CHAPTER 1

Business and its Environment —An Introduction

CHAPTER OUTLINE

What is Business?

- *Scope of Business*
- *Characteristics of Today's Business*
- *Business Goals*
- *Critics of Business*

What is Environment?

- *Knowing the Environment*
- *Objectives and Uses of Study*
- *Process of Environmental Analysis*
- *Limitations of Environmental Analysis*
- *Organisation for Analysis*

LEARNING OBJECTIVES

After reading this Chapter, you should be able to:

1. *Understand the nature and scope of business*
2. *Shortlist characteristics of contemporary business*
3. *Define vision, mission and goals of business*
4. *Describe criticisms of business*
5. *Understand the nature of environment*
6. *Understand the process of environmental analysis*
7. *Suggest a suitable organisational arrangement for scanning the environment.*

This is an exciting and challenging time to study business environment. Never before the business environment has been so volatile and dynamic as it is today. Never before the challenges of managing a business successfully as daunting as they are now. Never before there were as many opportunities to strike and prosper as they are seen now. And never before, reading of this book was more appropriate and galvanising than it is now. Welcome to the ever green field of business environment. We will explain to you the nature of business first followed by other perspectives of business environment later.

NATURE OF BUSINESS?

Business may be understood as the organised efforts of enterprises to supply consumers with goods and services for a profit.

Business may be understood as the organised efforts of enterprises to earn profit. Business may be small or big in size, but all of them aim at making profit

Businesses vary in size, as measured by the number of employees or by sales volume. Large organisations such as Steel Authority of India Limited (SAIL) and Tata and Iron and Steel Company Limited (TISCO) count their employees in the hundred thousands and their sales revenues in thousands of crores. But most business units in our country are small units-independently owned and managed and employing fewer than twenty employees each.

Whether a business unit has one or two people working at home, 10 operating in a retail store, 1000 employed in a factory, or 100,000 operating in multiple units spread across the country, all businesses share the same purpose: ***to earn profits***.

The purpose of business goes beyond earning profit. It is an important institution in society. Be it for the supply of goods and services; creation of job opportunities; offer of better quality of life; or contributing to the economic growth of the country and putting it on the global map; the role of business is crucial. Society cannot do without business. It needs no emphasis that business needs society as much.

SCOPE OF BUSINESS

The scope of business is indeed vast. Let us assume that you have decided to buy an automobile.Behind your purchase, there is the supplier of raw materials; there is the manufacturer who converts these raw materials and other inputs into usable vehicles; there is the dealer who makes the vehicles available at places convenient to you; there is the transport agent who assists in moving materials to the manufacturing plant and vehicles from plant to the market; there is the banker to finance various activities; there is the advertising agency which tells you about the vehicles, where and how they can be procured; there is the insurance agent who assumes risks on your behalf; and a host of other activities. Not only an automobile, even a simple item such as a ball pen necessitates a long chain of activities so as to make your purchase possible.

The scope of business is vast. The various different activities that bring raw materials to the factory and the end product from there to the market constitute business

The multitudinous activities involved in bringing raw materials to the factory and the end product from there to the market constitute a business.In other words, business includes all activities connected with production, trade, banking, insurance, finance, agency, advertising, packaging and numerous other related activities. Business also includes all efforts to comply with legal restrictions and government requirements and discharging obligations to consumers, employees, owners and to other interest groups which have stakes in business directly or indirectly.

What is important and what needs emphasis in the term '*business*' is that all the above activities are being organised and carried on with an important purpose, viz., earn profit by supplying goods and services to consumers to satisfy their felt needs. Thus, people occupy a central place around whom, by whom and for whom business is run. Business is people.

No wonder the principles and practices of managing a business are finding their place in non-business organisations too. Take an NGO (non-profit organisation), a hospital, or a B-School, you find designations of individuals like Vice-President, executive, and corporate and business practices like TQM and re-engineering being replicated. These and similar other organisations do not claim to work for profit but what all they do, do reflect business functions. They are justified in doing so. Competition among them is so severe, that they need to professionalise their practices if they were to survive and prosper.

CHARACTERISTICS OF CONTEMPORARY BUSINESS

When we describe the characteristics of today is business, we keep in our mind the Indian business. The Indian business has some interesting and unique features such as - transition, competition, opportunities, globalisation, technology and information (See Fig.1.1).

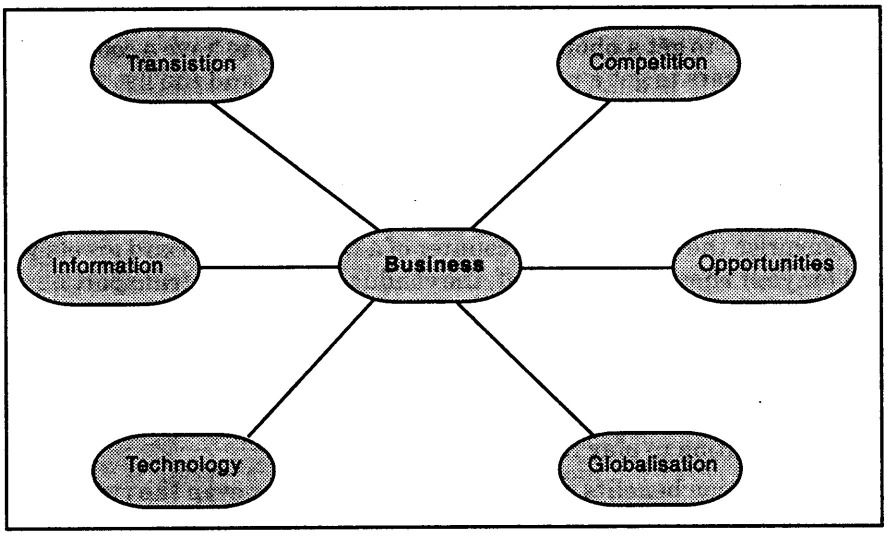


Figure 1.1

Characteristics of Indian Business

Business in Transition: For a long time, business in India was conducted in sheltered markets covering up inefficiencies, low productivity and high cost. Then came 1990s which lifted all protectionist measures. This followed by increased globalisation, changed the scenario altogether. The Indian business leaders find totally a new environment characterised by competition, both from within and from foreign businesses. Those who are competent are able to survive and those who are not are perishing. A typical business leader finds himself sandwiched between the compulsions of the new business envi-

A typical business person is sandwitched between the compulsions of the new business environment and of the old parcties of doing business.

ronment and of the old practices of doing business. But there is no escape for him-he should shift himself from the left of the following continuum and move to the other end.

Rigid, hierarchial and tall structures	→ Flexible, flat and team based structures
Family centric, closed minded and secretive environment	→ Dispersed ownership, open minded, and transparent environment
Caste ridden, superstitious, laid-back styles of management	→ Rational thinking and vibrant styles of management

Pressure of Competition: As stated above, Indian businesses are competing among themselves and are exposed to competition from foreign firms. Competition though unwelcome to managers, is a boon to customers. Look at the experience of buyers and users in India. Recollect the scenario about 20 years back. Businesses enjoyed visual monopoly and this advantage they used to squeeze customers. Scarcities, high prices and low quality were the order of the day. One had to wait for 6 to 7 years to get a phone connection, 3 to 4 years to have a cooking gas connection, 8 to 10 years to get a new two-wheeler released and the list goes on.

The scenario is a contrast today. The customer has a choice. He or she can pick and choose. 'Customer is the king' was a mere slogan earlier. Now it is being practised. For the first time, the officer at the counter of an office of LIC greets you with a smiling face, the clerk in a bank addresses you politely as Sir or Madam, and for your surprise the cashier at the counter of a water supply board greets you politely and for your shock and disbelief, the conductor in a local transport bus is now the embodiment of politeness and cooperation.

Competition benefits the consumer as has been proved in our country. Government of India should have realised this fact longback and instead of enacting numerous consumer legislations in the name of protecting consumer interests could have allowed competition to play its free role.

Not that competition benefits only consumers. If benefits even the rival firms. Competing firms benefit from having strong domestic and foreign rivals.

Competition, for example,

> Competition benefits rival firms by defining new ways of doing business, helping build new capabilities, building new customer satisfaction standards, making business executives become proactive

- — defines new ways of doing business,
- — helps build new capabilities,
- — builds new customer satisfaction standards, and
- — makes business leaders become proactive.

Immense Opportunities: Though Indian business faces stiff competition, it also has plenty of opportunities which can be exploited to one's advantage. BPO, Call Centres, IT, ITEs, wealth management, risk management and private banking are the new names that are doing rounds in business.

But the real opportunities lie in the traditional sector, - viz. industry. Globally competitive manufacturing can be done in India. In diverse sectors-pharmaceuticals, chemicals, textiles, metals, refining, cement, auto and ancillaries, India has factories doing well and even exporting large portions of their output. Many MNCs look at India as export-base. Suzuki and Huyndai perceive India as a car club. ABB plans to make India a global sourcing base for some of its products.

India has potential to emerge as the second global manufacturing base after China. In its recent report 'Made in India', McKinsey and Co. has stated that the second and much bigger wave of manufacturing outsourcing is yet to come. The first wave was $460 billion and consisted of low technology products like toys and garments. The second wave would reach $1.6 trillion and will include high technology sectors like automotives, engineering and chemicals. When the second wave comes, the beneficiaries will be India or China, or both.

Some examples of companies seizing opportunities are worth recollecting. Toyota Kirloskar's Bidadi's plant, near Bangalore, has the highest yield of steel plates in the Asian operations of Toyota. This means that the Indian engineers and their innovations are able to make more money out of steel than elsewhere in the vast Toyota world. Ford's Sriperambadur plant, near Chennai, is at the top among all Ford's plants worldwide, in terms of production efficiency. The plant now exports engines and panels to South Africa among others. Bajaj Auto's new plant at Chakan is world class. Tata Motor's Indica is perhaps the cheapest new car in world in terms of developmental expenditure. Tata Steel has emerged as one of the lowest-cost manufacturers of steel in the world. Jindal Stainless recently bagged an order to supply coin blanks to Monnaire De Paris - the French national mint. This means that some 7.5 bn Euro coins will use Indian stainless steel.[1]

Commodity business is another area where Indian companies are in a stronger position. L.N. Mittal in Steel, Ambanis in Polyester, K.M.Brila in Viscose Fibre, and Bhart Forge in forgings are only some names that come to one's mind while we talk about the commodities stage (see Table 1.1).

Table 1.1 *Commodity Czars*

Company	*Product*	*Annual Capacity*	*Rank*
Mittal Steel	Steel	70 million tonnes	1
Birla Viscose	Viscose fibre	251,850 tonnes	1
Basell (Chatterjee/Access)*	Polypropylene	8 million tonnes	1
Reliance Industries	Polyester	1.8 million tonnes	1
Hero Cycles	Cycles	5.2 million units	1
Essel Propack	Laminated Packaging	4 billion units	1
Bharat Forge	Forgings	102,900 tonnes	2
Moser Baer	Optical media storage	2.5 billion units	3
Hero Honda	Two-wheelers	2.6 million units	1
Jubilant Organosys	Pyridine	22,500 tonnes	2
Orchid Chemicals	Cephalosporin	1,100 tonnes	5

*Deal yet to be concluded

(**Source**: *Business Today*, June 5, 2005)

What makes Mittal, Birla, Ambanis and the others command such enviable positions? Three reasons explain their commanding positions. *First* the low cost production. *Second* is the confidence these entreprenues love – confidence derived from their increased competitiveness and global outlook. *Third,* countries that were traditionally centres of manufacturing are finding their competitiveness eroded by other low cost countries, and are therefore opting out of the race. In Europe, for example, a number of small auto-component manufactures are selling out and are being taken over by the likes of Bharat Forge.

Globalisation: Going international is yet another trend followed by modern business houses. Political boundaries are no barriers to business. Production facilities are being set-up in different countries and products are being sold through a global network. Gradually, business houses are exposed to global competition which augurs well for consumers.

> Modern business necessitates globalisation. Technological innovation, crumbling trade barriers, FDI, information explosion, infusing of market competition, changing life styles and demand for new products are the triggers of globalisation

Infact, internationalisation or globalisation is fast becoming imperative for modern business due to technological innovations; crumbling trade barriers; global flow of capital and technology; information explosion; intensity of market competition; changing life styles and the demand for new products. The success achieved by Japan and other Asian countries has demonstrated that imaginative and supportive economic and trade policies — domestic and external, accent on technological innovation, product design, quality, price, marketing strategy and infrastructure back-up play a vital role in carving a niche in the international business arena. Internationalisation of business is a means of sustaining a strong domestic base in terms of technology, product, market and the capital over a longer period. Globalisation will be discussed in greater detail in subsequent chapters.

Technology: Business is characterised by increasing use of technology. The impact of technology on business is pervasive. The way production function is organised; the way products are marketed; the way employees are hired and motivated; the way finance function is carried on; and the way managers and subordinates communicate with each other-all are influenced by technology. Because of its significance, we have devoted a full section to discuss the various dimensions of technology.

Information: Another characteristic of contemporary business is the recognition of and the need for information. The whole area of retrieving and extending information, including data processing, information systems analysis and preparation of effective records and reports, has achieved a major status. The complexities of modern business and government requirements have spearheaded this growth. But the vital reason for progress in this area is the availability of the computer and electronic devices that have made feasible the quick and accurate gathering, processing and distributing information. Man is now free from the drudgery of much detailed paperwork. He can further enhance progress by feeding proper information to proper people.

Meanwhile, Information Technology (IT) itself is subject to revolutionary changes. From a handwritten sheet of paper to typing to stencil cutting to photocopying to floppies to cyberspace, the advancement in information technology is commendable.

As business gets globalised, online communication across the world would be highly useful. This can be seen in all spheres of human endeavour to succeed.

BUSINESS OBJECTIVES

Before we describe business objectives, it is desirable to be clear about related concepts, viz., vision, mission and objectives.

Vision: A vision is a broad explanation of why the firm exists and where it is trying to lead. The vision provides the point of reference on the horizon-a beacon of light. The vision seeks to answer the following questions:

> Vision is a broad and hazy explanation of why the firm exists and where it is trying to march ahead. Vision is a beacon of light.

Where do we go from here?

What changes lie ahead in the business landscape?

What differences will these changes make to the company's present business?

