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Attracting Global  
Interest

*How Chinese  
Companies Can  
Leverage “Soft Power”  
In the International  
Marketplace*

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# Attracting Global Interest

## How Chinese Companies Can Leverage “Soft Power” in the International Marketplace

As China’s economy grows, Chinese companies need to move beyond their current stage of development. For some, this will mean going out on the international stage to become multinationals that compete with the best in the world. For others, it will mean augmenting their capabilities domestically to stake out more entrenched market positions against ever-stronger domestic and global competitors. Successful Chinese companies have prospered to date through sheer scale, force, and structural position—in other words, through their “hard power.” This hard power will continue to be important, but it will not be enough on its own to ensure success. Chinese companies will also need to develop “soft power.”

What is soft power, and how is it different from hard power? Originally, the two concepts were applied to countries and the ways in which they gained influence internationally<sup>1</sup>. Hard power refers to countries’ use of military and financial might to impose their will. Soft power refers to the ability to gain influence based on culture and aspirational dimensions; for example, American culture has historically had broad global appeal.

As China’s role in the world economy gains strength its hard power has increased, primarily in the economic sphere. For example, it has become an increasingly important buyer of commodities from Latin America and the Middle East and a major provider of aid to many African countries. At the same time, Chinese government officials, business leaders, and media now actively discuss how China can most effectively develop its soft power in relations with countries in Asia, Africa, Europe, and the Americas.



But hard and soft power are not limited to affairs among nation-states; there are parallels in the ways that companies exert such power in the global marketplace, and the world’s perception of China’s companies reflect its perception of the country. Businesses’ hard power is derived from a number of elements: physical and financial scale; technological

superiority that makes a company’s products simply better than its competitors’ in some important way; and a low cost position that enables companies to offer prices that competitors cannot match. Chinese companies such as Haier, Lenovo, China Mobile, and CNOOC—like their Korean and Japanese counterparts before them—are now rapidly building their hard power. But as companies such as Samsung and Sony found in the course of their difficulties with overseas acquisitions, the hard power of economic might and financial strength is not sufficient on its own to ensure success.

One might say that hard power compels people to do business with a particular company through sheer economic logic, while soft power attracts stakeholders to the company and allows the company to gain influence—whether through a seductive brand, a heroic mission, or its willingness to be a genuine part of the community (see Exhibit 1).

This proposition is crucial, especially for companies that want to grow in the global marketplace. Customers, for instance, do not just buy the technically superior or lowest-cost product; they seek out brands that offer emotional or aspirational connections. Similarly, hiring the best, most committed, and most entrepreneurial managers is not just a question of compensation. These individuals want to work with the best people, enjoy personal development, and be part of a grander design. Furthermore, communities do not always welcome the company that is willing to invest the most money locally and create the most jobs, because they may be more concerned about environmental issues or the impact on existing businesses. Regulators and governmental officials look at businesses not simply

**Exhibit 1**

Hard Power	Soft Power
<ul style="list-style-type: none"> <li>Scale/volume</li> <li>Manufacturing capacity</li> <li>Low cost position</li> <li>Financial resources</li> <li>Monopolistic position</li> <li>Technological superiority</li> </ul>	<ul style="list-style-type: none"> <li>Branding and reputation</li> <li>Alignment with social context</li> <li>Visible, respected leadership</li> <li>Employer of choice</li> <li>Stakeholder management</li> <li>Shaping technology ecosystem</li> </ul>
 <b>Forcing and Dominating</b>	 <b>Attracting and Influencing</b>

Source: Booz Allen Hamilton analysis

<sup>1</sup> By Joseph Nye, former Dean of Harvard University’s Kennedy School of Government. In particular, Nye described how the U.S. had effectively used the soft power of its culture and values to gain influence in the past decades, but had put this influence at risk through its stronger use of “hard” power (specifically military force and economic measures) in recent years.

for their profit-making potential, but for the contribution they can make to national and local policy objectives, such as the development of local infrastructure, the creation of new jobs, or the development of “national champions.” Finally, even hard-nosed financial investors are increasingly incorporating perspectives such as corporate social responsibility into their investment decisions.

