GOING GLOBAL: CHALLENGES FOR INDIAN BUSINESS

Global Leadership

Executive Action Report

India has seen an increase in Growth Rate from 3% GDP to 5-7% GDP in the years since globalization of economic policy. As a result, Indian companies are doing more business outside India than before. The statistics, however, show few Indian organizations that are truly global in their reach and operations. There is a need to grow more Indian companies to reach global standards. The path to global leadership includes the need to benchmark globally and identify and meet the challenges for Indian corporations to become world class.

Building Ethical Leadership

One of the priorities of The Conference Board has been to fight corruption in East Asia. The Conference Board has been undertaking Ethics Programs for the last twenty years and this has received enormous response. Last year alone, over a thousand people across the world attended the Ethics seminars. There is recognition that processes and systems complying with highest ethical standards are now an essential part of everyday practice in order to build an environment of trust and accountability. Most standards today, require a high level person with a financial interest in the company be responsible for ethics compliance.

Understanding lessons in ethical leadership from Jawaharlal Nehru, sheds light on the fact that a leader is most effective when there is open debate on issues, leading to a consensus. In the absence of open debate, there is a danger of polarization of opinion and action. Arrogance of dictators usually results from isolation of leaders from the reality of public opinion. Ethical leaders maintain contact with people, touch with reality and they understand that implementation of issues requires patience and tolerance.

Evolution of codes like Sarbanes Oxley (2002), have given impetus to ethics programs across the globe. The EU has proposed European Coordination Audit Oversight Board (ECAOB) to avoid US-style accounting abuses. In Japan, the Commercial Code Amendment (April 2003) allows large companies to adopt US style corporate governance structures and procedures. In UK, there are changes in the Combined Code (2003) that provide for at least half the board (excluding the chair) be composed of non-executive directors (NEDs) with significant recent and relevant financial experience, the separation of Chair and CEO, detailing of non-executive director's role in shareholder consultation and in the Audit Committee. While the trend is to enhance the role of independent directors on boards of companies, the key to success in fostering ethical leadership lies in the true understanding of what really constitutes independence and building practices that enable boards to be relied upon to act independently.

A key issue in the harmonization of global governance practices is whether the system implemented is rule based or principle based. A rule based system will search for safe harbors in the continuance of existing business practices within the legal provisions, whereas a principle based system will have a focus on change and improvement through compliance with explanations for actions taken.

The Conference Board global research project on Ethics Programs conducted over 163 companies in 24 countries, indicate that 97% of companies surveyed have these elements:

- Codes of Conduct
- Communication of standards through training
- Methods to encourage employees to report violations to management
- Enforcement mechanisms through investigation and discipline
- Oversight and review to achieve ongoing improvement

The Conference Board research documents balance shifting to fiduciary responsibilities. Boards worldwide are forging new links between governance (traditional board responsibility) and compliance oversight

- Governance (traditional board role) - board processes, review of company business and financial performance
- Compliance oversight- review of management oversight of business conduct standards/performance

Board oversight of ethics programs can take the nature of evolving the objectives and design of ethics programs, or actually being involved in the implementation of operations of such programs to ensure effectiveness

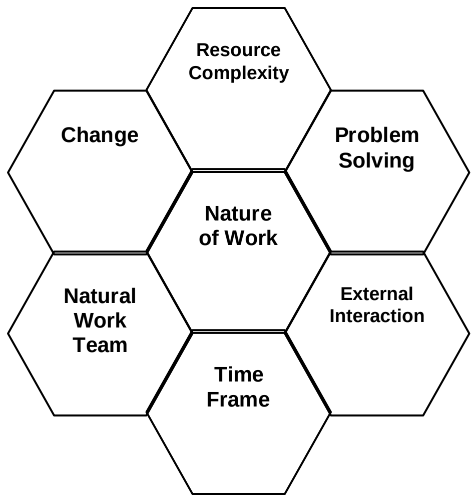
For Indian organizations, doing business across countries, the key issue will be to harmonize business practices in many countries to ethical guidelines relevant for that country. Increased scrutiny from stakeholders and societies will provide the impetus for compliance with growingly complex regulations. Organizations will find that a significant proportion of their efforts will be channelized in the direction of compliance and coordination with differing complex ethical codes across the globe.

The Contribution of Organizational Design to Global Leadership

Business leaders are realizing Indian corporations going global need evolution of business strategy to meet business goals that go beyond geographic and economic boundaries. Often, organizations have looked at designing their organizations to minimize or cut costs of operations in various countries. However, truly global leaders realize that organization design drives business strategy and the need to fit strategy with organization design is imperative to carving out successful business strategies for globalization.

