

# CREATING WORLD CLASS INDIAN MULTINATIONALS

ANAND G. MAHINDRA



**FORUM OF FREE ENTERPRISE**  
PIRAMAL MANSION, 235 DR. D. N. ROAD,  
MUMBAI 400 001.

"Free Enterprise was born with man and shall survive as long as man survives".

— **A. D. Shroff**  
1899-1965

Founder-President  
Forum of Free Enterprise

# CREATING WORLD CLASS INDIAN MULTINATIONALS

by

Anand G. Mahindra\*

There is clearly an air of pregnancy that pervades the world of Indian business today. Despite irritants such as the financial scam, the plague and other assorted political and natural disasters, there is a sense of Indian business inexorably emerging onto a larger global stage. Of a hibernating, chained giant unshackling itself and unleashing its true power. A Hollywood epic in the making. But despite the competence of the Indian film industry, the world is **not** a movie set, and the reality of the-task ahead is significantly more complex than it would be on celluloid.

In order to attempt a realistic look at the possibility of creating Indian multinationals it is necessary to first cut through an undergrowth of mythology. By mythology, I mean the accumulated folklore that seems to be the source of our current confidence in globalizing. There are certain new realities which tend to stand this mythology on its head. Suddenly, apparent strengths seem illusory. Are they in fact weaknesses? Of course, I will end on a note of optimism, and examine some tangible competitive advantages and opportunities that Indian companies can exploit in order to make a global impact.

---

\* The author is an eminent industrialist. The text is based on the speech delivered at the Annual General Meeting of Bombay Industries Association on 7th September 1996 in Mumbai.

MYTH NO. 1 - *We have a world scale home market.*

MYTH NO. 2 - *India has an abundant sources of industrial raw materials and enjoys the advantage of low cost manpower.*

MYTH NO. 3 - *India's exports are booming, and hence we will soon have global companies.*

MYTH NO. 4 - *Governments in Emerging Economies like India, will deploy Industrial Policies that create local champions, just like the Japanese and Korean Governments before them.*

We need to apply a reality-check on this laundry-list of myths that I've just enumerated.

REALITY NO. 1 - *Our world-scale markets are not ours alone anymore.*

The concept of a large home-market advantage has value only when that market has been conquered through strenuous competitive battles with local companies. Oligopolistic companies without much experience in local competition cannot count on the home market to remain in their pockets when battle hardened MNCs enter the arena; let alone rely on it as a platform to launch an overseas expedition.

REALITY NO. 2 - *Low, cost raw materials and labour are transient sources of competitive advantage.*

I'd like to simply quote from a recent report on India by Michael Porter: "Competing based on resource endowments is increasingly vulnerable to shifts in

exchange rates, competition from other low wage and resource nations, and technological progress that minimizes basic factor inputs. Competitiveness depends on the productivity with which a nation's resources are deployed, (which implies) Quality features as well as cost, total cost, not just labour cost."

### REALITY NO. 3 - *Exports do not a Multinational make!*

Exports alone cannot guarantee the end result. The accepted definition of an MNC is one that produces at least 25% of its total sales outside its home country and has brand ownership of most of its products.

Many Indian companies have begun to export a significant portion of their turnover as a result of Tax incentives and concessions as well as due to increasing export profitability. However, unless these companies have strategic plans and have the requisite resources, to gain incremental control of distribution channels and retail brand recognition in their target markets, they may find that they are simply international sweatshops which will be jettisoned during the next global downturn.

### REALITY NO. 4 - *Rightly or wrongly, the government has foregone the option of deploying a Japanese or Korean-style "industrial policy?"*

Let us recognize some ground realities:

o India today has suddenly shifted from a place where local companies were pampered and were rent-seekers, to one of the most open and investment-friendly developing economies. (Witness the freedom to invest in the auto industry, so jealously guarded elsewhere).

If the Government does deploy some bits and pieces of industrial policy, it will, only be a happy coincidence. On the one hand we're all clamouring for Government to marginalise itself so on the other we can't request any hand-holding.

- However, we should not fool ourselves that the Government will marginalise itself on the issue of labour reforms. We are very much a democratic state, and political suicide is not on the agenda of even our most stout-hearted politicians.

- Lastly, despite the recent progress in removing the barriers to investment overseas by Indian companies, we are far from receiving the kind of access to the resources required to make significant acquisitive plays on world markets.

What is my conclusion? Simply that Indian companies today share none of the contextual factors with their Japanese and Korean counterparts when the latter began their quest for multinational status. And the important thing is not to lament this fact, but to create strategies that adapt to this reality.

### **So much for the bad news!**

The task of creating an agenda remains. But instead of coming out with an elaborate theory on the architecture of a multinational, I'm going to follow the route I believe most businessmen do; and that is to take all the elements in the scenario that I've laid out until now, stir it together in a brew and see if I can find in it a logical checklist of actions, which if adopted, would provide a reasonable chance of attaining multinational status.

*(A) Use globalization to get the frog out of the well.*

This refers to a story told by a well-known management consultant. Very briefly, he referred to complacent, change-resistant Indian companies as frogs in a well that refused to jump out into the sunlight. The fastest way to get the frogs to react, he said, would be to throw a snake in the well. Clearly, the snake in this case is the threat of extinction that would be inevitable with the opening up of our economy to foreign competition, both internal and external.

CEOs in most developed countries are always searching for a transcending goal, something that would stretch the organization and create a shared aspiration. Yet here in India, we have such a goal readily at hand in the form of the challenge of not only survival, but taking on the world's best. Experience has shown that even the most battle-hardened, union leaders respond to such a call. A simple call to raise productivity, on the other hand, has no visceral appeal. A clarion call to change is therefore the first requirement.