As companies grow, we find that their ability to develop their hard power often runs ahead of their soft-power capabilities. We have seen this pattern in Japan and Korea and we now see the same trend in China; India, by contrast, is taking a different route (see “Looking to India for Lessons on Soft Power,” page 7). This imbalanced success can drive initial confidence in ambitious expansion, but then sows the seeds of future problems as top management discovers that they lack the soft power required for lasting success. The best companies recognize this and deploy soft power alongside hard power to reach their goals. We call the companies that have mastered this balancing act global attractors, because they gain value by attracting all stakeholders (customers, employees, shareholders, government, and the broader community) to be part of their undertaking.

### The Four Stages of Soft Power Development

The history of multinational development over the past century shows that companies proceed through four stages in their acquisition of soft power: unknown, new arrival, corporate citizen, and global attractor.

**Stage 1: Unknown** — In the first stage, whether the company is large or small, it lacks soft power and has a low profile with the global stakeholders that it is seeking to influence. Many Chinese companies find themselves in this category today as they move overseas: Some of them have developed soft power at home in China through familiar branding and good governmental relationships, but others face the same soft power challenge domestically as they do abroad as they seek to develop beyond merely a low cost position.

**Stage 2: New Arrival** — In the second stage, the company takes the first steps toward establishing a distinct profile among its target stakeholders. As with newcomers in any arena, this is the stage when things can go wrong; on the other hand, well-planned moves can provide a strong positive platform for future expansion. For example, a company may fail to take into account the role of non-governmental organizations in its chosen market or disregard norms on gender roles in the workplace. Although the new commu-

nity may initially welcome the company's investment, there could later be a backlash against the company for not respecting local customs. This is a critical stage that can shape the direction and pace of a company's future development of soft power.

**Stage 3: Corporate Citizen** — Most established multinationals fall into this category, with operations in many countries and a track record of success in global markets. They understand how to operate effectively and enjoy some degree of soft power. They do not, however, exploit their full potential, as they neither shape their business environment nor project a distinctive influence on the world. For example, engagement with community groups, regulators, and policymakers is mainly a “box-ticking” exercise done for compliance reasons rather than as a way to advance the company's business success. Opportunities to hire some of the best people are missed as the company's lacks a distinct profile with potential employees.

**Stage 4: Global Attractor** — Companies that are able to realize the full potential of soft power become global attractors. They are the true global leaders. In the past, most global attractors came from the U.S. and Europe, but the past few decades have seen the rapid rise first of Japanese and then of Korean companies. Chinese companies are just starting the race to become global attractors, and they want to reach this stage more quickly than anyone before them.

Companies can become global attractors in any industry. Examples include Samsung, Toyota, Microsoft, GE, Coca-Cola, Apple, and HSBC. There are many common elements in the ways that these companies have built their soft power. For example, as they have moved overseas, these companies have built on the distinctive soft power attributes of their home country. American consumer products companies have long benefited from this phenomenon by building a link between their own brands and the values of individual choice and prosperity that many consumers associate with popular culture in the U.S. Equally, over the decades, the large U.S./U.K. oil majors have benefited in foreign markets from sophisticated government relations strategies at home and abroad. The same opportunity is now open to Chinese companies. China's economic success is positioning the country and its citizens as role models for governments and individual consumers in other emerging markets. Politicians in many countries are attracted to the idea of an alternative model of development (sometimes known as the “Beijing Consensus,” to juxtapose it with the U.S.-driven

“Washington Consensus” of free-market development). At the same time, cultural affinities across Asia help make Chinese culture an attractive alternative to a continued interest in aspirational American culture.

Additionally, the chairman or CEO of a global attractor has typically developed a public persona that has helped his or her company project its soft power. Again, the role is mutually reinforcing. Jeffrey Immelt’s embrace of environmentally sound business practices environmental business at GE under the “Ecomagination” banner is one example.

