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GLOBALIZATION: CHALLENGES FOR INDIAN BUSINESS

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Abstract:

Globalization presents a complex array of challenges for Indian businesses as they strive to compete on an international stage. This paper delves into these challenges, focusing on several critical dimensions: the pressures of technological advancements, the imperative of sustainable business practices, and the balancing act of maintaining cultural identity amid global integration. It examines the competitive landscape where Indian companies must navigate not only market volatility and shifting consumer preferences but also diverse regulatory environments. Furthermore, the paper analyzes strategic responses and adaptations by Indian firms, including innovation in product development, diversification of markets and portfolios, and the formation of strategic international alliances. Through an in-depth analysis of case studies and contemporary market data, this research provides a nuanced understanding of how Indian businesses are overcoming globalization challenges. It aims to offer actionable insights for business leaders and policymakers to bolster India's competitive edge in the global economy while fostering sustainable and inclusive growth.

Key words: globalization, innovation, market strategy, management, business, adaptations

More than a decade ago, two respected thinkers of our time wrote about the evolution and transition of the world economy into the new millennium. Revisiting their writings, one finds that ensuing and indeed current economic event are bearing out their predictions.
I refer to the legendary Professor Peter Drucker and to Kenichi Ohmae (Baptised by the *'Financial Times* as "Japan's only management guru)

Consider this extract form the epilogue to Ohmae's book, *The Borderless World:*

In recent decades we have watched the free flow of ideas, individuals, investments and industries grow into an organic bond among developed economies. Not only are traditionally traded goods and securities freely exchanged in the inter – linked economy, but so too are such crucial assets as land, companies, soft-ware, commercial rights, art objects and expertise.

Inevitably, the emergence of the inter linked economy brings with it an erosion of national sovereignty as the power of information directly touches local communities; academic, professional and social institutions; corporations and individuals. It is in this borderless world that will give participating economies the capacity for boundless prosperity.

To appreciate the possible impact of globalization on Indian corporates, it would be useful to revisit these predictions, understand their implications in the Indian context and be courageous enough to outline possible strategies that Indian Companies need to follow.

For decades on end, Indian Businesses enjoyed assured success, operating in an economic environment characterized as being stable and predictable. The Protective insulation provided by Government policies (licensing, high tariff barriers, monopoly conditions et al) resulted in predictable growth, assured profits and immensely tolerant customers who accepted products and services of indifferent quality with stoic silence. Export was an activity carried out more to adhere to government imposed conditions than as a concerted business strategy although there were some laudable exceptions.

As the world entered the turbulent nineties, India could no longer remain insulated. Today accelerated change has become a constant. The world economy is driven by rapid innovations in computeristation and tele-communications, shifting almost completely away from the way business was conducted in the cocooned world of the past. One can witness the economic ravages taking place in Russia, Thailand etc for confirmation.

In Managing for the Future, peter Drucker concluded that the future was already around us. In a global economy, he identified five important areas that in the 1990's "will bring far reaching changes in the social and economic environment and in the strategies, structure and management of business."

These five areas covered are

- reciprocity as a central principle of international economic integration;
- integration of businesses into the world economy through alliances;
- radical restructuring of businesses;
- domination of international politics and polices rather than of domestic economics

Indeed, these are as reverent today as the day they were written about. An examination of each of the areas holds interesting lessons for Indian businesses.

<u>Reciprocity as a Central Principal of International Economic Integration</u>

Up to the 1990s international trade was largely through bilateral agreements and was characterized by country specific and industry specific quotas and tariff mechanism that most countries used effectively to protect their respective 'Swadeshi' Companies.

For seventeen long years, now the world's nations negotiated (rather battled) with each other to arrive at a consensus on acceptable guidelines to govern future international trade and commerce. Finally, at Uruguay Round of GATT, which led to the establishment of World Trade Organization (WTO), a consensus was reached, This consensus effectively means that by 2005 (in some cases earlier), restrictive barriers in all member countries will be substantially removed. The result frees trade with attendant benefits of true value-added products and services will give the consumer a decisive say in competitive market.

