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India unleashed

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India unleashed

Corporations in the developed world increasingly see India as a high-growth market and its companies as acquirers of their assets, global competitors, partners for enhancing the competitiveness of their global value chain and a source of new energy and dreams for the world economy. How did this all happen? **Nirmalya Kumar** shares the essence of what he learned from 10 trips to India to interview more than 30 CEOs and top executives who are unleashing the new global power of Indian firms.

Last November, the world of space exploration took another step forward when a two-year programme to find out more about the nature of the moon's surface climaxed when a box-shaped probe landed on the lunar south pole. According to a November 15, 2008, news report by Associated Press, the country that launched the probe rejoiced "at joining an elite club by planting its flag on the moon as the country's space agency released the first pictures of the cratered surface taken by its maiden lunar mission".

But an expanded scientific collection of lunar photos wasn't the only thing that was new. As AP continued, "The box-shaped probe was painted with India's saffron, white and green flag, sparking celebrations in the country that is striving to become a world power. 'The tricolor has landed,' the *Hindustan Times* said in a banner headline, while *The Asian Age* proclaimed 'India is big cheese.'"

Exactly right. With that lunar mission, India joined the ranks of the US, Russia, the European Space Agency, Japan and China. It financed its scientific programme with the largesse derived from a decade of robust economic growth – in fact, by 2008, India's economy had become so strong that it was investing more capital in other countries than the reverse. Indian foreign investment in the financial year closing March 31, 2007, exceeded the cumulative total foreign investment by Indian companies in the 58 years between its independence in 1947 and 2005. In 2007, the Indian corporate sector was involved in \$60 billion of merger and acquisition (M&A) activity, up 109 per cent over 2006. While it was the flag of India that adorned its first lunar spacecraft, one could say that the capsule itself was built under the aegis of India Inc.

Ironically, what India achieved for the first time on the moon happened while everyone on Earth (India included) was struggling with economic setbacks not seen since the 1930s. Just to give you a feel for the extent of the market tumult, India's famed automaker, Tata Motors, saw its stock price fall by 80 per cent in less than a year. One could cite similar dour statistics for many Indian corporations.

But India is a country that plans to soar in good times and bad, and the story of its explorations of the moon is a perfect metaphor for the growing presence of India on the world stage. The AP says that India is planning to launch a lunar rover in 2011, followed (some hope) soon thereafter with a manned mission. Exciting stuff. But, in many ways, what India has accomplished – and plans to – in the world of business is even more exciting. In many ways, India's business journey has just begun; and the global marketplace will never be the same because of it.

Inexhaustible imagination

If one considers the staggering development of Indian commercial success over time, it is a magnificent achievement for a culture that was always willing to dream (and do) more. One cannot really grasp the potential for Indian business unless one also understands the roots of Indian enterprise. The rise of India Inc. can be summarized in four words: *from local to global*.

The transformation of Indian companies from domestic to global players went through three phases. *In the pre-reform phase*, prior to 1991, Indian business was under shackles, first from British colonialism and later (post-independence) from socialist policies. *In the second phase*, post-1991 economic reforms necessitated a decade-long corporate restructuring to make companies globally competitive. *Now, in the third phase*, Indian companies are increasingly going global. Here's a quick historical overview.

1947–1991: Rich owners, poor companies

Indian business from the country's independence in 1947 until the economic liberalization programme of 1991 was uniquely shaped by the constraints imposed by three factors: Indian culture, British rule and post-independence socialist policies. It resulted in a domestically focused, unique and somewhat perverse Indian business model that left companies in poor shape but their owners wealthy.

The wonderful author and short story writer Anita Desai certainly was familiar with the business world; her father, after all, was a Bengali businessman. Thus, I found a comment by her both intriguing and compelling (and spot on): "India is a curious place that still preserves the past, religions, and its history. No matter how modern India becomes, it is still very much an old country."