### Becoming a Global Attractor: The Four Dimensions of Soft Power

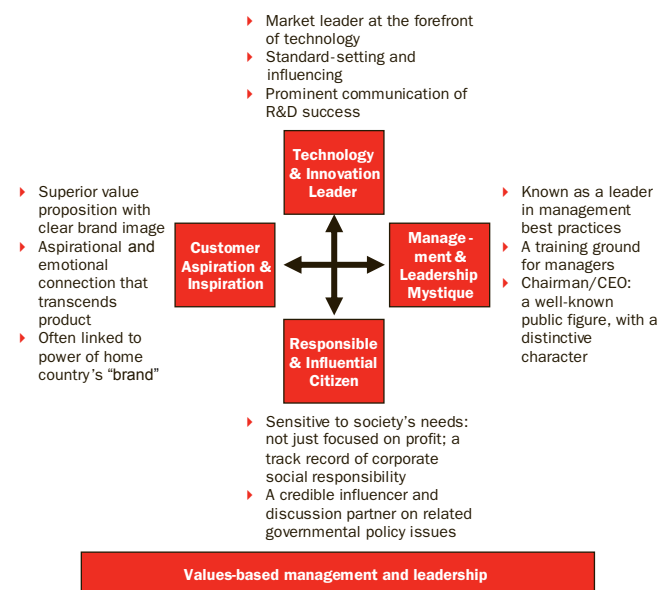
What, then, are the dimensions of soft power? How do companies attract, persuade, and influence the various stakeholders in their business—customers; employees; shareholders; government officials; and broader civil society, including NGOs, unions, and community groups—to align goals and drive business success?

We have identified four dimensions of soft power and one common platform that provide the route to becoming a global attractor:

**1. Technology and Innovation Leader:** For many companies, technology and innovation are at the core of their soft power. These leaders do more than simply offer superior products; they leverage their innovation capabilities to build further strength. This can take the form of enhanced branding, a superior ability to attract key talent, and an active role in shaping industry standards and future research directions. Samsung’s record of innovation in mobile phones and flat-screen TVs—both in technology and design—has contributed significantly to its position as a global attractor. Microsoft continues to build on its leading position through sophisticated targeting and recruiting of technology talent. Global attractors mark out a domain where they are truly leaders through R&D investments and patent filings. They then go further and ensure that their prowess is well-known through university R&D partnerships and investment in bleeding-edge products that generate market interest.

**2. Management and Leadership Mystique:** Companies such as GE, Apple, and Toyota have built their soft power in part on a management and leadership mystique. The basis can be a distinctive management process, for example, the “Toyota Way” of manufacturing and GE’s application of Six Sigma methodologies. Soft power can also arise from the character of the company’s leader. One good example is Steve Jobs at Apple, whose track record and persona

### Exhibit 2 Soft Power: Four dimensions and a common platform



Source: Booz Allen Hamilton analysis

have successfully reinvigorated that company’s internal effectiveness and consumer appeal. Again, in all cases, becoming a global attractor and deriving the full value of soft power requires active marketing and communication of the mystique.

**3. Responsible and Influential Citizen:** Increasingly, global attractors are staking out positions as good citizens in the public arena. One example is the growing interest and concern among corporations about environmental issues: Toyota, long a management innovator, moved rapidly to position itself as an environmentally friendly auto company with the promotion of its hybrid car, the Prius, at a time when U.S. manufacturers had shown little interest. Once again, this approach must be based on a rigorous assessment of where social issues and the company’s business intersect and a well-communicated plan of action.

**4. Customer Aspiration and Inspiration:** Many global attractors are able to connect with and inspire customers around the world by appealing to their self-image and dreams. The very act of owning the product becomes aspirational. When Apple launched the iPod, MP3 players had been marketed already for several years, but it was the iPod that became a must-have icon—reinvigorating the Apple brand in a way that extended beyond the iPod to the Mac computer. American consumer companies such as Coca-Cola, McDonalds, and Pizza Hut have been especially successful at translating the aspirational values of U.S. culture around choice and convenience into specific marketing campaigns.

