Focus of Competitive Strategies in India

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Meaning of Productivity

Broadly speaking "Productivity means the ability of a nation, company or any business unit to harness its physical and human resources to generate the desired output".
Simply put in a non-technical way, productivity refers to working "smarter" and not necessarily "harder".
The productivity of human resources determines employee wages. The productivity of capital determines the return it earns for its holders".

Meaning of Globalization

Globalization is a process of interaction and integration among the people, companies, and governments of different nations, a process driven by international trade and investment and aided by information technology. This process has effects on the environment, on culture, on political systems, on economic development and prosperity, and on human physical well-being in societies around the world.

Productivity for Global Competitiveness

In his book 'Competitive Advantage of Nations', Michael Porter observed. "The only meaningful concept of competitiveness at the national level is Productivity. Productivity is the prime determinant of a nation's long-run standard of living; it is the root cause of national per capita income.
Consequent on the on-going process of economic reforms & liberalization as well as coming in to force of the WTO regime, which is compelling India to dismantle the lingering protective environment which have so far sheltered Indian economy in general and industry in particular, the twin concept of productivity and competitiveness have become more relevant than ever before.
One can even go to the extent of saying that these are perhaps intractably linked to the country's economic future and survival as a viable entity in this era of globalized economy.
For a developing country like India , Productivity in its new manifestation, as a culture of accepting and bringing about continuous change through teamwork having continued focus on the customer-need is an inescapable imperative. These concepts have come to acquire greater significance in the current context of changed economic environment.
However, the increasing market-orientation and private sector development have thrown up a number of new challenges. In fact, it is influencing the mindset of all the constituents of the society.
Productivity is the key to competitiveness, which in turn is an indicator of a country's potential for economic growth in the short to medium term.
The findings of the Global Competitiveness Report of the World Economic Forum reveal that India 's competitiveness is relatively quite low, which is not surprising, given the continuing low productivity levels of different economic sectors in India .
It also indicates that although productivity levels have been growing in India for at least a decade and a half, the level of growth is lower than that required to keep pace with rest of the world. Hon. PM of India , Dr. Manmohan Singh, in a recent address to the industrialists, stressed the need to boost productivity and global competitiveness of the Indian industry. He lamented that ' India still had a long way to go in catching up with the newly industrialized economies of Asia. We have to move fast, move quickly and move efficiently to catch up with our neighbours in East Asia'.

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Why is Productivity Low?

Firstly, I believe that the work culture that is prevalent in the country is one important factor contributing to low productivity. I do recognize that this complacency must change. We are finding that the global environment will not accept anything but the best in terms of speed of service, accuracy in delivery and consistency in approach. Anything less will mean that we lose our market position as well as our reputation. Our work culture will need a major revolution in order to match the high standards demanded by the global community.
Another factor is the lack of skills in our workforce. You will agree with me that productivity growth depends on the birth of new ideas, that is, innovation and invention, and the ability to turn such ideas into usable technology. Both, in turn, depend on maintaining an educated and skilled work force. We have the numbers in terms of a good pool of labour force but we lack the skills. The steady outflow of skilled emigrants from managerial, professional, technical and clerical occupations is also taking its toll on our skill base.
Another problem that we face is the lack of up-to-date and appropriate technology. As is typical of developing countries, investment into research and development is very low. Hence, our ability to turn innovative ideas and new inventions into useable technology is weak. In fact, growing disparities in growth patterns amongst industrialised nations have been related to the ability of those nations to adopt new and highly productive equipment. Those that have been able to rapidly adopt new technology and make best use of its potential have reaped productivity gains whereas the others have lagged behind.

What will happen if we do not raise Productivity?

On a macro level, we will not achieve our economic vision of Growth in GDP. This means that many of our children and grand children will not get jobs.

