MANAGERIAL BANDWIDTH ON DEMAND, FOR A WORLD IN TRANSITION

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China's growth rate is falling and a new coalition of economic powers is rising: the Quartet of the United States, the European Union, Japan and India. The relationship between the Quartet and the People's Republic of China (PRC) has changed significantly over the past few years, and is creating a myriad of challenges, as well as opportunities for companies that have the ability to anticipate and respond to them fast.

A related issue is the essential role of India, which today is the fastest growing major economy in the world and is the main reason why the Quartet is rising relative to the PRC. India is an increasingly important destination for international investors, exporters and purchasing managers attracted to the prospect of 1.4 billion consumers and the lowest cost manufacturing base in the world. But the talent pool of Indian managers is stretched thin because many of India's best and brightest are employed by corporations outside India, and those who remain in India are insufficient for an economy that is expanding so rapidly. Moreover, traditional family-owned Indian companies are notoriously rigid in their management structures.

Corporate secrecy in India is taken extremely seriously, and many traditionally managed companies are suspicious of bringing in interim executives to handle special projects. Many Indian companies would rather miss opportunities and allow projects to fail than to expose their corporate secrets to non-tenured managers. Over the past 10 years we have seen this change, but the change needs to accelerate for India to reach its economic potential.

The question for both MNC's and Indian companies is the same: how to manage the challenges and opportunities that abound in a world undergoing rapid change, discontinuity and crisis? X-PM's experience confirms that, in times of rapid change and uncertainty, organizations need to be flexible and nimble. And perhaps the most important area that requires more flexibility is the C-suite. In other words, the need of the hour is "managerial bandwidth on demand." Many companies miss opportunities and fail to meet challenges not because they are unable to see the changes in their environment, but because their management team responds too slowly. An essential weakness is an inability to execute strategy quickly because of a rigid managerial cadre.

We at X-PM have observed that the 20th century concept of permanent employment is already giving way to a more flexible model of interim managers, which is actually an older concept dating back hundreds of years.

Background: The Rise of the Quartet

In the 1980's Keniche Ohmae popularized the concept of the Triad, the three key economies of the world at that time: the USA, the EU and Japan. Over the past twenty years we have witnessed the PRC and India joining the ranks of leading economic powers, but the PRC appears to be gradually decoupling from the others. As a result, the major economies of the world are now in the process of dividing into two camps: the Quartet (the Triad plus India) on one side, and the PRC on the other (see my previous article on Threats and Opportunities for Businesses in the New Cold War).

Ray Dalio, one of the world's leading hedge fund managers, argues that the USA economy appears to be declining in terms of various economic indicators relative to the PRC. While Dalio makes a valid point, Dalio's focus on the USA is too narrow; the true, broader picture, is the rivalry between the Quartet and the PRC. The new economic rivalry is between a new coalition of great economic powers versus the PRC. Most third parties would likely seek to bandwagon with the Quartet, unless they have no other option (e.g. Iran, Russia, North Korea, etc.).

If we take Dalio's analysis and correct the mistake he made with respect to scope, we arrive at a completely different conclusion. In other words, by expanding the focus from just the USA to the broader Quartet, we see more clearly that the PRC has already peaked in relative terms. With the inclusion of India (the third largest economy in PPP terms), the Quartet has the scale, technology, cost structure and demographics to increase its dominance of the global economy indefinitely.

The PRC's Challenge

To argue that the PRC, decoupled from the Quartet, will outcompete the Quartet defies common sense. The PRC, working purely with local technology, skills and demographics, is unlikely to outperform an international team composed of the entire populations of the USA, the EU, Japan and India (more than 2.3 billion people). This is because the Quartet represents a larger, more diverse, multitalented, international team, while the PRC represents a team of homegrown national players. It has a smaller talent pool and fewer resources than the Quartet team.

Moreover, the PRC is still playing catch up with the developed Triad (i.e. USA, the EU and Japan) in most areas of technology and finance. And the addition of India to the international coalition gives the Quartet far superior demographics, i.e. a larger, younger, lower cost workforce. India's talents complement those of the Triad.

Given these factors, to think that the PRC will dominate the Quartet economically is a leap of faith, unless one believes that a) the people of the PRC are more intelligent, more creative, more innovative or more collaborative (or some combination of these qualities) than the people of the

Quartet, or b) the PRC's economic and political systems are superior.

Could either of these conditions be true?

Unfortunately, we may never find out the answer to this question because the PRC has already peaked in some key areas for reasons that have nothing to do with the quality of their people or systems. The PRC's working age population has started to fall, its defense burden has increased, its access to global markets has declined and its access to high technology has been restricted. Moreover, its national focus now appears to be on security, not economic growth. In short, China's people and systems are fighting an uphill battle.

The PRC's growth was already slowing before these problems arose, but the PRC's mistakes have exacerbated the slowdown. Its errors include the one-child policy (which turns out to be hard to reverse), its aggressive handling of border disputes, its response to COVID-19 pandemic and its human rights policies in Xinjiang (which have triggered economic sanctions).