### Key Observations on the Elements of Soft Power

**Technology and Innovation Leadership:** This dimension of soft power can thrive in the harshest conditions; in fact, it is usually spurred on through adversity. Where adversity doesn't exist, "manufacturing" a crisis can create the same conditions for innovation. Building such leadership, through necessity or simply through sheer determination, earns the respect of overseas companies being acquired as they look to see whether their new owner is likely to lead them to greater heights.

**Management and Leadership Mystique:** This element doesn't always require a legendary founder, nor is it sufficient over time. Different leadership models (including those that are professionally managed, those that are run by families, and those that are run by family group cooperatives) are all viable models. Demonstrating clear progress toward the emerging global expectation of professional management, accountable to all stakeholders, marks a company as global in mind-set, if not yet by geographic presence, building confidence in the stakeholders of acquired entities.

**Responsible and Influential Citizen:** Developing a differentiated position doesn't necessarily require doing something extraordinary. But doing what you believe is right for your broader business ecosystem, which may offend entrenched players, can yield unexpected benefits and even system-wide adoption of similar practices. Companies that master a strong ethical position, especially in difficult environments, stand out as companies that will likely succeed anywhere, thereby enhancing their soft power.

**Customer Aspiration and Inspiration:** Practices that seek the best possible value for customers, such as branding commodities, can spur your organization to greater heights. Although some of these practices may be counterintuitive in home markets, they can be incredibly useful when making the case for being the acquirer of choice in markets abroad. For companies in emerging markets, where branding itself is relatively less well understood or implemented, this technique can build their soft power as a peer on the global stage.

**Values-Based Leadership and Management:** Many values are universal and condition a company for a natural fit with overseas acquisitions, as well as securing the best talent in its domestic market as an employer of choice. This area is perhaps the most important of all, as potential acquirers in developed markets try to get a sense of how their values may be affected post-acquisition.

Again, success here requires deep insight into customers' aspirations and motivations and then active marketing and commercialization.

Finally, **Values-based Leadership and Management** is a critical platform underpinning these four dimensions of soft power. Global attractors develop a culture and leadership style that is effective in aligning, inspiring, and engaging employees around the world from many diverse cultures and backgrounds with different aspirations. This style needs to be based on deep-rooted respect for cultural differences. Clear, consistent communication, management actions, and people processes are then needed to ensure that these values are truly the guiding principle for key management decisions. It is a critical role for the leader and his or her team. At GE, Jack Welch stressed cooperation among businesses while giving equal weight to business performance: 360-degree feedback on values was

a key determinant of career success. At the same time, many Japanese companies encountered difficulties in their overseas expansion as they struggled with incorporating Western managers into their decision making and company culture.

### Choosing a Distinctive Soft Power Strategy

Companies that wish to become global attractors need to choose their own soft power strategy based on the four dimensions above, supported by consistent values-based leadership and management. Different global attractors choose different strategies, based on their unique situations, goals, and contexts. But the objective is always the same: to influence and attract those stakeholders (customers, employees, shareholders, government, and the broader community) that are critical to business success.

Toyota is an example of a company that has worked on all

four dimensions. Similarly, GE had always worked from a strong platform of management performance and collaboration, but different dimensions were more pronounced under different leaders. Jack Welch, with his outsized personality and piercing focus on performance, cultivated a strong management and leadership mystique. When Jeffrey Immelt took over, however, he emphasized GE's role as a citizen, in particular in respect to the environment; had Welch taken such an approach, particularly in building relationships with European regulatory authorities, GE's attempted acquisition of Honeywell in 2002 might not have fallen through.

Companies need to consider three dimensions in formulating their own soft power strategy to ensure that the advantage gained meets their goals and is truly differentiated and sustainable.

**1. Company Objectives and Starting Point:** It is important to determine from the start how soft power can contribute to business objectives, such as entering new geographies, enhancing customer loyalty, or attracting and motivating employees. Companies must generate a clear business model detailing how investments in soft power will drive business and financial success before committing to the investments. The next stage is to review the current soft power balance sheet: What are the assets and liabilities that the company has today in developing soft power? For many, although their soft power may currently be limited, they may have distinctive, underutilized assets. Examples include the company's history and its founder's story, its particular technologies, and its associated links with the soft power of the company's home country.

