GENERAL MANAGEMENT

"GLOBAL RECESSION : MANAGEMENT CHALLENGES AND STRATEGIES - MANAGERIAL PERCEPTION ON GROWTH, CHALLENGES & STRATEGIES"

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INTRODUCTION

The past year has seen a dramatic change in the prospects of developing countries due to the effects of the global recession. Declines in foreign direct investment, export revenue, remittances, tourism and other adverse impacts of the recession will reduce economic growth and, in turn, may unravel progress towards the Millennium Development Goals (MDGs). International Monetary Fund forecasts released on 22 April 2009 indicate that global economic growth will contract by 1.3 per cent in 2009, compared to 3.2 per cent positive growth in 2008. According to the World Bank, developing countries' combined growth will fall to 2.1 per cent, or to zero per cent excluding China and India. (Australian Journal of Management, April'09).

RATIONALE FOR SELECTING THE THEME : GROWTH CHALLENGES AND STRATEGIES

Global recession has engulfed the entire economy making it dawdling and sluggish. It has drastically affected all the sectors and its outcome is severe. Less demand for the goods, increase in the debts leading to cash flow crunch has led to closure of many industries, and the sustainability of many is in question today. It is therefore challenging for an enterprise's owner or manager to operate in such circumstances. This study endeavors to elucidate the perceptions of managers in various countries around the world about the growth challenges and also expounds the strategies they comprehend as critical to face these challenges.

GLOBAL RECESSION – A PERSPECTIVE

Recession is defined by National Bureau of Economic Research as a significant decline in the economic activity lasting for more than a few months. United States has been worst hit by recession but any country that has even a remotely similar modern economic structure has suffered to some degree from economic recession. The world output is for the first time in 60 years s expected to contract, according to IMF statistics by 0.5% to 1% in 2009 , US output by 2.6%.A shrink in the Euro zone's GDP us expected to be 3.2%, where as Japan's by as much as 5.8%.(HBR July-August 2009)

GENESIS OF GLOBAL RECESSION

The global financial crisis has been attributed to the subprime mortgages which originated in the US mortgage sector few years back. During the booming housing market, when low interest rates were prevailing and the housing prices were continuously increasing, offering financial assistance to the subprime borrowers were considered a lucrative proposition by some banks/ financial institutions ignoring the inherent risk involved in such activities.

This situation became complex when some investment banks innovated some complex financial instruments to investors across the globe. However, the situation changed dramatically when the property prices started falling sharply, leading to significant rise in default in mortgage loans and foreclosures. One of the latest international surveys reveals that the top three reasons for this financial crisis are inadequate risk management practices at banks, increased complexity of financial instruments and speculation of financial markets. The crisis coupled with bank collapse in the US and Europe, has caused consumer confidence and credit availability to plummet to new lows.

THREE F'S AND RECESSION

THE FINANCIAL TURMOIL

Besides the huge losses for major investment bankers, the subprime crisis has caused liquidity and credit crunch globally. Rising fuel and food prices have added fuel to the fire. The current scenario carries with it certain follies. The US, the superpower in a unipolar world is in an economic recession and financial turmoil following the subprime crisis in home mortgages, the twin deficits (current and fiscal) besides a lax monitory policy. While the federal deficit is gradually narrowing, its reduction to acceptable levels calls for increased spending discipline, especially through drastic reductions in huge expenditure like the Iraq war.US, the wealthiest nation, which is the biggest borrower, must return to the basics of prudent macro economics management by drastically slashing its twin deficits. It should realize that its currency is destined to lose its primacy of place sooner than later.

The recession has reduced America's trade gap as consumers are now forced to trim their spending. Delaying the correction of part excesses by pumping in more money and encouraging more borrowing is likely to make the eventual correction more painful. The US economy needs to display financial prudence and exhibit resilience and innovation.

THE RISING ENERGY PRICES

The major turbulence has been caused by the steep rise in the petroleum prices which shot up to 135 $ per barrel. The OPEC (Organization of the Petroleum Exporting Countries) attributes this rise not so much to its cartelization efforts but to the falling dollar. Many emerging economies have not allowed the complete pass through of this price rise to the customers, they have adopted a gradual & marginal rise in oil prices. However, the effect of rising prices has passed in the emerging economy by way of inflation. Inflation management therefore, acquires the centre stage for these economies. Actions take by the central bankers may only provide marginal results and alternative solutions like long term planning that involves investing substantially. Capital expenditure for oil exploration programs, development of alternative sources of energy through renewable sources can have long term ramifications.

