core competencies can't be easily replicated (Reed & DeFillippi, 1990). A specific core competence may not be unique, but it is the combine of several competencies that may be difficult to replicate, may provide competitive advantage. For example, Canon, a Japanese firm which is world leader in its core competencies of optics, imaging, and microprocessor controls, has demonstrated time and again its ability to enter and dominate diversified markets stretching from photocopiers and cameras to laser printers. Its forte in diversified products and varied markets rests on its core competence in crucial technologies for such products. Value chains of diverse products brought tremendous value creation to the firm that competitors cannot easily match (Miller, 1998, p. 256).

Kishore Biyani, Managing Director of Pantaloon Retail (India) Limited and the Group CEO of Future Group initially started in eighties with production of a fabric called 'stone wash' which suited for jeans. A garment made of 'stone wash' when it is washed gives a specific bleated kind of look. The company started manufacturing this fabric and started exporting it to garment manufacturers, which led to tremendous value creation for the firm in initial years. The company after its initial success in fabric manufacture, diversified in garment manufacture and popularized its own trouser brand called *Pantaloon*. This new trouser brand also created tremendous economic value to the organization but found problems in finding suitable distribution channel in view of tremendous competition in trouser business. As many departmental stores were not prepared to take *Pantaloon*, Kishore Biyani decided to launch its own stores to boost the sale of its brand product.

This became a turning point for Kishore Biyani and his firm as it marked its entry into retail business. In the first instance small but large number (90) of retail shops were opened across the country in which Pantaloon was the main item to be sold though the store also kept many other items of menswear. All these shops performed well but franchising became very difficult to control. The company then in 1997 decided to start a full-fledged departmental store in Kolkata called Pantaloon Fashion and Departmental Store, selling not only menswear but also large number of other items of household use. Thus transition from fabric manufacture to menswear marketing and distribution to a large sized departmental store was complete.

In November, 2000, the company opened three Big Bazar Stores in Hyderabad, Kolkata and Bangalore within 22 days. Concept of *Big Bazar* represents scale and volume. *Big Bazar* is a place where 60-70 per cent of the customer's buying needs are satisfied and they are

offered discount coupans so that they visit *Big Bazar* again and the company thus moved in-roads from customer's basket into his balance sheet. The company thus again diversified from departmental store to the discount store.

The Company is now an established retail major that operates hypermarkets, department stores, discount stores, supermarkets and malls, and it is in keen competition with other major players like Reliance Industries Limited, RPG Group, Aditya Vikram Birla Group, etc. With collective efforts of so many players, small and big, India's retail industry valued at nearly $350 billion is expected to double in size by 2015. Foreign single-brand retailers are allowed to take up to 51 per cent in a joint venture with Indian partner, while multiple-brand retailers are limited to operate through cash-and-carry and franchise deals.

The company then embarked upon ambitious expansion and by 2007 the company had departmental stores close to 450, including Pantaloon, Big Bazar and E-Zone. Diversification strategy achieved tremendous value creation for the organization that pushed its turnover to Rs. 4000 crores in 2006-07 which was targeted to be doubled next year. In this extraordinary success of value creation, one thing was common all throughout that the company never abandoned its core competence in menswear production and marketing skills, which it capitalized for other products and markets as well into which it diversified at later stages.

Pantaloon Retail (India) Limited is planning to set up small and large stores countrywide though profit margins could be low but may achieve economies of scale by setting up large stores. The company plans to set up these 2000 square feet stores at neighbourhoods, not essentially in prime real estate, but even in lanes to save costs. In a way it amounts to entry of organized retail in 'unorganized retail'. Unorganized retail is around 98 per cent of the market with organized still limited to 2-3 per cent. The cost of setting up a modern super-market store is around Rs. 2000 per square feet as against Rs. 280 of small fair price stores in neighbourhood (Mukherjee, 2007).

The company is looking for joint venture business opportunities with firms like Starbucks Corporation and Burger King Holdings as a franchise deal. These cash-and-carry stores as neighbourhood stores, with limited varieties and services, including its other initiatives such as Future Capital and Future Media, would take company's value curve further up. The company plans to make quantum jump in value creation by occupying 30 million square feet by 2010-11, up from 7 million square feet in 2006.

