While Singh accepted that education was also valuable to urban populations, he was concerned that liquids were too expensive for the poor rural mass market that was the target of behavior change, and worried that the initiative would distract the organization's attention. But knowing that the brand had to be profitable in order to support its ambitious handwash programs, he had agreed to support the urban schools initiative if implemented, and his team had offered to help integrate "the five non-negotiables" into the design.

Although the program was expected to reach only 1.5 million people, Sitapati believed the higher margins of liquid handwash would translate into a payback period of 3.5 years–not as good as alternative marketing investments, but the most attractive of the behavior-change options.

***

It was a complex decision with important implications both locally and globally. In India, Sitapati would have to decide which, if any, of these three behavior-change projects he should include in his Indian budget; in Singapore, Singh had to decide whether to intervene in the decision, and if so, how; and in London, Polman would be considering whether this tension reflected the shift in strategic process he had envisioned when he introduced his USLP goals.

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CASE 7.3 SILVIO NAPOLI AT SCHINDLER INDIA (A)

Senior Research Associate Perry L. Fagan and Professor Michael Y. Yoshino prepared the original version of this case, "Silvio Napoli at Schindler India (A)," HBS No. 302-053 (Boston: Harvard Business School Publishing, 2002). This version was prepared by Professor Christopher A. Bartlett. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

"Monsieur Napoli, si vous vous plantez ici vous êtes fini! Mais si vous réussissez, vous aurez une très bonne carrière." (Translation: "Mr. Napoli, if you fall on your face here you are finished! But if you succeed, you will have a very nice career.") The words echoed off the walls of Silvio Napoli's empty living room and disappeared down the darkened hallway like startled ghosts. The parquet was still wet from the five inches of water that had flooded the first floor of the Napoli home in suburban New Delhi several days before, during one of the sewer system's periodic backups. Standing in the empty room were Napoli and Luc Bonnard, vice chairman, board of directors of Schindler Holdings Ltd., the respected Swiss-based manufacturer of elevators and escalators. It was November 1998, and Bonnard was visiting New Delhi for the first time to review progress on the start-up of the company's Indian subsidiary, which Napoli had been dispatched to run eight months earlier. Things were not going according to plan.

Napoli, a 33-year-old Italian former semiprofessional rugby player, had arrived in March with his pregnant wife and two young children and had quickly set about creating an entirely

new organization from scratch. Since March, he had established offices in New Delhi and Mumbai, hired five Indian top managers, and begun to implement the aggressive business plan he had written the previous year while head of corporate planning in Switzerland. The plan called for a $10 million investment and hinged on selling "core, standardized products," with no allowance for customization. To keep costs down and avoid India's high import tariffs, the plan also proposed that all manufacturing and logistics activities be outsourced to local suppliers.

Shortly before Bonnard's visit, however, Napoli was confronted with three challenges to his plan. First, he learned that for the second time in two months, his Indian managers had submitted an order for a nonstandard product–calling for a glass rear wall in one of the supposedly standard elevators. At the same time, his business plan had come under intense cost pressures, first from a large increase in customs duties on imported elevator components, then from an unanticipated rise in transfer prices for the "low-cost" components and materials imported from Schindler's European factories. Finally, as Napoli began accelerating his strategy of developing local sources for elevator components, he found that his requests for parts lists, design specifications, and engineering support were not forthcoming from Schindler's European plants.

As the implementation of his business plan stalled, Napoli wondered what he should do. Eight months in India and he still had not installed a single elevator, while his plan showed first-year sales of 50 units. And now Bonnard was visiting. Should he seek his help, propose a revised plan, or try to sort out the challenges himself? These were the thoughts running through Napoli's head as the vice chairman asked him, "So, how are things going so far, Mr. Napoli?"

Schindler's India Explorations

Schindler had a long and rather disjointed history with the Indian market. Although its first elevator in India was installed in 1925, the company did not have a local market presence until it appointed a local distributor in the late 1950s. Almost 40 years later, Schindler decided it was time to take an even bolder step and enter the market through its own wholly owned subsidiary.

The Growing Commitment

Established in 1874 in Switzerland by Robert Schindler, the company began manufacturing elevators in 1889. Almost a century later, the 37-year-old Alfred N. Schindler became the fourth generation of the family to lead the company, in 1987. Over the next decade, he sought to transform the company's culture from that of an engineering-based manufacturing company to one of a customer-oriented service company.