Many economies have to downscale their GDP growth projections. A price correction may be possible if dollars depreciation is halted, but it is not a distinct possibility, as the greenback is bowed to slip further, following the fundamental weaknesses of the super powers economy.

AGFLATION (FOOD CRISIS) - ANOTHER MAJOR SOURCE OF TURMOIL

At present, the world is witnessing supply shortages, while demand is steeply rising with respect to wheat, rice, pulses and host of other soft commodities. In India agflation is causing a major havoc with dwindling buffer stocks, inadequate imports at very high prices and general rise in prices of food products. As per the reports, the situation is no better in US. There is a demand spurt in India and China because of rising incomes of the middle class population. However, globally food production is rising only in absolute terms and not in percentage terms to meet the rising demand. Conscious efforts of US to switch to cultivation of biofuel are one significant reason for slow rise. “Food security” has therefore become a matter of concern for all the economies. Achieving sustainable food security calls for long term planning and investments but consecutively the medium and the short term consequences of agflation have to be endured by many economies the world over. G8 nations have highlighted three major reasons for financial turbulence, the subprime crises, supplemented by fuel prices and food prices.

The bankruptcy and closure of several top finance firms and industries in US shook the confidence of the Industrialists and managers. Bankruptcy of Lehman Brothers, Washington Mutual, WorldCom, Cosceco, Chrysler, Washington Mutual and Wachovia being some of the top performing firms of US, undermined the abilities of similar such firms. Markets across the globe experienced pain caused by growing defaults on US subprime mortgages.

IMPACT OF THE GLOBAL CRISIS

The financial downturn has severe impacts on the various spheres of economy which can be stated in three levels. The first level impact is uncertainty, leading to risk aversion and shortage of funds, sharp decline in stock prices, fall in business sentiments and Erosion in investor wealth and company valuations.

The second level impact is Loan led demand to remain low as interest rates remain high, Companies with highly leveraged balance sheets face shortage of investable funds, Infrastructure companies saw project costs go up.

The third level impact is the slow income growth and job creation and snipped GDP growth.

An obvious manifestation of the global economic slowdown in developing countries will be increased unemployment, under-employment and loss of income. Numbers of working poor are projected to rise by more than 200 million. For example, many laid-off formal sector workers will be forced into low-income jobs in the informal and rural sectors.

The global recession will generate enormous difficulties for developing country governments. While needing to help newly vulnerable populations, they will have less tax and other revenue to fund crisis responses and to maintain basic services such as health and education. This places a special responsibility on donor governments to support developing country counterparts to generate employment and help limit the scale of the human impacts.

The recession is a global challenge requiring global solutions. G-20 members, including Australia, have reaffirmed their commitment to achieving the MDGs. G-20 members have recognised that the current crisis will impact disproportionately on the vulnerable in the poorest countries and that there is a collective responsibility to mitigate its social impact.

The need for policy and regulatory reform to address the causes of the global recession is widely recognised. The global recession provides both an opportunity and a rationale to move more quickly to address overdue reforms, in areas as diverse as financial regulation, trade, competition and public sector improvement.

POSSIBLE EFFECTS OF THE RECENT GLOBAL CRISIS IN DIFFERENT COUNTRIES

(Ozlem Onaran, EPW March, pg 176)For analyzing the possible effects of the recent global crisis in different countries, they have been divided into four groups :

1. The developed countries
2. The developing countries

3. The emerging markets of Eastern Europe.

4. Other developing countries.

The developed countries are affected much more than the previous stock market or banking crisis of 1980s. The effects of the credit crash, particularly in countries with high household debt (eg US and UK) will be severe. The multiplier effects of credit crash as well as the decline in consumption have already stared to affect the investments. In Germany and Japan where there is a high degree of dependence on export markets the contraction will also be rather severe and the reliance on low wages to expand export markets will prove to be accurse. In the EI some countries ability to respond to the shocks will also be constrained by their fiscal capacity. The negative effects of the crisis on labor in the developed countries will work through demand, bargaining power and path dependency channels. The decline in the wages in the emerging markets, which will suffer from the global crisis, will also add further pressures. Since it is a global crisis, the recovery in economic activity can last much longer, bringing in worries about "L" type recession. In case the recession persists longer, the pressure on wages and the bargaining power of labor will intensify.

