



GLOBALISATION AND MARKETING: CHALLENGES AND SOLUTIONS

Prof. Shivanand Baburao Bhanje
Associate Professor ,
Department of Commerce ,
A. R. Burla Mahila Varishtha Mahavidyalya,
Solapur.

ABSTRACT

Globalization brings opportunities Challenges and pressures for domestic corporations in rising market economies to initiate and improve their competitive position. mistreatment recent knowledge on corporations in twenty seven transition economies, we have a tendency to check for the consequences of economic process through the impact of exaggerated competition and foreign direct investment on domestic firms' efforts to boost their capability (innovate) by upgrading their technology or their product/service (improving quality or developing a brand new one), taking into consideration firm nonuniformity. We discover support for the prediction that competition encompasses a negative result on innovation,

particularly for corporations afar from the frontier, which the provision chain of transnational enterprises and international trade are necessary channels for domestic firm innovation. We have a tendency to don't realize support for the inverted U result of competition on innovation. there's partial support for the hypothesis that corporations during a lot of pro-business atmosphere invest a lot of in innovation and are a lot of seemingly to show the inverted U relationship between competition and innovation.

KEY WORDS: Globalization, opportunities Challenges and pressures.

INTRODUCTION

With the gap of borders to trade and foreign investment, economic process brings opportunities and pressures for domestic corporations in rising market economies to initiate and improve their competitive position. Several of those pressures and opportunities operate through enlarged competition from and linkages with foreign corporations. During this paper, we have a tendency to use the abstract frameworks of a recent theoretical model by Sutton (2007) and a series of models by Aghion et al. (2005a, 2005b and 2006), to look at the determinants of innovation by domestic corporations in rising market economies. Our focus is on the result of competition and transfer of capabilities stemming from economic process, which can be led to through varied channels, as well as the entry of foreign corporations (foreign direct investment – FDI), trade, and enlarged competitive responses by domestic corporations through each entry and upgrading of the standard of their merchandise. Our work additionally relates to the massive literatures on innovation¹ and FDI spillovers;²



whereas we have a tendency to specialize in testing the theoretical proposition of the precise models on top of, we have a tendency to additionally relate our findings to those broader literatures.

Sutton (2007) develops associate degree industrial organization model capturing the result of economic process on the behavior of corporations within the rising market economies. The model assumes that a firm's fight depends not solely on its productivity however additionally on the standard of its product, with productivity and quality collectively crucial a firm's "capability." particularly, Sutton's (2007) model has the property purchasers favor to buy on the premise of price-quality combos and if a firm contains a product whose quality is superior thereto of its rivals, the firm can retain some level of market share even once the quantity of caliber rivals becomes willy-nilly massive. Moreover, there's a bound on quality that any firm should maintain so as to survive, so making a spread ("window") of quality levels within which corporations will operate. What matters is relative quality at each the firm and country levels, and with economic process the bound on the window of chance rises for corporations that were antecedently protected from the competition by higher quality corporations in advanced economies.

An important prediction of the Sutton (2007) model is that once associate degree initial financial condition, corporations in rising markets can attempt to regulate by raising their capabilities. Sutton (2007) suggests that the method can vary wide across industries and stresses that it'll be influenced by the vertical transfer of capabilities to the rising market economies through the availability chain of transnational enterprises (MNEs). In fact, he argues that "...the 'middle group' countries of jap Europe... are best placed to be the foremost dramatic beneficiaries of the current globalization, not – or not primarily – thanks to trade liberalization in and of itself, however thanks to the virtuous dynamic that follows as a part of the overall package of liberalization of foreign direct investment and capability transfer." (Sutton, 2007, p. 28) Given these predictions, we tend to examine the factors that verify whether or not or not differing kinds of corporations raise their capabilities. In line with Sutton's abstract framework, we glance at factors which will influence capability at the amount of the firm, trade and country or region.

