# Issues in The Corporate, Government and Academia Interface

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## Abstract

About two decades ago, the only external challenges which the business leaders mentioned in their talks were climate change, terrorism, war and competition. But after the liberalization of the Indian economy, the changes in the external environment has not only multiplied in terms of its frequency but has become much more unpredictable. Policy uncertainty, deteriorating political and security conditions, stalled reforms are some of the major challenges which the organizations today are grappling with. These coupled with increasing corruption, and bureaucratic logjam has made the survival of businesses all the more challenging. Hence, companies need to adopt a more flexible approach to planning, by developing several coherent, multidimensional strategic action plans. In order to prosper the companies will need to nurture awareness and resilience in their working culture. In this paper, we attempt to analyze the various challenges the companies are facing due to the highly uncertain environment and its impact on business. We also discuss the traditional approach which managers use currently to tackle all kinds of uncertain situations and we also discuss the reasons as to why this approach fails. Then we suggest a framework which will help executives to analyze the uncertain environment and take appropriate strategic decisions based on the degree of uncertainty. The results of our analysis will provide the executives with a tool which will help them manage uncertainty in a systematic and sophisticated manner in order to overcome the challenges in the business environment. The ensuing discussion on the three legs of the tripod: corporate houses, government bodies and academic institutions thus enable us to present the reader with a new and emerging dialectic between Business/ Industrial Organization and larger Civil Society.

## Introduction:

The world is going through a corporate Olympiad wherein there is a concurrent collapse of structures and functions. Change is at once both non-linear and non-Newtonian. Post 2005 after India became a part of the WTO regime the vanguard of liberalization privatization and globalization initiatives shook up but failed to dislodge the bureaucratic mediocrity which some acerbic scholars have referred to as the *jhola, kurta, topi brigade.*

The challenges which the businesses face today are no doubt daunting, varied and contradictions abound. Decisions are increasingly forced to be taken under conditions of relative uncertainty. The organizations have more control over the somewhat stable and predictable internal organizational issues as compared to the external issues which are highly uncertain.

Organizations, which use traditional analytic tools such as market research, competitors' assessment and value chain analysis for highly unstable environment issues risk formulating strategies which do not defend the organization in such hard times. This traditional approach works well in relatively stable businesses but tends to collapse in an uncertain environment where even the best of analysis does not yield result and fails to predict the future. Equilibrium (in markets) economists would vouchsafe is a convenient though not a necessary condition for forces to function. Hence the traditional approaches that took equilibrium for granted as a necessary condition found themselves at sea in this new and dynamic environment where the objective nature of social reality was really quite mutable.

**Uncertainty and Risk:**

Economists are well trained to understand and deal with risk. They find themselves in deep waters when it comes to uncertainty. Uncertainty arises from an abject lack of understanding of the kind of targets, markets, customers, new products, and competitors who will comprise the future. The task of forecasting is straightforward for mature industries like steel production, which is fairly stable in nature and has a low level of uncertainty. In other industries, such as those related to information technology, media and telecommunications sectors, the business landscape has been changing radically. In general, industries that have an unrecognizable future and have to anticipate as per the past experiences may find that their policies to be an insufficient basis for decision-making. More cut-throat the competition, the more hectic is the need for insecure management to replace strategy with jingoism. The various sources of uncertainty are:

- *Political and Economic Uncertainties*: These include the uncertainty arising out of change in government, changes in economic policies and political policies, stalled reforms, bureaucratic logjam, changes in fiscal policy, demographic changes and other changes of politico-economic nature.
- *Financial Uncertainties*: These include uncertainties related to equity, commodity trading, interest rates, foreign currencies, asset liquidity risk and improper governance. This forces insecure managers to relapse into the feudal-mercantilist-trader mode of behavior.
- *Operational Uncertainty*: These pertain to the technology related uncertainties, privacy and data protection risks and indiscriminate / criminal disregard of quality.
- *Legal and Regulatory Uncertainty*: These include the changes related to regulatory policies and litigation related exposures which forces unscrupulous and tender-minded management to cut corners, engage in primitive exploitation and think more in terms of short run actual costs (read bottom line) rather than in terms of long run opportunity costs (read growth).
- *Business Uncertainty*: These include the uncertainties related to costs, demand and pricing. Cutting costs leads to exploitation of resources up to a point when this becomes a habit that is in itself detrimental to progress.

For example, if the oil price for the next year turns out to be lower than what was expected by an Airline it would mean an upside potential to the Airline whereas it would mean a downside potential if the oil price rises to a level which is more than what was expected. Unfortunately this needs rational strategy formulation and honesty of purpose – two things many mediocre businesses sadly lack.