Many developing countries with a former crisis history are once again experiencing a crisis led by speculative capital outflow during this global crisis. Countries like South Korea and Argentina are suffering from a crisis which they have not created. The countries with current account deficit such as Turkey, South Africa) might suffer through a deeper bust, due to accumulated fragilities during the speculation-led boom cycle. There is expected to be a radical and long lasting decline in real wages and the wage share, and a sharp hike in unemployment.

The emerging markets of Eastern Europe are also being threatened by the credit crash and capital outflows and also a probable currency crisis accompanying the banking crisis. After a decade of restructuring and high growth following the initial transition shock, these countries will once again face the costs of integration with unregulated global markets. Hungary, Bulgaria, Romania, Serbia, Croatia, Baltic countries, Ukraine and Russia are more exposed than Poland, Czech, republic, Slovenia and Slovakia. But even the latter group might suffer from the contagion effects, the slowdown in global demand, the decline in FDI inflows and the contraction of remittances. Excessive dependence on export markets will turn out to be major risk, for non EU countries the results can be worse. Russia, also with a former crisis record and a more intense reliance on market base finance is already under the pressure of devaluation.

For the other developing countries like China, India and Brazil although the contagion effects and the slowdown in global demand will be an important problem. These countries could manage the crisis based on their large domestic markets, if they could make a policy shift away from pure dependence on export orientation based on low labor costs.

The crisis has created such a situation for the countries of the world that more innovative financial system means more risk and a wider contagion; export market contraction will make recovery harder and as the previous imbalances of the debt led growth is now being corrected, it is unclear where their recovery will come from. Higher interest rates, double digit inflation, dire fiscal position, slowing growth, more expensive capital and could hit firm profitability.

WHY GROWTH CHALLENGES ???

Alan Greenspan, ex chief of the US FED has said "I have made a mistake in presuming that the self-interests of organizations, specifically banks and others, were such that they were best capable of protecting their own shareholders and their equity in the firms".

18 months after the subprime loan crises broke through the surface in US, twelve months after the investment banking firm Bear Stearns was rescued and six months after Lehman Brothers collapsed, there is no sign that the people of the world have seen the worst of crises that now envelopes the global economy. What started as a financial crisis has became full blown real economy crises that seem to spare no corner of the world. The world economy is

expected to contract in 2009, by up to 1%, the first such contraction since the second world war; open unemployment is expected to touch 233 million, the deepest level of fallen ever since 1945 and the world trade is contracting in an accelerating manner and is projected to fall by as much as 9% this year, again the sharpest fall since the numbers began to the tracked six decades ego.

The crises that began in Anglo-American heart land, primarily as a financial crises, penetrated in Japan, German and its periphery quite later, primarily as an export crises response to slowdown in Anglo-American heartland. The export crises then fed through the financial and wider growth problems through the US governments has been applying the Collins Powels doctrine of “Shock and awe” to the economy throwing every conventional and unconventional policy it can think of at the problems , yet the numbers from the US economy keep getting worse. GDP contracted in the final quarter of 2008 at an annualized rate of over 6%. Industrial production in Jan 2009 was 10% lower than in Jan 2008. Consumer confidence is lowest as measured by conference board since it started. Outcomes in the world's second biggest economy Japan are worst. Toyota has cut car production by half; Sony has put most of its labour force on a part time work and is in the process of closing at least force factories overseas. Export orders of machinery fell by 43% in 2008 and domestic orders by 20%. GDP fell in the last quarter of 2008 at an annualized rate of 13%.

Germany GDP fell by an annualized rate of 8% in last quarter of 2008 and the unemployment rate in Feb 2009 showed a rising graph.

Most Asian economies, which had become dependent or export of manufacturing goods to the west, are experiencing a big falls in output and increases in unemployment. South Korea's GDP collapsed in the last quarter of 2008 at the annualized rate of 21%. Taiwan's export is in December 2008 were 40%. Indonesia is experiencing surging unemployment and however China is the only major economy likely to significant growth in 2009, besides the fact that electricity production fell by more than 6% in 2008.

The global magnitude of the shock can be noted from two indicators.

First, stock market in the last nine months of 2008 lost a “value” equivalent to 3000 Euros for every man and woman and child on the planet. Western European stock markets lost about 5000 Euros to every European.

Second, world trade in the four months from Nov2008 to Feb 2009 fell at a faster rate than at any time during the great depression.

The US budget deficit in 2009 is set to triple to $1.75 trillion, the largest ever from last years figure of $450 billion. The Bank of England has faced the lowest interest rates since it came into being in 1634.

