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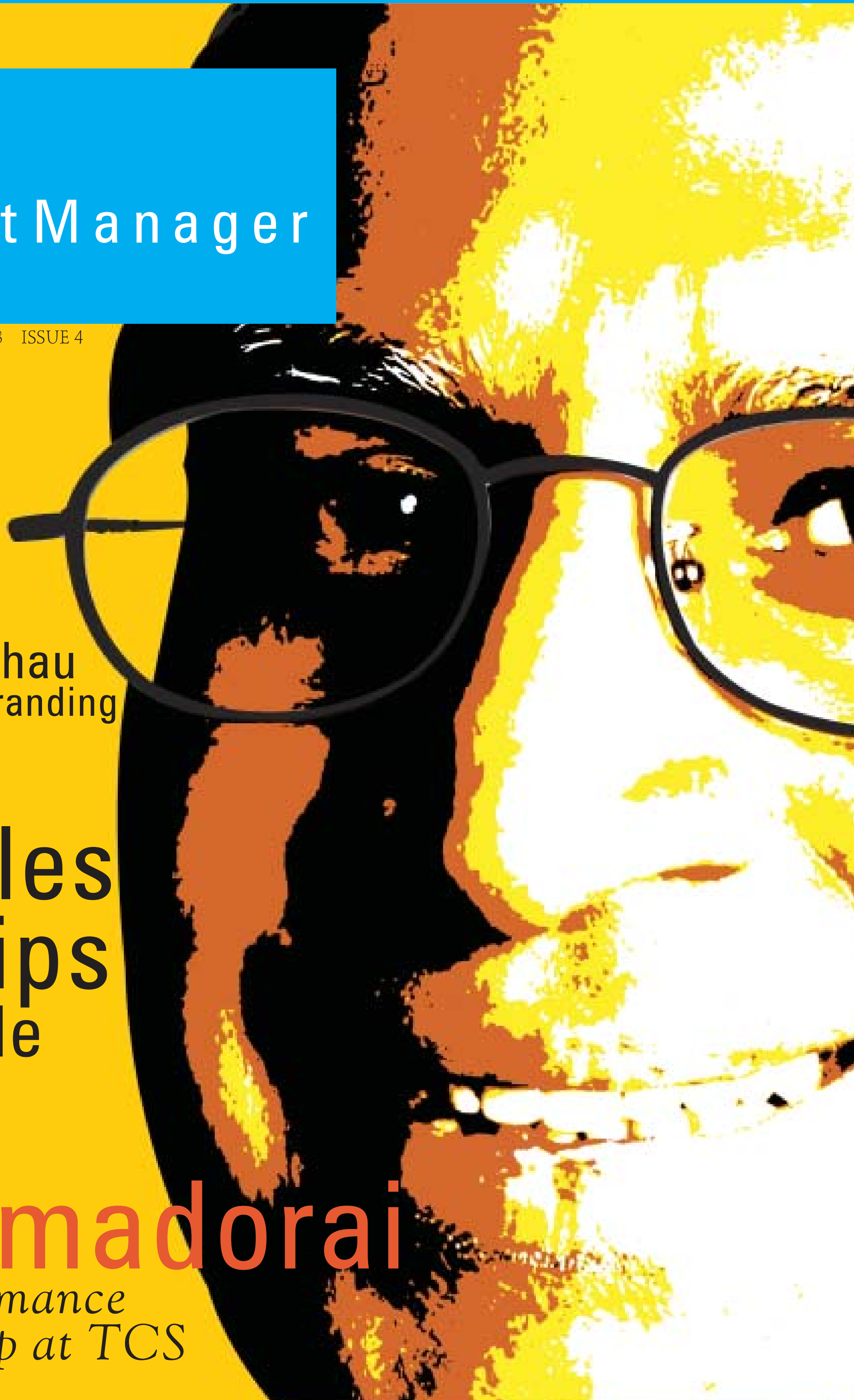

