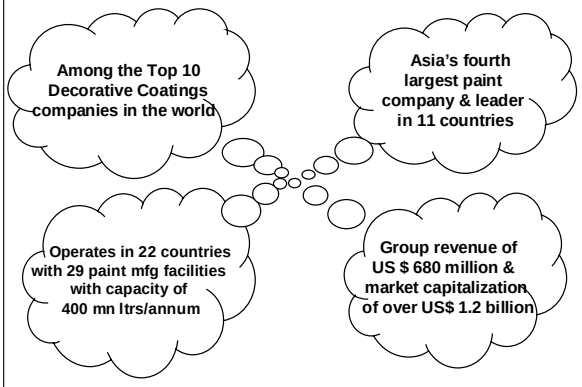
Challenges for Indian Multinationals

The Asian Paints Experience

Shri. Ashwin Dani
Managing Director
Asian Paints Ltd.

Asian Paints - EXPANDING HORIZONS



1

International Presence

BERGER

- **South East Asia**: Singapore, Myanmar, Thailand, Malaysia & China
- **Middle East**: UAE, Bahrain
- **Caribbean**: Jamaica, Barbados & Trinidad & Tobago

Apco COATINGS / Taubmans

- **South Pacific**: Australia, Fiji, Tonga, Vanuatu, Samoa & Solomon Islands

asianpaints

- **South Asia**: Sri Lanka, Nepal & Bangladesh
- Oman

SCIB PAINTS

- Egypt

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2

Indian Organisations: Challenges
National Champions are going International

Developing multi-national orientation

- Are we wiling to take a long-term call on the market?
- Are we willing to go overseas and opt for lesser returns than the Indian market in the short term ?
- Are we willing to adopt a challenger mindset?

3

Indian Organisations: Challenges
National Champions are going International

Developing multi-national orientation

- What is the difference we can make in the newly acquired marketplace?
- How can you portray your capability as a multinational to the customer
  - Is it going to be price OR service OR product range OR technology OR all these combined
- Branding. How is that going to be done?

4

The Asian Paints Experience

5

Our approach

- **Capability assessment and Identifying best suited markets**
  - Fast Growing Emerging Markets are best suited to replicate the Asian Paints model
- ***Asian Paints would like to become the leading decorative coatings company across emerging markets***

6

Our approach

- **Market entry strategy**
  - Acquisition is the preferred mode as it gave us a brand, distribution network, manufacturing facility and people
  - Acquisitions also gave us size in some cases and a readymade platform to scale up.

7

Our approach

- **Creating Value and Growing the Business**
  - The Human Resource Challenge
  - The Capital Challenge
  - The Value Proposition

8

The HR challenge

How do you manage 1500 employees from more than 20 nationalities

- Respect cultural sensitivity
  - When instituting uniform systems/procedures across the group we took into consideration this aspect
- Communication as a key tool to integrate, inform, motivate and build one common platform for all employees in the group

9

The HR challenge

How do you manage 1500 employees from more than 20 nationalities

- Clarified our intent clearly to all employees
- Performance Focused Management Systems
- How do you empower local people?
  - Where does the parent company draw the line

10

The Capital Challenge

Resources are limited. Opportunities are plenty

- How will we pick and choose a market which will give us the best returns and will also suit our strengths and our ability to compete in that market

11

Adding Value

- **Building competence**
  - Creating uniform templates across subsidiaries
  - Sharing group's capability, resources w.r.t marketing, supply chain, sourcing, human capital
  - Setting expectations

12

Adding Value

- **Building competence**
  - –Transferring knowledge and building skills
  - –Cross pollination of skills, technologies, human resources not only from parent to subsidiaries and vice versa but also from one subsidiary to another
- ***Initiatives like TOP, e-strides, regional technology centres, lead technology centres, guiding principles, training progs, Global managers conferences,***

13

Learnings

- Each market is different and needs a different strategy
- Organizations must align products/customer offerings in each market
- Acquisitions is a preferred mode
- For acquisitions to be successful, people related and cultural factors are crucial
  - –Localisation of talent essential
- Communication is very important
- Leverage relationships at inter and intra group level

14

Learnings

- Need to put robust processes in place to manage disparate needs and requirements with a view to build value to the customer and organisation.
- Speed of integration and sharing of best practices is critical for success
  - –Create task force in IT/ Supply Chain/ Technology
- Early success is important to keep people motivated and for the process to roll on
- Control as a necessary and sufficient condition.

15

Innovation & Knowledge Management

Dr. Subramanian Siddhan

Clariant Chemicals (India) Ltd.
Thane

What is innovation?

- Innovation means renewal or alter
- Prerequisite for innovation is the dissatisfaction with the current status and an inquisitive mind

1

What is Innovation?

- Peter Drucker referred to two real functions, Marketing and Innovation
- Dynamics of a group and creativity are intricately linked to culture.
- One could consider negativity is resistance to change and maintaining status quo.
- Creativity is a skill to be learned, nurtured and rewarded.