By 1998, Schindler had worldwide revenues of 6.6 billion Swiss francs (US$4 billion) and was widely perceived as a technology leader in elevators. It was also the number one producer of escalators in the world. The company employed over 38,000 people in 97 subsidiaries but did not yet have its own operations in India, a market Alfred Schindler felt had great potential.

Although the first Schindler elevator in India was installed in 1925, it was not until 1958 that the company entered into a long-term distribution agreement with ECE, an Indian company. In 1985, Schindler terminated that agreement and entered into a technical collaboration with Mumbai-based Bharat Bijlee Ltd. (BBL) to manufacture, market, and sell its elevators. After acquiring a 12% equity stake in BBL, Schindler supported the local company as it became the number two player in the Indian elevator market, with a 10%–15% share a decade later.

On assuming the role of chairman in 1995, Alfred Schindler decided to take a six-month "sabbatical" during which he wanted to step back and review the long-term strategy of Schindler. As part of that process, he undertook to travel through several markets–China, Japan, and several other Far Eastern markets–that he felt were important to the company's growth. He spent several weeks in India, traveling over 3,000 kilometers in a small Ford rental car. "After his trip Mr. Schindler saw India as a second China," said a manager in Switzerland. "He saw huge growth potential. And once he targets something, he's like a hawk."

With the objective of raising its involvement, Schindler proposed to BBL that a separate joint venture be created solely for the elevator business, with Schindler taking management control. But negotiations proved difficult and eventually collapsed. In late 1996, collaboration with BBL ended, and Schindler began considering options to establish its own operation in India.

Silvio Napoli's Role

Meanwhile, after graduating from the MBA program at Harvard Business School, Silvio Napoli had joined Schindler in September 1994. He accepted a position at the company's headquarters in Ebikon, Switzerland, reporting directly to the CEO as head of corporate planning.

With its 120 years of history, Schindler was a formal Swiss company where the hierarchy was clear, politeness important, and first names rarely used. Napoli's office was on the top floor of the seven-story headquarters building, a floor reserved for the three members of the company's executive committee and the legal counsel. (For profiles of top management, see Exhibit 1.) "As soon as I arrived, I was aware that people were very responsive to my requests," said Napoli. "Just by my physical location, I generated fearful respect, and I realized I would have to manage my situation very carefully." A 20-year Schindler veteran recalled his reaction to Napoli's arrival: "He was the assistant to Mr. Schindler, so I knew I'd better be nice to him."

As head of corporate planning, Napoli was responsible for coordinating the annual strategic review process and undertaking external benchmarking and competitor analysis. But his most visible role was as staff to the corporate executive committee, the Verwaltungsrat Ausschuss (VRA)–which was composed of Alfred Schindler, Luc Bonnard, and Alfred Spöerri, the chief financial officer. As the only nonmember to attend VRA meetings, Napoli was responsible for taking meeting minutes and for following up on action items and special projects defined by the VRA.

The Swatch Project

In 1995, Napoli took on the Swatch Project, a major assignment that grew out of a concern by VRA members that margins on new product sales were eroding as each competitor strove to expand its installed base of elevators. Since such sales were a vital source of profitable long-term maintenance and service contracts, the project's goal was to develop a standardized elevator at a dramatically lower cost than the existing broad line of more customized products. It was an assignment that involved the young newcomer in sensitive discussions with Schindler's plants in Switzerland, France, and Spain to discuss design, determine costs, and explore sourcing alternatives. Napoli described the process and outcome of the Swatch Project:

> As you might imagine, I was viewed with some suspicion and concern. Here was this young MBA talking about getting costs down or outsourcing core tasks that the plants felt they owned. . . . In the end, we developed the S001, a standard elevator that would not be customized, incorporated processes never before seen in the group, and used many parts sourced from outside suppliers. All of this was unthinkable in the past. We redesigned the entire supply chain and in doing so, halved the industry's standard 20- to 30-week cycle time.