Indian Railways needs electricity all over and shall need it in big way for the Dedicated Freight Corridor (DFC) project. IR spends around Rs. 5200 crore towards electricity cost by paying at a rate of Rs. 4 to 5 per unit. IR plans to internally generate electricity at a lower rate by setting up its own captive power plant as its power needs in future will go up further as the cost of diesel has been going up substantially. Indian Railway plans this by setting up joint venture with power generating utilities like NTPC, NHPC, Tata Power, etc though no specific decision is reported as yet. The move if successful would provide tremendous economic value addition to the IR by cutting down energy costs and maintaining continuity of energy supplies (Mishra, 2007).

Knowledge, Innovation and Value Creation

Every organization uses knowledge and innovation to create value. In service industry such as software companies they are the main drivers though every industry uses knowledge and innovation in some degree. Drivers of value in the knowledge age are quite different from those in industrial age. In 'knowledge age' knowledge and innovation are used in reducing costs, improving product and process design, eliminating non-value added activities, and

integrating value chains across organizations.

Drivers of value in the knowledge economy can be classified into four groups; people, processes and structures; partnerships, alliances and collaborations; and customers. People possess knowledge, knowledge that results into specific contributions, such as software and systems, patents and copyrights, new drugs and product improvements, and productivity gains. Knowledge workers are key resource for value creation in knowledge company. Individuals who add high value in the organization are most critical of human capital and are very difficult to replace. Processes and technology play considerable role in enhancing value. Traditionally, partnerships, alliances and collaborations have been treated as contractual commitments but at present they are more rightly perceived as value enhancers. Partnerships create value through individual excellence and strategic importance, mutual interdependence, information sharing and integration (Raval, 2001).

In knowledge organizations costs of tangibles are less compared to 'human value' which is different from 'cost of human capital' but some times taken as its surrogate which is normally done in human resource accounting exercise. An analogy can be made with the writing of a 'book' which may be done at a low cost but its true value is many times more than its costs. Similarly, cost of developing a patent may be less but its value may be much higher. Cost of a feature film may be less but its value in terms of benefits it brings to the society may be many times more.

Drivers of value in the industrial companies are different from drivers of values in the knowledge companies. Non-financial variables substantially drive value creation in the knowledge companies. Balanced scorecard approach which integrates financial perspectives with other perspectives such as internal business processes, the learning and growth, and the customer perspectives, is thus very important strategy implementation tool in knowledge economy. In the knowledge economy, customer is final authority on value judgments. Customers are also increasingly turning as partners for creating value in the extended value chain.

Innovation is by and large individual-centric though some organizations may claim it is largely the outcome of their innovative policies. With creativity and innovation, organizations can improve business performance, enhance shareholder value, meet social expectations and minimize damage to the environment from their products and services. Instead of searching within the conventional boundaries of industry competition, managers can look systematically across those boundaries to find unoccupied territory that represents real value innovation (Kim and Mauborgne, 2004).

Value innovation does not mean merely staying ahead of competitors but evolve something novel that may make competitors operations irrelevant. Consider the case of videocassette recorders and satellite and cable television that made traditional movie going drop substantially world over making cinema owners to close down their operations. Among those who remained found themselves competing head-to-head for a shrinking market. This paved way for value innovation in cinema industry for survival initially and later as a growth strategy. They turned cinemas into multiplexes with as many as ten screens, broadened their film offerings to attract all customer segments, expanded their food and drink services, and increased showing times. (Kim and Mauborgne, 2004).

Companies that take their industries conditions as given and evolve strategy accordingly may not creation value innovation. No matter how the rest of industry is performing, value innovators look for blockbuster ideas and quantum leaps in values. Conventional logic leads companies to compete at the margin for incremental share. The logic of value innovation starts

with an ambition to dominate the market by offering a tremendous leap in value (Kim and Mauborgne, 2004).

In hyper-competitive industry companies need to value innovate frequently as their dominance following value innovation shall be contested soon. Value innovation is about offering unprecedented value, not technology or competencies. It is not the same as being first to market. Paradoxically, even though value innovators may not start to build advantages over the competition, they ultimately end up achieving the greatest competitive advantage (Kim and Mauborgne, 2004).

Organized and collective R&D endeavours no doubt play significant role in developing innovative processes and products, but in many cases the cutting edge technologies are developed from activities that take place largely in the individual's mind. Creativity breeds in an independent mind. Happy minds are seldom creative and it seen that many times individuals become creative when they are in crisis.

