Growing Beyond

Beyond Asia: developed-markets perspectives

Meeting the challenge of changing global competition

Ernst & Young
Quality In Everything We Do

About this report

Beyond Asia: developed-markets perspectives — meeting the challenge of changing global competition complements our recent report, *Beyond Asia: strategies to support the quest for growth*, which described the overseas expansion strategies of Asian companies. *Beyond Asia: strategies to support the quest for growth* was based on a survey of 617 business executives based in East and Southeast Asia, conducted by the Economist Intelligence Unit in March and April 2012. This report explores the implications of Asian business expansion for companies based in developed markets. Our research is based on a series of in-depth interviews with business leaders and Ernst & Young professionals.

In both reports, we use the term "Asia" to refer to the nine rapid-growth markets in East and Southeast Asia that we surveyed. These markets are mainland China, Hong Kong (SAR), Indonesia, Malaysia, Singapore, South Korea, Taiwan, Thailand and Vietnam. Globally focused ("global") Asian companies are those with operations in two or more of the following markets: Australia and New Zealand, Brazil, Eastern Europe, India, Japan, Latin America, Middle East & North Africa, Russia, Sub-Saharan Africa, US or Canada, and Western Europe. Regionally focused ("regional") companies are those which have operations only in East and Southeast Asia.

Contents

Fast facts: Asia

- Rapid-growth markets from Asia represent the fastest-growing economic region in the world, with annual growth forecast at more than 6% a year.
- The IMF expects advanced economies to grow by just 1.4% in 2012 and 2% in 2013. The corresponding figure for East and Southeast Asia in 2013 is 7.9%.
- Since 2000, Asia has been the fastest-growing source of foreign direct investment (FDI). Its businesses currently produce a quarter of the world's exports (US$3.77 trillion in 2010) and form 87 of the Fortune Global 500 largest firms.
- FDI outflows from East and Southeast Asia recorded a compound annual growth rate of 22.9% in 2005–2011, jumping from US$70 billion to US$242 billion.
- Investors from East and Southeast Asia are major drivers of growth in global foreign direct investment (FDI) outflows, making up 16% of the world's total FDI (up from just 7% in 2005) and driven by increased outflows from mainland China, Hong Kong (SAR), Malaysia, South Korea, Singapore and Taiwan.
- Intra-regional trade is expanding rapidly, reflecting the shift towards higher consumption in Asia. China leads the way in terms of outflows and destination, with growth for Indonesia, South Korea, Thailand and Vietnam close behind.
- Trade flows from Asia to the US and Canada, the Middle East, Latin America and Africa are expected to increase by over 10% a year up to 2020.
- Cross-border M&A purchases are consuming an ever-larger slice of FDI flows, with purchases from Asia reaching a record US$94 billion in 2010.
- The China — US trade route is forecast to see the biggest increase in the world, predicted to rise by almost US$700 billion by 2020.

Sources: UNCTAD, IMF, Oxford Economics

Introduction

Lou Pagnutti

The rise of Asia over the past few decades has transformed the global economic landscape. Since the 1980s, major economies in the region have seen dramatic economic growth, which has lifted millions out of poverty and created huge new markets for domestic consumption. Although growth rates have dipped slightly in recent months, the future looks bright for Asia. According to a report from the Asian Development Bank, the region's per capita income could increase six times in purchasing power parity (PPP) terms between now and 2050, reaching levels that are similar to those in Europe today.[1]

This economic transformation has created a highly fertile environment for business growth across Asia. Over the past decade, a new generation of Asian companies has emerged to take advantage of increased spending power and opportunities in the region. As we explored in our recent report *Beyond Asia: strategies to support the quest for growth*, these new multinationals are now fanning out across the globe, capitalizing on a platform of strong domestic markets, government support and readily available capital to become major players in international business.[2] Foreign direct investment (FDI) outflows from East and Southeast Asia recorded a compound annual growth rate of 22.9% in 2005–2011, jumping from US$70b to US$242b. Investors from East and Southeast Asia are major drivers of growth in global FDI outflows, making up 16% of the world's total FDI (up from just 7% in 2005).[3]

This follow-up report examines how companies based in developed markets can explore the implications of Asian overseas expansion and figure out responses that will both anticipate change in global competition and maximize new opportunities. Based on in-depth interviews with business leaders and Ernst & Young professionals, the report offers practical perspectives into how both Asian and developed-market businesses can turn this trend to their advantage and attain a common goal — growth.

Lou Pagnutti
Asia-Pacific Area Managing Partner
Ernst & Young

Beyond Asia: developed-markets perspectives – meeting the challenge of changing global competition is part of Growing Beyond, our flagship program that explores how companies can grow faster by expanding into new markets, finding new ways to innovate and implementing new approaches to talent management.