**Impact of uncertainties**

The precise knowledge of the uncertain event is not as important to businesses as is its predictability. If the business community knows (and plays by) the rules, they can come up with ideas and ways to win, however difficult the situation might be. But it is this lack of knowledge of the unpredictable events as well as lack of faith in their own capability which leads the organizations to adopt the "wait-and-see" policy. The organizations, uncertain about the future profitability halt all the activities which cannot be easily reversed such as investment in equipment and structures and just wait for the events to unfold. They end up shooting themselves in the foot as they are in fact denying themselves any chance of progress

Among all the uncertainties, *Policy uncertainty* has made the survival of businesses all the more challenging. Changes in policies such as the various protectionist measures and the new taxation policies have made it almost impossible for businesses to predict the future and act in advance. For example, the move by the Ohio state government to ban outsourcing of jobs created unrest in Indian companies. It is uncertain whether this policy would be implemented country-wide (for all states in U.S) in the future and in case it happens, the impact for the Indian IT sector would be quite significant. Another example of the policy uncertainty is the Goods and Services Tax reform which have been in news since long but the timing of its implementation is still uncertain. GST if implemented, will affect millions of small and medium enterprises in the country..

Most expatriates who want to set up business in India feel that the menace of *Bureaucratic Pressures*, Decision Making Delays, Corruption and Unstructured Approval processes are not worth the returns they can expect on their investments. India is ranked as low as 133 amongst 183 countries in terms of ease of doing business. At every level of government approvals, there is red-tapeism involved which is the reason that most businesses fail to survive in this ruthless and harsh landscape. For example, the exits of big multinationals like IBM and Coca-Cola in 1977 when the government insisted them to enlist on the countries stock exchanges to continue their operations are evidences.

Another roadblock for the businesses which adds to the uncertain environment is the caste-based and *regional politics* that claim to fight for the interests of people. The Tata Nano plant in Singur was shut down due to protests from the political parties who claimed to be fighting for the displaced locals. Another example is of Wal-Mart, who faced significant problems for their entry into Indian retail. They faced the opposition by local parties even after a tie-up with Indian major Bharti.

*Terrorism* is another hurdle that needs to be tackled proactively by business and government in a collaborative manner. The Taj Mahal Palace & Tower Hotel was damaged in the year 2008 in a series of terrorist attacks in Mumbai. After the attacks, it took around 12 months and 500 crore (US$94.5 million) to restore the property.

**Uncertain Trends across Sectors**

Economists are comfortable with risk as it can be calculated but find themselves in murky waters when it comes to uncertainty. This has led scholars of a radical persuasion to state that "we have too much politics with our economics and too little economics with our politics". The two centers of power in Delhi has raised serious questions about the much touted policy of liberalization, privatization and globalization. Considering the diverse set of uncertainties, managers must understand the trend in different sectors. This will help them to figure out a proactive approach to face the future ambiguities pertaining to a particular sector. We will briefly discuss the developments in various sectors over the past few years.

*The Finance Sector;* Political uncertainty has an adverse effect on India's financial markets since foreign investors watch political developments such as annual budgets closely. Along with that,The Reserve Bank of India's regulation to hold interest rates, while decreasing the cash reserve ratio has added to regulatory uncertainty that impacts the financial markets. The rapid surge in price pressures and inflationary pressures has also hampered the optimism in the market.

*The InfoTech Sector*: India's IT industry has been unable to recover the successful years it saw from 2003-08. A brief recovery followed the 2008 crisis but the global economy is in dire straits, due to U.S. and Europe, the key markets. Indian IT vendors make about 20% of their revenue from the European market that has been dented by the recent economic failures. Due to local hiring by Indian IT companies in the U.S. there has been a hike in their costs that has also slowed the growth of offshore services. Contract terminations and tightened visa norms are other issues leading to uncertainty. Nevertheless, for long-term competitiveness, Indian IT players will have to build client relationships, expand their service offerings, global delivery and market presence and increase focus on non-linear business.

*The Pharmaceutical Sector:* As a result of India's entry into the WTO Regime and the accompanying TRIPS issues pharmaceutical companies are feeling pressure from all directions — from regulators setting the rules for drug effectiveness and safety, from competitors coming to market with generics, from disgruntled shareholders and from the shrinking research and development. These have led to decreased revenues and profitability.

*The Infrastructure Sector:* In the past four years, sudden fall in the infrastructure costs has surprised investors. It is the consequence of certain uncertainties in the sector such as fuel supply shortage, high interest rates, government regulations and delays in project clearances. Experts point out that in case of road projects, there are delays of six months to a year in acquiring land and the environmental clearances can take another year.