Creative ideas are the drivers for innovation in organizations and corporate leaders generally encourage creativity in organizations. Imagination and dreaming are drivers for innovation that lead to value creation by developing new products and services. Innovation is the process of bringing a new idea or new application into a field of activity. Innovation differs from invention though both are creative activities. Invention is a creative event, whereas innovation is creative process. Development of computer is an invention, but the application of that invention to handle the information needs of a business firm has been an innovation (Nylen, 1989, p.399).

Managing creativity in simple words means identifying creative individuals in the organization and then giving them necessary autonomy to work. Organizations need to carry out some kind of creativity audit for analyzing the percentage of revenue that comes from products that are less than five year old, less than three years old, and that are current with the present accounting period. Managing creativity in simple words means identifying state of creativity in the organization and spotting creative individuals in the organization and providing them functional autonomy.

Technology plays important role in value creation (Vrat, P., Sardana and Sahay, 1998, p. 56). Innovation can lead to value creation by driving both technology and productivity growth. Emergence of Japan as a great world power is largely the outcome of its extraordinary progress on technology front. However, shareholder value cannot be sustained for long ever, even with excellent technology company developed once, as winning advantage will be lost one day. Creative destruction is an effective approach for sustained value creation and competitiveness.

Innovation and change are necessary for value creation. Change by way of what is called creative destruction often leads to value creation. At one stage House of Modis, were manufacturing lanterns, electrodes and soaps. In the second stage, these units were closed and the company was producing steel and polyster fibre. In third stage, the emphasis shifted to tyres industry, then to private airline carriers (ModiLuft), and then to photocopiers (Modi Xerox), and so on.

Pace of development of Hyderabad is another example of creative destruction for sustained value creation for different firms. At one stage, it was considered to be city for public sector units such as IDPL and ECIL. Today these organizations are in troubled waters. In their place many healthcare and software companies have come up. Hyderabad has today emerged as IT and knowledge capital (Ambani, 2002).

Competitiveness can be broadly divided into three categories, physical competitiveness,

intellectual competitiveness, and systemic competitiveness. Physical competitiveness comes from building competitive advantage through technology acquisition, intellectual competitiveness comes through innovation and creativity, and systemic competitiveness comes by changing mindsets and attitudes that help improve productivity.

India scores high in intellectual competitiveness. Country's premier management institutes are rated best in Asia. Large number of foreign firms visit premier institutes such as IITs, IIMs, IISc, etc for campus selection and select candidates on rich remuneration. Indians provide corporate leadership to several leading corporations world over. India's intellectual competitiveness occupies very unique place in the global markets.

Systemic competitiveness refer to mindsets, attitudes and issues that can help score competitive advantage. Corporates should see opportunities beyond country's borders, region and world at large. The word 'self-reliance' needs to be seen in the larger perspective. (Ambani, 2002). Accordingly, country's products and services should be of global standard and they should be seen as 'global brands'. The great success of overseas Indians and Indian professionals in IT, technology and knowledge sectors have generated an India brand (Ambani, 2002).

Entrepreneurship and Value Creation

Entrepreneurship often gives an idea of someone starting up and running a business. Entrepreneurship is the personalized version of actualizing one's desire, ambition and expectation. They convert a material into a resource or combine the existing resources into a new or more productive configuration that brings considerable value addition. A business manager who mobilizes resources and allocates them to make a commercial gain from an opportunity is also an entrepreneur. Entrepreneurship is often said to be context-specific as it is often linked with the genes or environment where one is brought up which may have lot of entrepreneurial activity. Individuals, whose parents were entrepreneurs or even some distant members, provided they have vision and drive, can become entrepreneurs.

An entrepreneur innovates and creates resources. An entrepreneur creates value for the money he invests in the organization for initial creation and expansion with his entrepreneurial initiatives. According to N.R. Narayan Murthy (1999), Chairman, Infosys Technologies Ltd., factors that promote entrepreneurship include sweat equity, innovation, a brilliant vision, a well-framed strategy and flawless execution. In industry entrepreneurship is an activity of an employee, or group of employees supported by the leader that creates value for the organization.

Courage, conviction and passion are hallmark of a successful entrepreneur. Entrepreneurs or for that matter any achiever is one which is driven by a passion. A leader should be in knowledge of individual passions that drive employees and exploit in a manner that it benefits employees as also add value to the organization. A leader can create enabling environment where passions can be sustained and pursued (Lucas, 2006). A successful entrepreneur generally has passion, abundant energy, and most importantly focus and high risk-taking ability (Kapur, 2007).