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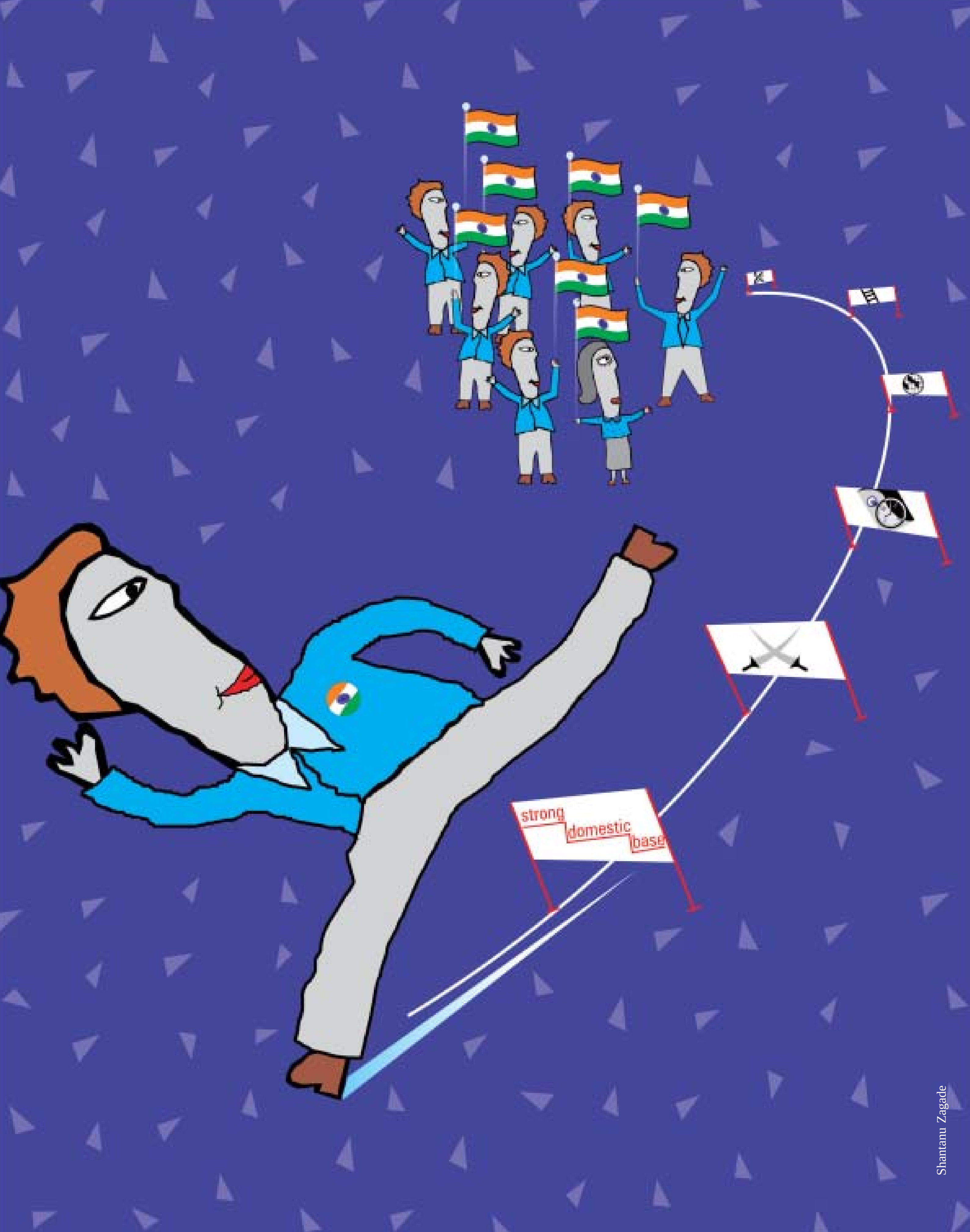
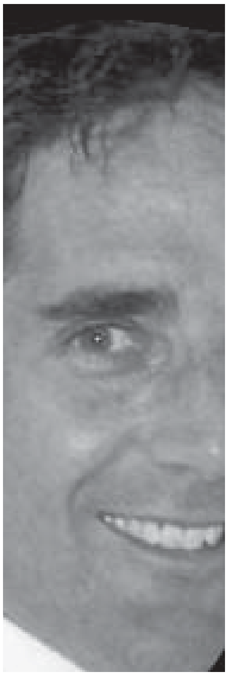


Shantanu Zagade

good to global

by Donald N Sull

Nursing a global ambition? Learn before you take the leap. Here is a three step action plan to go forward.