2

Defining Innovation, Creativity & Intelligence

- Innovation is using an existing idea for a laterally different purpose or application
- Creativity is doing things that has not been done before
- Intelligence is the ability to learn and think

3

Demonstrated creativity examples

- George de Mestral's observation of how cockleburs attach to clothing leading to invent the hook-and-loop fastener known as Velcro®
- Art Fry's development of Post-It® removable notes at 3M Corporation in 1974 Dr. Spencer Silver, another 3M scientist, had developed a polymer adhesive that formed microscopic spheres instead of a uniform coating, and thus was a poor adhesive that took years to set

4

Managing Creativity

- "If you do not know where you are going, you will not know when you arrive." – conventional view
- "If I knew what I was doing, it would not be research." – unorthodox view

5

Knowledge Management definitions

- A multi-disciplined approach to achieving organisational objectives by making the best use of knowledge
- The systematic processes by which knowledge needed for an organisation to succeed is created, captured, shared and leveraged
- The art of creating commercial value from intangible assets

6

Intelligence

- **Synthetic intelligence.** The ability to combine existing information in a new way.
- **Analytic intelligence.** The ability to distinguish between new ideas that have potential, and new ideas that are not worth further work. This ability is essential to an effective allocation of resources, by evaluating the quality of new ideas.

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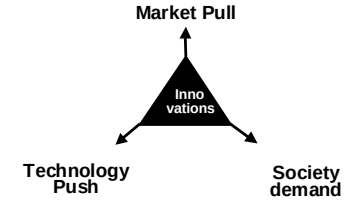
What are innovation drivers?



Main focus: Innovations based on own technologies and on market knowledge

Main focus: Innovation trends backed by governmental funds and regulations

8

What is Management of Knowledge ?

Management of knowledge should move from individual to networked groups in view of overwhelming information

Learning gives creativity, creativity leads to thinking, thinking provides knowledge and knowledge makes you great

Dr. APJ Abdul Kalam
Honorable President of India

Revisiting Indian Education: Vision 2020 – Challenges ahead – National conference 4th April 2006

9

What is Knowledge?

- Explicit – can be codified: books, reports, journals, memos, documents
- Tacit – "know-how" typically unwritten
  - Experiences and expertise gained over time
  - Insights and observations resulting from discussion and collaboration
  - Often most valuable because difficult for competition to replicate

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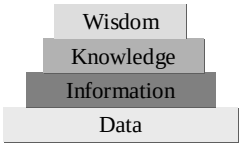
Knowledge is more than knowing

Knowledge develops like a pyramid:



Strategy, heuristics
Concepts, algorithm
Organized facts, simple rules
Raw & isolated facts

11

Knowledge is more than knowing

Overload = Noise:

- Business workers are flooded with overload of data and are drowning in information
- Volume of technical literature is overwhelming
- To read one year of chemistry publication will take 700 yrs.
- Biomedical literature will take 2200 yrs.

12

Knowledge is more than knowing

Explicit and tacit knowledge:

- Physics student can write equation of a ball propelled in space and its trajectory - this is explicit knowledge
- Basket ball player knows how to propel into the hoop - this is tacit knowledge - experience, skill & muscle memory

13

Knowledge is more than knowing

Effective knowledge management:

- Deals with both explicit and tacit knowledge
- While explicit knowledge is copied, tacit knowledge is not
- Prefer tacit knowledge based projects for sustained success

14

Knowledge is more than knowing

Knowing redefined:

- The verb know used to mean, having information stored in one's memory
- It now means the process of having access to information and knowing how to use it

15

Knowledge is more than knowing

Another way to look at KM

- How group of people make themselves collectively smarter
- While training educates individuals, KM educates the entire organization

16

Organizational conditions for KM

- Trust
- Confidence
- Credibility
- Direct connection knowledge acquisition/sharing - reward
- professionals = ambassadors or bosses
- Systems support

17

Famous Remarks

- On the Microchip:
  "**But what is it good for?"**
  Engineer at Advanced Computing Systems Division of IBM **1968**
- **Home PC:**
  "There is no reason anyone would want a computer in their home"
  Ken Olsen, President, Chairman and Founder of Digital Equipment Corp**, 1977**
- **Memory**
  " 640K is ought to be enough for anybody"
  Bill Gates, 1981

18

Famous Remarks

- Telephone:
  "This telephone has too many shortcomings to be seriously considered as a means of communication. This device is inherently of no value to us"
  Western Union—Internal memo
- Radio
  "The wireless music box has no imaginable commercial value. Who would pay for a message sent to nobody in particular"
  David Sarnoff's associates in response to his urgings for investments in the Radio in the 1920's
- Talking Pictures
  "Who the hell wants to hear the actors talk?"
  HM Warner, Warner Brothers,1927

19

Famous Remarks

- Beatles
  "We don't like their sound, and guitar music is on their way out."
  Decca Recording Corporation, rejecting Beatles, 1962
- Airplanes
  "Heavier-than-air Flying machines are impossible"
  Lord Kelvin, President, Royal Society , 1895
  "Airplanes are interesting toys but of no military value"
  Marechal Ferdinand Foch, Professor of Strategy, Ecole Superieure de Guerre
- **Oil - "Drill for Oil ? You mean drill into the ground to try and find oil? You're crazy"**
  Drillers whom Edwin L Drake tried to enlist to his project