**2. Market Opportunities:** Soft power strategies need to meet stakeholders' needs to be successful. Strategy development requires systematic analysis of customer, employee, shareholder, governmental, and social motivations and needs to identify unmet opportunities through which the company can attract and influence. Industry characteristics have an influence; For instance, industries with a strong regulatory presence, such as utilities, might find they need to make more extensive use of their soft power in that capacity than those that are subject to lighter regulatory control, such as technology companies. However, many of the most successful strategies break industry stereotypes and are initially counterintuitive: Toyota's environmental positioning with the Prius is one example; Intel's consumer branding with "Intel inside," in an industry in which processors had always been invisible, is another. The challenge is to think creatively.

**3. Competitive Advantage and Dynamics:** Finally, as with any

strategy, a soft power strategy needs to differentiate a company from its competitors. A thorough analysis of competitors, their soft power strategies, and their soft power balance sheets provides the means to identify their strengths and weaknesses and plot the appropriate course. Key steps include creating an objective understanding of how the company is perceived by its key stakeholders; profiling how it compares with competitors; and identifying stakeholders' objectives, needs, and concerns on a broad basis that goes beyond the traditional business definition of the company. It also requires a thorough internal review of assets and capabilities, some of which may be undervalued in the business, to see how the company can best position itself in light of different mega-trends (such as environmentalism, the aging population, and technology convergence) that will shape future shareholder expectations. This analysis should also anticipate competitor reactions and identify a sustainable basis for soft power advantage.

### **Becoming a Global Attractor: Implementing a Soft Power Strategy**

It is systematic implementation that translates the soft power strategy into reality. Just as with traditional business strategy, this requires a clear plan with a series of initiatives, timelines, investments (people/money), and milestones, and an explicit identification of sequencing, interdependencies, and risks. As implementation proceeds, the plan will need to be updated and adapted based on success in the market and competitive and market changes. All in all, it is a complex, cross-functional, organization-wide effort that will require senior management's time and attention. Creating a central program management office is one option for ensuring continued focus and coordination among the many different initiatives. Indeed, initiatives are typically required along all the dimensions of soft power that we have described. Examples include:

#### **1. Technology and Innovation Leadership**

- Conduct R&D portfolio review
- Develop and execute global R&D facility investment and partnership expansion plan
- Plan and engage in key standards and research forums
- Identify plan to build and develop a surrounding ecosystem based on proprietary technology

#### **2. Management and Leadership Mystique**

- Codify distinctive management practices and corporate history

- Establish an in-house university
- Write and publish corporate and CEO biographies and histories
- Partner with leading business schools and conferences globally, particularly in key target countries

### 3. Responsible and Influential Citizen

- Develop lobbying capabilities in key locations around the world
- Identify key policy concerns and track company perceptions with the people who can influence policy
- Enter partnerships with key NGOs
- Develop an environmental strategy across all aspects of business

### 4. Customer Aspiration and Inspiration

- Develop corporate and brand marketing strategy
- Invest in understanding unmet and unexpressed consumer needs and generational trends
- Establish global marketing function
- Establish presence in “lead innovative” consumer market to access “cool” trends

### 5. Values-Based Leadership and Management

- Articulate the company's shared values
- Translate shared values into principles with cross-cultural resonance to support global expansion
- Communicate and cascade to all levels of the organization with a clear leadership role
- Integrate into all HR processes (recruiting/incentives/promotion/outplacement)

### Conclusion: The Rewards of Soft Power

Soft power is an indispensable part of success as a world-class company; sheer scale and financial might alone are not enough. The route from unknown company to global attractor demands vision and strategic and relentless implementation, but if followed it will yield large returns. Fortunately, although each company needs to forge its own path, Chinese companies can learn from those who have gone before. In particular, the success of Japanese and Korean companies illustrates the size of the prize and a strategy for attaining it. Guided by these examples, and bolstered by continued economic development at home, Chinese companies are now finding themselves in a strong position to become global attractors more quickly than any of their predecessors.