Associate Professor of Management Practice at the London Business School, Donald N Sull's *Revival of the Fittest* won the title 'Best Business Book 2003'. His forthcoming work with Yong Wang, *Made in China: What Western Managers Can Learn From Trail Blazing Chinese Entrepreneurs*, is due in 2005.

If you ask most business leaders in India to list their major concerns, going global appears near the top. For many reasons. Some globalize to manage the risk of doing business in their home country by balancing with businesses in other geographies. Others hope to reduce their cost of capital. Some companies turn their sights abroad as growth opportunities dry up in India and global expansion seems to be the only way to sustain aggressive growth targets. Finally, for some it is a matter of survival: their industries are consolidating into a handful of global competitors.

While there are many good reasons to go global, there is also a hard reality facing such companies: this is a risky strategy. Managers must master diverse markets, fight entrenched competitors, navigate unfamiliar regulatory terrain, and build complex organizational structures to manage across borders.

SEEING *your* COMPANY *from a* GLOBAL PERSPECTIVE *can be a* RUDE AWAKENING *to* LOCAL LEADERS

Going global is tough in any country, but internationalizing out of India is tougher still. Indian companies face a series of obstacles that make doing business that much harder. Many companies are burdened with a scarcity of capital, a domestic market with relatively low per-capita disposable income, a technological disadvantage relative to their international rivals, and corruption in the local market among other factors. As if this weren't enough, the domestic Indian market which represents the basis for expansion is one of the most turbulent regions in the world. On their home turf, Indian managers must worry about the potential for exchange rate change, the possibility of a hard landing of the quickly growing economy, shifting government policies, unpredictable rates of inflation and interest, and increasing foreign competition.

But India is not the only developing country to face these challenges. In earlier years, firms in South Korea, China and Latin America have faced similar burdens and succeeded in going global. South Korea's Samsung, China's Lenovo and Haier, Mexico's Cemex and Brazil's AmBev have managed to become global leaders in their respective industries despite similar obstacles.

Over the past few years, I have studied how emerging market firms achieved international success and found some surprising conclusions. First, I observed striking similarities in the steps they followed to achieve their exalted position. All the companies I studied took three critical steps: they committed to a global mindset; managers took bold actions to give their commitment teeth; and they re-aligned their entire organizations to compete globally.

step 01: commit to a global mindset

The first step in going from good to global is committing to a global mindset. For example, many Chinese managers still view the world from a parochial perspective. This mindset is captured beautifully by the route maps found in the in-flight magazine of Chinese airlines, that show the Beijing or Shanghai as the center of the globe (and the center of the page), with routes extending outward in all directions. The problem, of course, is that only a small fraction of the planet's population sees the world this way. While your company may be doing very well against local rivals, the performance gap against global leaders may be enormous.

Over in Korea a decade ago, Lee Kun Hee, Samsung's chairman fought against a similar attitude. To remedy this situation, Lee convened a meeting of 23 senior managers of Samsung Electronics in Los Angeles in February 1993. Before the meeting began, Lee took them to visit local electronics retailers. The managers were dismayed to find their products often stacked in corners gathering dust, while market leaders like Sony enjoyed a prominent position and commanded a price premium. Distressed by the gap between their self-image and how American consumers perceived their products, Samsung managers quickly concluded that the only way to global leadership was to improve product technology and brand to the standards set by Sony.

Seeing your company from a global perspective can be a rude awakening to local leaders. Managers require the intellectual honesty to stare the facts in the face and humility to accept the reality that they may indeed have a very long way to go before they close the gap with the best in the world. If your company is still too small to worry global leaders, it may be possible to visit them and benchmark their operations.

