

An aerial photograph showing a vast flock of birds, likely terns, flying in a loose formation over a lush green field. The birds are seen from above, appearing as small white and grey shapes against the vibrant green grass. The overall scene conveys a sense of movement and natural order.

Multi-Polar World 2:

The Rise of the Emerging-Market Multinational

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Foreword



Mark Foster
Group Chief Executive
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Globalization, the formative idea of our age, continues to affect our economic geography in ways that we are only beginning to understand. The rise of the multi-polar world is constantly reshaping our perspective. No one can boast a fixed vantage point on change. It is all around us and arrives daily from unexpected points of the compass.

This Accenture study, based on extensive original analysis, draws on our continuing research into High Performance Business and our unique experience in driving high performance in businesses and governments around the world. It examines a striking phenomenon of this new world order, one which offers powerful insights into the shape of things to come: the arrival of multinational companies from emerging economies.

In many respects, multinationals are a defining invention of Western economies. But like much else in the multi-polar world, they are no longer the preserve of the West. The rapidly growing emerging economies are producing business giants of their own at a staggering rate. Some

of these companies are already household names: Samsung of South Korea, China Mobile and India's Reliance Industries Limited, for example; many others are about to become so. While these businesses share the scale and ambition of their developed-world counterparts, their processes and patterns of growth are often dissimilar to those of their competitors in the developed world. They are success stories that are changing the narrative rules as they go along.

No business leader or policymaker can afford to ignore the implications of these stories, some of which could hardly be more dramatic. When the Chinese oil company PetroChina floated on the Shanghai stock market in November 2007, it became the world's largest public company, with a stock market capitalization of almost US\$1 trillion—double that of its nearest Western counterpart. Such events signal an enormous challenge to received wisdom as well as a seismic shift in the economic landscape. They are like nothing we have seen before.

To understand how these movements might look through the eyes of those effecting such change, Accenture has carried out extensive research and conducted in-depth interviews with more than 40 leaders of key emerging-market multinationals and international experts. The insights into the genesis and rise of these companies provide a revealing snapshot of the globalizing economy at perhaps its most critical juncture.

These emerging-market businesses are agreed on only one thing: there is no set blueprint for their future. The questions they are asking themselves show they are establishing models of best practice and growth as the market imperatives change before them. Should they follow the same trajectories as Western multinationals or should they continue to pursue their own distinctive paths? Which geographic markets are they investing in and why? How should they compete for resources and new consumers?

How do they source, manage and retain talent in increasingly globalized labor markets? How are they innovating? What is the optimum pace of growth?

In many instances, the conditions that have precipitated their dramatic arrival—factors such as super-local knowledge, an instinctive feel for other emerging markets, an ability to reach base-of-the-pyramid consumers and a familiarity with risk and uncertainty—will not necessarily sustain their continued growth. How they might adapt to the new realities of their scale is a key part of this analysis.

Nor are the implications of their growth strategies confined to these companies. Their leading-edge experience also must shape the ways in which developed-market companies look at the world. The arrival of these powerful new competitors should not be seen simply as a challenge to the competitive position of developed-market companies but also as a significant opportunity—a rich source of new ideas, capital and business practices—as they pursue high performance. For these reasons, we have identified business implications for both emerging- and developed-market multinationals.

This report does not suggest there is a silver bullet for how these challenges should be faced. Their complexity means there is no single answer. Rather, this report analyzes the growth strategies of emerging-market multinationals and identifies the challenges they will face on their journey to achieve high performance.

A stylized handwritten signature in black ink, consisting of a large 'M' followed by a series of loops and a final flourish.

Mark Foster
Group Chief Executive
Management Consulting
& Integrated Markets
Accenture

Executive Summary

Emerging-market multinationals (EMMs)—companies based in emerging markets with operations in more than one country—are expanding at a speed and scale to make even the largest Western multinationals take notice. Emerging economies now boast 70 companies in the *Fortune* Global 500 list of the world's biggest companies, up from just 20 a decade ago. Within the last year alone, the number of emerging-market companies in the *Fortune* Global 500 grew by nine.¹ They have been expanding and acquiring new businesses at a frenetic pace, conducting more than 1,100 mergers and acquisitions, altogether worth US\$128 billion in 2006.²

Expansion is being driven by a search for new markets, efficiencies, innovation and sources of inputs and, in some cases, by less tangible elements of national prestige and government policy. Timing also has proved important. The rapid emergence of EMMs has coincided

with a period of plentiful supply of cheap capital, domestic policies intended to liberalize investment and advances in information technology. This dramatic expansion has occurred alongside the increasing economic power of emerging markets, a phenomenon explored in detail in Accenture's 2007 study, *The Rise of the Multi-Polar World*.³

Five key dimensions of the multi-polar world

The multi-polar world is characterized by increased economic interdependence across five key dimensions:

- Capital—the rapid growth of emerging economies as sources of outward foreign direct investment and destinations for portfolio investment.
- Talent—favorable demographics spurring rapid growth of emerging-market workforces.

- Resources—increasingly intense competition for energy, commodities and raw materials.
- New consumers—rapid income growth creating up to a billion new consumers in emerging markets.
- Innovation—the emergence of new clusters of innovation and specialization in emerging economies.

The rise of the multi-polar world means that it is no longer sufficient to view globalization solely or mainly through a Western-centric prism. By contrast, this study inverts the lens to understand what the multi-polar world looks like from the standpoint of EMMs. It is the product of in-depth interviews with more than 40 emerging-market business executives and experts from around the world, extensive secondary research and our experience of working with companies across the world.

Three extraordinary capabilities

EMMs are succeeding across all five dimensions of the multi-polar world and often have significant advantages over developed-market multinationals. They have the potential to change the basis of competition in both Western and emerging markets. This is because they are:

Managing a broad range of risks comfortably

While EMMs are often cast as inexperienced newcomers to global competition, a more accurate description would be that many are street-wise business operators. They are politically savvy in a way that belies their relative youth and smaller degree of exposure to international markets. They have significant experience in building demand in often difficult conditions in their home markets. Their ownership structures often mean they can take a bolder, longer-term view of expansion. All these factors make them extremely well suited to navigate the hazards of investment in other emerging markets. Such investment not only gives them a foothold in the consumer markets of tomorrow, but also provides an important stepping stone to broader expansion, allowing them to build capabilities in markets with which they are familiar by dint of cultural or geographic proximity.

Mastering the art of improvisation

Whether overcoming talent shortages through innovative educational and training programs, incubating consumer demand through base-of-the-pyramid⁴ business models and infrastructure investment, or adapting products and technologies to local market conditions, EMMs are adept at turning apparently unpromising situations to their advantage.

Keeping in tune with the importance of culture and localization

As more recent globalizers who have retained deep roots in their home economies, EMMs have a keen sense of local culture that permeates everything they do. This

is true whether they are sourcing skills from diaspora populations (those dispersed from their original homeland), cultivating local talent or customizing products and services to local variations in consumer habits.

A particular strength is their ability to maintain the look and feel of a small organization even when quite large—a feat that can be attributed to limited bureaucracy, an emphasis on local management and generally flexible business models and processes.

Five models of international expansion

Although there is no set blueprint governing the ways in which EMMs expand their business internationally, our research and experience has identified at least five different models.

Full-fledged globalizers: they tend to be older, more established EMMs that have attained a scale and geographic span on a par with the biggest Western multinationals.

Regional players: they aim to break out of their domestic markets in search of greater scale but, for reasons of cultural affinity and geographic proximity, they fix their sights—initially at least—on neighboring regional markets.

Global sourcers: they are interested principally in selling to their domestic market but, because of resource constraints at home, they source internationally.

Global sellers: they are the mirror image of global sourcers; they primarily manufacture or source at home but seek new consumer markets abroad for sales.

Multi-regional niche players: they tend to be smaller companies operating across multiple regions in niche sectors, usually on the basis of innovative technology or processes.

On the path to high performance

Many EMMs are well placed to achieve high performance—and offer

significant lessons and business implications for their developed-market counterparts. They exhibit a number of capabilities that fall within the scope of the three critical areas that Accenture has identified as the building blocks of high performance. These building blocks are part of Accenture's research into High Performance Business, which is based on an extensive analysis of 6,000 companies around the world.

Market focus and position—business strategy decisions regarding where and when to compete

EMMs are particularly attuned to complex variations in consumer habits brought about by differences in culture and geography. As a result, they adapt easily to local market variations and the attendant need to change products and branding to penetrate these markets successfully.

Along their journey, EMMs grow their way into other emerging markets. They often use local markets and diaspora populations as a springboard toward global expansion. Huawei, a Chinese manufacturer of networking equipment, has set a growth strategy focusing on developing countries first and developed countries after.

As EMMs move out of their domestic markets, they also move up the value chain into higher-value-added activities. Companies such as LG of South Korea and Acer of Taiwan have moved from producing components to selling branded goods in their own right.

Distinctive capabilities—hard-to-replicate capabilities that define how businesses compete

EMMs are generally adept at incubating and tapping into new sources of demand, often through indirect means. CEMEX set up a lottery scheme in Mexico where local families pay into a pool that then pays out cement and building materials to the winning family.

EMMs improvise, filling capability gaps quickly and innovatively, whether for workforce training or for supply-chain development.

"In a world with just one time zone—'now'—business must source materials, innovation, talent, logistics, infrastructure and production wherever they are best available."

Yang Yuanqing, Lenovo

Reliance Industries Limited of India set up its own educational initiatives and informal learning processes to counter gaps in the skills base.

Finally, EMMs perceive and manage risk differently from developed-market multinationals. They tend to be more comfortable with a higher level of risk, often because of the frequently challenging environments in which they have developed.

Performance anatomy—common mindsets relating to culture, leadership and the workforce

EMMs learn by seeing. Rapid assimilation of their environment and short learning loops are instrumental to their organizational agility.

EMMs also multiply scarce talent. Many use innovative practices at all stages of their talent management systems, from discovering new sources of talent within diaspora populations to developing human capital by setting up customized training courses and providing healthcare services. They also deploy talent across a broad range of activities with opportunities for swift advancement.

Finally, EMMs take to heart the maxim, "think globally, act locally." The international exposure of EMMs' key leaders—many of whom have been educated abroad or cut their teeth in international business—has contributed to an almost palpable global mindset among many of these companies. This global perspective is reinforced by the opening of EMMs' home markets and the sheer necessity to compete internationally if they are to survive. The major accomplishment of many EMMs has been to do this while retaining a keen sense of what works locally.

Growing pains

However, according to our research, EMMs face six significant challenges in maintaining their extraordinary growth.

Gaining access to talent, capital and resources

Growth can be sustained only if EMMs can ensure continued access

to inputs such as talent, energy, raw materials and capital—a difficult task in the face of increasing competition.

Competing with fellow EMMs

EMMs face competition not only from developed-market multinationals but from each other. The propensity of EMMs to expand initially into adjacent markets means that much of the competition they face comes from other EMMs.

Managing regulatory and geopolitical risks

As EMMs grow, they will operate across a complex tapestry of regulatory regimes. While trade liberalization has opened global markets, EMMs will nevertheless need to be sensitive to the potential for protectionist backlash.

Staying local

Adapting to the needs and tastes of local consumers has been a key strength of EMM development. As EMMs grow and serve increasingly diverse consumer markets, they will need to maintain this local knowledge on an international scale.

Filling innovation gaps

EMMs show themselves to be consummate improvisers when it comes to innovation. In the future, however, many will need to undertake innovation activities in a more replicable fashion and diversify from a focus on product development to include more invention and concept generation.

Combining global scope with local focus

The key challenge facing all aspirational EMMs is how to achieve growth on a global scale while maintaining the local practices and mindsets that made them so successful in the first place. Evolving business models that combine the best of both worlds will be essential if they are to prevent their growing pains from becoming a constraint on their expansion—and if they are to achieve and sustain high performance.



1. Coming of age

China Mobile, Embraer, Mahindra & Mahindra, Reliance Industries Limited, Tata Group—perhaps unfamiliar to many people a decade ago, today such companies are the trailblazers for a new breed of multinational companies arising from emerging markets. They are internationalizing fast and leaving an indelible imprint on global markets, business models and competition.

With some notable exceptions, emerging-market multinationals (EMMs) might be relative newcomers to globalization, but they are quickly making up for lost time. According to the United Nations Conference on Trade and Development, the top 100 companies from emerging markets in 2005 increased their foreign sales by 48 percent and foreign employment by 73 percent—compared with about 10 percent growth in overseas sales and employment recorded by their counterparts in developed markets.⁵

In many cases these new players are reaching a scale that makes even the largest Western multinationals take notice. When Chinese oil company PetroChina floated on the Shanghai stock market in November 2007, it became the world's largest public company, with a stock market capitalization of almost US\$1 trillion—twice the size of its nearest Western counterpart.⁶ Brazil's Embraer has become one of the world's largest aircraft manufacturers and the leader in

mid-size passenger jets.⁷ Bharat Forge of India is the world's second-largest forging company.⁸

In fact, the *Fortune* Global 500 list of the world's largest companies now numbers 70 emerging-market companies among its ranks, up from just 20 companies in 1995.⁹ In 2007 the number of EMMs in the *Fortune* Global 500 increased by nine, including four new entrants from China, as well as firms such as Mexican telecommunications giant América Móvil and Polish petroleum-refiner PKN Orlen Group—proof of the dizzying speed at which these companies are expanding.¹⁰

The impact of EMMs on industry structures and ownership is no less dramatic. Many everyday brands in Western markets are now owned by companies from the developing world. Tetley—a famous tea brand in the United Kingdom now owned by the Tata Group from India—is just one example. EMMs have been busy on the acquisition trail,

snapping up assets in a variety of industries. In 2006 they were responsible for more than 1,100 mergers and acquisitions, worth a total of US\$128 billion, in a variety of industries across the world.¹¹

Two dozen of these were mega-deals—those valued above US\$1 billion.¹² Mittal Steel's US\$32 billion acquisition of European steel-maker Arcelor was the largest acquisition by any company in 2006 and the largest ever by a company with origins in an emerging market.¹³ Other notable examples include the US\$17.2 billion acquisition of Canada's Inco by Brazilian mining company Vale (formerly known as CVRD), the fifth-largest deal in 2006.¹⁴ Similar recent deals also include Tata Group's 2007 acquisition of UK-Dutch Corus Group for US\$12.2 billion,¹⁵ and China National Petroleum Corporation's 2005 acquisition of PetroKazakhstan for US\$4.1 billion.¹⁶

"We know that the bud is going to flower;
we can't quite see the flower petals yet,
but we can see the partings of the bud."

R. Gopalakrishnan, Tata Group

An emerging-market lens on globalization

The rising international prominence of these new players is both a consequence and a cause of a phase of globalization characterized by increased economic openness and the growing economic power of emerging markets—a process that Accenture calls "the rise of the multi-polar world."¹⁷ The multi-polar world is characterized by growing economic interdependence across five dimensions: capital, talent, resources, consumers and innovation. This new, deeper phase of globalization has further opened the door to EMMs; in turn, these companies are reshaping global competition in each of the five dimensions of the multi-polar world.

To many Western observers, EMMs remain enigmatic, their motivations and strategies unclear. Established Western multinationals look upon the rise of these new players and wonder what it augurs for their markets and future business.

To understand what globalization looks like from an emerging-market standpoint, Accenture undertook extensive research into the rise of EMMs and conducted in-depth interviews with more than 40 leaders of emerging-market companies and leading international experts in this field. Companies included in our research range from well-established, highly-internationalized organizations to next-wave players on the cusp of internationalizing their business. Our interviews reflect the extensive geographic scope of the new players, encompassing countries as diverse as Brazil, China, the Czech Republic, Hungary, India, Indonesia, Lebanon, Mexico, Poland, Russia, Singapore, South Africa, South Korea, Venezuela and Vietnam. Industry sectors covered include banking, consumer goods, energy, industrial equipment, information technology, pharmaceuticals, mining, telecommunications, transportation and utilities.

These interviews, combined with extensive secondary research,

provide a unique insight into the rise of EMMs and the ways in which they are navigating and shaping the multi-polar world in their journey to high performance.