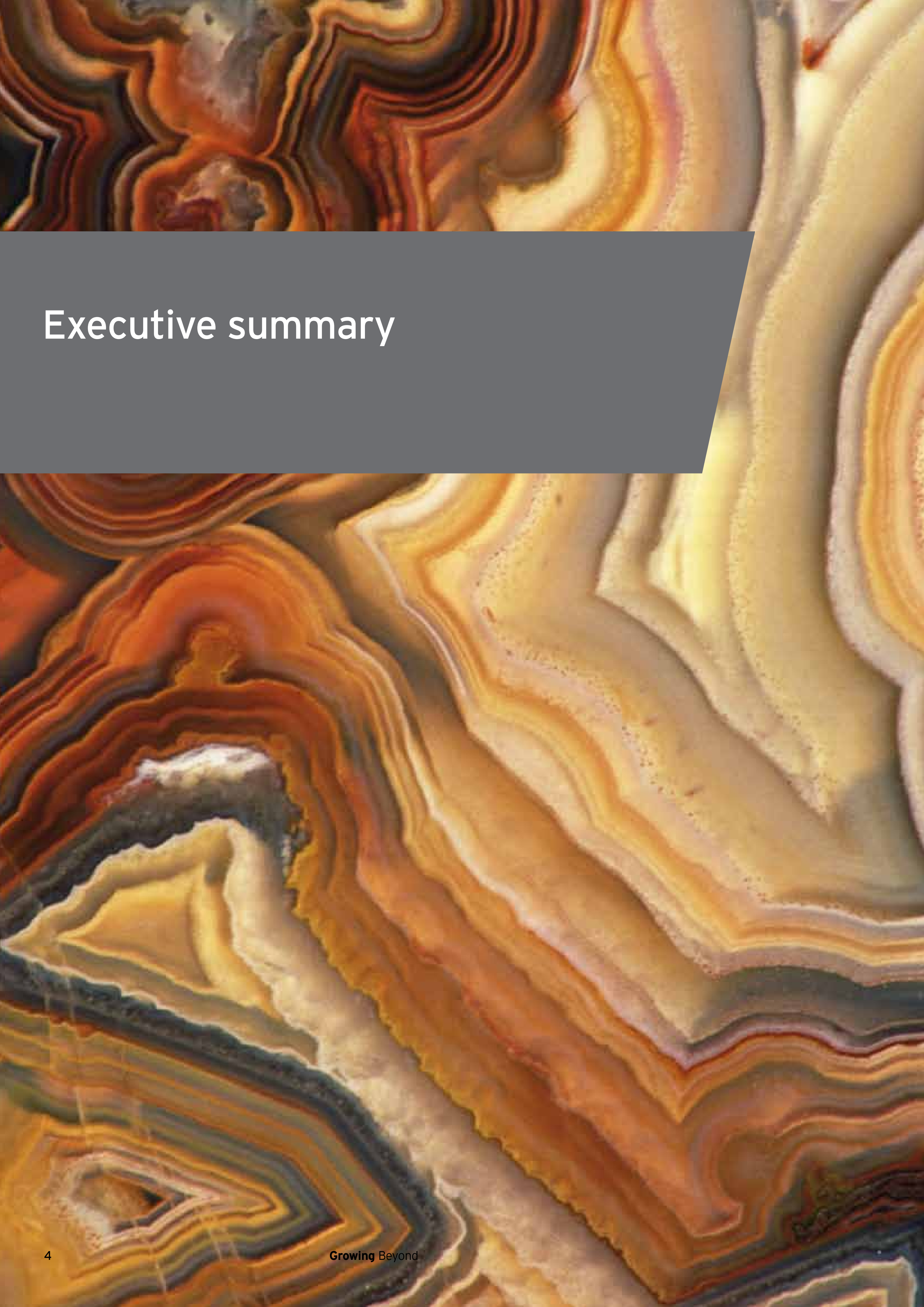
Footnotes

1. *Asia 2050: Realizing the Asian Century,* Asian Development Bank, http://www.adb.org/sites/default/files/asia2050-executive-summary.pdf

2. *Beyond Asia: strategies to support the quest for growth,* Ernst & Young, 2012

3. UNCTAD, IMF, Oxford Economics

Executive summary



Companies based in Asia are expanding outside their borders in record numbers, giving rise to fear among developed-market businesses that increasing competition will erode their core markets. Media reports have further stoked this paranoia. But the truth is actually the opposite: for both Asian and developed-market businesses, Asian companies' globalization presents growth opportunities that may not have materialized otherwise. This report examines the key areas in which global competition is changing and how companies from the different markets can combine their strengths and capabilities to enhance growth. It explores several situations arising from Asian business expansion and suggests actions that developed-market companies can take to capitalize on them:

Growing demand for assets from Asian companies has intensified global competition for acquisitions.

Recommended actions:
- Have a well-developed competitive intelligence
- Present yourself as an acquirer of choice
- Structure acquisitions properly

As Asian companies seek to develop more sophisticated and high-value products and services, developed-market companies will face much greater competition on cost in their core segments.

Recommended actions:
- Think carefully about where you can compete
- Focus on differentiating yourself in the marketplace
- Refresh your business model to maintain your competitive edge

Markets outside Asia and the developed markets are becoming the new battleground for market share.

Recommended actions:
- Develop a clear understanding of the competitive landscape you are likely to face
- Structure the investment so you can protect your assets, especially from a tax perspective

Some mid-market segments are becoming crowded, forcing developed-market companies to target the lower-end segment in addition to the higher end that they are used to serving.

Recommended actions:
- Access the right cost structures and operating models (e.g., an alliance or partnership)
- Consider segmenting your supply chain differently for high- and low-end products

Developed-market companies can combine forces with Asian companies so that both parties make the most of each other's strengths and capabilities.