- Unemployment will be higher. Incomes will be lower.
- Poverty will rise.
- Social problems will escalate.
- Ultimately, the people will bear the incidence of poor productivity. Consumers will pay the welfare loss as they purchase their basket of goods and services at higher prices and perhaps low quality.
- The owners of capital and labour will also bear the loss. The efficiency of capital is reduced.
- Firms become inefficient and are unable to raise the return on their current level of resources.
- As the cost of doing business for firms increases they are either forced to shut down or retrench workers.
- The first option will mean loss of capital and lower investment. The second option means firms reduce their labour force, which leads to unemployment and income foregone.
- The impact of the economic loss from lack of productivity will not be borne evenly. It will impact more on the low income earners and the poorer.
- Low income earners are the first to loose their jobs in a crisis. They are also the group that cannot protect the value of their assets as price increases.
- There is also inflationary impact of reduced productivity. Poor worker productivity will obviously cause workers to prefer inflation-indexed wage increments instead of productivity based wage increments.

Competitiveness of Enterprises

With globalization, enterprises are now faced with new competitiveness requirements. These are brought about by:

- The globalization of competition: With the spreading trade liberalization and deregulation, there is now closer integration of domestic and international markets. Thus, enterprises must not only face increased competition in their export markets but even in the domestic markets must cope with the competition from imported products that can now easily enter the country. The increasing significance of electronic commerce is also contributing to the rapid integration of markets.
- Better informed and more discerning customers: The advance in international communication, increased access to knowledge and information, and the increased integration of markets have led to internationalization of consumers demands and preferences. This is resulting in very discriminating customers who are demanding more product differentiation and specialization. The fads and fashion not only spread rapidly across the globe but also shift and change very quickly. The rapid advance in information and production technology make product obsolescence very fast. The product variety is thus increasing but the product life cycle is decreasing.
- Increasing number of competitors: With countries moving towards trade liberalization and adopting export oriented development -from import substitution strategies- many of their enterprises are entering international and the liberalized national markets.
- Rapid advance in both soft and hard technology: This enables more enterprises to adopt production and organizational systems that improves the capacity to produce products and services at lower costs, improved quality and increased speed of delivery.
- Advances in new scientific fields: The fast developments in fields such as electronics, biotechnology, materials science, are resulting in the increased flow of new products and services that substitute for or totally replace existing ones. This further accelerates product obsolescence mentioned earlier.

An enterprise's competitive advantage is developed through improvements in the way it organizes and performs its sourcing, production and distribution activities (Porter, 1990). It acquires strong competitive position by creating and offering products and services of better or superior value to its customers. This it can achieve through better management and performance of what is called the value-chain of the enterprise: the sourcing and organizing of inbound inputs, the production operations which transform these inputs into products and services needed by the target markets, the organization and management of outbound distribution, marketing and sales, and the provision of after-sales services to ensure that customers enjoy the full value of its products and services.

Customer orientation

The improvement of the enterprise's value chain start from determining what the customer wants. Thus, with the more discerning and demanding customers of varied and rapidly changing requirements, enterprises have realized the importance of increasing their customer orientation. They must always be able to meet the needs, desires and expectations of their customers. This may call for rapid product development, frequent changes in product models and types, a broader range of products, and even production according to specifications of a particular buyer. With the rapid change of technology, of the fast spread of communication and information, the needs and requirements of customers, whether it be industrial or end-consumers, is very dynamic and volatile. An enterprise must have the flexibility and competence to cater to this very dynamic market.

Flexibility and agility

An enterprise develops and acquires the flexibility and competencies needed through strategies that involve: (a) the development and strengthening of internal core competencies and capabilities, simplifying structures, improving lateral interactions and coordination and improving internal communication; (b) the outsourcing of standard and specialized competencies through practices such as outright purchasing of standard parts and subcontracting of specialized parts and services, including the use of business service suppliers, temporary workers, home-work and geographical relocation of particular jobs and activities; and (c) the acquisition and quasi-internalization of complementary competencies and capabilities through various forms of cooperative relations with other enterprises such as partnership, networking and alliances (Palpacuer, 1997).