Entrepreneurial abilities are traits not necessarily inborn but those that can be developed. Entrepreneurs certainly need to learn how to manage risks in their business which is a formidable challenge for any entrepreneur. Training can help entrepreneurs understand how to go about validating an idea to determine whether it is a viable commercial proposition, how to go about planning and launching a new company with all this entails, and then how to run it including the pitfalls and danger areas and how to avoid them (Turner, 2007).

Initially the organization which an entrepreneur creates is entrepreneur-centric which is natural but later through everyone's involvement tries to transform into a standard and progressive type which may be free of the personal biases of the entrepreneur. This is possible by delegating authority to other deserving employees in the organization and giving them free hand to function. Vision of an organization evolves with his leader and it can never be static. Entrepreneurship needs restrategizing at every stage and often shifting gears and applying course corrections (Rao, 2007).

Continuous benchmarking (both in terms of achievements and mistakes) from other companies, institutions, and countries can help build a competitive organization (Ravichandran, 2007). An entrepreneur should constantly look for opportunities to innovate and improve the context of his business activity. Companies that follow unethical practices do make petty money in the short run but they are unable to recruit good quality people and therefore cannot grow beyond a point (Bikhchandani, 2007).

Empowerment and Value Creation

Empowered employees who work at their own certainly help improve organizational productivity. Empowerment leads to high performance and talent retention. Empowerment is generally easier in flatter organizations, which have less grades or levels, and where day-to-day working is more governed by participative style. Employees become empowered when they enjoy necessary freedom and flexibility to act. This generally happens in less bureaucratic organizations where individuals can function based on their own assessment and perceptions of situations. Enhancing flexibility may be difficult initially but employees tend to become flexible when leadership asserts in building flexible work environment. A flexible outlook is more of one's own cultivation than any structural change. However, organizational leadership may sometime require attitudinal change in developing flexible attitude. Effective empowerment comes from shared leadership. An empowered employee is part of the team and leader in his own way which contributes to value creation.

The greater the degree of employees' involvement with the workplace administration and greater their flexibility to act, the more empowered they would feel. Employee involvement makes perfect business sense and is often the outcome of partnership initiatives such as teamwork, target setting, quality circles, suggestion schemes, TQM, etc. Empowerment leads to replacing autocratic style of management with participative style which contributes towards value creation.

Empowerment can also be viewed as 'state of mind' in which leader can play an important role by influencing the mind and achieving value creation. An employee with an 'empowered mind' experiences feeling of control how he shall be performing; awareness of the overall job requirements vis-à-vis the 'big picture'; accountability towards one's responsibility; shared responsibility for the 'service' or organizational performance; and equity in the distribution of rewards based on individual and collective performance.

Employees in empowered state can create value to the organization as they not only have authority but also the responsibility to use their skills, judgment and creativity to contribute their best. A leader sets direction and builds dynamic culture of empowerment, middle managers generally provide information and resource input, and employees down below create value for those to be served by performing to the best of their capability.

Empowerment works only in a climate of trust. A leader shall be able to transfer his authority downwards only if the climate of trust is prevailing. Employees shall feel empowered if they

trust leader's intentions. Trust and empowerment were Dhirubhai Ambani's hallmark. He believed that there was no such thing as 50 per cent trust because that would also mean 50 per cent mistrust. Dhirubhai would often say, "between my past, the present and the future, there is one common factor — relationship and trust. This is the foundation of our growth."

VAT and Value Creation

Value added in simple terms means value of output minus value of inputs. Herein, value of output means turnover plus value of accredited stock while value of input means cost of materials and components directly going into finished product inclusive of bought outs, excise duty paid, etc. Value is added at each stage in production and distribution in the value chain. Value added tax (VAT) is sum total of tax payable for value addition at different stages. A value chain represents integration of successive links at which value is added.

Thus, final price payable by customer at the retailer's place is the summation of cost of values created successively in the value chain. An initial supplier uses raw material as feedstock which converts into a sub-assembly which at next stage is used as an assembly, and finally through the series of stages, it becomes part of final product after successive value additions. The product then may be distributed through a wholesaler and a retailer who in turn add value to it. The price at which the retailer sells the products is the total of all the values added by each successive supplier.