The vision gives the organisation a sense of purpose and a set of values that unite employees in a common destiny. The most effective vision is the one that inspires, and this inspiration often takes the form of asking for the best, the most or the greatest. It may be the best service, the most rugged product, or the greatest sense of achievement, but it must be inspirational. The vision of Infosys is-

"To be a globally respected corporation that provides best-of-breed business solutions, leveraging technology, vendors and society at large."

Mission: A mission statement outlines the fundamental purpose of the organisation. A vision becomes tangible as a mission statement. If the vision statement answers the question "where do we go from here?", the mission statement answers "What is our business?"

> Mission statement seeks to give a difinite meaning to vision. If vision seeks to answer the question "where do we go from here", mission answers "what business we are in right now?"

A mission statement typically gives the organisation its own unique identity, business emphasis, and path for development. A mission statement incorporates four elements:

1. Customer needs, or **what** is being satisfied.
2. Customer groups, or **who** is being satisfied.
3. The company's activities, technologies, and competencies, or **how the firm goes about creating and delivering value to customers and satisfying their needs.**[2]
4. The company's concern for survival, its philosophy, its self-concept and its concern for public image.

As stated above, mission statements are highly personalised-unique to the organisation for which they are developed. It is, therefore, normal that different firms in the same industry shall have different mission statements. The mission statement of Tata Motors is different from the mission statement of Toyota Kirloskar.

The mission statements of some companies are as follows:

"To achieve our objectives in an environment of fairness, honesty, and courtesy towards our clients, employees, vendors and society at large" (Infosys).

"Ford Motor Company is a world leader in automotive and automotive-related products and services as well as in newer industries, such as aerospace, communications, and financial services. Our mission is to improve continually our products and services to meet our customers' needs, allowing us to prosper as a business and to provide a reasonable return for our stockholders, the owners of our business."

Though mission statements are the hallmarks of successful organisations, not all Indian firms do have them as shown in Table 1.2.

Table 1.2

Written Mission Statements

	Present	Absent	Under preparation
Manufacturing Sector	80%	17%	3%
Services Sector	69%	19%	12%
Infrastructure	50%	33%	17%
Overall	72%	18%	10%

(**Source**: *Business Today*, Feb 22-March 6, 1998).

Objectives

Mission statements are more specific than vision statements, but are not to be taken as concrete directions for action. Objectives render mission statements more concrete. In other words, mission statements seek to make a vision more specific and objectives are attempts to make mission statements more concrete. In short, they are compatible to each other. Objectives, therefore, represent the operational side of an organisation. (Read box 1.1 for a jinxed case of failed objectives and forgotten mission). We focus on objectives here.

It may be stated that a typical business unit seeks to achieve more than one objective and there are always restraints to the attainment of some objectives. Objectives vary with the passage of time. Objectives common to most contemporary businesses are explained here (Also see Fig.1.2).

1. Profit: Making profit is the primary goal of any business enterprise. Profit is the excess of income over expense. Profit is the main incentive, motivator, strong sustainer, judicious allocator of resources, objective indicator of productivity and a solid basis for growth, expansion and survival. Profit enables a businessman to realise his other objectives too.

Not all enterprises are interested in making profits. For example, hospitals, schools, charitable institutions and government agencies are not basically concerned with the acquisition of profits. The non-profit enterprises customarily rely on gifts, endowments, receipts from money raising projects, subsidies or taxes for sustenance. The basic objective of these establishments is the provision of a service which is socially desirable and useful (See also Box 1.2).

In profit-making enterprises, profit should not be the end in itself. Profit should be the beginning — acting as seed money for more products, more plants, more dividends, more tax payments, more jobs and more opportunities. Profits should promote the well-being of all... the rich and the poor; privileged and less privileged; consumers and producers and investors and non-investors. Ignoring this and over-emphasizing

Box 1.1

Failed Objectives and Forgotten Mission

ET & T was set up in 1974 with a very small capital base of Rs.50 lakh only. This was raised in 1985 to Rs.5 crore, which was also not a very substantial amount in relative terms. The activities were being funded mainly by borrowing from other public-sector undertakings and the Government of India. The number of employees is less than 500.

Objectives and performance

To understand the true nature and large dimensions of ET&T's intended role in India's nascent electronics industry in the past two decades, one must look at its Memorandum of Association, which had spelt out the following objectives among others:

–to import and distribute in India electronic goods in short supply;

–to promote exports of all types of electronic products, and to explore and develop new markets abroad;

–to undertake techno-commercial negotiations with foreign organisations, in order to identify, locate, modify and standardise electronic plant and equipment for use in India;

–to locate proper technical know-how for production and development of electronic goods and infrastructure, and import these from abroad; and

–to promote joint production ventures with foreign enterprises.

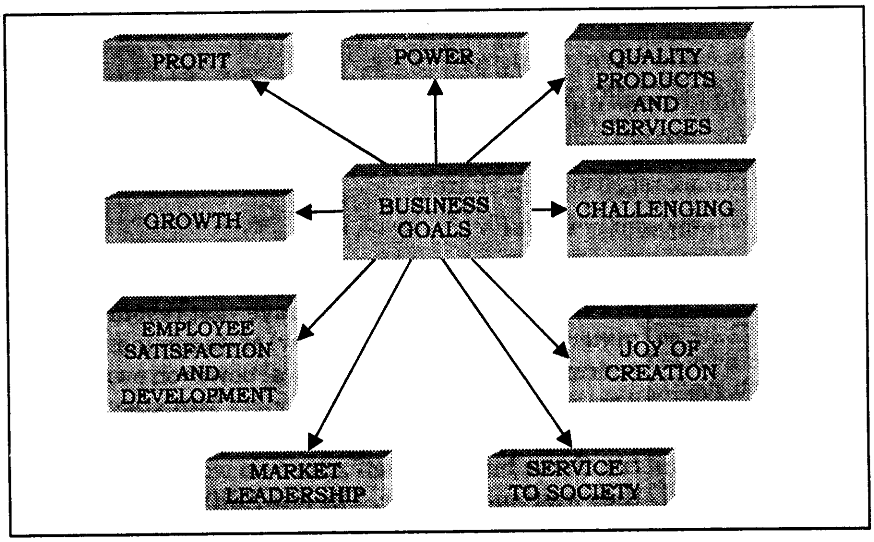
The CAG sums up ET&T's performance vis-a-vis these basic purposes (read mission) as follows:

....The corporation has confined itself primarily to trading activities, by importing certain electronic equipment (mainly television picture tubes), selling kits of electronic items like TV sets, and undertaking limited exports of Indian electronic goods....

'Very little was done for achieving objectives like development of the Indian electronics industry through import of technical know-how, techno-commercial negotiations with organisations abroad, joint production ventures, and diversification of exports of Indian electronic goods'.

Figure 1.2

Business Objectives



Box 1.2

Institute of Excellence

The Indian Institute of Management, Ahmedabad (IIMA), was set up in 1962 to pioneer professional management education in the country. It was set up with the support of the Government of India, the Government of Gujarat and industrialists of the city of Ahmedabad. By 1990 IIMA was widely regarded as one of the foremost institutions of its kind in the Third World. It had trained nearly 19,000 Indian managers, and nearly 4,000 doctoral and MBA students had graduated from it. Its faculty had written some 2,000 Indian management cases, nearly 3,000 technical notes and papers, and 600 books and research monographs. Very early in its history, IIMA decided that it was going to be a school of management, not just of business management. In other words, it was committed to bring professional management not just to the Indian corporate sector but also to such nationally important sectors as agriculture, rural development, health, education, energy, transportation and banking. In the nineties, it was committed to making contributions to such areas of management as strategic sick industries and their rehabilitation, pioneering and innovative entrepreneurship, the globalisation of Indian corporate management and the formulation and implementation of industrial policy. A national poll in 1991 indicated it to be the most highly regarded of all management institutions in India. And it is too well known that IIMA is a non-profit organisation.

profit may bring early death to an enterprise. For instance, wrote George R.Terry, *"promoting only products with high margins (to earn profits), ignoring research, and failing to provide working conditions satisfactory to employees, may in the ultimate, bring about the demise of an enterprise."*[3]

2. Growth: Growth is another primary objective of business. Business should grow in all directions over a period of time. An enterprise which remains stagnant for long is presumed to suffer from an organic defect.

The strategies adopted to achieve growth are:

(a) add more products/markets;
(b) diversify into new areas;
(c) integration—forward or backward;
(d) increase market share;
(e) expand markets or
(f) cut down costs and increase productivity.

Business confers enormous power on owner and endows them with vast resources. Business executives make and unmarke political parties and political leaders.

3. Power: Business houses have vast resources (in the form of money, materials, men and know-how) at its command. These resources confer enormous economic and political power on owners and managers of business ventures. Next to the Prime Minister and Chief Ministers, perhaps, it is the business people who enjoy considerable clout in our country. Some businessmen mince no words in expressing the desire that they want more power. The late Aditya Birla used to assert that he built his empire to get more power.

Several enlightened businessmen have used their power for the good of society. One such illustration in our country was J.N.Tata, who passed away in 1904. He was a pioneer in industry, research, health care, art, literature and in many other areas. His name inspires awe and respect. It is hard to imagine what would have happened to the industrial map of our country if J.N.Tata had not been born in 1839 in a family of Parsi priests in Gujarat. *"He was above all a patriot"*, wrote *The Times of India* (April 13, 1912) *"who made no public speeches. To his mind, wealth and the industry which led to wealth, were not ends in themselves, but means to an end, the stimulation of the latent resources of the country and its elevation in the scale of nations."*

4. Employee Satisfaction and Development: *"If you want to plan for a year, plant corn. If you want to plan for 30 years, plant a tree. But if you want to plan for 100 years, plant men"*-so goes a Chinese proverb. Business is people, said we, in the beginning of this chapter. Caring for employee satisfaction and providing for their development has been one of the objectives of enlightened business enterprises.

Concern for employees continues to be an important aspect of management, contrary to the expectation that human element will lose its significance thanks to automation. In fact, quality of personnel is considered to be one of the hallmarks of best managed and highly respected companies.

The Tatas are a legend in pursuing this objective. Either in implementing labour welfare measures, constituting safety and security measures, or in providing training and development facilities, the name of Tatas should be mentioned first.

5. Quality Products and Services: Providing quality products and services is yet another objective of business. Those who insisted on and persisted in quality survived competition and stayed ahead of others in the market. Persistent quality of products earns brand loyalty, a vital ingredient of success. Hindustan Lever is flourishing mainly because of the quality of its products. Some of its products like Liril, Vim, Lifebuoy, Surf, Rin, Sunlight, Signal, Close-up, Lux, Rexona, Pears and others have become household names throughout the country. These products are accepted by buyers as safe, of high quality and reasonably priced. Behind its quality products, Hindustan Lever has an excellent Research and Development (R&D) set-up and a high degree of professional management. The company is sitting pretty and is almost invincible.

There are other business people who believe in quick money. Quick money comes through short-cuts. These are the people who give us razor blades which fail to give us one smooth and neat shave, bulbs that do not give at least 100 light hours of service, leaky taps and adulterated goods. Such enterprises will not survive for long.

6. Market Leadership: To earn market leadership is yet another objective of business. To earn a niche for oneself in the market, innovation is the key factor. Innovation may be in product, advertising, distribution, finance or in any other field. Blow Plast retains its market leadership by introducing soft luggage bags and totes. Hindustan Lever earned leadership in tooth paste by introducing mouth-washer in its 'Close-up.' Asian Paints adopted unconventional channels for the sale of its paints, which has pushed them ahead of their competitors. Ambani of Reliance Textiles introduced convertible debentures which have become attractive. This and other financial wizardies enabled Reliance to receive unprecedented response from investing public to any of its issues of securities.

7. Challenging: Business offers vast scope and poses formidable challenges. Success in a business venture smacks of the abilities of individuals who own and failure betrays their inability and incompetence. The worth of an individual is tested more in business than in any other profession.

For Ratan Tata running business has been a challenge. Confessed Tata is an interview thus: "I have asked myself this quite often. I don't have monetary ownership in the company in which I work and I am not given to propagating the position I am in. I ask myself why I am doing this and I think it is perhaps the challenge. If I had an ideological choice, I would probably want to do something more for the uplift of the people of India. I have a strong desire not to make money but to see happiness created in a place where there isn't".[4]

8. Joy of Creation: It is through business strategies new ideas and innovations are given a shape and are converted into useful products and services for the benefit of customers. (See Box 1.3)

Box 1.3

Story of Xerox

The story of Xerox has an old-fashioned, even a 19th century ring-the lonely inventor in his crude laboratory, the small, family-oriented company, the initial setbacks, the eventual triumph, gloriously vindicating the free-enterprise system.

The story flashes back to 1938 and a second-floor kitchen above in a bar in Astroia, Queens, which was being used as a makeshift laboratory by an obscure 32 year old inventor, named Chester F.Carlson. The son of a barber of Swedish extraction, and a graduate in physics of the California Institute of Technology, Carlson was employed in New York in the patent department of P.R.Mallory and Co. In quest of fame, fortune and independence, Carlson was devoting his spare time, trying to invent an office copying machine, and to help him in this endeavour, he had hired Otto Kornei, a German refugee physicist. The fruit of their experiments was a process by which, on October 22, 1938, after using a good deal of clumsy equipment and producing considerable smoke and starch, they were able to transfer from one piece of paper to another the unheroic message "10-22-38 Astoria." Thus, photocopying was born.

The idea of photocopying was then taken over by one Mr.Joseph C.Wilson of the Haloid Company which was manufacturing photographic papers. Overshadowed by the giant in the field, namely, Eastman Kodak, and dispirited by the Great Depression, Haloid Company was desperately looking for a new product which would bail the firm out of trouble. The idea of photocopying inherited by Carlson was a godsent opportunity to Haloid Company. Not that the company could reap fortunes out of the idea immediately. For several years, sleepless nights were spent and millions of dollars were poured in to further improvise the idea of Carlson. Only in 1950's, the real breakthrough was achieved and from then onwards, it was smiles all the way to the bank for everyone associated with the Haloid Company, which was subsequently named as Xerox Corporation. It was indeed joy of creation for both Carlson, the inventor as well as for Joseph Wilson, the developer. (See **Business Adventures** by John Brooks.)

Although it may be too difficult to list all the products and services that business houses have provided us till now, it is interesting to mention that in the coming two or three decades, the following will receive considerable attention from researchers and business people:

- Readily available artificial human organs, except the brain.
- A means of transportation without an automobile, perhaps an individual flying machine.
- Drugs to cure or prevent cancer and the common cold.
- A personal telephone, no larger than a cigarette pack, that can be used from any location.
- A pocket sized personal/business computer- i.e., a laptop or palm computers.
- Clothing that can be cleaned by placing it in a 'cleaning chamber' for one minute.
- A synthetic material to replace wood.
- A simple injection to determine the sex of an unborn child.

