GLOBALISATION OF BUSINESS (GOB)

GOB refers to the process of global economic integration and is manifest in the form of enterprise seeking to operate their business on the premise of world-scale operations. Thus, the entrepreneur views the universe as the basis for his activities in different markets - factor market, capital markets and output markets. The entrepreneurs, therefore, have created for themselves the challenge of -

A) exploring factor endowments regardless of whether these are endowed to the mother land or foreign land;

B) maintaining competitive advantage to facilitate or edge over rival entrepreneurs;

C) exploring adequate investments in technology and markets to be abreast of the latest and the best on a global basis.

D) making timely pre-emptive strategic and tactic al moves to meet the changing complexion of business.
A. **Factor Endowments**:

Bertil Ohlin's theory that the economic activity will be guided by the comparative advantage that a country enjoys vis-a-vis other countries may have to be re-worded to say that Comparative Advantage at best is a necessary condition for attaining global success with respect to any economic activity. Converting the comparative advantage into a competitive edge over other competing enterprise seems to be the key parameter.

Further, even without comparative advantage through competitive advantage achieved by economic efficiency a country can achieve global success. With keen competition being seen sooner or later competitive Advantage will be more important than comparative Advantage. The contrasting position of India and Japan provide interesting insights into the situation. India has a comparative advantage in many areas but suffers from lack of competitive advantage.
for eg. India has the highest livestock population in the World but the lowest lactation yield. The Scandinavian countries without enjoying, a la India, a comparative advantage in the form of abundance of resources in this regard enjoy not only global success but acclaim for animal husbandry activities and dairy products.

Japan with limited factor endowments enjoys owing to its efficiency a competitive edge over most countries in the world.

Of course, the emergence of the little Tigers S. Korea, Taiwan, Singapore has altered the number of players and led to hopefully healthy competition.

B. Competitive Advantage:

Competitive Advantage stems from the value an enterprise is able to create for its customers in excess of the firms cost of creating it. Value means what buyers are willing to pay:

If the issue is global success a firm must be capable of creating 'superior value'.
Superior Value means:

i) lower prices than competitors for equivalent benefits;

ii) unique benefits that more than offset the higher price.

Competitive Advantage has 2 dimensions:

i) Cost Leadership;

ii) Product Differentiation.

In this context the competitive advantage enjoyed by India is rather pathetic. A recent Report on World Competitiveness shows India to be at the bottom of the ladder. Out of 10 countries: Taiwan, S. Korea, Singapore, Hongkong, Malaysia, India, Thailand, Indonesia, Brazil and Mexico, India got the:

a) 6th rank for economic dynamism;

b) 4th rank for future orientation;

c) 8th rank for market orientation and financial dynamism;

d) 9th rank for industrial efficiency and political stability;
e) 10th rank for human resources and external orientation.

Further, ranks given for export flexibility, employee productivity and product quality. India had the 10th rank for export flexibility and product quality and ninth rank for employee productivity. The information for 9 players were available. The bottom position runs contrary to our immediate need to improve the competitive strength to be a successful global player to redress balance of payments position and emerge as a healthy economic unit of the global. The impediments are -

a) a sheltered market which has made enterprise rather lethargic and inefficient. The economy has to be opened up to more players - local and foreign. This will expose Indian players to healthy competition and while it may create short-term distortions it will bring in long-term advantages. The case of Honda is relevant at this point.
The case of Honda of Japan can be illustrated: Honda was ranked as 5th in Japan because of intense internal competition in the Japan market. However, Honda perceived its market in a global context. Through rigorous exposure to competition in US markets, Honda became the first Japanese automobile company to build a manufacturing plant in United States. In fact, rather than inward looking, companies must look outward for exposure so that they can improvise their performance and outbeat other in the race. To that extent, there is a need for substantial upgradations of our capability to compete. There is a need for long-term vision and a lot of patience and perseverance before the profit motivation works out to the advantage of the entrepreneur.

b) Government controls - MRTP, FERA Licensing Policies and bureaucratic red-tape which saps the Zeal of the local/foreign entrepreneur. This causes delays in
decision making, with its chain adverse reaction on other parameters. The Government has to review the policies and mode of operation.

c) Very Poor Productivity: We have a comparative advantage in terms of plenitude of labour but a competitive disadvantage.

For instance: Mukand a steel company produces 255 tonnes of steel per man year. The companies abroad produce 4 times.

Again, a Japanese labourer costs the equivalent of about £25,000 per annum which is probably around twenty times more than what corresponding Indian workers would get. But if you visited a modern Japanese food factory which makes millions of packets of food items per day, you will find that it has less than twenty people for working three shifts. If one were to visualise a similar factory in India we will probably have over 3000 people.
D) **David v/s Goliath:**

In India 'think small' slogan has also played havoc.

