

Multinationals**Globalisation's offspring**

Apr 4th 2007

From The Economist print edition

How the new multinationals are remaking the old

FOR as long as multinational companies have existed—and some historians trace them back to banking under the Knights Templar in 1135—they have been derided by their critics as rapacious rich-world beasts. If there was ever any truth to that accusation, it is fast disappearing. While globalisation has opened new markets to rich-world companies, it has also given birth to a pack of fast-moving, sharp-toothed new multinationals that is emerging from the poor world.

Indian and Chinese firms are now starting to give their rich-world rivals a run for their money. So far this year, Indian firms, led by Hindalco and Tata Steel, have bought some 34 foreign companies for a combined \$10.7 billion. Indian IT-services companies such as Infosys, Tata Consultancy Services and Wipro are putting the fear of God into the old guard, including Accenture and even mighty IBM (see [article](#)). Big Blue sold its personal-computer business to a Chinese multinational, Lenovo, which is now starting to get its act together. PetroChina has become a force in Africa, including, controversially, Sudan. Brazilian and Russian multinationals are also starting to make their mark. The Russians have outdone the Indians this year, splashing \$11.4 billion abroad, and are now in the running to buy Alitalia, Italy's state airline (see [article](#)).

These are very early days, of course. India's Ranbaxy is still minute compared with a branded-drugs maker like Pfizer; China's Haier, a maker of white goods, is a minnow next to Whirlpool's whale. But the new multinationals are bent on the course taken by their counterparts in Japan in the 1980s and South Korea in the 1990s. Just as Toyota and Samsung eventually obliged western multinationals to rethink how to make cars and consumer electronics, so today's young thrusters threaten the veterans wherever they are complacent.

The newcomers have some big advantages over the old firms. They are unencumbered by the accumulated legacies of their rivals. Infosys rightly sees itself as more agile than IBM, because when it makes a decision it does not have to weigh the opinions of thousands of highly paid careerists in Armonk, New York. That, in turn, can make

a difference in the scramble for talent. Western multinationals often find that the best local people leave for a local rival as soon as they have been trained, because the prospects of rising to the top can seem better at the local firm.

First, count your blessings

But the newcomers' advantages are not overwhelming. Take the difference in company ethics, for instance, which worries plenty of rich-world managers. They fear that they will engage in a race to the bottom with rivals unencumbered by the fine feelings of shareholders and domestic customers, and so are bound to lose. Yet the evidence is that companies harmonise up, not down. In developing countries (never mind what the NGOs say) multinationals tend to spread better working practices and environmental conditions; but when emerging-country multinationals operate in rich countries they tend to adopt local mores. So as those companies globalise, the differences are likely to narrow.

Nor is cost as big an advantage to emerging-country multinationals as it might seem. They compete against the old guard on value for money, which depends on both price and quality. A firm like Tata Steel, from low-cost India, would never have bought expensive, Anglo-Dutch Corus were it not for its expertise in making fancy steel.

This points to an enduring source of advantage for the wealthy companies under attack. A world that is not governed by cost alone suits them, because they already possess a formidable array of skills, such as managing relations with customers, polishing brands, building up know-how and fostering innovation.

The world is bumpy

The question is how to make these count. Sam Palmisano, IBM's boss, foresees nothing less than the redesign of the multinational company. In his scheme, multinationals began when 19th-century firms set up sales offices abroad for goods shipped from factories at home. Firms later created smaller "Mini Me" versions of the parent company across the world. Now Mr Palmisano wants to piece together worldwide operations, putting different activities wherever they are done best, paying no heed to arbitrary geographical boundaries. That is why, for example, IBM now has over 50,000 employees in India and ambitious plans for further expansion there. Even as India has become the company's second-biggest operation outside America, it has moved the head of procurement from New York to Shenzhen in China.

As Mr Palmisano readily concedes, this will be the work of at least a generation. Furthermore, rich-country multinationals may struggle to shed nationalistic cultures. IBM is even now trying to wash the starch out of its white-shirted management style. But today, General Electric alone seems able to train enough of its recruits to think as GE people first and Indians, Chinese or Americans second. Lenovo's decision to appoint an American, William Amelio, as its Singapore-based chief executive, under a Chinese chairman, is a hint that some newcomers already understand the way things are going.

IBM's approach is possible only because globalisation is flourishing. Many of the barriers that stopped cross-border commerce have fallen. And yet, Mr Palmisano's idea also depends on the fact that the terrain remains decidedly bumpy. Increasingly, success for a multinational will depend on correctly spotting which places best suit which of the firm's activities. Make the wrong bets and the world's bumps will work against you. And now that judgment, rather than tariff barriers, determines location, picking the right place to invest becomes both harder and more important.

Nobody said that coping with a new brood of competitors was going to be easy. Some of today's established multinational companies will not be up to the task. But others will emerge from the encounter stronger than ever. And consumers, wherever they are, will gain from the contest.