The Indian Entry Project

Meanwhile, as negotiations with BBL broke down in India, the VRA engaged Boston Consulting Group to identify and evaluate alternative local partners with whom Schindler might build its business in India. As the company's point man

Exhibit 1
Schindler Top Management Profiles

Name:	**Alfred N. Schindler**	**Luc Bonnard**	**Alfred Spöerri**
Position:	Chairman and Chief Executive Officer	Vice Chairman of the Board and Member of the Executive Committee	Member of the Board of Directors Member of the Executive Committee
Date of Birth:	March 21, 1949	October 8, 1946	August 22, 1938
Education:	*1976–1978:* MBA, Wharton, USA *1974–1976:* Certified Public Accountant School, Bern *1969–1974:* University of Basel–Law School (lic. jur.), Abschluss:lic.iur.	*1971:* Diploma in Electrical Engineering at ETH (Technical University), Zurich	
Experience:	*Since 1995:* Chairman of the Board and Chief Executive Officer *1985–1995:* Chairman of the Corporate Executive (CEO) *1984–1985:* Member of Corporate Management *1982–1984:* Head of Corporate Planning *1978–1979:* Deputy Head of Corporate Planning	*1996:* Vice Chairman *1991–1996:* Member of the Executive Committee *1986–1990:* COO Elevators and Escalators, Member Corporate Executive Committee *1985–1986:* Member, Executive Committee *1983–1985:* Group Management Member, North Europe *1973:* Management, Schindler, in France	*1991–1998:* Member, Executive Committee *1997–1998:* Chief Financial Officer *1979–1988:* Corporate Controller–Treasurer *1975–1979:* COO of Mexico *1971–1974:* Area Controller, Latin America *1968–1974:* Financial Officer of Mexico *1968:* Joined Schindler Group

Source: Schindler India.

on the project, Napoli worked with the consultants to narrow the list of 34 potential partners to eight candidates for review by the VRA. As the team pursued the final choices, however, it concluded that there was no ideal partner. But it learned that it was now legally feasible to start up a 100% wholly owned company in India. The VRA then asked Napoli and the head of Schindler's mergers and acquisitions department to explore that option.

Napoli contacted experts in India who helped him expand his understanding of the situation. Through discussions with market experts and studies by local consultants, Napoli spent nine months developing a detailed analysis of the market size, legal environment, and competitive situation in the Indian elevator market. He integrated this into a business plan for Schindler's market entry and submitted it to the VRA. The plan was approved in October. Soon after, Napoli was offered the job of creating the Indian subsidiary. Napoli recalled his reaction:

> I realized that the future manager of the new company would be key to the success of the business plan I had been working on. I was conscious that my early involvement in the project made me a candidate, so when the offer came, I was not surprised. Deep down, I knew I could do it. More surprising was the reaction of my headquarters' colleagues, who thought I was crazy to take such a high-risk career move that involved dragging my family to a developing country.

Bonnard explained the choice of Napoli:

> There are two possible profiles in a country like India. The first is a young guy who knows the company, people, and products; the second is someone who is 55 years old with grown kids looking for a new challenge. . . . Mr. Napoli knew lots of people. He was open to go new ways. We needed someone who could handle different cultures, who was young and flexible. We needed to trust the person we sent, and we trusted him 100%. And we needed a generalist, not a pure specialist. We needed someone who had courage. Finally, I believe that the people who make the business plan should have to realize it. Of course, we also needed to have someone who was willing to go.

In November Napoli and his wife Fabienne, a French-German dual national, made their first trip to India. "We went on a 'look and see' visit, starting in Mumbai," Napoli recounted. "When we arrived in Delhi my wife looked around and said she would be more comfortable living here. After reaching an agreement on the relocation package back in Switzerland, I accepted the job."

Over the next several months, Napoli made three more trips to India to lay the groundwork for the move. In one key move, he engaged the executive search firm Egon Zehnder to identify candidates for his top management team. Although he had to await government approval to start the new company, when he moved to India, he wanted to have key managers in place.

Forming Schindler India

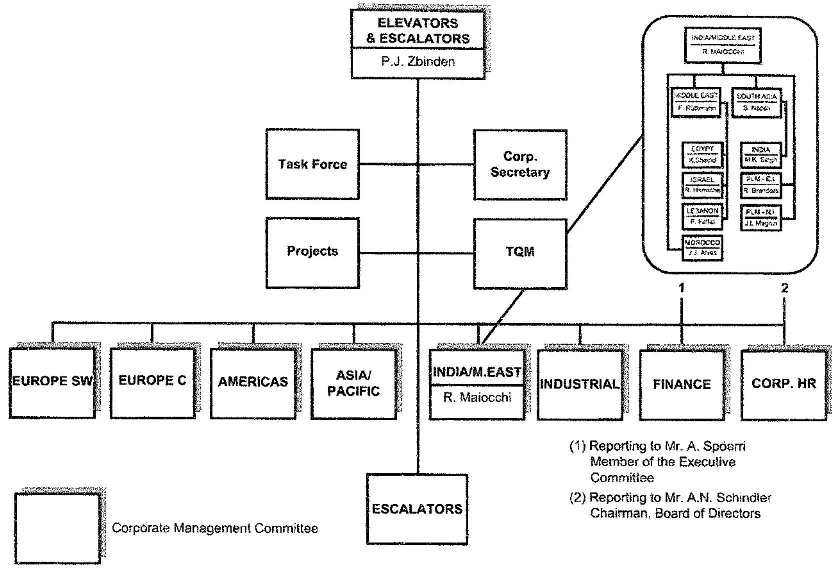
As vice president for South Asia, Napoli was responsible for India and a few nearby export markets in Schindler's elevators and escalators division (see Exhibit 2). In March, Napoli relocated to India and began the task of building the company that would implement his business plan.