A connected theoretical framework has been advanced in an exceedingly series of recent papers by Aghion et al. (2005a, 2005b, 2006). In these Schumpeterian models, corporations or industries operate at intervals a variety (window) of potency and magnified competition related to liberalization and economic process has totally different effects on firms/industries counting on their level of technology. Specially, firms/industries near the frontier (maximum potency) are expected to be spurred by competition to introduce and increase their efficiency, whereas those far away from the frontier (near the lower bound) are expected to be discouraged from innovating and fall additional behind. In their (2005a) model competition discourages laggard corporations from innovating, tagged the "Schumpeterian impact," however encourages "neck-and-neck" corporations to introduce, that they label the "escape-competition impact." Aghion et al. (2005a) develop the hypothesis, projected earlier by Kamien and Schwartz (1972), that the impact of the intensity of product market competition on the extent of innovation is within the type of associate degree inverted U. The inverted U relationship comes from the balance between the opposing effects of competition on the 2 sorts of corporations (the neck-and-neck and also the laggard firms).³ Finally, in associate degree extension to the current model Aghion et al., (2005b) conjointly predicts that corporations placed in regions with a lot of pro-business establishments are a lot of probably to reply to the threat of entry (competition) by finance in new technologies and production processes.

DATA AND ECONOMETRIC SPECIFICATION

To test these predictions, we have a tendency to use knowledge from the 2002 and 2005 Business surroundings and Enterprise Performance Survey (BEEPS), a joint initiative of the Eco Bank for Reconstruction

and Development (EBRD) and therefore the International Bank for Reconstruction and Development cluster. These are giant surveys of enterprises (6,500 in 2002 and seven,900 in 2005) in twenty seven transition countries (including Turkey)⁴ that relied on terribly similar sampling frames and identical questionnaires. In every country, the sectorial composition of the sample in terms of manufacturing⁵ versus services⁶ was to be determined by their relative contribution to GDP. Corporations that operate in sectors subject to government worth regulation and prudent oversight, like banking, power, rail transport, and water and waste water, were excluded from the sample. The sample includes terribly little corporations with as few as 2 staff similarly as corporations with up to ten, 000 staff. Moreover, the information embraces corporations within the rural areas similarly giant cities. Thence these knowledge modify United States to research quite heterogeneous corporations in these countries, and maybe most significant is that the inclusion of corporations within the service sector, that is that the new dynamic sector in these economies.

In addition, the information set contains a panel part, where 1,443 corporations that were surveyed in 2002 were surveyed once more in 2005. We have a tendency to use this panel knowledge set for a crucial hardiness check. However, our analysis depends totally on the pooled 2002 and 2005 knowledge since several variables of interest have a retrospective part and since it's exhausting to sight strong relationships with a tiny low panel of comparatively volatile corporations, particularly after we use several management variables.

An important advantage of our information is that corporations self-report varied varieties of innovation activity. Most studies on innovation use patent information or R& D expenditures, that square measure problematic. Patents area unit usually viewed as having many weaknesses: 1) patents measure inventions instead of innovations; 2) the tendency to patent varies across countries, industries and processes; and 3) corporations usually use ways aside from patents to guard their innovations (such as technological quality, industrial secrecy, and maintaining interval over competitors). Mistreatment R& D expenditures can also be problematic as a result of not all innovations square measure generated by R& D expenditures, R& D doesn't essentially result in innovation, and formal R& D measures square measure biased against tiny corporations (Michael, 1998; Archibugi and Sirilli, 2001). maybe most vital for the needs of this paper is that in rising market economies these varieties of innovations square measure less possible to be discovered as corporations square measure expected to have interaction a lot of in imitation and adaptation of already created and tested innovations, instead of in generating new inventions and square measure less possible to expend resources on R& D.

During this study, we tend to outline innovation loosely because the development/upgrading of recent merchandise, adoption of recent technologies or getting quality certifications. Specifically, we tend to use binary variables supported answers to the question within the BEEPS survey, regarding whether or not or not corporations have undertaken any of the subsequent initiatives within the last 3 years.

- Developed with success a significant new line or upgraded AN existing line – hereafter New Product;
- Noninheritable new production technology -- hereafter New Technology;
- Obtained a brand new quality enfranchisement (such as ISO 9000, 9002 or 14000, AGCCP, etc.) -- hereafter New enfranchisement.

