Economic Times (India), 2 November 2007.

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Wake Up Call

Dibeyendu Ganguly

THERE WAS A TIME WHEN the rules of economics would dictate that multi-nationals from the developed world should buy out companies in emerging economies, while their citizens screamed neo-colonialism. True to form, that's what happened in the first phase of India's liberalisation (Coke-Thums Up, Holcim-ACC), and the West was quite prepared for the backlash. But now the tables have suddenly been turned and corporates from the emerging economies are making moves on companies in the developed countries — leaving them very confused. What does it was the acquisition of Arcelor by LN Mittal. "The acquisition was really a wake up call for the developed world," he says. "After all, Arcelor is a big company, with government holdings and a presence across Europe. And Mittal is seen as an Indian, though he may be based in Europe."

With a doctorate from Universidad di Oviedo, Spain and a PhD from Yale University, USA, Guillen is a bit of an authority of emerging MNCs. He's the author of *The Rise Of Spanish Multinationals: European Business In The Global Economy*, and his current research is on the internationalisation of the firm. "Spain, South Korea, Taiwan were all considered emerging economies two

PHOTO: JACOB CHERIAN

SHOULD THE WEST BE WORRIED BY LN MITTAL'S TAKEOVER OF ARCELOR OR THE TATA TAKEOVER OF CORUS? WHARTON'S MAURO F GUILLEN HAS BEEN CALLED IN TO PROVIDE AN ANSWER

mean when an Indian takes over Europe's largest steel company? Or when the Chinese take over IBM's PC business?

The wealthy nations can't allow themselves to express official alarm over this reverse FDI (foreign direct investment), but they do want to figure out what's going on. Enter Professor Mauro F Guillen, director of The Lauder Institute at Wharton. The Organisation For Economic Co-operation And Development (OECD) in Paris has roped in Guillen to help it figure out what the impact of 'emerging MNCs' might be for their corporates and their economies. "There's no alarm, just concern," he says. "The OECD countries understand the risks when American or European companies invest in emerging economies. Now they want to understand the risks when it is the other way round."

Guru SPEAK

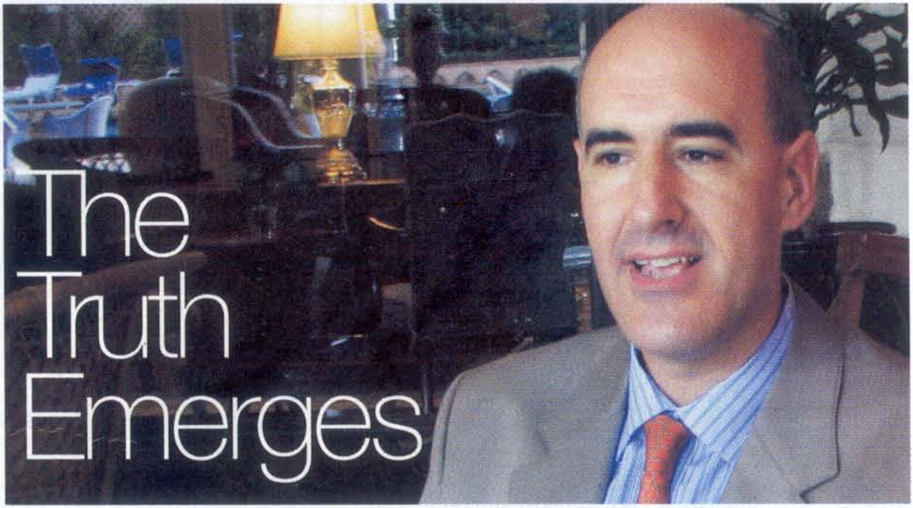
The Western nations are concerned about the volatile nature of emerging economies, says Guillen, and in the new scenario, they want to understand the risks if, for example, the Mumbai stock market collapses or Brazil goes through another major currency devaluation. His brief is also to study how FDI from emerging economies into Europe is being funded and the impact on Balance of Payments.

The trigger for the study, says Guillen, decades ago," he says. "They produced the previous generation of emerging MNCs, like Telefonica and Samsung and Acer. Now it's the turn of India and China"

The previous generation of emerging MNCs differed fairly widely in their strategies. Spain, for one, has produced a number of global companies in the infrastructure services sector, like Telefonica in telecom and Ferrovial in private airport management. Most of them went global by expanding into Latin America, when the region began liberalising, though they've now moved into Europe in a big way (Ferrovial, for example, manages Heathrow airport). Samsung, on the other hand, went in for a global branding push, coupled with massive investment in R&D.

"One lesson that can be learnt from the previous generation of emerging MNCs that you need to keep your global expansion focused," says Guillen. "In its domestic market, Samsung is in insurance, banking, textiles. But outside, it is only in electronics. Similarly, the Tatas may focus on IT and steel and not seek to internationalise all their domestic businesses."

PAGE 2: THE TRUTH EMERGES



The Truth Emerges

PAGE 2: WAKE UP CALL

One of the major strengths of emerging market corporates, says Guillen, is their political savvy. This is the result of long experience with dealing with interventionist governments in their own countries and it can be quite useful when making an entry into other countries — including developed countries like the USA. "You would be surprised by the amount of political interference there is in the developed world," says Guillen, giving the example of Ferrovial's private highway project in Canada. A year after the Spanish company built the highway, there was a change in government in Ontario province and Ferrovial found itself out of favour.

"The new, leftist government in Ontario would not give permission to the company to raise the toll as per the contract," says Guillen. "It took three years of litigation and the case went to the Canadian Supreme Court, where the judgement was in favour of Ferrovial. If this happens in a country like Brazil or Indonesia, it would be better for the company to just leave and go."

Guillen observes that Indian MNCs, like those of Japan and Korea, have shown a preference for sending their own managers to run their operations abroad. This is convenient in the short run, but there's also the problem that the parent company soon starts running out of managers, a situation made worse by the fact that top rung talent in Europe and the USA don't want to work for emerging MNCs. "An emerging MNC has to quickly build a reputation wherever it goes. You can't afford to be shy. You have to go right in, make contacts with the government, the press, everyone."

In his consulting assignment with OECD, Guillen is trying to dispel several outdated notions that the West has about companies from emerging markets like India. "Most people assume that emerging MNCs are low on technology and are very disorganised. I am trying to debunk these ideas and show them that these companies actually have good R&D and very good managers."

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