

# ROUGH DIAMONDS

**THE FOUR TRAITS OF  
SUCCESSFUL BREAKOUT FIRMS  
IN BRIC COUNTRIES**



**SEUNG HO PARK  
NAN ZHOU  
GERARDO R. UNGSON**



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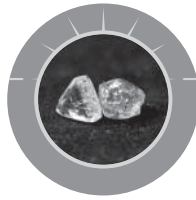
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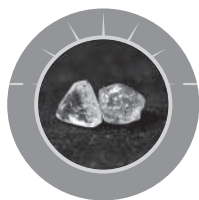


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## Foreword

**F**or those few skeptics who still wondered how far-reaching an impact the world's developing markets will have on the global economy, the recent recession provided a pretty compelling answer. Even as the advanced markets in North America and Europe stumbled into recession from 2007 to 2009, and in some cases beyond, emerging markets continued to post significantly higher growth rates—collectively, as much as 5 percentage points higher.

By now, the primary debate about the potential of developing economies has shifted from the discussion of whether they will continue expanding to discussions about how fast they will grow and for how long they can sustain these remarkable rates. The world's top multinationals have already recognized the key role that developing markets will play in their futures. Brazil, Russia, India, and China (BRIC) have become the world's most sought-after markets, drawing new companies and investments with a combination of sizable populations, rising incomes, developing market institutions, and emerging middle classes. For businesses, sustained growth in these BRIC markets is a

foregone conclusion, a given that has led many to look for even newer growth markets in Africa, the Middle East, and South America and across much of Asia.

No doubt multinationals from around the world will continue to play a critical role in the ongoing progression of the BRICs and other emerging economies. After all, the countries that have cut themselves off from the global economy and outside investments have seen their economies suffer for it. Yet no national economy can thrive on outside investment alone. Inevitably only the continued rise of domestic companies, reliable market institutions, and a combination of domestic and international trade can sustain the development of these key emerging economies.

The developing BRIC economies can boast a growing roster of home-grown champions that are leading the way. The likes of Tata (India), Gazprom (Russia), Sinopec (China), and Petrobras (Brazil) have long established themselves as globally recognized brands. They challenge even the greatest of multinationals in terms of expertise, innovation, and leadership in their industries. They've set the standard for business in emerging markets. They are the vanguard.

They are not, however, the ticket to broader economic development, at least not on their own. The true power that is fueling genuinely sustainable growth in these markets is coming from the large but often overlooked tier of successful companies and brands that, while not yet household names worldwide, have posted long-term growth rates far higher than those of most of their counterparts in both emerging and developed economies. These companies, including the rough diamonds identified in this book, provide the supporting foundation

of domestic growth that necessarily underpins the ongoing development of a broader marketplace and increasingly robust economy in their home countries.

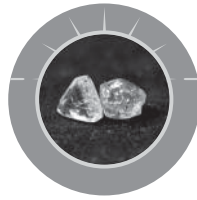
Yet their impact ripples well beyond the people they employ, the products they develop, and the production they contribute to the national and global economies. These companies raise the bar for both public and private entities. Their business demands force governments and regulatory agencies to establish a framework that sustains and enhances development. Their innovation forces staid old companies to raise their game if they want to remain competitive. Their ever-increasing quality raises both the expectations and the capabilities of their customers. And in many cases, their progressive management and world-class leadership vastly improve workplace standards and worker productivity across entire industries.

This sort of fundamental development, if it is to take a solid foothold in emerging economies, must come from within. It has to grow organically, so it can accommodate the idiosyncrasies of each individual country—its history, culture, and political ecosystem. No doubt the global economy has helped establish market institutions and standards of commerce that benefit businesses in any participating nation. Yet within each nation and each domestic market, this tier of long-term growth companies will provide the true foundation for a sustainable economic development.

Perhaps the only guarantee for these emerging economies is that global and domestic forces will arise to challenge their growth. Recessions will occur. Market institutions will stumble. Regulations will fail. And businesses will rise and fall. It's human nature and it's the fundamental nature of human economies.

But the stronger the foundation of companies with established business models and long-term growth histories is, the better these developing economies will weather the storms and the more they will thrive in the good times.