In this study:

- Chapter 2 profiles the new emerging-market players.
- Chapter 3 considers the factors enabling these companies to internationalize so rapidly and the broader motivations underlying their expansion.
- Chapter 4 examines how EMMs are navigating each of the five dimensions of the multi-polar world.
- Chapter 5 outlines the challenges faced by these new players in internationalizing their businesses.
- Chapter 6 considers EMMs' path to high performance.



2. Who are the emerging-market multinationals?

New emerging-market players encompass a multitude of nationalities, industry sectors, ownership structures, stages of development and operating models.

This study defines an emerging-market multinational (EMM) as an enterprise based in an emerging market that has operations in at least one other country. Emerging markets include all "newly industrialized Asian economies" and "other emerging market and developing countries," as classified by the International Monetary Fund. Beyond this definition, the new emerging-market players defy easy classification, as they encompass a multitude of nationalities, industry sectors, ownership structures, stages of development and operating models.

Thinking beyond the BRICs

It is customary to associate EMMs with companies from the BRIC countries—Brazil, Russia, India and China. While these economies (especially China) are home to the majority of the largest emerging-market companies featured on lists such as the *Fortune* Global 500 (Figure 2.1), many other parts of the developing world also breed home-grown business champions, such as South Korea (14 companies), Mexico (5 companies), Malaysia (Petronas), Poland (PKN Orlen Group), Saudi Arabia (Sabic), Singapore (Flextronics International), Thailand (PTT) and Turkey (Koç Holding). These larger players can be seen as the advance guard of a much bigger next wave of EMMs coming from countries as geographically diverse as the Czech Republic, Egypt, Hungary, Indonesia, South Africa, Venezuela and Vietnam.

Who owns the new multinationals?

EMMs are characterized by a diversity of ownership forms that frame their approaches to international expansion. A significant proportion of these multinationals are partially or fully owned by national or

regional governments. Among the 70 emerging-market companies in the *Fortune* Global 500, around one-fifth are state-owned, the majority of them from China.¹⁸ State ownership is especially common in the case of energy companies, with prominent examples including Petronas (Malaysia), Saudi Aramco (Saudi Arabia), Petrobras (Brazil) and Pemex (Mexico).

Yet state ownership can mask significant differences in terms of day-to-day control and operational independence. For example, China allows a certain amount of foreign investment in some industry sectors. Examples include the listing of the Bank of Beijing, in which ING has a 16 percent stake,¹⁹ or Tsingtao Brewery, which is owned partly by the Chinese state (31 percent) and partly by US brewing company Anheuser-Busch (27 percent).²⁰ China also is experimenting with different kinds of ownership structures, setting up a special body to manage state-owned assets²¹ with an eye to possible listings in some cases. It also is creating trial enterprises, such as investment company HuaNeng Group, that bear full responsibility for profit and loss while remaining under the aegis of state ownership.²²

Vietnam also has cut its own distinctive path to creating new enterprises. In the 1990s it began a process to create internationally-focused national champions,²³ consolidating many state-owned enterprises from the same industry into strategic economic groups called General Corporations and devolving management control from ownership. While some will remain under state control, others have been earmarked for full or partial privatization.²⁴

Many of the new emerging-market players are private or family-owned

firms, a feature that can influence their approach to overseas expansion. Brazilian conglomerate Votorantim Group and Egyptian conglomerate Orascom Group²⁵ both have a history of family ownership. Diverse ownership structures mean that some EMMs are exposed to less public investor scrutiny—and less pressure for aggressive investment returns—than their developed-market counterparts. This can give them greater freedom and flexibility in seeing through bold long-term changes in strategy or moves that might stir controversy for publicly-listed firms.

Ownership also can influence methods of expansion. Private and family-owned companies might prefer making acquisitions in order to avoid ceding operational control as they expand business abroad.

However, diverse ownership structures also can serve to hinder EMMs' international expansion if, for example, a perceived lack of transparency induces Western governments to take a protectionist stance or dims the enthusiasm of global investors. Another risk is that direct intervention by government or family owners in the management of an EMM can cause its business strategy to be misaligned with a course that would otherwise be seen as maximizing the economic value of the enterprise.

Which industries do they operate in?

EMMs operate across a variety of industries, although the largest companies are generally from the resources sector. For example, the main emerging-market energy companies, often dubbed the "New Seven Sisters," control almost one-third of the world's oil and gas production and more than one-third of its total oil and gas reserves.²⁶ High-tech engineering and manufacturing companies are prominent in South Korea, Taiwan, Singapore and Hong Kong SAR. An agricultural heritage also means many EMMs

are in food processing and related industries, most notably in South America and emerging Asia.²⁷

A typical large EMM operates across a broader range of industries than does its developed-market counterpart. This partly reflects the greater incidence of the conglomerate structure, especially in South Korea (e.g. CJ Corporation, SK), India (e.g. Reliance Industries Limited, Tata Group), Southeast Asia (e.g. Malaysia's Sime Darby) and the Middle East and Africa (e.g. Orascom Group in Egypt). But EMMs that operate as conglomerates in their domestic markets typically tend to focus their international expansion in one or two sectors. Samsung, for example, operates in many industries at home, such as insurance and textiles, but internationally competes mainly in electronics.²⁸

As developing economies expand, however, new waves of companies will emerge across a broader range of industry sectors. Growing populations, higher levels of disposable income and increasing environmental concerns mean that the consumer goods, healthcare, financial services and alternative energy sectors will be among the more prominent parts of this trend.

What are the new models of international expansion?

No set blueprint or strategy dictates the pattern of EMMs' international expansion, which depends on industry, stage of company lifecycle, national background and a host of other factors. From our research and experience, at least five different models of expansion can be identified:

- Full-fledged globalizers tend to be older, more established EMMs that have attained a scale and geographic span on a par with the biggest Western multinationals. Prominent examples include Bharat Forge, Tata Group and CEMEX.
- Regional players aim to break out of their domestic markets in search of greater scale but, for reasons of cultural affinity and geographic proximity, they fix their sights—at least initially—on neighboring regional markets. VinaCapital, a Vietnamese venture capital company expanding in Southeast Asia, follows this model, as do Polish bank PKO BP and Czech electricity provider CEZ.
- Global sourcers are interested principally in selling to their domestic market, but they source internationally because of resource constraints at home. Global sourcers

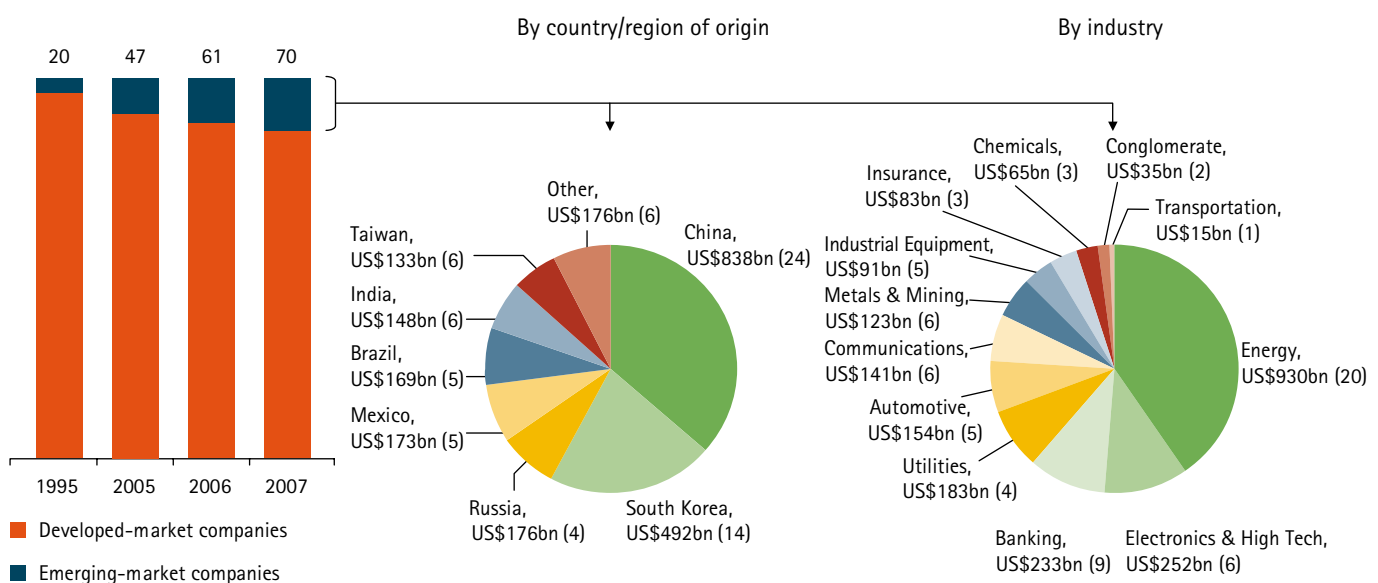
are common in the energy and commodities industries: witness the international exploration being undertaken by companies such as China National Offshore Oil Corporation (CNOOC) and Reliance Petroleum Limited (India) to source oil to sell primarily to their domestic markets.

- Global sellers are the mirror image of global sourcers. They manufacture or source principally at home but look for sales from consumer markets abroad. Russian energy company SUEK sources and produces mainly in its home markets but sells overseas.
- Multi-regional niche players tend to be smaller companies operating across multiple regions in specialized sectors, usually on the basis of innovative technology or processes. Examples include MDS Holdings, a business services and technology company originating in Lebanon that operates in Europe, the Middle East, Africa and Central Asia, and Holografika, a Hungarian manufacturer of specialized 3-D display technology that is "a small global company," according to CEO Tibor Balogh.

Figure 2.1: Emerging-market companies in the *Fortune* Global 500

Composition of the *Fortune* Global 500

Distribution of emerging-market companies' total revenues (and number of companies)



Source: *Fortune* Global 500

An aerial photograph of a circular dirt track, likely for horse racing or training. The track is composed of concentric rings of reddish-brown earth, with patches of green grass interspersed. Several riders on horses are visible, positioned at different points along the track. In the bottom left corner, there is a small white structure with a black roof, possibly a viewing stand or a small building. The overall scene is captured from a high angle, looking down at the track.

3. Enablers and drivers of expansion

Ready access to affordable finance, progressive liberalization of trade and investment rules, and advances in information and communications technology have combined in recent years to give aspiring emerging-market multinationals more room to maneuver than ever before. But their decisions to expand abroad are driven by perennial business objectives—new markets, efficiency gains, increased innovation and security of inputs—and occasionally by factors of national policy and prestige.

Three conditions have facilitated the rise of emerging-market multinationals (EMMs):

Increased economic liberalization and openness

The current trajectory of emerging economies and their companies owes much to a series of historical turning points when a number of the world's largest emerging markets chose to liberalize their domestic economies and embrace a market system. In China, it was Deng Xiaoping's program of economic reforms initiated in 1978. In India, it was the dismantling of the Licence Raj legislation—a set of bureaucratic economic controls—in the early 1990s. The fall of the Berlin Wall in 1989 and the subsequent collapse of the Soviet Union in 1991 brought an end to another planned economy. Events in these countries unleashed market forces and further liberalization, creating the conditions necessary for private enterprise to grow and enter global markets.

Links between emerging markets and the global economy have been strengthened and deepened by economic liberalization at the international and regional level. Although the Doha Round of multilateral trade liberalization has stalled, many countries have concluded regional and bilateral trade and investment agreements (Figure 3.1). Free trade areas such as MERCOSUR in Latin America and the Association of Southeast Asian Nations (ASEAN), as well as the expansion of the European Union, have further connected emerging markets to the wider world economy and to each other.

The progressive removal of policy and regulatory obstacles governing investment flows also frees EMMs from their shackles. In the past, emerging economies imposed controls on money flows in and out of their countries to promote stability. Some still do. But with most emerging economies now on a more stable footing, they have been able

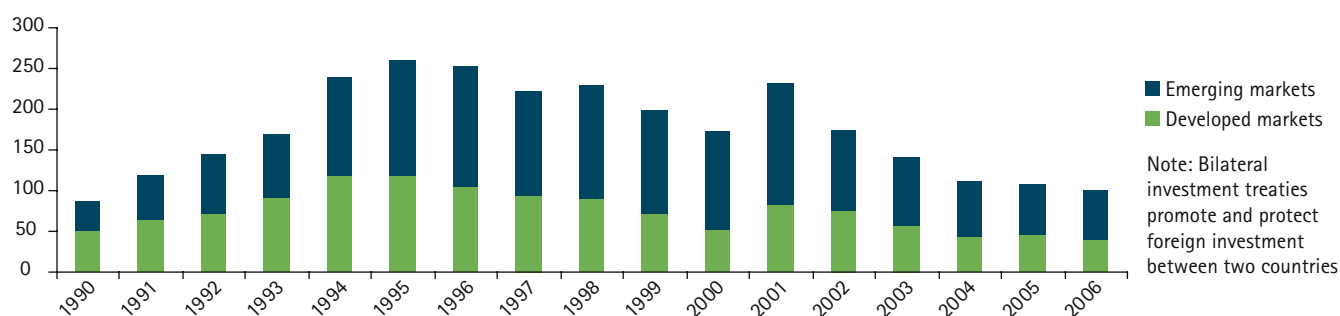
to relax the rules. Capital controls have been progressively loosened in India over the last few years. In 2007 restrictions were relaxed further, allowing domestic companies to make foreign acquisitions of up to 400 percent of the acquiring company's net worth.²⁹

New global markets

Globalization has opened up a host of new possibilities and markets for EMMs. As one emerging-market executive put it, "globalization opened emerging markets to the world but also opened the world to emerging markets." Technology has underpinned this opening, giving EMMs opportunities to learn faster, stretch their supply chains and serve markets over distance.

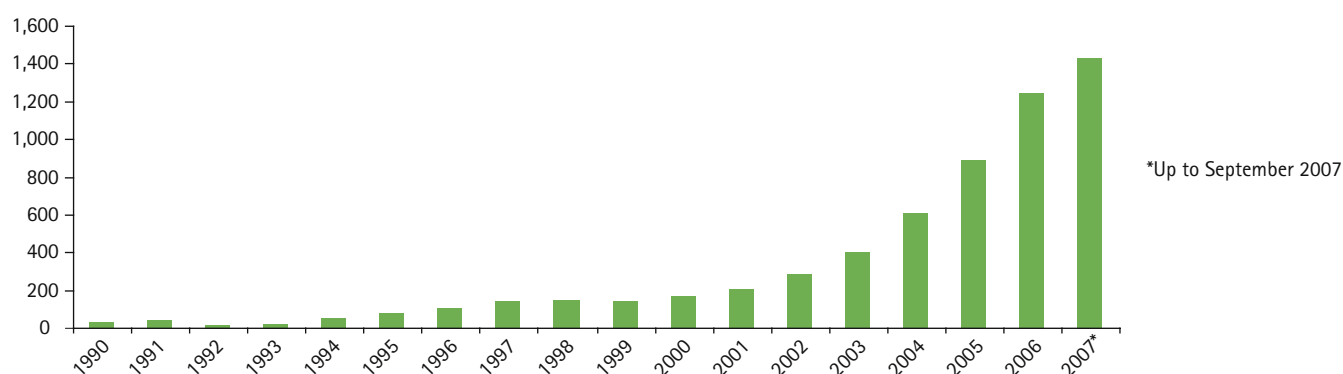
More than US\$3 trillion of foreign direct investment (FDI) was located in emerging economies in 2006: 26 percent of the world's total stock of FDI, up from 21 percent in 1990.³⁰ Inward investment has accelerated the development of

Figure 3.1: Bilateral investment treaties
(Number of signatories)



Source: United Nations Conference on Trade and Development

Figure 3.2: China's foreign exchange reserves
(at year end, US\$ billions)



Source: State Administration of Foreign Exchange, People's Republic of China

emerging economies. Domestic companies and individuals have gained access to overseas talent, technology, capital and management practices. Competition with developed-market multinationals also has sharpened the operations of EMMs, preparing them for the challenge of overseas markets.