20

Organizations and innovation

- Level 1: How do I make organization more innovative
- Level 2: How do I make my division more innovative
- Level 3: How do I make my team more innovative
- Level 4: How can I be more innovative
- Level 5: How can I implement one new idea

21

Innovation & Indian context

- Traditional thinking and not questioning what has been passed on to us – need for an inquisitive mind
- Getting out of cocoon and flying out with innovation models in Pharmaceuticals, BPO and IT services
- Stage 3: Developing IP, research, manufacturing cooperation and acquisition

22

Innovation & Indian context

- Stage 1: Reverse engineering - using international knowledge for ensuring product / services availability
- Stage 2: Developing international markets and transforming organizations to be global players
- Stage 3: Developing IP, research, manufacturing cooperation and acquisition

23

Challenges for Indian MNCs

- Bringing innovation and creativity culture in the organization at various levels.
- Learn from innovation models applied in Pharmaceuticals, BPO and IT services
- Stage 3: Getting it right first time and strong process orientation, while revitalizing operations on innovative and creative approaches

24

Challenges for Indian Multinationals

Dr. P. M. Kelkar

Consultant: Quality & Compliance
Johnson & Johnson Medical Asia-Pacific

Indian Industry Today

- Non-competitive to competitive in certain areas
- Kitchen chemistry to organized production
- Protected to un-protected
- Poor quality to customer-driven quality
- Govt. control to private ownership in many areas
- Manual work to IT Enabled systems
- Labor intensive to labor effective
- Manufacturing to Mfg. plus Service based
- Changing from low tech to high tech
- Internally regulated to WTO regulated
- Local competition to global competition

1

Regulatory Compliance Challenges

- Knowledge of local legal framework & compliance to local Laws & Regulations
- Local & Indian Govt. clearances (e.g. Export Code No. , DGFT Code No.)
- Industrial Policy & EXIM Policy of the country
- Financial Policies e.g. accounts, audits, taxation, duties, banking channels, stock exchange rules, Sarbanes Oxley Act, reimbursement policies
- Price Controls, if any (e.g. DPCO)
- Incentives-Export Processing Zones, SEZ

2

Regulatory Compliance Challenges

- Antitrust & Competition Laws
- Employment & Labor Regulations e.g. min. wage act & rules, age, race, gender etc.
- Contract Agreements with partner/ authorized agent, suppliers, customers
- Policies regarding ownership of property
- Policies on handling Trade Secrets & Confidential Information
- Formulating Regulatory Policies, Awareness & Implementation
- Divestiture rules

3

Safety & Environmental Compliance Challenges

- Insurance: Facility/ People/ General
- Knowledge & implementation of Factory Rules
- Industrial Safety & Hygiene Regulations
- Environmental Protection Standards: ISO 14001
- Environmental Permits for Air, Water Pollution & Hazardous/non-Hazardous Waste Management

4

Health Authority Challenges

- Healthcare Compliance Policies
- WHO GMP Certification of Quality Systems & Processes
- ISO Quality System Certification (9000, 13485)
- US Quality Systems Regulations (QSR) & European MD & D Directive
- Regulatory & FDA Clearances, Licenses e.g. 510k & PMA for devices; ANDA & NDA for drugs
- Requirement for Product Standards, CE Marking
- Product Registration, Product Testing
- Certificate of Free Sale CFS/ CFG

5

Health Authority Challenges

- Compliance to MHLW & GHTF Standards
- Clinical Trials Regulations e.g. ICH Guidelines
- Labeling (country of origin, mfg. address, distributor/ agent/ local partner name & address), Local Language Labeling & Units of Packaging
- Bar Coding & lot traceability
- Narcotics Act, Wildlife Act, Natural Products Act, Pesticides Act, Control of Animal Origin products
- Handling Product & Service Complaints & compliance to Adverse Events Regulations
- Management of Field Actions

6

Intellectual Property Challenges

- Identify Patented vs. out of Patent products
- Local Patent Acts & Rules: Validity of Process/ Product/ Method Patents
- Royalty to Inventor
- Compulsory Licensing
- Trademarks & Industrial Design Acts & Rules
- IP Enforcement, Infringement, Litigation
- Develop hard to copy technology, do it by design

7

Key non-Regulatory Challenges

8

Business Challenges

- Have Winning Product: It is ***Quality*** that sells!
- Business Plan Objectives-short & long-term
- Selecting Authorized Agent/ Partner/ Distributor
- Negotiations & Acquisition of Local Business
- Labor & Sales Cost vs. Productivity
- Knowledge of Business Culture

9

People & Organizational Challenges

- HR & Recruitment Policies
- Organization Structure, Business Teams to support new business needs: Defined, Capable & mix of local & Indian
- Developing team of well-trained executives to transfer core skills & organizational structure
- Incentive & Compensation to such executives
- Selecting HR Agency for recruitment of manufacturing, sales & R & D employees
- Developing distinctive capabilities/ skill sets

10

Customer Knowledge

- Knowledge of customer groups, market segments & their requirements
- Establishing closeness to customer (less intermediaries preferred)
- Customer relationship management plans: access, service standards, complaints
- Customer satisfaction measurement
- After sales service, customer service

