

## Executive Insight >> Thought Leaders

### A Tiger by the Tail

"They're smart and hungry, and they want your customers. Be afraid. Be very afraid" warned a recent Business Week lead article titled "Emerging Giants: The New Multinationals".

The sensationalist journalistic treatment notwithstanding, the article profiled several new-age multinationals from China, India and other rapidly developing economies. It cautioned that such economies are not just hubs of low cost manufacturing and outsourced call centers, but are breeding nimble, talent-rich enterprises with discontinuous business models that pose serious competitive threats to US and European businesses. For example, the article showcased Mahindra whose tractors are gaining market share from John Deere in America's heartland based on a combined value proposition of quality, capability and lower cost, and Ranbaxy Labs that has 58 generic drugs awaiting US approval by the FDA – citing one anti-bacterial drug that retails for .63c for 10 tablets in India; the equivalent generic in the US costs \$51. That's quite a differential.

Indeed, the market valuation of several Indian companies is sufficiently high today that they might readily swallow up US or European competitors – as China's Lenovo did with IBM's PC business – should they choose acquisition as a part of their growth strategy. Indian company overseas acquisition activity doubled between 2005 and 2005 - to 134 deals worth \$3.7 billion – as Indian companies strive to gain expertise, build brands and add scale. Most acquisitions have been comparatively small, but strategic; the head of Infosys – an IT services company was quoted recently as saying, "One has to be very cautious of contaminating our business model". Another executive – from Tata Consultancy said "We are not doing deals to create noise – there has to be strategic fit." Azim Prenzi, founder of Wipro – another IT service enterprise - is blunter in his response to the Economist: "Why buy yesterday" he retorted, perhaps letting slip the swagger of success.

This is the new reality of globalization today. Even if we do not do business internationally, we need to be globally competitive, as distance is dead and location increasing immaterial. New York Times foreign affairs correspondent Thomas Friedman writes, "The trajectory of change and innovation in India holds out hope for the poor in India and other countries. At the end of the 90s, one couldn't talk about globalization without generating negative reactions. That debate is over now and it has a lot to do with the fact that two billion people in India and China opted for this."

India is just one of several surging economies that are re-shaping our business world. Long seen as a country of promise and potential, now even long-term skeptics are being converted.

### **The “Next Big Thing”**

Indeed, for business, India is seen as the next big thing: the equivalent to China fifteen years ago. The Economist magazine maintains that “no big international company can do without its India strategy”. Some multinationals eye the country and see a vast domestic market about to take off. Many are impressed by the wealth of high-skilled, low-cost professionals. Some Indian firms – like those mentioned earlier – have become world-beaters – not just the well known stars in its IT (Wipro, Infosys, Tata Consultancy) and other service industries (ICICI), but manufacturers too, of products ranging from petrochemicals to specialty chemicals (Reliance Industries), from pharmaceuticals (Ranbaxy) to steel (Tata Steel).

With all the business press attention on India, and its increasing importance on the world stage, this issue of Executive Insight’s Thought Leader seeks to deepen our collective understanding of this vast democracy with 1.1 billion people, GDP growth in the 9% range, and a depth of highly educated, English speaking professionals. A richly diverse land with a rapidly burgeoning and globalizing middle-class conflicted with pervasive poverty, widening income differentials and frustrating governmental bureaucracy.

### **Transformational Change**

At the World Economic Forum in Davos in January 2007, “India Everywhere” was a predominant marketing theme hyped by the Confederation of Indian Industry to showcase “the world’s fastest growing free market democracy.” The statistics of growth and the optimism of opportunity dominated the event as India try to position itself center-stage at the world premier meeting of political, business and societal leaders.

Certainly, a solid foundation for growth is now in place: a program of renewal, backed by successive governments, has increased the country’s foreign reserves to an enviable \$143 billion. The amount of foreign direct investment coming into the country has grown from about \$100 million in the early 1990s to about \$5.5 billion today and it is estimated to grow at 8.8 per cent over the next 10 years.

India is also on the cusp of a new economic paradigm. From the established “default-choice” as the world’s back-office, India has evolved into a low-cost base for a range of goods and services from steel to R&D. Motorola’s two research and development facilities in India helped produce the sub - \$40 mobile phone for emerging markets; Microsoft launched its third international research centre in India in January 2005; Intel has 800 India-based engineers working on software and hardware designs for its communication and semiconductor product lines. Both Microsoft’s Bill Gates and Intel’s Craig

Barrett have very publicly praised the knowledge and capability depth of India's vast pool of software development professionals.

New low-cost airlines and more international flights have opened air travel to greater business and tourist demand while financial services are benefiting from a stock market boom. Outsourcing to Indian back offices continues to grow robustly.

Financing, real estate and insurance expanded nearly 10 per cent in the second half of 2005; an emerging Knowledge Process Outsourcing (KPO) industry is catering to client needs in areas of equity research, finance and insurance processes, data search, human resource development, engineering and design and medical content development. According to an estimate, India's KPO market will grow to \$12 billion by fiscal 2010 from the existing \$720 million.