New Culture, New Challenges

On his first day in the Delhi office, Napoli got stuck in one of BBL's elevators. As he recalled, it proved to be an omen of things to come:

> On our first morning in Delhi, six hours after the family had landed, my two-year-old daughter opened her forehead falling in the hotel room. The deep wound required hospitalization and stitching under total anesthesia. Two weeks later, my wife Fabienne got infectious food poisoning, which required one-week hospitalization, even threatening a miscarriage. The day she came back from hospital, my three-year-old son fell in the hotel bathroom and broke his front tooth. Rushing to an emergency dentist in a hotel car, I really wondered, for the only time in my life, whether I could stand this much longer.

Exhibit 2 Schindler Organization Chart, Elevator and Escalator Division



Source: Schindler Management Ltd.

Although Napoli and his family were in New Delhi, where he had opened a marketing and service office, he spent most of a typical week at the company's headquarters in Mumbai. "The first two months were really a hard-fought battle between family relocation and company start-up," he recalled. "Weeks were consumed shuttling between Delhi and Mumbai, hunting for office space, filing government registrations, and completing legal paperwork. On the family front, I had to get them started in a totally different system: housing, schools, doctors, grocery shopping. . . all things which are totally different in India."

In the process, Napoli found he had to adapt his management approach. "For example," he recalled, "all types of characters started to approach me offering their services. They had heard that I was representing a Swiss firm about to invest in India. I soon learned to be careful in deciding who I could trust."

Recruiting the Team

Over the previous couple of months, Egon Zehnder had identified several promising candidates who became the pool from which Napoli recruited for his top positions in the new company. Mehar Karan ("M.K.") Singh, 42, was tapped for the role of managing director, a position that reported to Napoli but was viewed as a stepping stone to heading the subsidiary. (For profiles of key Indian managers, see Exhibit 3). "At some point in your career you will report to someone younger than yourself," said Singh. "I decided that Schindler was an exciting opportunity to test this scenario."

Napoli explained the choice of Singh: "Having led construction projects for some of India's largest hotels, M.K. had firsthand experience in building an organization from scratch. But most of all, he had been on our customers' side. He would know how to make a difference in service." In addition, being 10 years older and having grown up in India, Singh brought valuable experience and a different perspective. He was also more sensitive to organizational power and relationships, as Napoli soon recognized:

> The first question M.K. asked me after joining the company was, "Who are your friends inside the company? Who doesn't like you?" I never thought about it this way. And I said to him: "Listen, you will have to develop a sense of that yourself. As far as I know, probably people are a little bit cautious of me because they know I used to work for the big bosses at headquarters. But we will have to wait and see."

To head field operations (sales, installation, and maintenance) Napoli hired T.A.K. Matthews, 35, who had worked for nine years at Otis India. Matthews recalled: "I had been approached before by elevator people, but after hearing a bit about Schindler's plans, I realized that you don't have a chance to get involved with a start-up every day." For Napoli, Matthews brought the business expertise he needed: "With M.K. and I as generalists, I absolutely needed someone with in-depth elevator experience to complement our management team. T.A.K. came across as a dynamic and ambitious hands-on manager waiting for the chance to exploit his potential."

Next, Napoli hired Ronnie Dante, 39, as his general manager for engineering. Dante had 24 years of experience at Otis. "Even with T.A.K., we missed a real hard-core elevator engineer capable of standing his ground in front of his European counterparts," said Napoli. "Such people are the authentic depositories of an unpublished science, and they are really very hard to find. Honestly, nobody in the group expected us to find and recruit someone like Ronnie. He is truly one of the best."