*The Manufacturing Sector:* Since 53% of the country's GDP comes from the Services Sector of which IT is a part, there has been a tendency to overlook manufacturing. This is sure to have detrimental effects in the long run since value is generated by the secondary sector only to be enabled by the tertiary sector. IT is an enabler and if manufacturing as a sector slumps there will be precious little left to enable.

*The Agriculture Sector;* It is a bitter anachronism that the sector on which 63% of the population depends has been neglected for decades by policy makers. Vote bank imperatives make politicians go to the primary sector and wave off loans. What happened in 1990 ushering a crisis of gargantuan proportions was the fact that three successive governments in the Centre had waved off agricultural loans in exchange for votes. Indications are there that history may repeat itself in 2013.

**Reasons of Failure:**

Most managers view uncertainty in a binary way – assuming all that happens is either certain and is completely predictable or is uncertain and impossible to predict. When managers underestimate the uncertainty, they come up with the strategies which work well only in stable and predictable environment. These strategies neither defend against the threats posed by the uncertain environment nor do they leverage on the opportunities which the environment has to offer. The BCG Matrix and Porter's Five Forces theory are old hat as we witness a corporate Olympiad marked by the concurrent collapse of structures and functions on the one hand and change that is non-linear and non-Newtonian on the other.

The compelling forces of market competition has forced labor out of the organized sector and caused capital to be increasingly centralized and corporatized. One-upmanship and carpet bagging are becoming the *sine qua non* for managers to climb the corporate ladder, as it were, by "hook" or by "crook". Therefore when managers assume that the future events cannot be predicted, they do not even try to use the analytical tools such as scenario thinking, discounted cash flow, game theory etc. This "just do it" approach which is not based on any analysis may finally result in bad decisions which cannot be easily reversed and therefore results in huge losses. Managers who are risk averse avoid taking critical decisions and forming strategies to counter the challenges posed by *unpredictability*. They instead focus on *traditional measures* like quality management and internal cost reduction without realizing that these measures are no substitute for strategy. When threatened by competition many retrograde corporate leaders stop looking at long run opportunity cost and instead concentrate on short run on actual costs allowing *managerial myopia* to set in. Thus the vicious cycle of regressive policies and the development-less growth it causes, sets in.

**Managing Uncertainty**

The approach adopted with the binary view of uncertainty leads to dangerous results. Each uncertain event/situation needs to be handled in its own way by first ascertaining the level of uncertainty and then forming suitable strategies to counter the difficult situation. The level of uncertainty can be determined by identifying any information, howsoever small it might be, of strategic importance such as discrete set of scenarios and range of potential outcomes. Ascertaining the uncertainty level in turn helps to determine the best strategy and the process which can be used to implement this strategy.

The uncertain environment usually contains some information which is unknown, but it can be explored, such as competitors' capacity expansion plans and performance attributes of current technologies. This information can be discovered by performing a thorough analysis. The uncertainty still left after the best possible analysis is known as the Residual uncertainty. This residual uncertainty can be put under one of the four broad levels:

Identifying the level of uncertainty helps a great deal in deciding on the Strategic Posture a company should choose. The posture defines the intent of the company in terms of what plans the company has charted for the future. Companies which adopt *Shape the Future*posture establish new structures, set new trends and standards for the industry. They create new opportunities in the market and try to control the direction of the market.

The decision of choosing the Strategic posture and the move/action is based on the level of uncertainty the business faces. For the Level 1 uncertainty, the obvious choice is the "Adapt to the Future" posture and the "No Regret" move. Since the environment is relatively predictable, the strategy involves identifying the unexploited opportunities in the existing market without fundamentally changing the market structure. Using the "Shape the Future" strategy in Level 1 situation would be risky because it will result in an increase in uncertainty for the company and its competitors, in the otherwise predictable market.

**Conclusion:**

Decisions are increasingly being taken in the face of uncertainty replacing strategy by guesswork and having managers shooting from the hip and adding to the mess. The sources of uncertainty are escalating at a rapid pace and unprecedented ambiguity awaits the companies in future. Most of the executives today follow the traditional approach for managing uncertainty which does not guarantee success in highly unpredictable environment and works well only in stable business environments. This "one size fits all" approach of using the traditional analytical tools such as market research, value chain analysis and assessment of rivals does not defend the companies against the threats posed by the uncertain environment. The approach outlined in this paper will help executives to avoid the binary views of uncertainty and help them strategize systematically by highlighting the importance of taking strategic decisions based on the degree of uncertainty. The framework will provide the executives with a sophisticated understanding of the most challenging and complex situations.

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33. *Gratitude with the usual disclaimers is extended by the author to DrSorab Sadri of Manipal University Jaipur for his assistance in writing this paper.*