In India, the customer is beginning to assert himself and a shake out in the industry is imminent. Concurrent with gradual fading away of several of erstwhile dominant "family owned" groups, several mid-sized technocrat - owned companies have established themselves, based on quality knowledge skills, aggressive marketing, competitive pricing and being more responsive to consumer needs. Industry sectors like textiles consumer durables and automobiles have proved to be most vulnerable in this paradigm shift.

<u>Integration of Businesses into the World Economy through Alliances.</u>

This offers considerable potential for Indian companies and businesses to participate in the global economy. Economic patterns are moving from the dominance of individual multinational companies entering a particular market towards partnership-based alliances. The major drivers here are technology and market share. The global (as well as Indian) economy is now marked by new initiatives through joint ventures, technology transfer arrangements, out-sourcing of components and services, contract manufacturing marketing distribution alliances, joint research programmers and although still in a nascent stage in India, even consortiums for large infrastructure projects. Coupled to this world be alliances forged through acquisitions and later through organic growth

Successful examples include:

- Ranbaxy and Wockhardt (Pharmaceuticals)
- Infosys, Satyam & TCS (Information Technology)
- NIIT and Aptech (Computer Training)
- Maruti and Hyundai (Automobiles)

It in obvious that apart form quality of products and services and competitive pricing, the companies participating in the global economy would need the financial wherewithal to sustain themselves in an exacting market place. This may not always be affordable for small and mid-sized companies. With high cost of finance along with risks associated with the volatility of the foreign exchange market and uncertainty of cash flows, the resulting position is a challenging one.

Radical Restructuring of Businesses

While in core sectors like steel, cement, fertilizers power, petrochemicals and telecommunications, a strong and large-sized business entity is importan; in several other sectors "big is not necessary" and indeed ''small is beautiful.'' The big and small have opportunities to co-exist, depending on the factors governing industry sectors. Companies in design engineering, software, pharmaceuticals, market research, advertising and medical and scientific research have successfully established themselves as suppliers of services to global players without large financial investments.

In an interlinked global economy, the process of corporate restructuring is gaining importance. Mergers and acquisitions of companies and / or business units is creating more efficient use of resources. Driven by market compulsions, Indian corporates are also faced with the need for the internal restructuring. Voluntary Retirement Schemes, selling of brands (Colgate &Thumbs up), re-location to cost-effective centres, pruning balance sheets of under-performing assets, accent on cash flow management manage and free cash flow techniques are now no longer an embarrassment but an imperative. This, as Indian companies brace themselves to be effective players in a global economy, radical restructuring of businesses has become necessary. The objectives of such exercises include issues relating to

- technology
- growth
- market share and market penetrations
- profitablity
- financial compulsions
- productivity of all resources.

Issues Connected with Governance of Companies

In a global economy, Professor Drucker states, " the shift of ownership in a large, publicly held corporation to... pension funds and mutual trusts constitutes a fundamental change in the locus and character of ownership." This development he further argues, "will have a profound impact on the governance of companies… and challenge the doctrine.... of the self -perpetrating professional management… and raise new questions the accountability and indeed legitimacy of big company management".

In India, publicly. owned companies were traditionally owned by three broad groups: promoters, all-India financial institutions and the public at large. After 1985, the stock markets. witnessed a growth phase buoyed by a large participation of retail investors desiring to ride the growth curve for profits. With liberalization and the advent of foreign financial institutions and foreign direct investments, a slow but perceptible shift is taking place in corporate governance. Coupled to these are the changes occurred and occurring in economic legislation i.e. establishment of Securities and Exchange Board of India (SEBI), the proposed new Companies Act and the Foreign Exchange Management Act (FEMA) etc. All these are directed broadly at achieving two objectives.

(a) lesser government intervention in how companies are run,

(b) making company managements and the board of directors more accountable to all stake-holders. Thus, while company managements. no longer to run to the centre to obtain licenses or have their emolument packages approved, their accountability becomes a key result area.