Will there be a greater joy to a businessman coming out with a drug which can cure cancer? Its availability in the market will be of benefit to those who need it.

9. Service to Society: Business is a part of society and has several obligations towards it. Some of them are:

(i) providing safe and quality goods at reasonable prices;
(ii) providing employment;
(iii) patronising cultural and religious activities;
(iv) maintaining and protecting ecology and
(v) supporting less privileged sections of people in society like Scheduled Castes and Scheduled Tribes, the physically handicapped, women and children.

Services of society is the main objective of a non-profit-making enterprise. Profit-making enterprises cannot afford to have service as the primary objective. It will be a secondary objective.

10. Good Corporate Citizenship: Good corporate citizenship implies that the business unit complies with the rules of the land, pays taxes to the government regularly, discharges its obligations to society and cares for its employees and customers. (See Box 1.4)

Bending rules of the land, evading tax payments by under-invoicing exports and dubious tax-planning; cornering licences at the cost of others; adulteration of quality products; and indulging in other unethical practices may earn money. But such practices hardly speak highly of corporate citizenship. The Tatas are a contrast to the general trend. Unethical practices are anathema to the Tatas. The best way to substantiate this claim is to quote J.R.D. Tata. *"This factor has also worked against our growth. What would have happened if our philosophy was like that of some other companies which do not stop at any means to attain their ends. I have often thought of that and I have come to the conclusion that if we were like these other groups, we would be twice as big as we are today. What we have sacrificed is a 100 per cent growth."*[5]

Box 1.4

Corporate Citizenship

Indian industry, for many years, has been doing community-related work such as medical centres, rural development, educational activities and several other areas. But, this is more an exception than the rule.

More recently, efforts have been made by the Indian industry to extend the frontiers of its involvement in such key issues as environment protection, population management, AIDS prevention etc. Gone are the days when industry could merely concern itself with production and profit and industry has realised that 'Corporate Citizenship' is an important character and responsibility, to be fulfilled wholeheartedly, as a current and future responsibility.

In shaping India's future, the integration of the corporate sector into community development in all its aspects is a reality and the managerial expertise of industry will help to build a stronger community at the micro level in a rural area and at the macro level in nation-building.

(*Source*: Issued by the CII on the eve of its National Convention on 26th April, 1993.)

Crafting a Strategy

Strategies help realise vision and mission of business. Strategy seeks to answer 'how' of every dimenision

Till now we have described vision, mission and objectives which every business will define and formulate with great care. But these are mere statements on paper. To translate these into action, business needs to craft strategies. Strategies represent management's answers to **how** to achieve objectives and **how** to pursue the organisation's mission and vision. Strategy making is all about **how**-how to achieve performance targets, how to outcompete rivals and how to achieve sustainable competitive advantage. A strategy is needed for the company as a whole, for each business the company is in, and for each functional area of each business.

CRITICS OF BUSINESS

The discussion till now has reflected the positive side of business. There is also the negative side to it and the critics are not lagging behind in pointing out the shortcomings. The criticisms are many, but all are based on one idea, viz., people in business place profits before enduring values such as honesty, truth, justice, love, devoutness, aesthetic merit and respect for nature. Specific criticisms are the following:

1. Business activity has a corrosive effect on a range of cherished cultural values.
2. Business dehumanises and exploits workers.
3. Business harms interests of consumers.
4. Business degrades nature and the environment.
5. Business has destroyed handicraft and rendered artisans jobless.
6. Business causes scams and scandals.
7. Business multiplies needs and makes people greedy and avaricious.
8. Business leaders bend rules, cut corners, bribe officials and challenge existing authority.

Is business that bad? Has not business benefited society? Has it not built factories, provided jobs, saved lives and invented new things to the needy? Has not business promoted positive cultural values such as imagination, innovation, organised co-operation, hard work and orderly life? Has business not improved the standard of living of people? Has it not lifted millions of people from poverty, ignorance, squalor and disease? Has business not brought the entire globe closer? Answers to all these and other questions are on the affirmative.

Business is being criticised for several reasons such as – dehumanisation and exploitation of workers, denting cultural fabric of a society, scams and scandals, degradation of natural environment and the like.

A wide range of critics differ in the nature of their attacks and their prescriptions to eliminate perceived ills. For our purpose, there are five groups of critics.[6] (see Fig 1.3).

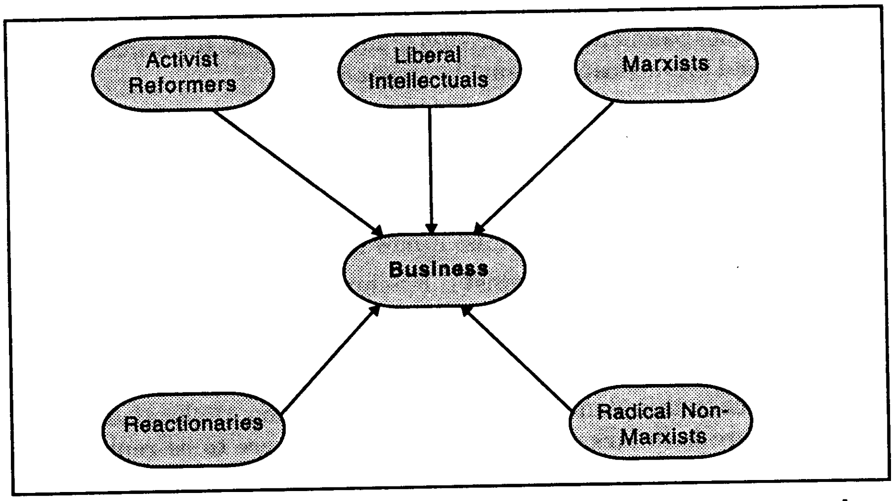


Figure 1.3

Business Critics

Activist Reformers This group comprises individuals and groups who accept and respect the basic legitimacy of the business system, but find flaws and try to rectify them. The philosophy of the activist reformer is exemplified by consumer Gandhi-Ralph Nader, who accepts American capitalism in its democratic setting but sees an imbalance of power between the people and the plutocracy. For 30 years, Nader has worked to redress this imbalance by building an organisation of public interest groups through which he and his followers pressure business houses and the government to accomplish reforms.

Activist reformers use a variety of tactics to make business houses follow fair business practices. Common tactics include negotiation, letter writing, speeches, lobbying legislatures and regulatory agencies, research and editorial writing. Labour unions frequently picket companies.

Liberal Intellectuals This group is comprised of thinkers who share a broad approach to social problems which they express with their pen rather than with the sword of criticism. This group believes that *(i)* human rights should be protected and enhanced, *(ii)* there is need to restrict corporate power, *(iii)* social arrangements can be improved through reforms, and *(iv)* government should be used to correct problems in society.

Liberal intellectuals have a basic faith in democratic capitalism, but they find blemishes and suggest remedies consonant with their ideology. The writings of intellectuals with these broad beliefs have, over the years, been a source of great insight and timely ideas for reform.

Several great thinkers belong to the liberal intellectuals group. Galbraith, for instance, has written numerous books over 40 years advocating greater government control of business to reverse the loss of consumer sovereignty that results from the growth of large corporations. Similarly, in his 1956 book, *The Organisation Man*, sociologist, William H.Whyte, Jr., argued that big organisations produced undesirable conformity in employees.

Marxists These critics reject current institutional structures and demand replacement with a collective state. Unlike reform-oriented critics, this group believes that the faults of capitalism cannot be ameliorated through gradual reforms. Basic institutions such as free market and private capital must be swept away.

Inspired by their intellectual progenitor, Karl Marx, these critics held sway over the world for a long time. But today, their influence is waning. The overthrow of Marxist governments in Eastern Europe in 1989 and 1990 and the deteriorated economies of the former Soviet republics have blunted the appeal of their critique. Though the movement is moribund, to dismiss it now might be premature.

Radical Non-Marxists The great economist E.F.Schumacher, who wrote *Small is Beautiful*, is one of the radical non-marxist critics. Schumacher believes in restructuring the economy by limiting or ending growth. The radical non-marxist critics argue that industrialisation is seriously endangering stable social and environmental existence on this planet. Materialism, competition, tireless labour and individualism which are hallmarks of an industrial society are to be replaced by moderation, group harmony, co-operation and leisure.

Reactionaries Reactionary critics assail corporations for responding to liberal critics, going too far in the direction of non-market social responsibilities, or taking political and moral stands that conflict with conservative positions. Milton Friedman, for instance, rebukes business houses for undertaking social responsibility activities that depart from its traditional economic role.

Thus, critics of business are many and their arguments are valid and deserve serious attention by business firms and governments. If criticism is properly chanelled, it can preserve the best of the business institutions and usher in wider benefits.

WHAT IS ENVIRONMENT?

Environment mainly refers to external forces that impact business. Such forces include political-legal, technological, cultural, economic and physical

Environment refers to all external forces which have a bearing on the functioning of business.

"Environment factors or constraints", wrote Barry M.Richman and Melvyn Copen, "are largely if not totally, external and beyond the control of individual industrial enterprises and their managements. These are essentially the 'givers' within which firms and their managements must operate in a specific country and they vary, often greatly, from country to country."[7]

The business environment poses threats to a firm or offers immense opportunities for potential market exploitation. Stressing this aspect, William F.Glueck and Lawrence R.Jauch wrote thus: *"The environment includes factors outside the firm which can lead to opportunities for or threats to the firm. Although there are many factors, the most important of the sectors are socio-economic, technological, supplier, competitors, and government."*[8]

As per the second definition, environment includes such factors as socio-economic, technological, supplier, competitor and the government. While all these are highly relevant, there are two more factors which are not included in the definition, and which exercise considerable influence on business. They are physical or natural environment and global environment. Including these two, the total environment of business, for our purposes, will include six factors, *viz.*, political-legal, economic, social-cultural, technological, global and natural. As can be seen in the subsequent chapters, all these factors are explained in great detail. A brief description of each, however, follows in the following paragraphs.

Technological environment exercises considerable influence on business. Technology is understood as the systematic application of scientific or other organised knowledge to practical tasks. It is through business that technology reaches people. Technology changes fast and to keep pace with it, businessmen should be ever alert to adopt changed technology in their businesses.

Economic environment refers to all forces which have an economic impact on business. Industrial production, agriculture, planning, basic economic philosophy, infrastructure, national income, per capita income, money supply, price level, population, savings, stages in the economic development and trade cycles are major factors which make up the total economic environment. There is close relationship between business and its economic environment. Business obtains all its needed inputs from the economic environment and it absorbs the output of business units.

Political environment refers to the influence exerted by the three political institutions, *viz.*, legislature, executive and the judiciary in shaping, directing, developing and controlling business activities. The legislature decides on a particular course of action; the executive, also called the government, implements whatever was decided by the Parliament and the judiciary functions as the watchdog in order to ensure that both the legislature and the executive function in public interest and within the boundaries of the Constitution. A stable and dynamic political environment is indispensable for business growth.

Notwithstanding spectacular advancements made in science and technology, man's attempt to conquer nature has not met with total success. He has no answer, for example, for the flourishing affluence co-existing with stark poverty; severe droughts and devastating floods occurring in sickening regularity; and some other such phenomena. Man still finds himself helpless before mighty nature. Business, an economic pursuit of man, continues to be dictated by nature. To what extent business depends on nature and what is the relationship between the two constitutes an interesting study.

Yet another environmental factor which is fast emerging as the force to reckon with is the global or international environment. Thanks to liberalisation, Indian companies are forced to view business issues from a global perspective. Business responses and managerial practices must be fine-tuned to survive in the global environment. A Manager must understand that safe and protected markets are no more there; that the world is becoming small in size thanks to advanced means of transport and communication facilities; that learning of foreign languages is a necessity; that acquiring familiarity with strange and changing currencies is a must; that facing political and legal uncertainties is inevitable; and that adapting their products to different customer needs and tastes would only help companies survive amidst intense competition. Implications of the global environment are elaborated in one of the subsequent sections.

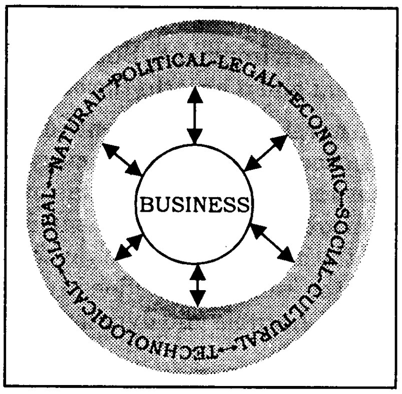
Social and cultural environment refers to the influence exercised by certain factors which are beyond the company's gate. Such factors include people's attitude to work and wealth; role of family, marriage, religion and education; ethical issues and social responsiveness of business. Social and cultural environment is highly relevant for a business unit as the variety of goods it produces, the type of employees it gets and its obligation to society depend on the cultural milieu in which the firm operates.

(Table 1.3 contains important variables of each environmental factor).

Thus, business is the product of the technological, political-legal, economic, social-cultural, global and natural factors amidst which it functions. Three features are common to this web of relationship between business and its environment. First, there is symbiotic relationship (see Fig.1.4) between business and its environment and among the environmental factors. In other words, business is influenced by its environment and in turn, to a certain degree, it will influence the external forces. Similarly, political-legal environment influences economic environment and *vice versa*. The same is the relationship between other environment factors too.

Figure 1.4

Symbiotic Relationship Between Business and its Environment



Three features are unique to business environment:
(i) there is symbiotic relationship
(ii) environmental forces are dynamic
(iii) no single firm is in a position to change environment, though in consortium businesses will be able to change the forces.

The second feature is that these environmental factors are dynamic. They keep on changing as years roll by, so does business.

The third feature is that a particular business firm, by itself, may not be in a position to change its environment. But along with other firms, business will be in a position to mould the environment in its favour, to a large extent.