11

Benchmark Business Practices

- Communication & Coordination: Clear, timely & efficient
- Faster decision making & response time
- Speed to Market Focus for launch time, quotation submission etc.
- Behavior in Competitive vs. protected market
- Be global, act local practices
- Seamless Integration of new business

12

Manufacturing & Selling Challenges

- Facility: location selection, facility construction
- Successful implementation of superior, state-of-art the process & technology
- Agreements with suppliers
- Raw/ packaging & packing material availability, quality & costs
- Economies of scale, Lean manufacturing, Optimal processes

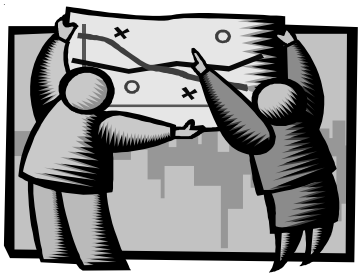
13

Manufacturing & Selling Challenges

- Quality Assurance Testing & Release
- IT Business Models SAP, JDE, BAAN etc.
- Just-in-time inventory management
- Shipping, Storage, Transportation & Delivery
- Good Distribution Practices
- Inventory & Receivables Management
- Advertising & Sales Promotion Issues

14

Challenges of Transfer Pricing for Indian Multinationals



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CISA(USA), CFE(USA), CISM(USA).ISO 9001:2000
Certified Quality Auditor, IRCA (UK)

What is Transfer Price?

- Price at which related parties transfer goods or services to each other
- Price charged by one enterprise to a related associated or connected enterprise?

Multinational Companies

- Global - operations and divisions spread across countries
- Presence in different sectors, industries, products and services – Horizontal and Vertical spread
- Multiple entities organizational structures and divisions

Why Transfer Pricing?

Control and Management
Presentation and Disclosure
Recording and Accounting
Valuation
Divisional Performance Evaluation
Decision Making and Management by Exception
- Profit centres, Investment centres

How Transfer Pricing?

Cost – which cost?
Variable Cost
Marginal Cost
Standard Cost
Absorption Cost
Full Cost
Cost plus Profit
Cost plus Opportunity Cost / Loss
Market Price
Arm's Length Price

Who decides Transfer Price?

Inter divisional Negotiations – Bargaining
Full freedom to deal with outsiders
Limited Freedom – Shadow Pricing

Decisions taken normally by –
- Board of directors
- Controlling Company decides

Issues

Which method to adopt?
Affects Decisions
Affects Performance Measurement
Has Tax and Legal Implications
What is the right method?

Indian MNC's

Pharma Companies – Ranbaxy, Lupin
Software Companies – Infosys, TCS, Wipro, iFlex
Bajaj Auto
ONGC
Engineering goods
Services Sector

7

How to Determine?

Value addition by different divisions
What adds Value?
Splitting Profit on the basis of
- Costs
- Resources
- Inputs
- Value Addition
- Risk taking

8

Need for Transfer Pricing

Say, if a MNE having operation in India also has some activities in tax havens or in country where tax rate is low compared to taxes in India.
In such a case, the MNE may try to arrange its transactions in such a manner that maximum profit accrues to its activities in Tax haven resulting into showing lower profits in India and denying to Indian exchequer, its legitimate share of taxes.
In order to check this, detailed regulations on transfer pricing are needed.

9

TRANSFER PRICING REGULATIONS contd....

Basic Principle

The provisions of Transfer Pricing are applicable only if two or more "associated enterprises" enter into an "international transaction".

The income arising from such an international transaction shall be computed having regard to the "arms length price".

10

TRANSFER PRICING REGULATIONS contd....

Definitions

'International transaction' is defined to mean the following transactions between associated enterprises
(at least one associated enterprise being non-resident
of India) having an impact on the profits, income, losses or assets of such enterprises:

purchase, sale or lease of tangible or intangible property; or
provision of services; or
lending or borrowing money; or
agreement or arrangement for sharing of cost, expenses for mutual benefit.

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TRANSFER PRICING REGULATIONS contd....
Definitions contd....

An enterprise would be regarded as an *"Associated Enterprise"* of another enterprise if –

(i) It participates, directly or indirectly or through one or more intermediaries, in the management or control or capital of the other enterprises, or

(ii) Person participating, directly or indirectly, or through one or more intermediaries in its management or control or capital also participates in management or control or capital of other enterprise.

12

TRANSFER PRICING REGULATIONS contd....

Definitions contd....

Deemed to be Associated Enterprises

If at any time during the previous year, the following conditions occur/are met -

* Held 26% or more voting powers
* Loans advanced exceed 51% of book value of total assets
* Guarantees given is 10% or more of total borrowings
* Right to appoint more than 50% of Board of Directors
* Dependency on manufacturing process, know-how, patents, copyrights, licenses
* Supply of 90% or more of raw materials or sale of goods manufactured or processed by an enterprise where the other enterprise is able to influence price and other conditions relating to the supply or sale.

13

TRANSFER PRICING REGULATIONS contd....

Definitions contd....