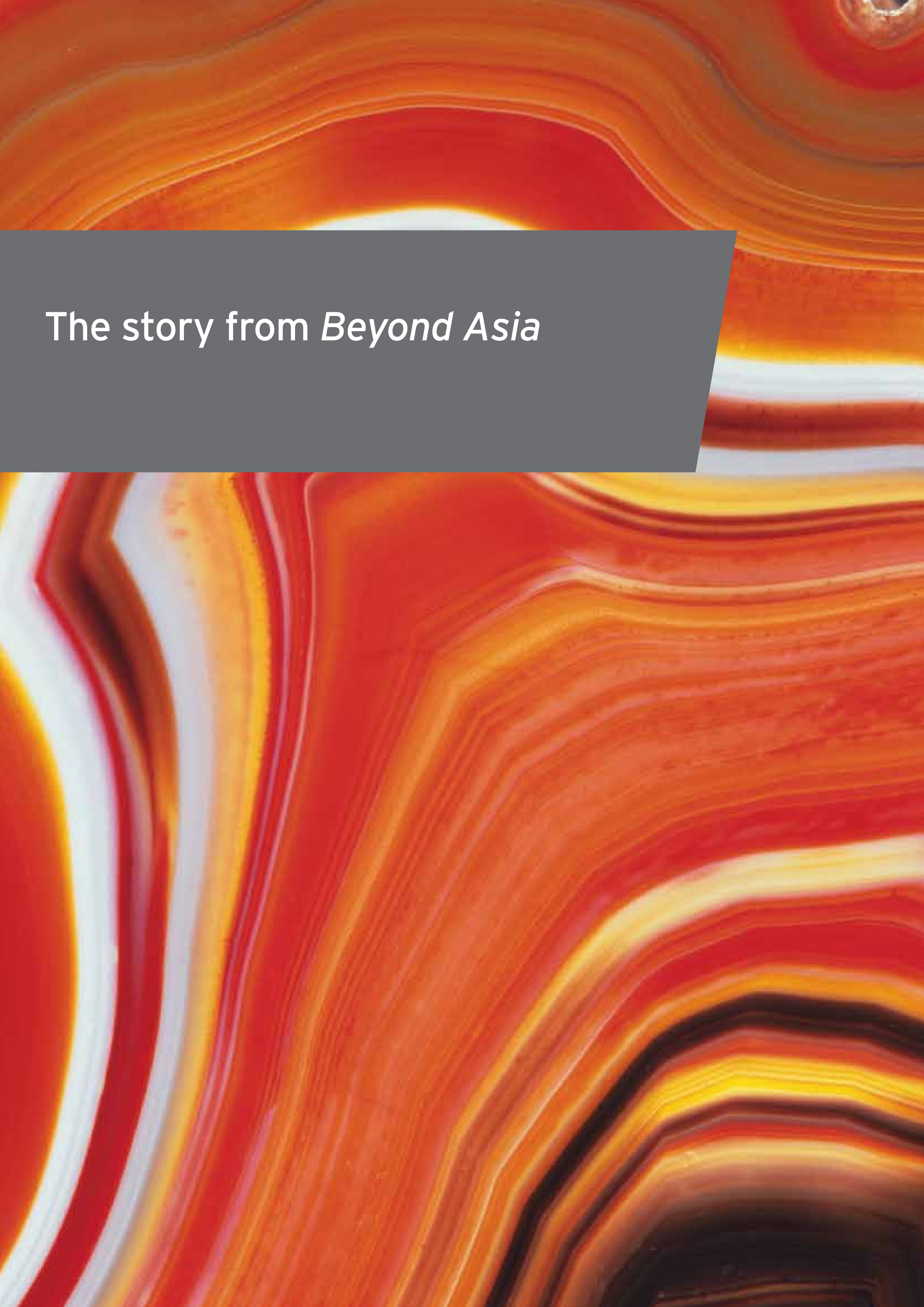
Recommended actions:
- Find Asian companies' competency gaps — and fill them
- Form strong partnerships with Asian companies seeking to fill niche technology gaps

Rapid-growth markets are becoming the global centers for key corporate activities, necessitating considerable investment in talent.

Recommended actions:
- Invest in talent so that managers in local markets have the capability to assume bigger, more global roles
- Make the necessary organizational changes to ensure local autonomy

Whether minimizing threats or maximizing opportunities, developed-market companies need to think more broadly about their strategic options. Our report recommends that companies in developed markets think creatively, understand the competitive landscape and learn from the global success of Asian companies.

The story from *Beyond Asia*

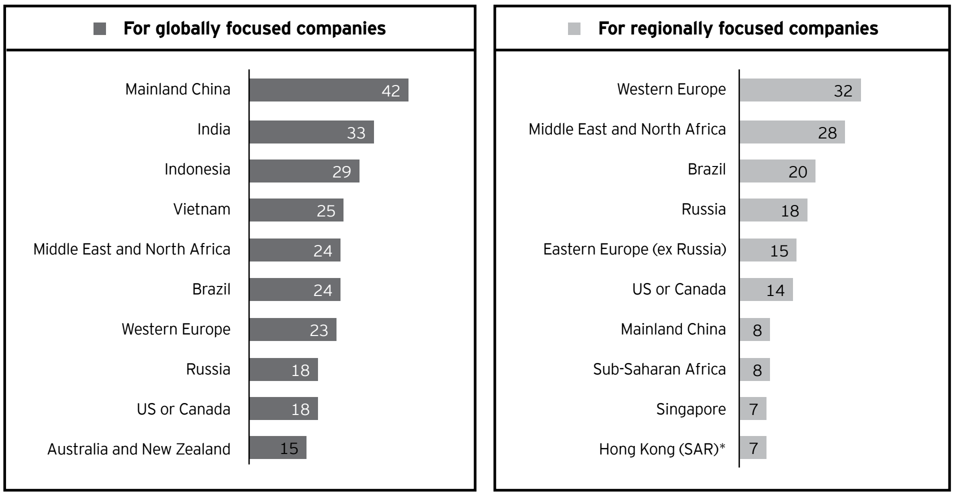


Our research for *Beyond Asia: strategies to support the quest for growth* found that Asian companies have ambitious plans for overseas expansion, moving from their own region into markets such as Latin America, the Middle East and Africa, and finally into developed markets. Asian foreign direct investment (FDI) is becoming more diverse, with telecommunications, banking and electronics joining the more traditional manufacturing and extractive industries. Asian companies' globalization strategies follow certain patterns.