Cheaper sources of capital

Large trade surpluses, rising commodity prices, high savings rates and less restrictive monetary policies have underpinned rising levels of liquidity and improved financing conditions for business. China's foreign exchange reserves stood at more than US\$1.4 trillion in 2007 and grew by more than US\$1 billion a day (Figure 3.2), with approximately US\$300 billion of this earmarked for foreign equity-related investment.³¹

The strong position enjoyed by many EMMs in their home markets has furthered their globalization strategies. Although still in the early stages of development, the markets

of some of the bigger emerging economies are large enough to support sizable domestic companies. Some EMMs have also benefited from operating in protected industries. These two factors have provided EMMs with a strong customer base at home, generating the scale and funds needed for overseas expansion.

Why EMMs go global

The business imperatives underpinning the push abroad vary widely by country, industry and stage of development. But our research, experience and interviews with EMM business leaders suggest five main drivers.

New markets

Perhaps the most common reason why companies—whether developed or emerging—expand abroad is the need for new markets and customers for their goods and services. For Alan Svoboda of CEZ, the Czech electricity provider, the choice to go global was

"In the past we had two global engines—Europe and America. Now we are seeing the increasing importance of a third engine, the emerging-market engine, in fueling the global economy."

**Dr. Thomas Held,
Neptune Orient Lines**

"Globalization will expand our opportunities and horizons. There will be a greater exchange of people while we continue to search for synergies across our business functions."

Rajeev Dubey, Mahindra & Mahindra

an obvious one: "Foreign markets were immediately on our mind when I first joined the company. It was clear that it was not possible to stay in the domestic market and be a successful company in the long term."

Despite huge populations and rapid rates of economic growth in emerging economies, their domestic consumer markets are often still in their infancy. Aggregate consumption in India remains smaller than that of Spain, a country with less than 4 percent of its population.³² Fast-growing, ambitious companies can quickly run out of headroom. And for companies operating in smaller emerging economies with stable populations, such as Chile, the Czech Republic or South Korea, the need to seek out new markets is even greater.

The decision to invest in overseas markets is also driven by companies' desire to get closer to their customers. Partly, this is to avoid trade barriers—such as tariffs and quotas—that reduce the competitiveness of imports. But companies also want to get closer to their customers to better understand their needs and preferences, and tailor their products and services to suit.

Efficiency gains

Given the lower cost-base enjoyed by many EMMs (often including cheaper labor, land, raw materials and equipment), cost reduction is less of a motivating factor in their overseas expansion. However, as emerging economies mature, competition is intensifying—and so are the pressures to increase cost efficiency.

EMMs also face competition from outside their home markets. Western multinationals continue to offshore their business functions to benefit from emerging-market cost structures, thus eroding the cost advantages of EMMs. At the same time, competition is growing from other emerging economies. As input costs rise in China and India, domestic and foreign companies alike are looking to benefit from the next wave of emerging economies.

Taiwan's biggest electronics company, Hon Hai, recently announced plans to invest US\$5 billion in Vietnam as it offshores some of its production to offset rising costs.³³

However, moving business functions to other locations is not the only way EMMs use their overseas expansion to capture efficiencies. EMMs often have competitive cost structures that they are able to scale when acquiring developed-market companies and achieve major cost synergies. Tata Group's acquisition of UK-Dutch steel group Corus allowed the Indian company to apply its lower steel conversion costs across Corus' business.

Higher value

The desire to move up the value chain is another important factor driving EMM globalization strategies. Until now, the business models of many EMMs have been based on cost competition. However, as rising competition at home and abroad squeezes profit margins, the need becomes greater to capture more of the value chain or to move into more profitable activities.

Emerging economies have become the world's workshop, manufacturing the majority of mobile phones, television sets and textiles. Although this is where these products are made, it is not necessarily where most of the economic value is added. More often than not, the technology, intellectual property and brands are owned by companies in developed economies. For example, it is estimated that less than 1 percent of Chinese companies own the intellectual-property rights to the technology in their products.³⁴ As a result, developed-market companies tend to earn the lion's share of the profits.

Many EMMs still lack the necessary tools to move up the value chain. These can be developed organically but, as a short cut, many EMMs expand abroad. This allows them to acquire some of the assets (including high-tech manufacturing

and research facilities), capabilities (such as branding and marketing), and products and services needed to accelerate their shift up the value chain. As Bogusław Marzec of the Polish energy company PGNiG SA put it: "A lack of experience and a lack of capabilities in the company are the biggest challenges we face."

New resources

EMMs are also going global in search of the inputs needed to run their businesses, whether labor, capital or raw materials. This is particularly true of natural resources. With sharp rises in demand and spiraling prices, the battle to secure supplies is intensifying. It is especially acute for industrializing economies that are reliant on imported energy. The strategic and geopolitical importance of energy security means that many EMMs operating in the energy industry are state-owned. Some governments actively push their companies to go global to secure the resources needed to sustain the growth of their economies.

China is at the forefront of the battle for resources. In recent years, Chinese companies have taken stakes in oil production facilities in Algeria and Canada as well as natural gas reserves in Iran and Saudi Arabia.³⁵

EMMs' battle for resources extends beyond energy. For example, Chinese companies invested more than US\$1 billion in foreign-listed mining groups in 2007, up from US\$829 million in 2006.³⁶ Brazil's Vale (formerly known as CVRD) acquired a controlling stake in Canada's Inco in 2006, becoming the world's second-largest mining company by market capitalization.³⁷ In natural resources, as in other industry sectors, EMMs' international activity is clear.

National prestige

With competition intensifying globally, governments in emerging economies recognize the important role of internationally successful domestic companies in underpinning economic growth and competitiveness at home. A number of governments actively encourage state-owned and private companies to expand internationally in order to upgrade their operations and capture the associated benefits of technology and know-how. China, for example, initiated its "go out" policy in 2002, a plan to create between 30 and 50 globally competitive companies from the most promising state-owned enterprises.³⁸

A sense of national pride also often accompanies the expansion of some EMMs. China has made clear its aim to increase its influence in the global economy. While patriotic aims will rarely prove the decisive factor behind cross-border deals, many EMMs exhibit a distinct national identity and a desire to bolster their countries' place on the world map. As Hilmi Panigoro of the Indonesian energy company MedcoEnergi Internasional states, "an Indonesian company investing massively overseas is a major move for this country." Similarly, Amit Kalyani of Bharat Forge explains: "We were partly driven by being an Indian company, proving to the world that an Indian company is as good, if not better, than anybody else. We are all very proud of being Indian and putting India on the map."

"A number of companies are going for technology or trademarks or strategic assets of different forms, such as in Lenovo's takeover of IBM's PC business."

Torbjörn Fredriksson, United Nations Conference on Trade and Development

4. Navigating the multi-polar world

Capital: Acquiring strategic capabilities

Talent: Resolving the paradox

Resources: Managing the squeeze

Consumers: Harnessing future markets

Innovation: Broadening the spectrum

Capital: Acquiring strategic capabilities



As liberalization and technological advances drive deeper integration of global capital markets, emerging-market investors are increasingly prominent, boasting a growing share of both foreign direct investment and portfolio capital flows. Our research and experience of working with emerging-market multinationals shows that they are following a distinctive path regarding where they invest, the capabilities they seek to acquire and the ways in which they invest.

Financial crises often have proved to be defining events for emerging markets and their corporate sectors. The Asian financial crisis in 1997/8 quickly spilled over to Russia, then into Brazil and soon overwhelmed most of Latin America. The international capital flight that followed and the subsequent bankruptcies within the banking sector and among corporations depressed output growth and investment in emerging markets. Net private capital inflows to emerging economies fell from US\$187 billion in 1996 to US\$22 billion in 1998.³⁹ Given mounting economic pressures, emerging markets were forced to undertake reforms that reduced overall debt levels, overhauled regulatory and banking standards and introduced more flexible exchange-rate regimes. Buoyed by the strength of Asia's export sectors, most emerging markets subsequently experienced substantial current account surpluses and accumulated

large foreign currency reserves to guard against future turbulence.

Crisis turned into opportunity. Many companies were able to restructure and reduce their high levels of debt. As many developed-market multinationals drew back, indigenous companies seized the opportunity to strengthen their domestic and regional positions. Regional production networks mushroomed, often centered on rapidly expanding trade with China. There was also a surge in the number of emerging-market multinationals (EMMs) seeking opportunities in other emerging markets. Foreign assets of the 100 largest multinationals from emerging economies stood at US\$471 billion by 2005, a 40 percent increase from 2004.⁴⁰

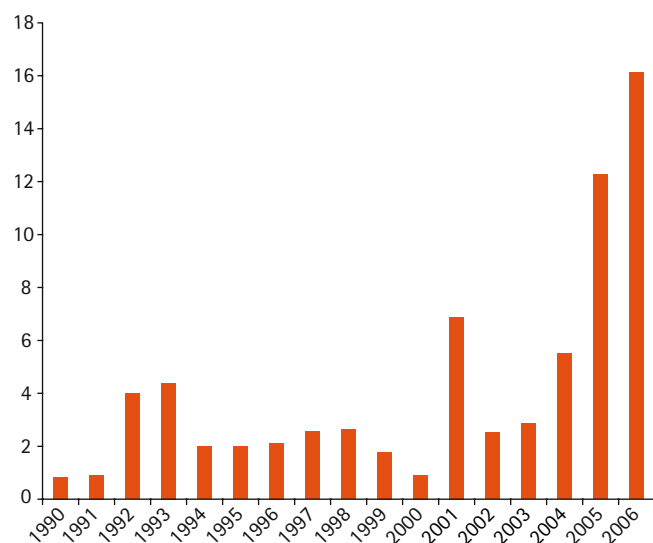
Navigating the "new Silk Road"

Our research and experience shows that EMMs are more likely to begin their overseas activities by embarking

on emerging market-to-emerging market (or "E2E") investment before venturing into developed economies, if at all. In 2005, the vast majority of outward flows of FDI from China went to other emerging markets⁴¹ (Figure 4.1). South Korean companies like Daewoo, Hyundai, Samsung and LG have a significant presence in India.⁴² South Korea is also the largest investor in Vietnam,⁴³ and China invests heavily in Africa in sectors ranging from extractive industries to financial services.

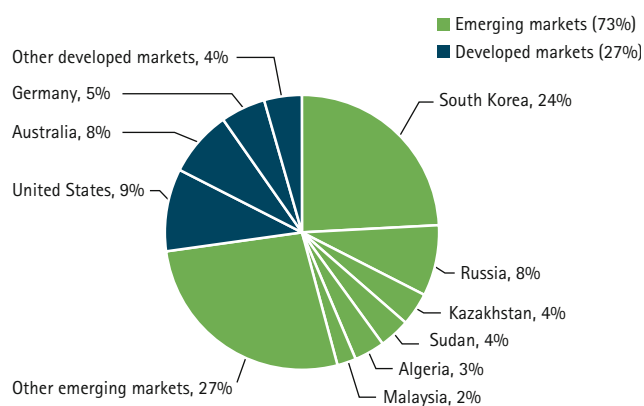
E2E investment is a useful route to global expansion for some emerging-market companies. Many companies build experience in familiar markets before attempting to enter more mature markets. As Alan Svoboda of the Czech electricity provider CEZ points out: "We go to territories that we understand, where we understand synergies and risks." Huawei adopted a strategy of expanding to emerging markets first and developed markets later. The company began its globalization journey in Southeast

Figure 4.1: Outward flows of FDI from China
(US\$ billions)



Source: United Nations Conference on Trade and Development

Destination of outward flows of FDI from China in 2005



Note: excludes outflows to Hong Kong SAR, Macao SAR, British Virgin Islands and Cayman Islands.

Asia, then used the lessons learned to expand into other developing regions such as South Africa, Latin America and Eastern Europe before entering developed markets.⁴⁴

This pragmatic approach to risk is rooted in the growth stages of EMMs. Many have survived tough conditions in their home markets, where infrastructural constraints and political unpredictability can be the norm. As Professor Mauro Guillen of The Lauder Institute, University of Pennsylvania, says, "one of the major strengths of emerging-market corporates is their political savvy. This is the result of long experience in dealing with interventionist governments in their own countries. It can be quite useful when entering other countries." A higher incidence of state, private and family ownership also means that many EMMs are well-positioned to take a long-term view of the growth prospects of emerging markets.

As more developing countries open

to foreign investment by introducing favorable policy environments and privatizing state-run enterprises, E2E investment is expected to grow. Restrictions on foreign ownership have been relaxed in the telecommunications, financial services and rail infrastructure sectors in various parts of Africa. Countries in South, East and Southeast Asia have introduced tax policies in favor of investment. India is attempting to create Special Economic Zones across the country that provide significant tax holidays and exemptions on import duties for investor companies.⁴⁵

Leapfrogging to global markets

It is not exclusively about E2E expansion, however. Some EMMs have used their competitive strength to expand globally. India's Ranbaxy is now one of the world's top 10 generic drug manufacturers;⁴⁶ Tata Steel is the world's fifth-largest steel-maker by revenue;⁴⁷ South

"Geographic expansion is toward what we call the next frontier of markets. There have been waves of them, like ripples going out on a pond. There are additional waves out there just getting on the growth path and starting to scale up."

Robert Eckelmann,
MDS Holdings

"You can go up the escalator one step at a time through organic growth or take three steps at a time through acquisitions."

R. Gopalakrishnan, Tata Group

"The big Mexican multinationals started in Central America and South America before moving into the United States, in many cases following Mexican immigrants. This might be a pattern—that they start in areas where they have some advantage or that are relatively close to the home country before expanding throughout the world."

Professor Mauro Guillen,
The Lauder Institute,
University of Pennsylvania

Africa's SABMiller is the world's third-largest beer producer;⁴⁸ and Brazil's Vale (formerly known as CVRD) and Mexico's CEMEX are among the global leaders in their respective fields.⁴⁹

But there are caveats. In the future, a heightened protectionist attitude, both in developed and emerging markets, could greatly influence the future direction of emerging markets' outward investment. Indeed, some Latin American countries have recently adopted more restrictive measures on foreign investment, particularly in extractive industries.

Acquisitions on the rise

Although investment in new facilities is an important part of EMMs' cross-border expansion activities, the majority of emerging-market FDI takes the form of mergers and acquisitions (M&A), which continue to increase (Figure 4.2). Joint ventures are typically avoided because they are deemed to be prone to pitfalls, as Professor Mauro Guillen explains: "Joint ventures are very complex to manage and the objectives of various parties are not always aligned." Such characteristics as a history of family ownership and familial organizational structures—where decision making power is vested in the company founder or his successors—might further motivate the preference for acquisitions. Rajeev Dubey of Mahindra & Mahindra says: "We have been in the driver's seat in all the acquisitions we have made."

If acquisitions are the preferred method of expansion, what kind of deals are EMMs pursuing? EMMs have recently raised their profile with a series of attention-grabbing mega-deals—those valued above US\$1 billion. In 2007, CEMEX concluded the biggest takeover in the global building materials sector by acquiring Rinker, the Australian building materials supplier, for US\$14.2 billion.⁵⁰ China's state-owned enterprises as well as India's and South Korea's privately owned conglomerates have continued to

acquire strategic assets abroad. For example, South Korea's Hyosung Corporation bought Goodyear's tire fabric operations in 2006.⁵¹

A "string of pearls" approach

Yet while mega-deals capture the headlines, it is EMMs' tendency to build up a series of stakes in different industries that provides a better clue to their strategic intentions. This "string of pearls" approach allows EMMs to extend their geographic footprint faster than would otherwise be possible. When Industrial and Commercial Bank of China (ICBC) took a 20 percent stake in Standard Bank of South Africa for US\$5.5 billion, it invested in a business with operations in 39 countries—18 in Africa and 21 in other continents.⁵² ICBC also bought an 80 percent stake in Seng Heng Bank Limited of Macao SAR and finalized a deal for Halim Bank Indonesia.⁵³

When CITIC Securities Company, a large Chinese investment bank, entered into a US\$2 billion cross-shareholding deal with US securities firm Bear Stearns, CITIC gained access to Bear Stearns's expertise in sophisticated debt instruments and other financial products, while Bear Stearns got access to the Asian market in a mutually beneficial deal.⁵⁴ The forays of Chinese financial companies into regional financial markets arise from a desire not just to intermediate their vast liquidity—most deals are cash based—but also to build on their financial sector risk management and operational capabilities.