The largest housing mortgage companies, Freddie Mac and Fannie Mae, the largest insurance company, AIG and banks like Citi bank exist because they have been rescued with hundreds of billion dollars pumped by the US government.

Smaller economies like Spain, Mexico, Ireland, Iceland, Singapore, Greece, Ecuador, Hungary, Latvia, Pakistan and Ukraine are in deep trouble. This is in spite of massive bailout packages put together by various governments.

The current crisis will bring down the Capitalist system, since the financial system is fundamental to the functioning of the capitalistic system.

Businesses which have been votaries of markets and minimum government intervention till recently are unashamedly demanding massive help from the government. The policymakers have to now bring about a systemic change. Most policymakers are from the world of finance and for them saving real companies is less importance than saving the financial world.

The crisis has reversed the capital flows from virtually all developing economies, whether or not their growth prospects were otherwise diminished. In the process of protecting their financial system and ensuring their stability, the capital flows from US and Europe to the developing world and emerging markets have come to a hard stop. This has been further exacerbated by the reduction of global aggregate demand, which in turn makes export-oriented economies less desirable locations for investment. Falling demands in America and Europe affect exports particularly in Asia and Mexico.

THE YEAR ON YEAR % CHANGE IN GDP CLARIFIES THE MOMENTUM OF INDUSTRIAL PERFORMANCE GLOBALLY

	IMF projections (October 2008)		Change over Forecast (July Forecast)	IMF's July
	2008	2009	2008	2009
US	1.6	0.1	0.3	-0.7
EURO Area	1.3	0.2	-0.4	-1
Japan	0.7	0.5	-0.8	-1
Russia	7	5.5	-0.7	-1.8
Brazil	5.2	3.5	0.3	-0.5
China	9.7	9.3	-	-0.5
India	7.9	6.9	-0.1	-1.1

(Source: World Economic Outlook, IMF)

Thus the crisis is not only the fallout of a faulty risk management strategy, but also a crucial factor like failure of business strategy. With this economic backdrop, growth is all the more challenging and strategists have to be sharp to incorporate it in the organizations.

SOCIAL IMPACT

Besides the economic impacts, the social impact also has to be considered by the manager while operating their businesses. Impact of the global recession will be felt differently in different countries, with particular groups more vulnerable in some countries than others. The most vulnerable groups include :

- ♦ those just above the poverty line who have limited access to alternate sources of income in an economic downturn;
- ♦ children of poorer households who may suffer malnutrition, be subject to neglect or violence or who may need to leave school to seek work;
- ♦ those engaged in trade-exposed industries;
- ♦ poor pregnant women, newborn babies and infants who may have less access to appropriate medication and nutrition; and
- ♦ marginalized groups, such as ethnic minorities, the rural poor and people with a disability.
- ♦ To support those most at risk of falling into extreme poverty and avoid the risks of life-long 'poverty traps' social protection programs may include:
- ♦ conditional cash transfer programs, such as payments made to parents for children attending school;
- ♦ nutrition and feeding programs in schools or for pregnant and lactating women and infants; and
- ♦ Micro-insurance programs to support informal sector livelihoods.

With nations involved in such rehabilitation and other measures to survive the recession, new challenges are thrown to managements to ensure proper display of courage and determination to sustain the onslaught of the growing consequences and impact of the recession. To this is the newly added horror of the "Dubai Debt' that lists the crumbling of the oil rich nation.

SIGNIFICANCE OF THE STUDY AND THE RESEARCH QUESTIONS

In this context the study gains immense importance in understanding the managerial perceptions of the emerging challenges and the necessary remedial actions to be taken so that the business growth is ensured. The following questions emerge out of these discussions :

a) What is the perception of managers across the world as to the challenges posed by recession ?

b) How these perceived challenges are

attributed to an organisation's response to solve an issue ?

c) What if the managers' perceptions have direct impact on their performances and

d) What is the future growth of the organizations ?

OBJECTIVES OF THE STUDY

The objectives of the study have been in accordance with the research questions posed :

a) To understand the managerial perceptions of challenges in business growth.

b) To analyse the perceptions using appropriate statistic

c) To discuss the analyzed results in fora of managers to brief on their possible futuristic performance orientation.