Knowing the Environment

The environment, as described above, provides a mass of ambiguous information. What should be done to make out the relevance of the information? What is to accepted

Table 1.3

Environmental Factors and their Features

Global Environment	Technological Environment	Economic Environment	Political Environment	Social-Cultural Environment	Natural Environment
• Increasing opportunity as world has become one market • Improving quality • Competition from MNCs • Capital and technology transfers • Deciding which markets to enter and how to enter • Adjusting the management process • India and WTO	• Technology reaches people through business • Increased productivity • Need to spend on R&D • Fast changing technology • Rise and decline of products and organisations • High expectations of consumers • Problem of techno structure • System complexity • Increased regulation and stiff opposition • Demand for capital • Social change	• Growth strategy • Economic system • Industry • Agriculture • Infrastructure • Money and capital markets • Per capita and national income • Population • New Economic policy	• Role of legislature • Role of executive • Role of judiciary • Constitution of India • New direction for government's role	• Culture creates people • Culture and globalisation • Culture determines goods and services • People's attitude to business and work • Caste system • Spirit of collectivism and individualisation • Education • Family and marriage • Authority • Scientific spirit • Ethics in business • Social responsibility • Social audit • Corporate governance	• Manufacturing depends on physical inputs • Mining and drilling depend on natural deposits • Agriculture depends on Nature • Trade between two regions depends on geographical factors. • Transport and communication depend on geographical factors

and what rejected? Three related concepts seek to answer these questions. They are: (i) the *enacted environment*, (ii) the *domain* and *domain consensus*, and (iii) the *task environment*.

Enacted Environment An organisation seeks to create its own environment out of the total external environment. The environment which the organisation creates is called *enactment*. Enactment implies that the organisation creates a relevant environment for itself by aggressively scoping, narrowing and scanning the external environment. In effect, the organisation creates the environment to which it reacts. It does not react to the entire environment.[9]

Domain and Domain Consensus The *domain* is that part of the enacted environment which the organisation carves out for itself. The firm delineates its own territory out of the environment.

The delineated territory comprises the range of products offered, population served and services rendered. The organisation focusses its efforts on these three areas while paying less attention to other areas.

As is well known, an organisation has many stakeholders-owners, employees, customers, government, public, suppliers and lenders. *Domain Consensus* is formed when all the stakeholders agree upon the *domain* of the organisation.

When domain consensus is not reached, conflicts can arise regarding parts of the environment which should be monitored. This conflict causes confusion and backbiting, when the company is blindsided by an unexpected occurrence from a poorly monitored sector.

Task Environment This specifies the range of products to be offered, the technology to be employed and the productive strategies to be used to counter the global competition.

It is the task environment which needs constant surveillance, though elements outside are not ignored, but are paid less attention.

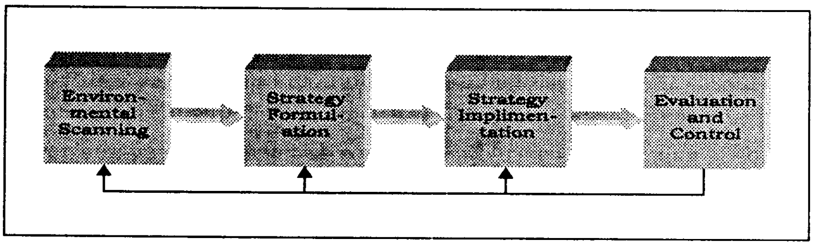
Objectives and Uses of Study

Environmental analysis has three basic goals. First, the analysis should provide an understanding of current and potential changes taking place in the task environment. It is important that one must be aware of the existing environment. At the same time, one must have a long term perspective too.

Secondly, environmental analysis should provide inputs for strategic decision making. (see Fig.1.5). Mere collection of data is not enough. The information collected must be used in strategic decision making.

Figure 1.5

Linkage Between Environmental Scanning and Strategic Management



Thirdly, environmental analysis should facilitate and foster strategic thinking in organizations—typically a rich source of ideas and understanding of the context within which a firm operates. It should challenge the current wisdom by bringing fresh viewpoints into the organisation.

Environmental study confer several benefits:
- broad strategies are developed
- action plans to cope with technological changes may be evolved
- counter strategies to outsmart competitors
- Keep managers on toes

To be specific, the benefits of environmental study are as follows:

1. Development of broad strategies and long-term policies of the firm.
2. Development of action plans to deal with technological advancements.
3. To foresee the impact of socio-economic changes at the national and international levels on the firm's stability.
4. Analysis of competitors' strategies and formulation of effective counter-measures.
5. To keep oneself dynamic.

William F.Glueck and Lawrence R.Jauch have stressed the negative consequences of failure to study the environment. They have written that, *"In the years between 1918 and 1968, almost half of the 100 largest American firms went out of business or became significantly less important to society. Often, a company becomes convinced that it is almost invincible and does not have to examine what is happening in the market place. When the company ceases to adjust the environment to its strategy or does not react to the demands of the environment by changing its strategy, the result is lessened achievement of corporate objectives."*

They went on to stress that *"Environmental analysis and diagnosis give strategists time to anticipate opportunities and to plan to take optional responses to these opportunities. It also helps strategists to develop an early warning system to prevent threats or to develop strategies which can turn a threat to the firm's advantage."*

Without a systematic environmental search and diagnosis, the time pressure of the managerial job can lead to inadequately thought out responses to the environmental changes. It is clear that because of the difficulty to assessing the future, not all future events can be anticipated. But some can and are. To the extent that some or most are anticipated by this analysis and diagnosis, managerial decisions are likely to be better. And the process reduces the time pressures on the few which are not anticipated. Thus, the managers can concentrate on these few instead of having to deal with all the environment opportunities and threats in the pressure-cooker environment.

"Firms which systematically analyse and diagnose the environment are more effective than those which don't."[10]

Table 1.4 reveals the names of firms which have initiated changes in response to environmental changes.

In order to further substantiate the benefits of environmental analysis, it may be said that the real value of the analysis inheres in the **product** of the analysis as well as the **process** of engaging in it.

At the product level, the outputs of environment analysis generally consist of (1) descriptions of changes **currently** taking place, (2) harbingers of **potential** changes

Table 1.4

Strategics in Response to Envrionment Changes (Data relevant during early ninetees)

Name of the company	*Environmental changes*	*Strategic responses*	*Consequences*
1. *Housing Development Finance Corporation (HDFC)*	• Competition in the fast growing housing finance sector. As many as 30 players in the field • Government's dilly-dallying on fore closure norms and stamp duty laws and its confusing signals in opening upto the insurance sector	• Decision to extend finance to corporate sector for office premises • Series of joint ventures in areas that offer synergistic support to existing core business, viz., housing finance. • Wholly owned subsidiary HDFC developers to be hived off in a joint venture with a construction company to develop property that could be financed by HDFC	As most of the plans are in formation stage, it is not possible to give results.
2. *Crompton Greaves*	• Fear of multinationals • Poor financial results during the first half of 1996-97 • Return of consignment of fans from Italy as the taples on its boxes gathered rust.	• Restructuring the company into 4 strategic business units (SBUs), each headed by a president. • Vacated presence in television market and the joint venture with Bausch AG of Germany to manufacture washing machines has been called off. Similarly, joint venture with Deltec, USA, to manufacture cellular antenna has been called off. • Thrust on related diversification with a view to consolidate strength.	Growing confidence in facing competition
3. *UB Group*	• Liberalisation era has forced businessmen think of core competancies. • Reckless diversifications made during pre-liberalisation era became liabilities	• Internationally to consolidate strength in brewing and distilling. • In India to focus on engineering, services, health care/agrichemicals, brewing and distilling. • Hiving of non-core businesses like pharmaceuticals, information technology, exports and trading. • Restructuring business. The company acted on the advice of the management consultancy firm-Arthur Anderson.	With the excess baggage being shed, UB Group looks slim and vibrant.
4. *Asea Brown Boveri (ABB)*	• In keeping the trend-grow big. • Need to have an eight-fold growth plan to surpass a turnover of Rs.12,000 crores by 2000.	• Four pronged strategy: enter into infrastructure development; greater thrust in industrial sector; push exports to 25 percent of turnover; and go in for third country projects jointly with partners	Since 21st century is 3 years ahead, its not possible to say for certain. However, given ABB's track record, the figure is not beyond reach.

in the future, and (3) alternative descriptions of **future** change. Together, they provide descriptions of alternative futures. Such descriptions provide organisations with **lead time** to identify, understand and adapt to external issues, to anticipate the consequences of the environmental trends, and to develop well thought out positions and policies. In addition, lead time enables an organisation to convert emerging issues from threats to opportunities.

At the level of process, environmental analysis underscores the notion that organisations are necessarily pervious to the influence of outside forces. When conducted properly, this leads to the enhanced capacity and commitment to understanding, anticipating and responding to external changes on the part of the firm's key strategic managers. Responsiveness is achieved by inducing managers to think beyond their task or industry environments, often forcing them to reflect upon their cognitive biases. In short, at the process level, environmental analysis offers one basis for organisational learning.[11]

The Process of Environmental Analysis

Environmental analysis comprises four steps: scanning, monitoring, forecasting and assessment. As the Fig. 1.6 shows these are interlinked

Environmental analysis is a challenging, time consuming and expensive affair. The analysis consists of four sequential steps: (i) *scanning*, (ii) *monitoring*, (iii) *forecasting*, and (iv) *assessment*.

Scanning - Being the first step in the process of environmental analysis, scanning involves general surveillance of all environmental factors and their interactions in order to (a) identify early signals of possible environmental change, and (b) detect environmental change already under way.

Scanning is ill-structured and ambiguous environmental analysis activity. The potentially relevant data for scanning are unlimited but are scattered, vague, and imprecise. The fundamental challenge for analysis in scanning is, therefore, to make sense out of vague, ambiguous, and unconnected data.

Monitoring - Monitoring involves tracking the environmental trends, sequences of events, or streams of ctivities. It frequently involves following signals or indicators unearthed during environmental scanning. The purpose of monitoring is to assemble sufficient data to discern whether certain trends and patterns are emerging. Thus, as monitoring progresses, the data turn frequently from imprecise to precise.

Three outcomes emerge out of monitoring: (a) a specific description of environmental trends and patterns to be forecast; (b) the identification of trends for further monitoring, and (c) the identification of areas for further scanning. These outputs (particularly the first) become inputs for forecasting. They will also cause for further scanning and monitoring.

Forecasting - Scanning and monitoring provide a picture of what has already taken place and what is happening. Strategic decision-making, however, requires a future orientation. Naturally, forecasting is an essential element in environmental analysis.

Forecasting is concerned with developing plausible projections of the direction, scope, and intensity of environmental change. It tries layout the evolutionary path of anticipated change. For example, how long will it take the new technology to reach the market place? Are current life-style trends likely to continue? These kinds of questions provide the grist for forecasting efforts.

Unlike scanning and monitoring, forecasting is well focussed and is much more deductive and complex activity. This is so because the focus, scope and goals of forecasting are more specific than the earlier two stages of environmental analysis.

Assessment - Scanning, monitoring and forecasting are not ends in themselves. Unless their outputs are assessed to determine implications for the organisation's current and potential strategies, scanning, monitoring and forecsting simply provide 'nice-to-know' information. Assessment involves identifying and evaluating how and why current and projected environmental changes affect or will affect strategic management of the organisation.

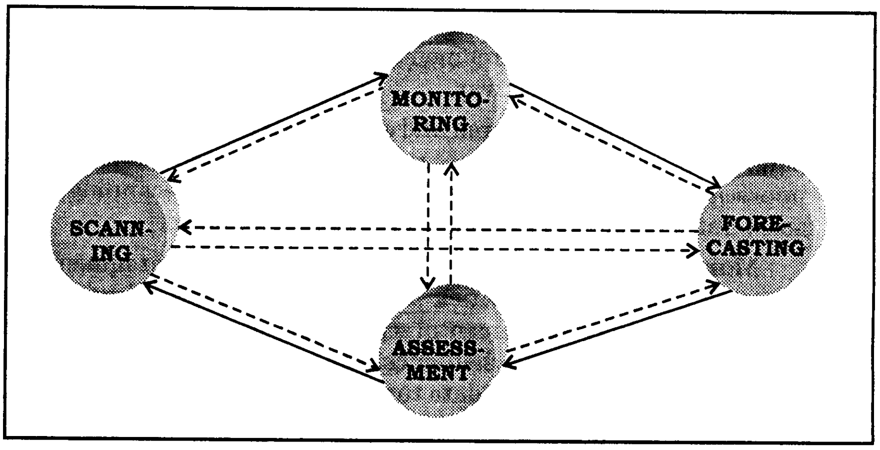
In assessment, the frame of reference moves from understanding the environment - the focus of scanning, monitoring and forecasting - to identifying what the understanding means for the organisation. Assessment, therefore, tries to answer questions such as what are the key issues presented by the environment, and what are the implications of such issues for the organisation?

Linkages among Stages

Though conceptually scanning, monitoring, forecasting and assessment are seperate activities, they are inextricably intertwined (See Fig.1.6).

Figure 1.6

Linkages among the Stages



(**Source**: Fahey and Narayanan, *Micro Envirionmental Analysis for Strategic Management,* p.43).

For example, upon unearthing an emerging trend through scanning, one might quickly jump to potential implications for the organisation (assessment) by implicitly forecasting the future path of the trend. If warranted by the potential impact, one may then continue scanning and monitoring. Also, forecasting often proves difficult, if not impossible, because of insufficient knowledge and data about the topic or trends being forecast, thus forcing a return to scanning and monitoring efforts. Deriving implications (assessment) often allots the organisation to the need to conduct further scanning, monitoring and forecasting. Thus, environmental analysis is not as simple and as linear as moving from scanning to monitoring to forecasting to assessment.

Limitations of Environmental Analysis

Environmental analysis, as with any other analysis, has certain limitations. These limitations are:

1. Environmental analysis does not foretell the future, nor does it eliminate uncertainty for any organisation. Thus, organisations that practice environmental analysis sometimes confront unexpected events — events not anticipated during environmental analysis. Environmental analysis, however, should reduce the frequency and extent of surprises that may confront a company.
2. Environmental analysis on and off itself, is not a sufficient guarantor of organisational effectiveness. It is only one of the inputs in strategy development and testing.
3. The potential of environmental analysis is often not realised because of how it is practised. It is sometimes used as a crutch for post-hoc reflections. At times managers place uncritical faith in the data without thinking about the data's verifiability or accuracy.
4. Too much reliance is often placed on the information collected through environmental scanning. When there is overloading of information, one is likely to get lost and become inactive-typical of *'paralysis through analysis syndrome'*.