Indian culture Change is slow in ancient cultures like India's, and key aspects of India's cultural and social history (especially Hinduism, practiced by 85 per cent of Indians) played an influential role in shaping the traditional Indian business model. A crucial element of Hinduism, the system of castes and sub-castes, functioned like medieval European guilds. It ensured division of labour and provided for training of apprentices. Over time, the caste system became a source of hierarchical differentiation in Indian society, in which traders (Vysyas) and those engaged in business were placed above only the lowest Sudra caste, but below the priests (Brahmins) and warriors (Kshatriyas). Furthermore, as the four-caste system fragmented into hundreds of sub-castes, it restricted people from changing their occupation or aspiring to a higher caste. →

→ Scholars believe that the caste system throttled initiative, instilled ritual and restricted the market. It also played two vital roles in shaping the Indian business model. First, respect for higher caste members was unquestioned. This laid the foundation for deference to one's superiors in the workplace. Typically, Indian organizations were, and many still are, hierarchical and feudalistic. Second, entrepreneurial aspirations were not encouraged. In fact, an acceptance of the natural order of one's position in society meant that, except for those belonging to the trader class, Indians did not aspire to be entrepreneurs.

Then there was the cultural influence of the joint family, a unit consisting of the patriarch, his younger brothers and their children and

environment in which Indian multinational companies, similar to those sprouting elsewhere in the world in the late 1800s and early 1900s, could be born.

Yet, beyond the obvious benefit of imposing British as the national corporate language, British rule conferred an unintended benefit for Indian companies when they finally decided to enter global markets. Early in their rule, the British realized that it was impossible to transplant enough of their own citizens to India. Instead, Thomas Macaulay, who was advising the governor general of India, argued in 1834 that the British must "train a class of people Indian in blood and colour but British in taste, in opinions, in morals, and in intellect." Even today, "Macaulay's children" refers to Indians who adopt

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grandchildren, living together under a single roof. The family pooled their resources and invested in business ventures with the goal of allowing each member to earn a respectable livelihood. In the Western world, nepotism holds unflattering connotations because competing on merit is a strongly held virtue. In contrast, Indian family business held responsibility for and respect of family members as superior norms. The entire family participated in the business.

British rule British rule unfortunately stifled and distorted India's trade with the rest of the world, barring Indian industry from competing with the British, especially in global markets, and thus forcing Indians to focus either on developing cheap raw material for British factories or on distributing British products in India. Although the British developed transport, postal and modern legal systems in India, this infrastructure supported the management of Indian resources for British gain.

For example, by 1830, India's thriving textile industry had been all but destroyed. By the mid-1800s, India was importing one quarter of all British cotton textile exports. In the decades that followed, the British compelled Indian farmers to grow indigo, cotton and wheat for export to Britain. During British rule, imported products received tariff and tax benefits while Indian industry was suppressed. The British focus on its interests hindered the development of a free-trade

Western culture as a lifestyle. Though usually used with a negative connotation, this process meant that when the British did leave, a significant segment of Indians in the corporate sector had superficially adopted British habits (for example, dressing in well-tailored suits, using a knife and fork) that allowed them to interact with Westerners with relative ease. This was especially true for the Indian elites at the time of the country's independence, most of whom had been educated in the UK. At times, these Indians even tried to outdo the British at their own game, and it is still jokingly said that the last British man on earth will be an Indian.

Post-independence When India became independent, large Indian firms could have adopted an Indian language or Indian national dress as organization-wide practices but chose not to do so. Instead, most Indian firms with national presence adopted the British language and British-Indian work practices that were considered more neutral. This allowed them to avoid having to negotiate the conflict between the large regional and language differences that existed within the workforce. Because of British rule, Indians learned to manage the duality of their work and home lives. At work, the managers were all similarly "British"; at home, they reverted to the language, dress and food of the region from which they originated. But the factor that most affected India Inc. after the country became an independent state was its skew toward socialism.

Licenses were so precious that to obtain one you needed either a connection to a major politician (for example, the only new automobile manufacturing license granted between 1950 and 1980 was to Sanjay Gandhi's Maruti Udyog) or the ability to pay a large bribe, or both. The large family business houses learned how to game the system by using their connections to get follow-up on their files, organize bribes and win licenses. They used the licensing process to foreclose competition, often by applying for a competitor's license; the competitor's application would then be rejected because industry capacity had already been licensed. Then the company with the license would simply sit on the license without using it to build any capacity.

Most of the licenses granted were for major industrial and infrastructure projects. Setting up these operations required having a foreign multinational company build a large plant since these capabilities typically did not exist within India. International vendors would be invited to compete for these capital projects. One of the conditions for being awarded the order (which, of course, would not appear in the contract) was that the foreign supplier would fully or at least substantially reimburse the promoter's initial equity investment by placing funds directly into the promoter's offshore and undeclared bank account. As a result, the entire project would be completed without requiring the promoter to have any of his own money in play but allowing complete management control despite shareholdings of less than 10 per cent.