Committing to a global mindset requires a broad view of what it takes to be global. Truly global firms excel not only in their product and service markets, but across multiple markets including those for assets, talent, capital, technology, raw materials, market for corporate control (M&A). They also know, and approach the global best practices in key processes including operations, governance, post merger integration, information technology, etc. A useful exercise in broadening your global mindset is identifying the best company in the world across each of these categories, understanding their practices, and evaluating the gap with your company. You can quickly assess the level of global mindset of your company in the exhibit entitled "mind the gap."

step 02: take bold actions to give your commitment teeth

Just because the CEO or a few are committed to going global, there is no guarantee that the rest of the organization will follow along. Decisive actions to give the global mindset teeth serve several purposes: they convince employees and external stakeholders that top managers mean business, and that globalization is not simply the management fad of the month that will come and go like so many buzzwords before. They serve as a wake up call that signals not only the company is in a crisis, but also that management has a way forward. Finally, these actions can help the company make a clean break with the past, and prevent the company from relapsing into the status quo. Like the general who burned the bridges behind his advancing army, retreating from the battle was no longer an option. Below are a list of examples, not a to do list. The appropriate commitments will vary by company.

bet big on focus: commitments to focus are common. Consider Cemex. Twenty years ago the company was a small family run company in Mexico with businesses in mining, tourism, petrochemicals and cement. Today it is the third largest cement company in the world, selling to customers in more than sixty countries with 2003 revenues exceeding $7bn. Cemex CEO, like Samsung's Lee, realized his best chance in going global lies in focusing on a single business. It is hard enough to go global in a single industry, but spreading management attention and scarce resources across multiple sectors is reckless. To achieve global competitiveness in one business, Indian executives will need the courage to exit most others.

bet big on acquisition: focus was not the only big bet Cemex made. In 1992, Cemex, spent about $1.8bn to acquire two

mind the gap

This chart provides an opportunity to assess your company against global best practices along multiple dimensions. It can be useful in broadening the scope of your global mindset, as well as deepening your understanding of best practices and the gap you need to fill.

dimension of competition	which competitor is best in world	what are their key best practices	what are your practices	what are the key gaps
best practices in critical processes example, ▪ operations ▪ post merger integration ▪ governance				
best competitor in product/ service markets				
best competitor in hiring world class talent				
best competitor in raising capital globally				
best competitor in global M&A activity				
best competitor in using information technology				
best competitor in working with partners				
other key dimensions				

ALIGNING *the rest of the* ORGANIZATION *to deliver on the* COMMITMENT *to* GLOBAL COMPETITION *is the* FINAL STEP *that takes most of a* DECADE

large Spanish cement companies almost equal in size to Cemex Mexican operations. These acquisitions allowed Cemex to raise funds in Mexico, retaliate against European players in their home market, and learn more about global expansion. Similarly, Lakshmi Mittal built the LNM Group and its publicly traded subsidiary Ispat International to the second largest steel company in the world through a series of bold acquisitions.

bet big on partnership: sometimes the commitment goes the other way and consists in selling a portion of your company to a multinational. Consider the Modelo Group which grew from a small brewer in Mexico to one of the top five beer makers in the world with revenues of over $4bn. Modelo sold a large stake to Anheuser-Bush, which allowed it to protect its Mexican market from Budweiser itself and gain access to a great distribution partner in the USA for its beer.

bet big on brand: when Modelo decided to enter the US market, many doubted its ability to compete in the most competitive beer market in the world. From 1990 to 1996, however, Modelo increased its marketing budget to launch the Corona brand in the US by 780%, eventually making Corona the most popular imported beer in the US. Samsung made a similar bet to build its brand.

change headquarters and official language: today Bunge is the largest soya bean producer in the world, and one of the largest food companies. To signal their commitment to globalization, the top managers relocated its headquarters from Brazil to White Plains, New York in 1999 and made English its official language.

bet big on a customer: when Brazil ended trade protection in the auto industry, nineteen of the top twenty automotive parts suppliers went out of business or were acquired by multinationals. The only survivor was Sabo which succeeded in globalizing its operations by committing to serve General Motors. While its competitors chose to serve less demanding local customers, Sabo committed to supplying to the most demanding customers in the world, which forced the company to achieve world class standards quickly. When protection ended, Sabo was prepared, while its competitors were not.

bet big on technology: Samsung is not the only company which bet heavily on technology to win in global markets. Consider Brazil's Embraer, which is today the fourth largest airplane maker in the world. After its partial privatization in 1994 Embraer decided to bet the company on the launch of the ERJ 145, a regional jet. This project involved investments of over $800mn, and allowed Embraer to win 40% of the global market for regional jets.

