GLOBAL TILT

LEADING YOUR BUSINESS THROUGH THE GREAT ECONOMIC POWER SHIFT

RAM CHARAN
With Geri Willigan and Charles Burck

CROWN BUSINESS
NEW YORK
THE GLOBAL TILT

Western Europe

USA

Mexico

Brazil

Sub-Saharan Africa

Middle East

India

China

Japan

South Africa

Indonesia

THE ECONOMIC TILT
**GLOBAL TILT:**

**A DEFINITION**

**global tilt** (ˈɡlō-bəl tīlt) 1. The shift in business and economic power from countries of the North to those below the thirty-first parallel; 2. the greatest change in business history; 3. a call for leaders to abandon old mind-sets, rules of thumb, and assumptions about the North and South and the relationship between the two; 4. the result of unstoppable forces, including the unleashed energies of the South, demographic shifts, the volatile global financial system, and digitization; 5. the opening of mega-opportunities for those who can handle complexity, speed, volatility, and uncertainty; 6. the spur to radical changes in strategic thinking, leadership, and the organization’s social system.
PART I

WELCOME TO THE TILTED WORLD
Late on November 24, 2010, I landed in Dubai, where I would be speaking at a corporate meeting for India’s number one telecom company, Bharti Airtel. I had left New York twelve hours earlier, after three days of appointments with companies along the east coast of the United States. Some of the problems and questions I’d heard that week were still on my mind. The CEOs and senior and midlevel managers alike were wrestling with how the fallout from the debacle in Europe would affect their businesses. How deep and how long would the recession be? Like everyone, they felt battered by the headwinds of a slowing global economy, global competition, and fast change.

Arriving at the hotel, I freshened up and headed to the conference room, passing through the lobby, where 160 of Bharti’s top managers were mingling. Forty-six of them were Africans who were new to the company following
Bharti’s acquisition just a few months before of Zain, a collection of telecom assets in fifteen African countries. They were now part of the managerial mix of Bharti Airtel, along with leaders from Sri Lanka and Bangladesh, where the company had expanded the year before. Many wore typical Western business garb; others wore traditional African clothing. All were speaking English. The majority appeared to be in their thirties, and some looked even younger than that.

But youth alone didn’t explain the unmistakable difference between this group and the leaders I’d seen just hours earlier—a physical and psychological ocean away. There was energy, optimism, and excitement in the air. This company, already among the top five mobile operators in the world in terms of subscribers, was on the move, and its leaders knew it. Bharti had grown from nothing to a multibillion-dollar global leader of its industry in a matter of fifteen years. Why won’t it win in the United States or Europe at some future point in time? I wondered. Yet its phenomenal growth and the entrepreneurial verve of its founder, Sunil Mittal, are all but unknown in the northern hemisphere.

That moment crystallized for me an unmistakable truth: The world has tilted. Its economic center has shifted from what have traditionally been called the advanced or Western countries of the northern hemisphere to fast-
developing countries including China, India, Indonesia, Brazil, and others in the Middle East and even parts of Africa. For decades the standard view was that the transfer of technology, managerial know-how, and capital was from West to East, from the United States and Western Europe to Japan, South Korea, and the Asian tigers. But today the flows are generally from North to South. In geographic terms, the dividing line is the thirty-first parallel. The division is rough—for example, Japan and South Korea are essentially Northern countries in their economies and business practices—but it’s a simple shorthand way to view the tilt.

Wealth is moving from North to South, and so are jobs. Companies in the South, big and small, have a fierce entrepreneurial drive. Many are reveling in double-digit revenue growth, bringing jobs and prosperity to their home countries. They are building scale and challenging companies of the North on all fronts. They have huge momentum, while the old heavyweights—some of which have dominated their industries for decades—can barely eke out low to middle single-digit growth. The South is driving change. The North is afraid of it.

Many business leaders in the North are blind to the magnitude of trends. Some are accelerating the tilt by transferring their technology, brands, know-how, and real assets to the South, all in the search for much higher
growth than they see in their own home base. Some blame such things as cheap labor, currency manipulation, and protectionism for their struggles. These are problems, but much bigger forces drive the tilt—and the Northern leaders have not yet come to terms with the world as it is today and as it is emerging. How, then, can they devise a clearheaded response? Understanding the new dynamics of global competition and economic behaviors is an unconditional requirement for business leaders from the North and the South, even in companies that are smaller or consider themselves domestic. Very few businesses are immune to the changes.

When we cut through the complexity and volatility, several unmistakable realities shine through.