A second bonanza to the established Indian business houses accrued in 1973 when the Foreign Exchange Regulation Act (FERA) was passed. The government restricted foreign companies from holding more than a 40 per cent share of joint ventures. This required foreign multinationals to rapidly dilute their holdings in their Indian subsidiaries. Since most foreign companies were uninterested in minority shares, they began looking for the exits. Not surprisingly, established Indian business houses were able to acquire these Indian assets of foreign companies, especially British companies, at throwaway prices. Often these transfers were done at 10-to-20 cents on a dollar.

The prevailing policies led to concentrated family ownership of Indian business assets, exercised through pyramids, with significant divergence between the promoter family's almost complete control rights and typically much smaller cash flow rights. Institutional gaps meant that new ventures by established business groups could not only rely on capital infusion from the group but also benefit from the group brand name, internal talent transfers and reduced contractual costs. →

At the end of colonial rule, India inherited an economy that was one of the poorest in the world. India suffered from one of the world's lowest life expectancies and a largely illiterate population. By 1950, Britain's legacy of profound structural economic issues – a stagnant economy, stalled industrial development and an agricultural base that could not feed the rapidly accelerating population – proved a significant challenge for India's first prime minister, Jawaharlal Nehru.

Influenced by the British Fabian Society, Nehru adopted the socialist economic model, hoping for strong growth through a centralized economy to increase the standard of living among India's poorest and to encourage the growth of critical manufacturing and heavy industries. Tragically, this earnestly romantic vision of the socialist ideal proved wholly inadequate in dealing with the real challenges in the Indian economy.

In India's centrally planned economy, government planners determined the output allowed in each industry because they did not want to see "over-investment" and "waste" in a country with limited resources. Therefore, companies needed licenses for everything – from setting up a business and expanding capacity to laying off workers and closing down a factory. As a result, the central bureaucrats in Delhi became enormously powerful and were popularly known as "License Raj", translated as "license rule".

→ To grow, Indian business groups had little choice but to pursue unrelated diversification. For example, the Birla Group operated in diverse industries such as automobiles, cement, dairy, electricity, jute, newspapers, plastics, sanitary ware, shipping, steel, sugar, tea and textiles. Diversified Indian groups relied on “institutional relatedness”, a dense network of ties with dominant institutions, which allowed them to exploit nonmarket forms of capital such as social, political and reputational. Unlike the results for American companies, in which diversification resulted in lower returns, there was a diversification premium for Indian companies during this post-independence era.

Unfortunately, because of the omnipresence of state planning, controls and regulations, Indian business focused on dealing with the state planners. Indian companies were characterized by poor quality and productivity, neglect of customer needs and short-sighted attitudes toward product development. The widely quoted observation of Indian business at the end of this era was “Indian businesses may be poor, but their owners are rich.”

1991–2001: Becoming globally competitive

In 1991, India suffered a major economic crisis from the combined effects of oil price shocks (resulting from the 1990 Gulf War), the collapse of the Soviet Union (a major trading partner and source of foreign aid), and a sharp depletion of its foreign exchange reserves (caused mainly by large and continuing government budget deficits). Also in

considered an economic dream team of Manmohan Singh (finance minister), P. Chidambaram (commerce minister) and Montek Singh Ahluwalia (commerce secretary). To reform the economy, the government adopted several new policies:

- Industrial licensing was drastically reduced, leaving only 18 industries subject to licensing
- Import tariffs were reduced from an average of 85 per cent to 25 per cent, combined with a rollback of quantitative controls on imports
- The rupee was devalued and made convertible on the trade account
- The Controller of Capital Issues, the office that decided the prices and number of shares firms could issue, was abolished
- Indian firms were permitted to raise capital on international markets by issuing global depository receipts (GDRs)
- India’s equity markets were opened to investment by foreign institutional investors
- Procedures for foreign direct investment approvals were streamlined and, in at least 35 industries, allowed for automatic approval of projects within the limits for foreign participation
- Foreign direct investment was encouraged by increasing the maximum limit on the share of foreign capital in joint ventures from 40 to 51 per cent, with 100 per cent foreign equity permitted in priority sectors.