#### Looking to India for Lessons on Soft Power

– By Andrew Cainey and Ronald Haddock

Much has been written about the similarities and differences between China and India in terms of their macroeconomic and microeconomic development. Although the two countries and their economies have much in common, the differences can be substantial. China, on one hand, has had great success in deregulating industries at the macro level, drawing in vast sums of foreign and domestic investment; India, on the other hand, has been a leader in driving innovation, resulting in the massive growth of its software and offshoring sectors. These two examples also hold true on the broader level: Jeffrey Immelt, CEO of GE, said at a 2006 conference, “The government and everything else work in China. The expressways and airports are just like those in Chicago and New York. China has got the macro picture right, India the micro picture. India’s pluses are fantastic companies and systems.”<sup>2</sup> The unspoken conclusion, of course, is that China needs to fix its micro picture.

Contrasting peer companies across the two countries can provide useful insights for Chinese companies, highlighting practices that they can adopt. In a recent Harvard Business Review article, Harvard Business School professor Tarun Khanna highlights three examples of Indian companies that have successfully expanded abroad: Tata Steel, Asian Paints, and the AV Birla group. He contrasts these success stories with the pitfalls that have befallen Chinese companies in recent high-profile M&A deals overseas, including TCL’s failed acquisition of the French company Thomson’s TV assets in Europe and the China National Offshore Oil Corporation’s thwarted attempt to take over Unocal in the United States. His argument: Indian companies are more prepared than Chinese

<sup>2</sup> Dateline Bombay, June 23, 2006: [http://datelinebombay.blogspot.com/2006\\_06\\_01\\_archive.html](http://datelinebombay.blogspot.com/2006_06_01_archive.html)

companies are to venture overseas. Our conclusion: “Soft power” partly explains the world’s nod toward India, and thus represents an area where China can learn from it.

### **Steel Industry: Tata Steel (India) vs. Baosteel (China)**

Both Tata Steel and Baosteel are industry giants. Tata Steel made earlier moves overseas, expanding into Singapore and Thailand with its acquisitions of Natsteel and Millennium Steel, respectively, and then into Europe with the acquisition of England’s Corus. But until the recent Corus deal, Baosteel was the larger of the two, with an arguably stronger starting position for overseas M&A, including a vast domestic market and government support with which to develop massive scale. Yet across key dimensions of soft power, Tata Steel appears to be more advanced. How so and why?

**Technology and innovation leadership.** Baosteel has been regarded as the leading technology innovator in the Chinese steel industry since the late 1990s, with its focus on leveraging innovation to increase production efficiency, reduce costs, and curb pollution. In 2005, Baosteel had 205 patent applications.

Both companies have made extensive investments in developing technology and have built extensive technical alliances within their respective ecosystems with leading industry technologists. Yet Tata Steel made cost leadership a priority earlier in its history, as the arrival of imports in India in the early 1990s put pressure on local steel makers. After adjusting to these circumstances, Tata Steel was able to invest in significant innovations that lowered its costs, to the point that it is now recognized by World Steel Dynamics, a steel information service, as the lowest-cost steel producer in the world.

Tata has made an impact via its deep commitment to mastering the science of steelmaking and a focus on reducing the root causes of costs, combined with a people strategy that taps the best of India’s vaunted technical education system. Key overseas placements of high-potential engineers at leading universities around the world has allowed the company to tap into the best knowledge available.

**Management and leadership mystique.** The Baosteel Group Corporation, with a lineage as a state-owned enterprise (SOE), is led by a highly acclaimed executive in China who has deep technological knowledge and steel industry experience, and who is lauded as a pioneer in implementing modern business practices in China. Yet this reputation is a relatively recent development. Tata Steel, by contrast, has been a private company, with relatively advanced management practices in a very difficult infrastructure environment, since its inception 100 years ago. Tata Steel has clearly benefited from the leadership of its parent, Tata Group, which has arguably been a pioneer of many modern business practices ahead of most other companies in India, anticipating open, competitive markets even during the age of the license raj—when India was a protected market and other family business groups deemed such practices unnecessary. Early programs focused on developing talented general managers and executives and comprehensive programs on corporate values and brand management, supply chain management, and sourcing practices all made their mark. More recently, Tata Steel extensively outsourced operations within India itself, with the launch of its technologically advanced cold rolling mill in 2000, which was built in record time and relied significantly on managing a network of outsiders for its success.

