

## **Lessons Learnt from the Global Recession in the Indian context**

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### **Abstract**

Global economy has been undergoing a rough journey filled with tough challenges caused by the economic meltdown originated by the sub-prime crisis. Though India is one among the few countries that withstood the crisis with a relatively minimal damage at the macro level, it is not completely free from the hits of the recession. In this context, this paper aims to list down the salient lessons learnt by the Indian companies from the global recession. Data were collected from 10 respondent companies operating in India using an interview schedule. The companies responded to the survey belong to both manufacturing and services sector. The collected data were subjected to analysis by applying Mann -Whitney U Test and Kruskal- Wallis One –Way ANOVA and thereby interpretations and conclusion were drawn. The study concludes that cost leadership, building relationships with customers and focus on business efficiency are the top three lessons learnt by the surveyed companies. Most of the respondents opine that their industry have already recovered from the recession and have reached the pre-recession scenario. Further, there exist differences between the services and manufacturing sector in their ability to manage the recession, however respondents belonging to small, medium, and large industries do not exhibit differences in their ability to manage the impact of recession.

**Key Words:** Global Recession, Manufacturing and Services sector, Small, Medium and Large Industries, Lessons learnt from the Global Recession.

## **1. Introduction**

The entire world is experiencing a tough period for the past 3 years thanks to the contagion namely “Sub-Prime Lending” [SPL]. All started well with banks operating in U.S. lending loans to the NINJA [No Income No Job and No Assets] customers at a subsidised/ lower rate of interest, hoping that the housing industry will continue to thrive in the future. Adding to this were the offshoot of derivative products such as Credit Default Swaps [CDS] which in turn provided confidence to the banks to lend money to the sub-prime borrowers as these derivative products got traded at huge volumes in markets operating across the world. But things started happening on the other way such that the big names such as Lehman Brothers, Merrill Lynch, Fannie Mae, Freddie Mac and American International Group [AIG] got collapsed. This triggered the global melt down and thereby the business entities operating across the world got affected very badly.

Further the vicious cycle of lower demand leading to plant shut downs leading to job cuts made almost every industry to report falling growth rates in the top -line and bottom - line figures. Banks started showing reluctance to lend fresh loans to the business entities in order to avoid further losses. This also led to the shortage of funds available to cater to the fixed and working capital requirements of companies. All these consequences necessitated the intervention of the governments and central banks such that the governments pumped in huge amount of money into the economy through its series of stimulus packages amounting to trillion USD. The Central Banks were urged to reduce the policy rates in order to encourage the industries to borrow. For instance, the advanced countries have seen their central bankers approaching the zero interest rate regimes. The Indian Government had announced three stimulus packages during this period and the RBI[Reserve Bank of India] had cut down its policy rates from the double digit level to the single digit level[ from around 10 per cent to 5 percent]. In this context, it is imperative to explore the experiences of Indian companies during the slowdown. Hence, this paper aims to list down the most important lessons learnt by Indian companies during the global meltdown.

### **Objectives of the study**

This study has the following objectives:

- To discover the major lessons learnt by the Indian companies during the economic slowdown.

- To find the existence of differences between the ability of manufacturing and services concerns in managing the economic slowdown.
- To explore whether size of a firm influences its ability to manage the negative impact of global financial crisis.
- To obtain the respondent companies opinion about the time horizon to take their business units to the pre recession level.
- To find out the KRA [Key Result Area] of the respondent companies which made them recession – proof.

## **2. Methodology**

The study has applied the descriptive research design. The researchers have collected data from the senior executives of 10 companies representing both the services and manufacturing sector. The study has made use of purposive sampling technique and employed the interview schedule to collect the data [pertaining to sector and size of the company, major lessons learnt by them during the recession, self rating on their ability to manage the recession, forecast about the time horizon taken to reach the pre recession level, and the Key Result Area which enabled them to survive the recession] from the target respondents through telephone survey method. The collected data were subjected to detailed analysis using the Mann –Whitney U Test, Kruskal- Wallis One –Way ANOVA, and percentage analysis.