The effects of the reforms were immediate and dramatic. The GDP growth rate between 1990 and 1991 had averaged between two and three per cent

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1991, India had to service the country’s \$70 billion external debt, which had trebled over the previous decade, as well as pay for the burgeoning costs of imports, especially oil. The country’s foreign exchange reserves dipped below \$1 billion, barely enough to pay for two-to-three weeks of imports. In addition, with the collapse of the Berlin Wall in November 1989, the viability of socialism as an alternative model to capitalism had crumbled before the world’s eyes.

The government was forced to accept that the socialist model that had prevailed since independence had to be abandoned. Fortunately, the Indian government had in place what is now

per year; since 1991 it has averaged about six per cent per year. More recently, since 2004, growth has exceeded eight per cent. The foreign exchange reserves that had dipped to a low of \$1 billion are now approaching \$300 billion.

More importantly, the economic growth has had a significant impact on the reduction of poverty levels. Within two decades, between 1985 and 2005, the percentage of the population living on a dollar a day was reduced by almost half, from 93 to 54 per cent. Based on that reduction, it is estimated that 431 million fewer Indians live in extreme poverty today. McKinsey expects Indian incomes to triple over the next two decades, lifting

another 290 million people out of poverty and boosting India's middle class to 580 million. More optimistic surveys show even greater progress on poverty reduction, with estimates as low as 319 million Indians currently living at under a dollar a day.

In the 1990s, India was one of the fastest-growing economies in the world in terms of productivity, with average productivity levels doubling every 16 years. It was estimated in 2001 that, if that pace of growth were maintained, by 2066 India would reach the real GDP per capita level of the United States prevailing in 2001. The contrast with the pace of growth before 1980 was remarkable, when average Indian productivity levels

the balance sheet, improving competitiveness, focusing on core businesses and strengthening management.

Cleaning the balance sheet The balance sheets of most Indian companies in 1991 were poor. Established companies had the ability to raise money from banks, and many had done so at relatively favourable rates. These borrowed funds exceeded what the business itself could utilize. Instead, the money was placed in an investment portfolio and invested in other group companies. As mentioned earlier, these cross-holdings allowed the ultimate promoters of these companies to control a vast network of group companies with

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were doubling only every 50 years. At the 1980s rate, India would have expected to approach America's 2001 GDP per capita level not in 2066, but in 2250.

Corporate restructuring The post-1991 reforms changed the environment for Indian business. Indian companies realized that the traditional Indian business model appropriate for "sheltered firms" had to be abandoned. First, the liberalization of industrial licensing meant that new domestic players could easily emerge in what were previously tightly controlled industrial sectors. As a result, companies went through a tough corporate restructuring programme to enhance domestic competitiveness in the face of a more aggressive marketplace. Second, as import tariffs were cut and entry barriers for foreign companies were reduced, international players began to view India as a potential market. Subsequently, they brought to India their world-class products and services. This forced even Indian firms with no global ambitions to become globally competitive to survive foreign competition.

The transformation of Indian companies and business houses post-1991 was a crucial step in preparing them for the global marketplace. And, not surprisingly, some of them have become global players. The decade-long corporate restructuring programme had four essential elements: cleaning

very little of their own funds. The other shareholders in these companies disliked this arrangement but could do almost nothing about it as the regulatory regime did not empower them or protect their interests.

As the Securities and Exchange Board of India (SEBI) began adopting reforms in corporate governance and empowering small shareholders along the lines of the American stock markets, companies were forced to shed these investments and cross-holdings. Given the complexity and ubiquity of corporate cross-holdings, their disentanglement was a time-consuming process. But every major Indian business group had to address it.

The balance sheets also suffered from substantial distortions in the valuation of assets. Many firms had assets with inflated values on their books. These needed to be recorded at their real market value. On the other hand, certain other assets on the books – usually property, cars and art – were valued much below their market price. The logic here was that these undervalued assets would at some stage be sold to the promoters at book value. It was essentially a mechanism for transferring funds from the firm to the owners with the controlling interest at the cost of the minority shareholders. Large Indian companies had to go through a painful process of cleaning up their balance sheets to bring the assets in line with →

→ market values. The boom in property and the resulting revaluation to reflect rising prices helped companies write down the overvalued assets.