Human resource management

Enterprise competitiveness is based more and more on the quality of the human resource of the enterprise. Good human resource management (HRM) thus becomes an important cornerstone of an enterprises competitiveness strategy. Being an integral part of the strategic management of the enterprise, the various HRM policies, functions and practices should contribute to the creation and sustenance of the enterprise's competitive advantage. Thus, the development of the culture of productivity and creativity, the building-up of mutual trust and shared values, initiative and self-management, and multi-skilling and skills upgrading and continuous learning must always be priority goals of the various HRM functions of human resource planning, staffing, and allocation; human resource utilization; human resource development; and motivating and commitment-building.

Trust and shared values appear as central mechanism for work coordination and control in a flexible enterprise. When work is complex and constantly changing, direct control based on supervision becomes too expensive and unwieldy, and bureaucratic control based on work standardization and rigid systems and procedures and rules and regulations is not workable and can be counter-productive. Organizations must rely more on self-management. This form of internalized control is built on mutual trust and confidence, shared values, and common understanding and acceptance of the organization's or corporate objectives, philosophies, priorities and norms. In this sense, the importance of information sharing becomes very important. Committed, motivated and capable employees at all levels are essential to gaining sustained competitive advantage.

Developing distinctive competence and proprietary technologies

In an era of rapid technological development, enterprises gain competitive advantage through offering unique product and services, development of distinctive competence and proprietary technologies. A strategy towards productivity and competitiveness therefore is promoting organizational capacity and adaptability to exploit the full potential of new technology to improve efficiency, develop new products and services and unleash the creativity and innovation of the workforce. Efforts need not be just in research and development to develop cutting-edge technologies, but it must also be in the adaptation of already existing hard and soft technology to build-up distinctive technical competence and develop superior products and services. Introducing technology alone however, is not sufficient. More than ever before, people are the most important resource in the new knowledge-based economy. The benefits of new technology can only be fully realized if it is introduced together with new forms of work organization and continuous training.

For enterprises in the cutting-edge technology development, the importance of keeping ahead in proprietary technology is clearly demonstrated in the electronics industry. A new terms of competition, called "Wintelism" is emerging based on experiences in the electronic sector. In what is called the Wintelist (code word derived from combination of Windows and Intel) era, competition is based on setting and evolving de facto product standards in the market. In the computer industry for example, manufacturers, whose systems are nearly identical, emphasize in their sales pitch use of components or software that have become market standards - "Intel Inside", or "Microsoft Windows Installed" - rather than unique features of their own brand. In the Wintelist era, firms located anywhere in the value chain can, potentially, control the evolution of key standards and in that way define the terms of competition not just in their particular segment in the value chain but in the final product market as well. For the Wintelist firms, ownership and manipulations of the de facto standards they have set are considerably more effective barriers to entry than the barriers of scale and vertical control over technology and production because they are harder to duplicate (Borrus and Zysman, 1997).

Better supply chain management

The product or service that an enterprise sells to a customer is the result of a series of activities that involves bringing together the inputs required, manufacturing these inputs into the enterprise's products, transporting these products to wholesalers and distributors, bringing them to the customer through retailing and other outlets, and providing after sales services as required. The supply chain is made-up of segments: the up-stream segments made-up of suppliers of raw-materials, components, services, consumables, etc., the internal supply-chain made-up of the various departments and units involved in the production of the products or services, and the down-stream segment made-up of distributors, wholesalers, retailers and providers of after-sale service. Improved value to customers can be achieved through the improvement in the various segments of the chain, as well as in completely redesigning the supply chain.

An enterprise can significantly improve its internal productivity by focusing on those things it can do well and subcontracting or outsourcing the other activities to other firms who could do them better. In the situation where an enterprise relies on network of suppliers and service provider, the effectiveness and efficiency of the enterprise is very much affected and is very much dependent on the way it manages the supply chain. Improving collective productivity of an enterprise's supply chain requires (Porier, 1997):

- carefully analysing the enterprise's business, its business and operations strategy, how it can deliver the best value to its customer, and then deciding what to out-source and what products or parts produce and/or activities to undertake internally within the enterprise;
- careful selection of suppliers and down-stream distribution and sales channels;
- establishing close collaboration and cooperation with suppliers and service providers to ensure that they meet the volume, quality and time requirements;
- assisting in building the competencies of the various parties in the supply chain; and
- ensuring that wastes in time, materials, money and other resources are minimized throughout the enterprise's supply chain.