*(B) Leaders need to focus their energies.*

There has been enough recognition, even in India, of the fact that focused companies usually achieve superior levels of performance. This has presented a traumatic problem for most local business houses that spent the last fifty years accumulating a portfolio of businesses whose very breadth and diversity gave their owners a sense of self. All of a sudden, they are being told to divest themselves of unrelated businesses and focus on a select few — a sort of Sophie's Choice if you will. The concept of focus need not mean divestment per se of certain businesses.

Owners, however, cannot aspire to remain managers of that entire array of businesses. It would behoove them to select a particular business which holds out the greatest promise for growth and success on a global basis and allocate their time and vision in that area.

(C) *Think globally for the acquisition of both technical and human resources.*

The acquisition of required competencies is not restricted to the collaborative route alone. Indian companies should seriously examine the potential to buy out, or in to, design and engineering boutiques that exist all over Europe and the U.S. in almost every industry. These small outfits, started usually by maverick engineers who don't want to work in large organizations, are always looking for capital partners who can also be customers for their output. Often, though not always, their knowhow is comparable to that found in the larger multinationals but comes with a much lower price tag!

One level down, Indian companies can afford to recruit foreign managers and technicians directly. There is, in fact, a large bank of recently retired, but talented and able technicians in most developed countries who would value the opportunity to continue working and earning with an option to see the Taj Mahal thrown in for free! I can't think of a better low-cost way to acquire expertise.

(D) *Leapfrog technologies for brand leadership.*

Apart from high-tech businesses, even for more mundane industries, we can take the lead only if we try to forecast what economists call 'discontinuities',



in work, at home, in lifestyles around the world. Such forecasting will throw up opportunities to create new products and services.

A long time ago, Amar Bose saw the need for more compact audio speaker systems in small apartments and minted money from his products. Bose happens to be of Indian origin. Unfortunately it was Massachusetts that sparked off his creative instincts. If we can simulate that creative environment here, we can be market innovators and leaders rather than followers. That is a destiny worth pursuing.

That reaches the bottom of my suggestion box. The hard part of course is to begin following one's own advice. But even as I remain optimistic about people doing the right things to become world-class, one giant paradox troubles my mind. We are a poverty-stricken nation, but are we **hungry** enough to want to win globally?

I remember a story told to me about the ethos of a giant Korean conglomerate, and the shared intent that binds them all together. Apparently, when visiting one of their facilities, a videotape on the company is first screened, and this tape contains significant footage on the history of South Korea, and about the atrocities committed on the Koreans by the Japanese during their colonial regime. It becomes clear pretty quickly that beating the Japanese in the war of business, is an overriding goal. A bit obsessive and excessive? Perhaps, but there is no denying that it is a transcending goal, to which all the company's employees, if not all of South Korea, passionately subscribe.

The deep-rooted desire to overtake Japan in a hurry seems to explain a lot of the global strategies being followed by Korean corporations, and recently, in India,

we're beginning to see some of their extra-normal determination on display.

## What of India ?

Oh but we are *nice* chaps! We're *so* nice that we didn't lose much time post independence in joining the Commonwealth, with not much protest from anywhere! Perhaps that's why England gave us independence relatively ungrudgingly — *they* knew we were mentally going to remain colonized for a long time to come! And this was in spite of the enemy being clearer in those days. But just as the end of the Cold War has turned back & white into gray for the Western world, so after independence have Indians gradually suffered a loss of identity. *What is India*, and *Who are Indians* are serious, and not just rhetorical questions.

The task of leadership, now that business is the **business of business**, is to provide answers to the question of identity. Transcending leadership should successfully provide a reasonable and widely acceptable definition of our common destiny. This common purpose need not necessarily be one of economic or social vendetta. Nor should it be something as prosaic as "let's all get rich." In fact it should preferably be a more constructive vision. But a vision it must be nonetheless and it must require us to settle for nothing less than the best in the world.

If any political leadership can do this, then, I would submit, that you can leave the rest to the business community. There will be enough energy in this country to produce as many Multinationals as you want!

*[The views expressed in this booklet are not necessarily those of the Forum of Free Enterprise.]*

“People must come to accept private enterprise not as a necessary evil, but as an affirmative good”.

— **Eugene Black**

## HAVE YOU JOINED THE FORUM?

The Forum of Free Enterprise is a non-political and non-partisan organisation, started in 1956, to educate public opinion in India on free enterprise and its close relationship with the democratic way of life. The Forum seeks to stimulate public thinking on vital economic problems of the day through booklets and leaflets, meetings, essay competitions, and other means as befit a democratic society.

Membership is open to all who agree with the Manifesto of the Forum. Annual membership fee is Rs. 50/- (entrance fee Rs. 50/-) and Associate Membership fee Rs. 20/- (entrance fee Rs. 10/-). Graduate course students can get our booklets by becoming Student Associates on payment of Rs. 10/- only (no entrance fee).

Write for further particulars to the Secretary, Forum of Free Enterprise, 235, Dr. Dadabhai Naoroji Road, Post Box No. 209, Mumbai 400 001.

---

Published by M. R. PAI for the Forum of Free Enterprise, 235, Dr. D. N. Road, Mumbai 400001, and Printed by S. V. Limaye at India Printing Works, 42, G. D. Ambekar Marg, India Printing House, Wadala, Mumbai 400031.