Strong balance sheets were essential for companies to attract new share capital from domestic and foreign sources. This infusion of capital helped reduce the historically high debt-to-equity ratios in Indian firms. More critically, it was needed to make the necessary capital investments to become competitive in the new deregulated marketplace. Finally, funds were also required to ramp up capacity to keep pace with the rapid domestic growth that followed the liberalization programme.

Improving competitiveness Under the protection of the benign environment pre-1991 and without the discipline of a tough competitive marketplace, Indian companies had become bloated. Costs, productivity and quality had all become victims as companies could simply pass on inefficiencies to the consumer. Companies had little choice but to seek dramatic improvements on these fronts if they were to survive in the new marketplace.

To reduce costs and improve productivity, companies became more demanding of their suppliers and employees. Traditionally, Indian firms, because of high import duties, had relied exclusively on Indian suppliers and frequently substituted the available cheap labour for sophisticated capital equipment. Baba Kalyani, who led the transformation of Bharat Forge from a labour-intensive to a technology-intensive manufacturing firm, observed the conditions that forced firms to make inappropriate choices: “You

keenly aware of these relationships and therefore did not lean too hard on the suppliers with respect to prices, quality standards or delivery reliability. The new competitive environment forced, and liberalization allowed, firms to access the global supply chain and obtain inputs on a par with global standards at competitive prices.

Most Indian firms were overstaffed with strong, militant unions that protected the employees. In the new environment, companies began downsizing the workforce by providing incentives for workers to retire early. In addition, even unions began to be more flexible in the private negotiating rooms. Union bosses initially realized that layoffs were inevitable, and later that jobs were available elsewhere as the economy was rapidly expanding. For example, at Mahindra & Mahindra in 1991, it took 1,230 workers to manufacture 70 engines a day; in 1994 productivity had improved to the point at which 760 workers could produce 125 engines a day.

Finally, India always had a poor reputation for quality and customer focus. Pre-1991, the problem was for consumers to find products rather than for companies to find customers. Reflecting on this era, Kalyani remarked: “The concept of quality used to be that if it works somehow, it’s okay, but it doesn’t need to work all the time.” Clearly, this had to change if Indian brands were going to compete not just with each other but also against the multinational companies entering the country.

Focusing on core businesses The highly diversified Indian business groups quickly realized that they needed to focus on a few industries in which they

With the opening of the economy and the easy entry of foreign players into the Indian market, domestic Indian companies realized that they must scale up to remain competitive.

waited a year for an equipment-import license, got less than you wanted, then paid an 80 per cent import duty.” Even computing the import duties was a nightmare. For example, a new Burroughs computer imported by Tata Consultancy Services (TCS) in 1974 attracted a tariff of 101 per cent, including import duty, auxiliary duty, countervailing duty and a levy to help pay for the war in Bangladesh.

In family-controlled firms, suppliers were frequently relatives of the promoter. The promoter had set them up in business to allow them to make a decent living. The procurement managers were

could obtain leading domestic positions. Building these positions would require significant investments. Focusing the portfolio would not only free up resources from non-core companies, but, through their divestment, would also generate additional capital for the core business. In the early 1990s, many large business groups in India went through an exercise of identifying their core businesses. For example, RPG Enterprises went from 20 to six areas. In 1998 even Tata reduced the number of group-affiliated companies from 80 to 30 by trimming its lines of business from 25 to a dozen. →

→ The focus on a few core areas allowed companies to consolidate their domestic positions and had a subtle impact on their aspirations. Firms were no longer satisfied by claiming that they were number one or two in India; instead they began touting their *world* ranking. For example, MRF started asserting it was among the top 15 tyre manufacturers in the world, while Ranbaxy emphasized its position among the top 10 generic pharmaceutical producers in the world. Slowly but surely, Indian companies began benchmarking themselves against world competitors. It was a first step toward global ambitions for Indian firms.

Strengthening management In a populous country with relatively few opportunities in the corporate world, Indian companies never saw managerial talent as an important source of competitive advantage. Compensation levels were extremely low. In the 1980s, it was not surprising for top executives to earn as little as \$5,000 per year. Relationships, loyalty and trust were valued in professional managers more than talent and competence. This was especially true in family-owned firms: many critical positions were occupied by family members. This explains the common usage of the term “professional manager” in India to distinguish such a leader from the “owner manager” and family members.