The world is in an inevitable transition to a more even distribution of opportunity and wealth. It is fueled by an irrepressible and fundamental human drive: people’s desire for a better life. While the road ahead will have unexpected twists and turns, its direction is clear, and we are moving at high speed.

The global financial system, which connects the economies of all countries every second of the day, is highly unstable. No one truly understands how it works, as evidenced by the seemingly unending ugly discoveries about the behavior of major players in the system. Its malfunctioning can cause recessions and damage entire econ-
omies, as it did in the 1997 economic “Asian Contagion” and the far more widespread loss of economic growth between 2007 and 2012. Uncertainty will continue to be the order of the day for some time to come.

**We are in a war for jobs.** Although total employment will continue to increase worldwide, every country is seeking a larger share of the jobs pie to create or strengthen its middle class, improve its standard of living, increase its financial reserves, and ensure political stability. Nationalism is alive and well as countries compete with no clear agreement about the rules of the game.

Many countries below the thirty-first parallel are creating their own rules of the road and executing their growth plans to win jobs and resources for their people. They are participating in the global economy without necessarily following the free-market principles of the North. China, Singapore, and Taiwan have explicit national economic strategies. Other countries, including Brazil and India, are beginning to shape their own. Protectionist policies are widespread; governments don’t hesitate to step in on behalf of their countries’ self-interest. The United States practices some protectionism in selected areas but has no coordinated economic plan.

**Companies are competing against countries—not just other companies.** When a government decides to back a domestic company, whether to protect its home
base or to help it achieve world dominance, the competitive equation can shift drastically. State-sponsored companies can scale up quickly and often don’t have the same profit requirements as their publicly traded competitors. Thus they can lower prices and reduce returns for an entire industry. What’s more, the unwritten rule of global expansion is that the company putting down roots in the growth market will transfer its technology and managerial know-how to its native partners. That technology transfer can happen surprisingly quickly.

Northern companies may be building their future competition in exchange for access to markets. For example, in 2007 China set its sights on building an aircraft business that would compete globally. It welcomed U.S. and European aircraft makers to build plants in China, but stipulated that any foreign direct investment had to be through joint ventures with domestic companies. Such supplier relationships involve the open exchange of information, by which proprietary knowledge, accumulated over a long period and funded by taxpayer money and risk funds, can flow. Now Commercial Aircraft Corporation of China (COMAC) is gearing up to compete head-on against Boeing and Airbus with a homegrown narrow-body plane set for release in 2016.

India has the same kind of protections through ownership restrictions. In some industries, non-Indian compa-
nies are allowed to expand only if they give Indian firms an ownership stake. In defense-related businesses, including nuclear, the requirement is stiffer: Non-Indian companies are welcome only if they allow Indians to hold the majority stake.

Why are Northern companies willing to accept conditions dictated by the host country? Because they see the country as important to their current and future ability to deliver growth and shareholder value. Besides, they recognize that if they don’t do it, a competitor will. But while individual managements make these decisions autonomously, their collective actions can affect their home country. When many companies shift their resources and attention to the same country in a short period of time in a herd effect, the home country suffers. Its unemployment increases, its tax base drops, its ratings decline, and both its budget and its trade deficits increase. Thus the collective pursuit of shareholder value, concentrated in one or two countries in the South that do not play by the rules of the game, can unwittingly undermine the national prosperity of their home country. One only has to think about the decline in recent decades of manufacturing in the United States to see the point.

Many companies of the South are tapping into the global supply of capital, know-how, and technology. They are on the offensive, paying top dollar for the best talent
they can get from anywhere, often from the North. The McKinseys, Accentures, and IBMs of the world help would-be clients anywhere in the world. So do headhunters: Former executives of Fortune 500 companies are eager to lend their expertise to enterprises that are growing, and they are getting compensated on a U.S. pay scale. Indian outsourcing firm Wipro hired a former GE executive as its vice chairman (and effectively the chief operating officer for its founder), at an American level of compensation, to help build that business. Wipro then moved from a low ranking to being the number three India-based company in the world. Ever-expanding stock markets, private equity, sovereign wealth funds (investment money held by governments), and global banks are pouring money into opportunities wherever they find them; opportunity is of course defined by growth.

Like consultants, firms with special technological expertise will court customers wherever they can find them. Even after the formation of OPEC in 1973 and the gradual shift of power in negotiations thereafter, the major oil companies of the North had a lot of clout because of their size and proprietary know-how. But other industry players, such as Schlumberger, the world’s leading independent oil-drilling specialist, sell their services and voluminous knowledge base to Saudi Arabia, Russia, Mexico, and others.
As economic power shifts, political power does too. In both, U.S. influence in the South is seen to be in decline, enabling some countries whose support America took for granted to go their own way. For example, against the wishes of the United States, Brazil refused to support sanctions aimed at deterring Iran’s nuclear ambitions, a surprising political stance that would have been unimaginable five years earlier. Some African countries have shown a preference for dealing with China over America because America pushes a democratic ideology, while the Chinese do not. The one that has the money has the power. The one that holds the promise of tremendous economic growth opportunities has even more power. Economic power creates political power, not the other way around.

