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CONTEMPORARY BUSINESS CHALLENGES - STRATEGIES FOR GLOBAL COMPETITIVENESS

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Abstract: *Ever since the advent of business activity in the society centuries ago, profits and challenges have become natural concomitants of business. However, after the dawn of new economic policies in India since 1991, several new challenges emerged that have targeted and shook the very roots of even big business houses. As a befitting response, Indian business firms started devising strategies focused on competitive advantages that bestowed them an edge to emerge as globally competitive entities.In the light of the above, the present paper is designed with the purpose of analyzing the contemporary business challenges and the strategic responses of the companies for enhancing their global competitiveness.The paper is structured in three parts: The first part throws light upon the new emerging challenges faced by Indian business firms. The second part examines Porter's Diamond as a model for global competitiveness. The third part reviews four global strategies deployed by the companies venturing into the international trade.It is concluded that, contemporary challenges, though are formidable, can be successfully combated with a strong conviction on the part of top management. The desire of a company to achieve global competitiveness together with the sustained competitive advantages and core competencies built on cost and differentiation will make companies attain global competitiveness.*

Keywords: Business challenges, Competitive advantage, Global Competitiveness, Diamond Determinants, Global strategies.

JEL Classification: M1, M10,M190

INTRODUCTION

Ever since the advent of business activity in the society centuries ago, profits and challenges have become natural concomitants of business. While profits as rewards of business attract people to stick on to business, challenges become nightmares which terrify and deter business people. Success in business is the result of right balancing of these two factors viz., profits and challenges which are otherwise called 'risk- return trade off'.

Business activity in every nation is prone to a plethora of challenges.However, business people throughout the globe have been successfully combating the

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challenges by deploying various strategies. But the problem is that,the nature and magnitude of business challenges have been changing from time to time, from country to country forcing organizations to invent new strategies and techniques to fight with them.

Coming to the Indian context, after attaining independence in 1947 until 1990 the country has been ruled under the philosophy of protectionism, which has sealed the business activity in many sectors. However, after the dawn of new economic policies since 1991, India has been going through a continuing process of economic reforms and liberalization. The reforms have embraced almost all aspects of our economy. Policies relating to industrial licensing, foreign trade and foreign investment have been relaxed. The country's economy has been opened up, creating an environment for faster economic growth. This has however resulted in several new challenges that have targeted and shook the very roots of even big business houses.

METHODOLOGY

The present study is completely based on the secondary data and hence the information has been obtained from the review of earlier studies both in India and abroad, from various national and international journals, magazines and text books.

CONTEMPORARY CHALLENGES FACED BY INDIAN FIRMS IN THE LIBERALISED ECONOMY

Let us review certain challenges confronting the Indian business houses in the post liberalised period:

Disequilibrium as a Result of Business Liberty

As a result of liberalization, many entrepreneurs entered many industries of their choice which has disturbed the equilibrium of the industries by raising undue competition among the existing players. Business firms, which were all along nurtured in a highly protective environment, are now open to vicissitudes of a highly competitive market. Unlike in the past, profits could no longer be secured by merely obtaining a license and setting up an industrial unit. Profits are to be earned by playing the business game in a tactical way. Darwinism, which underscores 'natural selection and survival of the fittest', became applicable to Indian business. Only firms that have the needed management capability, strategy and competitive advantage will survivethe ordeal.Enterprises have to become fit or else quit.

Existing Notions on Scale of Business are Shaken

Earlier in India,the licensing policy of the government used to determine the economic size of the units. The then MRTP Act provisions also strictly restricted setting up of large size plants.Hence, industrialists were confined to smaller capacities of their plants.However, with opening up of the economy, the perception of economic size had undergone a drastic change. Economic size now means international size in most of the cases. Many companiesnow realized that they have to compete globally by increasing their scale of operations. This became a big challenge to the firms. While some companies like Reliance Industries relied on internal strength in enhancing capacities, many companies like Dr. Reddy Labs, Tata Steel, Tata Motors, Aditya Birla,etc.,sought mergers and acquisitions route for increasing scale.But companies that were either small or neutral to scale increase remained handicapped and became takeover targetslikeRaasiCements, Vishnu Cements which were took over by Indian Cements Ltd in the late 90s.

