Blue Ocean Strategy to deal with Dual Balance Sheet Crises in India

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Abstract:
The Economic Survey of India 2016-17 mentioned concern about the Dual Balance Sheet Issue faced by the Indian Economy which has led to the paralysis of corporate governance and credit creation at the same time. It has led to the chronic failure of credit discipline among corporate and has led to the sudden upsurge in the Non-Performing Assets level in the banking sector especially in the Public Sector Banks. The Paper deals with the problem of Dual Balance Sheet Issue facing the Indian Economy and solution of the same has been sought using the decade old concept of “Blue Ocean Strategy”. Through the Blue Ocean Strategy, the paper talks about creating a all together different market for itself. It focuses on elimination of the concept of competition for dealing with the Dual Balance Sheet Issue.

Introduction:
What is Blue Ocean Strategy:
It is a marketing theory which made came into being from a book published in 2005 written by W. Chan Kim and Renée Mauborgne, professors at INSEAD and co-directors of the INSEAD Blue Ocean Strategy Institute.

This strategy states that the companies can succeed by creating “blue oceans” of uncontested and unique market space, hence making irrelevant all the existing competition, as opposed to “red oceans” where competitors fight for dominance. The Red Ocean refers to the strategy in which the competition leads to bloodshed in the market thus rendering the whole market red.

What is Dual Balance Sheet Crises in Indian Context:
Economic Survey of India 2016-17, first mentioned the dual balance sheet issue as the major emerging problem with the Indian Banking and Corporate sector.

Twin Balance Sheet Problem (TBS) deals with the balance sheet problems of the Indian companies and the Indian Banks which has led to vicious circle of the NPA crisis. Thus, Twin Balance Sheet points towards two-fold problems for Indian economy which deals with:

1. Overleveraged companies – Debt accumulation on companies is very high and thus they are unable to pay interest payments on loans. Note: 40% of corporate debt is owed by companies who are not earning enough to pay back their interest payments. In technical terms, this means that they have an interest coverage ratio less than 1.

2. Bad-loan-encumbered-banks – Non Performing Assets (NPA), which refers to the bad assets for the banks account for 9% for the total banking system of India. It is as high as 12.1% for Public Sector Banks (PSBs) as the companies fail to pay back principal or interest putting the banks under trouble.

Hence, the dual balance sheet issue is the result of the spill over effect of both the sectors ie. Banking and Corporate, where the bad performance of the corporate has led to the decline in the health of the banking sector & due to the rising NPAs, banking sector has become very cautious towards rending of loans there leading to the decline in the flow of credit to the cash deficient sectors, leading to the cycle of defaults and crisis.

Reason for the Problem:
The various reasons for the problem are as follows:

i. The Overleveraged Corporate, hit by the slowing down economy and constraint in the global demand.

ii. The Corporate Debt Restructure Mechanism of banks leading to evergreening, hence delaying the problem rather than finding out permanent solution to the issue.

iii. The rotten and corrupt lending practices followed by Public Sector Banks in India characterized by ever growing political influence on credit assessments.

iv. Lack of buffer to suffer losses.

v. Lack of Due Diligence by banks leading to the deterioration of credit discipline.
vi. Lending to the projects which were not capable of revival. Hence, credit appraisal techniques followed in case of project financing were full of loopholes and frauds.


viii. Global Recession leading double dip recession and low signs of recovery.

ix. Failure on the part of Government to incentivise manufacturing and other corporate.

x. Burgeoning import growth and consecutive decrease in global demand.

There are various other factors which can be pointed out as the reasons for the issue but the broader ones have been mentioned above.

Six Main Principles of Blue Ocean Strategy

Reconstruct market boundaries. This principle focuses on identification of and systematic creation of uncontested market space across diverse industry domains, hence attenuating search risk. It urges companies to make the competition irrelevant by eying across the six conventional boundaries of competition to open up commercially important blue oceans i.e uncontested market space. The six paths to focus on looking across alternative industries, strategic groups, buyer groups, complementary product across the functional-emotional orientation of an industry, and even across time.

Focus on the big picture, not the numbers. Value Innovation creation strategy to be focussed rather than instrumentalism in the improvement process. It presents an alternative to the existing mechanical strategic planning process, which is often criticized as a number-crunching exercise that keeps companies locked into making incremental improvements and doesn’t allow the management to look into the larger picture. This principle focuses on planning risk. Using a visualizing approach that drives managers to focus on the big picture rather than to be submerged on the shorter tactics involving numbers and jargon, this principle focuses on a comprehensive four-step planning process whereby you can build a strategy that creates and captures blue ocean opportunities.