Leaders need to move away from administrative focus that looks at organization designs based on hierarchical grades and hollow promotions based on ranks and grades through layers of management. The need is for creation of organizational designs that build accountability, and competence to meet business imperatives, and also create organizations that learn and grow.

DMA Consultancy Limited has evolved a model that is comprehensive, conceptually integrated, consistent, field tested, IT supported, and has leading edge thinking. This model aims at creation of organizational designs that will work with seven levels of work design to build accountability and learning of identified competencies needed for global business growth.



Seven Elements of DMA Solution Set

There is an increasing need to create organizational designs that empower talented individuals to reach their fullest potential. Traditional organizational hierarchies that stifle initiative and blur accountability will have to move towards designs that facilitate individual performance through clarity of competencies and accountabilities.

The CEO Challenge: View from India
Executive Leadership in a Borderless World

The Conference Board's global research on CEO Challenges (2004), views from around the world, required 539 CEO's across the world to rank 62 challenges in order of being of the greatest concern and criticality in success and sustenance of business. These are:

1	Sustained and steady top-line growth	52%
2	Speed, flexibility, adaptability to change	42
3	Customer loyalty/retention	41
4	Stimulating innovation/creativity/entrepreneurship	31
5	Cost/ability to innovate	29
6	Availability of talented managers/executives	26
7	Tight cost control	25
8	Succession planning	25
9	Seizing opportunities for growth in Asia	23
10	Transferring knowledge/ideas/practices within company	23

Indian segment of the sample consisted of publicly traded and privately owned firms as well as small, medium and large companies from the manufacturing (Consumer and Industrial) sector, communications/Broadcasting/Publishing/Software/Internet sector, and Financial and other services sectors. Challenges of greatest concern to Indian CEO's revealed in the survey, are:

1 Sustained and steady top-line growth
2 Stimulating innovation/creativity/enabling entrepreneurship
3 Cost/ability to innovate
4 Customer loyalty/retention
5 Keeping up with other, new technologies
6 Speed, flexibility, adaptability to change
7 Tight cost control
8 Speed to market
9 Competitive intelligence
10 Employee loyalty/commitment/job satisfaction

Indian CEO's feel that, if we play it right, growth in a global market is possible for Indian companies. Indian corporations are increasingly learning to manage scale of operations on a global level without compromising on excellence and customer satisfaction. Indian organizations were always managed by an Indian workforce. Going beyond boundaries and operating in other countries also means dealing with a workforce that is more multi-ethnic, multi-racial, and has diverse configurations. Sustenance of excellence on the value chain against global standards is called for. Consequently, there is a need for creating speed and flexibility of response in harnessing the intellectual capital of the Indian knowledge worker. Companies are also waking up to the fact that they will come under greater scrutiny for compliance with high standards of corporate governance along with a focus on employee issues, and they will have to meet these standards in order to compete globally.

Globalisation is happening rapidly through the virtual route as well as the physical route. Knowledge is also being outsourced, Cable TV across houses has increased customer aspirations, and traffic to India is increasing. All this poses new challenges.

1. To have a global perspective is not just to be present in many countries across the globe, but also to have global thinking in terms of size of operations, quality, scale, processes, talent, and best practices.
2. Strategy and execution: principles of management written in the text books are perfect, the execution of these principles is difficult.
3. People management challenges for Indian CEO's include creating and communicating a vision that is knowledge led and not person led, nurturing talent, building competencies, out of the box thinking, implementation of processes and methods.
4. Global CEO's from India need to embrace technology developed throughout the world.

5. Leadership in managing diversity and complexity calls for managing differences through proactive problem solving strategies and not let the differences become a blaming game.
6. Performance management has to embrace new dimensions with benchmarking of competency standards globally.
7. Agility and flexibility in the management of cycles of change are the need of the hour.
8. Meeting regulatory compliances on an international scale is now a major concern for organizations. Compliances with laws from different countries and cultures adds to the complexity of operations and control.

Geographic boundaries are not economic boundaries. Leaders need to increase understanding about operating across boundaries, cultures, governments, etc. They need to adopt world wide global practices. The vagaries of the Indian and geopolitical environment for business can change the face of your business and global leaders from India need to be prepared for dealing with this uncertainty. Qualities imperative for leadership in a changing boundary less world:

1. Ability to lead and manage change in proactive and action oriented manner.
2. Global leaders from India need to learn to make decisions that are knowledge driven.
3. Need to adopt and adhere to best practices
4. With increased pace of development of newer and efficient technologies, those countries that are able to leapfrog the technology will be able to look ahead and innovate. Early adoption of technologies that are far ahead of Indian practices will hold the key to assimilating with practices across the world.