John Quelch  
*Harvard Business School*



## Preface

**A**cross from the Beijing offices of the SKOLKOVO Business School–Ernst & Young Institute for Emerging Market Studies (IEMS) is Olympic Park, the site of the 2008 Summer Games. Every day tourists and other visitors stream through the park to look at the famous Bird’s Nest and Water Cube. Some take pictures in front of these two buildings, while others simply wander around, appearing content to recreate the momentous events of that summer. Tourists who are asked why they flock to those buildings rarely talk about the buildings themselves. “That is where Mark Phelps won his Olympic record eight gold medals,” they say, or, “That is where Usain Bolt ruled in the 100-meter dash.”

People remember winners. In sports bars around the world, people quiz their friends about Super Bowl titlists, World Series champions, and World Cup winners. They remember Spain’s run in the World Cup. They can recite the years the San Francisco 49ers won the Super Bowl, or how many championships the New York Yankees have won in their illustrious history. Ask them who finished second, and more often than not, you

get silence in return. The occasional success still gets its due recognition, but the key places in our memory are held by those who build a record of sustained success over time. We remember the dynasties. It should make perfect sense, then, that this happens in the business world too. Successful companies fill the major plank of attention and analysis. Google, Microsoft, Apple, Facebook, and other leading firms receive the highest marks in credit and brand recognition.

Each generation has its own list of legendary icons, but a definitive answer to what sustains high levels of performance remains elusive. Perhaps we focus too much on the downstream, gazing at already-successful firms. We certainly tend to pay less attention to the upstream, seeking the early-stage differentiation that eventually separates the winners from the losers. Which of those firms will take their place in the next dynasty of market leadership? Have they already sowed the seeds of that future success?

These questions led us to the rough diamonds—the emerging market’s most promising but still developing firms.

The kernel of this search began a few years ago when a group of respected entrepreneurs founded a new business school, Moscow School of Management SKOLKOVO, to develop future business leaders in Russia and other emerging markets. The idea of rough diamonds surfaced when Seung Ho Park started building a new think tank in collaboration with the school: the SKOLKOVO Institute for Emerging Market Studies. Since the ushering in of free market reform in emerging markets in the early 1980s, a cadre of firms—Gazprom and Rosneft (Russia), Infosys Tech and Tata Consultancy (India), Petrobras and Embraer S.A. (Brazil), and Sinopec and China Telecom (China)—had received a great deal of attention from the academic and business press. And rightly so: they’re great

companies. But Park and Wilfried Vanhonacker, the founding dean of the SKOLKOVO Business School, wondered what businesses would be in the next generation of successful firms. Can emerging markets produce the next business dynasties?

Over the next three years, Park and the IEMS research staff initiated the rough diamonds project with help from the Ernst & Young field offices in the BRIC countries (Brazil, Russia, India, and China). The methodology they employed was stringent and meticulous, so it took some time before a common set of enduring patterns emerged that accounted for sustained, profitable growth in all four countries. It is this story that unfolds in detail in this book.

We could not have finished this project without the inspiration of the exemplary business leaders in these emerging markets. In particular, we owe deep gratitude to Ruben Vardanian, a highly respected entrepreneur in Russia and a visionary leader of the SKOLKOVO Business School project. The global leadership and unbounded support of Ernst & Young helped see this project through to the end. The final phase of the project could not have been accomplished without the invaluable assistance of the editorial team at Jossey-Bass: Katherine D. Davies, Dan Zehr, Kathe Sweeney, Alina Poniewaz-Bolton, and Susan Geraghty. They were pivotal in facilitating the process and rewriting much of the original manuscript, which was laden with academic terms, into a readable and accessible final book.

Finally, we could not have accomplished a task of such magnitude without the enduring counsel and constant inspiration from our families. Ja Young, Alexandra, and Amelia Park patiently went through their activities while Seung Ho Park took off on frequent trips to emerging countries while working on this project. Nan Zhou thanks her family members, especially Yawei Wang, Shuiqing Zhou, and Jiajing Zhang for helping

her concentrate on her research. Gerardo thanks his family for their constant support: Suki Ungson, Melissa and Tegan Martin, Carlo Riego, Mark Neveu, and Kaipo. Although it is impossible to completely express our appreciation for all they did to support us, as a small token of our gratitude we dedicate this book to them.