Business implications

For emerging-market multinationals

Adapt the M&A model

The long-term success of M&A deals is not guaranteed, and they are usually a difficult endeavor for any company. In an environment where two-thirds of M&A deals fail to deliver increased financial returns,⁵⁵ EMMs should follow an M&A model that builds on the respective strengths of each party through adaptation rather than prescription. Given their relative inexperience, some EMMs also should seek expertise in M&A to identify targets, structure deals and capture post-transaction synergies.

Master corporate governance

As EMMs globalize and become more exposed to sophisticated markets and consumers, attention will increasingly focus on transparent fiscal reporting systems, organizational operations and investor relations. This is particularly pertinent for those seeking to list on international stock exchanges or raise capital in international markets. Public relations expertise will be necessary to manage interactions with external stakeholders and sustain market position.

Organize for growth

Beyond corporate governance EMMs will need to maintain the right mix of cultures, management frameworks and leadership styles to sustain their growth without encountering serious difficulties.

Operate within an evolving regulatory framework

Going global requires learning how to maneuver through a myriad of regional and international rules and regulations governing trade and investment, as well as sector-specific and environmental requirements in both regional and developed markets.

Manage protectionist backlash

Waves of protectionist pressure may hinder the capacity for multinationals to expand, particularly in strategic sectors such as energy. Consequently, multinationals may need to explore different expansion strategies. The uncertainty raised by the role of governments as owners and investors signals the potential for further protectionist pressure.

For developed-market multinationals

Be aware of increased competition for assets from new entities

Developed-market multinationals need to recognize the emergence of a new cast of players in global capital markets—not only EMMs

but also private equity, hedge funds and sovereign wealth funds (see page 22), many of which also originate from emerging markets. Companies are therefore subject to an increasingly competitive market for corporate control, with corporate strategy and shareholder objectives in progressively closer alignment. This also means that developed-market companies face increasing competition for assets, thus potentially bidding up prices for acquisition targets.

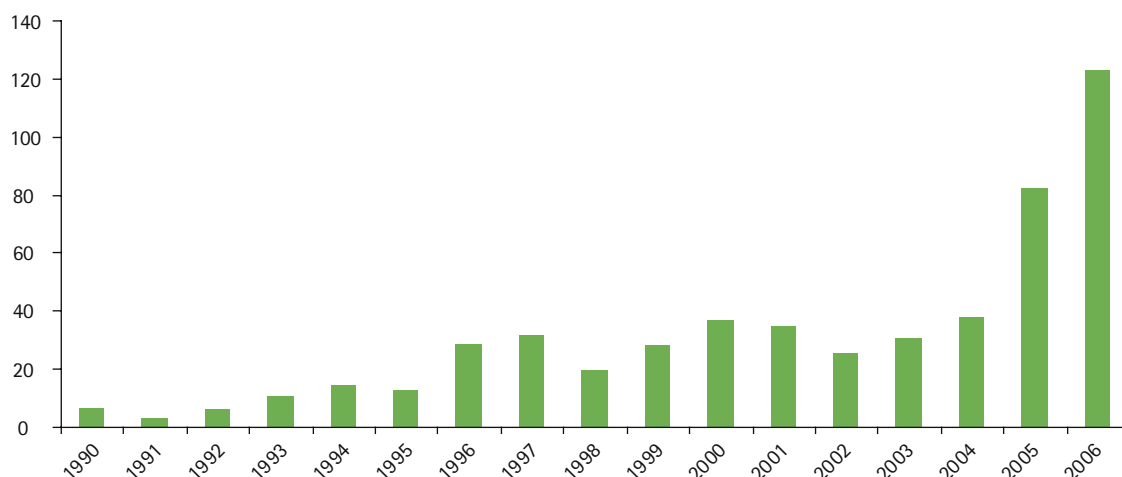
Exploit the opportunity for emerging-market capital

New sources of capital will provide opportunities for developed-market multinationals through strategic partnerships and joint ventures, if explored and nurtured in the right way. In turn these will provide scope for brand expansion and development as well as wider market access.

Innovate with new business models

Emerging-market FDI often embodies lower-cost business models and high rates of asset productivity that can transform competition in mature Western markets. As a result, developed-market multinationals will need to adopt more flexible and innovative business models.

Figure 4.2: Cross-border M&A deals where the purchaser is from an emerging market (total value of deals, US\$ billions)



Source: United Nations Conference on Trade and Development



Talent: Resolving the paradox

The market for talent has gone global: workforces in the emerging world are already four times larger than those in the West and are expected to be five times larger by 2020.⁶⁹ These new workers are increasingly skilled, as the number of graduates in emerging economies grows steadily. But despite an ostensible abundance of talent, leaders of emerging-market multinationals tell us that talent is their biggest challenge. Why is this, and how are they responding?

Favorable demographics mean that most of the future increase in the global labor force up to 2050 will occur in the emerging world. Yet the C-level executives we talked to from emerging-market multinationals (EMMs) overwhelmingly cited talent as a key challenge. Josué Christiano Gomes da Silva of Coteminas, a major Brazilian textiles and clothing manufacturer, has described talent as "probably the scarcest resource on Earth today." In this seemingly abundant environment for talent, why are EMMs having such problems?

One reason is that talent pools are shallower than they appear at first glance. High numbers of students are graduating, but not all are suitable for work in international business. Professor Abraham Koshy of the Indian Institute of Management, Ahmedabad suggests, "there is a supply-demand gap when it comes to talent—not in terms of total numbers but in terms of quality." Only five of the top 100 MBA programs are in the emerging world.⁷⁰ Universities in these countries often fail to train graduates appropriately for business, focusing too much on theory and rote learning and not enough on fostering creativity, applied knowledge or teamwork.⁷¹

Another reason is that rapid economic growth has increased the opportunities for the best recruits. Dr. Anand C. Burman of Dabur India Limited, one of India's largest consumer goods companies, points

out: "Today a young graduate fresh out of any college in India has so many opportunities in front of him—ranging from getting a job in outsourcing or IT or going for higher studies—that attracting talent within this milieu is getting tougher and tougher. The higher up the hierarchy, the worse it gets."

Where are the shortages?

The shortage of talent is particularly acute at the management level.

In India and China, one legacy of the Licence Raj and the Cultural Revolution is a lack of management-age talent with a keen grasp of market forces. Two out of five Chinese companies find it difficult to fill senior-management positions in China.⁷² Turnover rates at the manager level in China are 25 percent higher than the global average.⁷³ Much of the workforce lacks relevant experience, either in terms of years worked or exposure to the business practices and culture of multinational companies.⁷⁴

Antoine van Agtmael of Emerging Markets Management LLC notes that "emerging-market multinationals need people who are integrators, who can inspire and lead multi-disciplinary teams." In many parts of Asia, competition for talent already goes beyond the traditionally thorny areas of science and engineering undergraduates and management-level talent; there are also severe shortages of lawyers, accountants, aircraft pilots and doctors.⁷⁵

Growing demand for a small pool of suitable graduates means that competition for all levels of talent is only going to get fiercer. Wage pressures will bite as well. Average wages in 2007 were increasing at an annual rate of 20 percent in Venezuela, 14 percent in India and 11 percent in Russia⁷⁶ (Figure 4.3).

Changing demographics also alter the talent picture for EMMs in different ways. Aging populations, shortages of women in some countries and health problems will each affect certain emerging-market workforces. China's workforce will shrink in the decade after 2015 as a result of an aging population and declining birth rates,⁷⁷ whereas India's will grow (Figure 4.4). The average age in India will be 29 years in 2020, compared with 37 in China.⁷⁸ Labor shortages in China will affect employee turnover and wage increases across the whole of Asia.

Despite these challenges, EMMs are successfully addressing the issues of attracting, developing and retaining the right people.

Expanding regional and global talent pools

Looking beyond traditional local sources

Our research among business leaders of EMMs reveals that they are looking beyond the obvious talent pools to increase their potential labor supply. In their domestic markets, they find ways to recruit from a broad range of universities. Tata Consultancy Services (TCS), a leading Indian IT company, created a list of more than 200 institutions of higher education from which to recruit.⁷⁹

Looking abroad

Meanwhile, TCS's main domestic competitor, Infosys, partly addresses this problem by looking abroad. In planning to hire Chinese graduates over the next few years, the company took a selection of recruits back to its Mysore headquarters, where training includes English classes.⁸⁰ This

allows Infosys to source employees more cost-effectively while widening its recruitment net. This trend is multidirectional. Huawei, a Chinese networking equipment manufacturer, has hired more than 700 Indian software specialists, and the Chinese region of Jiangsu is hiring from India to help it start a provincial IT industry.⁸¹

Valuing multicultural leadership

EMMs often have a good balance between domestic and foreign talent in leadership positions. As cultural diversity is often the natural starting point for many EMMs, they potentially have a head start over some developed-market multinationals. Our research indicates that generally EMMs are less concerned than Western multinationals about having an employee from the parent market in charge of operations in each country. Young-Suk Sunwoo of Hansol Paper, a South Korean paper goods manufacturer, explains that when selling in another market, “a key factor to success is having a capable, local person in charge.” Yang Yuanqing of Lenovo adds, “I work from the United States. My company’s CEO is an American based in Singapore. Other top executives are based around the globe. A meeting of Lenovo’s senior managers looks like the United Nations General Assembly.” Similarly, Petr Šulc of the Czech pharmaceutical company Zentiva says, “strong local management is very important. We cannot do business in a country from outside that country, and it cannot be done by someone who has no experience, contacts or knowledge of the market.”

For top-level recruitment, many firms specifically engage in a truly global talent search. Indian company Bharat Forge has a policy of looking globally for leadership positions.⁸² The booming market for international headhunters is further evidence of this trend.

Figure 4.3: Wage inflation in emerging markets (annual percentage increase)

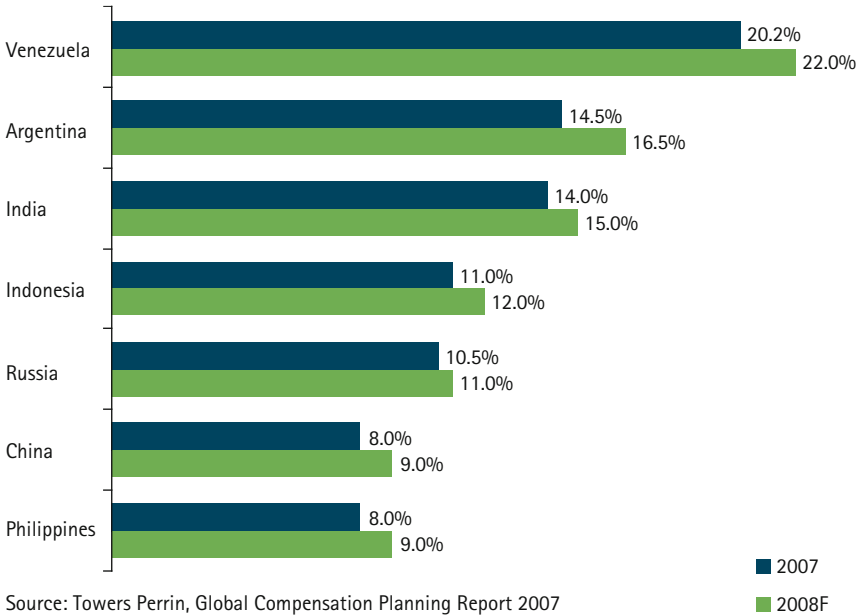
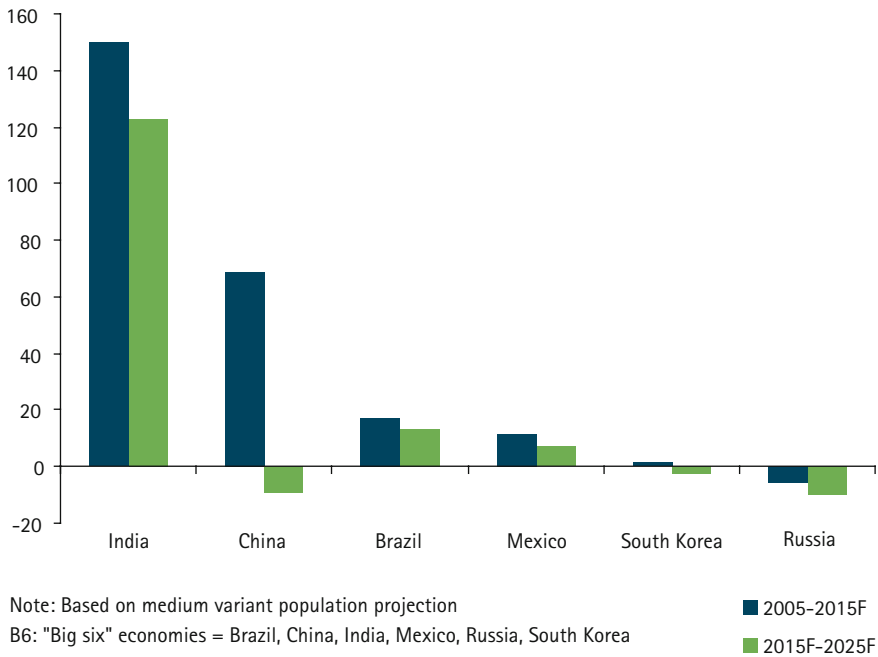


Figure 4.4: Change in working-age population in B6 economies (millions)



"Talent is probably the scarcest resource on Earth today."

Josué Christiano Gomes da Silva, Coteminas

"In the long run, the biggest threat to the emerging-market dream is that they might not be able to capture enough talent domestically."

Dr. Simon Commander, London Business School and European Bank for Reconstruction and Development

Sourcing from their diaspora

In many cases the diaspora of emerging nations can be a rich source of talent, bringing understanding of cultural diversity and international business practice back to their home countries. More than 20 million people of Indian origin live overseas,⁸³ while the Chinese diaspora numbers more than 35 million.⁸⁴ Many companies and countries actively woo this group by going to graduate recruitment fairs in the West and maintaining links with executives. Meher Pudumjee of Thermax, a global solution provider in energy and environmental engineering, suggests, "with our Indian salary levels having climbed significantly in the last few years and the kind of growth taking place in India, one possibility of attracting talent is to get non-resident Indians back to India."

However, there can be potential downsides. Those who return can be resented by their colleagues,⁸⁵ and only a relatively small proportion actually return. Of the one million Chinese students who studied abroad between 1978 and 2006, only about a quarter returned to China.⁸⁶ But the rate is now increasing⁸⁷ due to the heightened attractiveness of working in their home country.

Searching for skills and cost savings

EMMs also make use of global talent clusters to move up the value chain and minimize costs. Some companies hire lower-cost workers from other countries. China's Chongqing Dongli Manufacturing Ltd is building factories in northern Vietnam, where wages are up to 30 percent lower than in China's Pearl River Delta.⁸⁸ Others recruit or acquire workers in developed economies with the skills needed for top-level technical work.⁸⁹ These companies maximize their own high-skilled labor force and invest in talent overseas to get the best minds for research and development.

Using talent multipliers to maximize talent

EMMs are employing talent strategies typical of companies engaging in rapid growth. They tend to be less bureaucratic and more willing to take risks. EMMs also draw on human capital strategies developed by Western companies over the last century, aware of the differentiating power such strategies can confer. The result is often meritocratic companies with inherent flexibility in the face of talent shortages and high rates of employee turnover. Yet EMMs face unique challenges stemming from their rapid ascent and from domestic market conditions.

Filling gaps in education and health provision

One challenge that many EMMs face is the need to provide adequate education, skills training and health benefits for workers.

