

LEADERSHIP DISRUPTED

The challenge for
multinationals in India.



ODGERS BERNDTSON

Introduction.

The challenges MNCs face in India are myriad – from navigating cultural differences, to managing conflicting regulatory regimes, to fast-paced technological change – but the opportunities for growth are just as plentiful. In India, MNCs are finding huge market potential, an entrepreneurial spirit and favourable demographics, which, when harnessed correctly, are capable of driving growth for years to come.

So what are the keys to succeeding in business in this complex, heterogeneous, high-growth-potential market? Odgers Berndtson interviewed India-based executives from 14 multinational companies across a variety of industries to ask them what they see as their biggest challenges and opportunities and to share their leadership strategies for the future.



Setting the scene.

In the early 1990s, India undertook reforms to liberalise its economy and open up to globalisation. These measures spurred economic growth, increased consumer choice and reduced poverty in the country significantly. Prime Minister Modi's more recent demonetisation efforts and the introduction of a Goods and Services Tax have caused some economic disruption, but the IMF predicts that India will be the world's fastest growing large economy again this year.

The consensus among the executives we interviewed is that India offers “large scale opportunities for the future” and is a “vital cog in the global business value chain.” An insurance firm executive identified “strong domestic demand, a high savings rate and a rising literacy rate” as favourable characteristics of the market. A managing director at a US aerospace and defence company concurred, noting that India’s “talent capability and cost arbitrage presents a strategic opportunity to build global competitiveness.”

So the market is there, but that doesn't mean that achieving growth on the subcontinent is a foregone conclusion. Political and regulatory shifts have, in particular, proved challenging for MNCs to navigate.

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Pressures and challenges.

Although India's vast market potential is attractive, economic and logistical challenges persist. An insurance industry executive noted, "supply-side constraints are stifling growth," meaning that economic production is not always able to keep up with rising demand, due to factors such as inadequate infrastructure, limited credit and a shortage of skilled labour.

The paradox of the Indian market is that it has a high potential for growth, but from a very small base. Compared to China, India's infrastructure and reliability of services can be variable. And despite a large population of well-educated engineers and computer scientists, Indian companies are not adopting state-of-the-art technological advances at a competitive rate. A regional business leader for a technology and consumer electronics company summed up the situation this way: "India for us has been an example of where the pipeline is huge, but not converting."

The MD of a US aerospace and defence contractor agreed, noting, "While setting up companies and industries has become simpler in India, operating a business successfully still raises a lot of bureaucratic hurdles and challenges."

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Keys to success.

According to the executives we interviewed, adaptability, contingency planning and cultural awareness are the keys to achieving success in this high-potential market.

A partner in the India and South Asia practice of a UK-based risk consulting firm warned, "Many MNCs do not recognise the challenges of the Indian market and fail to make the necessary contingency plans." The MD of a large FMCG company added, "Geographically dispersed, diverse teams make it difficult to standardise execution capability in India. Supervision and control is hard to achieve and MNCs should come well prepared for this."

Many of the executives we spoke to noted that companies that recognise and adapt to the local business culture have a higher chance of success. A partner in a UK-based risk consulting firm explained, "MNCs that have managed to ingrain themselves in the cultural fabric of India have been more successful. Nestle and McDonalds are good models of that behaviour."

The MD of a German industrial services company named Daimler as another example of an MNC that has successfully adapted their business model to suit the needs of the Indian market. "They created a new low-cost truck variant under the name 'Bharat Benz' just for the Indian market that they are not selling anywhere else."

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Seeing the world differently.

In what other ways do cultural differences manifest themselves in the Indian market? For one thing, the Indian consumer is “extremely price sensitive”, as an HR executive for a software technology company observed. An industrial services company executive concurred: “Indian clients are largely driven by cost and this dominates the discussion, instead of a product’s features, quality and value.”

An insurance executive shared that Indian consumers and corporate entities negotiate hard and demand heavy discounts, which can squeeze margins. The head of business development for a global web services company added, “Western world ‘price-value equation’ metrics don’t apply.”

