CORPORATE DOSSIER

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9 for 2009 Gurus Guide

GOT BIG PLANS FOR THE YEAR AHEAD? *CARPE DIEM*! IN THE LAST OF OUR NEW YEAR SPECIALS, CORPORATE DOSSIER PRESENTS ORIGINAL ARTICLES FROM AN IVY LEAGUE OF EXTRAORDINARY GENTLEMEN — SAGES OF STRATEGY WHO OFFER SAPIENT ADVICE THAT'S GUARANTEED TO STEER INDIA INC TO EQUANIMITY IN THESE TROUBLED TIMES


Nirmalya Kumar


Anil Gupta


Michael Useem


Pankaj Ghemawat


Vijay Govindarajan

TWIST OF FATE

A PROLONGED RECESSION IN THE DEVELOPED ECONOMIES WILL ACTUALLY ACCELERATE THE ASCENSION OF INDIAN AND CHINESE COMPANIES TO THE GLOBAL LEAGUE SAY **ANIL GUPTA** AND **HAIYAN WANG**

HISTORY IS ON THE side of emerging global champions from India and China. Over the next two to three decades, these are the only two economies that are destined to catch up with the United States and an integrated Europe. A prolonged recession in the developed economies will actually accelerate these trends. As a result, aspiring multinationals from India and China are likely to enjoy the benefits of several home-grown advantages: a large and growing domestic scale, radically low cost structures, and access to a vast pool of talented scientists and engineers.

However, as we note in our forthcoming book, *Getting China and India Right*, ambitions and potential are not the same as reality. Globalisation is a double-edged sword. Aside from its well-known benefits, it also exposes the firm to numerous challenges. Managers must understand, engage with and delight unfamiliar new customers. They must compete with established global players on their home turf. They must contend with a dramatic increase in diversity and complexity. And, they must accept a significant increase in the firm's fixed cost base. Given these challenges, it is a given that not every aspiring global champion from India will succeed in realising its ambitions. We outline below six strategic guidelines essential for the realisation of global leadership by any Indian multinational over the next ten years. Whether or not a company's actions reflect these guidelines will differentiate between those who make it and those who do not.

ANIL K. GUPTA

is the Ralph J. Tyser Professor of Strategy at the Smith Business School, The University of Maryland. Haiyan Wang is Managing Partner of The China India Institute. They are the co-authors of *The Quest for Global Dominance ; Getting China and India Right* (to be launched globally in February 2009)

First, become world-class within India. Barring rare exceptions (such as India's IT services sector), most companies become dominant within their home markets before venturing abroad. Core competencies are built first on one's home turf and then leveraged to serve customers and do battle with competitors in foreign markets. If a company is not world class within India, it is hard to imagine how it could successfully challenge foreign competitors in their home markets while also taking on the added complexity of globalisation. Tata Steel became one of the world's lowest cost producers of steel before it launched an acquisition of Corus. Haier Group, China's market leader in home appliances, became one of the world's leaders in product innovation within China before it spread its wings over Europe, the US and, more recently, India. The importance of becoming world-class within the home market will increase with a rise in the intensity of global competition.

Second, never forget the economics of your industry. They determine which activities in the value chain must be localised and which can be leveraged from global delivery centres. They also determine the importance of depth and local market share within a particular country as distinct from breadth and global footprint. Discount retailing is a very localised business and depth matters far more than breadth. In contrast, the semiconductor industry is extremely global and local market shares are not very critical. Even the mighty Wal-Mart has paid the price of ignoring the importance of industry economics. Notwithstanding Wal-Mart's global scale, its tiny market shares in Germany and South Korea proved unsustainable and the company was forced to withdraw from these markets.

Third, develop M&A as a core competency. Unlike Toyota, Sony, Samsung and Hyundai which became global giants primarily through organic growth, global expansion over the next twenty years will be driven heavily by mergers and acquisitions. At some point in the next 6 to 24 months, the liquidity crisis will end resulting in a dramatic pick-up in M&A activity, particularly across borders. In such an environment, skills at due diligence, strategic analysis, deal-making on the right terms, and post-merger integration will serve as a formidable advantage – especially against direct competitors from China who are also eager and ambitious to become global leaders within their industries.

Haiyan Wang

Fourth, manage globalisation as a learning process. Global expansion always exposes a company to unknown unknowns. Even as smart a company as Infosys got its strategy wrong when it entered China. It assumed that, given China's vast pool of well-trained computer science graduates, it could start by establishing global delivery centres in China. However, after getting its feet wet, the company realised that, notwithstanding their training, its Chinese staff members lacked the necessary English language fluency and process rigour to serve global customers outside China. Having learned from its experience, the company is now targeting the domestic market within China. Infosys is hardly an isolated case, as is illustrated by the case of Wal-Mart noted above. In short, managers must think of globalisation as akin to entering a new line of business. Notwithstanding good strategic analysis, you will make unexpected mistakes and encounter fundamental surprises. How good you are at learning from experience will be as important a factor in eventual success as sound strategic analysis from the get-go.

Fifth, build a robust China strategy. China's economy is already more than three times as large as that of India. Further, given its massive investment in infrastructure, China's growth rate continues to outpace that of India. It is a near certainty that, sometime around 2025, China will become the largest economy in the world. Not only will it become the world's largest market for most goods and services, like India it will also remain a major platform for global cost efficiencies, global R&D, and the rise of ambitious and extremely capable global competitors. In fact, within ten years from now, Indian companies will find that having a robust China strategy is perhaps more important than even a robust US or Europe strategy. The time to prepare for that reality is now, not ten years from now. If you doubt the validity of this thesis, just look at what the leaders of Chinese companies such as Huawei, Lenovo, Haier, and Alibaba are saying today. In each of these companies, the top leaders have publicly stated that becoming number one in India is core to their long-term global ambitions.

Last, but not least, cultivate a global mindset. By 2020, the identities of companies will have undergone a profound change. Look at IBM today. It sources almost a third of its hardware from China and has located almost a third of its staff in India. Its revenues, asset base, R&D capabilities, top 200 leaders and shareholders are distributed globally — a trend that is accelerating. Thus, by almost every measure other than historical roots and the physical location of its headquarters building, IBM is not just an American company but also a European, a Japanese, an Indian and a Chinese company. In fact, if IBM had thought of itself primarily as an American rather than a global company, it could not have built the software and hardware capabilities in India and China with the speed that it has. Following similar logic, any Indian company that aspires to emerge as one of the global leaders in its industry by 2020 will have to transform itself into also becoming a Chinese company, an American company and a European company.

In 2001, there were less than five companies from India and China in the list of the world's 500 largest companies. By 2008, the number had grown to 36. We deem it entirely possible that, by 2025, this figure could be larger than 100. Notwithstanding the bleakness of the current economic situation, one must remember that the sun will rise again. When it does, companies from India and China could be the biggest beneficiaries of the rebound. However, this will not be an automatic process. It will require discipline, determination, as well as openness to new ways of thinking, organising and behaving. As we enter the New Year, it will be prudent to remember that every new era needs a new mindset.