

Leadership for a Changing World. Articles in our *Leadership & Talent* series address key issues companies face in creating effective talent management strategies—to identify, develop and retain successful leaders and leadership teams.

The war for talent in India heats up: Indian organizations take on the foreign multinationals

For many decades, foreign multinational corporations operating in India have had their pick of that country's best executives. But today, for the first time, those firms are facing stiff competition for senior talent from a new generation of Indian-based organizations. In this issue, Sanjay Kapoor and the Russell Reynolds Associates India team discuss the forces behind this development and examine possible steps foreign multinationals can take in response.

Since the early '70s, foreign multinational corporations have viewed India as a land of opportunity, due to both the size of the market and the quality of the local management talent. Indian executives were a product of their country's rigorous education system and often had advanced degrees from top-tier universities around the world. For Indian executives, the attraction was mutual; they saw foreign multinationals as world-class enterprises that embraced meritocracy and constant improvement. Indian companies, in contrast, were regarded as parochial, overly cautious and bound by custom. For the country's best business talent, there was no real choice in which ladder to climb.

Recently, however, foreign multinationals have found recruiting and retaining top talent in India to be increasingly difficult. Over the last few years, there has been a steady stream of high-profile cases in which Indian executives have left brand-name foreign firms for leadership positions in Indian organizations; beyond the headlines, the same phenomenon is unfolding at early- and mid-career points as well.



There are a number of factors behind this trend, which is unlikely to abate any time soon. Foreign multinationals with operations in India need to understand these factors and formulate a response in order to continue to attract and retain the top pick of Indian senior talent.

Reaping the fruits of reform

The current environment began to take shape over the past decade, when the benefits of the country's 1991 economic reforms began to reach a critical mass, allowing Indian companies to directly challenge foreign multinationals for

business leaders. Fueled by an Indian stock market eager to reward promising domestic companies, a streamlined regulatory environment and an economy in overdrive, these companies are now fulfilling the global ambitions of their entrepreneurial founders. Their acceleration was helped along by new technologies and business models that enabled India to leapfrog traditional stages in its economic development and that created entirely new industries, such as business process outsourcing, that Indian firms could quickly grow to dominate on a global scale.

At the same time, the Indian operations of foreign multinationals, which had long been the business pacesetters, began undergoing their own transformation as they expanded and became weighted down with the more hierarchical cultures of their global parents. This brought a predictable consequence: In a new environment of entrepreneurial possibility, large bureaucratic organizations became less attractive compared with the flat, agile ones created by Indian entrepreneurs. Further, Indian executives began to realize that their preference for foreign multinationals came at a price. Career paths generally required moving overseas for extended periods of time, with little chance of returning to a significant role within India and even less possibility of rising to the C-suite at corporate headquarters. (While high-profile executives such as Indra Nooyi and Vikram Pandit may have been born in India, most of their careers have unfolded in the United States, limiting their respective relevance as role models to Indian executives.)

Growing apart

In recent years, Indian executives at multinationals have also chafed at the growing schism between the reality on the

ground and the distant perspective of their counterparts in corporate headquarters in the United States or Europe. Many executives at headquarters have limited, if any, experience with India or with the urgency that is a necessary part of an economy where companies can reach triple-digit growth. An Indian executive working for a foreign multinational in India who sees an opportunity to exploit must take it up the chain of command, explaining it to successive layers of foreign colleagues. By the time permission is secured, the moment is likely to have passed.

This disconnect repeats itself on a range of issues from marketing to

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investment. As one managing director of a global media company recently asked, “How many times do you expect me to try to explain to the folks in headquarters why Hanuman”—the popular Hindu god who takes the form of a monkey—“is a bigger pull than one of the cartoon characters they created?” The managing director of a global real estate fund complained, “The Investment Committee thinks India is a banana republic, where we can get high double-digit returns without risk. When these players see that investment in India requires the same long-term commitment and involves the same set of issues as anywhere else, they throw up their hands and walk away from the opportunity.” Indeed, many Indian executives, rightly or wrongly, view headquarters as more concerned with taking credit for the Indian market than with understanding it.