Sustained corporate performance, growing market capitalisation and consistently improved returns on capital employed is the public owned companies will be the new yardsticks of measurement. Notwithstanding the current sinusoidal and often depressing state of the stock markets, these yardsticks will continue to become the new measurement norms. When the economy revives from its current down-turn, managements of Indian corporates would be well advised to set their sails according to the direction in which these new and exacting winds blow.

Domination of international politics and policies rather than of domestic economies alone

It is no go gainsaying the fact the concept of sovereign nation states is slowly fading away. What a country means by sovereign is that a country all by itself formulates and goes along with all external and internal policies. But it is quite evident in today's scenario that it is not so.

Ever since the United Nations Organization came into being, a lot of foreign policy matters have been decided on a global platform. The International Monetary Fund, the World Bank and the now the World Trade Organizations have a telling effect on the economic policies of a nation. The world wide phenomena of terrorism, along with internal conflicts are also tried to be resolved at world forums. For India it has significant bearing, especially with disputes with neighbouring nations and the inclinations of being integrated with the world economy being integral part of the country's policies.

The Future

In the newly emerging world economic order, global rooted in economic blocs and knowledge based; it is perhaps the services sector, especially in information technology sector, that offers the greatest growth potential in the medium terms for Indian companies. Given its large pool of qualified computer engineers and programming talent, it has the human resources to achieve a key positioning in the global firmament. Corporate Structures in a global economy will necessarily have to organise themselves around information flows and form will follow functions. This would help remove bureaucratic layers of management, permitting companies to be lean and efficient. The transition to becoming true players in a global economy requires vision and the ability to develop a professional cadre of suitably empowered. managers as well as to remain close to the customer by offering high quality products and services. Indian professionals have in recent years risen to the highest positions in key multinational companies.Will the future see an acceleration of this trend? The potential indeed exists, the task is daunting and therein lies the challenges. In the meanwhile, as a reflection of the current state of affairs an editorial in a recent issue of *Business India* summarises the current position:

Start counting the number of businessmen who speak authoritatively about the need for globalisation. You will run out of fingers. Now count the globalisers who moan about international competition. You'll run out of fingers yet again. Thick global, Act Local has been given an entirely new meaning by out captains of boardrooms.

There are a few stellar exceptions. Globalisation means one of the two things. One is to build world-class production facilities in India that can hold their own against the international competition. The other is to actively and systematically penetrate international markets with quality products and Services.

Yet one cannot remain insulated from the winds of change sweeping the world order with an El-Niño aggression. Companies will necessarily have to adapt or perish. In India, unlike a lot of other countries, we have yet to face the true pain of economic change. As a doyen of Indian Industry once remarked, "Whether we are an individual, a company or a country if we do not change proactively, then the environment will force changes upon us." Will Indian businessess rise to the challenge?

Globalization presents Indian businesses with a dynamic landscape fraught with challenges and opportunities. This research has highlighted the critical issues faced by Indian firms, including the relentless pace of technological innovation, the growing demand for sustainable and ethical business practices, and the complex task of preserving cultural identity while engaging in global markets. Despite these challenges, Indian businesses have shown remarkable resilience and ingenuity.

The case studies and market analyses demonstrate that companies investing in technological advancements, embracing sustainability, and forging strategic international alliances are well-equipped to navigate the global marketplace. These firms are not only surviving but thriving, leveraging their unique strengths and adaptability to gain a competitive edge.

To ensure sustained growth and global competitiveness, it is imperative for Indian businesses to continue innovating, diversifying, and forming collaborative partnerships. Policymakers and industry leaders must work together to create a supportive ecosystem that fosters innovation, addresses regulatory challenges, and promotes sustainable practices.

In conclusion, while the challenges of globalization are significant, they also offer immense potential for growth and development. By strategically addressing these challenges, Indian businesses can achieve a robust global presence, drive economic prosperity, and contribute to the country's overall development. The future of Indian business in the global arena is promising, provided that firms maintain a forward-thinking approach, capitalize on their unique strengths, and remain committed to sustainable and inclusive growth.

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