Arm's Length Price

Arm's Length Price is defined to mean price which is applied or proposed to be applied in a transaction between persons other than associated enterprises in uncontrolled conditions.

14

TRANSFER PRICING REGULATIONS contd....

Methods to determine Arm's Length Price

The key methods prescribed for determining the market price for inter-company transactions are

(a) Comparable uncontrolled price method
(b) Re-sale price method
(c) Cost Plus method
(d) Profit split method
(e) Transactional net margin method
(f) Such other method as may be prescribed

15

Advantages of following the Arm's Length Principle

Each State gets its share of revenue
Creates a broad equality of tax treatment between MNEs and independent enterprises
Supports growth of International trade and investment

Disadvantages of following the Arm's Length Principle

Difficulty in obtaining data of similar transactions
Unique transactions
Administrative burden

16

Solution?

No single solution

Tax Laws support five methods

Solution lies in judicious use and selection of transfer pricing method

17

Questions?

18

Challenges for Indian Multinationals - Important Lessons

Dr. Guruprasad Murthy

Director, Dr. V N BRIMS

Scenario in 1994

Based on Business India Statistics (Super 100 ,1994). MNC's with just 9 % of the combined assets of the Indian Companies were able to generate 21 % of the combined profits.
These multinationals enjoyed a return on assets of nearly 30 % as against a paltry 13 % of the combined companies.

1

Lesson 1

Learn to work in a multicultural set up with no bias, as far as possible, to any sub-division or segment of society. The best example, of how some multinationals are in operation, is that of Nestle in Switzerland. Fortunately for us, we live in a multi-racial, multi-lingual and multi-religious society. This is a forte and needs to be taken full advantage of.

- As the world continuously emerges to become a global interconnected economy a firm must learn to 'celebrate diversity' to meet ever increasing competitive pressure and further improve performance by respecting diverse view points thus enabling innovation.

2

- A woman employee pointed that there were no shoes made specially for Aerobics. Reebok immediately introduced 'aerobic shoes' which were an instant success and the company was able to successfully break through the athletic shoe industry.

- Companies such as Mitsubishi, Boeing, Safeway, American Express and NASA have paid multi million Dollar penalties for practicing discrimination. In addition to this, the goodwill loss among prospective employees was also large.

3

Lesson 2

Learn to improve the productivity of the work place by leaps and bounds. India enjoys plenitude of resources. However, we have a comparative advantage but competitive disadvantage. This needs to be corrected as soon as possible to be up to speed with international competition. In fact, even today our productivity is amongst the lowest in the World.

4

India's global rank among major agricultural crops

Crop	Rank in 2000		
	Area	Production	Yield
Rice	1	2	52
Wheat	1	2	38
Coarse grains	3	4	125
Pulses	1	1	138
Oil Crops	2	5	147
Cotton seed	1	4	77
Jute and Jute like fibers	1	1	7
Tea	2	1	13
Coffee	7	7	14

5

Lesson 3

Learn to learn and keep the rate of learning greater than the rate of change. The equation 'L>=C' should be meticulously followed for implementation at all times. India is moving into the knowledge society and is a great repository of knowledge. We have to maintain this lead.

- Change is the only permanent feature of society. To successfully enable change knowledge is essential. An enterprise with 'L=C' may perform better but if 'L>C', excellence can be attained.

6

- HLL captured the first timer's advantage by pre-poning the launch of its Lifebuoy Liquid brand when it discovered that Reckitt & Coleman was to launch an extension of its anti-bacterial soap Dettol.

- In the 1990s when the market was moving (**changing**) towards low cost copiers, Modi Xerox was still importing machines from its collaborator Rank Xerox. The depreciation of the rupee further increased the company's costs. Modi **learned** to reduce its cost by redesigning the machines through removing excess electronic gadgets. This created a new market as Rank Xerox now wanted to buy these copiers from Modi Xerox.

7

Lesson 4

Learn to live with a currency which is going to be on the ascent. A devalued currency helps to stimulate exports driven revenues and export propelled growth. A currency on the ascent works in the reverse direction and appropriate financial strategies and approaches need to be evolved to retain the competitive edge in the global scenario. To the extent that other currencies appreciate more than ours, our exports are still protected though.

8

- The rising steel prices and the rupee's appreciation have subject the auto components manufacturers to adopt measures to cut costs and increase productivity.

- The Japanese also reacted in a similar manner to the appreciation to the Yen against the Dollar in the 1990's They put in efforts to cut the yen price of exports to reduce the impact of the Yen's rise of the foreign price of goods. Secondly, they shifted their focus to high-value products because the demand for such products is usually less sensitive to price increases. Thus, sales were partially protected even though the currency appreciated.

9

Lesson 5

Learn to take decisions within decreasing reaction of time. The World never sleeps. Hence, business is always on in some part of the globe or the other. Decision making processes have to be fast and responses and reflexes must be alert, agile and active *a la* Reliance.

- A firm in Boston has its suits and dresses made in Hong Kong but has improved it quality and speed considerably by hiring direct satellite time between Boston and Honk Kong so that models in Boston can wear the dresses and show the details to tailors in Honk Kong.