A resurgence of India's manufacturing sector is now also established. India is fast developing into a manufacturing hub for global corporations wanting to leverage skills in product design, reconfiguration and customization. According to a McKinsey report, manufacturing exports from India are likely to grow to \$300 billion in 2015, nearly 30% of which is expected to come from just four sectors - apparel, auto components, specialty chemicals and electrical and electronic products.

Even India's Achilles' heel, infrastructure, is starting to improve. The most ambitious program ever launched for urban development has a combined investment by Central and State Governments of \$20 billion to be spent through 2012. The program will cover 60 cities with over a million inhabitants. It aims to focus on integrated development of urban infrastructure and services. Under the National Highways Development Project (NHDP) - the largest highway project ever undertaken by the country and with the shortest time span for completion - 14,279 kilometers of National Highways are being converted to 4/6 lanes, at a total estimated cost of \$13 billion. India has around 6,000 km of natural peninsular coastline and ports are a crucial part of the transportation infrastructure of the country. Recently, 13 private or captive projects with an annual capacity addition of about 47 million metric tons (MMT) and an investment of about \$577 million have been completed, while 23 others with an annual capacity addition of around 90 MMT and an investment of \$1.6 billion are at various stages of implementation.

### **A Vibrant Democracy**

"Couple these transformational developments with a solid Constitution, well-developed democratic institutions, broad participation in social governance and one finds the symbols of vibrant democracy everywhere" claims the Confederation of Indian Industry, adding, "faith in the democratic process is nurtured as well as protected by an independent judiciary, an alert and free

media and active non-governmental organizations; over 5000 dailies, 16000 weeklies and 6000 bi-weeklies comprise India's fiercely independent press."

What also makes India a fascinating country is the assimilative nature of its society. Age-old traditions have dovetailed with the modern concept of democracy. Outsiders are welcomed, cultural influences seen as enriching; and proactive inclusiveness further strengthens democratic moorings in modern India. A melting pot of cultures, India is home to people of all major faiths of the world. Secularism is not only a way of life - it is a philosophy embedded in India's history.

Diversity abounds - in geography as well as in culture. In this land of mighty mountains and spectacular deserts washed by the waters of three oceans, over a billion people live together - people, who speak 18 major languages, worship different Gods and celebrate different festivals.

According to a Manpower Employment Outlook survey for the first quarter of 2006, India leads other countries with a positive overall net employment outlook of +27 per cent. Disposable incomes have multiplied five times between 1995 and 2005; this has led to consumption levels increasing three-fold. India's growing 400 million strong middle class is driving demand, competition and productivity like never before.

### **The "other India"**

Certainly India is booming. But there's another side to India that seriously dampens the hyperbole... an India of abject poverty, rural depravation and urban slums, of widespread corruption and child labor; more than 40 per cent of the population is illiterate, with women, tribal and particular castes particularly affected; 47% of children under age 4 are moderately or severely underweight; 12 million children under 14 are employed; children's advocates say the figure could be closer to 60 million; suicides in India exceed 100,000 a year, second only to China in world statistics, with significant numbers being debt-ridden farmers and those in the 15 -29 year old age groups.

Indian politicians realize that the good times (for some) cannot keep rolling with making significant progress in solving the problems of "the other India". Inclusion is a pervading theme of governmental rhetoric. There is much debate on the reliability of poverty statistics; the booming economy certainly is helping bring many out of poverty, but the rate and extent of progress is disputed. The government estimates that 22.15% of the population was living below the poverty line in 2004–2005, down from 51.3% in 1977–1978, and 26% in 2000. The criterion used was monthly consumption of goods below \$4.75 for rural areas and \$10.23 for urban areas; by comparison the World Bank international poverty level threshold is \$30 per month. 75% of the poor are in rural areas with most of them comprising daily wagers, self-employed households and landless laborers.

The *Times of India* launched 2007, a year that celebrated the 60<sup>th</sup> anniversary of democratic India with an ad-lib-type boxed item covering most of the front page. "India poised," it was called. It started with the "there are two Indias in this country" acknowledgment and went on to report "One India is straining at the leash... The other India is the leash. One India wants. The other India hopes. And one India... is looking down at the bottom of the ravine and hesitating. The other India is looking up at the sky and saying, it's time to fly."

While perhaps an unnecessarily allegorical way to describe such a serious topic, India certainly, and not unusually in rapidly developing economies, has a proverbial (domestic) tiger by the tail as it solidifies its position on the world business stage. Goldman Sachs estimates that India's \$GDP will surpass that of Italy, France and Germany by 2025, close in on Japan in 2035 and equal that of the US before the middle of the century. To realize the potential of these predictions, societal stability will be a vital precondition. Government and business will need to collaborate on levels of strategy, policy and practice to assure that inclusiveness becomes a reality.



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