Networking and alliances

One way for enterprises to improve their flexibility, acquire new technical and managerial competencies, increase leverage of their internal resources, and achieve speed in bringing product to market from market research, product development to distribution and retailing is through entering into networks and alliances with other enterprises. Through cooperation and collaboration with other enterprises -even with those in the same business and competitors- an enterprise could access new market opportunities and sources of needed inputs; concentrate and perform only those activities and functions that it can do most productively and quickly; have better access to new technology and innovation; learn and access new managerial practices and organizational systems; increase speed of the product cycle; and improve overall productivity.

The networking relationships between and among firms can be formal or informal. It can be vertical relationships such as those formed by firms engaged in complementary activities and those that form supply chain relationships, and horizontal relationship involving firms engaged in similar or competing activities. Strategic alliances can be entered into, agreeing with other firms to combine efforts to pursue a competitive advantage that neither of the parties to the alliance could accomplish or achieve alone. The partners in the alliance contribute complementary products, market presence, distribution networks, production facilities, skills and technologies, etc. Strategic alliance is usually limited in space (e.g. for activities in a specific country), in time (i.e. for a specific period only), and purpose (e.g. they may be on technology but not on markets, or vice versa).

To obtain maximum benefits and minimize the risks and hidden costs of networking and alliances, the enterprises entering into the relationship must undertake careful analysis. They must address a number of critical questions such as what the enterprise's core competencies are, its strength and weaknesses and what peripheral capabilities must it seek from the external environment; how the network will be governed, share influence and responsibilities; and where the competitive advantage will be created through networking.

Sustaining the enterprise's competitive advantage

The sustainability of the competitive advantage of an enterprise is dependent on the nature of the major source of its present advantage over the competitors. There is a hierarchy or level of sources of competitive advantage in terms of sustainability. Lower order sources of advantage such as low labour costs or cheap raw materials are relatively easy to imitate or acquire by competitors. Higher order advantages such as proprietary processes and technology, product differentiation based on unique product or services, brand reputation based on cumulative marketing efforts, and customer relationships protected by high costs to the customer of switching vendors, are more durable. These higher-order advantages are created through sustained and cumulative investment in physical facilities, human resource development, research and development, and/or marketing activities. Competitive advantage is therefore sustained through constant improvement and upgrading. In order to sustain its competitive advantage, an enterprise must become a moving target, creating new advantages at least as fast as competitors can replicate old ones. To remain competitive, an enterprise must constantly destroy old advantages to create new, higher-order ones (Porter, 1990).

Competitiveness of nations

Nations do not compete as enterprises do. Rather, nations compete in creating the conditions that attract and encourage investors -foreign and domestic alike- to invest in productive and competitive enterprises within their borders (and even for local enterprise to invest abroad, if that will enhance international presence and market proximity and responsiveness). A country competes through creating the policy framework that encourage and enable its enterprise to constantly upgrade themselves and keep on improving their productivity, and by putting in place programmes and incentive packages that help and enable its enterprises to develop competitive advantages and pursue competitive strategies for successful participation in international markets.

Reports that rank countries according to competitiveness are getting widespread attention by policy makers and economic actors in both developing and developed countries. The World Competitiveness Yearbook of the International Institute of Management Development based in Lausanne, Switzerland (IMD, 1998) uses eight major groups of factors/principles to rank a nation's ability to encourage and sustain the competitiveness of its enterprises. Similarly, the Global Competitiveness Report published annually by the World Economic Forum also makes use of eight clusters of structural characteristics of national economies in constructing the competitiveness index used in ranking the competitiveness of the countries covered. The Report looks at international competitiveness as the ability of a nation's economy to make rapid and sustained gains in living standard (Sachs, J., Stone, G. And Warne, A., 1996). The competitiveness index thus aims to gauge the ability of a national economy to achieve sustained high rates of economic growth. It attempts to measure growth potential on a horizon of five to ten years, offering an assessment of economic conditions for medium term growth.