As emerging markets and EMMs move into higher-value-added sectors, they need workers with relevant skills and business knowledge. However, there are still gaps in the provision of education and training. State spending on education in China is half the average for OECD countries.⁹⁰ Emerging-market governments are constrained in their ability to tackle skills shortages in their economies, particularly in the short term, as educational reform takes a decade or two to filter into the workforce.

As a result, companies that have matured in these markets are more likely to take the initiative in filling talent gaps themselves. Some invest in future talent via local primary and secondary education. Standard Bank of South Africa invests heavily in educational initiatives.⁹¹ Embraer, the Brazilian aircraft manufacturer, runs an innovative secondary school for underprivileged children. It also is creating pre-fabricated physics laboratory stations that enable the curriculum's engineering module to be replicated in other schools.⁹² Initiatives like these help increase the

market readiness of the workforce. Employees will be better trained and educated for employment in a modern economy. As Mukesh Ambani of Reliance Industries Limited observes, "the next generation is hungrier for success."

Many EMMs have responded to current shortfalls in skills by creating customized training programs, either in-house or in collaboration with a university. The Indian Institute of Management, Ahmedabad recently tailored a management development program for executives at RPG, an Indian conglomerate.⁹³ The Russian energy company SUEK runs a corporate university focused on management skills.⁹⁴ Wipro has set up training centers in India, Singapore, the United States and Mexico, in addition to its web-based World Campus initiative.⁹⁵

The challenge for EMMs relates not only to education but also to the health and well-being of employees. The problem is two-fold. Communicable diseases already affect workforces in their local markets. At the same time, developed-world diseases like diabetes and obesity are increasing, brought about by fast-growing consumerism. Many EMMs have developed their own schemes to address the problems. Telkom, Africa's largest integrated communications company, runs a voluntary HIV/AIDS counseling and testing program that has gained the support of more than half its employees.⁹⁶ These programs are important not only in serving the local community but also in terms of their business impact. The investment is paying off, with lower rates of absenteeism and higher levels of productivity.⁹⁷ Such schemes are also attractive to potential recruits, bolstering a company's "employer brand."

Targeting future leaders

Leadership shortages call for targeted leadership strategies, where high-performing recruits are tapped early for promotion and receive training to speed their development. Many EMMs

are implementing such programs to develop the next generation of leaders. Singapore Airlines Cargo identifies potential replacements for key position-holders and structures their movements and training plans across the organization.⁹⁸

EMMs also have realized the importance of international experience at the management and leadership levels of any globalizing company. "People are starting to realize that overseas experience is becoming a pre-requisite for career advancement," says Garth Saunders of The South African Breweries Limited.

Others find creative ways to maximize the talent of existing employees.

José Antonio Fernández Carbajal of FEMSA, the largest beverage company in Latin America, describes its innovative talent multiplier tool: "We train people by moving those with useful skill sets to train clusters of employees, who in turn train other clusters. Knowledge is disseminated firsthand and spreads fast."

Exploiting synergies from conglomerate structures

The conglomerate structure common to many EMMs also is employed to multiply talent across different sectors. According to Mukesh Ambani of India's Reliance Industries Limited, the company takes 100 of its brightest graduates every year and then puts them through a six-month orientation. "Afterwards," he says, "each of our groups presents them with potential career opportunities—treasury, international marketing, polymers, polyesters, and oil and gas. Different things appeal to different people." The program gives all parts of the business a chance to attract top-level recruits.

Responding to the idiosyncrasies of domestic talent markets

Creating innovation mindsets

Creating an innovation mindset is hard to do in countries where hierarchy and tradition are highly valued. Many EMMs deliberately put

"We train people by moving those with useful skill sets to train clusters of employees, who in turn train other clusters. Knowledge is disseminated firsthand and spreads fast."

José Antonio Fernández Carbajal, FEMSA

a premium on an entrepreneurial working culture. Alexander Landia explains that at SUEK, “there is room for managers to develop their own ideas. These approaches will not be silenced by superiors but welcomed, challenged and reviewed.” India’s Tata Group runs regional contests for innovations in products and processes that roll up to the national level. At the annual Tata Innovation Day the company then celebrates success and reviews lessons learned.⁹⁹

Providing opportunities for advancement

Employees often prefer to work for local companies, which potentially offer faster career development. Alan Svoboda of CEZ, the Czech electricity provider, maintains that it attracts people because it is “an international company, but small enough so that an individual’s good work is seen and he or she can rise fast.” Laszlo Urban of Hungary’s OTP Bank similarly argues that the benefit of working for the bank, as opposed to a Western multinational, is that its head office is in Hungary. “People are making decisions here, and they are designing strategy here. The chances to go beyond the border and become an international expert are here,” he notes. This trend is often reinforced by patriotic sentiment. The vast majority of new MBA graduates in China plan to pursue careers there and, increasingly, within Chinese companies.¹⁰⁰

Showing sensitivity to different cultures

EMMs are often very understanding of cultural differences. Garth Saunders of The South African Breweries Limited points out that, “South African managers are used to working with a diversity of cultures, making them good managers in new countries.” Another example of this sensitivity comes from José Antonio Fernández Carbajal of FEMSA: “In our Brazil operations we hire many nationalities, including Argentinians. It could be difficult, as some cultures don’t get along very well—Argentinians and Brazilians

traditionally disagree over soccer—but we don’t have problems, as we treat each other as partners.”

Talent is a critical issue

Talent is a critical issue for EMMs, which are aware that they face significant challenges. But they are often well placed to source, multiply and retain talent in emerging economies, and a significant number are resourceful in creating and finding local talent outside normal channels.

As they continue to grow, there will be new challenges: new markets, new cultures and new regulatory environments. They and their Western counterparts will need to maintain innovative approaches and constantly sharpen a focus on talent strategies that will help define competitive edge.

Business implications

For emerging-market multinationals

Take a holistic approach

EMMs are moving deftly to deal with the challenges of talent in the multi-polar world. Their more holistic approach—incorporating measures to improve quality of life as well as competitive remuneration—translates well to other emerging-market settings. Maintaining these competencies will give them an edge in these markets and potentially in dealing with future challenges in other countries where there is a shortfall in education, training and healthcare provision.

Create an employer brand

EMMs source from the same talent pools as their Western counterparts. In competition with Western multinationals’ formidable brand recognition and the attractive experiences they can offer, emerging-market firms must continue to emphasize their own unique propositions to potential recruits and create a compelling brand as an employer by emphasizing their open entrepreneurial cultures and opportunities for swift promotion.

Manage talent across markets

EMMs will have to cope with mismatches across all markets: in the West, shortages of technical skills, an aging and shrinking workforce and complex employee relations; in emerging markets, under-developed “softer” capabilities such as management skills, teamwork and innovation.

Diversify sources of talent

As demographics will not remain favorable in all emerging economies, companies need long-term talent strategies that put a premium on training and retention. They also need to continue to look to new geographies and demographics to diversify talent sources and avoid relying too heavily on certain potentially shrinking pools.

For developed-market multinationals

Compete for the best talent

Developed-market multinationals have become accustomed to getting the cream of the talent crop wherever they go. However, as EMMs expand and mature, they will increasingly vie with Western companies for the best talent, both in their own economies and in developed markets. It will become increasingly important to be seen as part of the social fabric of local communities.

Learn from the challengers

Steeped in Western recruiting models, developed-market multinationals must now turn their attention to the idiosyncrasies of emerging markets. They have an opportunity to institutionalize the best of the creative practices being carried out by EMMs, such as partnerships with academia, public-private collaboration to fill skills gaps, and the widespread use of rotations to build exposure to varied cultures and different management techniques.



Resources: Managing the squeeze

The twin forces of massively increased demand and volatile supply have driven prices of energy and other resources to near-record levels—and created significant opportunities and challenges for emerging-market multinationals. How are they navigating increasingly interdependent global markets for energy and other resources?

Strong demand for resources, in their own backyard and beyond, has propelled the rise of resources companies in emerging markets. The recent surge in commodity prices—not just in energy but also in minerals and metals—has boosted their revenues and opened new opportunities. Oil companies from emerging markets, often state-owned, now rival the dominance of major developed-market producers;¹⁰¹ in 2007 PetroChina became the world's largest public company by market capitalization.¹⁰²

Resources companies have been quick to take advantage of these soaring prices and expand their production at high speed. They also are making major investments. Brazil's Vale acquired Inco of Canada for more than US\$17 billion in the largest acquisition yet made by a Latin American company.¹⁰³ These investments have been supported by the marked improvement in profitability by emerging-market multinationals (EMMs) in extractive industries (Figure 4.5). Consequently, EMMs in resources industries have emerged as new, confident global players. As Mukesh Ambani of India's Reliance Industries Limited notes, "our concept as a company is that we are able to compete with every other company in the energy market."

But while those selling or delivering resources benefit from higher commodity prices, resource-intensive organizations feel the effect. Young-Suk Sunwoo of South Korea's Hansol Paper highlights the problem: "The most difficult thing in running a business these days is the increasing cost of raw

materials and oil." Organizations that are consumers of energy and commodities have become more active in their efforts to ensure their supply. Amit Kalyani of Bharat Forge of India points out: "We need to secure access to natural resources. We have got some small iron ore mines, but we need more than that."

The resources crunch is not confined to just the energy and extractive industries. For many companies it encompasses a broader range of resources from metals to agricultural and other natural products (Figure 4.6). Dr. Anand C. Burman of Dabur India Limited, which specializes in health and beauty products, observes, "energy is not such a problem; our real challenge comes from nature." And the growth in alternative energy heightens resource constraints in other industry sectors. Daniel Servitje of Mexican bakery company Grupo Bimbo says, "agricultural commodities have increased in price significantly in the last few years. The move toward biofuels will make it worse for the food industry."

Water scarcity is also a growing issue, as it becomes increasingly difficult to secure clean water due to poor local infrastructure, rapid economic growth and changing agricultural practices. Dr. Burman of Dabur India Limited notes, "there is going to be a further resource crunch in terms of water." For water-intensive industries, the problems are even greater. Garth Saunders of The South African Breweries Limited says the company is already reacting to help combat this. "We are constantly working to reduce the amount of water we use," he says.

Seeking security of demand

Resources companies in emerging markets are experiencing a major export boom from the growing demand from Asia for resources and resulting high commodity prices. But they are hedging against commodity price swings by securing demand for their products. This is particularly important for state-owned companies, whose domestic prices are often far below market levels. Companies like Gazprom, the Russian energy company, need to look abroad for profitable growth.

Diversifying geographic markets

While the sourcing of energy has often been a global undertaking for these EMMs, sales so far have been more domestically focused. This trend is changing, however. As Alan Svoboda of CEZ, an electricity provider in the Czech Republic, confirms, "we can trade surplus power with our neighbors. The market doesn't stop at the border."

Moving into downstream activities

Many national oil companies have begun to move further into downstream activities and distribution channels overseas. Brazil's Petrobras has acquired fuels businesses in Paraguay and Uruguay.¹⁰⁴ Russia's Gazprom also looks to reshape its distribution channels to secure demand. The company, which supplies a quarter of the European Union's natural gas needs,¹⁰⁵ has bought energy companies in Europe and invested in pipeline and distribution projects to run key transit routes.

Even established downstream players are innovating to lock in budding demand. China Petroleum and Chemical Corporation (Sinopec), China's second largest oil producer, teamed with McDonald's in early 2007 to open a drive-through fuel and restaurant complex in Beijing and has plans to open more sites in other major Chinese cities as it seeks to tap into the country's booming automotive market.¹⁰⁶

Securing long-term and bilateral contracts with downstream providers

To guarantee future demand, EMMs in resources industries seek long-term supply contracts with energy companies that have big distribution and retail operations. This protects their political and financial interests, which are straining against growing protectionism, and makes it more difficult for buyers to diversify their energy suppliers.

Gazprom has signed bilateral contracts with some of the biggest energy companies in Europe, including Gasunie of the Netherlands and Gaz de France.¹⁰⁷

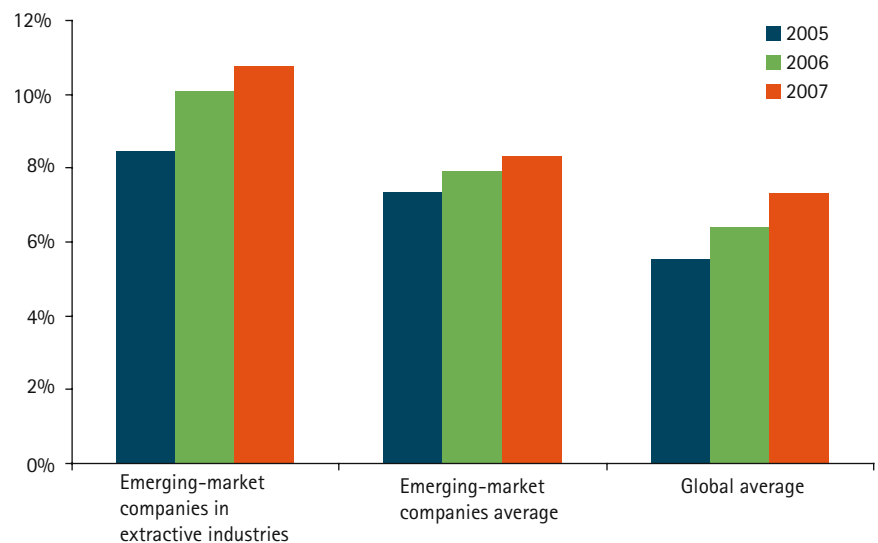
Joint relationships can also foster further business opportunities. Gazprom and Eni, an Italian energy company, have established a company to build an underwater pipeline linking Russia to Europe, giving Russia more access to energy markets in southeastern Europe. As part of its close cooperation with Eni, Gazprom has gained access to the company's lucrative gas distribution network in Italy.¹⁰⁸

Seeking security of supply

EMMs are key players in the international search for security of energy supply. Like developed-market multinationals in similar positions, they are achieving this by diversifying sources, as well as by building alliances and partnerships with a local development angle. As Bogusław Marzec of PGNiG SA points out, "in Asia, Middle East and Africa, it's essential to establish good relations with the authorities there in order to do business."

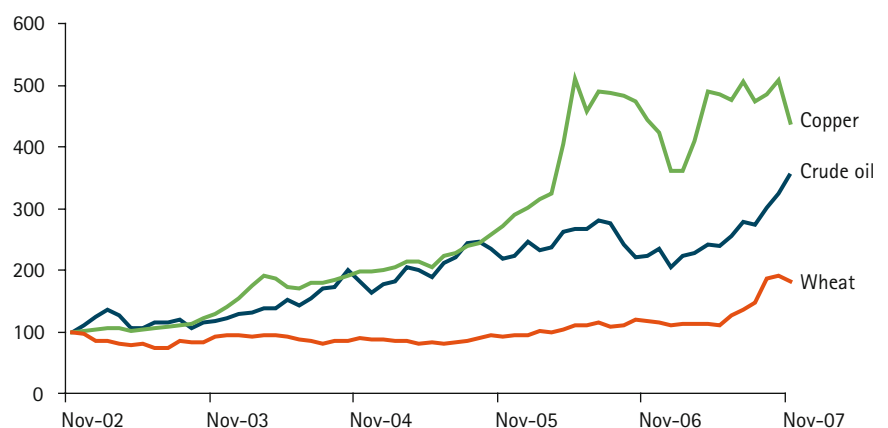
Additionally, EMMs' international expansion is often mandated, or at least promoted, by their national governments, which are keen to secure the resources needed to sustain fast economic growth. Foreign policy also is used to build close relationships with resource-rich countries and allow EMMs to form international links.

Figure 4.5: Profitability of *Fortune* Global 500 companies (profits as a percentage of revenue)



Source: *Fortune* Global 500

Figure 4.6: Rising commodity prices (indexed: November 2002 = 100)



Source: International Monetary Fund

"We need to look for global resources."