*March 2013*

Seung Ho Park

*Moscow, Russia*

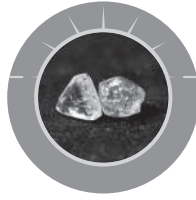
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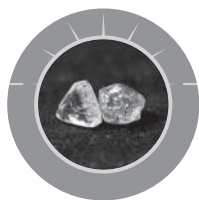


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Liudmila Petrova, Thiago Borges, Raisa Vasilevna Demina, Viktor Gaiday, and Dmitry Voskoboynikov.

An earlier, abbreviated version of the book was distributed as a coauthored report, *Rough Diamonds: The 4Cs for Sustained High Performance*, by S. H. Park, N. Zhou, and G. Ungson for Ernst & Young. Portions of the project were also presented at the Davos Forum and the St. Petersburg Economic Summit in 2012.



## Introduction

High performers take charge of their own destiny. They have a laser-sharp focus on executing against the four drivers of competitive success: customer reach, operational agility, cost competitiveness and stakeholder confidence. And they strike the right balance in their approach to each of these four drivers in relation to the others—strategically and tactically.

—Ernst & Young, *Growing Beyond: How High Performers Are Competing for Growth in Difficult Times*

Much like legendary sports teams, development is not graded on current progress, but on the ability of these teams to produce a consistent flow of exemplary players over time. In context, newly competitive firms not only signal the future growth of emerging markets but also define the dynamism, vibrancy, and resilience of these economies over time.

—SKOLKOVO Business School–Ernst & Young Institute for Emerging Market Studies, *Rough Diamonds: The 4Cs Framework for Sustained High Performance*

The global reach of the recent economic downturn prompted new questions about the sources of future business growth. Leaders of industry have long considered

emerging markets a wellspring of new expansion opportunities, but slowing economies in even these countries have raised questions about their capacity for future prosperity and the challenges these markets pose for enterprising companies. Yet amid these challenges, a growing crop of powerful new private businesses—successful but largely unknown to those in developed markets—has started to mine considerable new opportunities. These are the rough diamonds, the exemplary breakout firms that are capitalizing on the developing nature of their home economies in Brazil, Russia, India, and China (the so-called BRIC countries, prized for their ongoing and potential economic growth).

These companies have clearly defined a new standard of excellence. They have established marked differentiation from established industry stalwarts and market leaders. They have set themselves up to sustain their growth well into the future. And they have lessons to impart to firms in other countries, both developed and developing markets. We wrote this book to profile and explain the remarkable performance and potential of these rough diamonds.

So what defines a rough diamond? For this book, we focused on the next generation of high-performing firms in the BRIC countries: the stars of the future. By many measures, these rough diamonds are the best-performing firms in the BRIC countries, operating at a level that exceeds many of the previously identified compilations of fast-growing companies. Taken as a whole, the rough diamonds companies have grown at an average rate of 43.12 percent over ten years, essentially doubling their sales every two years. In fact, China's rough diamonds doubled their growth every year and a half, an astonishing growth rate. Of course, growth alone cannot capture the full significance of a company's performance. In terms of profit margins

and return on assets over an extended period of time, these rough diamonds match and often exceed the top five hundred private firms in their respective countries, not to mention the top twenty-five manufacturing firms in their countries and comparable firms worldwide.

Unlike the larger, renowned firms in each of these countries—Gazprom and Rosneft (Russia), Infosys Tech and Tata Consultancy (India), Petrobras and Embraer S.A. (Brazil), and Sinopec and China Telecom (China)—the rough diamonds have yet to attract much global attention. They are underrepresented in academic journals and the business press despite their exemplary performance. We wrote this book to put a spotlight on these hidden gems.

In chapter 1, we introduce the concept of rough diamonds and discuss the attributes that define these companies and their considerable potential for growth. Just as a real diamond's quality is defined by the four Cs—cut, color, clarity, and carat—the rough diamonds embody Four Cs that allow them to sustain their high performance: capitalize, create, craft, and cultivate. We discuss these attributes in chapter 2. In the succeeding four chapters, we detail each of the Four Cs using case studies to explain how rough diamonds differ from incumbent market leaders in the BRIC countries and in developed economies. Chapter 3 focuses on how rough diamonds capitalize on opportunities, notably government policies and industry transitions, in a period we call late development. Chapter 4 elaborates on how these firms create new markets by correctly identifying nascent consumer needs and consolidating them into viable market niches and segments. Chapter 5 offers a description of how rough diamonds craft operational excellence, most notably through integrated logistics, supply chain management, and supportive, resilient, and agile management systems. And in

chapter 6, we focus on how rough diamonds cultivate profitable growth through strategies such as product diversification.