Where: Asian companies with a global footprint — presumably with the capabilities to handle the large Asian markets — expect most of their growth to come from Asia in the next three years, including India, China and rapid-growth markets such as Indonesia and Vietnam. By contrast, regionally focused Asian companies see their best opportunities outside the region, especially in Western Europe, the Middle East and North Africa (see Figure 1).

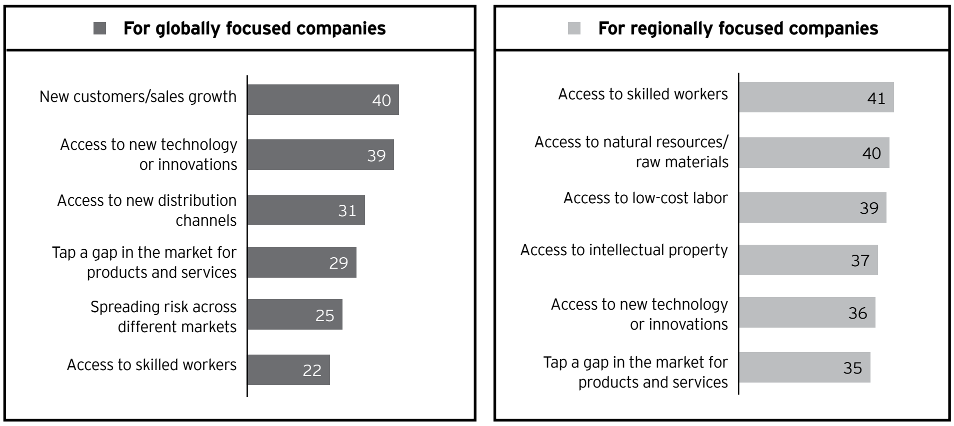
Why: For Asian companies that are already operating globally, the main benefits of expansion into developed markets are access to new customers and sales growth (see Figure 2). Asian companies that are still regional have different priorities – they invest in developed markets primarily to gain access to skilled workers, natural resources or raw materials, and low-cost labor. Both regional and global companies also cite access to new technology and innovations as an important reason for venturing into developed markets.

Figure 1: ***Excluding your company's home market, which countries or regions do you expect will hold the best growth opportunities for your company over the next three years?***



Note: Scores shown = percentage of respondents
* Special administrative region

Figure 2: ***What are the most important benefits you would be looking to achieve through international expansion in developed markets?***



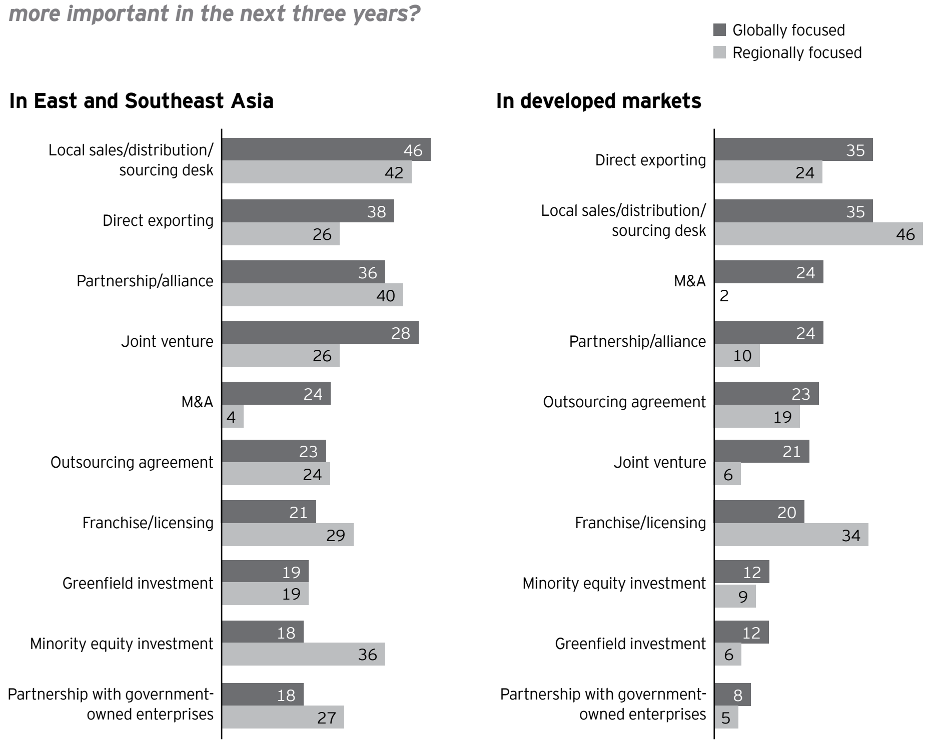
Note: Scores shown = percentage of respondents

Asian companies still struggle to understand the nuances of some overseas markets, and may lack the capabilities and international outlook to achieve their goals effectively.

How: Although classic methods such as franchises and overseas distribution/sales offices are still common, Asian companies – particularly those that are globally focused – increasingly want to pursue more ambitious strategic goals through partnerships, alliances and M&A (see Figure 3). Cross-border mergers and acquisitions account for an ever-larger slice of FDI outflows from Asia, with purchases from the region reaching a record US$94b in 2010.[4] *Beyond Asia* also highlighted, however, that Asian companies still struggle to understand the nuances of some overseas markets, and may lack the capabilities and international outlook to achieve their goals effectively.

For more information on *Beyond Asia: strategies to support the quest for growth*, and to download the complete report, please visit www.ey.com/growingbeyond.