step 03: align the organization to compete globally

The final step is to align the rest of the organization to deliver on the commitment to global competition. This is the final step, but one that takes most of a decade and companies face a common set of challenges. Cemex provides an excellent example of aligning the organization to compete globally.

strategic frames: Cemex managers had to focus on global cement players (Lafarge and Holderbank)–rather than Mexican rivals–as it defined the markets in which it would compete. Cemex managers characterize their international operations as a "ring of gray gold" comprising commitments to high growth markets (mostly in developing countries in a band north of the Equator). Cemex engaged in a global chess game where attacks in one market often led to retaliation in another market. Moreover, Cemex began to measure success in terms of economic value added and how quickly

are you ready to go global?

questions to ask yourself before you take the leap

01 do you have a domestic base? Going global is expensive. And it gets worse before getting better. Companies entering new markets must battle rivals who can access capital more cheaply. Competing with companies based in the US, Japan or Europe is like fighting a battle against an enemy who pays less for its ammunition. To fund this expansion, a strong domestic base with ample funding is helpful. This is how most leading multinationals compete today. Today, the average Japanese, US or European multinational produces more than two-thirds of its output and locates two-thirds of its employees in its home country. This base provides the profits used to fuel expansion abroad. In recognition of this reality, most governments help their domestic leaders protect their home market. The Korean government, for example, provided low cost funds and allowed domestic concentration among leading firms like Samsung. When the Brazilian government permitted the merger of the number one and two brewers, it enabled the creation of a company that could hold its own against global leaders such as Anheuser-Busch.

02 are you under attack? Fighting wars on two fronts simultaneously can drain financial and human resources. China's Wahaha spent much of the 1990s solidifying its position by building its domestic brand and nationwide distribution network. The aggressive defense of its home market allowed Wahaha to survive the onslaught of global entrants. When under attack from multinationals, however, it put the globalization plans on the shelf. Only now is Wahaha's Chairman Zong considering export and global expansion. When possible, its best to pre-empt an attack by launching international excursion on your competitors home turf before they can attack yours. Cemex did precisely this when it acquired two Spanish operations in 1992. The company's presence in Europe allows them to retaliate against European firms if they enter Mexico. Because it stayed in Brazil Cimentos Votorantim, in contrast, cannot retaliate against foreign rivals in their home markets.

03 is it too late? In some industries, the game is already over. Certain established industries such as automotives, aerospace, tires and branded consumer goods have already consolidated to a handful of global players. These established players can amortize their investments in brand, research and development, production and distribution over global markets, and their economies of scale create a nearly insurmountable obstacle to new entrants. Even Samsung, for example, was forced to retreat from its foray into the auto industry when Lee discovered the game there was already over. Competition in some technology intensive industries like pharmaceuticals and medical devices require massive investment and also have such steep learning curves that late entry may be prohibitively expensive.

04 is your business inherently local? Some industries ought not to go global in the traditional sense of having operations overseas. Non-traded services such as hairdresser and gardening are hard to export and are protected from international competition. Local regulations or preferences sometimes create barriers to internationalization. Yet we have a warning. If you think this applies to your industry – be careful. Technological innovation is transforming what were previously seen as inherently local industries, like call centers, payroll and accounting services, distribution of prescription drugs into global operations. When globalization is considered more broadly, however, all but a few mom and pop organizations are candidates to become globally competitive. Even companies which stick within their borders and face limited competition from multinationals can still be global in the sense that they access capital markets beyond their home country, broaden their pool of candidates to tap global labor markets and study global best practices to ensure they understand (and hopefully adopt) the best approaches in the world for what they do locally.

05 would you rather be rich or king? Many Chinese companies are owned by the government or the founders, and the owners' preferences are a crucial consideration when deciding whether to go global or not. Raising the funds to go global generally requires accessing international capital markets, by issuing equity, borrowing or securing funds from a strategic partner. All will require some control over decision making in exchange for the funding they provide. Going global also requires increased transparency and improved governance to reassure global investors, customers, partners and employees that they can trust working with your company. The Brazilian auto-parts maker Sabo, for instance, is a global leader in crash pads. In order to supply to the likes of General Motors, however, the company had to open its books, just as Banco Itau needed to increase transparency to attract international investors. The bottom line is simple, securing the resources to go global requires giving up control (being king) to reap the rewards of international expansion (being rich). If you choose being king, however, be sure that the choice is really yours to make. If the rest of your industry is globalizing, it might not be your choice to make. In some industries, multinationals may enter your home market and force your hand. You may have a choice now, but not for long.