## **3. Results**

### **3.1. Profile of the respondent companies**

Out of the 10 companies surveyed by the researchers, 5 of them belong to the manufacturing sector and the other 5 of them operate in the services sector. As per the size wise classification of respondent companies, 4 of them belong to the category of “Large Enterprises”[ with an annual turnover exceeding INR 250 Crores], and 3 each represent the category of “Small Enterprises”[ with an annual turnover of less than INR 50 crores], and “Medium Enterprises”[ with an annual turnover of between INR 50 and 250 crores].

### 3.2.Lessons Learnt from the Global Recession

The respondent companies [40 per cent of them] opined that the need for “Cost Leadership”, “Building relationship with customers”, and “Focus on business efficiency and quality” are the major lessons learnt by them during the slowdown. The other lessons learnt by the respondent companies during the recession are: Focus on Innovations/Research and Development [30%], Employee motivation [20%], minimising risks [20%], and competitive pricing [10%].

**Table 1- Lessons Learnt from the Global Recession**

Lesson	Number of Respondents	% of Respondents
Cost Leadership	4	40
Building relationships with customers	4	40
Focus on business efficiency	4	40
Innovations/R&D	3	30
Employee motivation	2	20
Minimising risks	2	20
Competitive pricing	1	10

The respondents were of the view that the global recession had brought down the turnover across the industries, though the magnitude of impact varied among verticals. For instance, industries such as pharmaceuticals and FMCG got the lesser impact while the interest rate sensitive industries such as Banking, Automobile, Financials and other industries such as Steel, Aluminium, and Textiles have got a big hit.

Most of them had opted for a **3 pillar approach** wherein, the first pillar being the need for making a rigorous attempt to cut down the costs, the second being the requirement for having a single minded focus on improving the business efficiency and the third on building everlasting relationships with the existing customers. All these 3 pillars are grounded on a holistic process which revolves around **4 important foundations** namely, Product and Process Innovations[ to attract the customers to consume more and more e-g

reducing the packaging size, increasing the usage rate, etc],Employee Motivation[ to improve the productivity of the employees and to reduce the costs willingly with an intention to obtain cost leadership in the market],Risk Minimisation[ in order to win the confidence of the lending institutions, investors and the vendors]and Competitive Pricing [ to reduce the inventory backlog and to increase the turnover and bottom-line].

### 3.3.Key Result Area

Majority of the respondents stated that they could manage the negative impact of recession by focussing on reducing cost [20%], being innovative [20%] and having superior managerial ability [20%]. The rest of them opined that they were able to withstand the ill effects of the recession by motivating their employees to improve productivity [10%], forecasting the demand accurately such that they could avoid inventory backlog and excessive overheads [10%], offering the best possible customer service in order to retain the existing customers [10%], and having the sound working capital management such that they could get an optimum trade off between liquidity and profitability [10%].

**Table 2: Key Result Area**

KRA	No. of respondents	% of respondents
Cost Leadership	2	20
Innovations/ R & D	2	20
Overall Managerial ability	2	20
Employee motivation	1	10
Demand Forecasting	1	10
Better Customer Service	1	10
Working Capital Management	1	10

### 3.4.Ability to manage the Global Recession

The respondent companies were asked to rate their ability to manage the global recession on a 5 point scale where a rating of 5 indicates “Very Good” and 1 indicates “Very Poor” on 10 parameters including the ability to manage shareholders expectations management, customers expectations management, working capital management, vendors management, capacity management, managing competition, managing productivity, managing turnover, managing human resources, and overall managerial ability.