Heightened Competition

Itis the most visible of all challenges resulting from the opening up of the economy. Firms now face competition from many directions. Competition from Indian players, competition from MNCs and competition from imports are the various facets.With the rush of new entrants and the spree of expansions, mergers, acquisitions and diversification, Indian players are experiencing new and stiff competition from fellow Indian players in several industries like cosmetics, personal care products, passenger car, computers, banking, insurance, financial services, media, holiday resorts and so on.In the competition from MNCs, Indian brands are losing their strength. Once upon market leaders like Malhotras (blade market) and Parle (soft drink market) are lost for their competitors. Countering competition by buying it out is the objective of the MNCs in this brand takeover.Import liberalization hasresulted in a spurt in domestic competition. Several foreign products have flooded into the Indian markets. This has resulted in fierce, cut -throat competition that turned business field into almost a battle field. (V.S. Ramaswamy, S. Namakumari (2010), Marketing Management , 4th edition, (p 122), New Delhi, Macmillan.)

Changing Technology

Contemporary world is led by technology which has come to stay as a vital resource to all firms inalmost allindustries. It became equally important to product based industries and service industries as well. As technology is transforming everything including itself, it is increasing the rate of technological obsolescence. It is not an exaggeration to state that yesterday's new technology is turning out to be obsolete tomorrow. Companies are being forced to invest heavily in R&D. Keeping pace with the changing technology has become a big challenge to business firms.

Changing Buying Behaviour of Consumers

Much faster than Indian companies, Indian consumers have become global consumers in terms of increasing purchasing power, increased awareness and changing life styles. While soaring incomes raised purchasing power, the media revolution has greatly raised the consumers awareness. As C.K. Prahalad has put it: "consumers want to take part in the marketing process. There is a basic shift in the role of consumer from isolated to connected, from unaware to informed, from passive to active". (C.K. Prahalad (1994), 'Competing for the Future'- HBR.)

As Philip Kotler stated, it is not sufficient if companies do simply a good job. As consumers are facing abundant choices and looking for excellence in quality, value and cost,when they choose the products, companies must do an excellent job if they are to succeed in markets characterized by fierce competition." (Philip Kotler, Marketing Management, 8th Edition, Pearson Publishing House, New Delhi.)

The Challenge to grow as Global Entities

As perthe new trade policy of India, companies importing raw materials, components and so on, have to earn foreign exchange by way of exports. If not they have to buy foreign exchange in the market at market rate. As market rate eats away profits, companies are generally left with export option. However, this is not an easy task as most of the firms are lacking the required global competitiveness in terms of quality, technology and cost.

On the other hand, due to increasing competition companies are being forced to enter global markets. But the problem again is lack of global competitiveness. Indeed, India as a country, does not enjoy considerable national competitive advantage in many sectors except in IT.

Thus, while there is an imminent need to go global, firms have an impediment of global competitiveness. This is, in fact, a formidable challenge to the business firms.

Difficulty in Attaining and Retaining Talented Workforce

One of the key sources of building global competitiveness is the 'Manpower'. To cope up with transforming business world, skilled and committed employees are indispensible. India has huge population base with 60 per cent youth. But the paradox is that there is an acute dearth of skilled people. Another problem is the retention of skilled people. As competitive firms are on constant ride for snatching talented employees through 'Head Hunting', retention of them has become another challenge.

The Need for Speedy Launch of New Products

In the new environment, speed has also become a challenge for firms and marketers. They need to display speed in the entire innovation process in general, and cycle times for new product launch, in particular. There are three pertinent aspects relating to this.

a. Adoption of new products is taking place now-a-days at a faster rate.

b. Product life cycles are becoming shorter.

c. The time lags between launch of new products by the global majors in global markets and in India are compressed.

Hence, the companies are required to develop systems capable of responding to the changes in the markets with the desired speed and flexibility. The challenge is to design an organizational climate that will be receptive to the change and will speed up the learning.