Figure 3: ***As you consider strategies for expansion, which methods will become more important in the next three years?***



Note: Scores shown = percentage of respondents

Footnotes

4. United Nations Conference on Trade and Development (UNCTAD), International Monetary Fund, Oxford Economics

Business implications for developed-market companies

The recent spike in overseas investment by Asian multinationals has many developed-market companies fearing increased competition and loss of market share in regions where they have been the major players for decades. Media reports have further fueled these fears. But while it's certainly true that developed-market businesses face threats to their longstanding dominance, the changing landscape of global competition also opens up opportunities for growth that were not available earlier.

By capitalizing on each other's strengths and capabilities, both Asian and developed-market businesses stand to gain from the growing global presence of Asian companies. Winning at this game, however, requires a careful assessment of both the challenges and the opportunities. Key issues to consider include:

Increasing competition for assets

Growing demand for assets from Asian companies means that competition for acquisitions will intensify, both in developed and rapid-growth markets. This could push up valuations, particularly in highly competitive markets like China, where many developed-market companies are trying to establish a foothold.

The scale of M&A ambitions from some Asian companies can be staggering. In 2011, Chinese state media reported that the China National Offshore Oil Company (CNOOC) planned to invest more than US$151b over the next five years. This is an astonishing figure, particularly when one considers that the largest single M&A outbound deal from China in the previous year was Sinopec's US$7b acquisition of Repsol's Brazilian subsidiary.[5] CNOOC has already put its war chest to good use with its US$15b bid for Nexen.

With global M&A activity still sluggish, competition for good assets that come to market can be feverish. And developed-market companies are increasingly finding themselves up against new Asian competitors. Earlier this year, for example, potential acquirers from Korea, Japan and the US-targeted Elpida Memory, a bankrupt Japanese company that makes chips for Apple mobile devices. US-based chipmaker Micron ultimately won the race, agreeing to acquire Elpida for US$2.5b, although Elpida bondholders have subsequently contested the sale.

Footnote

5. Denise Law, "CNOOC's massive $151bn spending spree," *The Financial Times*, tilt.ft.com/#!posts/2011-01/9786/cnoocs-massive-151bn-spending-spree, 5 January 2011

Growing demand for assets from Asian companies has intensified global competition for acquisitions

Recommended actions:

- Have a well-developed competitive intelligence function
- Present yourself as an acquirer of choice
- Structure acquisitions properly

Asian companies' vigorous hunt for assets comes as good news at a time when many companies in developed markets are seeking to focus on core competencies. Ernst & Young's most recent *Global Capital Confidence Barometer* found an increase in the proportion of companies seeking to make divestments over the next 12 months from 26% to 31%.[6]

"We are seeing a significant increase of interest by Asian companies in pursuing M&A outside of their home markets and competing with more established companies in developed markets," says Jeffrey Greene, Global Transactions Leader for Life Sciences at Ernst & Young. "For companies in developed markets seeking to divest non-core assets, Asian acquirers will become an increasingly important buyer group. I am confident that we will see a further acceleration of outbound deal activity from Asia into developed markets."

Recommended actions: Developed-market companies seeking to make acquisitions must make sure that they have a well-developed competitive intelligence function. They also need to present themselves as acquirers of choice. On the divestment side, developed-market companies that are thinking of selling non-core assets need to cultivate a thorough understanding of what Asian companies are looking for, and ensure that they can effectively manage the complexities of these deals. Although Asian companies are becoming more sophisticated at handling these transactions, deal failure remains a risk. It's important for prospective buyers in Asian markets to understand the due diligence process. Consequently, sellers in the developed market should consider counseling the prospective Asian acquirer on the process to ensure they recognize what will be expected.

Furthermore, structuring acquisitions properly can improve a potential acquirer's competitive position when bidding for assets. For example, thinking about how to make the deal efficient from a tax perspective can make a substantial difference. If the company has a lot of intellectual property assets, for instance, acquirers need to consider where those assets need to be located because different tax rates across jurisdictions will have a significant impact on profitability.

Tax can also be a component of what makes an asset or business attractive to a potential buyer. "If a company is looking to divest a non-core business/assets, it should consider structuring it in a tax-effective manner," says Yvonne Metcalfe, a Principal in Ernst & Young's Tax Effective Supply Chain Management practice. "This can help to drive interest in the business from an after-tax profitability perspective and could enhance the seller's ability to secure a higher price."

Footnote

6. *Global Capital Confidence Barometer*, Outlook April 2012 – October 2012, page 7.

"You can't talk about innovation in healthcare without talking about delivery, and that's where companies can develop some interesting new models."

Patrick Flochel, Global Life Sciences Market Leader, Ernst & Young

Cost competition higher up the value chain

As Asian companies seek to develop more sophisticated and high-value products and services, developed-market companies will face much greater competition on cost in their core segments. Asian companies have deep expertise in producing price-competitive products at the lower end, but they will use this expertise to drive cost competition on higher-end products as well. In fact, our research for *Beyond Asia: strategies to support the quest for growth* shows that a low-cost business model – Asian companies' main competitive advantage a decade ago – is now close to the bottom of the list of what they consider their most relevant strengths and advantages as they expand internationally. Rather, they view leading technology and the quality of their products, services and workforce as their key advantages.[7]

Recommended actions: "By moving up the value chain and introducing high-end products at a cheaper price, Asian companies have already proven to be highly disruptive in a number of sectors," says Richard Baker, Global Client Service Partner, Ernst & Young UK. "This requires developed-market companies to think carefully about where they can compete and how they continue to differentiate themselves in the marketplace."