Flocking to home-grown opportunity

In an Indian organization, in contrast, an Indian executive doesn’t have to start from the beginning when pitching an idea to a fellow Indian. Indian organizations have also maintained flat structures and cultures of rapid decision making that extend from management ranks to the boardroom. One Indian executive tells of how his company was able to negotiate and acquire a financial services business over a weekend—with the chairman of the board signing off on the acquisition at 6 a.m. on Monday morning to beat the stock market announcement

deadlines and save the acquired company from publicly declaring bankruptcy. “This could never have happened at a foreign multinational,” he said.

In addition to agility, Indian companies now sport top-tier management, governance and human resources practices that are a far cry from their earlier insularity—and spell a wealth of opportunity for its executives. These developments together mean that Indian organizations now have the enviable track records, attractive brand presence and solid reputations needed to draw corporate leaders with global ambition. In fact, the pendulum has begun to swing the other way: Growing numbers of Indian candidates refuse to consider opportunities at foreign multinationals. This is particularly true in sectors such as power and telecommunications, where Indian enterprises currently have a clear

“ Foreign companies must act boldly to recapture or maintain position in the talent marketplace. ”

lead within the country over the Indian operations of foreign multinationals. In other sectors, such as automobiles and banking, Indian firms are making a clear bid for dominance within the national market, where they have a deeper and more intuitive understanding of risk, regulatory requirements and other local nuances than their foreign multinational counterparts.

Indian executives at foreign multinationals now have more and more examples of colleagues who have reached the top of their profession at Indian companies. Going forward, this is likely to produce a “snowball effect” that will make it increasingly difficult for foreign multinationals to compete for and retain the best leadership talent within the country.

Rising to the challenge

This collection of forces represents a new, more challenging reality for the foreign multinationals with Indian operations whose success depends on human capital. Not only must these companies compete with each other for leadership talent but also, for the first time, with locally based firms that have decided advantages.

Each foreign multinational will have to respond to these developments in its own way. But it is unlikely that incremental change will be sufficient. Companies must see this as a medium- to long-term challenge and respond with strategic and structural, rather than one-off or tactical, efforts. Bold possibilities to recapture or maintain position in the talent marketplace include:

- **Create global or regional leadership roles based in India**— True globalization means not just relocating people across borders but moving functions and decision centers as well. Increasingly, companies are discovering that global functional heads no longer need to be housed under a single roof; many offshore functions are now led completely from India. Placing some of the organization’s global leadership in India makes an important statement about opportunity and commitment to the region.
- **Alter the corporate structure**— A hierarchical corporate structure, with headquarters on the one side and business units or wholly owned subsidiaries on the other, can easily lead to an “us vs. them” world view. Spinning off Indian operations as a joint venture with the parent company—and perhaps majority-listed on an Indian stock exchange—could help dissipate some of the obstacles Indian executives feel are endemic to many foreign multinationals. It also allows Indian executives to be retained with stock options from a growth-oriented Indian exchange rather than in a more mature global market.
- **Incubate entrepreneurialism**—In some ways, the challenges of facing foreign multinationals in India are a subset of the more general case of larger, less agile firms confronting

smaller, more nimble competitors. Lessons from those more general cases can be instructive. Legacy firms can sidestep some of their structural impediments by creating internal, India-based entrepreneurial initiatives that are segregated from the larger culture and are run by Indian executives given high levels of autonomy.

- **Groom the career paths**—Indian executives accept the reality that their career will require stints abroad. But much can be done to make those assignments more palatable in length (say, two to three years rather than five) and part of a coherent trajectory that includes periodic stints back home as well as positions of increasing responsibility without artificial barriers.

The human capital challenges faced by foreign multinationals in India are not insurmountable. But conquering them will require a full appreciation of the forces at work and a long-term strategy that gives top-tier Indian executives the greater sense of ownership and control that it will take to retain them. ■

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