The Challenge of Discontinuity

Discontinuity refers to change and uncertainty that are difficult to predict. In the period of discontinuity, future cannot be predicted on the basis of past. Anything can happen to firms as they have become vulnerable due to capital inadequacy, loss of monopoly, weak products, processes and brands.In an era of discontinuity, sales growth is not ensured even to firms like HUL. S.L.Rao, in his article in Economic Times, expressed this way: "Did anyone think until now Hindustan Lever would experience declining sales volume? Kellogg will innovate Indian flavours, P&G would lose money in India and Coke would promote local brands it had bought to kill. But this is what has happened. In fact MNCs are struggling to adapt to new India". (S. L. Rao (2002), The Economic Times, June.)

The above challenges have definitely impacted the Indian business houses. Giant firms like, Parle, Hindustan Motors, Ranbaxy, and so on in the private sector as well as many Public Enterprises like BHPV, Hindustan shipyard ,IDPL, etc., were adversely affected. However, a good number of companies like Tata Motors, Tata Steel, TCS, Aurobindo Pharma, Sun Pharma, Bharat forge, Reliance Industries, IOC, SBI, and so on, could devise strategies focused on competitive advantages that bestowed them an edge to combat challenges and emerge as globally competitive firms.

GLOBAL COMPETITIVENESS

The sharpest weapon that a company can develop to survive and thrive in the globalised market place is 'competitiveness'. (Lessons from India's Most Competitive Companies, Business Today, July 7-21, 1997.) It is the best way to fight against challenges which stems out of firm's competitive advantages. Competitive or strategic advantage is the firm's ability to create more value, on a sustainable basis, for the customers than its rivals can. (Porter, M. (1985), Creating and sustaining superior performance, Competitive Advantage, New York: Free Press.)

In the modern era of globalization, firms need to prove their competitiveness not only in their domestic markets but also in the world markets.

Strategies for Attaining Global Competitiveness

Organizations that aim to attain global competitiveness have to nurture internal core competencies or strategic advantages. This depends on four important elements Viz. Organisational Design, Management Vision and Process, Human force and Organisational culture. (Yip, *et al.* (1988), How to Take your Company to the Global Market, Columbia Journal of World Business, (Winter).

A congenial organizational structure is to be designed which facilitates the proper placement and performance of employees.

The top management needs to have strong intension to attain global competitiveness. This, in fact, is the main driving force. In tune with Vision, the management has to administer the management process effectively and integrate human force at all levels by fostering inspirational leadership. And the overriding aspect is the organizational culture that promotes work ethics,moulds the characters of employees and provides quality of work life.

Global competitiveness is not merely an issue of individual companies. It is a macro element which stems mainly from an industry's and nation's competitive advantage.

Porter's Diamond

Michael Porter stated that four national characteristics result in a congenial climate for developing globally competitive firms in particular industries. These factors, popularly known as Porter's Diamond, are:

- Factor conditions: The special factors of production such as natural resources, raw materials, labour, etc., that a nation is bestowed with.
- Demand conditions: The nature and size of the buyer's needs in the domestic market.
- Related and supporting industries: The existence of related and supporting industries to the ones in which a nation excels.
- Firm strategy, structure and rivalry: The conditions in the nation determining how firms are created, organised and managed and the nature of domestic competition.

In addition, there are two exogenous parameters namely,

- Government: Policies of government that facilitate global trade and the support given by the government to industry.
- Chance: It is an external factor which stays beyond the control of any firm.

Porter exhorted that the Diamond of comparative advantage leads to the development of localized knowledge clusters. (Porter, M. (1990) The Comparative Advantage of Nations, New York : Free Press.)

This seems to be true when we come across the cases of successful global industries from specific countries. The success of automobile industry in the U.S, watch industry in Switzerland, leather industry in Itlay and IT and pharmaceutical industries in India can be attributed to the implications of favourable local Diamond determinants. Let us see the example of Indian IT industry which is mainly based on the technical skills available at local costs, huge demand generated by domicile companies extending software services to foreign countries, availability of semiconductor and other supporting industries to produce computer hardware, the existence of IT clusters in many cities and the tough competition that Indian software firms faced coupled with the government support and the favourable situational factors supported the IT industry to gain its global competitiveness. Same is the case with Indian pharmaceutical industry which has all favourable Diamond factor determinants that made the industry globally competitive.(AzharKazmi, Strategic Management and Business Policy, 3rd edition (p 174), Delhi, Tata McGraw Hill).