FINDINGS

We begin by describing estimates of our baseline specification which tests for two of the five hypotheses described at the end of Section 1. In Section 3.2 we confront issues of endogeneity and undertake some robustness checks. Once these issues are resolved, we proceed with testing for the other three hypotheses in Sections 3.3 - 3.5.

1 Baseline Specification

Our baseline specification for every of the 3 sorts of innovation, calculable with over eleven, 500 firm-level observations within the twenty seven countries, is rumored in Table one. We discover that product market competition, as proxies by markup, encompasses a negative result on innovation. Specially, the larger the markup (implying less competition), the bigger the likelihood that a firm develops a replacement product or acquires new technology. On the opposite hand, product market competition doesn't have a sway on the dimension of innovation, particularly getting a replacement certification. We tend to conjointly tested for the inverted U hypothesis by estimating a specification with markup and markup2 and that we found that neither constant was important (results not rumored here). Hence, we tend to don't realize the inverted U formed relationship between competition and innovation planned by Kamien and Schwartz (1972) and developed additional recently by Aghion et al. (2005a). Our baseline specification thence supports the fundamental Schumpeterian read that noncompetitive market structures boost innovative activity.

Bigger pressure from foreign companies encompasses a positive result on innovation, holding constant vertical linkages with foreign companies. companies that feel pressure from foreign competition is "fairly and really vital" in reducing their production prices square measure additional seemingly to upgrade their product/service or acquire a replacement technology than companies that feel this pressure is "not in any respect important." companies that feel that the pressure is slightly vital successively have constant estimates that square measure concerning [*fr1] the scale, however solely important for "new technology." On the opposite hand foreign competition isn't a determinant of latest certification. We tend to conclude that the method of getting a replacement certification doesn't appear to be influenced by the forces of product market or foreign competition, whereas developing or upgrading a replacement product (or service) and effort a replacement technology square measure. The latter tend to be administrated by monopolies that feel moderate to air mass from foreign competition that is in step with the Gabion et al. (2005a) escape competition result.

Econometric Issues and Robustness Checks

The baseline specification potentially has issues of endogeneity of our firm-level measures of competition, transfer of capabilities and distance to the frontier. We first resolve these issues and then carry out a robustness checks for our Mahalanobis measure of the distance to the frontier.

Distance to the Frontier and the Effect of Competition and Transfer of Capability

In this section we tend to take a look at whether or not the result of competition and vertical transfer of capabilities on innovation differs by firm nonuniformity in technology. So as to try and do therefore, we tend to estimate the baseline specification one by one for 3 teams of companies, in step with wherever they belong the distribution of the Mahalanobis distance to the frontier. The key hypotheses within the Aghion et al. (2005a, 2006) models square measure that (a) companies nearer to the frontier square measure spurred by competition to introduce, whereas those away from the frontier square measure discouraged from innovating, (b) the inverted U relationship between competition and innovation is additional doubtless to be found and be vessel among companies that square measure nearer to the frontier.

Examining the coefficients on markup and on pressure from foreign competition within the columns titled "close" (to the frontier), "middle" and "far" (from the frontier) in Table a pair of, we discover no support for these hypotheses. Monopolists tend to introduce additional in square measures of product and technology whether or not they are near or far away from the frontier. We tend to conjointly calculable this model with markup and markup2 (results not shown here) and realize once more that each coefficients aren't vital. Bigger

pressure from foreign competition spurs sort one and kind a pair of innovation among companies across the complete distribution of technology.

A key hypothesis with relation to the link between vertical transfer of capabilities and innovation found within the FDI literature is that companies nearer to the frontier square measure in an exceedingly higher position than companies farther from the frontier to imitate (absorb) the technology of foreign companies. As could also be seen from Table a pair of, we tend to don't realize support for this hypothesis in any of our 3 vertical transfer variables. Nearly all the coefficients square measure extremely vital and for many cases one cannot reject the hypothesis that the results square measure a similar for companies that square measure shut and much from the potency frontier. Hence, Sutton's (2007) prediction that the vertical transfer of capability is a very important development is powerfully supported, and also the result looks to be robust across the board regardless of the relative potency of domestic companies.