Often these family firms were run on feudalistic norms whereby all important decisions had to flow through a powerful promoter. This frustrated competent professional managers, and their only options were the few Indian subsidiaries of multinational companies. Some of these multinational companies, such as Unilever and Imperial Tobacco, recognized that managerial talent was available in India at a relatively low cost and raided their Indian subsidiaries for overseas operations.

Post-1991, Indian firms, especially the family business houses, realized that professional managers had value as they could take responsibility and deliver results. Not surprisingly, firms began to scour the Indian subsidiaries of multinational companies for management talent and move away from “one-person” rule. In the ensuing war for talent, professional manager salaries shot up dramatically. Beyond that, variable pay and stock options were introduced. In addition to competing for the best talent, managers were empowered and firms began investing in their training. Today, Indian managers, relative to their peers in other countries, probably have the highest standard of living in the world. These managers brought the world-class practices and processes they had learned at multinational companies to Indian firms, thereby preparing Indian business to be globally competitive.

2001–now: India unleashed

The corporate restructuring brought confidence to Indian business. Indian companies transformed themselves from domestic players, scared of global competitors and constantly seeking government protection in domestic markets, into confident players capable of building Indian multinationals. As they have gone from being passive resisters to active promoters of globalization, Indian firms are continuing to force a change in government policies toward a more open Indian market and business environment.

As late as 2001, Indian outward investment was less than \$1 billion. Instead, India, like all developing countries, was actively courting foreign investment into the country. By 2006, India had reversed the trend. For the first time, Indian outward investment of \$10 billion had outstripped foreign investment into India. The spending spree continued unabated in 2007. Indian companies arranged or concluded \$21 billion in 40 foreign investment deals in January and February of 2007 alone. The quest by Indian companies to be globally competitive is the driving force behind this accelerating foreign outward investment.

With the opening of the economy and the easy entry of foreign players into the Indian market, domestic Indian companies realized that they must scale up to remain competitive. This was especially true for those companies that operated in what are global industries, such as aluminium, automobiles and steel. A good example is Tata Steel's \$12 billion acquisition of Anglo-Dutch steelmaker Corus in October 2006, which catapulted it into becoming the world's fifth-biggest steel producer (prior to the acquisition, it was 56th).

The acquisitions reflect the rapid growth of the Indian economy since 1991. When combined with the restructuring efficiencies wrought by Indian companies over the past 15 years, this growth has resulted in average profit margins of around 10 per cent, more than twice the global average. Indian firms have been minting money. For example, Reliance Industries, then India's largest company, doubled its profits between 2004 and 2006.

Growth and profits have left the Indian corporate balance sheets in robust health, with consequently high market capitalization. By one estimate, 60 per cent of India's 200 leading companies are looking to spend their newfound wealth on foreign acquisitions and investments. As an example, consider Vedanta, one of India's biggest producers of zinc, copper and aluminium. Vedanta is the lowest-cost zinc producer in the world. Besides those in India, it has operations in Zambia and Australia. In 2007, Vedanta had revenues of \$6.5 billion, an increase of 76 per cent over the previous year, and nearly half of it was profit. In the biggest

overseas sale of shares by an Indian company at that time, 20 per cent of the group's flagship company, Sterlite Industries, was floated in 2007 on the New York Stock Exchange for over \$2 billion. Besides enabling high-profile deals, burgeoning profits are encouraging many smaller Indian firms to seek foreign acquisitions. The result is that Indians have already emerged as second only to Americans as foreign employers of Britons. Tata alone employs nearly 50,000 people in the UK.

Global powerhouses

Indian global powerhouses, until recently, never had the confidence or the ability to be on the world stage. Forged in India's harsh environment, these

and development, is signing up big aerospace customers such as Boeing and EADS. The company was heavily involved in the development of Boeing's 787 Dreamliner by designing two mission-critical systems – one to avert airborne collisions, the other to land in zero visibility. Ian Q.R. Thomas, president of Boeing India, was quoted as saying, "In theory, we could place the work anywhere. We're here because we found a level of sophistication." Almost every Fortune 500 company is setting up (or considering setting up) operations in India that will be integral to its global value chain.

The rush by multinationals to set up Indian operations and the rapid growth of Indian outsourcing companies has resulted in a war for talent.