**Responsible and influential citizenship.** Tata Steel is a model corporate citizen in India, with some of the best-run “company towns,” such as Jamshedpur, which provide schools, roads, hospitals, and recreational facilities. Similarly, Baosteel provides for its employees according to many of the traditions of the SOE era—offering non-cash forms of compensation, like expectations of job security and commitments to redeploy staff who are made redundant. The difference is that Tata, because of India’s developed capital markets, has been forced to take this to the next level—to maintain a careful balance between shareholder interests and the sustainable development of their communities. Baosteel has not yet been compelled to respond to shareholders in the same way, but should be mimicking Tata and preparing for a day when the interests of employees and shareholders may not intersect. The ability of the Tata Group and Tata Steel to manage local community relationships have long made them the employer of choice in the communities in which they operate. In the process, Tata Steel has become a bona-fide local attractor that has paid

handsome dividends in bringing in otherwise difficult-to-attract talent, at acceptable costs to shareholders.

**Customer aspiration and inspiration.** Tata Steel has been a pioneer in India in its approach to customer management: It has effectively branded commodity grades of construction and specialty steels and has embedded service in its brand promise in the order and fulfillment process. In China, by contrast, the concept of branding even consumer products, let alone commodities like construction grade steel based, has not taken hold to the same degree. Hyper-growth in the China steel market has arguably made this refinement at Baosteel and other Chinese steelmakers' business models unnecessary. But although it may not be strictly necessary for survival, this degree of differentiation would take Baosteel further along the curve to being a global attractor.

**Values-based leadership and management.** Long before it became fashionable in corporate India, Tata Steel took on the challenge of building a world-class supply base in an environment often cited for questionable business practices. A decade ago, Tata Steel was one of the first companies to take on a bona-fide strategic sourcing program, at a time when even some of the best-known Indian companies believed such an undertaking might draw attention to relationships they felt better left alone. For example, one of India's largest providers of electrical equipment told us at the time that such an exercise would unearth unsavory supplier relationships if they were to apply similar approaches to sourcing in their company. One of the largest oil companies, after extensive discussions on the topic, came to the same conclusion, determining that strategic sourcing could unearth nonmarket-oriented practices in its operations with suppliers, which would be too disruptive to pursue. Yet Tata Steel, consistent with Tata Group values, implemented a robust sourcing agenda and proceeded to earn even more respect from suppliers and the Indian business community, capturing significant long-term cost savings in the process. Some existing suppliers were shown to be extracting excessive economic rents in their supply relationships and were told to shape up or ship out. The reputation Tata Steel built through this initiative once again bolstered its soft power within India itself, as it became a choice company to visit on sourcing benchmarking trips by Indian managers across industries.

By contrast, China, for historical reasons, largely maintains a system of supply relationships stemming from the SOE era, which at a minimum have delayed industry leaders such as Baosteel from fully exploiting strategic sourcing in China, and building their soft power in the process. Baosteel is now in the process of exploring overseas acquisition opportunities to secure raw materials. If successful, this initiative will boost Baosteel's—and, by extension, other Chinese companies'—soft power overseas by anticipating and proving wrong the skeptics who believe that Chinese companies will flex their economic muscle in potentially negative ways (using their hard power) if they are given the chance to make such acquisitions.

The culmination of these efforts by Tata Steel and its demonstrated ability to apply soft power successfully at home have made it a natural acquirer overseas—first with smaller acquisitions in Southeast Asia, and now with Corus in Europe. The Tata Group itself has developed extensive experience through a variety of other ventures abroad, including in Korea with Daewoo, as an owner of upscale hotels in the United States, and with sales offices in key markets around the world. The relatively low noise levels upon Tata Steel's announcement of its interest in Corus were surely an indication that the Tata Group and Tata Steel were well-prepared to exercise their newfound ownership role.