Amit Kalyani, Bharat Forge

Diversifying sources of supply

EMMs in resources industries—often heavily backed by their home governments—have made major strides to ensure that supply is secure by pursuing new sources internationally. They also have moved out of their traditional energy sectors into high-cost, riskier projects supported by sustained high oil prices and growing demand. China National Petroleum Corporation (CNPC), China's largest oil producer, is joining China's next-largest oil companies, Sinopec and China National Offshore Oil Corporation (CNOOC), to invest in Canada's tar sands, which have become more economically viable to develop given the current high price of oil.¹⁰⁹

When securing access to natural resources, EMMs in resources industries sometimes have a competitive advantage rooted in their country's diplomatic relations. Consequently, they may suffer fewer hindrances when investing in politically sensitive locations. Sudan sells more than two-thirds of its oil to China,¹¹⁰ while CNOOC will search for oil in Sudan with Indonesian company Pertamina.¹¹¹

As a result, direct competition between EMMs as well as between EMMs and developed-market companies is increasingly intense. China Metallurgical Group, a state-owned Chinese construction company, won the right to develop a large copper deposit in Afghanistan with plans to invest US\$3 billion, beating bids from Russia as well as from developed-market multinationals.¹¹²

Forming new alliances

EMMs have shaped a new configuration of alliances and relationships in the hunt to secure resources. National oil companies (NOCs) are no longer reliant on international oil companies for technology and capital. Instead, they build new relationships with independent service companies and offer lucrative deals. As a result, many independent service companies with specialized technology are more willing to deal with NOCs directly.

Resources companies also form alliances and consortia to gain stable access to resources. China's major tin producer, Yunnan Tin, and Singapore's KJP International are producing tin in Indonesia.¹¹³ In addition, a consortium of oil companies—consisting of Uzbekneftegaz, LUKOIL Overseas, Petronas Carigali Overseas, CNPC and Korea National Oil Company—have signed a production-sharing agreement for geological exploration and development of hydrocarbon fields in Central Asia.¹¹⁴

Energy companies also engage in joint ventures with local companies when it is not possible to quickly gain access to natural resources alone, given foreign ownership regulations or language barriers. One example is CNPC's joint investment with local firms in Iran and Venezuela.¹¹⁵

Engaging in mutually beneficial partnerships

EMMs find innovative ways to secure their supplies. China Development Bank, which is backed by the government, has partnered with United Bank for Africa, not only to seek local operators to channel money into African projects but also to secure the resources needed to feed China's rapidly growing demand.¹¹⁶

Resources EMMs also bring in new competitive bid strategies. Accustomed to working in extractive industries, resources multinationals are comfortable being involved in the progress of the local area, making great efforts to assist the economic development of the host country in order to secure contracts. Unlike companies from developed markets, this aid comes with few conditions attached. Chinese firms secure access to copper, iron ore and oil in Africa by building infrastructure, telecommunications systems and power generation.

To manage the squeeze, some EMMs that are users rather than sellers of resources work with growers and producers to secure their supplies. Dr. Burman of Dabur India Limited recounts the company's response to the rising price and deteriorating quality of kuth—a raw material used in many products and previously gathered from the wild. The company worked with farmers, producers and non-governmental organizations based in Nepal to farm kuth and secure its production.

Diversifying into sustainable resources

Three forces push EMMs to look beyond traditional fossil fuels into more sustainable resources. First, demand for energy is increasing across the world, driven by economic growth. Second, energy security concerns have intensified, particularly regarding over-reliance on resources imports. Finally, consumers are progressively demanding eco-friendly products and services.

Investing in alternative energy sources

EMMs are already making waves in producing and using alternative energy sources. India's Suzlon, one of the world's leading wind turbine suppliers, won control of German wind power firm Repower after a battle with French rival Areva.¹¹⁷ Chinese companies like Suntech also are becoming major global players in solar energy.

While they hold promise, new energy sources require massive investment and substantial research and development (R&D) costs. Some EMMs have begun to invest heavily in these technologically demanding businesses. Mahindra & Mahindra plans to launch hybrid vehicles and vehicles that use biofuels and battery power.¹¹⁸ R&D centers also have become more popular. India's Oil and Natural Gas Corporation (ONGC) has nine independently managed centers specializing in key areas in the oil and gas sector.¹¹⁹

Pioneering new processes

EMMs find that new technology partnerships not only provide the required R&D capabilities but also create valuable opportunities to shape future energy trends. Sasol, a South African company prominent in developing high-quality synthetic fuel technologies, invests in pioneering processes with Chevron that convert coal into gas and then convert gas into clean, liquid hydrocarbon products.¹²⁰ Petrobras, the company instrumental in the development of Brazil's ethanol fuel program, develops partnerships around biofuels—including recently with the Norwegian company Statoil—to further boost this burgeoning industry and expand biofuels into its chemicals business.¹²¹

Watching future regulations

Expected tightening of regulation regarding climate change will be an increasingly important issue for EMMs. As Chong Beng Tan of Singapore Airlines Cargo puts it, "the challenge is to reduce greenhouse gas emissions while improving operational efficiency." Adds Alan Svoboda of CEZ: "The carbon market is very important for us. We look for new technologies and the right generation mix, while keeping an eye on future development of regulatory policies." These companies have the opportunity to become key players in this field as their home countries strive to reduce carbon emissions. Additionally, regulations might cover many stages of the supply chain, something that EMMs must bear in mind when designing their future product lines. Doug Baillie of Hindustan Unilever Limited points out: "It's not just our company's use of resources that matters. We need to look at the footprint of the whole product cycle. If our customers can use less water with our products, it benefits the environment."

"We have to diversify suppliers to improve our negotiating position and minimize supply risks."

Bogusław Marzec,
PGNiG SA

Business implications

For emerging-market multinationals

Focus on efficiency

While some EMMs have benefited from the windfall of high commodity prices, they still need to focus on building efficient cost structures to maintain competitiveness if prices fall.

Develop business relations

Since the resources industries are often viewed as strategic and are politically sensitive, good relations with host governments—especially in the West—should be a strategic priority.

Manage price volatility

Non-energy companies will benefit from mechanisms to deal with future volatility in raw material prices and the rising cost of energy in their overall costs. They also should not be afraid to look at alternative solutions to gain competitive advantage—for instance, by developing products that use less energy.

Search for innovative solutions

EMMs have the potential and corporate agility to leapfrog competitors and take advantage of attractive business opportunities that might emerge from innovative solutions. As emerging markets look to new processes to meet the rapidly rising energy demand of their citizens, these companies might be in a better position to understand the needs of their consumers and able to do business with lower operating costs, giving them an advantage over developed-market companies.

For developed-market multinationals

Build close ties

Energy companies need to maintain good relations with emerging-market energy companies, including NOCs and their governments. Close ties with these companies will place them in a better position to secure supplies, given the return of resource nationalism in places such as Latin America and Russia.

Develop partnerships to innovate

Developed-market multinationals should be open to the possibilities of partnering to develop new resources and products. EMMs are in a position to influence future industry trends, and developed-market multinationals should take advantage of collaboration opportunities.

Increase green capabilities

Green credibility with customers and markets is increasingly important. Developed-market companies should not underestimate the impact of future best practices and innovations in energy management that might reside in EMMs, whether energy or non-energy companies.

"High coal prices have underpinned the expansion of our business since 2002, along with increasing exports related to the growth in Asia, especially China."

Alexander Landia, SUEK



Consumers: Harnessing future markets

The ways emerging-market multinationals incubate and sustain demand, harness cultural differences and compete in a global marketplace have planted the seeds for future success.

Rapid economic growth, expanding populations and rising incomes have opened up a wide vista of opportunities in consumer markets in emerging economies. Emerging-market multinationals (EMMs) have left no stone unturned when identifying new markets. Indeed, they are often proactive in creating those markets themselves, utilizing their local knowledge.

Incubating demand

When CEMEX, the Mexican cement company, discovered that its poorer customers were unable to secure credit to purchase its do-it-yourself products, the company came up with an innovative lottery scheme. Participating families contribute to a pool that then pays out cement and building materials to the winning family.¹²² This example illustrates the philosophy of many EMMs. Unwilling to sit back and wait for the market to develop, EMMs proactively create new market space.¹²³ Mukesh Ambani of Reliance Industries Limited aptly sums it up: "Let's create the purchasing power. Once they have money, they will become Reliance's consumers. We help to grow income and create brand loyalty."

This incubation of latent demand takes three forms:

Infrastructure development

In a number of emerging markets, EMMs have proved adept at establishing the infrastructure required to create new markets. China Mobile has fostered growth in rural markets as the high- and medium-income sectors for telecommunications equipment in China have become increasingly saturated. The company established mobile applications and terminals to drive future growth among lower-income consumers.¹²⁴ Likewise,

Neptune Orient Lines recognized that its operations in India were affected by inadequate transportation between major cities and seaports. The company responded by developing rail operations between Mumbai and the ports, making it easier for people to access its services.¹²⁵

EMMs have helped grow new markets by putting in place financial and physical infrastructure. Brazilian retail chain Casas Bahia extended its customer base by using a credit rating system that allows base-of-the-pyramid consumers to buy its products. Despite these consumers' limited and changeable income flows, the default rate has proven relatively low, and the firm has created a sizable new pool of loyal customers.¹²⁶

Business model innovation

A keen sensitivity to local needs can help EMMs devise business models that release hidden demand. América Móvil's pay-as-you-go cell phone cards have been developed especially for low-income customers in order to tap into a significant and growing market.¹²⁷ Tata Group has adopted a comparable strategy for slightly more affluent consumers, unveiling in January 2008 the US\$2,500 "People's Car" to reach a larger market through lower prices.¹²⁸

Access to appropriate technologies has also helped EMMs find innovative methods of targeting base-of-the-pyramid consumers. To broaden access to its services, Bolivian financial services company PRODEM FFP has introduced ATMs that recognize fingerprints, use color-coded touch screens and speak in three local languages.¹²⁹ Smart Communications Inc. in the Philippines introduced an over-the-air recharge technology and pre-paid pricing plans that allow

low-income mobile phone users to buy airtime in small quantities. The company generated revenues of more than US\$2 million a day within 10 months.¹³⁰

Product adaptation

Many EMMs create new markets by adapting an existing product so that it taps into the preferences and needs of a new consumer segment. They either amend the functionality of a specific product so that it meets a market need or deliver an existing product sold elsewhere at a price that is more widely affordable.

Arvind, one of the world's largest denim manufacturers, found Indian domestic denim sales limited. At US\$40 to US\$60 a pair, the jeans were too expensive for many low-income consumers, and the distribution system reached only a few towns and villages. In response, Arvind introduced a ready-to-make kit of jeans components priced at about US\$6. These were distributed to local customers through a network of local tailors, many in small rural towns and villages.¹³¹ By repurposing existing products to appeal to as many different consumers as possible, EMMs can prime the pump of demand at limited additional cost.

Capitalizing on Culture

Underpinning the different forms of demand stimulation is a deep understanding of local consumer needs—in particular those consumers at or near the base of the pyramid—and an ability to use this knowledge to target products and services more effectively.

Our research and experience shows that EMMs are achieving this in two ways:

Super-localization

Local sensitivity in terms of emerging-market geography, history and culture has proved to be a differentiator through which EMMs often build successful relationships with customers. EMMs understand that single, unified, national markets rarely exist, as Jong-Soo Seo of

South Korea's CJ Corporation observes: "The first critical success factor is customization of the product or the company's image for the local market."

Samsung introduced washing machines in India with a memory back-up facility to deal with power failures as well as a special "sari wash" program.¹³² Technology firm Lenovo also strives to understand local variations in consumer habits by dividing China into 108 grids within 18 sales regions in order to be closer to its markets and customers.¹³³ This deep understanding of emerging-market consumers can be hard to replicate. Compared with the situation in developed economies, little market research data typically exist on consumer tastes and buying behaviors, which gives EMMs with local knowledge a distinct information advantage.

Exploiting cultural ties

EMMs prove that knowledge of local consumer tastes and preferences can be transferred on both a cultural and a geographical basis to provide a significant stimulus to new markets. Often this growth takes advantage of the cultural ties that exist between domestic and diaspora populations around the world. Michal Handzlik of Polish bank PKO BP notes: "In our foreign expansion strategy, the company targets mass clusters of Polish emigration." Dabur India Limited also sells to customers in the United Kingdom and United States, owing to the large Indian populations in these two countries (a combined total of more than 2 million in 2006).¹³⁴

Making good use of these ties provides a safe way to extend growth beyond the domestic market. Further, it provides a way to test the waters within the developed world, with diaspora populations often acting as a company's springboard into new market segments.

EMM growth also takes place within adjacent markets that are well known to the company. Dabur

India Limited targets consumers in Pakistan and Bangladesh.¹³⁵ Likewise, FEMSA believes its experience in emerging economies positions it well to expand into other such markets. As José Antonio Fernández Carbajal of FEMSA explains, "we will look to expand into high-risk, high-growth countries in Asia where our knowledge and capabilities from markets in Latin America also would apply."

Mexican company Grupo Elektra has gone further and demonstrated that some capabilities of EMMs can be transferred across more disparate emerging markets. The company has announced an alliance with Chinese car manufacturer FAW Group Corporation through which cars made in China will be sold in other emerging markets in Central America.¹³⁶

Developing a portfolio of brands

Brand is a powerful asset for tapping into new consumer markets. However, it also can be an area where EMMs lag behind their Western counterparts. In 2007, only three EMMs—South Korea's Samsung, Hyundai and LG—featured among the top 100 global brands.¹³⁷ EMMs now aim to drive and sustain their growth through effective brand strategy, both within emerging markets and globally.

Within emerging markets, rising incomes provide opportunities for EMMs to tap into new, wealthier consumer segments that are increasingly brand-conscious. In the case of China, the projected future growth in spending power of both the middle class and affluent consumer segments is considerable (Figure 4.7).

However, higher levels of disposable income bring different needs and tastes, as well as higher consumer expectations of products and services. Accenture research in China has identified six consumer segments, each with distinct values, attitudes and behaviors.¹³⁸ Additional Accenture research shows that

"Let's create the purchasing power. Once they have money they will become Reliance's consumers. We help to grow income and create brand loyalty."

Mukesh Ambani,
Reliance Industries Limited

"Rural area digitalization plays an important role in demand generation and corporate citizenship enhancement."

Lu Xiangdong, China Mobile

"We work very closely with consumers to improve our product portfolio mix and ensure that we offer the right products in the right geographies."

Daniel Servitje, Grupo Bimbo

"While Lenovo is proud of our Chinese heritage, the most important flag for any global company is its brand."

Yang Yuanqing, Lenovo

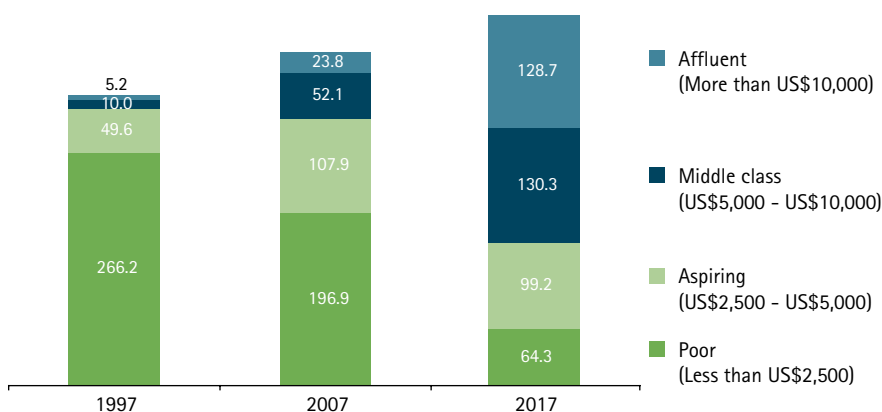
customer satisfaction in emerging markets is often low and that consumers are switching service providers with high frequency.¹³⁹ Factors such as environmental impact are becoming more important—98 percent of consumers interviewed by Accenture in Brazil, China and India think climate change will directly impact their lives, compared with 73 percent in Europe.¹⁴⁰ These developments add complexity to the emerging market consumer base, requiring EMMs to adjust their brand strategy to access different segments.