Today, the remarkable thing about Indian companies is that they have massive aspirations to be global companies, and they are extraordinarily confident about acquiring foreign firms and integrating them with their companies in India.

companies are now increasingly seeking to secure the best of both worlds – access to the lucrative high-margin markets of the developed world by owning companies in Europe and the United States while maintaining their low-cost bases in India. Today, the remarkable thing that strikes one about Indian companies is that they have massive aspirations to be global companies, and they are extraordinarily confident about acquiring foreign firms and integrating them with their companies in India.

While it is only to be expected that some of these Indian acquirers will stumble because they have either paid too much or taken on large amounts of debt, the overall trend remains unaffected. For the developed world and its companies, the era of India as a major overseas investor is here. The question is not how to stop this trend but how to deal with it. There was a time when Westerners assumed that an Indian in the head office of a multinational or Western company was either an accountant or a computer nerd. Nowadays that person is just as likely to be the boss.

It is important to see India's evolving competitive advantage as more than simply low costs and a steady supply of call centre employees. As costs in India are going up, both Indian companies and Western multinationals are increasingly using India as a destination for high value and technologically sophisticated projects. HCL Technologies, the Indian outsourcing company specializing in research

Only in India would T.V. Mohandas Pai, Infosys Technologies' chief financial officer for 12 years and member of the Infosys board of directors, make a career change to take over as head of human resources at Infosys! But the company hires 25,000 people a year, and its growth is dependent on attracting and retaining the best talent.

Such competition requires a fundamental shift in the mindset of multinational companies about the role of Indian talent. They need to confront the question: *why should an Indian join a multinational instead of an Indian firm?* In many multinationals, the local Indian operations are viewed as peripheral rather than central to the parent company's global agenda. As a result, knowledge, capabilities and people flow from the headquarters in the United States, Europe, or Japan to India – but rarely vice versa. There is no career track for the Indian employee in the company's global operations. In contrast, at Infosys, TCS and Wipro, the potential recruit can become the CEO of the firm and lead global operations. Unfortunately, only a handful of multinationals – Citibank, McKinsey and Unilever being notable exceptions – have grappled with the dilemma of remaking the talent management processes in face of the changing global workforce realities.

The other war is for customers and business models. Indian outsourcing companies started from a low-cost basis but are slowly moving up the →

→ food chain to more sophisticated projects. Companies like Infosys, Satyam Computer Services, TCS and Wipro are starting to challenge the Western multinationals, such as Accenture, EDS and IBM, head-on for the high-value global consulting deals. These Western IT consultancies are starting from a high-cost structure and are using their Indian back-office operations to move to lower cost structures, while Indian outsourcing companies are making small acquisitions in the West to add to their front-end consulting capabilities.

The Economist in 2008 asserted, "India counts as one of liberalization's greatest success stories . . . without India's strength, the world

to stand in front of a British audience and predict that the world was entering the American century. The audience would have considered such a prognosis mad and probably countered with comments such as, "Do you not know the vastness of the British Empire?" and "Have you ever been to America and seen the problems they have?" In the 17th century, China and India accounted for more than half the world's economic output. After a pause, the pendulum is swinging back to them at a speed the West has not yet grasped.

Despite the countries' many challenges, this is going to be the China and India century. How else do you explain the gloomy feeling at the board

Economic growth has had a significant impact on the reduction of poverty levels. Within two decades, between 1985 and 2005, the percentage of the population living on a dollar a day was reduced by almost half.

economy would have had far less to boast about." India as one of the fastest-growing economies seems like a paradox in a country where everything (especially the traffic, courts and bureaucratic machinery) seems to move at a snail's pace. Regardless, with its neighbour China, India is where future growth and profits for multinational companies lie.

Yet many global companies have been slow to respond to this shift in the locus of world opportunity to Asia. An analysis of several large Western firms found that, although an estimated 34 per cent of the potential market for their goods is in Asia, the region accounted for only 14 per cent of sales, seven per cent of employees, five per cent of assets, three per cent of research and development and two per cent of their top 200 people. Moreover, it found that these disparities were growing larger.