> Environmental analysis often has debilitating impact on business –
> – fails to foresee future accurately
> – does not guarantee organisational effectiveness
> – too much reliance on analysis makes a manager become complacent

Take the case of Norton Company, an industrial abrasives manufacturer and a competitor of 3M in the U.S. Norton faithfully studied environment and followed all management models, systems and procedures. Inspite of all Norton's state-of-the-art management systems, its performance remained dissappointing. Persistently poor results left the company vulnerable and, in 1990, it was absorbed into the French giant, Compagnie de Saint-Gobain.

Meanwhile, 3M achieved success but following a different path. The company did not get caught by the paralysis syndrome. Leaders here placed little emphasis on top-down planning and control. Instead, they nurtured the innovative ideas of sales engineers and sales representatives, thereby building an entrepreneurial engine that generated a stream of profitable new products and promising new technologies. Going into post-war boon, 3M and Norton were roughly the same size. By the mid-1980s, 3M was reporting sales eight times those of its old competitor. Ironically, just as Norton was swallowed up by Saint Gobain, 3M was named for the fifth time in six years to *Fortune's* list of the ten most admired corporations.[12]

Success lies in adventure and strategic risk taking. It eludes those who hesitate to step forward. Environmental analysis often makes an individual too cautious in his approach and he is likely to be overtaken by events. So, this analysis should be strategically done.

Organisation for Analysis

Who does analysis in a typical organisation? This is a relevant question. The answer is everybody who holds some post in the organisation. To be specific, the top executive, marketing manager, financial manager and purchasing manager are the people who could assume the responsibility. The Production Manager may not be able to contribute much because his job damands that he should confine his time and energy to the shop floor. Some organisations maintain Management Information Systems (MIS) which can be utilised to handle the job of analysing environment. The best alternative is to have an exclusive department for the purpose to be headed by a competent official. This would entail additional expenditure but the additional cost is worth considering the risk involved in not considering the changes taking place in the environment.

Whatever may be the organisational arrangement, one should understand that environmental analysis is an activity that requires people, resources, and time. Someone in the organisation must spend the time to do the requisite analytical tasks involved in environmental analysis. Resources beyond people are often required: money to fund data collection, to buy outside analysis capability, or to support internal analysis efforts. Much managerial time is often consumed in organising to carry out the analytical tasks inherent in environmental analysis: deciding who should do what in collecting, analysing, and interpreting data; and creating the organisational processes such as task forces, adhoc teams, or working groups required to effect these tasks.

QUESTIONS

1. What is business? How does business of today differ from that of four to five decades ago?
2. What are business objectives?
3. "Profit making is the primary goal of any business enterprise." Yes or no—discuss.
4. What is business environment?
5. "Firms which systematically analyse and diagnose the environment are more effective than those which don't." Elucidate.
6. What do you understand by Vision, Mission and Objectives? How are they interrelated? Illustrate your answer.
7. "Environmental scanning should provide inputs for strategic decision making". Elaborate.
8. Bring out the limitations of environmental analysis.
9. Sketch organisational arrangement for environmental analysis.
10. Why are business houses criticised?

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CHAPTER 2

Meaning and Rationale for Globalisation

CHAPTER OUTLINE

Nature of Globalisation

Why do Companies go Global

How do Companies go International

Benefits and Problems from MNCs

Challenges of International Business

- *Managing Competitiveness*
- *Government and Trade Regulations*
- *Developing an International Perspective*
- *Managing Diversity*

LEARNING OBJECTIVES

After reading this Chapter, you should be able to:

1. *Describe the nature of globalisation.*
2. *Define an MNC.*
3. *Describe the ways of going global*
4. *List out the benefits and problems of MNCs to host country and home country.*
5. *Describe the challenges of international business.*

Thanks to the economic reforms, Indian businessmen are now expanding their horizons and seeing beyond the physical boundaries of the country. Consequently, the captains of industries need to think and act, both actions being guided by international perspective. This section is devoted to a brief discussion of global environment and its implifications for our businessmen.

The need to think and act from a global perspective is not peculiar to our businessmen alone. The need is universal. For a long time, businessmen everywhere believed that home markets were adequate and safe. They never felt the need to explore the overseas markets in a big way. If they could pick up some extra sales through exporting, these businessmen were more than satisfied. The scenario is different now. *'Globalise or perish'* is the slogan now-a-days.

NATURE OF GLOBALISATION

Globalisation, also called internationalisation, means several things to several people. For some it is a new paradigm - a set of fresh beliefs, working methods and economic, political and socio-cultural realities in which the previous assumptions are no longer valid. For developing countries, it means integration with the world economy. In simple economic terms, globalisation refers to the process of integration of the world into one huge market.[1] Such unification calls for the removal of all trade barriers among countries. Even political and geographical barriers become irrelevant (See Box 2.1).

At the company level, globalisation means two things: (a) the company commits itself heavily with several manufacturing locations around the world and offers products in several diversified industries and (b) it also means the ability to compete in domestic markets with foreign competitors.[2] In the popular sense, globalisation refers mainly to multi-plant operations.

> A global company views the world as one market, minimises the importance of national boundaries, raises capital and markets wherever it can do the best

A company which has gone global is called a multinational corporation (MNC). An MNC is, therefore, one that, by operating in more than one country, gains through Research and Development (R&D), leading to substantial production, marketing and financial advantages in its costs and reputation that are not available to purely domestic competitors. The global company views the world as one market, minimises the importance of national boundaries, raises capital and markets wherever it can do the job best.[3]

To be specific, a global company has six characteristics:

(i) It is a conglomerate of multiple units (located in different parts of the globe) but all linked by common ownership.

(ii) Multiple units draw on a common pool of resources such as money, credit, information, patents, trade names and control systems.

(iii) The units respond to some common strategy.

(iv) Product presence in different markets of the world.

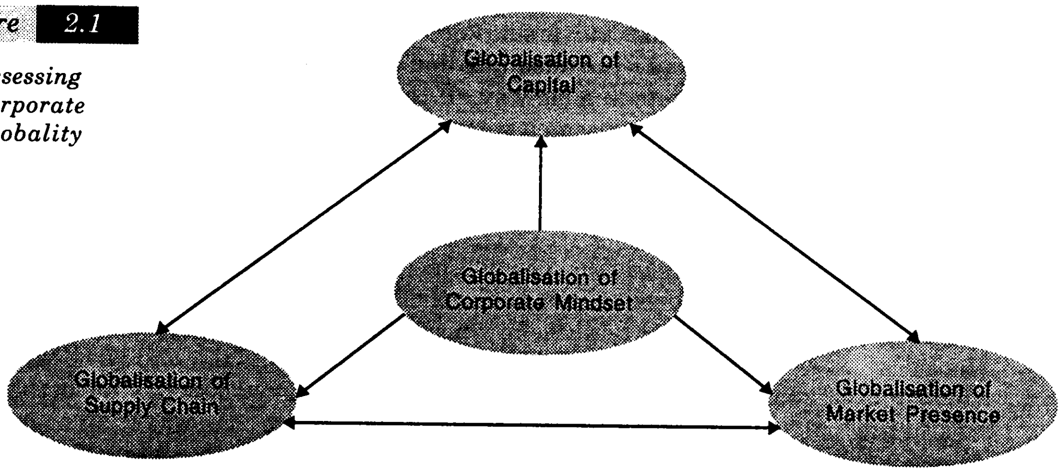
(v) Human resource contains high diversity.

(vi) Transactions involving intellectual properties such as copyrights, patents, trade marks, and process technology across the globle.

Specifically, globalisation can be viewed as a four-dimensional construct based on the premise that an enterprise can be more or less global along each of four major characteristics: internationalisation of market presence, globalisation of supply chain, globalisation of capital base, and globalisation of corporate mindset[4] (See Fig.2.1).

Figure 2.1

Assessing Corporate Globality



Globalisation of market presence refers to the extent to which company targets customers in all major markets across the global

The first dimension-globalisation of market presense-refers to the extent to which company targets customers in all major markets within its industry throughout the world. On this count the presences of companies vary from low to high. For example, in 1993, NTT of Japan had no presence at all either in N.America or in Europe. In comparison, IBM, Sun Microsystems and Cannon were the most globalised firms (See Table 2.1).

Table 2.1

Percentage Regional Distribution of IT Sales for Selected Companies in 1993

	N.America	*Europe*	*Asia*
IBM	41	33	16
Fujitsu	6	26	65
HP	51	34	9
NEC	6	4	88
Compaq	45	38	5
Canon	30	29	37
Sun Microsystems	51	24	25
NTT	0	0	100
Microsoft	56	30	9

(***Source:*** *The Economic Times*, December 26, 2003)

Internationalisation of supply chain (second dimension) refers to the extent to which the company is accessing the most optimal locations for the performance of various activities in its supply chain. It may be possible for a firm to have a fairly local or regional market presence and yet have a highly globalised supply chain, or vice-versa. For example, Toyota has a good supply chain. In 1995, Toyota produced about two-thirds of all its cars in Japan; the remaining one-third were produced in its affiliates spread over 25 countries in Americas, Europe and Asia. Furthermore, the company exported 38 per cent of its domestic production to foreign markets. Aside from this flow of capital, goods and know-how between Japan and overseas affiliates, Toyota also engaged in considerable intra-firm flows among the affiliates. For example, within its Southeast Asian regional network, it exported diesel engines from Thailand, transmissions from the Philippines, steering gears from Malaysia and engines from Indonesia.

Globalisation of supply chain refers to the extent to which the company is accessig the optimal locations for the performance of various activities in its supply chain

The third dimension-globalisation of capital base-refers to the extent to which the company is accessing optimal sources of capital on a worldwide basis. The Hong Kong based Internet Service Provider China com represents a good example of how a company can be 'local' in terms of market presence as well as supply chain, and yet have a highly globalised capital base. In 1999, China Com's market base and operations were centered primarily around Hong Kong and China. Yet, in the same year, the company got itself listed on the US based Nasdaq.

Globalisation of capital base refers to the extent to which the company is accessing capital markets for financial resources

Box 2.1

Irrelevance of Nation-States

Nearly 30 years later, a new theory of cross-border affinities, of analyses that try to demolish the reality of nation-states has emerged. Kenichi Ohmae, an internationally renowned consultant, has authored **The End of the Nation State: The Rise of Regional Economies**.

In it, the author attempts to show that two major phenomena of the 1990s have highlighted forces at work that are knocking down borders, creating, as it were, a truly global market place with its agents governed by pure self-interest and not ideology or culture. These two events are the collapse of the Soviet Union and its satellites into so many republics, and the phenomenal rise of the South-East Asian economies. Both of them vindicate the strength of four 'I's, as Ohmae calls them: industry, investment, information technology and individual consumers. The interplay of these elements, at work for the past two decades, has rendered the nation-state redundant. As Ohmae points out in his preface: "The forces now at work have raised troubling questions about the relevance and effectiveness of nation-states as meaningful aggregates in terms of which to think about, much less manage, economic activity."

Ohmae asks crucial questions about the relevance of nation-states in the global economy. Are they the primary actors, notwithstanding their role in world affairs? The most critical and rather oversimplified question he asks is: in a world where economic borders are progressively disappearing, are there arbitrary, historically accidental boundaries geniunely meaningful in economic terms? The key assumption that he makes in asking this question are fundamental to his vision of the new world: economic borders are disappearing, and the nation-state has been a historical accident. In a sense, Ohmae distances the global economy, which he visualises as the consequences of deliberate rational human behaviour, from the nation-state which he dismisses as aberrations in today's world.

(**Source**: Cited in *Business India*, Oct.23-Nov.5, 1995).

> Globalisation of mindset refers to the ability of the company to understand and intergrate diversity across cultures and markets

Last but most important dimension is the globalisation of corporate mindset. This dimension refers to the ability of the company to understand and integrate diversity across cultures and markets. General Electric Services is a good example of a firm with an increasingly global mindset. The human capital of GE is highly globalised, it has strong worldwide corporate culture; and the composition of the leadership is increasingly diverse in terms of nationalities.

A true global company is the one which scores high on all the four dimensions discussed above. But as the examples cited till now show, a global firm can be low on one dimension and high on others.

> A supranational enterprise is a worldwide organisation created by an apolitical worldbody such as IMF or World Bank. Its function is international business services, and it remains viable only by performaning that service whichever country wants such services

A further development, perhaps, will be the *supranational enterprise*. It is a worldwide enterprise chartered by a substantially non-political international body such as International Monitory Fund or the World Bank. It operates as a private business without direct obligations. Its function is international business service, and it remains viable only by performing that service adequately for nations which permit its entry. With its integrative view, it should be able to draw the economic world closer together. It could serve all nations without being especially attached to any one of them. Because of its independence of any nation and its universal outlook, it is also called the extra-national enterprise, the '*geocorp*' and the '*cosmocorp*'. Somewhat related supranational organisations outside the business are the International Red Cross, religious bodies and scientific associations.

Globalisation is not a new phenomenon. Trade across the countries is as old as business itself. However, the volume of international business and the number of players in it have increased dramatically over the last decade. Today every nation and an increasing number of companies buy and sell goods and services in the international market places. A number of developments around the world have helped fuel this activity.

1. Several regional developments, as detailed in the following paragraphs, have vastly contributed to the globalisation of business.[5]

   (i) The emergence of the North American Free Trade Agreement (NAFTA), comprising United States, Canada, and Mexico, has created a huge North American market. Movement of goods and services among these countries is easy as all trade barriers have been removed. This market will eventually be expanded to include Latin American countries as well. This will be followed by the entry of Chile, Argentina, and Brazil. The result will be a giant "American Market" that would parallel similar developments in Europe and Asia.

   (ii) The European Union (EU) is now well on its way to creating a united market that may be described as the United States of Europe. This group consists of 25 nations. All these countries have not only removed all trade barriers among them, but have also adopted a single currency, called the "Euro". It should be pointed out that the non-participating countries will trade in the euro so that they are in essence, participating by default. As a result of this agreement, it will not be possible for customers to compare prices among countries because everything can be done in an uniform currency. In other words, most of the business done in the EU will be in euros. Of even more importance is the fact that the EU is better integrated-economically and politically-as a single market than either NAFTA or the allied countries.

The membership of the EU is likely to expand. Turkey has already applied for representation. In the near future, the former communist block countries of Central and Eastern Europe will also become members of the EU. Once East and West join together, the result will be a huge economic market that no business firm can afford to ignore.