A firm may estimate value added either by subtracting the cost of goods purchased from sales, or adding together various elements that make up value added such as payment of wage, rent, interest, profit, etc. A tax on the value added at each stage will add up to be precisely the same as tax on the final stage. VAT enables tax payment only once instead of hassles of payment at different stages. Every producer is subject to tax on purchases at each level of production and distribution.

The Indirect Taxation Enquiry Committee set up in 1976 vide its report (1977) recommended modified VAT which it named as MODVAT. Under MODVAT, which was introduced in 1986-87 budget, tax is levied on final goods and tax on inputs and intermediate goods is abolished. Vide 2000-01 budget GOI introduced central value added tax (CENVAT) at a uniform rate of 16 per cent. Vide 2002-03 budget CENVAT was further rationalized. VAT does not discourage adoption of advanced technology which may be capital intensive.

VAT in India is a state subject with GOI playing a facilitator role. With effect from April 1, 2005, GOI decided to implement VAT at state levels at a uniform tax rate for all states. Small traders with turnover upto Rs. 5 lakh were exempted from VAT. The adopted VAT is a multipoint destination based system of taxation, with tax being levied on value addition at each stage of transaction in the supply chain. At state level instead of taxing at a single stage value chain, GOI taxes all manufacturers and distributors in the supply chain. As VAT involves lot of technicalities, imposition of VAT needs large workforce duly knowledgeable in VAT processes that form part of an extended supply chain. Popularity of VAT is purely on account of administrative convenience.

In Delhi, Delhi Sales Tax Department (DST) is responsible for developing and implementing a comprehensive VAT regime for the National Capital Territory of Delhi. Changeover to VAT presents a unique opportunity to re-engineer and make DST operations IT-enabled. VAT collected is used for the construction and development of flyovers, subways, hospitals, schools, power, water supply, sanitation and other civic amenities.

Concluding Remarks

Policy of liberalization, privatization and globalization has given a big boost to outsourcing. Internet has provided fillip to outsourcing particularly for software development jobs in IT sector. When business is transferred from high cost countries to low cost countries, slowly low cost countries start losing the cost competitiveness over a period of time. India is moving from a low cost country to a high value country. Core competencies should be capitalized for building competitive advantage. Instead of focusing on enhancing value added activities directly, organizations should focus on value chain management in total sense which will automatically take care of all interrelated issues one by one (Porter, 1985). A very crucial driver is enhancing shareholder value and if that is rightly pursued all stakeholders shall be beneficiary including society. When considerable part of shareholder value is diverted on CSR (corporate social responsibility) expenditure, shareholder value will be correspondingly reduced which they may not like it. Viewing value creation as a zero sum game, equally true is the fact that focusing more on shareholder value will deprive other stakeholders like 'society' in terms of CSR contributions.

The worldwide web is a world without boundaries, a world where there is a free exchange of ideas and information. Creative ideas can best serve the firm's interests if they are also grounded in a basic understanding of the various phenomenon at work in a business setting (Rajamoni, 1999). Internet has virtually done away with geographical boundaries. However, globalization should not be pursued to a level that nation states should cease to exist. An economy cannot exist without the rule of law as no economy can progress in anarchy. Sanctity of private property cannot exist without a government to protect it.

With India becoming major provider of low cost services and products to outside world, country needs to exploit both low cost and product differentiation strategies for value creation. However, effective processes for creating superior products or services that create value are not common among those Indian firms that have long been oriented to competing at the lowest price (IIMB, 2005, p.54). While these firms have grown considerably in size and wealth by exploiting the mass market with low cost products and services, their future growth potential in a growing quality and feature conscious market is always questioned. With such realization, many Indian firms in recent periods have chosen to work in global markets by developing superior products and services that can create much greater value that are more adapted to the global needs.

One mantra that has remained constant over the past decade has been the continuous addition to the skill sets of the staff to enable innovation on products and services and value addition to the customer. Over time companies find that as variable costs increase, the contribution margin comes down and breakeven point is pushed further. Thus, variable cost productivity is the key which can be improved with full capacity utilization.

Challenges of managing the services supply chain in a globally integrated enterprise demand specific strategies and approaches. An industry can be analyzed in terms of the profit margin available at any one point along the value chain. Matching supply and demand becomes more complex when it has to be done across a global business. In a 'globally integrated enterprise' talent retention is a major challenge which impacts supply chain. In today's rapidly evolving business environment adaptability is important and it is not the strongest or the most intelligent but the most adaptable who will survive. In competitive era only those organizations will survive that have developed expertise in creating and sustaining value.

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