GLOBAL STRATEGIC APPROACHES

Firms seeking global operations need to adopt the right strategic approachwhich will be generally based on two major considerations viz, Standardization and Localization.

- **Standardization:** In this, firms focus on minimizing cost by producing standard products and marketing them throughout the globe. Firms do follow ethnocentricism. Companies producing steel, petroleum products, personal computers, cameras etc., do carry this orientation.
- **Localization:** Here, companies will adapt to different foreign markets by making different products to suit national level differences in customer preferences, government policies, business practices and so on. These companies follow polycentric approach. Automobiles,Textiles, food, entertainment, insurance firms and so on, are moved by this consideration.

Standardization and Localization are two extremes.while underlying strategic advantage is 'Low Cost' in the former it is 'Differentiation' in the latter. Companies try to balance these two and in that process consider fourglobal strategies as suggested by Bartlett & Goshal.

International Strategy: In this, companies extend their products and services to foreign markets where these are not available. In other words, what is made and sold in the home country will also be made and sold in host countries.

Multi-domestic Strategy: Here, companies localize and customize their products to suit different foreign markets. There won't be any similarities between home country marketing mix and host countries marketing mixes.

Global Strategy: Here, companies attempt to make standardized global products by following low cost approach. It is not simple extension of what is made in home country. By treating the entire globe as one village, firms focus on making standardized products i.e., global products at certain locations around the globe which will be offered to global customers in an undifferentiated way in all countries of operations.

Transnational strategy: When firms integrate standardization and localization policies their strategy would be called transnational strategy wherein they transcend above the home country boundaries and integrate all host country operations. They utilize all the unique resources of the foreign subsidiaries. They treat all foreign subsidiaries on par with headquarters and they do not insist that expertise should move from headquarters to foreign subsidiaries and encourage the transfer of expertise from foreign subsidiaries to headquarters and even to other subsidiaries through a process called 'Global Learning or World Wide Learning'.(C.A. Bartlett & S. Ghoshal (1989), Managing Across Borders, Boston, M.A., Harvard Business School Press.)

INDIAN SCENARIO

History proves that a pretty number of Indian firms could become MNCs even before launching of liberalization and globalization policies. A.V. Birla Group was one of the early entrants to venture into South East Asia. Tata Steel, Tata Motors, TCS, Infosys, Wipro Asian Paints, HCL, Ranbaxy, Aurobindo Pharma, Sun Pharma and soon, have made forays into international markets very successfully. Though none of these firms can be said to be following transnational strategies, they are successfully implementing international and multi-domestic strategies. The colloquium on Indian companies revealed that Indian companies have adopted three strategic options while operating in overseas markets. They are outsourcing, internationalization and multi-nationalization.

Outsourcing is followed when the domestic market is small and unattractive like in Software Services, Business Process Outsourcing and Pharma Clinical Trials.

Internationalization strategy is followed by companies that are aiming to expand market and balance business risks in domestic market like Bajaj Auto, Jindal Iron & Steel.

Multi-nationationalisation is chosen by companies having substantial foreign business and which are now aiming to develop sustainable competitive position in several territories like Asian Paints, Wockhardt, etc. (J Ramachandran, *et al.* (2004), Indian Companies in Overseas Markets: Perspectives, Patterns, and Implications, Vikalpa, Volume 29, No 4, October – December.)

CONCLUSION

The nature and severity of domestic competition, higher level of cultural diffusion, emergence of regional trade blocks, development of communication and internet platform, the forces of globalization, government support have all led to a paradigm shift in the Indian corporate practices in that, now every reasonably successful business house is looking at the international markets and venturing into them with all their abilities. However, they need to focus more on building competitive advantages internally rather than just depending on the comparative advantage of the economy. The critical responsibility rests with the corporate leadership. Strong and conviction laden leadership is crucial for the success of Indian companies operating in foreign markets.

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