These miscalculations have diminished the PRC's access to the Quartet's markets and technologies. The PRC has systematically alienated each member of the Quartet. Japan and India feel threatened militarily, and have increased defense spending to prepare for a possible conflict with the PRC. The US consensus is that the PRC is challenging the rule-based order that was implemented by the USA and its allies after World War II, and the USA is also pushing back against the theft of intellectual property and coercion of US subsidiaries in the PRC. Finally, the EU's perception of China has soured because of the PRC's suppression of human rights (in Xinjiang and Hong Kong) and its role as Russia's apologist immediately before and after the invasion of Ukraine.

As the PRC's growth slows to mature market levels, it loses ground to the Quartet, which has been re-energized by the dynamism of India. In relative terms, the Quartet is rising and the PRC is declining.

The Quartet's India Advantage

One of the Quartet's many advantages is the inclusion of India in the Quartet camp. A number of observers, most recently Morgan Stanley, have concluded that this is India's moment. India is now surpassing the PRC in terms of population according to the United Nations Department of Economic and Social Affairs. India, along with South East Asia, is also beginning to manufacture items that were once exclusively made in the PRC. The US Census Bureau reports that India accounts for only 2.7% of total US imports, but that amount grew by over 60% between 2018 and 2022 (driven in part by supply chains shifting out of China). It's no surprise that India's overall economic growth rate is now the highest among all major economies in the world.

In fact, the US now appears to be trying to help India grow even faster. While visiting India recently, US Treasury Secretary Janet Yellen promoted the US government's policy of "friend-shoring" and invited India to join the US effort to reduce the sourcing of goods from the PRC. To support her case, she recognized Apple for shifting some of its iPhone manufacturing from the PRC to India.

We can expect to hear much more about friend-sourcing over the next few years. Friend-shoring essentially means sourcing goods and services from friendly, reliable countries, and not from countries that are potential adversaries. It prioritizes shared values (e.g. democracy) over logistics, and national security over efficiency. Globalization is not obsolete; it just has greater moral and geopolitical dimensions now.

But The Transition Will Not Be Easy

The rise of the Quartet creates both challenges and opportunities for managers, including the need to shut down old factories, build new manufacturing facilities, reconfigure logistics and supply chains, target new customers, evaluate new vendors, build new management teams, train new workers, integrate newly acquired companies into existing operations, redesign products — the list is long.

Flexible managerial bandwidth, what X-PM calls “managerial bandwidth on tap”, is essential in such a dynamic environment. Many companies rely on consultants to provide that flexible managerial bandwidth, and management consultants will undoubtedly play an important role in helping companies rebalance their investments between a rising Quartet and a slowing PRC. Some of the larger consulting firms are themselves rebalancing their staffing and may be forced to spin off their operations in the PRC to avoid conflicts of interest.

Management consultants can provide advice on strategy and facilitate change, but the need of the hour is nimble execution, which is something that all good management consultants leave to their clients. If management consultants cannot provide dynamic execution, then who can provide the flexible managerial bandwidth required by managers in the rising Quartet? The answer, in a word, is “interims”: Interim CEOs, Interim CFOs, Interim COOs, Interim Supply Chain Managers, Interim CHROs — trusted senior executives who work on special assignments for one company at a time (key word is “trusted”). These are not part time consultants, but full time, hands on executives who work on time bound projects.

The shifting of manufacturing from the PRC to India and South East Asia is a good example of the kind of special projects that interim managers can execute better than existing management teams or management consultants. There are highly experienced interim sourcing managers, interim supply chain managers and interim COOs who have “been there and done that”, and can save companies from making expensive blunders as they transition from the PRC to India and South East Asia.

X-PM has pioneered the deployment of trusted interim managers in India. Over the past ten years we have prepared a series of case studies, which prove that the interim concept works exceedingly well in India and that concerns about corporate secrecy are unfounded (to view these case studies, click here). While traditional Indian companies are still suspicious of "temporary" managers, we find that they are able to overcome this hesitation because of X-PM's long term trust-based relationships with both clients and the interim managers whom we deploy. Foreign companies who are used to the concept have always been very receptive to the idea of engaging interim managers to help them manage the opportunities and challenges that they have in India. Some of the expats that rotate in and out of India are in fact interim managers.

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Most experienced managers today have operated in a relatively stable world for most of their career. The shock created by the systematic decoupling of the Quartet from the PRC is forcing companies today to become more flexible. Traditional family-controlled companies in India are particularly rigid because of their heavy reliance on tenured "permanent" managers and their inexperience with interim managers. Companies that thrive in this turbulent transitional period will likely depend on access to managerial bandwidth on demand. As a result of this shift, reputable managers can look forward to a new kind of career path, one that enables them to focus more on the kind of work they enjoy, to explore new corporate cultures and to become more entrepreneurial.