**Table 3: Ability to Manage the Global Recession**

Parameter	Mean Score
Shareholders Expectations Management	3.63
Customers Expectations Management	4.1
Working Capital Management	4.4
Vendors Management	4.22
Capacity Management	3.9
Managing Competition	3.4
Managing Productivity	3.67
Managing Turnover	4.2
Managing Human Resources	3.2
Overall Managerial Ability	3.8

From the above table, it is evident that the respondents' ability to manage the expectations of customers and vendors were superior during the recessionary period. They have also opined that they could manage the fluctuations in turnover, capacity and working capital requirements better. However their ability to manage the competitors, employees and shareholders were rated to be average. The surveyed companies' ability to manage the staff productivity during the recession was fair. Their overall managerial ability to withstand recession was rated as good.

### **3.5. Hypothesis Testing**

The study has made an attempt to discover the existence of differences if any in the ability of concerns belonging to manufacturing and services sector. The Mann –Whitney U Test is applied for the analysis. It is assumed that the services sector consisting of Banks, IT firms, Media houses, Consultancy Services, Retail Outlets, Airlines, Hotels, Share broking and others could respond to the recession better by cutting down the capacity and right sizing compared to the manufacturing sector which got hit harder. So the hypothesis is formulated and stated as below:

H<sub>1</sub>: The Indian companies belonging to the service sector are better in managing the impact of global recession compared to that of the companies operating in the manufacturing sector.

**Table 4: Manufacturing versus Services Sector**

Sector	Mean Score	Standard Deviation
Manufacturing	3.89	0.360
Services	3.94	0.217
Calculated U Statistics	12	
Critical Value[5% Significance]	4	
H <sub>1</sub> is accepted		

From the above table it can be stated that the services sector's ability to manage the global recession is significantly superior to that of the manufacturing sector in India.

The researchers have also tried to find out the existence of differences in the ability to manage the impact of global recession among the Small, Medium, and Large respondents of this survey. The study has employed the Kruskal - Wallis One –Way ANOVA test for drawing the inferences. Here the researcher assumes that the small and medium enterprises are inferior in their ability to manage the impact of global recession while compared to that of the large concerns. In other words, it is presumed that there exist differences among the small, medium, and large enterprises in terms of their ability to manage the impact of global recession. Therefore, the hypothesis is designed as below:

H<sub>2</sub>: The size of a firm influences its ability to manage the impact of global recession.

**Table 5: Size of the firm and ability to manage the recession**

Size of the respondents	Mean Score	Standard Deviation
Small	3.93	0.193
Medium	3.84	0.440
Large	3.96	0.420
Calculated H statistic	-0.00003	
Critical Value[5% significance]	5.6485	
H <sub>2</sub> is rejected		

It is evident from the above table that the size of a firm does not influence its ability to manage the ill effects of the economic meltdown.

### 3.6. Recovery of the business/Industry

The respondents of the survey were asked to predict the time horizon that would enable them to reach the pre-recession performance. Most of them [60%] opined that their industries have already recovered from the global recession. 30 per cent of them stated that they will take at least 1 year to reach the pre-recession performance. Only 10 per cent of them said that they will take more than 2 years to recover from the impact of global recession.

**Table 6: Recovery of the Business/Industry**

Time horizon	No. of respondents	% of respondents
Already recovered	6	60
1 year from now	3	30
2 years from now	-	-
More than 2 years	1	10

## 4. Discussion and Conclusion

The study concludes that the top three lessons learnt by Indian companies from the recession are the need for being cost leader, need to build lifetime relationship with the customers and the need to improve business efficiency and staff productivity. Cost leadership, innovations/Research and Development and overall managerial ability emerged as the key result areas [KRAs] that made the respondent companies to survive this recession. The firms pertaining to the services sector have managed the recession better than the firms operating in the manufacturing sector. However the size of a firm has not affected its ability to manage the ill effects of the global recession. Further research can be carried out on the impact of ownership pattern of firms on their ability to manage the recession, comparative study on the ability of firms operating in various states and countries.

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