Combined, the Four Cs establish a platform for sustained profitable growth, and we develop that concept further in chapter 7, noting also the risks of the growth fetish or a misplaced goal of companies to grow for the sake of growth but without due consideration of consequences that many entrepreneurial enterprises fall prey to. And in chapter 8, we discuss the factors that drive hypergrowth in emerging markets, with a close look at the primary and secondary drivers that can sustain profitable growth over time.

Although rough diamonds share many of these defining characteristics, it would be misleading to suggest that companies don't conform to the unique intricacies of their home markets. Chapter 9 examines the country-specific differences the rough diamonds face, with an emphasis on the influence of historical, cultural, and institutional factors.

So why should anyone outside these BRIC markets pay attention to the rough diamonds? Simply put, they offer universal lessons for both academics and business leaders about how companies can succeed in these emerging markets and how they can spot and avoid the traps that threaten sustained growth. To compete in emerging markets requires a deep appreciation of local conditions that influence pent-up consumer demand and future consumption patterns. Entering emerging markets also requires a reassessment of conventional strategies and beliefs, which might work well in developed markets but often do not apply in evolving, underdeveloped economies. The success and future growth trajectories of rough diamonds increasingly foreshadow these new rules of the game for firms around the world. Understanding the performance of these exemplary

firms provides important clues to the rich opportunities in the late-development era of the emerging BRIC markets.

We draw these lessons out in chapter 10, which offers our outlook on how rough diamonds have changed the game and provide recommendations for how companies around the world can tap the strategies of rough diamonds to forge success in the BRIC markets and beyond. This focus on breakout firms complements the prevailing direction in the literature on emerging markets, which seeks to identify the next developing economy that will drive future growth in the global economy. Undoubtedly defining the next growth market is a worthwhile effort. But our point of emphasis extends beyond that. We believe the sustained performance of any emerging market, now and in the future, will ultimately be determined by the dynamics that generate a constant flow of exemplary firms over time.

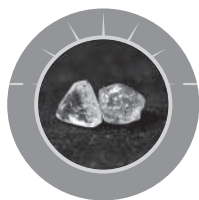
When we started adapting our research and reports to a book, we had both academics and business practitioners in mind. For academics, this study offers a complementary framework to reexamine conventional theories of business strategy and management systems. For researchers looking to gain a more nuanced understanding of emerging markets, the appendix provides details about our study methodology.

For business practitioners, knowing the extent to which these exemplary firms can sustain themselves provides critical insight into the sustainability of emerging economies over time. Specifically, the lessons gleaned from the rough diamonds help illuminate the very attributes of these emerging markets that facilitate and support these exemplary firms. A company that disregards or fights against these market factors will find itself vulnerable to competition, especially from the

same firms they should be learning from. The multinational companies that understand and embrace the rough diamonds' motivations and aspirations will find complementary partners and key suppliers.

Finally, for readers of all stripes, learning more about rough diamonds helps illuminate important changes happening more broadly throughout the BRICs countries. Insight into how these companies forge their successes leads to an understanding of how the emerging markets' developing institutions, transitioning industrial development, new government policies, and shifting competitive frictions are taking these rough diamonds and polishing them into the brilliant gems they're poised to become.





# 1

## An Overview

Better a diamond with a flaw than a pebble without one.

—Chinese proverb

Part of our western outlook stems from the scientific attitude and its method of isolating the parts of a phenomenon in order to analyze them.

—Arthur Ericson

The method of the enterprising is to plan with audacity and execute with vigor.

—Christian Nestell Bovee

**H**ow do real-world diamonds get their value? Part of it derives from their scarcity, but a host of other factors ultimately determines the extent to which a particular gem is prized. Rough diamonds are painstakingly cabbed, cut, and polished to remove infirmities, an intricate and rigorous process that leaves the diamond even more valuable than before. In this study, we employed a similarly rigorous method that involved numerous screening tests, comparison groups, and field interviews to help reveal the true value of the dynamic companies