Whatever the social objectives of small sector and controls on large sector, today size is an important dimension influencing the ability to be a successful global player. For eg:

1) **Tyres**

10 companies competing with each other. These companies are not able to withstand competition on a global basis.

**CEAT Tyres**

ii) Mukand's 300,000 tonnes per annum is less than half of what it would be in Europe. Of course, for want of internal markets, expansion is constrained.

iii) Mahindra and Mahindra is giant at home with a capacity of 10,000 light weight trucks per annum. But in Japan, the capacities are at least 8 times more.
E. Project Management:

142 private sector projects delays in clearance led to cost over-runs of a whopping Rs. 17,160 crores in the seventh plan period (1985-90). Time over-runs and cost over-runs have to be seriously monitored if the Government and the entrepreneurs mean business. A classic example is in order:
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Product Differentiation:

To acquire competitive advantage the right approach to marketing - global marketing. In many quarters marketing is viewed as a bad manipulative practice. This attitude has to leave way for a positive approach. It should be noted that globalisation of markets is guided by "internalisation of consumer expectations, larger markets stimulating R & D and marketing, technology creating new global markets". We need products with "Global hearts" and "local peripherals"
Product differentiation also requires continuous improvement and investment in brands. In fact marketing is becoming more capital intensive than production facilities. The 'Surf' re-launch led by Unilever a few years ago cost 100 million dollars by way of advertising and promotions. This was in addition to £60 million for increased manufacturing capacity. Renowned brands like Kodak, Lux, Lipton or Coco Cola are worth millions. They have to be constantly safeguarded, protected from copying and carefully nurtured. Indian brands like 'Hamam' Mysore Sandal have the potential to emerge as global brands. Through brands the producer communicates the exclusiveness of value content of the product. So, Indian enterprise have to evolve brands that can acquire global status. The sheltered Indian market has resulted in a rather narrow and parochial alignment with local markets. This attitude must change.

Technological Development.
The information revolution has made it possible to covert the sprawling universe into a global electronic village. As a result decisions can be taken with lightning speed.
within decreasing reaction of time to Companies can quickly respond to the problems that face them. However, this requires readiness to invest in new technology and also make use of the technology. Two examples are in order.

First, a firm in Boston has its suits and dresses made in Hong Kong but has improved quality and speed considerably by hiring direct satellite time between Boston and Hong Kong so that models in Boston can wear the dresses and show the details to the tailors in Hong Kong on high definition television in real time.

Intensification of the use of technology in foreign exchange dealing room and in treasury functions. The technology could be used at extremely low marginal cost to support new markets. In the absence of the technological base, it would be difficult to run a market on a significant and controlled scale.

Second, the changing financial scenario—new products and instruments of finance have been aided and accelerated by the revolutionary changes in informatics, electronic data processing and telecommunications. These technological advances have increased the ability of the financial institutions to operate
on a cross border basis round the clock and to take advantage of price differentials at small transaction costs. And as the former governor of R B I Shri Malhotra says "Competition has improved the quality of financial products, reduced market segmentation and brought down the cost of intermediation to the advantage of the consumers".

Timely Pre-Emptive Moves

a) Decentralisation

The Technological Developments have assured an information base which can be fed at mysterious speed to the managers from one corner of the Globe to another. However, the organisational structures have to be adequately decentralised to permit managers receiving the information to be empowered with adequate decision making authority. And in turn, the manager in charge of the local operations should have the resources, initiative and capabilities to respond to the emerging situations.
b) Joint Ventures

It is not that Indian entrepreneurs are not attempting to go global. For instance, a Calcutta based company Indian Fine Blanks which is manufacturing fine blanks which are used as inputs for tools and dies is exporting 'Blanks' to Europe. The European market is growing and this particular company has a good export market in U.K. In anticipation of trade barriers after 1992, the local entrepreneur has initiated a joint proposal and has agreed to provide technical knowhow to a British Company and has sought 40% participation in the equity. The proposed venture is to be set-up in U.K. It is believed that this proposal is likely to go through.

d) Bajaj Scooters — Vision of Top Management

Another example of an Indian entrepreneur having vision and intending to go global is 'Bajaj Scooter! At a time when the Bajaj Scooter was enjoying a total command over the Indian market. Rahul Bajaj had visualised the need for export and also quality. The world market was reference levels. However, due to technical problems with 'Piaggio' in Italy, the company which had given technical know-how to Bajaj, this proposal could not see
the light of the day.

(d) SBI - In Europe

has considere
the various options available in the proposed financial integration
in the EC and have come to the conclusion that incorporation of
a fully-owned subsidiary for European operations in a Member State
before 1992 appears to be the most desirable alternative and the
feasibility of this is being actively examined. We are aware of the
fact that the challenge of 'Europe 1992' will have to be tackled
on a top priority basis, under a strict time-bound schedule.