(iii) The most recent changes of the General Agreement on Tariffs and Trade (GATT) are stimulating increased world trade. Under the new agreement, tariffs will be reduced world wide by 38 per cent, and in some cases, eliminated completely. Under the new agreement. GATT itself has been replaced by the **World Trade Organisation (WTO)**, which came into existence on January 1, 1995. The WTO has more powers to enforce rulings on trade disputes, and create a more efficient system for monitoring trade policies. Almost all the GATT members have agreed to join the WTO. World economic powers such as the EU, US, Canada, and Japan, are now part of the WTO. India is one of the founding members and China has recently joined to the fold of the world trade body. Collectively, 145 countries have joined so far and these countries together account for about 90 per cent of the world trade.

(iv) Japan, of late, has invested relatively more in Asia than in any part of the world. Japanese corporations want to take advantage of the underdeveloped but growing Asian markets. At the same time, China is proving to be a major economic force. Although all the Asian economies are experiencing an economic downturn, starting in the middle of 1997, the Four Tigers (Hong Kong, Taiwan, South Korea, and Singapore) have emerged as developed economies and the South East Asian Countries of Malaysia, Thailand, Indonesia, and Vietnam are expected to come out as export-driven countries. As in other parts of the world, an economic block called ASEAN (Association of South East Asian Nations), made up of Indonesia, Malaysia, Singapore, the Philippines, Brunei, Thailand and in recent years Cambodia, Myanmar, and Vietnam, promotes exports to other countries.

(v) Export potential is vast in Central and Eastern Europe, Russia and the other republics of the former Soviet Union, which are converting themselves into market economies. MNCs are eying these markets. For example, after the fall of the Berlin Wall in 1989, Coca-Cola quickly began to severe its relations with most of the state-run bottling companies in the erstwhile communist block countries. The soft drink giant began investing heavily to import its own manufacturing, distribution, and marketing techniques.

To-date, Coca-Cola has invested billions in Central and Eastern Europe-and the results have been highly positive. Its business in Central and Eastern Europe has been expanding at twice the rate of its other foreign operations.

Economic growth and prosperity achieved by developing countries (Ex. India) is also boost to globalisation. Most of the emerging economies are opening up their economies facilitating flow of goods, services, capital and human resource across the globe

(vi) There is also recent economic progress among less developed economies. A good example is India, which for years, has had a love-hate relationship with multinational businesses. The Government of India has been known for its slow-moving bureaucracy and this has been a major stumbling block in attracting foreign capital. Over the last few years, however, there has been a dramatic turn-around in government policy, and a growing number of multinationals recently have been attracted due to the current Indian government's willingness to reduce redtapism (Also see box 2.2).

(vii) Along with the dismantling of bureaucracies, controls and licences, linkages among economies across the world have strengthened. This process has been facilitated by a sharp decline in transportation and communication costs. Between 1930 and 1990, air transportation costs per mile fell from roughly 68 cents (adjusted for 1990) to 11 cents. The unit cost of sea freight fell by 70 per cent in real terms between the early 1980s and 1996. And the cost of a three-minutes telephone call between New York and London (adjusted for 1996) fell from $300 in 1930 to about $1 by the late 1990s.[6]

(viii) The new economy, a characteristic feature of the present century, itself demands trading across the globe. The Internet, the mainstream of the new economy, facilitates globalisation in a big way. The Internet is making national borders irrelevant in the case of many goods and services. More and more firms are embracing the Net and are taking full advantage of its vast potential.

Amazon.com is one example of a company which has benefitted immensely from e-business. The .com major has been selling books worldwide without the need to set up stores anywhere

A company like Dell Computer has been able to achieve vertical integration using e-business. Amazon.com has found it possible to sell books globally without the need to set up stores anywhere. Ebay has used the Internet to conduct auctions among people across the world for a mind-boggling range of items. Virtual Universities are providing world class education on the Net to students all over the world.[7]

These are specific geographic examples of emerging internationalism. Equally important to this new climate of globalisation, however, are the recent developments in both international investment and trade.

2. Other Reasons

There are other reasons too contributing to world trade. First, there is a lot of money in the overseas markets. Table 2.2 shows the amount of money made by the subsidiaries of the US MNCs. Obviously, MNCs are interested in investing in foreign countries.

Box 2.2

Changing Face of Indian Bureaucracy

The Indian bureaucracy has undergone a total metamorphosis. Attitudes of babus in the past towards businessmen were disdainful in general, and hostile towards foreign investors in particular. For example, it took Pepsi Co., three years just to set up a soft drink concentrate factory, and Gillette, the US Razor blade company, had to wait for eight years for its application to be accepted. Coca-Cola and IBM wound up their operations during 1970s when the rules were changed mandating that foreign partners should not hold more than 40 per cent ownership in any business. These are only a few examples.

It is a different scenario today. It all started with the liberalisation policy initiated in 1991. Foreign investors are now invited with roses and smiles. Procedures are greatly minimised and those that need to be complied with are cleared within days. The simplification and relaxation rules have encouraged many MNCs to enter Indian market with a bang. Coca-Cola was able to get permission for a 100 per cent-owned unit to be set up, at Bidadi near Bangalore, in eight weeks. Soft drinks manufacturing required a large quantity of water and Bidadi was a dryland region. KIDB jumped into the picture and water connection was given, drawing water along a 45 km route from Cauveri 4th Stage. The nearby telephone exchange was made into an electronic one in no time and roads leading to the city were broadened and repaved.

Volvo, the transnational automotive company from Sweden was given a red-carpet welcome by the Government of Karnataka. The Karnataka Industrial Development Board helped Volvo acquire 120 acres of land within just three months. A 66 KV power station was built and the Pollution Control Board gave clearance in a record time. The telecom authorities chipped in with a 39 dm long fiber optic cable link which connects Volvo facilities worldwide.

Other companies that have reported rapid progress include Daimler-Chrysler, Enron, P&G, and Whirlpool.

(**Source**: Cited in *Business India*, Oct.23-Nov.5, 1995).

The MNCs from the triad-the US, Europe, and Japan-have huge assets and more than a quarter of these assets are found in foreign markets. GE of the US is one of the top MNCs with assets of over $300 billion in 1997 and nearly a third of its assets were found in overseas countries. The Dutch/UK firm Shell has huge assets and three-fifths of these are located overseas.

Secondly, it is being realised that the domestic markets are no longer adequate and rich. Japan flooded the US market with automobiles and electronics because the domestic market was not large enough to absorb whatsoever was produced. Some European companies have gone global for similar reasons. Ciba-Geigy, for example, could not survive only in Switzerland where the population was just over six million. It was forced to go in search of international markets and has consequently set-up overseas production facilities.

> Many companies are compelled to go global because their home markets are small in size. Switzerland, for example, has just six million people and a company like Ciba-Geigy could not survive in the local market

Thirdly, companies often set up overseas plants to reduce high transportation costs. The higher the ratio of the unit cost to the selling price per unit, the more significant the transportation factor be-

Table 2.2

US Firms with the Largest Foreign Revenue

Rank	Firm	Foreign Revenues (Million US $)	Foreign Sales % of Total Sales	Foreign Net Profits (Millions US $)	Foreign Net Profits as % Total
1.	Exxon	92,540	76.9	5,072	60.0
2.	General Motors	51,046	28.6	2,884	43.4
3.	Ford Motor	46,991	32.3	2,232	24.4
4.	IBM	45,845	58.4	3,717	61.0
5.	Mobil	35,606	59.4	2,169	59.6
6.	Texaco	33,292	55.6	1,313	50.4
7.	General Electric	26,981	29.7	1,702	20.7
8.	Hewlett-Packard	23,819	55.5	2,005	64.3
9.	Chevron	23,065	47.2	2,009	61.7
10.	Citicorp	21,566	62.2	2,498	69.6
11.	Philip Morris	19,797	35.3	1,188	18.8
12.	Procter and Gamble	17,457	48.8	1,239	36.3
13.	American Intel Group	16,461	53.8	2,292	68.8
14.	EI DuPont de Nemours	16,283	41.0	1,240	51.6
15.	Intel	14,017	55.9	2,256	32.5
16.	Motorola	13,480	45.2	1,108	93.9
17.	Xerox	12,371	57.4	810	55.8
18.	Coca-Cola	12,357	65.5	3,100	75.1
19.	Dow Chemical	11,271	56.3	773	40.5
20.	Compaq Computer	11,253	45.4	722	38.9

(***Source:*** Reported in Forbes, July 27, 1998, pp.163-164)

comes. The goal of lowering transportation costs, for example, played a decisive role in Caterpillar's manufacturing strategy. The company manufactures high-value-added components in a few centralised facilities, but produces the less critical components and assembles the final product in plants located in its major markets.

Fourthly, the motivation to go global in high-tech industries is slightly different. Companies in electronics and telecommunications spend large sums on research and development for new products and thus may be compelled to seek ways to improve sales volume to support substantially high overhead expenses. If domestic sales and exports do not generate sufficient cash flow, the companies naturally might look to overseas manufacturing plants and sales branches to generate higher sales and better cash flow.

Fifthly, firms go international to access resources that are unavailable or more expensive at home. What commonly draws companies into global business arena is the quest for natural resources. Japan, for example, is a small densely populated island nation with very few natural resources of its own, especially forests. Thus, Japan's largest paper company, Nippon Seishi, needs to do more than simply import wood pulp. It owns huge forests and processing facilities in Australia, Canada, and the US. By controlling forests, the company guarantees a steady flow of wood pulp that is less subject to the uncertainties associated with buying pulp in the open market. Similarly, to access cheaper energy resources used in other industries, several Japanese firms are locating facilities in China, Mexico, Taiwan, and Vietnam where energy costs are lower.

Low cost production locations attract FDI. Low cost is derived mainly from low wages. Labour markets obviously attract companies into international business

Labour markets also attract companies into international business. One way companies gain competitive advantage is by locating production facilities in low cost countries. But low cost labour cannot be the only reason. If it were so, international businesses would stampede into places like Afghanistan and Somalia. In order to be attractive, a location must offer low-cost, adequately skilled working in an environment with acceptable levels of social, political and economic stability.

Sixthly, firms go global to avoid protectionist barriers imposed by local governments. Governments erect various forms of barriers to enter in their domestic markets by foreign firms. These barriers include some of the most common measures such as tariffs and quotas as well as rules and regulations to protect specific industries and markets. These restrictions make imports less attractive and more costly. Therefore, it behoves the firm to establish export bases or production facilities in host countries in order to avoid these protectionist measures.

Seventh, companies enter foreign markets because competitors have already done it. The reason why China has attracted world's most dominant car manufacturers to to invest is follow the competitor syndrome.

Eighth, governments throughout the world offer a variety of incentives to attract MNCs. These incentives vary from direct financial assistance to defray part of the initial costs of operations to indirect financial schemes such as favourable tax rates. All these incentives help companies maximise their after-tax profits and thus provide additional funds to invest either in the host country, home country or a third country.

Finally, advancements in technology, particularly in transportation and communication, have facilitated globalisation immensely.

PLAYERS IN INTERNATIONAL BUSINESS

Every firm which conducts business across borders is a player in international business. Viewing from this perspective, an individual, a proprietary firm, a co-operative society, or limited company is a player in global business. But one special type of organisation engaged in global business is the Multi National Corporation(MNC.) An MNC is an organisation that engages in production or service activities through its own affiliates in several countries, maintains control over the policies of those affiliates, and manages from a global perspective. With a global perspective, top managers allocate resources and coordinate activities to take the best possible advantage of favourable business conditions throughout the world. Table 2.3 shows the world's most popular MNCs.

Some other expressions are also coined to name enterprises engaged in global business. United Nations agencies call these firms as transnational corporations (TNCs), and others prefer the term multinational enterprises (MNEs). But there is no common agreement about the choice of any of these expressions. However, there is a trend-Americans use the term MNC, Europeans call them MNEs and Indians go by what Americans use, viz., MNC (See also Box 2.3).

Table 2.3

The Top 10 Global MNCs Ranked by Market Value, Sales, Profits, and Share-Price Gain, 2003

Market Value Billions of U.S. Dollars		*Sales Billions of U.S. Dollars*		*Profits Billions of U.S. Dollars*		*Share-Price Gain*	
1 General Electric	$328.11	1 Wal-Mart Stores	$258.68	1 ExxonMobil	$20.96	1 Mizuho Financial	636%
2 Microsoft	284.43	2 BP	232.57	2 Citigroup	17.85	2 Research in Motion	550
3 Exxon Mobil	283.61	3 ExxonMobil	222.88	3 General Electric	15.00	3 UFJ Holding	420
4 Pfizer	269.66	4 Royal Dutch/ Shell	201.93	4 HSBC Holding	11.65	4 SK	383
5 Wal-Mart Stores	241.19	5 General Motors	183.24	5 Roayl Dutch/ Shell	11.41	5 Rakuten	381
6 Citigroup	239.43	6 Daimler Chrysler	166.61	6 Vodafone Group	11.36	6 Sumitomo Mitsui Fin.	331
7 BP	193.05	7 Ford Motors	164.20	7 Bank of America	10.81	7 Elan	311
8 AIG	191.18	8 Toyota Motor	156.48	8 Toyota Motor	10.51	8 Bharti Tele-Ventures	276
9 Intel	184.66	9 Mitsubishi	137.32	9 Microsoft	9.99	9 Yahoo! Japan	241
10 Royal Dutch/ Shell	174.33	10 General Electric	134.19	10 BP	9.54	10 Mitsui Trust Hldgs.	229

(Source: Richard M. Hodgetts, *et.al.*, *International Management*, Tata McGraw-Hill, 2005, p.6).

Box 2.3

What's in a Name?

There is a debate about what to call a company whose business ranges across national borders, tying together home and host countries through corporate policies and practices. Here are some of the terms used to describe these companies.

Transnational Corporation (TNC)

Because companies "transcend" or operate across national borders, some experts prefer the term transnational corporation, or TNC. The United Nations favours this term and has created a Research Centre for the Study of Transnational Corporations.

Multinational Corporation (MNC)

The fact that companies operate in multiple countries has led some experts to adopt the term multinational Corporation, or MNC. This term is very popular in the business press and in textbooks. It seems to be the most generic name to describe corporations operating around the world.

Multinational Enterprise (MNE)

Because some of the international giants are state-owned enterprises, rather than corporations, the term multinational enterprise, or MNE, has entered the vocabulary of international trade.

Global Corporation

This term became very popular in the 1990s. The term seems to have first been used to describe a small number of companies whose business was conducted in dozens of-perhaps more than 100-nations. Hence, Nestle has long been described as truly global because the scope of its operations extends to more than 150 nations around the globe. The term is often applied to companies doing business in several areas of the world (e.g., Europe, Latin America, Asia-Pacific, and North America).