06 do you have the stomach for it? Though the financial payoff of successful internationalization can be sizeable so are the risks and costs, and the top management may simply prefer to forego the upside to avoid the downside. Internationalization can be a humbling experience to shareholders and managers alike, as companies face the best competitors in the world. Having been accustomed to being the biggest fish in a small pond, many managers have a hard time adjusting to the big leagues. A combination of humility and assertiveness is required. But again, you must ask whether you can avoid globalization for long.

07 are you in it for the long haul? There are no shortcuts in the road to globalization. Most of the examples we studied take a decade or more. In a world where shareholders demand quarterly results and economic/political conditions change in a moments notice, it is hard to stay the course in such a long haul. Committing to globalization requires a governance structure that allows for such long term action. It also demands an executive team committed to stay the course, with sufficient time left in their tenure to make good on their commitments.

making the LEAP *from* GOOD *to* GLOBAL *is* NOT EASY, *but neither is it* IMPOSSIBLE *for* INDIAN FIRMS

it could bring acquired operations to Cemex operational levels.

resources: cemex's internationalization accelerated with the bold acquisition of two large Spanish cement companies, which yielded a market leading of 28% share in one of Europe's largest cement markets. Though shareholders initially took a dim view of the acquisitions, the boldness of the investment created the needed urgency to turnaround the two Spanish companies. Moreover, the Spanish acquisition was followed by transactions in Venezuela, Colombia, and Chile. Cemex also made strong commitment to having a superior IT platform to connect its plants. By 2000, Cemex was investing 1% of revenues in IT, well ahead of its rivals.

processes: with its new internationalization strategy, Cemex invested in two critical processes: opportunity identification and post merger integration (PMI). To identify new acquisitions, managers scanned the world and developed strict rationale to enter a new market which included consumption potential, competitive dynamics, and how the acquisition would help the company manage salient risks (for example, exchange rate, political risk, demand volatility) through diversification. Once the decision to proceed with an acquisition was made, Cemex formed a multi disciplinary PMI team which would spend six months to a year on each company. This team would be in charge of improving the situation of the plant, replicating basic management processes and harmonizing cultural beliefs. Cemex became so good at the PMI process, that it started setting up PMI teams to "reacquire" existing operations in periodic intervals.

relationships: to fund its international expansion, Cemex developed relationships with global bond and equity markets. In 1990 it was the first Latin American company to list American Depository Receipts in the NYSE. In 1999 it also partnered with AIG, the insurance company, and the private equity arm of the Government of Singapore to fund up to $1.2bn in acquiring cement assets in Asia.

values: Cemex developed global values to hire top graduates from local schools in each country and invest heavily in training and development. Cemex acquired a private satellite TV network for training and is increasingly using the internet for training and development. More importantly, Cemex wanted to preserve the basic elements of its strong culture, while adapting it to cut across multiple languages, cultures and religions - such as incorporating religious breaks in daily operations of its Indonesian plants.

the three Cs of transformational commitments

credible
- have you made hard-to-reverse investments?
- have you burned your bridges behind you?
- have you staked your personal reputation?
- have you staked your company's reputation?
- have you put your money where your mouth is?
- have you put your best people on the job?

clear
- is your commitment simple?
- is your commitment concrete?
- can you measure progress?
- can you quantify the measure?
- have you repeated your commitment often enough?
- could employees pass a pop quiz?

courageous
- are you breaking from the pack?
- are you ignoring the "experts"?
- is this a quantum leap or an incremental change?
- are you hedging your bets or covering your backside?
- are you undoing your predecessor's actions?
- could you do it faster or sooner?

the way forward

Making the leap from good to global is not easy, but neither is it impossible for Indian firms. Companies from other emerging economies have made the leap in the past. Learning lessons from their success can help you emulate them. ■

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