10

Lesson 6

- Learn to live with a low interest rate regime and identify lower interest rate regimes World over for opportunities to minimize cost of capital and maximize the present value of future benefits from existing and proposed investment proposal.
- Lower interest rates makes capital easily available. It would promote low-leveraged companies to borrow more and reduce their overall cost of capital.
- However, reduced tax rates and interest rates are progressively reducing the benefits of leverage and enterprise is finding, as of today, equity better than debt. This is a fluid proposition and can change as parities between financial markets and monetary policy alter.

11

Lesson 7

Learn to live and do business in a business environment where there is continuous change, - whose speed, direction, pace, configuration and complexity has no parallel in business history of our country.

12

- Intel introduces processors faster than the market expects them.
- Outside the headquarters of Microsoft in the US, a countdown timer keeps and displays the time left until the next version of software is released. Sometimes even faster than time taken by the consumer to get used to the earlier version!
- Nokia commands customer loyalty through the fast paced changes introduced in every new model. A new model is introduced nearly every quarter and old ones are phased out. Not only this, every model has a series of variants to suit different needs.

13

Lesson 8

Learn to avoid mechanical transplantation of business models which may have succeeded elsewhere. What we need, first of all, are local design and development efforts with local resources. While import of knowledge should be freely accepted, mechanical transplantation of ideas that have succeeded abroad can be not only inimical to the development but it may hasten degeneration because of the mental attunement to the idea of being incapable of providing solutions to local problems.

14

Lesson 8 (contd...)

As observed by Late Professor K.S. Basu: "Various institutions begin to grow which do not have their foundation on local soil and do not develop in response to local needs. They become foreign, artificial and imitative. They develop a desire for continuing sustenance from outside and sometimes a scorn for whatever is local or traditional. There is danger for their slowly losing their self-respect and self-reliance. There is a danger also of very worthy institutions being pushed out of the scene merely because they have their own patterns of development and are not prepared to conform to a pattern suggested by the donor."

15

- Foreign food & beverages companies keep continuous track of Indian tastes & preferences. Companies like Burger King and McDonalds earlier offered 'American variants' and were unable to largely impress the local Indian. It was later when they offered Indian variants of American foods that they ensured customer loyalty.
- The earliest LG handsets imported and introduced in the Indian markets by Reliance Telecom were criticized for heating problems during long conversations. The general public assumed the problem with the phone as not being suitable to the Indian climate.

16

Lesson 9

Learn to accept size as a key factor in influencing competitive edge. Compare India Inc. which is pygmalion by global standards vis-a-vis America, Japan and China in that order. It is a contrast rather than comparison. If size improves, production volume improves and unit cost productivity can be achieved to improve cost competitiveness and the consequent price effectiveness.

17

Lesson 10

Learn to improve the quality of human resources with respect to credentials of skills, attitude, motivation and above all acceptability of personalities in a global context for business interaction – articulation, gesticulation, behavior, manners, mannerisms, style, poise, attitude, attire *et al.*

18

Lesson 11

Learn to understand that India is still a poor country and many millions are living below the poverty line and any development at micro or macro level should be geared eventually to provide basic necessities to every Indian, till we get rid of poverty.

19

Lesson 12

Learn to accept quality as a way of life in all aspects of business.

20

Lesson 13

Learn to take a medium and long term perspective of business rather than short sighted myopic approach. The payoffs are better if shortsightedness is avoided.

- When Narayana Murthy decided to list Infosys at Nasdaq for $ 34 instead of the offered $ 36, the dealers literally fell of their chairs. However the decision paid off with Infosys becoming the World's Stock Market Gem.

21

Lesson 14

Globalisation and Liberalisation have opened up avenues for enterprise to explore their risk taking abilities. More and more entrepreneurs are required to contribute to the accelerated capital function. Not just traders, not just local manufacturers but the enterprise of the kinds of Mittal Steel, Reliance, Infosys, etc.

22

Lesson 15

Learn to accept *dharma* -'rectitude and righteousness' as the key ingredients of ethics in business. The foundation of the corporate governance philosophy at Infosys is that "*it is better to lose a billion dollars than to act in ways that make one lose a night's sleep*." This is a signal of how a role model enterprise should function.

- Narayana Murthy reminisces that a government official once wanted to be bribed. The deal offered was either to pay the official Rs. Five lacs or pay the government Rs. Forty lacs. Narayana Murthy went ahead and paid Rs. Forty lacs.

23

Lesson 16

Learn to grow and develop by merging, mixing and matching with global scenario, yet retain the Indian identity and the ethos of the nation not through regional economic nationalism but by subserving the cause of onward march of human progress.

24

Challenges for Indian Multinationals

Shri Rajkumar Singh
Shri Amitpal Singh

Multinationals

- Multinational ? ? ?
- The first MNC was the Dutch East India Company – 1602.
- Approximately, there are about 63,000 multinationals World over.

1

MNCs vs. The Country's GDP

>

Wal-Mart Stores
Revenues $287,989 mn.

Norway
GDP $250,805 mn.