(*Source:* James E.Post, *et al.*, *Business and Society*, p.157)

Table 2.4 shows Indian MNCs. There are no Indian MNCs in the strict sense of the term. Unlike a GM or a Siemens there is not even one company which has

Table 2.4

Indian MNCs

• Tata Motors to take over Daewoo in South Korea for \$118 million
• Ambanis to take over Flag International for \$211 million
• Ranbaxy took over RPG Aventis, France based firm
• Wockhardt acquired CP Pharmaceuticals and Wallis Laboratories-both of Britain
• Hindalco took over Mount Gardon and Nifty-Copper mines in Australia
• Sundaram Fasteners has acquired Dana Spicer Europe, the British arm of an MNC
• Sundaram Fasteners is setting up a greenfield project in China
• Amtek Auto has acquired the GWK group in the UK
• Kirloskar Brothers took over SPP Pumps, UK

its operations spread around the world. But some of the Indian companies have acquired or strategising to acquire foreign based firms. From this narrow perspective, some Indian companies (shown in Table 2.4) are MNCs.

Colossal is the right word to describe the pre-eminent position of MNCs in the world of business. There are about 35,000 MNCs around the world today, controlling over 170,000 foreign affiliates. It is estimated that roughly half of all cross-border corporate assets are accounted for just by the top 100 MNCs.

Around the globe there are about 35,000 MNCs controlling over 1,70,000 foreign affilicates. Sales revenues of some MNCs exceed GDP of some countries.

Corporations that do business across national boundaries are so large that their annual revenues from worldwide operations exceed the value of goods and services (GDP) of entire nations. For example, General Motors had revenues of \$164 billion in 1996, more than the entire GDP of Norway (\$114 billion) or Thailand (\$130 billion) and nearly equal to that of Indonesia (\$167 billion). Other companies of comparable size in 1996 include Toyota, with worldwide revenues of \$118 billion, General Electric (\$79 billion) and Exxon (\$116 billion). Obviously, the chief executives of General Motors, Toyota, IBM, and Exxon are responsible for economic activities equal to or greater than those managed by the political leaders of some of the world's most significant economies.

It is argued that the MNCs reign as the pre-eminent vehicle of international trade is nearing its end. It is slowly being displaced by firms that represent a new type of international enterprise, which is called the global corporation. The MNC operates in a number of countries and adjusts its products and services to each. The global corporation, on the other hand, operates as if the entire world were a single entity. Global corporations essentially sell the same things in the same way every where. Thus, a global corporation, such as Sony, sells a standardised product-Walkman-throughout the world, components of which may be made or designed in different countries.[8]

ABB is a typical MNC. ABB is a federation of national companies with a global coordination culture. It is a Swiss company having headquarters in Zurich, but only 100 professionals work at the headquarters. Only two of the eight board members are Swedish. Financial data are reported in US dollars and English is ABB's official language.

Although multinational companies tend to be rather large and engage in a substantial amount of cross-border transactions, an increasing number of medium and small business enterprises are also involved in international business. More than 75 per cent of Indian's total export earnings, for instance, come from small-scale units.

Benefits from MNCs

Benefits from MNCs can be studied under two broad heads:

MNCs confor several benefits to host countries, most prominent among them being creation of jobs opportunities, improvement in balance of payments position, and transter of technology. Home country's benefits include inflow of income from overseas profits, acquisition of materials from abroad, etc

i) Benefits to the host countries; and

ii) Benefits to the home countries.

Benefits to the host countries: To the host countries, MNCs are likely to bring the following benefits:

- Transfer of technology, capital and entrepreneurship to the host country.
- Improvement of the host country's balance of payments.
- Creation of local job and career opportunities.
- Improved competition in the local economy and better utilisation of available resources.
- Greater availability of products for local consumers.
- Greater access to high quality managerial talent that tends to be scarce in host countries, particularly the developing ones.
- Encouragement to world economic unity and through that, political and economic integration-all resulting in world harmony.[9]

It may be noted that in each of the above benefits, the opposite may occur. For example, an MNC may use local financing, thereby absorbing capital that might have financed indigenuous companies. Or a few well-advertised, standardised consumer products may drive many locally produced products from the market, thereby reducing consumer choice.

Benefits to home countries: The following benefits are likely to accrue to the home countries:

- Acquisition of raw materials from abroad, often from a steadier supply and at lower prices than can be found domestically.
- Technology and management expertise acquired from competing in global markets.
- Export of components and finished goods for assembly or distribution in foreign markets.
- Inflow of income from overseas profits, royalties, licensing fees and management contracts.
- Job and career opportunities at home and abroad in connection with overseas operations.[10]

Box 2.4 shows company-specific benefits of globalisation to India and to the countries of origin.

Problems Brought by MNCs

As is the case with many activities, there are potentially disadvantageous by-products that may accompany the benefits brought to both the host and home countries by MNCs.

A major fall-out of the MNCs is that the host country is likely to lose its economic sovereignty, since it is not able to control all that an MNC does. It is said that a large multinational company negotiates with a host government more like another sovereign state than of a resident business in the state.

The track record of the International Telephones and Telegraphs (ITT) of the US is worth recollecting here. The ITT regards itself as above governments, above controls and above morals. It presents itself as an American company in America, British in Britain, German in Germany; but it owes loyalty to none of them and regards each government as an unnecessary obstruction. The most heinous of its deeds is the overthrow of the marxist President of Chile, Salvador Allende, in the Seventies. Ideologies which divided the world during the cold war between the US and the Soviet Union made no difference to the ITT and it could target the communist regimes and achieve its objectives.

The host nation may also experience some loss of control over its own economy. The MNC's actions are guided partly by worldwide needs than internal needs of the host nation. Thus, some actions may not be consistent with what is desired by the host nation (See Box 2.5). For example, dislocations may occur in the host country's balance of payments, particularly when an MNC imports materials or transfers funds.

Take our own case as an example. We invited MNCs with several objectives. One objective is to widen consumer choice. This has been fairly realised. Yet another objective is to improve the balance of payments. There has been a fair measure of success in this respect too. The net inflow of foreign direct investment which was just $150 millions in 1991-92 had increased to $1,982 millions in 1995-96. Three other objectives have been to encourage some MNCs to use India as an export base; to ask others to invest in high priority and infrastructural areas and to add to the existing manufacturing capacity. All these three objectives seem to have failed.

> MNCs are criticised by developing countries for reasons like -
> - Sovereignty is at stake
> - Loss of control over economy
> - Changing economic priorities, etc

With regard to developing India as an export base, Table 2.5 shows the export-import ratio of India and other countries. The ratio of a country's exports to imports is one indication of the extent to which an economy's purchases are financed by what it earns by selling its goods in the world markets. India's export-import ratio was at a low of 66 per cent in 1990-91, before it increased substantially over the next few years. But lately, the ratio has been showing a declining trend. Exports paid for 95 per cent of imports in 1993-94, 85 per cent in 1994-95, and 82 per cent in 1995-96.

Box 2.4

Benefits of MNCs

Transnational Links	*How the Indian Company benefits*	*How the Parent Company benefits*
P&G World-wide USA-P&G India	Infusion of funds will shore up sagging bottomline. Plans to launch more P&G brands, like Head & Shoulders shampoo will get a fillip. And five-fold growth in turnover will becomes feasible.	A lucrative foothold in the world's second largest, and fastergrowing, cleaning products, cleaning products market.
The Gillette company, USA-India Shaving Products	Access to Gillette brand name, both for existing products like blades and new products like swivel-head razors. Diversification into male deodorants and writing products takes on new meaning.	A chance to finally try to become the biggest player in the world's largest shaving products market.
Asea Brown Boveri, Switzerland - ABB Ltd.	Will obtain state-of-the-art technology to produce bigger range of power generation equipment. Can also diversify into locomotives and pollution control equipment, with Rs.700 crore investment.	A stronger presence in Asia, where the demand for capital goods will grow faster than in Europe in the 1990s.
Singer Corporation USA - The Indian Sewing Machine Company	Will produce the all-new series 900 range of sewing systems, possibly for the world market. Probable diversification into washing machines and audio and video systems.	Domination of a sewing machine market growing by 30 per cent annum, and the possibility of using it as a global production base.
Group Bull, France-PSI Data Systems	Immediate financial problems taken care of. A chance to market systems solutions with a full range of hardware, including large and medium-range IBM systems.	Apart from selling hardware, could use India as a software development base for global customers.
Digital Equipment Corporation, USA-DEIL	The firm will be able to offer more hardware products locally, in tandem with global releases.	Since it is moving rapidly into the software market, developing solutions in India could prove profitable.
Carrier Corporation, USA-Carrier Aircon	Access to technology to produce new products like air cooled chillers and high-end chilling systems. And all-out marketing support to break into the Far East and West Asian markets.	A chance to justify its investment in the Indian market, especially by using the Indian Co. as an Asian production centre.
C.P.C.International, USA-Corn Products	Running a Rs.2.27 crore loss between September 1991 and March 1992, the company's future looks bleak. Now, the equity expansion might just allow it to survive.	Strategic advantage of keeping its flag flying in a market attracting global processed food giants.
Leader A.G., Switzerland-Bata India	Will finally be able to invest in expanding and modernising all its shoe manufacturing units. Can also hope to launch new Adidas products, and thus boost its retail ambitions.	Can tap one of the world's cheapest production bases for leather hides, shoe uppers and finished products.
E.Merck, Germany-E.Merck(India)	Shore up beleaguered bottomline. Even if Indian patent laws do not change, can hope for faster transfer of technology from parent company.	Can use India as a base for increasing exports to other South Asian countries.

(**Source**: *Business Today*, July 22-August 6, 1992).

Coming to the other objective, *viz.*, developing India's infrastructure and core sector, Table 2.6 shows that a major portion of foreign investment has gone into consumer goods like colas, corn flakes and fried chicken. Surely, these were not the areas where foreign capital was needed.

MNCs were invited to set up new plants so that additional manufacturing capacity may be created. The experience has been disappointing. A very large amount of foreign capital has been used for acquiring local companies or merging with them, thus denying the country the benefit of new manufacturing capacity.

Besides, MNCs were invited to our country to set up greenfield projects so that additional manufacturing capacities may be created. But the experience till now

Table 2.5

International Comparison

(Export-Import ratio, perent, 1994)

Saudi Arabia	169	*Japan*	144
Nigeria	144	*Indonesia*	125
Brazil	121	*Germany*	119
Italy	113	*Canada*	107
South Africa	107	*China*	105
France	102	*Malaysia*	99
South Korea	94	*India*	93
U.K.	90	*Thailand*	83
Pakistan	83	*Mexico*	77
U.S.	74	*Argentina*	74
Philippines	59		

(**Source**: *The Hindu*, Sept 2, 1996)

Table 2.6

Total Inflow of Direct Investment from 1991-96

	Rs.crores	Percentage of total
Basic goods	1235.24	12.3
Capital goods	1928.21	19.2
Intermediate goods	1248.48	12.5
Consumer goods	2549.31	25.4
Service sector	2111.33	21.1
Miscellaneous	244.95	2.4
Automobile	711.06	7.1
Total	10,028.58	100.0

(**Source**: *The Hindu*, July 29, 1996)

Box 2.5

Coke pours into Asia

The biggest prize and challenge, is China. To woo the country of more than 1.2 billion people, the company has made unprecedented compromises.

In 1993, it entered a marriage of convenience with the Chinese government, gaining wide access to the market-but at a high cost. Coke pledged to keep its predatory instincts in check, promising to do everything from upgrading the local industry to providing cash income to farmers by starting a new line of fruit drinks.

Beijing is counting on Coke to provide its expertise in key areas from hygiene to packaging to distribution. In return, the Chinese have allowed Coke and its partners to invest $300 million to build 10 new bottling plants, giving it a total of 23 by the end of 1997.

The first fruits of the company's investment are in sight. Coke says it has grabbed 23% of the soft drink volume in China and figures on eventually topping 40%. A new study by McKinsey & Co. says Coca-Cola is one of a handful of consumer goods companies that has a chance to hit $1 billion in sales in China by 2000, thanks to its large, systematic investment in the country.

The problem is, China is so large that Coke can't rely on its usual methods to ensure that all is well. In more developed markets, Coke bottlers distribute all of the products directly, giving the company complete control over its goods. But that's not feasible in China, where some 75% of Coke products go through independent wholesalers. That means it's nearly impossible for the company to police such things as coolers, product display, and pricing. All Coke can do in most cases is ship its product out and hope for the best.

Moreover, Coke doesn't always succeed in staying out of the way of nationalist crosscurrents. In 1995, a group of National People's Congress legislators called for Beijing to restrict the expansion of Coke and Pepsi to protect local manufacturers. This legislative motion spurred an announcement last May that further approvals of soft-drink plants for joint ventures would be put on hold.

Coke takes the threat of a backlash seriously. It recently subsidized a study by Cambridge University Professor Peter Nolan to defuse criticism that it wasn't helping China's economy. Nolan estimated that every job at a Coca-Cola plant leads to six additional jobs elsewhere. The company is spending heavily to build rural schools and libraries. And it has launched the line of fruit drinks even though the premi-umpriced Tian yu di-'Heaven and Earth'-is a flop, say Coke's sales representatives. They say that it's too sweet and too expensive for Chinese tastes. Politically, though, it's a winner, since it provides cash for local fruit growers.

(**Source**: *The Economic Times*, 9th Feb, 1997).

has not been encouraging. A very large amount of foreign capital has been used for acquiring local companies or merging with them, thus denying the country the benefits of additional production capacities.

Thus, MNCs seem to have benefited little in a country like India.

The host country may also have a feeling that its labour is being exploited by the MNCs, higher wages paid by them, notwithstanding. Companies in the host nation have a grouse that they are forced to pay higher wages to the workers. They also resent the competition thrown in by the MNCs.

In the most serious cases, a host country might exert power of a possessive nature on the MNCs. In some nations, the host governments may insist on being partial owner of foreign businesses, especially a core industry. In situations of sudden social upheaval or changes in government control, a country may nationalise, or expropriate, the assets of a company or plant even without paying compensation. This can be very costly to the multinational. There are several extreme examples, such as Cuba's nationalisation of $1.5 billion of assets in 1960 and Iraq's seizure of all Kuwaiti assets in 1990.

Unable to cope with the hostile domestic public opinion, several companies quit Myanmar in the recent months. They include Pepsi, Apple, Walt Disney, Motorola, Hewlett-Packard, Eastman Kodak, Heineken, Carlsberg, Levi Strauss, Peregrine and others (Also read Box 2.6).