When going global, EMMs pursue three principal brand strategies. First, they look to extend their existing brand to markets where it is likely to resonate with consumers. Mexico's Grupo Modelo has extended the reach of its Corona beer to become a global market leader and the fastest-growing beer import in the United States, where it has been positioned as a premium product.¹⁴¹

Second, EMMs often adopt a strategy of acquiring established brands in the developed world to leapfrog immediately into an established market space. When Tata Group acquired Tetley Tea for US\$432 million in 2000, it provided the Indian conglomerate with access to large European markets.¹⁴²

Third, EMMs frequently tailor their brands to the various markets they are serving—in both emerging- and developed markets—to meet local preferences. For example, Chinese company TCL sells under its own brand in emerging markets like India and China but under the brands "Thomson" in Europe and "RCA" in North America.¹⁴³

Figure 4.7: China's household income distribution (number of households, millions)



Source: Euromonitor; Accenture analysis

Business Implications

For emerging-market multinationals

Capitalize on competitive advantages

EMMs are well positioned to expand at both the regional and global level. In doing so, they must continue to make the most of their "super-local" advantage to meet consumer needs and build consumer demand.

Understand evolving consumer tastes

EMMs will need to target their products and services carefully to capture a broad spectrum of consumers, addressing both low-income consumers as well as the growing, more aspirational middle class.

Increase brand recognition through investments

As EMM brand recognition improves, EMMs should allow products to be developed and improved to keep pace with consumer expectations by investing in quality-management mechanisms and research and development functions.

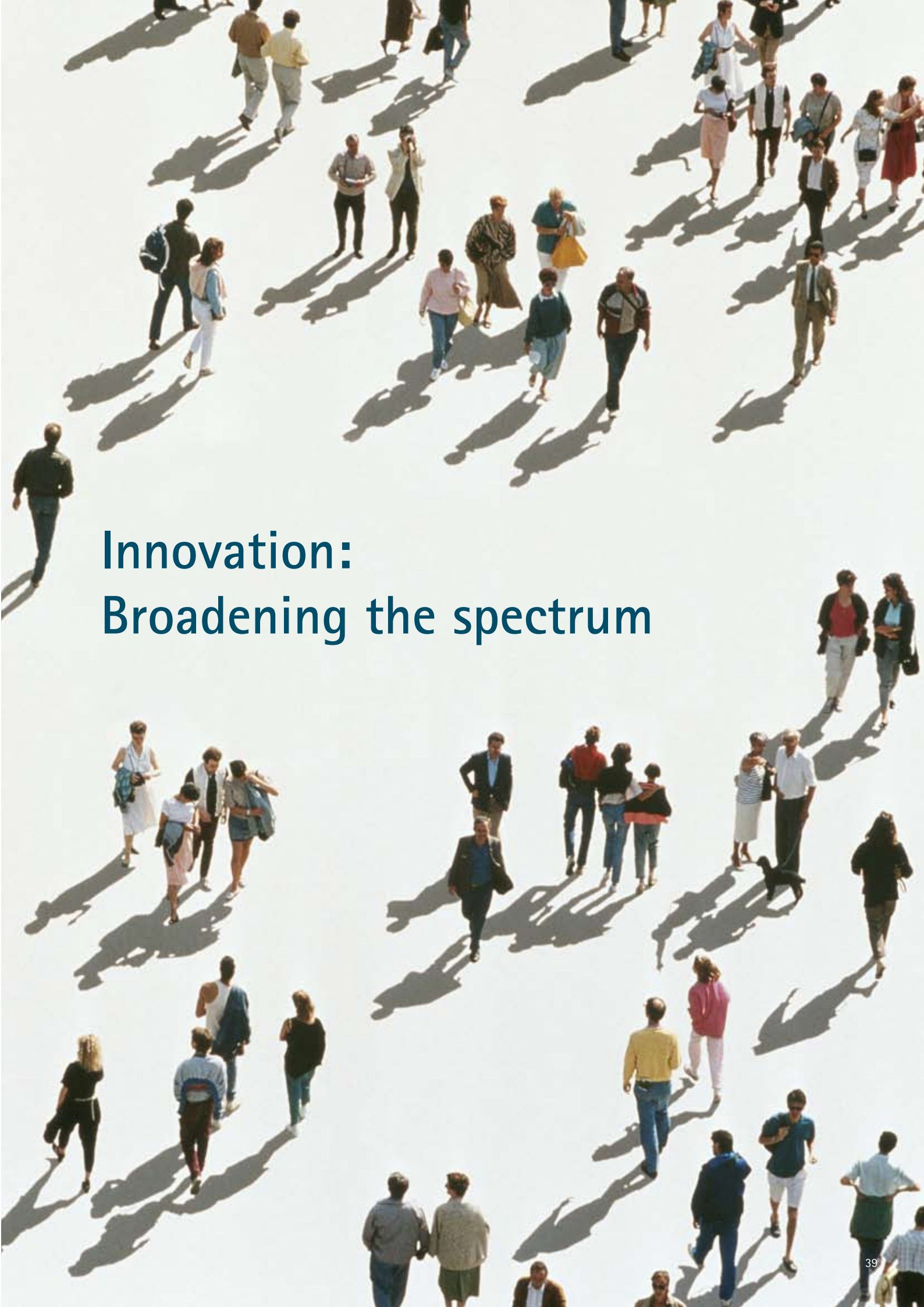
For developed-market multinationals

Target consumers

A super-global, one-size-fits-all approach will not work. To succeed in emerging markets, developed-market multinationals need to better understand how emerging-market consumers are differentiated and what their needs are. Further, they cannot rely on traditional, direct routes to market. They also should use social networks and strengthen their reputation through word of mouth.

Innovate in all business areas

Western multinationals should target their efforts carefully in emerging consumer markets. The local-knowledge advantage enjoyed by EMMs, coupled with their cost advantage, makes this a difficult area to win. Local adaptation, business models based on innovative pricing and financing mechanisms, and public-private partnerships (for example, in infrastructure provision) are important examples of best practices for Western multinationals striving to expand their business in emerging markets.

An aerial, high-angle photograph of a large, diverse group of people walking across a bright, white, reflective surface. The people are dressed in casual to business-casual attire, and their long, dark shadows are cast across the white ground, indicating a low sun position. The crowd is spread out across the frame, with some individuals walking alone and others in small groups. The overall scene conveys a sense of movement and a broad spectrum of human diversity.

Innovation: Broadening the spectrum

Traditionally strong in tailoring Western products to serve customer needs in their home markets, a small but growing number of companies from emerging markets now participate in original research, tapping into global innovation networks and benefiting from knowledge spillovers. But more focus on generating new ideas and organizational structures to enable innovation is needed to sustain long-term growth.

"Innovation is the only way in which we can really differentiate ourselves and set ourselves apart in a globalized world."

Josué Christiano Gomes da Silva, Coteminas

Emerging-market multinationals (EMMs) are sometimes regarded as imitators, not innovators—adapting Western products, from pharmaceuticals to mobile phones, to sell in their own markets. This might be true to some extent, but their approach to innovation is in itself innovative.

Mastering the art of improvisation

At the core of many EMM innovation strategies is an understanding of customer needs in light of cost constraints, culture and customs, for which pragmatic solutions can then be devised. As Milton Vargas of Brazil's Banco Bradesco pointed out, even people with limited means "like innovation and relate it to an organization's agility and competence."

Mukesh Ambani of India's Reliance Industries Limited found that "working backwards from a goal works better, so we've always

figured out what the consumer needs, rather than blue-sky innovation." This approach makes economic sense: in the early stages of market development, the returns from adapting existing technologies and products—as opposed to inventing entirely new ones—tend to be greater.

Tweaking and tailoring

Haier became a leader in China's white-goods market, despite heavy competition, mainly because of its expert knowledge of the nuances of the Chinese consumer and its ability to develop products tailored to those needs. For example, Chinese consumers in rural markets used the company's washing machines to clean vegetables such as sweet potatoes. Haier modified its product designs so that vegetable peel would not clog the machine's pipes. The company then affixed large stickers on the modified washers, with instructions on how to wash vegetables safely using the machine.

The next generation of washing machines can even produce goat's milk cheese.¹⁴⁴

The "Jaipur Foot" is another example of product development where local knowledge is used to invest in just enough know-how to meet the needs of emerging-market consumers. This US\$30 prosthesis has already transformed the lives of millions of land-mine amputees in the developing world including Afghanistan, Cambodia, India and Pakistan. Not only is the artificial limb a great deal more affordable for emerging-market consumers than its high-tech alternative, it also enables greater mobility and precisely suits the local ways of eating, sitting and praying without shoes.¹⁴⁵

Organizational innovation

Practical creativity in EMMs is not just limited to product development. Innovation extends to processes and operations as part of a search for cheaper, simpler and more flexible business models. In designing the Scorpio sports utility vehicle, Mahindra & Mahindra handed over a significant part of the process to suppliers that carried out the design, testing, validation and materials selection. This was almost unheard of among global carmakers. The company simply provided performance targets and budgets and brought together the separate components to create the end product.¹⁴⁶

Poor infrastructure in some emerging markets often necessitates innovative ways to reach and service the consumer. Indian solar energy company Selco based technicians locally to sell, install and repair products and to provide ongoing maintenance and micro-finance loans to its mostly remote and rural customers.¹⁴⁷ CEMEX, one of the world's largest cement manufacturers, is renowned for unconventional thinking, especially when it comes to operational efficiency. The company revolutionized the traditionally old-fashioned and low-tech cement industry by installing GPS equipment

in its trucks so that ready-mixed concrete could be delivered efficiently throughout Mexico.¹⁴⁸

Experience in operating in emerging markets and developing products to meet the needs of some of the world's largest and most dynamic consumer markets is a great starting point—not to mention a strategic advantage—for EMMs. More than 80 percent of the world's six billion people live in emerging economies, with China and India each boasting billion-plus populations.¹⁴⁹

Consumer markets present challenges as well as opportunities. Consumer spending in China, India, Brazil, Russia, Mexico and South Korea will be greater than that in the G6 economies by 2025 (at purchasing power parity).¹⁵⁰ The expectations of increasingly demanding consumers in emerging markets, with growing disposable incomes, will need to be met through cutting-edge research and market-tailored products.

Moving from "D" to "R&D"

While EMMs have demonstrated their versatility in development (or "D"), a large opportunity still exists to adopt more research capabilities. Elements of the current operating environment in emerging economies provide fertile ground for EMMs to move from improvisation and emulation toward a greater focus on original research. National governments support—even push—enterprises to innovate, placing strategic bets on certain industries and companies.

Having spent the last two decades establishing itself in the manufacturing sector, China now wants to move from "made in China" to "invented in China." China's National Science and Technology Development Plan (2006–2020) aims to increase research and development (R&D) expenditures to 2.5 percent of GDP by 2020 to reduce China's reliance on foreign technology.¹⁵¹

At the same time, access to the sizable, increasingly affluent and

changing consumer markets of the emerging world offers a significant lever for aspiring EMM innovators. These consumer markets are likely to inspire and drive future innovation across the whole value chain, potentially establishing the global consumer trends of the future.

Emerging-market innovators

While many EMMs are content to concentrate their efforts on—and benefit from—development, some do capitalize on their favorable operating environment to generate original ideas, conduct research and develop new products and processes from first principles. Further aided by moderate but increasing business R&D investment, globalizing R&D activity and related knowledge spillover effects, the cyclical evolution from D to R&D is starting to dispel traditional perceptions of EMMs as low-tech imitators.

A select number of EMMs are moving rapidly up the value chain—in some cases even ascending to the top of their industry. Mahindra & Mahindra's Scorpio was awarded car of the year in 2003 at the CNBC Autocar Awards, beating competition from Mercedes-Benz and Toyota. Among other attributes, the car was celebrated for its stylish exterior.¹⁵² Engineers from Brazil's Embraer, one of the largest aircraft manufacturers in the world, devised a new "double bubble" fuselage design, with more than 40 airlines providing input.¹⁵³ South Africa's Sasol, the world's largest producer of synthetic fuels, recently started using a new technology to convert natural gas piped to South Africa from Mozambique.¹⁵⁴ Even stalwarts of the generic-drugs industry in emerging markets are moving into higher-value activities. An anti-malarial drug developed by Ranbaxy, the first originally-researched molecule in India, will reach the market by 2011. Two Indian companies, Glenmarck and Dr. Reddy's, both have molecules in various stages of development.¹⁵⁵

Figure 4.8: Top companies in developed and emerging markets by R&D investment, 2006

Global rank	Developed-market	Country/region	US\$m	Global rank	Emerging-market	Country/region	US\$m
1	Pfizer	United States	7,153	10	Samsung Electronics	South Korea	5,784
2	Ford Motor	United States	6,777	60	LG Electronics	South Korea	1,690
3	Johnson & Johnson	United States	6,706	67	Hyundai Motor	South Korea	1,467
4	Microsoft	United States	6,703	132	Petroleo Brasileiro	Brazil	684
5	DaimlerChrysler	Germany	6,497	162	PetroChina	China	514
6	Toyota Motor	Japan	6,420	172	Gazprom	Russia	469
7	GlaxoSmithKline	United Kingdom	6,369	173	Hynix Semiconductor	South Korea	467
8	Siemens	Germany	6,236	175	Taiwan Semiconductor Manufacturing	Taiwan	464
9	General Motors	United States	6,212	181	CVRD (now Vale)	Brazil	453
11	Intel	United States	5,528	183	Korea Electric Power	South Korea	450

Note: Source data converted from pounds sterling to US dollars using average exchange rate for 2006 of US\$1 = £0.54

Source: UK Department for Innovation, Universities & Skills (DIUS) and the Department for Business, Enterprise & Regulatory Reform (DBERR), R&D Scoreboard 2007

EMMs also have begun to augment the financial resources they dedicate to R&D, signifying the increasing importance attached to innovation. Multinationals from developed markets still make up the majority of global R&D expenditure. Nine of the top ten corporate spenders on R&D come from the developed world (Figure 4.8). Western company R&D spending of US\$428 billion significantly overshadows the US\$22 billion attributed to EMMs.¹⁵⁶

However, the growth of R&D among EMMs is impressive. R&D expenditures by Chinese and Indian companies grew by more than 30 percent in 2006,¹⁵⁷ while Russian energy giant Gazprom and Taiwan's BenQ grew their R&D expenditures by 101 percent and 95 percent respectively.¹⁵⁸ EMMs have also begun to raise the stakes in terms of R&D spend as a proportion of sales. In 2006, R&D expenditure by South Korea's Realtek Semiconductor was equivalent to nearly 20 percent of its sales revenue.¹⁵⁹

Nevertheless, the impact of greater emerging-market R&D investment should not be overestimated. Much of this capital will still be allocated solely to the development phase of innovation, with research remaining almost an exception rather than the rule among EMMs. For example, in 2006 the World Bank carried out a survey of 2,300 manufacturing enterprises across 16 Indian states and found that only 27 percent carried out formal R&D.¹⁶⁰ Despite hubs of innovation and expertise springing up on the doorstep of EMMs, it is the developed-market multinationals, not EMMs, that are often responsible for engaging in research as well as the development of these clusters—and they still reap the majority of rewards as a result.

Of 17,000 patent applications filed in India in 2004–2005, only 3,500 were by Indian nationals.¹⁶¹ Of the 49 most active filers in India in the past decade, 44 are either foreign companies or subsidiaries.¹⁶² Those EMMs that

engage in increasing levels of R&D activity tend to be the larger, more established companies. They complement their increased spending by tapping into geographically dispersed innovation hubs as well as by benefiting from knowledge spillover from foreign companies.

Aspiring to innovate globally

A handful of EMMs have begun to move some of their R&D capabilities overseas to access established innovation centers. These activities are often driven by the desire to absorb knowledge and gain access to new markets, talent and expertise. Tata Motors has an engineering research center in Pune, India, employing more than 1,400 scientists and engineers. It cooperates with leading international design houses in Italy and recently set up a technical center in Warwick, United Kingdom.¹⁶³ Huawei of China has overseas R&D centers in India, Russia, Sweden and the United

States.¹⁶⁴ Coteminas of Brazil has R&D centers in Brazil and the United States and is setting up a third center in Asia.¹⁶⁵

Another strategy used by some EMMs is to acquire new or complementary innovation capabilities, as explained by Amit Kalyani of Bharat Forge: "Our strategy for acquisitions is one of complementary and supplementary involvement, to give us access to products, technologies, customers and markets that we don't have."