2

MNCs vs. The Country's GDP

>

Royal Dutch/ Shell Group
Revenues $268,690 mn

South Africa
GDP $213,100 mn

3

MNCs vs. The Country's GDP

>

General Motors
Revenues $193,517 mn

Nigeria
GDP $71,318 mn

4

Four Countries: Economic Outlook - GDP

Rank	Country	GDP per capita (Nominal) 2005	GDP growth forecast 2006 (%)
1	Luxembourg	$75,130.00	3.70%
8	US	$42,100.00	1.64%
14	Japan	$35,787.00	2.80%
110	China	$1,703.00	8.50%
134	India	$714.00	8.00%
180	Myanmar	$97.00	1.50%

Source:www. wikipedia.com and IMF

5

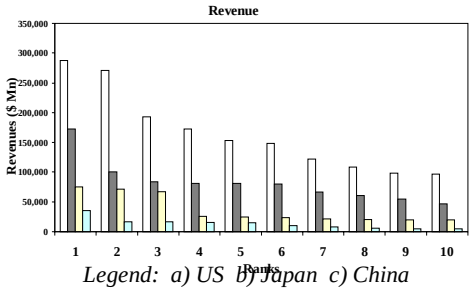
India and Others - Share of World GDP (1700 – 2004): A Glance

Country	Pre-British Rule 1700	British India 1913	Post Independence 1973	Post Liberalisation 2004
US	0.10%	19.00%	22.00%	21.00%
Japan	4.00%	3.00%	8.00%	6.00%
China	22.00%	9.00%	5.00%	13.00%
India	24.00%	8.00%	3.00%	6.00%
UK	3.00%	8.00%	4.00%	3.00%

Source: The World economy
A Millenial Perspective by economic historian Angus Maddison

6

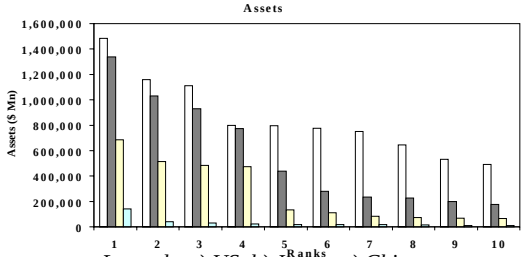
Revenue-wise comparison among the top ten companies in US, Japan, China and India - 2005



Legend: a) US b) Japan c) China
d) India (from left to right in that order)

7

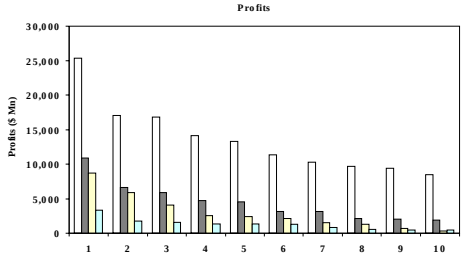
Asset-wise comparison among top ten companies in US, Japan, China and India - 2005



Legend: a) US b) Japan c) China
d) India (from left to right in that order)

8

Profit-wise comparison among top ten companies in US, Japan, China and India - 2005



Legend: a) US b) Japan c) China
d) India (from left to right in that order)

9

India Inc. - Pygmy by global standards...

10

Scope for Improvement - Revenues

Scope for Improvement among top ten cos.	Revenues
India cos. Vis-a-vis US cos.	8 – 20 times
India cos. Vis-a-vis Japanese cos.	5 – 10 times
India cos. Vis-a-vis Chinese cos.	2 – 4 times

11

Scope for Improvement - Assets

Scope for Improvement among top ten cos.	Revenues
India cos. Vis-a-vis US cos.	10 - 50 times
India cos. Vis-a-vis Japanese cos.	10 - 18 times
India cos. Vis-a-vis Chinese cos.	5 – 6 times

12

Scope for Improvement - Profits

Scope for Improvement among top ten cos.	Revenues
India cos. Vis-a-vis US cos.	8 – 20 times
India cos. Vis-a-vis Japanese cos.	3 - 4 times
India cos. Vis-a-vis Chinese cos.	Marginal

13

Four Countries First in Revenue - 2005

Country	Company	Revenues ($ mn.)	Assets ($ mn.)	Profits ($ mn.)	Profit Margin (%)	Asset Turnover (times)	ROI (%)
US	Wal-Mart Stores	287,989.0	120,223.0	10,267.0	3.57	2.40	8.54
Japan	Toyota motors	172,616.3	227,512.9	10,898.2	6.31	0.76	4.79
China	Sinopec	75,076.7	74,941.2	1,268.9	1.69	1.00	1.69
India	Indian Oil Corporation	34,924.6	17,913.2	1,378.3	3.95	1.95	7.69

Four Countries: First in Revenue – Ranks of key ROI parameters

Country	Company	Profit Margin (%)	Asset Turnover (times)	ROI (%)
US	Wal-Mart Stores	3	1	1
Japan	Toyota motors	1	4	3
China	Sinopec	4	3	4
India	Indian Oil Corporation	2	2	2

