



Mumbai, India  
9 January 2004  
Page 3

Anil K Gupta

**D**URING the past few months, on an almost weekly basis, the American press has reported the decision of yet another major company to shift at least a few hundred white-collar jobs to India. It is clear that India enjoys a huge comparative advantage in many knowledge-intensive services that can be delivered remotely. This is obviously good for the Indian economy and for helping build a more upscale brand image for India.

However, does the ongoing shift of jobs from the US to India imply that Indian companies are poised to emerge as global leaders in their respective industries? Not necessarily. Just like the case of the discarded old proverb about 'What's good for General Motors is good for the US', gone are the days when what's good for Indian companies will also be automatically good for India.

Companies thrive when they are able to create sustainable competitive advantage against other players who are out to steal their breakfast, lunch, and possibly also their dinner. In a global economy, countries such as India are opening their borders to trade and investment by MNCs from almost any part of the world. In such a welcoming environment, the comparative advantage of India as a location is available as much to an IBM or a Merck as it is to an Infosys or a Ranbaxy.

As a recent *BusinessWeek* cover story on 'The Rise of India' noted, the number of employees at GE India is approaching 20,000, at IBM India 10,000, and at Oracle India 6,000. There is no reason why smart young Indians should prefer to work for a domestic Indian company rather than the India-based operations of a multinational. If India has high-calibre talent available in large numbers and at a reasonable cost, this asset can be capitalised on just as well by foreign multinationals as by Indian ones. In an open economy, global competitive advantage depends far more on how the company is organised and managed than it does on whether it happens to be Indian, American, Japanese or Chinese.

For any multinational firm, there are three primary sources of global competitive advantage, which are discussed below. A major weakness in any one of

# India's Global Wars

them can sink the company.

## OPTIMALITY OF VALUE CHAIN ARCHITECTURE

The operations of every company can be disaggregated into a number of value chain activities such as basic research, product development, component manufacturing, final assembly, sales and service. For each activity, value chain architecture refers to the number of locations globally where the activity is performed, the identity of these locations, and the strategic mission assigned to each location.

There is no universally optimal global architecture (such as concentration in one location or dispersion to many locations). What is globally optimal varies across companies, as well as across value chain activities within the same company; fur-



Anil Gupta

ther, what is optimal tomorrow may differ from what is optimal today. For a company such as Caterpillar, the optimal architecture for R&D is concentration in a very small number of locations; in contrast, the optimal architecture for sales

and service is decentralisation to almost every country where Caterpillar does business.

Microsoft's decision to set up a corporate research lab in Beijing, China and assign to it worldwide responsibility for research on speech recognition, is an example of an architectural decision. So is the decision by Infosys to locate the headquarters of its worldwide marketing function in California rather than in Bangalore. So also is the decision by GE to shift a substantial chunk of its core R&D activities from the US and other locations to the John F. Welch Technology Center in India.

## guruspeak

Architectural decisions are important because they fundamentally affect the cost, quality and speed with which the company can accomplish a particular task. It is impossible to imagine how Nike or Reebok could survive for even one year if they were to be manufacturing shoes in the US or Europe rather than in Asia — or, in the early



What's good for India may not always be good for Indian companies. In an open economy, global competitive advantage depends on how a company is managed — and not on whether it's Indian, American or Chinese

minities, they had not shifted the production base from an increasingly expensive South Korea to cheaper locations in China and Vietnam.

## COMPETENCE BASE AND SCALE OF OPERATIONS AT EACH LOCATION

Picking the right locations is crucial. However, the effectiveness of the company's operations at each location is often even more crucial. Effectiveness at the location depends on the competence base embedded in the people and the organisation, as well as on the scale of operations. South African Breweries (SAB) provides a good example of how the competence base of different companies can vary widely, even within the same industry and country.

SAB is one of the few multinationals from outside China to

have succeeded with domestic operations within China. Before entering China, SAB had considerably greater experience at managing operations in developing economies than its competitors from Europe or the US. As a consequence, in China, SAB proved to be much more skilful at acquiring and restructuring a number of formerly state-owned breweries, thereby creating a huge early mover advantage for itself.

## COORDINATION ACROSS THE GLOBAL NETWORK

The third driver of global competitive advantage is the effectiveness and speed with which the multinational firm is able to coordinate its activities at various locations. The payoff from effective coordination is generally multi-pronged. If your sup-

ply chain is globally dispersed, the salience of effective global coordination is obvious.

This is a lesson that Nokia learned after a crisis in the mid-1990s. Nokia managers believe that they have at most a few weeks' technology advantage over competitors. In order to capitalise on this advantage, it is crucial that Nokia's global supply chain coordination be absolutely first-rate. There is little to be gained from a few weeks' advantage in the corporate labs if all of this advantage gets dissipated by the time products get distributed in the market.

The benefits from effective global coordination go beyond supply chain management. Consider the benefits from sharing of know-how across the global network. As Unilever has

discovered, lessons regarding successful rural marketing can be profitably transferred from India to Brazil. Similarly, Avon discovered that sending some of its key managers from Brazil to Russia during the 1998 financial crisis was one of the smartest things it did during that period. The Brazilian managers knew, deep in their bones, how to manage in a hyperinflationary environment, and could start implementing these lessons right away in Russia.

Yet another benefit from effective global coordination manifests itself in the form of smarter competitive strategies against other global players. Take Coca-Cola and Pepsi, which compete in virtually every country on earth. This global war is analogous to a game of chess where it's not your pawn against the opponent's pawn; rather, it's your entire portfolio against the opponent's entire portfolio. So there's an advantage in looking at strategies across countries in a coordinated rather than disjointed fashion.

In another decade, major competitors in most industries in most countries will all be multinational players. Some of these might be headquartered in the US, others in Europe, yet others in Japan, China and India. At that point, as is already true in the case of General Motors vs Toyota, it would be pointless to focus on which company has greater global presence than its competitors. The important question would be which company is smarter at converting global presence into global competitive advantage.

General Motors is bigger than Toyota and has been present in more markets for longer periods than Toyota. Yet Toyota's current market capitalisation exceeds that of GM, Ford, and Daimler-Chrysler combined. Moreover, looking at current trends, Toyota appears highly likely to take over the number one global marketshare position from GM and Ford.

The race is won not by those who are merely bigger but by those who are smarter.

The author is Ralph J. Tyler Professor of Strategy and Organization at the Smith Business School, University of Maryland. Email: agupta@rhsmith.umd.edu