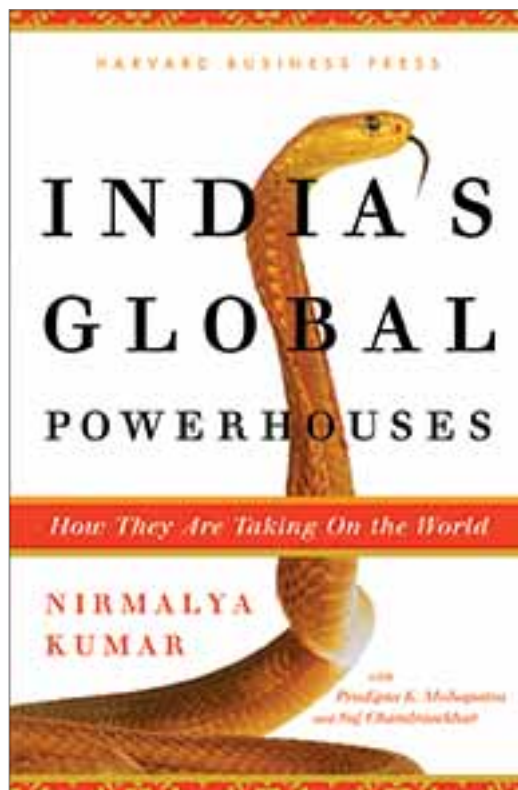
Coming off a flight from London to India, one is struck by the obvious enormous infrastructure challenges. Yet one feels invigorated by the country's uplifting burst of energy and new dreams. India is, of course, not alone in this enthusiasm; it can also be observed in China, Dubai, Moscow and Vietnam. We are at a historical inflection point. We cannot visualize the specific changes; but these places will be unrecognizable in a decade, and they will help remake the global political and economic landscape.

It is sometimes frustrating to explain these changes to many Americans and Europeans, who are usually unable to see them through their now-obsolete lens on the world. Imagine in 1900 having

meeting of an Indian company in which annual revenues had grown by only 35 per cent? Or, that Naresh Goyal, founder and chairman of Jet Airways, India's largest private airline, is sincere when he declares: "I want to produce a global Indian brand. That's the passion for me, that's what drives me. The people of this country, we have the capability to produce a global brand." Jet Airways does not wish to compete on price, but on service, against its more established competitors. A recent search on Expedia for business-class direct-return flights from London to Toronto served up British Airways at £2,357 and Jet Airways at £4,471!

The concepts, constructs and mind-set that have prevailed over the past century need to be transformed as a new future, with India and China as dominant powers, comes into play. It is why Jeffrey Immelt, CEO of General Electric, sent the list of the 100 largest emerging-market companies to his underlings, ordering them to identify the companies GE could sell to and buy from as well as those it would have to compete with.

Japan's geographical location has given the country a front seat to the developments of the last decade. Traditionally, it looked down on the rest of Asia after it became the first Asian country to achieve Western levels of economic development. Recently, overshadowed by India and China, it has become more insecure. Today, Japanese bookstores are filled with titles such as *Extreme Indian Arithmetic Drills* and *The Unknown Secrets of the Indians*. Indian education is in fashion as Japanese parents in Tokyo rush to enrol their children in



English-language schools taught by Indians and other Asians. The thought of viewing another Asian country as a model in education would have been unheard of a few years ago. In contrast, riot police had to quell protests by Dutch school students in 2007, when the government decided to increase their annual classroom hours by 26.

Support for free trade is falling as people in the developed world feel more alarmed than charmed by globalization. In a 2007 Pew Global Attitudes poll,

the United States placed dead last out of 47 countries in the percentage of the population supporting free trade. These ambivalent feelings toward globalization are also seeping into popular Western culture. The 2008 French movie *Summer Hours*, directed by Olivier Assayas, is about a successful French couple working abroad. In an interview, the director was nostalgic but realistic when he observed: "It is not their own logic that takes them away from home, it is the logic of the world today. If you are young and successful, you look towards India or China.... The world is changing in Russia, China, India, the Middle East ... it's like an earthquake. They are absorbing all the energy. You don't feel that sense of change in Europe."

Surveys of developed countries in 2008 show historic lows with respect to outlook for future living standards. The 2008 financial crisis only reinforces the fact that that growth is in the East and debts are in the West. As a result, the fears expressed in the West for its economic future are diametrically opposite to the confidence and desire to succeed one observes in India.

The New York Times columnist Roger Cohen provocatively wrote: "It's the end of the era of the white man. By 2030, India will probably overtake Japan as the world's third-largest economy behind the United States and China. But in the end, transformation is not about numbers. It's about the mind. Come to Asia and fear drains away." ■

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