Reach beyond existing demand. The Managers should question the conventional practice of aiming for finer segmentation to better meet existing customer preferences so as to create the greatest market of new demand. This practice of reaching beyond existing demand often results in increasingly small target markets. Under this strategy, commonalities should be focussed rather than customer differentiation. This principle points out the methods to aggregate demand, not by focusing on the differences that separate customers but by building on the powerful commonalities across non-customers to maximize the size of the blue ocean which has been separately created and hence new demand is being unlocked, hence minimizing scale risk.

Get the strategic sequence right. This principle describes a step by step sequence which companies should follow to ensure that the business model they build will be able to produce and maintain profitable growth. The sequence of utility, price, cost and adoption requirements are to be followed by the companies by which they address the business model risk and the blue ocean idea they created will be a commercially viable one. The remaining two principles address the execution risks which form the backbone of the Blue Ocean Strategy.

Overcome key organizational hurdles. The managers are supposed to work on strategies to mobilize organizational resources in order to overcome the key organizational hurdles which are holding back the implementation of a blue ocean strategy. This principle works on dealing with organizational risk. It lays out how leaders and managers alike can work on the cognitive, resource, motivational, and political hurdles in spite of limited time and resources in executing blue ocean strategy.

Build execution into strategy. Integration of execution into the strategy making leads to the execution of blue ocean strategy in a sustained manner deep into the organization by the motivated. This principle brings into the picture, what Kim & Mauborgne call, fair process. The Blue Ocean Strategy deals with the risk of the management of the people related to their attitudes and behaviours. It departs from the status quo, fair process is required for the strategy making and execution process.

How Blue Ocean Strategy can help resolve issue:

In the past years of around 2004-2009, there was cut throat competition among the banks in India when the Indian economy was booming and was on a positive growth trajectory supported by buoyant external sector and global demand on rising trend. The lenders were very aggressive and the NPA was not at all an issue. The public sector banks were among the very few who believed in borrower based lending and credit prudence was put on the back seat. The margin requirements were reduced by many PSBs and huge strides were made on the acquisition of big and small corporate. There was a kind of red ocean strategy which dominated the banking sector which led to a lot of bloodshed in the financial market, thereby bringing our banking sector to the present level with higher NPAs and financial indiscretion leading to the dual balance sheet issue.

However, blue ocean strategy can help resolve the dual balance sheet issue in the following manner:

1) PSBs have lost the marketing focus. They should create their own market. There are various newer sectors emerging which are still virgin and there is hardly any finance available in these areas. For example, manufacturing is still in nascent stage. The banks can find their own avenues of investments.
2) The North Eastern India is still untapped to become a manufacturing hub of our country and become a driver of development. Banks should focus more on this part of our country.

3) MSME has got a great push due to the governmental schemes and programs like Startup India, Stand up India, Make In India etc. The credit availability is still poor in MSME sector where a large part of the market is still led by unorganized lending. This can be new Blue Ocean for the banks.

4) The new world economic order post global economic crisis has preference for tailor made rather than standardised products and services. The Corporate should also focus on building a niche market for their products and services.

5) Rather than cutting each other across the competition, the banks should reconstruct their boundaries. They should focus on their own banking strategy. For example, the HDFC Bank with the Net NPA of less 1% has been very much focussed MSME lending. Also HDFC Ltd holds more than 60% market share in home loan business.

6) It is important to reach beyond the existing demand, the corporate should find out their own blue ocean. For example, a large part of Africa and Latin America still remains untapped.

Conclusion:
The paralytic banking sector with a lot of banking frauds are the result of the Red Ocean Strategy followed by Indian Banks for long time now. It is the time when banks are suffering from growing NPAs, escaping of their wholesale loan clients abroad, non-payment of interest and principal by corporate. Now, the solution to the problem lies only in the Blue Ocean Strategy, where banks will have to make their own niche market. They’ll have look into the larger picture and will have to strive for the achievement of long term goals of sustainable banking. They will have to look beyond existing demand. They will have to build strategy into execution. The Blue Ocean Strategy has the key to the issue of over-mounting corporate debts and diversification to the newer blue market has key to the risk distribution.

Bibliography:
1) Economic Survey of India 2016-17