Indian CEO’s feel the India is poised to be one of the manufacturing hub of the world. Our skills in developing Information Technology solutions gave India the branding needed to awaken the rest of the world to our capabilities. It is now for us to ensure that the rest of the manufacturing will follow in the drive to grow our capacities to global standards.

Manufacturing capability is not as attractive as IT. It was globally seen as stodgy, smoking dull unattractive slow-growing investment area. With the changing perceptions and the need of the developed nations for outsourcing manufacturing, what used to be a local, national manufacturing capability is now recognized as a critical competence for Indian corporations. Some of the biggest challenges for the manufacturing sector are:

1. To change image of manufacturing industry. Indian companies are fast realizing that their commitment to improving the quality of life and society is also the purpose of industry. Indian corporate investment in corporate social responsibilities will lead the change in image of the country.
2. The need is to attract and retain good people in the industry. Indian experiences with empowering young teams have paved the way to change the mindset of the older generation managers in India.

3. Building the belief that the future lies in solid manufacturing capability
4. Necessary to see which part of the supply chain is placed where. A need to structure parts of the supply change in the right part of the world for optimum efficiencies.
5. Pricing strategies have changed. Earlier there were two pricing dates coinciding with the post budget review, and a mid-term review. Today, the demand-supply gap demands more frequent pricing changes in response to the global demand supply situation.
6. Indian corporate houses need to rationalize diversified business portfolios based on criteria like position in market place, innovation leadership, potential for globalization, business bottom lines like return on capital, financial planning, shorter life cycles, and so on.

The fundamentals of leadership have not changed over the years. A good leadership will establish a visionary direction for the company and build organizational architecture to translate positive visions to reality through system, process, procedure and structure. Capability for action and reflection, commitment to modesty, fierce resolve to action and adaptability to cross-border cultures will be critical.

There are lessons to be learned from other regions across the globe that have successfully gone global. Indian organizations need to identify best practices from those that have successfully transited and adopt similar strategies.

Indian organizations have a socio-cultural legacy of a feudal mindset. Such a mindset can grow to be an obstacle in the assimilation of a larger, global culture. Dissent in organizations is often discouraged as a result of this feudal outlook. Adoption of more globally accepted democratic values at the ground level would be necessary for Indian leaders. They would have to encourage dissent in the organization by adding a ‘listening ear’.

For Indian organizations, global leadership imperatives are immediate and urgent. The need of the hour is to integrate with sound management practices that are globally accepted.

Enterprise Risk Management

Indian companies going global are facing increasingly diverse business environments as a result of

1. global integration
2. no protected environment
3. multiple geographies/currencies/businesses
4. diverse operations
5. regulatory frameworks
6. investors
7. listing requirements
8. stringent disclosure requirements
9. management styles and culture changes

As operations of Indian firms spread across the globe, the exposure to vagaries of socio-economic-political changes in different countries increases the risk associated with such operations. Business leaders find the need to build risk mitigation into their globalization strategy and build business practices that are likely to succeed and not fall prey to risk, both known and unknown.

The Conference Board has ongoing research on risk management practices across the globe. In a global operation, there is a very high likelihood that some employee is violating, however obscure, some state, local and possibly federal law in some country without knowing. With increased scrutiny, global corporations need to adequately oversee responsibility for risk factors with compliance requirements. Enterprise Risk Management (ERM) is the act of protecting or enhancing enterprise value by managing the risks that might impact that value with a coordinated and systematic approach that is organization wide and covers all types of risks. Such risk mitigation strategies should be embedded in the architecture of the firm. Blind spots in these risk mitigation strategies need to be looked at more closely. Potential sources of risk inside the organization as well as in the external space need to be identified and addressed.

The Conference Board has identified three sources of risk: Credit risk, Market risk and Operational risk. A research undertaken by Ethics Officers Association (http://www.eoa.org) covering 85 US company members revealed that 68% companies had conducted a risk analysis exercise at least once and 44% had conducted such an exercise three times in the recent past.