The tilt will seesaw along the way. Fortunes rise and fall; events that affect one country ripple through others. For example, the post-crisis woes of the European financial system that brought Europe’s growth rate close to zero also slowed exports from the United States and China. The result has been more downward pressure on the U.S. economy and a significant deceleration in China’s growth rate. Economic factors such as inflation rates are likely to dampen the comparative advantage China and many other Southern countries now have in wages and currencies against the North. It has already begun in parts of some industries.
WELCOME TO THE TILTED WORLD

Nonetheless, the overall direction of the tilt remains the same. Even after wage differentials narrow, the South will still have cost advantages. Over time, the tilt will persistently and inevitably continue to change the economic landscape, reshaping competitive dynamics and industry structures around the globe.

Like it or not, you have no choice but to figure out how to position your business in light of the changes. Sitting like the proverbial pigeon with its eyes closed hoping the cat won’t see it is not a good plan. Waiting for protection from the government is not a good plan either. The wheels of democracy turn more slowly than the central planning used successfully elsewhere. Nor is it wise to go forward using the rearview mirror as a guide, comparing China and India with Japan’s rise in earlier decades, for instance, as some business leaders and academics are known to do. Such comparisons are deeply flawed. Today’s competitors are not following Northern models and seeking acceptance by the established international business community. This is a new century and a new game being played on an uneven playing field.
CHANGE YOU CAN’T IGNORE

A CALL TO ACTION FOR THE NORTH

If you’re a leader in a North company, you have a narrow window of time in which to make a decisive tilt in your approach to running the business. You cannot rely on traditional approaches to competitive analysis, strategy, and execution. Your leadership must start with a clear grasp of the global context. While the North is suffering from low or no growth, the South is on the move, even now as the global economy cools. Projections with a long enough time horizon, say ten and twenty years out, capture the steepness of the growth curve of the South and the enormity of the opportunity. Companies that miss the window may permanently lose the chance to gain footing in the South, and at the same time, they make themselves vulnerable to attack on their home turf sometime down the road.

You can’t dwell on whether the help that Southern companies are getting from their governments is “unfair.” Life is unfair. Once you drop your defensive psychology and grasp the shift in economic gravity, the lightbulb will go on: How then do we pursue these opportunities fast enough and without losing sight of our home markets, which after all are still huge in absolute terms and attractive to competitors from the South? The answer lies in fundamental changes in how you think about strategy, as
well as changes in power, resource allocation, and decision making, and in your personal development as a leader.

Opportunities in the North won’t disappear, but companies that remain only in the North will struggle to find growth. Small moves into foreign markets designed to test the waters are not sufficient to meet the dynamism of South-based competitors. More and more, when the time and opportunity are right, you will face decisions about whether to make a big strategic bet or become entrepreneurial on a mega scale, as heavy hitters in the South do. In either case, you’ll need a bigger appetite for risk than many Northern CEOs and their boards are accustomed to, and you might have to consider new kinds of partnerships to scale up quickly.

The simultaneous growth of many nations’ economies is making “large scale” larger than ever, and the South is achieving it astonishingly fast. The barriers to entry that large companies of the North created are in many cases now broken. Young companies in the South, helped by American, Japanese, and German experts, are now capable of competing head-on with North-based giants. Singapore has become a financial center of Southeast Asia, Taiwan has become a dominant player in semiconductors, and Brazil is competing successfully in regional jets. Brazil’s Vale rode the wave of China’s surging demand to become the world’s largest producer of iron ore. The Chi-
Chinese government has been known to push consolidation among domestic competitors precisely to achieve scale, as it is doing in autos and tried to do in rare earth minerals.

South-based competitors have all the capital they need for their fast expansion. Some have government funding in the form of low-cost loans; others are using their country’s sovereign wealth funds. Private equity firms are trolling for opportunities, and so are traditional investors, including those in the expanding stock markets of the South. A Southern company that shows it is on a growth trajectory gets rewarded with price-earnings ratios much higher than its peers in the North. Colgate, a Northern company with a strong presence in India, has a PE of 17 in the North, but its Indian division, which is listed separately on the Indian stock exchange, has a PE of 25.