Patrick Flochel, Global Life Sciences Market Leader at Ernst & Young, uses the example of the pharmaceuticals sector to argue that developed-market companies could make greater use of business-model innovation to maintain their competitive edge. "We believe that pharmaceutical companies will have to collaborate with companies from many different sectors, including technology and telecom, to create innovative business models that deliver health outcomes to patients," he says. "You can't talk about innovation in healthcare without talking about delivery, and that's where companies can develop some interesting new models."

As Asian companies seek to develop more sophisticated and high-value products and services, developed-market companies will face much greater competition on cost in their core segments

Recommended actions:

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Footnote

7. *Beyond Asia: strategies to support the quest for growth*, page 16.

"Companies from Europe or North America need to have boots on the ground in the regions of the world where growth is most likely."

Allen Morrison, professor, IMD business school

Markets outside Asia and the developed markets are becoming the new battleground for market share

Recommended actions:

- Develop a clear understanding of the competitive landscape you are likely to face
- Structure the investment so you can protect your assets, especially from a tax perspective

Capturing markets outside Asia and the developed markets

These include markets in Africa, the Middle East and Latin America (MENA) region, and Eastern Europe. In our research for *Beyond Asia: strategies to support the quest for growth*, we found that regionally focused Asian companies, in particular, rank MENA and Eastern Europe among their best growth prospects.[8] Interestingly, in specific sectors, neither Asian nor developed-market multinationals have a major foothold in these growing markets, so they are becoming the new battleground.

Developed-market companies should note that companies from rapid-growth economies may have certain natural advantages that enable them to compete effectively in these new markets. First, their products may be more suitable for economies that are at a similar stage of development and have similar per-capita incomes. In Africa, for example, hundreds of Chinese companies sell white goods, consumer products, and telecom products and services — often under brands that are unknown in developed markets.

Second, their experience of operating in volatile, dynamic domestic markets is highly transferable to economies that have similar rates of growth and business environments. "Asian companies are comfortable in markets like Africa or Latin America because of the similarities with their own domestic markets," says Peter Williamson, Professor of International Management at the University of Cambridge's Judge Business School. "They know how to overcome difficulties with distribution, and have deep experience of navigating a challenging regulatory environment and building good relationships with local governments."

Recommended actions: Developed-market companies must determine how to counter these inherent advantages. An essential step is to develop a clear understanding of the competitive landscape. Better competitive intelligence will help developed-market companies prioritize investments in those markets that are most closely aligned with their own core competencies, products and business models.

"Companies from Europe or North America need to have boots on the ground in the regions of the world where growth is most likely," says Allen Morrison, a professor at IMD, a business school in Lausanne, Switzerland. "Very often, they fail to understand the drivers of cost in these regions and are not being sufficiently strategic in how they approach these markets."

IP and tangible ownership and protection are also more complex in some markets, including from a tax viewpoint. "If you're a company investing in some of the more mature markets in Europe, for example, the rules regarding development, ownership and exploitation of IP are more established and hence the tax implications are clearer for a new investor," says Ernst & Young's Metcalfe. "In some of the emerging markets, there isn't always a lot of precedent. Also, laws can be subject to change or interpretation fairly frequently. Intellectual property protection can be weak. You therefore need to think carefully when investing about how to structure that investment so that you can protect your IP, repatriate your excess cash and retain the flexibility to scale up, change the model or exit as appropriate as your business plans or needs change."

Footnote

8. *Beyond Asia: strategies to support the quest for growth*, page 10.

Being edged out of certain market segments

The international expansion of Asian companies in some market segments has had a dramatic impact on competition. In telecom, for example, the Chinese handset manufacturer Huawei has hollowed out the middle of the market, causing competitors like Ericsson to reconsider the segments in which they play. Other companies targeting the mid-market, such as the Chinese medical devices manufacturer Mindray International, are successfully combining low cost and innovation to provide a compelling proposition to both domestic and international customers. As the mid-market tier gets crowded, developed-market companies are increasingly being forced to target the lower end of the market, in addition to the higher end that they are used to serving and to which their operations are better suited.

Recommended actions: Getting around this challenge requires developed-market companies to access the right cost structures and operating models. This is best done through an alliance, partnership or acquisition, or by careful localization of products and services. Another effective way to address this challenge is to consider segmenting the supply chain. Higher-value products could have more sophisticated supply chains that allow more customization and responsiveness, whereas lower-value products may get by with more standardization and less responsiveness.

"The driving force behind segmentation is to deliver products more efficiently and effectively as well as optimizing your cost structure," says Kevin Price, a partner in the Business Risk Services practice of Ernst & Young in the US. "Companies are starting to recognize that a one-size-fits-all model is no longer appropriate, and that they need to tailor their supply chains to meet the different needs of highly diverse customer groups."

Siemens Building Technologies, a division of the German industrial group Siemens, is one example of a company that has managed to move into a lower price segment in China. The challenge was to find the correct balance for product development, service, sales, branding, pricing and most important, cost structure. Cutting the cost base entailed decisions on localization so as to realize the necessary cost reductions. The company later found that its growth strategy in China could be successfully replicated in other fast-growing economies such as Vietnam, Indonesia and Brazil.[9]

Some mid-market segments are becoming crowded, forcing developed-market companies to target the lower-end segment in addition to the higher end that they are used to serving

Recommended actions:

- Access the right cost structures and operating models (e.g., an alliance or partnership)
- Consider segmenting your supply chain differently for high- and low-end products

Footnote

9. http://www.ft.com/cms/s/0/2f6a4b46-3c7e-11e1-8d38-00144feabdc0.html

Combining forces with Asian companies

Developed-market companies can combine forces with Asian companies so that both parties make the most of each other's strengths and capabilities

Recommended actions:

- Find Asian companies' competency gaps – and fill them
- Form strong partnerships with Asian companies seeking to fill niche technology gaps

Asian companies have expanded rapidly and achieved a huge amount in a short period of time. But inevitably, gaps remain in their competencies and capabilities. For example, companies from Asia are often cash-rich, but may lack the intellectual property (IP), technology or expertise they need to further their own strategic goals. By contrast, some developed-market companies have strong IP, technology and expertise, with the potential to benefit from new capital. Combining the two can result in a winning situation for both parties. In our survey for *Beyond Asia: strategies to support the quest for growth*, respondents rated access to new technology and innovations as one of the most important benefits they expected to gain by expanding into developed markets (see Figure 2 on page 7). In December 2011, for instance, Siemens and Shanghai Electric announced plans to form a strategic alliance for the Chinese wind-power market.