The highly diversified Aditya Birla Group with operations based in India and spanning across 18 countries, has evolved Enterprise Risk Management (ERM) practices that identify and manage strategic, operational, stakeholder, financial and intangible risks. Some of the risk mitigation actions adopted include:

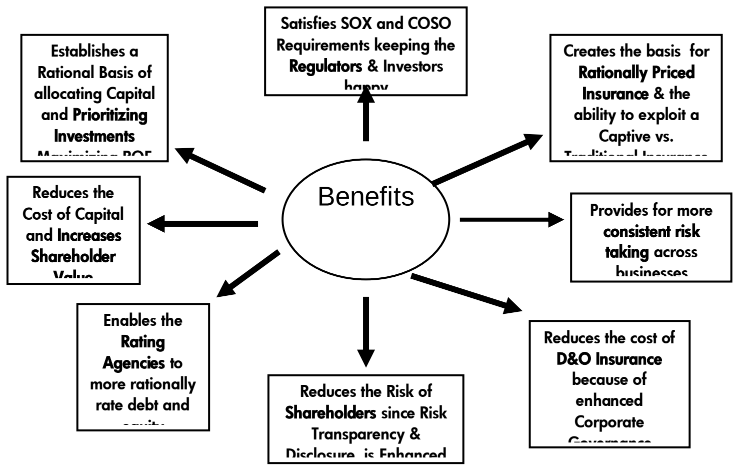
1. Accept risk: Managements consciously decide to continue operations with a consensus to accept risk inherent in the business
2. Transfer risk from one business to another or to a third party (insurer)
3. Decisions to eliminate risk by dissolving high risk businesses.
4. Acquire risk where the management has a core competency in managing this kind of a risk.
5. Reduce risk through improvement in controls and processes
6. Share risk through partnerships, outsourcing and other such processes.

Practical steps taken by the group for risk mitigation include:

1. Mitigation of Operational risk through various financial tools
2. Mitigation of Strategic risk through different strategic tactics in different units/countries.
3. Value chain integration: Backward and forward integration, presence in all segments of value chain.
4. Cost cutting measures to reduce financial risk

5. Portfolio diversification to spread risk across elements of portfolios in different countries
6. HR practices like talent retention and growth strategies, succession planning, organization health surveys.

Potential benefits accrued to the group as a result of ERM practices are at various levels:



Managing the Multiple Facets of Ethical Leadership

Business leaders across the world have felt the need to engage with philanthropic initiatives for the betterment of society. Historically, ethics and philanthropy in the nineteenth century took the form of informal, benevolent actions on the part of merchants and business industrialists. The twentieth century saw the emergence of the industrial class and business conglomerates that generated wealth on an unprecedented scale and created business dynasties. The flavor of philanthropy in for such business houses led to establishments of trusts and charitable funds. The twenty-first century has now seen the emergence of a new generation of young entrepreneurs who want to invest in philanthropy and see the fruit of that investment in their lifetime.

Correlation between ethics and philanthropy:

1. Level One: Company wants to be a good and diligent citizen
2. Level Two: Ameliorative charity – company wants to ameliorate the pains of society
3. Level Three: company institutionalizes their efforts through setting up of trusts which establish the reason for existence of the firm as a member of society.

The Gandhian perspective of ethics that emerges from the socio-cultural context of Indian business defines unethical behavior as: Politics without principle, wealth without work, commerce without morality. To take the metaphor of the Indian organization as a human being, organizational identity is derived also from the urges of the soul (atma). Business is like a human being: the body dies and the soul lives on. The mission of the company is to purify the *atma* (soul) and not only to beautify the body. Organizations are thus driven to not only meet business goals but also live as responsible and ethical members of a complex social web. The call of the *atma* is to a higher purpose of existence and creation of sustainable value systems that endure with time. Organizations naturally evolve to looking beyond business bottom lines and living as responsible and ethical citizens of society.

Managing Global Diversity

As Indian business goes global, operations across different countries will create a need for dealing with cross-cultural issues in a way that is sensitive to differences and creates organizational cultures with space for a global workforce.

Indian companies like Infosys have followed the example of global firms and have taken steps to work with issues of social diversity with the purpose of creating firms that have inclusive work cultures. A network for women's inclusivity has been set up to address concerns of women employees. The focus for some of these initiatives still in an infancy stage is largely on the management of gender and ethnic diversity. The focus on creating inclusive work practices on the dimension of age diversity is also an action area identified in the organization.

Indian global pharmaceutical company, Ranbaxy finds that its presence in several countries poses a challenge to build the human bridge across social and cultural divides. They find that management of diversity is a growth imperative for Indian corporations wanting to go global. Their VIA (Values In Action) programme across the geographical boundaries aims at creating inclusive cultures.

While businesses do focus diversity management initiatives for the purpose of building inclusive work cultures, some of the pitfalls to watch out for are:

1. Diversity for diversity's sake
2. Reverse discrimination
3. Business focus should not get diluted
4. No clear business aligned metric to measure diversity management.
5. Personal credibility of diversity professionals is important

Business Implications of Getting Global Leadership Right

Global businesses need to recognize that the seeds of failures are in the habits of success. They need to ask the question - Could our best practices be our Achilles heel? Often successes in one part of the world are not replicable in other parts. Speed and quality are indispensable qualities in the conduct of global business.