A detailed scrutiny of the clusters of factors -and the sub-factors within them- used by the two competitiveness reports show that, over-all, the two cover the same general issues that are deemed to influence "national competitiveness" (O'Neill, 1997). These factor are (a) internationalization or openness of the economy, (b) domestic economy and government involvement and policies including legal and regulatory environment and institutions of civil society, (c) financial institutions including their size and transparency, (physical infrastructure, environment and energy, (d) management skills, (e) science and technology capability and facilities, and (f) people including skills and access to education, unemployment levels, working hours, welfare and social services, equality of opportunity, quality of life, and attitudes to work.

Systemic competitiveness

The most competitive countries therefore have what Esser et al. (1996) call systemic competitiveness. Industrial competitiveness is the result of the complex and dynamic interaction among factors at four social and economic levels in a national economy: at the meta, macro, meso and micro levels.

At the meta level are the socio-economic, cultural and political factors that are essential to competitiveness such as:

- a development-oriented cultural values which include social recognition of economic success, priority for long-term investment in knowledge and skills acquisition, a positive work ethics and pride in work and performance, and propensity to save;
- a basic consensus on the necessity of industrial development and competitive integration into the world market; and
- the ability of the social actors to jointly formulate visions and strategies and to implement agreed upon strategies and policies; this implies mechanisms and institutions for entrepreneurs, employers, workers and other concerned members of the society to develop shared visions on areas such as which position should be targeted in the international division of labour, which comparative advantage should be developed in the long run, and how profits and costs of market integration should be distributed among social groups, etc.

At the macro level, the key ingredient for competitiveness is a stable and predictable macro-economic framework. Such a framework should lead to the creation of well functioning markets that are essential for the effective and efficient allocation of resources. This policy framework includes a realistic exchange-rate policy, a general foreign trade policy that stimulate local industries, competition policy, and a fiscal and budgetary policy geared for growth and stability. The macro framework should encourage or require the country's enterprises to be effective and efficient.

At the meso level, the key factors for competitiveness are specific policies and institutions that help industries to suit to their environment and create competitive advantage. There are two sets of meso level factors:

- Meso-level institutions, both private and governmental, which offer services and support to enterprises and help build the development of human capital and technological infrastructure; and
- Selective and targeted policies aimed to shape and strengthen competitiveness of certain sectors (industrial structure, trade patterns, technology development and acquisition, human resource development, supportive infrastructures, etc.)

An important element at the meso level is the legal and regulatory framework affecting the establishment and operations of enterprises. A legal and regulatory framework that imposes undue and excessive administrative and financial burden on enterprises affect adversely their capacity to compete. Another important element is effective channels and media of communication that facilitate the flow of information and exchange of ideas among key stakeholders and actors, relevant social groups, organizations and institutions.

At the micro-level, factors that determine enterprises competitiveness (in terms of costs, quality, product specificity, speed and responsiveness) are: entrepreneurial and managerial competencies; quality of the human resource; organization of production, including process and organizational innovations; organization of product development; organization of the value-chain; and cooperation networks and alliances, among others.