Many partnerships between developed-market and Asian companies exist in the extractive industries, where the technical difficulties, cost and political sensitivities require oil majors to combine forces. "Although these partnerships are often difficult to manage, they are often seen as a way of spreading financial risk and making difficult projects commercially viable," says Timothy Teuscher of Ernst & Young's Energy Advisory Practice in the US.

In fact, as their geographical dominance in overseas markets disappears, developed-market companies may have to fall back on their technological competence, asserts the IMD business school's Allen Morrison. "As Asian companies become stronger, what do US and European companies have to offer?" he says. "The principal way they can compete is with the technology. And to stay at the forefront of technology, they will need to explore new kinds of partnerships and strategic options in Asia and other markets."

Recommended actions: Developed-market companies must look for Asian competitors' competency gaps – and fill them. China, for example, now has the largest automotive sector in the world. But as Jay Young, a partner at Ernst & Young in the US who serves the automotive industry, explains, the depth of its supplier relationships has not kept up with the rapid pace of its expansion. "The sector in China has not yet developed a very strong or reliable Tier One supplier network," he says. "This creates opportunities for companies in developed markets that form part of this network to build partnerships with Chinese companies to achieve common goals."

These Tier One suppliers in developed markets are increasingly acquisition targets for Chinese companies. In 2010, for example, Beijing-based Pacific Century Motors acquired GM's steering business, known as Nexteer Automotive, previously owned by Delphi. Chinese companies have also been targeting specialist companies among Germany's Mittelstand to beef up their supply chains. These small family-owned businesses are often described as the "hidden champions" of Germany's economy, but many have experienced difficult times since the financial crisis.

In addition to becoming targets for acquisition, specialist suppliers also have opportunities to form strong partnerships with Asian companies seeking to fill niche technology gaps in their supply chains. "There's clearly an opportunity for Tier One suppliers to partner with Asian companies to form joint ventures," says Young. "They can then

"It's crucial to build a management team with a more expansive global mindset. We want our managers to have the independence to operate autonomously."

Koh Boon Hwee, Non-executive Chairman of the Board, Yeo Hiap Seng, Singapore-based food and beverage company

benefit from access to Asian markets, while the local companies benefit from access to the technology they need. That said, there are a lot of challenges associated with the governance of these relationships that need to be managed extremely carefully."

The dangers of IP leakage in partnerships are an obvious problem. "You have got to be very tight on the control of intellectual property," cautions Williamson of the Judge Business School. "One approach is to slice up the IP assets so that the company does not have to disclose everything to its partners. Often, this means keeping the core R&D as a 'black box' but sharing the more peripheral assets such as interfaces and applications."

Re-evaluating leadership models

Increasingly, rapid-growth markets are becoming the global centers for key corporate activities as well as the focus for international competition. For example, rather than establishing R&D facilities in China or India for the local market, companies are using these centers as global hubs to develop products and services that can be sold around the world. This demands a much higher level of investment in managerial and executive talent than may have been necessary earlier.

Recommended actions: As rapid-growth economies become more important, and as Asian companies become global players, developed-market companies that want to compete successfully must hand over decision-making power to where it matters most. This means investing in talent so that managers in local markets have the capability to assume bigger, more global roles. This strategy is highly valued at Yeo Hiap Seng, a Singapore-based food and beverage company with a presence in 25 markets, including developed markets such as the US, Australia and Europe. "It's crucial to build a management team with a more expansive global mindset," says Koh Boon Hwee, non-executive Chairman of the Board. "We want our managers to have the independence to operate autonomously."

This is easier said than done, however, because it goes against decades of organizational behavior at developed-market companies. For managers at headquarters who are accustomed to wielding global decision-making authority, it can be difficult to accept the idea that responsibility for the world's most dynamic and fast-growing markets is no longer in their hands. "The biggest challenge is not at the top of the company, but in the middle layer where you are shifting responsibilities and duties that have been accumulated over time, often with a great deal of sweat and tears," explains Nani Beccalli-Falco, President and CEO of GE International.

Even if companies can make the necessary organizational changes, they still need to build the depth of talent among country managers being assigned such great responsibility. "Taking on a global role requires real bench strength of managerial capabilities in the overseas subsidiaries," says the Judge Business School's Williamson. "Instead of just being asked to sell, distribute or produce for the home market, these managers are suddenly being asked to become a global business manager for a product or segment, and that is a huge step to take."

Rapid-growth markets are becoming the global centers for key corporate activities, necessitating considerable investment in talent

Recommended actions:

- Invest in talent so that managers in local markets have the capability to assume bigger, more global roles
- Make the necessary organizational changes to ensure local autonomy

Lessons to learn

Asian companies are expanding globally at an extraordinarily rapid rate. Over the next decade, we are likely to see a new generation of Asian multinationals competing across a wide range of industries, with brands, management capabilities and intellectual property that match or exceed those of the established players.