#### **Decorative Paints Industry: Asian Paints (India) vs. Huaren (China)**

Asian Paints, at more than 50 years old, is certainly older than Huaren, which was started only 15 years ago. Furthermore, Asian Paints is number one in India in terms of sales, but Huaren, although it is the largest domestic player in China, is the number three company in that country overall. Perhaps these distinctions make for an unfair comparison, but then, part of the advantage that many Indian companies have over Chinese companies in developing soft power is the number of years they have had to accumulate it.

**Technology and innovation leadership.** A leading adopter of supply chain software and other information systems, Asian Paints has sustained its market leadership position in part based on its ability to exploit new business models, such as in-store tinting and custom colors, and to build the supply chain and information systems that

enabled these innovations. Huaren, by contrast, is relatively new to innovation, but appears headed in the same direction, albeit with an innovation focus that is clearly more aligned to the Chinese business environment. Whereas Asian Paints' approach to innovation was customer-focused, Huaren's efforts are aligned with the Chinese government's strong push for significant improvements in energy efficiency and environmental protection. In 2006, Huaren started a research program aimed at developing a new paint that is environmentally friendly and heat-proof, thus saving energy, for which the company received RMB2 million from the Guangdong government.

**Management and leadership mystique.** Asian Paints built on the mystique that stemmed from the individual leadership of an iconic founder. However, it was still able to manage a successful transition from a family-dominated management structure to one in which non-family members held key executive positions and family members were judged based on their performance rather than automatically being appointed to positions of responsibility. Management was able to lead the company through major changes in ownership, governance, and professional management responsibilities, and did so while maintaining and even cementing a truly dominant market position. When recent competition from the software sector threatened Asian Paints' status as an employer of choice, the company drew on its history of professionalism and fairness, developing an explicit set of policies on what employees could expect from the company and the value proposition to these employees, such as the opportunity for merit-based advancements, comprehensive appraisals of performance, and the explicit linkage of the two.

Huaren purports to have a people strategy, emphasizing the importance of talent, recruiting technology experts from overseas, and sending people to other countries for training. If Huaren's goal is to be an employer of choice in China, Asian Paints offers a clear lesson that people strategies pay off.

**Customer aspiration and inspiration.** Whereas its competitors focused on the high end of the market, Asian Paints pioneered products to serve the bottom end of the pyramid in India—a strategy that has since become the rallying cry for so many companies that have recognized the potential of serving these vast markets. By going after the mass market with a product tailored to this segment (lower cost formulation), delivered in a way that these consumers desired (smaller pack sizes), the company developed one of the best-known brands in all of India (second only to the Tata brand) in a product category as mundane as decorative paints. Huaren, by contrast, is one of the best known brands in the decorative paint industry in China, but it is far from being one of the best known brands in India. This doesn't take away from Huaren's accomplishments; rather, it is a testimony to Asian Paints' prowess in building its brand.

**Values-based leadership and management.** Asian Paints has built the value of its brand by making its product affordable and accessible, enabling otherwise disenfranchised customers to buy paint to beautify their homes. The company also has a strong track record in corporate citizenship, building factories adhering to environmental practices in waste treatment that have been well ahead of other companies in the communities in which they operate. In terms of governance, Asian Paints brought in an outside board and has been operating as a professional company. By contrast, many family-run companies in India took much longer to separate the multiple roles of family members, who were frequently involved in ownership, governance, and management.

Huaren, which was recently acquired by global player Valspar, is positioned to grow in China while also selling into other neighboring Asian markets. Yet Asian Paints has already managed to succeed in 25 countries, leveraging the soft power of an attractor to become the international acquirer of choice in markets spanning from North Africa all the way to China and the South Pacific, and most points in between. Strategically placing members of the founding families and aspiring outside managers in the right positions, developing their connections, and enabling them to be educated outside of India was a key part of the early vision to support this eventual globalization.

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