Competing in the South means reckoning with the reality that the financial premiums you’ve long enjoyed may be at risk. Many upstarts there thrive on low margins, lowering profitability for the entire industry and throwing business models and financial expectations into question. Are you willing to forgo profits in the early years to win in the South? And can you convince the capital markets to live with a longer time horizon?

Explosive growth puts pressure on resources, including inputs that may be critical to your business. Some big players in the South, with the help of their governments,
WELCOME TO THE TILTED WORLD

are making long-term deals to secure them. You might have to plan alternative suppliers of materials, alternative inputs, and alternative sources of energy, and even consider the possibility of vertical integration.

If you decide to grow aggressively in the South, you’ll need some leaders who can navigate in those very different parts of the world and others who can keep the North motivated and renew growth in so-called mature markets. Importantly, you will need leaders who see the world not just from the vantage point of New York but also from that of Beijing, Mumbai, or Buenos Aires. One mistake is the common practice of sending envoys to countries for five-day visits and assuming you understand the market—you’ll be deluding yourself. Another is to force local market intelligence through filters of a bureaucratic hierarchy that pays scant attention to the South, because it represents only a small percentage of current revenues. Decision making has to be close to the markets, and the markets must be segmented.

To begin with, you need to understand that the South has its own economic ecosystem, one that is only partly defined by its relationships with the North. Trade between its countries is exploding. China’s ambitions may scare its neighbors, but its exports to the rest of the South continue to grow, and it is seeking to capture resources within the region. India is moving aggressively into Bangladesh,
Vietnam, Myanmar—whose ancient roots in Buddhism create a natural affinity—and countries of Africa. Its familiarity with poor infrastructure and governance gives it an advantage in dealing with these nations. And of course, Latin America has a longstanding history of trade within its region. Rolling all Southern countries into one lump designated as “emerging markets” makes you vulnerable to being outmaneuvered by local competitors and savvy global players who have already occupied key spaces. You’ve got to be on the spot to understand these dynamics. Real decision-making authority must shift, or tilt, to the South, along with funding. Any leaders you assign or hire locally must be high-level, so you’re comfortable entrusting them with big decisions and hefty budgets.

Expansion requires commitment of people and money. In practical terms, that means extracting some of each from the North to build growth in the South. This is what stops many leaders in their tracks: they don’t want to deal with people who are naturally concerned about losing their sphere of influence or even their jobs. Yet incremental shifts will almost certainly inhibit growth. Taking advantage of the tilt’s growth opportunities requires leaving your comfort zone and getting the timing and direction of those organizational shifts right.
WELCOME TO THE TILTED WORLD

DISSECTING THE TILT

Leaders who have succeeded by understanding the granular details of their industries and immediate competitors now must master a new skill: understanding and anticipating the global business context. You need to develop your own perspective to detect trends that cut across not just industries but also countries, sometimes challenging the economic and business principles you’re familiar with, and see how those trends stretch and bend as companies and countries act and react to one another. The better you are at this, the greater your competitive advantage will be.

You also have to be on the alert for single events that could be pivotal. Given the speed with which a single player can amass resources or a government can change the competitive ground rules, you must develop your skill in imagining second- and third-order consequences. This is where one astute leader can see a bend in the road ahead of time while others miss it.

Leaders from the South may have an advantage here because of the fast and multifaceted changes they’ve had to live with, but Northern leaders can learn this skill too. It’s a matter of expanding the lens through which you see the world and applying both your intellect and your intuition to cut through to the essentials. And you can’t delegate it to consultants or other experts, who will have
their own points of view. Their input is useful, maybe even necessary, but you must build your own competence in doing it, because your view of the world will inform your actions and decisions.

There’s no excuse for geoeconomic or geopolitical illiteracy. Information is readily available. Time for reflection is what’s usually in short supply. You have to work at gaining command of trends beyond your industry and geography. Take, for instance, trade patterns. Whether China continues to build its trade surplus depends on several things: its ability to maintain its advantages in currency valuation and labor costs or increase domestic consumption, and other countries’ reluctance to take defensive protectionist measures. Your conclusion may depend on your assessment of those factors.

Among the trends to watch is the changing role of government in economic activity. Will the United States become more effective in furthering its economic interests, and China less so? Will countries cooperate on common issues such as financial reform? Will new mechanisms emerge to resolve trade disputes?

You can’t ignore the global financial system either. However hard it is to understand, you have to be able to identify for yourself the weak spots and early warning signals of a break point. (No one believes we’ve left the dark woods of systemic risk behind.) You don’t have to be a
WELCOME TO THE TILTED WORLD

governor of the Federal Reserve, but you must master the basics.