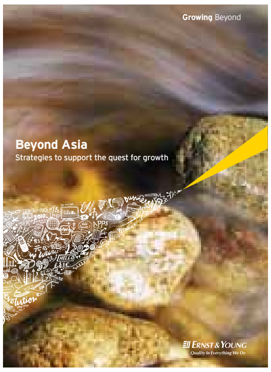
This trend is often framed first and foremost as a threat to developed-market companies. There is undoubtedly some truth to this. Companies that do not consider how Asian expansion will affect their business will surely find themselves blindsided, and see new spheres of competition erode their core markets.

But developed-market companies must also bear in mind that this trend presents powerful opportunities. For the foreseeable future, Asian companies will be looking for expertise, technology and management capabilities across a number of key areas. Developed-market companies can provide these advantages through partnerships, alliances or M&A, in return for capital or the ability to create different cost structures and gain access to huge Asian markets.

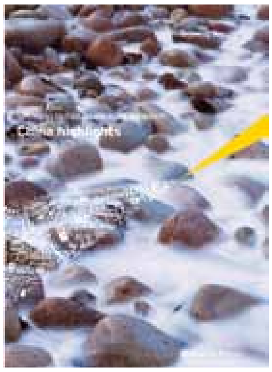
Whether minimizing threats or maximizing opportunities, developed-market companies need to think more broadly about their strategic options. This will require creative thinking, but also a willingness to overcome inertia and complacency. "Executives in developed-market companies need to realize two things," says Tarun Khanna, Jorge Paulo Lemann Professor at the Harvard Business School. "First, that Asian companies can be serious competitors and second, that they have a lot to learn from them."

Beyond Asia: related reports

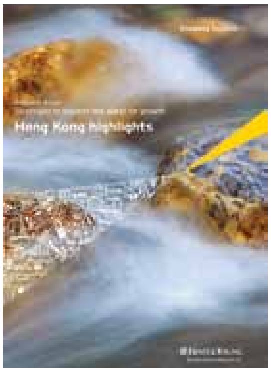
Ernst & Young offers a main report on Asia and in-depth reports for each of nine Asia-Pacific markets.



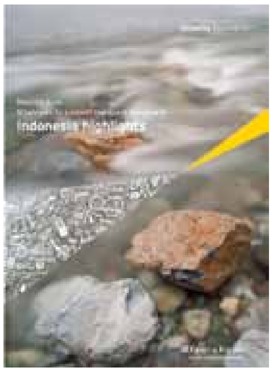
Beyond Asia: Strategies to support the quest for growth



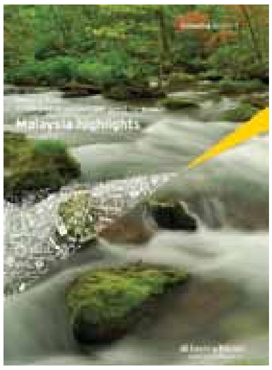
Beyond Asia: Mainland China highlights



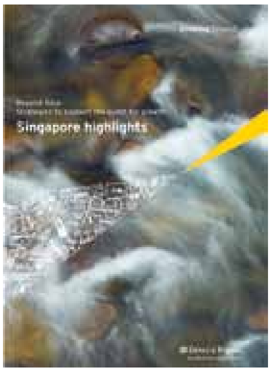
Beyond Asia: Hong Kong (SAR) highlights



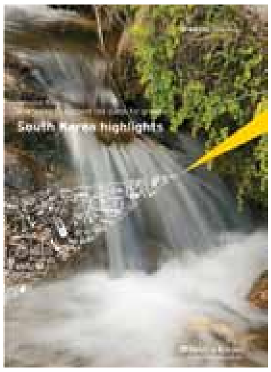
Beyond Asia: Indonesia highlights



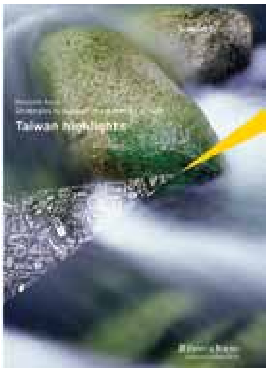
Beyond Asia: Malaysia highlights



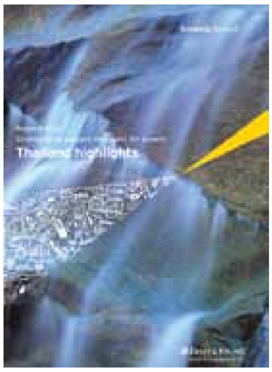
Beyond Asia: Singapore highlights



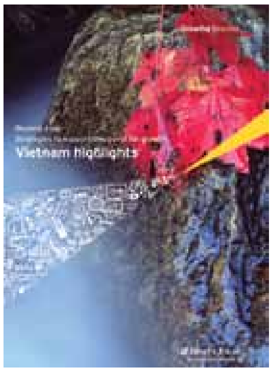
Beyond Asia: South Korea highlights



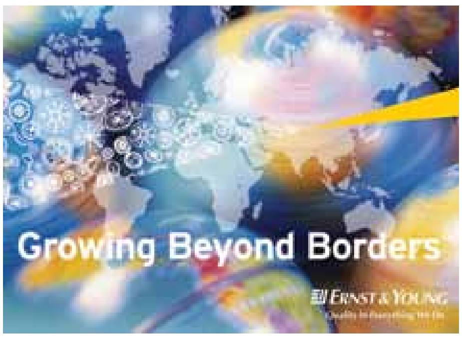
Beyond Asia: Taiwan highlights



Beyond Asia: Thailand highlights



Beyond Asia: Vietnam highlights



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