Heterogeneity across Sectors and Age of Firms

One of the key predictions advanced by Sutton (2007), that is additionally underlying the opposite models, is that the consequences of globalization might vary across totally different sectors of the economy. We tend to so check whether or not the consequences of competition and vertical linkages with foreign corporations on innovation are totally different for corporations that are in producing than those in services and for corporations that were established throughout communism (old) vs. corporations created throughout the transition to a laissez-faire economy (new). This producing-service sector distinction is beneficial as a result of the service sector is apace gaining in importance in several rising market economies and existing studies of FDI and innovation have invariably used knowledge on manufacturing instead of services.

Similarly, it's of interest to assess doable heterogeneousness in terms of the vintage of corporations, outlined as corporations created since a rustic shifted from a socialist to a market oriented strategy of development as compared to corporations established below communism. Specially, we tend to check whether or not the 2 kinds of corporations initiate otherwise in response to competition, linkages with foreign corporations and distance to frontier. The literature provides some (although limited) steerage here, with new corporations generally innovating over recent corporations. The results from estimating the baseline equation one by one for corporations that started in operation before 1991 (Old) and since 1991 (New) are bestowed in Table four. The results counsel there's not a statistically vital distinction within the reaction of the 2 kinds of corporations, except that the new corporations are less responsive than the recent ones to pressure from foreign competition. Moreover, bigger distance to the frontier negatively affects the quantity of innovation (all 3 types) among recent corporations; however has no impact among new corporations.

Testing for Business Environment

We carry out 2 tests of the consequences of variations in business setting. First, we have a tendency to check whether or not general variations in levels of development of markets and establishments, captured by stratifying the sample by traditionally completely different regions, have an {effect on} innovation and therefore the effect of our 3 sets of variables. Second we have a tendency to check whether or not variations within the level of graft (corruption) matter.

CONCLUSION

In view of the recent theoretical literature on globalization and innovation, we've used made firm-level knowledge from the twenty seven rising market economies of the post socialist republics to check vital predictions concerning the consequences of competition within the product market and linkages with foreign

companies on domestic firms' innovative activities, taking under consideration no uniformity in firms' technological capabilities. Our specialize in innovation is motivated by the actual fact that innovation is wide considered a channel through that native companies attempt to keep competitive within the new international economy.

Economists tend to champion the positive effects of globalization and competition. For instance, per Sutton (2007), the 'middle group' countries of Japanese Europe ought to be the foremost dramatic beneficiaries of globalization, particularly from the transfer of capabilities of foreign direct investment. Others have stressed that the competitive impact of entry of foreign companies can strengthen the performance of domestic companies in rising market economies. However, economy theory has been unclear concerning the impact of competition on innovation. The Schumpeterian read is that market power promotes innovation, by providing a stable platform to fund these investments and by creating it easier for the firm to capture its advantages. This is often contrasted by the read that market power reduces innovation by lowering the come back to innovative efforts. Empirical work has found each effect. Aghion et al. (2005a, 2005b, 2006) have developed a theory that has reconciled these opposing views by showing that the Schumpeterian impact dominates in industries with laggard companies whereas the competition spurs investment among high playing companies.

Our basic finding in these transition economies is that companies with market power area unit the innovators in terms of their product and technology. We tend to don't notice a robust differential result of product market competition on the laggard v. the high performance companies and thus, the inverted U relationship generated by the balance of those two. However, we discover support for the hypothesis that companies more away from the frontier area unit less doubtless to pioneer. significantly, we discover that bigger pressure from foreign competition stimulates innovation, which could counsel support for the "escape competition effect" of Aghion et al. (2005a) had the result not been gift for all companies, no matter their distance from the technology frontier.

Our results area unit each encouraging and serious. Whereas the advocates of economic process and market adjusted establishments are going to be foiled that competition doesn't foster innovation, they'll be heartened by the finding that pressure from foreign competition and linkages with foreign companies (within and out of doors of the country) do improve domestic companies' innovative capability which there's some proof that firms a lot of in additional} market adjusted economies tend to pioneer more. Our information set has various strengths however conjointly some limitations. We tend to hope that this paper can facilitate to style future surveys to handle the problems we tend to raise within the paper.

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