Your viewpoint about the world will give you a better sense of how to filter the sources of information you rely on, focus the business, allocate resources, select people, and organize their efforts. It will also change the way you allot your own time and mental energy.

THE ROCKY ROAD TO A MORE EQUAL WORLD

We are headed toward an expansion of wealth and opportunity to millions of people worldwide who are being lifted out of poverty into a burgeoning middle class. The gap between wealthy nations and poor ones is clearly narrowing by several measures. One is what populations can afford to buy in their home markets (what economists call purchasing power parity). Another is education: Consider the increase in the number of graduates with technical degrees, supplemented by technology centers Northern companies such as GE, Honeywell, and Siemens have been building in the past decade. It will take longer for the internal infrastructure, distribution channels, health care, and capital markets of the South to reach parity with the North, but they are well on their way.

While the notion of parity is universally appealing in
human terms, the transition will be challenging. Already we see the tug-of-war for resources and jobs played out through countries’ willingness to practice their own versions of capitalism and free trade with varying degrees of protectionism. Trade imbalances are multiplying in number and size. When the Southern countries were still emerging, they typically ran deficits with developed countries of the North. Today the mix of surpluses and deficits is not so neatly partitioned. Taking into account both manufactured goods and services, in 2011 Germany and China enjoyed ample trade surpluses ($100.8 billion and $182.6 billion, respectively, as of June 2010). The United States, Britain, and India ran hefty trade deficits ($600 billion, $61 billion, and $145 billion).  

Why does such macro data matter to anybody but economists? Because it can affect your own business in the South. For example, India’s growing deficit with China is at the point where it could do long-term damage as the rupee continues to decline. Many Indian companies that borrowed in hard currencies in recent years will have trouble repaying their debts; North companies doing business in India will need to make sure that their customers aren’t at risk.

Economic shifts of such seismic scale occur only occasionally in human history. The last one took place over several centuries, beginning with the European Renaissance,
when China, India, and Japan were the world’s most powerful economies. This one developed in just a few decades. It got under way when Deng Xiaoping took power in China some three decades ago, but it greatly accelerated in the mid-1990s, when he implemented reforms that transformed China to a so-called socialist market economy. When that decade began, America was the world’s dominant economic, technological, and political power. Ten years later it was a faltering giant. Financial innovations and a flood of money were fueling high consumption. China and other Southern countries provided the goods, and the United States amassed its towering trade deficit. At the start of the 1990s, the United States owed China about $10 billion. By 2010, that number had swelled to just over $273 billion. Other economies, in particular Taiwan, Hong Kong, Singapore, and South Korea, prospered as they helped China, India, and Thailand develop.

Pessimists see the fiercely competitive battles for trade and investment flows as evidence that the world has entered into a zero-sum game. Nothing could be further from the truth, for the simple reason that the pie is expanding at an extraordinary rate. This period brings epic opportunity to the people of the South—and no shortage of opportunities for the businesses of the North with the skill and gumption to pursue them.
This book is both a guide and a tool kit to help you make a difference in your company. It is intended to open your eyes to the dynamism that is tilting the globe from North to South. It will, I hope, enable you to go beyond rhetoric and generalities such as complaints about China’s “unfair” advantages and challenge the outdated assumptions and wishful thinking that so often block leaders from seeing the immense opportunities that lie outside their line of sight. Its ultimate purpose is to show how you can share in the stupendous opportunities offered by what could be the greatest change in business history.

Make no mistake: for most business people, the tilt will present the biggest challenge of their careers. The next chapter will explain the seemingly unstoppable forces of change that drive the tilt, and help you to understand why they matter to your business. Reading on, you’ll see first-hand the formidable spirit and skills of leaders in the South who are taking advantage of these trends to put their companies on the global stage.

The second part of the book gives you practical advice for succeeding in the tilt. You’ll learn why old ways of thinking about strategy fall short in this environment, and why you may need to jettison your beliefs about core competencies so that you can consider making bolder moves,
maybe even a big strategic bet (Chapter 4). You’ll need to hone different leadership skills, including especially the “soft” ones crucial to managing what I call the social systems of the organization (Chapter 5). You’ll discover why the shifts in power, resources, and behavior should be in place within your organization even before a change in structure (Chapter 6). Finally, in Chapter 7, you will pick up pointers and ideas from several companies of the North that are meeting the challenges of the tilt.

I urge you to spend the energy and time to learn about the tilt, its forces, its impact, and its speed. Form an integrated picture of the changing external landscape. You’ll find a clearer path and make better decisions and be well prepared to lead.