Strategies for Enhancing Productivity and Competitiveness

1. An organization has to develop the ability to harness the creative energies of their own available workforce.

2. The need of the times is to focus on creating and encouraging human capital. It is this pool of creative minds that will help in throwing up innovative ideas.
3. Education and training are emerging as key drivers of competitiveness. As the global economy has become more complex, it has become evident that to compete and maintain a presence in global markets it is essential to boost the human capital endowments of the labour force, whose members must have access to new knowledge, be constantly trained in new processes and in the operation of the latest technologies.
4. Most macroeconomic research studies conclude that Information and Communications Technology (ICT) is a significant contributor to productivity growth and most relevant in knowledge and information – intensive service enterprises for attaining global competence.
5. The value of Knowledge Management relates directly to the effectiveness with which the managed knowledge enables the members of the organization to deal with today's situations and effectively envision and create their future.
6. However, heavy investments in ICT and automation alone may not increase productivity unless a total, integrated approach is taken. This requires complementary investments in organizational restructuring, workplace and work process redesign, and a mindset change among employees, who need to be computer literate.
7. Increasing productivity has to emerge as a new national priority, where the efforts of all converge to accelerate the process of economic growth and raise the standards of living of our people.
8. Our business organizations will have to improve their performance to ensure their survival and growth in a fiercely completive world. This improvement will come about only if we focus on production of quality goods, in a cost effective manner and by generating enough surpluses to plough back into the business to further improve productivity. And this must occur continuously, to create an advantage in the market place, which is what productivity is all about. Productivity, thus, will have to become a mass movement and to be put on the national agenda.
9. Every organization has its own distinctive approach towards development. Connecting these initiatives, there should be a commitment to enlarge the scope of innovation and to create environment conducive to Productivity. Productivity may be the outcome of techno-managerial practices, but eventually is the result of a mindset. Basic to this approach is the conviction that there is no limit to improvement. Even the best can be improved. The crucial ingredient is the preparedness of the human mind to change. Therefore, workers, managers, policy makers and others should be ready to continuously and collectively work for productivity improvement, not only in every economic activity, but also in every human endeavor for the development of the society as well as the country. Needless to mention, as we graduate further into knowledge era, traditional methods and principles will become increasingly ineffective and we will have to innovatively augment productivity both at micro as well as macro level to realize a global competitive edge. "Productivity for Global Competitiveness" has therefore been chosen as the theme for the "Productivity Week - 2007" (12th – 18th February).
10. Among the most important institutions are the National Productivity Councils and National Productivity Organizations. By performing their various roles as productivity promoters, catalyst and mobilizer, capability builder, etc. they in fact influence and strengthen the productivity and competitiveness factors at the various levels.
11. Through spearheading programmes such as national productivity awareness and education campaigns they help develop the national values and attitudes that appreciate good work and quality performance and are supportive of learning, innovation and change.
12. Through mobilization of a tripartite and multi-sectoral national productivity drive, they create the mechanisms and institution for national concerted efforts towards productivity improvement.

13. By initiating and assisting in the review and formulation of macro and micro economic policies, they help create the conducive and enabling policy environment.
14. By networking and helping other institutions, they help build a strong supportive institutional infrastructure.
15. And through their training, consulting and information services they help enterprises acquire the managerial and workers' capabilities to effect and implement the "high road" to productivity and competitiveness improvement.
16. Through their pioneering of new productivity improvement approaches and capability building in industry, they help improve the production processes and build the human competencies essential to continuing productivity and competitiveness improvement.
17. Through the promotion of participatory approaches to productivity improvement, they help improve the quality of jobs.
18. The specific roles and functions of a national productivity organization will vary from country to country and will depend on the its assigned mandate, needs of its clients, stages in the countries economic development, cultural and social environment, and the quality of its leadership.
19. However, despite the diversity across countries, it is possible and useful to identify the most common roles. These are
    (a) those dealing with attitudinal change and developing awareness among people involved in productivity improvement;
    (b) Improving the performance capability of enterprises through upgrading management competence, corporate organization and management systems, improving HRM and HRD and enhancing performance of the enterprise as a whole;
    (c) Promoting productivity initiative among organizations through networking between research and educational institutions and enterprises, developing better cooperation between trade unions and employers, and promoting productivity improvement programmes to enterprises; and
    (d) Helping create the policy and regulatory environment for productivity improvement through assessing economic and business policies and regulations and their impact on productivity and competitiveness, providing advisory services on upgrading various productivity factors such as energy supply, transportation, technology and removing systemic barriers hindering productivity improvement.

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