14

Four Countries: First in Assets - 2005

Country	Company	Revenues ($ mn.)	Assets ($ mn.)	Profits ($ mn.)	Profit Margin (%)	Asset Turnover (times)	ROI (%)
US	Citigroup	108,276	1,484,101	17,046	15.74	0.07	1.15
Japan	Mizuho Financial Group	28,279	1,337,648	5,838	20.64	0.02	0.44
China	Industrial & Commercial Bank of China	23,445	685,135	279	1.19	0.03	0.04
India	State Bank of India	10,202	144,103	1,256	12.31	0.07	0.87

Four Countries: First in Assets - Ranks of key ROI parameters

Country	Company	Profit Margin (%)	Asset Turnover (times)	ROI (%)
US	Citigroup	2	1*	1
Japan	Mizuho Financial Group	1	3	3
China	Industrial & Commercial Bank of China	4	2	4
India	State Bank of India	3	1*	2

* Both have same asset turnovers

15

Four Countries: First in Profits - 2005

Country	Company	Revenues ($ mn.)	Assets ($ mn.)	Profits ($ mn.)	Profit Margin (%)	Asset Turnover (times)	ROI (%)
US	Exxon Mobil	270,772.0	195,256.0	25,330.0	9.35	1.39	12.97
Japan	Toyota motors	172,616.3	227,512.9	10,898.2	6.31	0.76	4.79
China	China National Petroleum	67,723.8	110,396.2	8,757.1	12.93	0.61	7.93
India	ONGC	14,307.1	17,981.9	3,326.8	23.25	0.80	18.50

Four Countries: First in Profits - Ranks of key ROI parameters

Country	Company	Profit Margin (%)	Asset Turnover (times)	ROI (%)
US	Exxon Mobil	3	1*	2
Japan	Toyota motors	4	3	4
China	China National Petroleum	2	4	3
India	ONGC	1	2	1

16

Four Countries: Top ten companies - Range of key parameters of ROI - 2005

	Profit Margin range	Asset Turnover range	ROI range
US 1 - 10	28.33% – 20.70%	6.64 – 3.13	15.96% - 13.19%
Japan 1 – 10	20.64% – 5.97%	1.95 – 1.30	9.07% - 4.75%
China 1 – 10	30.70% – 1.60%	3.30 – 0.40	7.90% - 1.70%
India 1 – 10	45.00% – 26.50%	5.20 – 2.40	44.96% - 24.93%

17

Comparative table showing average profit margin, average asset turnover and average ROI among top ten companies in India, US, Japan and China - 2005

Average	India	US	Japan	China
Profit Margin(%)	34.98	22.77	8.88	11.12
Asset Turnover (Times)	3.06	4.11	1.47	1.07
ROI (%)	36.94	14.53	5.99	3.86

Note: The above table is in descending order of their respective ROI

18

Four Countries: Top ten companies - Industry Profile

Criteria	India	US	Japan	China
Revenues	Petroleum	Diversified	Electronics & Electrical Equipments	Diversified
Assets	Financial Services	Financial Services	Financial Services	Financial Services
Profits	Petroleum	Diversified	Diversified	Diversified
Profit Margin	Diversified	Diversified	Diversified	Diversified
Asset Turnover	Diversified	Diversified	Automobiles	Diversified
ROI	Diversified	Pharmaceuticals	Automobiles	Diversified

19

Four Countries: Top ten companies - Product/Service Profile

Criteria	India	US	Japan	China
Revenues	8:2	7:3	8:2	5:5
Assets	4:6	Services only	1:9	4:6
Profits	8:2	6:4	6:4	6:4
Profit Margin	6:4	4:6	6:4	5:5
Asset Turnover	7:3	6:4	9:1	8:2
ROI	8:2	9:1	8:2	7:3

20

Four Countries: Top ten companies - Product/Service Dominance

Criteria	India	US	Japan	China
Revenues	Products	Products	Products	Equal
Assets	Services	Services	Services	Services
Profits	Products	Products	Products	Products
Profit Margin	Products	Services	Products	Equal
Asset Turnover	Products	Products	Products	Products
ROI	Products	Products	Products	Products

21

Skewness and Otherwise among top hundred of India and US

US			
Rank	Revenues	Assets	Profits
1 – 10 (first ten cos.)	33%	28%	35%
11 – 100 (remaining ninety cos.)	67%	72%	65%

India			
Rank	Revenues	Assets	Profits
1 – 10 (first ten cos.)	57%	50%	50%
11 – 100 (remaining ninety cos.)	43%	50%	50%

22

Skewness and Otherwise among top ten of US and Japan

US			
Rank	Revenues	Assets	Profits
1 – 4 (first four cos.)	56%	25%	37%
5 – 10 (remaining six cos.)	44%	75%	63%

Japan			
Rank	Revenues	Assets	Profits
1 – 4 (first four cos.)	53%	40%	55%
5 – 10 (remaining six cos.)	47%	60%	45%

23

Skewness and Otherwise among top ten of China and India

China			
Rank	Revenues	Assets	Profits
1 – 4 (first four cos.)	65%	23%	43%
5 – 10 (remaining six cos.)	35%	77%	57%

India			
Rank	Revenues	Assets	Profits
1 – 4 (first four cos.)	64%	20%	33%
5 – 10 (remaining six cos.)	36%	80%	77%

24