This focus on price point can be particularly challenging for MNCs when they are competing with a lower cost base local competitor. An MD of a German industrial services company noted, “Indian clients have high expectations from MNCs in terms of product and service quality, but they are not willing to pay more for it.” This sentiment was echoed by the MD of a US aerospace and defence company: “Indian corporate customers do not realise that R&D expenses that deliver higher value need to be factored in.”

Adding a retail market perspective, the MD of a consumer technology company shared, “The Indian consumer is similar to the global consumer when it comes to niche top-end products, but is more deal-seeking when it comes to products down the value chain. This is accentuated by high volume, smartphone-led buying, which has changed the B2C market dynamics in India.”

Importantly, the MD of a large FMCG company warned, “MNCs should not treat Indian consumers as one homogenous customer. Many MNCs underestimate the diversity of India and the fact that consumer preferences vary significantly within the same country.”



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The Indian MNC leader.

Given the complexities and nuances of the Indian market, what kind of leader is likely to be most successful? The executives we spoke to tended toward the view that an Indian executive with global leadership training is preferred. A defence contractor MD observed, "Some MNCs send expat leaders to run their Indian business, but they come with a short-term outlook and the baggage that things need to be done in a certain way. You cannot succeed in India with that approach."

He continued, "Having local leadership is critical for MNCs to succeed in India, as they bring a keen understanding of the local market dynamics and cultural landscape." The MD of a German industrial services company agreed, noting, "It is imperative for MNCs to have local Indian leaders running their business. Otherwise, they may struggle and take a long time to crack the market." Local knowledge is critical, but international management experience is important as well. An insurance industry executive cautioned, "There are lots of Indians successfully leading in top positions in large global companies, but those without much global experience can present a dictatorial leadership style and may not have the substance to back up their ambition." That sentiment was echoed by a defence industry MD, who noted, "Due to the rapid rate of growth in India over the last 15-20 years, many business leaders have been promoted by virtue of the market upswing, not necessarily because of their competence and credentials."

In terms of leadership style, the MD of a consumer technology company recommends that "the Indian MNC leader adopt a more engaging working relationship with his or her employees—a personal touch is critical."

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Hiring well.

The good news is that MNCs do have something to offer the best talent in India that sets them apart from local competitors. The MD of a consumer technology company explained, "MNCs are considered to be a good value proposition by mid- to senior-level Indian employees seeking future regional and global roles and employee-friendly policies such as paid maternity leave and the ability to work remotely."

MNCs can also offer the Indian leaders of the future "a sense of ownership" in the business, according to a defence industry MD. "Local leaders should be given the opportunity to translate the global parent organisation's vision into a local strategy. To this end, organisations should invest in

providing learning and development opportunities to their employees, which in turn enhances their ability to retain them."

The collective wisdom of the executives we spoke to is that India is a tough market to crack. It requires patience and perseverance, but offers a huge potential upside. Understanding this unique market begins with local knowledge. To that end, MNCs should commit to investing in the right talent by offering the opportunity for regional or global experience and career advancement. Then, when regulatory and economic challenges present themselves, an adaptable and resilient local leadership will be ready to meet them head on.

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MORE INFORMATION

This focus on India follows the release of a new Odgers Berndtson report, called 'Leadership, Disrupted', produced by Mark Braithwaite, Managing Director of Odgers Berndtson APAC. The report is based on 70 face-to-face interviews with APAC leaders of multinational companies.

The full report is available on the Odgers Berndtson website.

ODGERS BERNDTSON IN INDIA

Home to more than one billion people and a multitude of different cultures, religions and languages, India is projected to become the world's third largest economy by 2030.

Odgers Berndtson India works with multinational and Indian organisations to discover and develop leaders with the talent to capitalise on India's growing markets.

Working with globalising Indian organisations and multinationals keen to access India's growing domestic market, our international platform and local expertise provides clients with the tools to secure their place in one of the world's fastest growing economies.

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