Absorbing knowledge from collaboration with developed-market multinationals is another avenue that EMMs explore, particularly in the pharmaceutical industry. Ranbaxy updated an agreement with GlaxoSmithKline (GSK) in which Ranbaxy will conduct initial research and GSK will focus on clinical development and commercialization. As part of the partnership, Ranbaxy will retain the rights to commercialize products in India.¹⁶⁶

Nicholas Piramal India Limited and Merck & Co. also recently announced R&D collaboration to discover and develop new oncology drugs.¹⁶⁷ Both EMMs and developed-market multinationals gain significant benefits from such an approach. While developed-market multinationals secure access to a large sample of trial participants, patients and potential revenue, EMMs gain insight into managing complex cross-disciplinary research projects.

Business Implications

For emerging-market multinationals

Develop organizational structures for innovation

As EMMs compete more and more on the global stage, they need to develop efficient organizational networks, systems and mechanisms that can transform a new idea into a series of replicable processes and a profitable product or service.

Stay close to the consumer

Maturing and growing consumer markets at home and unfamiliar ones overseas may require EMMs to adopt additional methods to stay close to the needs of the consumer. By increasing market research and engaging consumers in the evolution of a new product, EMMs could build on existing understanding and develop synergies across their business functions.

Help shape national systems of innovation

As EMMs move from emulation to invention, it will become increasingly important to strengthen links with government, academia and public research institutions in their home countries (and in other relevant countries) to shape and build an innovation ecosystem that encourages, protects and rewards innovation. This will include better enforcement of intellectual-property rules.

For developed-market multinationals

Understand the art of improvisation

Developed-market multinationals should adopt a wider view of innovation in both emerging and developed markets. Placing greater focus on the development stages of innovation will help these companies achieve an awareness of when cutting-edge innovation is required and when a "just good enough" approach will suffice.

Integrate with local networks and consumer markets

It is imperative to become embedded in the local innovation landscape. Developed-market companies need to build stronger links with local universities, think tanks and governments, as well as collaborate with policymakers and EMMs to foster an innovation-enabling environment within emerging economies.

"There is a realization that innovation, with its own intellectual property rights, is important. However, such progress takes time. Self-developed technology and innovation are still in the early stages."

He Jianqiang,
Dongfang Boiler

"True innovators understand that their mindset has to be global."

Antoine van Agtmael,
Emerging Markets
Management LLC

A full-page photograph of a snowy mountain landscape. Two mountaineers are visible on a steep, snow-covered slope. The mountain features large, rounded snowdrifts and a deep crevasse. The sky is a clear, deep blue. The text "5. Growing pains" is overlaid in white on the left side of the image.

5. Growing pains

The speed of growth experienced by emerging-market multinationals has been one of their most striking characteristics, yet it also presents their most significant challenge. Across a range of dimensions, they need to understand the potential obstacles and barriers they might encounter as they expand on the global stage of competition.

Accenture research in this area reveals that emerging-market multinationals (EMMs) face six challenges to sustained growth:

Input constraints

Growth can be sustained only as long as there are sufficient inputs to maintain momentum. As our analysis has shown, EMMs face significant challenges in accessing and securing their developmental lifeblood across a range of production factors—from talent to energy and from raw materials to capital.

As Don Lam of Vietnam's VinaCapital, a venture capital firm, observes, "the first challenge when expanding is finding the right talent." In the course of our interviews, a large number of executives identified a lack of available talent as the primary barrier to growth. Despite major improvements in education systems and increased levels of commercial acumen, there are still simply not enough people with the necessary skills, experience and mindset. As a result, labor costs are rising rapidly in many emerging economies, and there are serious problems with employee turnover. To combat these challenges, EMMs need to build a compelling "employer brand" that acts as a powerful tool to recruit, develop and retain talent.

Securing raw materials and commodities also has become increasingly difficult, owing not least to increased competition for finite resources against a backdrop of often fragile infrastructure.¹⁶⁸ While many EMMs have overcome these challenges, their approaches may not work in the longer term.

Further, the emergence of new players in global capital markets, such as sovereign wealth funds and private equity funds, means that EMMs face increasingly intense competition for assets and acquisition targets, just as their Western counterparts do. In this crowded marketplace of investors, simply having ample capital at your disposal does not guarantee the ability to acquire assets.

Greater competition

EMMs are growing in size and number. Their entry into the global economy means they face competition on all fronts—both from developed-market multinationals and from each other. Our research indicates that EMMs are particularly concerned about competition from their fellow EMMs. China is seen as perhaps the strongest player, with Young-Suk Sunwoo of South Korea's Hansol Paper saying, "the biggest competition we face is from China." Similarly, José Augusto Cardoso Mendes of the Brazilian petrochemical company Braskem notes: "We are seeing more competition from new players from places such as India and the Middle East."

This fear of competitors in their own backyard is not surprising given the local focus of many EMMs, particularly in the early stages of their development. But the very characteristics that made these multinationals competitive in the first place now threaten their ability to expand globally. The ability to source from the best new locations and the nimbleness with which such game-changing moves can

be made mean that the intensity of competition mirrors the pace of growth. EMMs will need to be continuously alert to this shifting configuration of competitors.

Geopolitical risk

As EMMs grow and operate across geographic boundaries, they face an increasingly complex cast of regulatory and policy actors. The impact of different regimes can be felt at the local, regional and global levels.

At the local level, EMMs must navigate often opaque regulatory practices with little assistance. These shifting sands make it tricky for market entrants to plan, consolidate and grow on a sound basis. It also means that knowledge of local regulatory practices represents a significant source of competitive advantage and a key area in which EMMs should invest time and resources.

At the regional level, a tapestry of different rules and regulations exists, partly the result of slower multilateral trade liberalization as the current Doha Round of World Trade Organization talks stalls. EMMs will need to understand and navigate this arena carefully if they are to expand.

At the global level, EMMs must play by rules that often have been set by developed-market economies and institutions. Reform can be slow. EMMs must be sensitive to the reactions they might encounter as their expansion continues into developed markets. The rapid growth of emerging markets has not been universally welcomed; in some quarters it has given rise to direct and indirect protectionism. The definition of "strategic" industries has evolved as Western governments resist the attempts by EMMs to acquire developed-market companies.

As Ko Kheng Hwa of the Singapore Economic Development Board says, "rising levels of protectionism could ruin the globalization dynamics that emerging markets are leveraging."

"Emerging-market multinationals must learn to integrate their emerging-market strategies into global strategies."

Dr. Xiang Bing,
Cheung Kong Graduate
School of Business, China

"The greatest challenge is not globalization itself but how to deal with globalization in a manageable way."

Professor Wang Zhile,
Research Center on
Transnational Corporations,
Ministry of Commerce,
People's Republic of China

This new operating environment has the potential to hamper EMMs' journey toward global expansion. Working with—and anticipating responses from—regulators in different markets will be a key challenge if EMMs are to shape and adapt to changes in global trade and investment rules. Given the increasing interdependence of today's global economy, such actions will need to become part of EMMs' core business in a way that they might not be today.

More diverse customers

One of the key strengths of EMMs has been their ability to tailor products and services to their local customer bases. As Francisco Djalma de Oliveira of Banco do Brasil says, "a good understanding of the new market, the local culture and the 'local reality' is essential." In many areas, growth has been founded on the exploitation of historical and cultural ties. However, this traditional strength also presents a new challenge. As EMMs grow across geographic and cultural borders and move up the income chain, they will face a more diverse set of consumers with contrasting needs and tastes.

As EMMs enter new, wealthier economies and as their own domestic markets develop, they will be exposed to a growing middle class, which has different needs and, increasingly, different tastes. EMMs must stay in touch with changing preferences (and pre-empt them), at the same time ensuring that they continue to tailor goods and services to local cultural norms. A one-size-fits-all approach will be neither desirable nor sustainable.

Higher-value innovation

As well as growing in size and reach, EMMs must continue their progression up the value chain to access new consumer markets and consolidate competitive advantages. Their earlier innovation capabilities were born of necessity, reflecting a willingness to adapt and improvise to overcome barriers.

Now their challenge is how to structure creativity and replicate high-end research. While well established as centers of product development, EMMs will increasingly need to move into the spheres of invention and concept generation. Broadening the innovation spectrum will continuously challenge EMMs. It requires a delicate balance between maintaining freedom to improvise in product development while implementing structured processes for idea generation and invention.

Going global but remaining local

The tension surrounding innovation highlights the fundamental challenge of future EMM growth: how to achieve growth on a global scale while maintaining the local focus that has made them successful in the first place. Doing so will require new, flexible operating models that combine local knowledge and practices with global functions and capabilities. While aspiring to the global stage traditionally occupied by developed-market multinationals, EMMs cannot afford to lose sight of the key skills and practices that helped them grow. Deep local knowledge, products tailored to consumer needs and constraints, adaptability and entrepreneurial zeal have all helped these companies achieve significant growth in recent years. If they can avoid stifling these abilities in the quest for scale, they will be well positioned to achieve—and sustain—significantly greater growth in the future.

An aerial night photograph of a winding road through a dark, forested landscape. The road is illuminated by a bright, glowing light trail that curves through the scene, starting from a bright point in the upper left and ending in the lower right. The surrounding area is dark and textured with trees and vegetation.

6. The path to high performance

While diversity is one of the defining characteristics of today's emerging-market multinationals, our analysis suggests that they also share a number of common features. These traits cut to the core of their performance and offer clues to their future growth prospects.

What capabilities do emerging-market multinationals (EMMs) exhibit when viewed through the lens of high performance? Do they show recognizable traits or do they take a wholly new route to growth and global expansion?

Accenture defines a high-performance business as one that outperforms its peers consistently over the long term. Our experience in working with clients and our High Performance Business research, which covers more than 6,000 companies, establishes that high-performance businesses differentiate themselves by balancing, aligning and renewing three essential building blocks of high performance:

- Market focus and position—business strategy decisions regarding where and when to compete.
- Distinctive capabilities—hard-to-replicate capabilities that define how businesses compete.
- Performance anatomy—common mindsets relating to culture, leadership and the workforce.¹⁶⁹

Market focus and position

Adapting to the market

EMMs have been highly effective at assessing and adapting to local customer preferences. For example, to better understand the needs of low-income customers in Mexico in the late 1990s, CEMEX assembled a team of employees who agreed to spend 10 hours each day for 12 months in a poor neighborhood of Guadalajara.¹⁷⁰

The feedback loop for customer preferences is short. EMMs aim to be flexible enough to exploit their markets as fully as possible

by canvassing feedback and then acting on it quickly. As a result, the products they develop are based on needs and meet consumer requirements closely. Further, EMMs are ready to establish leadership teams that reflect the broader cultural make-up of the markets in which they operate. Not only does this bring to bear market-specific knowledge and expertise, it also serves as a sign of the companies' willingness to adapt to the local environment.

Focusing on other emerging markets

EMMs demonstrate a clear focus on achieving and consolidating local growth as a springboard for prudent global expansion, most often into other emerging markets where cultural and geographical synergies are likely to exist. China's Huawei followed a strategy of focusing on emerging markets first before expanding into developed markets, consolidating growth in Southeast Asia, South Africa, Latin America and Eastern Europe.¹⁷¹

In growing into new markets, these multinationals often tap into pools of diaspora populations. Prior knowledge of customer preferences, and of business and cultural norms, diminishes the risks. Dabur India Limited sells goods not just in India but also to people of Indian origin living in Bangladesh, Pakistan, the Middle East and North Africa, Gulf states, the United Kingdom and the United States.¹⁷² The importance of cultural affinity is also seen in investment flows, where EMMs are willing to place strategic bets on growth in adjacent markets. Vietnam's VinaCapital invests in neighboring Cambodia and

Laos—markets that present the greatest opportunities for them.¹⁷³

Moving up the value chain

Not only are EMMs growing out, they are also moving up the value chain into higher-value-added activities. Companies like LG of South Korea and Acer of Taiwan have progressed in recent years from producing component parts to selling branded goods in their own right.

Distinctive capabilities

Inducing demand

EMMs display a relentless and often highly innovative approach to incubating and tapping into new sources of demand, based on investment in infrastructure, business model innovation and adapting sophisticated technologies and products to meet local needs and spending power. Because of the low levels of disposable income that usually characterize their domestic markets, they often must stimulate demand. Examples include CEMEX's lottery scheme for lower-income families to access building materials¹⁷⁴ and China Mobile's provision of telecommunications services for rural customers.¹⁷⁵

Improvising capabilities

When facing a gap in their capabilities, EMMs are quick to improvise a customized solution. Reliance Industries Limited has set up its own educational initiatives and informal learning processes.¹⁷⁶ Innovation demonstrates a willingness to overcome barriers as they are encountered, engaging as necessary in what might otherwise be seen as non-core business activities.

Managing risk and uncertainty

EMMs are comfortable with higher levels of risk and uncertainty because of the environments in which they have developed. Many companies from Eastern Europe have emerged against the backdrop of a transition from a closed, planned economy to one that is more liberalized and market-oriented.

Similarly, India's political and economic journey in recent years has made many Indian companies more resilient to turbulence at home and more willing to take bold steps abroad. For example, Jindal Steel of India was recently awarded development rights by the Bolivian government to one of the world's largest iron ore mines.¹⁷⁷ Oil and Natural Gas Corporation, also of India, has interests in Sudan, Libya, Iran, Iraq and Syria.¹⁷⁸ EMMs are helped by the fact that their stakeholders—in particular, government and regulatory bodies—are typically focused on promoting economic growth, with international links often playing an important role.

Performance anatomy

Learning by seeing

EMMs demonstrate a keen willingness and ability to learn rapidly and assimilate lessons from their local environment. Their organizational agility means that they learn fast and act quickly. They also are able to look to developed-market multinationals for examples of best practices and to observe the challenges those companies have experienced when entering the same markets. In this way they assemble corporate best practices from around the world.

Multiplying scarce talent

Talent management is a key component of a high-performance business. While ensuring a balance between home-grown talent and talent from overseas, EMMs use innovative practices at all stages of their human capital strategy. They develop human capital potential via internal training and development programs that link with educational establishments and tailor skills development to specific business needs, and by providing health and welfare services.

They discover talent in a variety of under-tapped sources, including diaspora populations, such as the increasing number of Chinese students who have studied abroad but are now returning to China.

EMMs also deploy their human capital across a wide array of experiences and challenges—through rotations abroad, for example, that develop skills in a new environment—and provide opportunities for swift advancement.

Global mindset with a local focus

EMMs share some common attitudes that make them effective at entering other markets. Leaders who have been educated abroad or who have experience of working in international business help engender a global mindset among many of these companies. This global focus is further underpinned by the liberalization of their domestic markets and the necessity of competing on the global stage to ensure survival. At the same time, however, they have been able to preserve local knowledge and practices that give them a distinct competitive advantage, although maintaining this will be increasingly tricky as EMMs grow in size.

The path to high performance

It is clear from this snapshot that EMMs are well positioned to achieve and sustain growth. Given their different stages of development, they can look to developed-market multinationals for best practices and also for the pitfalls they should avoid.

Perhaps the most significant challenge they now face is one which is familiar to many developed-market multinationals: how to maintain the local mindset and flexibility that made them so successful in the first place while increasing scale and reach—factors that can work against original sources of competitive advantage.

The story of EMM development has not been one of leaping into the unknown waters of the global economy. Most EMMs have adopted a canny, step-by-step approach that builds on existing strengths and capabilities and replicates them at an incrementally greater scale.

It remains to be seen whether they can combine growth with flexibility and a local mindset—the likely keys to becoming the high-performance businesses of tomorrow.

"A lot of people say that the 19th century was the British century and the 20th century was the American century. Now we must make the 21st century the global century."

Professor Jean-Pierre
Lehmann, IMD and
The Evian Group

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