RESEARCH METHODOLOGY

A list of 15 statements(as enclosed) has been prepared and managers who are employed in corporates across the world ranging from the far east to the west in Asia, Africa and USA were asked to rank order them. The mean of the ranks was divided in two comparable formats of Indian Managers and Foreign Managers. Spearman's Rank correlation was used as statistic to determine the impact the ranking and necessary correlation study made. This statistic assesses how well an arbitrary monotonic function could describe the relationship between two variables, without making any other assumptions about the particular nature of the relationship between the variables. The study was conducted as part of a research presentation to be made in the 'International Commerce and Management conference' organized by the Department of Commerce, University of Mumbai and was conducted during the last week of Nov'09. Random sampling method was used to determine the managerial sample from Australia, New Zealand, South Africa, Zimbabwe, Dubai, Singapore, Malaysia, USA and India. Total of 100 managers (as given in Table 1) were asked to submit their response by email and these were tabulated to obtain the mean rank and hypotheses tested at 5% significance level using 'z' test(critical value: 1.296 at 5% significance) and statistical inference made. It was seen that the calculated value (-3.006689) is less than the critical value as per Table and hence the null hypotheses that 'the perceptions of foreign and Indian managers are independent' is accepted.

THE HYPOTHESES ARE SET AS BELOW

Ho= the perception of Indian and Foreign Managers are independent

Sl no	Country	Number of Managers contacted	Responded
1.	India	50	32
2.	Australia	10	9
3.	New Zealand	10	8
4.	Dubai(UAE)	10	10
5.	Zimbabwe	10	10
6.	South Africa	10	10
7.	Singapore	10	10
8.	Malaysia	10	10
9.	USA	1	1

H^1= the perception of Indian and Foreign Managers are dependent

TABLE 1 COUNTRY PROFILE OF MANAGERS (N 100)

Spearman Rank Order Correlation - Ungrouped Data	
Statistic	Value
Correlation (not corrected)	0.803571
Correlation (corrected)	0.799303
t-Test (n>10)	4.795800
Degrees of Freedom	13
Critical 2-sided T-value (5%)	2.160000
Critical 1-sided T-value (5%)	1.771000
D-square value (calculated)	110.000000
D-square value (expected)	560.000000
Standard Deviation	149.666295
z-Test	-3.006689
Probability	0.002600
Observations	15

ANALYSIS

TABLE 3 COMPUTED VALUE TABLE OF SPEARMAN'S RANK CORRELATION (RHO)

From the above Table it can be seen that the 'perceptions of Indian and Foreign Managers' are positively correlated though 'z-test' signifies negative which is less than the critical value as per Table (1.771 at 5% significance) and hence the null hypotheses is accepted that there is significant independence between the perceptions of Indian and Foreign Managers about the 'Business challenges and their subsequent managerial growth and strategies'.

DISCUSSIONS

The on going discussion as to what constitutes challenges in the emerged scenario of global recession and its impact has been vividly understood by studying the perceptions of managers across the world. In the given context of information sharing, we can conclude that the perceptions of managers across the world are independent depending on the economic environment that the managers are placed. Observations reflect that the views of foreign and Indian managers are independent. Equating excellent financial results with excellence is not the first preference of all managers. However, looking at this situation as an opportunity and venturing into new business areas is the priority for some managers. Regular and personal contact with customers is one preferred perceived challenge whereas using fewest possible people for the highest possible output is another. This may be necessarily due to the impact of external environmental factors on their organizations and the strategies adopted by these organizations. Managers are an integral part of the organizations and their perceptions need to be valued by their organizations. For example change management and customer focus are the key challenges perceived by some managers. Considering these views can make a vast difference in incorporating a strategy or facing a challenge. Managers need to be given a platform where they can express their concerns and priorities for the organizations, so that any type of growth strategy is accepted easily and successfully. Perceptions of managers across the globe may differ, but they are extremely important for the organization they are a part of.

Few managers have commented independently on the scope of the 'challenges that have emerged' and have gone a further step to guide the researchers in order to have more detailed analysis on the subject. On account of limitations of time, those aspects could not be taken for study but the information has provided ample scope for further research on the topic. The objectives that have been set are thus achieved by having undertaken the study.

CONCLUSIONS

'Men may come and men may go, but an organization goes on for ever and ever' (Lord Gower). Organizations have to embark on specific strategies to combat the onslaught of any recession which is ultimately due to the actions or inactions of managers. Managers need to understand that they have an important role to play in organizational development vis-a vis their own growth. Where the interests conflict, as we have seen in the case of Satyam debacle and the collapse of Lehman, we need to emphasise the role of modern managers to have 'more concern for others 'since they have a crucial role in developing an effective organization and hence an effective and efficient economy. Days are not far when managers across the world have to perceive stakeholder interests in a big way thus paving way for 'peace, prosperity and hence purposiveness' in human development

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