Global Tilt : Leading your Business through the Great Economic Power Shift

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Ram Charan, who echoed Thomas Carlyle's view of Economics as a 'dismal science' in many of his writings, has written a book on the subject he dislikes, viewing it through a different lens. Conventionally economies were referred to as Western, indicating the advanced economies of the west like the US, Europe etc., and the underdeveloped or lesser developed or developing economies of the East (barringJapan) like South Korea, China, India and other SE Asian counties. But Charan takes a distinct view that economic power is shifting from the North (US, Western Europe, Japan etc.) to the South (countries that fall below the thirty-first parallel) like China, Middle East, India, Brazil, Sub-Saharan Africa, South Africa, Mexico etc.).

He notes that wealth is moving from North to South where companies and their leaders display fierce entrepreneurial drive, creating jobs and prosperity, and achieving double digit growth for their countries. The South companies are rapidly building scale and are challenging companies from the North on all fronts. Charan opines that the South is driving change and the North is afraid of it.

Charan feels that many business leaders from the North are blind to the magnitude of the changes that are taking place. While some are taking proactive steps by transferring technology, brands, know-how and real assets to South, in pursuit of higher growth for their companies than can be achieved in their home countries, many continue to blame cheap labour, currency manipulation, protectionism etc. of the countries of the South. Charan warns that leaders of the North will ignore the changes or shifts at their own peril. He lists six realities that are facing the leaders, not only in the North but also in the South:

l. The world is in an inevitable transition to a more even distribution of opportunity and wealth. This is due to the people's desire for a better life. While the road may not be straight or smooth, the direction of the journey has already been set.

2. The global financial system which connects the economies of all countries every second of the day, is highly unstable. The basic problem is that no one truly understands how it works but its malfunctioning has caused recessions and destruction of economies, be it the South East Asian currency crisis in 1997 or the financial meltdown in the 2007 to 2009 period from which many countries are yet to recover. Uncertainty will continue to be the norm for some more time into the future.

3. We are in a war for jobs. Although total employment will continue to increase globally, every country wants a larger share of the job cake with the explicit purpose of strengthening its middle class, improving its standard of living, increasing its financial reserves, and also to ensure political stability. Despite all the talk about the world being one, nationalism and protectionist policies are still the driving forces, with no clear agreement about the rules of the game.

4. Emerging countries of the South are creating their own rules for economic progress and executing their plans to win jobs and resources for their people. Many countries like China, Singapore and Taiwan have explicit economic strategies, different from the free market policies of the countries of the North. Others like Brazil and India are in the process of shaping their own strategies. Many of them follow protectionist policies and their governments are proactive to protect their countries' self-interest.

5. Companies are competing against countries - not just other companies. The competition equation shifts dramatically when a country's government supports a domestic company with the idea of achieving world dominance. State-sponsored companies, with all their resource back-up and objectives not necessarily skewed to profit requirements, can act in peculiar ways different from market demands, and hence can scale up quickly, decide to lower prices and to reduce returns, influencing the returns of an entire industry.

6. Companies from the North may themselves be sowing seeds of competition in exchange for access to emerging markets. In 2007, China welcomed US and European aircraft makers to build plants in China on the condition that they form joint ventures with domestic companies. Such relationships lead to open exchange of information, whereby technology and knowledge can flow in. Today Commercial Aircraft Corporation of China (COMAC) is gearing up to compete head-on with Boeing and Airbus with a plan for a homegrown narrow-body aircraft set for launch in 2016. The same could be true of India also. In certain industries, non-Indian companies are allowed to establish and /or expand if they give Indian firms ownership stake. In certain areas like defence and nuclear business, Indian companies must hold a majority stake.

Charan goes on to explain how political power can shift as a consequence of economic power shifts. For example, the US influence in the South is seen to be declining. Brazil, for instance, has refused to go with the US in its sanctions against Iran for nurturing nuclear ambitions.

While some of the advantages of the South as a destination for funds flow or low cost operations may decelerate over time, the tilt will continue due to various economic advantages like market size, and will drive changes in the global economic landscape, reshaping the competitive dynamics and industry structures across the globe. Some African countries prefer to deal with China over America because, whereas America pushes for a democratic ideology, China does not.

Today, the country which has money has the power. The countries which hold promise of high economic growth opportunities enjoy even more power. Economic power creates political power and not the other way around. Many countries have set up sovereign wealth funds which use the money for acquiring assets or other key resources that give such countries immense political clout. According to Charan, three-quarters of all such money is in the middle east or Asia, most of it accumulated from the sale of natural resources like oil as in the case of middle-east countries, or from massive trade surpluses as in the case of China.

In Chapters 2 to 7, Charan explains the tilt or economic shift in more detail and suggests how companies and their managements have to deal with this tilt, in terms of strategy, leadership, organization structure etc. The last chapter explains how companies must drive growth when major markets like the US, Japan and Europe are stagnating, and how to stay competitive in markets like Asia, South America and Africa where cost competitiveness is the key. Charan points out that it is possible, narrating some real life examples.

A commendable book, one of the first detailing the shift in economic power from the erstwhile developed countries to the fast developing countries, and how this affects companies, top leaders, the very organizations. A handy companion and must-read for today's CEOs who operate in a global economic scenario. Charan's trademark simplicity in explaining complex business (economic) issues is once again the plus point of the book.

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