Hired to head the company's human resources department, Pankaj Sinha, 32, recalled his interview: "Mr. Napoli and Mr. Singh interviewed me together. There was a clarity in terms of what they were thinking that was very impressive." Napoli offered his assessment of Sinha: "Mr. Schindler had convinced me that the company really needed a front-line HR manager who was capable of developing a first-class organization. But I certainly did not want a traditional Indian ivory tower personnel director. Pankaj convinced us to hire him through his sheer commitment to care about our employees."

Finally, he recruited Jujudhan Jena, 33, as his chief financial officer. (See Exhibit 4 for an organization chart.) Napoli explained his approach to hiring: "You try to see whether the character of the person is compatible with yours, whether you have a common set of values, which in our case range from high ethical standards, integrity, assiduousness to work, and drive. Mostly we were looking for people with the right attitude and energy, not just for elevator people."

Developing the Relationships

As soon as the senior managers were on board, Napoli began working to develop them into an effective team. He recalled the early meetings with his new hires:

> Because some of them were still finishing up their previous jobs, the first Schindler India staff meetings were held at night, in the Delhi Hotel lounge. I'll never forget working together on our first elevator project offer, late after holding a series of interviews for the first employees who would report to the top team. But most of those "undercover" sessions were dedicated to educating the new team about their new company and building consensus around our business plan. . . . The team was really forged through days of late work, fueled by the common motivation to see our project succeed.

Exhibit 3
Schindler India: Key Managers' Profiles

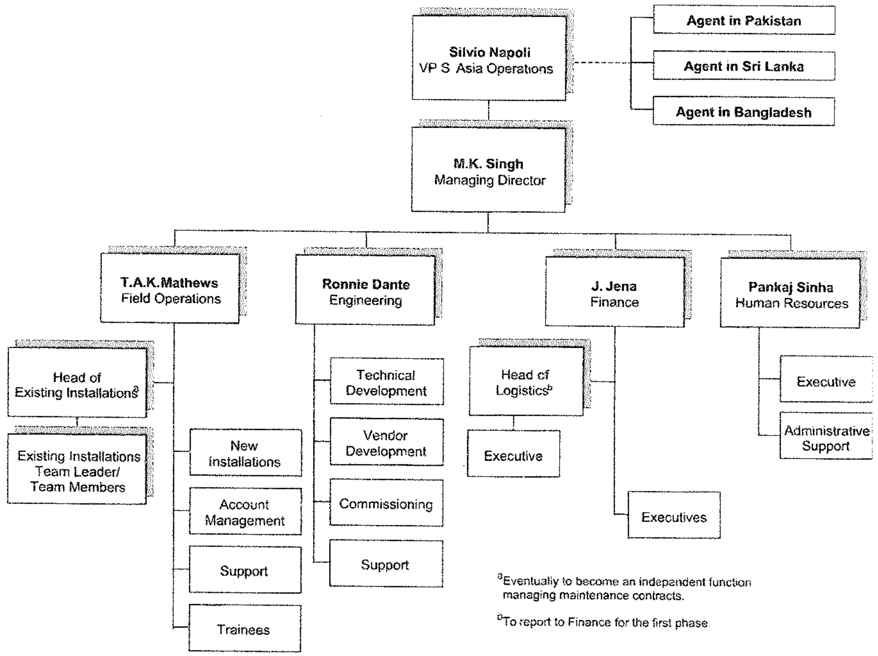
Name:	Silvio Napoli	Mehar Karan (M.K.) Singh	T.A.K. Matthews	Ronnie Dante	Jujudhan Jena
Position:	Vice President, Schindler South Asia	Managing Director	Vice President–Field Operations	General Manager–Engineering	Chief Financial Officer
Date of Birth:	August 23, 1965	April 12, 1955	March 12, 1964	November 3, 1959	March 3, 1967
Education:	*1992–1994:* MBA, Harvard University Graduate School of Business Administration, Boston, Massachusetts *1984–1989:* Graduate degree in Materials Science Engineering, Swiss Federal Institute of Technology (EPFL), Lausanne, Switzerland; Lausanne University rugby captain (1987) *1983–1984:* Ranked among top 20% foreign students admitted to EPFL, one-year compulsory selection program, Swiss Federal Institute of Technology (EPFL), Cours de Mathematiques Special, Lausanne, Switzerland	*1977:* B.E.–Mechanical Engineering; ranked top of his class in Indian Institute of Technology, Delhi, India *1979:* MBA, Indian Institute of Management, Ahmedabad, India (Awarded President of India's Gold Medal)	*1986:* B.Sc.–Civil Engineering, University of Dar-E-Salaam, Tanzania *1989:* MBA, Birla Institute of Technology, Ranchi, India	*1977:* HSC, D.G. Ruparel College, Mumbai, India	*1990:* Chartered Accountant, Institute of Chartered Accountancy, India
Experience:	*Since 1998:* Vice President, South Asia, Schindler Management Ltd. *1994–1997:* Vice President, Head of Corporate Planning,	*Since 1998:* Managing Director, Schindler India Pvt. Ltd., Mumbai, India *1979–1998:* Head of Projects and Development Group, Taj Group	*Since 1998:* Vice President–Field Operations, Schindler India Pvt. Ltd., Mumbai	*Since 1998:* General Manager–Engineering, Schindler India Pvt. Ltd., Mumbai	*Since 1998:* Chief Financial Officer, Schindler India Pvt. Ltd., Mumbai