Box 2.6

Multinationals-backlash

But Myanmar is only one place where controversial investments are once again causing grief to big multinationals, especially to oil and mining companies:

* RTZ-CRA, which is Britain's (and the world's) biggest mining group, and Freeport-McMoRan, an American firm, are under attack from environmentalists for a copper and gold mine in Irian Jaya, Indonesia. RTZ-CRA last year made pre-tax profits of $2.46 billion, up 42 per cent on the year before. But when the firm held its annual meeting in London in May, journalists preferred to write about the tribes-people who turned upto protest about the company and about the environmental activist who tried to storm the podium.

* Royal Dutch/Shell has similar woes. Despite being in the throes of a far-reaching reorganisation, the oil giant has seen all the public's attention focus instead first on its aborted plants to dump the Brent Spar, an oil platform, at sea and then on its relations with the military regime in Nigeria. These provoked an international outcry last year when Nigeria executed nine dissidents.

* Two North American firms, Cambior and Golden Star Resources, came under fire following an accident last year at a Guyanan mine, which resulted in cyanide spilling into a river.

* In Malaysia, a $5.5 billion hydroelectric dam to be built by a consortium including Asea Brown Boveri, a Swiss-based multinational, is being attacked by local people and western environmental groups for destroying rain forests.

The average oil baron or mining boss might once have shrugged off such events as little local difficulties. Some even relished a brawl. Nowadays, they recognise that the stakes are higher. It is not only the prospect of consumer boycotts that worries them. In addition, staff morale can suffer (many Shell employees opposed the sinking of the Brent Spar), political contacts can be upset (Nelson Mandela denounced Shell's

(Source: The Economic Times, 28 Aug, 1996)

Economic issues such as high interest rates, capital shortages, export obligations, and restrictions on repatriation of profits affect multinational businesses.

The social and cultural differences among nations present formidable challenges for the MNC, its managers and their families. Differences in language, physical surroundings and values of the population can create important business and human conflicts (See also Box 2.7). Business has discovered that social and cultural differences may pose difficult problems in its relations with the host country and in establishing a productive and capable workforce in its foreign affiliates.

Box 2.7

Business problems because of cultural differences

A few years earlier, Japanese television audiences watched as a Japanese woman's husband walked into the bathroom as she was bathing. While she told him about the new beauty soap she was using, he stroked her shoulder and hinted that he was interested in more than her soap. Many Japanese viewers were offended, feeling that the man was displaying bad manners to intrude in his wife's bath. Procter & Gamble's efforts to sell its Camay soap to Japanese consumers were set back by this advertisement. P&G had similar troubles marketing its US brand of bulky disposable diapers to Japanese buyers, who preferred cloth diapers or Japanese brands that were better fitting for Japanese babies. When they advertised P&G laundry detergent as working in all temperatures of water, they discovered that many Japanese wash clothes in cold water and did not care about P&G's claim. Problems like these caused the company to lose $200 million in its first years of entering Japanese markets. In Europe, the company's liquid laundry detergent could not be used in European-made washing machines which were designed to take only powdered laundry detergent. In trying to design portable liquid dispensers to be included in P&G's detergent package, the company discovered that each brand of washing machine required a different design. Procter & Gamble's marketing staff eventually overcame these blunders encountered in entering foreign markets so well that the company expected over half of its total revenues to come from foreign sales in the 1990s. The lesson was clear. Successful marketing requires a thorough knowledge of differing cultural attitudes and practices.

(Source: W.C.Frederick, *et al*, *Business and Society*, p.130.

The most serious threat faced by the host country citizens is the loss of their cultural moorings. In the name of globalisation, MNCs usher in their own dress and food habits which are simply grabbed by the youth of the host countries. The youth of today are more familiar with cornflakes, pizza and fried chicken than *idlis, dosas* and *chutney* (See also Box 2.8).

In general, it is difficult to allay the fears of citizens and politicians in a host nation. They know that an MNC is deriving some benefits from its activities, so they feel exploited because they cannot rationalise that the activities may be of mutual benefit to both the company and the host nation.

It is worth nothing that although MNCs are viewed with caution and suspicion by some host country government officials, they are actively courted by most countries rather than denied entry.

Box 2.8

Globalisation and Culture

The existing cultural common sense in India has evolved from its historical experience and is drawn from a variety of sources. It is heterogeneous in character and plural in manifestation. The social and cultural practices and behaviour which admit of diversity reflect these qualities. Unlike the capitalist West, there is no standardisation. Be it food, dress, entertainment or gestures-almost all aspects of daily life-the rich legacy of a vibrant culture is apparent. Through the new cultural infrastructure fabricated by global forces, the indigenous common sense is not only being marginalised but is also being projected as anachronistic. It is sought to be replaced by the common sense of advance capital which privileges practices and behaviour linked with the products of advanced capitalism. The rationale for this displacement is the universal character of the cultural common sense of advanced capital. The globalisation, it is argued, affords the opportunity to internalise the universal culture and is thus to become part of a large whole. This, to say the least, is a convenient pretext, which conceals the interest of the dominant.

The cultural infrastructure, the global forces are currently fabricating in India, would pave the way for the internalisation of "universal" culture. The active collaboration of the bourgeoise facilitates its realisation. They are helping not only the dissemination of the values and tastes of the dominant culture but also contributing to its legitimacy. So are the Indian middle classes. The cultural transformation they have undergone during the colonial period had opened up the possibilities of what the West could offer them. They were disappointed that Independence did not give them the necessary freedom to pursue the utopia. The opportunity they were yearning for has now been offered by globalisation and therefore they have welcomed not only the "universal" culture but also become conduits for its free flow.

The principle, the bourgeoisie and the middle class, often invoke is the freedom of choice. They hold that they are voluntarily striking out a new path for our society. It is necessary, as Gandhiji has said, to keep the windows open. It is equally necessary that we refuse to be blown off our feet. Today the option to close the windows, if we so desire, does not exist. The initiative does not rest with us. Rather than free cultural interaction, cultural hegemonisation based on power differential and economic disparities is the evolving scenario. The freedom of choice is an illusion, even if culture operates with an aura of neutrality, as global forces do not exercise direct political control. The marginalisation of indigenous cultural practices is an inevitable outcome. The cultural invasion represented by the rapid intrusion of the electronic media tends to create the impression that the global forces are only introducing a new cultural element. The opposition, therefore, is confined to the "new" which militates against values Indian. This is quite misleading, as the global forces are working through the Indian shell by appropriating indigenous cultural forms and practices.

*(**Source:** K.N.Panikkar, "Globalisation and Culture", The Hindu, Oct 5, 1995).*

People in the home country of an MNC may have objections to its activity. They see jobs being created in another nation, denying the same benefit to the home country citizens. Citizens in the home country may also be less tolerant of the host nation's culture. For example, they may claim that the operations of the MNC in a host nation having a dictatorship are supporting dictatorship, or that operations where there is a racial discrimination are supporting that practice. The MNC argues that it must fit into the culture of the host nation in the same way it does in the home country, and also that it can help accomplish social improvements better by staying in a nation than by leaving it.

All things considered, it may be stated that the benefits of MNCs far outweigh the problems they create. It needs to be emphasised that MNCs are change agents and are welcome particularly to developing countries where improving the standard of living is a top priority. However, MNCs must operate in host countries in such a way that their economic sovereignty is not eroded. Besides, the activities of MNCs must fit into the long term development plans of host countries even if it means sacrificing immediate gains.

In order to allay the fears of host countries, MNCs need to respond in the following ways:

- Provide employment
- Train managers
- Provide products and services that raise the standard of living
- Introduce and develop new technical skills
- Introduce new managerial and organisational practices
- Provide greater access to international markets
- Raise the GDP
- Increase productivity
- Help build up foreign exchange reserves
- Encourage the development and spin-off of new industries
- Assume investment risk that may not otherwise be undertaken
- Mobilise capital for productive purposes from less productive uses

CHALLENGES OF INTERNATIONAL BUSINESS

Challenges befare MNCs include –
- creating and maintaining competitive advantage
- facing local government regulations
- developing international perspectives
- managing diversity
- corporate citizenship

Globalisation is a fact of life. The newspapers on a daily basis report about the global focus of companies-big and small. It is being reported how American firms are making inroads in to Japanese markets and how Japanese companies seek to invade American markets. Indian businessmen are not sitting pretty. They are scouting around for new partners, suppliers and buyers. (see Table 2.4)

It is not just large companies that have a global focus. Increasingly, small businesses are also going global. The SSI sector in our country accounts for 44 per cent of our total exports.

Increasing globalisation poses its own challenges to trading countries. There are five areas in which each country must excel in order to emerge as a strong global player. First, the country must maintain competitiveness. Secondly, it must influence trade regulators so that other countries open their doors for its goods and services, being willing to buy from as well as sell to the country. Thirdly, the country's businesses must develop a global outlook that allows them to operate as true MNCs, not just as local firms doing business overseas.[11] Fourth, an MNC should know how to manage diversity in the global business canvas. Finally, a global firm needs to maintain a good image — an honest and socially responsibile firm.

Maintaining Competitiveness

Many factors contribute to the competitiveness of a nation. It is being argued that labour costs, interest rates, exchange rates and economies of scale make a nation competitive. These traditional factors, no doubt, contribute to the competitiveness of a country but not to be ignored are other sources which make a nation enjoy competitive advantage over others.

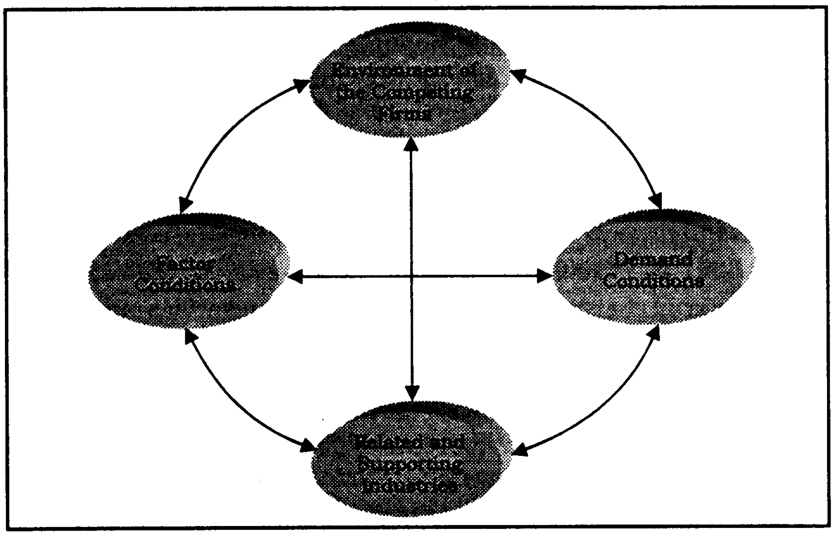
It has been demonstrated that the best way for companies to achieve competitive advantage is with innovation. Michael Porter has emphasised that the key to gain competitive advantage is the ability to innovate continually. Most successful MNCs have proved this claim. For example, 3M generates 30 per cent of its annual incomes from products that were brought to market in the last four years, and the number of patents issued to the company keeps rising every year. In 1990, it received 350,000 patents and the figure shot upto 500,000 by 1994. At the same time, 3M has managed to accelerate the product cycle by reducing cost and waste and bringing their products to fruition in record time. Other factors that contribute to competitiveness comprise quality, cost and service, to state only a few.

Why are some countries strong while others are weak? Porter's thesis provides the answer.

According to Michael Porter, a renowned expert on competition, competitive advantage of a nation depends on factor conditions, demand conditions, related and supporting industries and the environment in which firms compete (see Fig.2.2). These four attributes individually and interactively determine national competitive advantage.

Figure 2.2

Porter's Determinants of Competitive Advantage



Factor Conditions According to basic international trade theory, a nation will export these goods that make best use of the factor conditions with which the country is relatively well endowed. These factor conditions include land, labour and capital. For example, if a country has large uneducated workforce, it will seek to export goods that are highly labour-intensive.

Sometimes, nations may develop factor conditions even if they are not endowed with. Japan, for example, has gained world market share in auto and consumer goods industries, though raw materials for these have been imported. To offset this disadvantage, Japanese manufacturers have improved productivity by using advanced production methods. High productivity has enabled Japan to gain advantage.

Demand Conditions A nation's competitive advantage, according to Porter, is strengthened if there is strong local demand for its goods and services. Denmark, for example, has gained leadership in the world market in water-pollution control equipment and windmills because of the high environmental concern of Danish people. Strong local market benefits sellers atleast in two ways. First, it helps the seller understand what buyers want. Secondly, if buyers want any change, local sellers can quickly respond before distant competitors can react.

Related and Supporting Industries Porter's third major determinant of national competitive advantage is the presence of related and supporting industries that are globally competitive. These are mainly service industries when suppliers are located near the producer, these firms often provide lower-cost inputs that are not available to the producers' distant competitors. In addition, suppliers typically know what is happening in the industrial environment and are in a position to both forecast and react to these changes. By sharing this information with the producer, they help the producer maintain its competitive position. The Italian shoe industry is an excellent example. Shoe producers interact on a regular basis with leather manufacturers, exchanging information that is useful to each in remaining competitive. This interaction is mutually beneficial to both the parties.

Environment Porter's fourth broad determinant of national advantage is the context in which the firms are created, organised and managed, as well the nature of domestic rivalry. Management practices vary across countries. Nations tend to do well in industries where the management practices match their industries' sources of competitive advantage. In Italy, for example, successful firms typically are small or medium sized enterprises serving small market niches and operate in fragmented industries such as lighting, furniture, footwear and packaging industries. In Japan, successful firms are often those that require unequal co-operation across functional lines and that demand the management of complex assembly operators.

National goals are equally important. Some nations expect quick results. Others tend to do well in industries where long-term development is expected.

Domestic rivalry is another determinant of a nation's competitive advantage. Nations which are leading world players tend to have strong local rivals. Switzerland enjoys competitive advantage in the pharmaceutical industry because of the rivalry among Hoffman, Ciba-Geigy and Sandoz. In Germany, BASF, Hoechst and Bayer help the country to keep ahead in chemicals.

Government and Trade Regulations

The government of any country can influence its international business significantly. For example, government intervention for the purpose of protecting domestic industries usually results in less movement of goods and services across borders.

A government's major role in global business may stem from its being a world trade negotiator. Many people believe that their government should limit competition