Exhibit 3 *(cont.)*

Name:	Silvio Napoli	Mehar Karan (M.K.) Singh	T.A.K. Matthews	Ronnie Dante	Jujudhan Jena
	Schindler, Switzerland *1991–1992:* Technical Market Development Specialist, Dow Europe, Rheinmuenster, Germany *1989–1991:* Technical Service & Development Engineer, Dow Deutscheland, Rheinmuenster, Germany *1989–1992:* French Semi-Pro Rugby League (Strasbourg)	of Hotels, India (setting up hotels in India and abroad; joint ventures with state governments, local authorities, and international investors, including the Singapore Airlines, Gulf Co-operation Council Institutional investors. Responsible for financial restructuring of the international operations after the Gulf War, culminating with the successful 1995 GDR offering).	*1998:* Modernization Manager, Otis Elevator Company, Mumbai *1989–1998:* Otis Elevator Company, New Delhi • Service & Service Sales Manager • Construction Manager • Assistant Construction Manager • Management Trainee *1986–1987:* Civil Engineer, Construction Companies, Tanzania	*1995–1998:* National Field Engineering Manager, Otis Elevator, Mumbai *1991–1995:* National Field Auditor, Otis Elevator, Mumbai *1989–1991:* Supervisor, Otis Elevator *1984–1989:* Commissioning of New Products, Otis Elevator, Singapore, Malaysia, and Mumbai *1982–1984:* Commissioning Engineer, Otis Elevator Company, Gujarat *1977–1982:* Apprentice, Otis Elevator Company, Maharashtra	*1997–1998:* Financial Controller, Kellogg India Ltd., Mumbai *1996–1997:* Group Manager, Procter & Gamble India Ltd., Mumbai *1995–1996:* Treasury Manager, Procter & Gamble India Ltd. *1990–1995:* Financial Analyst, Procter & Gamble India Ltd.

Source: Schindler India.

Exhibit 4 Schindler India Organization Chart



[a]Eventually to become an independent function managing maintenance contracts.

[b]To report to Finance for the first phase.

Source: Schindler India.

In the team-forming process, the different management styles and personal characteristics of Schindler India's new leaders became clear. Even before he was assigned to India, Napoli was recognized as a "strong-headed and single-minded manager," as one manager at Swiss headquarters described him. "There couldn't have been a better environment to send Silvio than India," said another Swiss colleague. "He wants everything done yesterday. And in India, things don't get done yesterday."

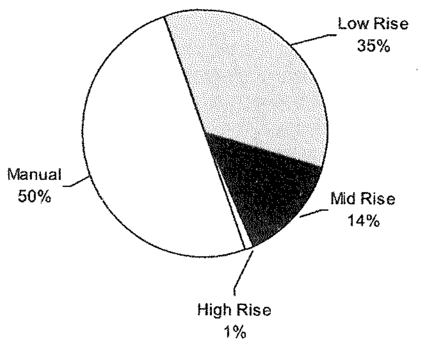
Napoli acknowledged the personal challenge. "To survive in India you have to be half monk and half warrior," he said. "I was certainly more inclined to the warrior side, and when I left Switzerland, Mr. Bonnard told me, 'You will have to work on your monk part.'"

Napoli's Indian staff and colleagues described him as "driving very hard," "impulsive," "impatient," and at times "over-communicative." "Mr. Napoli gets angry when deadlines are not met," added a member of his New Delhi staff. "He's a pretty hard taskmaster." The HR director, Sinha, was more circumspect: "Silvio has a lot of energy. When he focuses on an issue he manages to get everybody else's focus in that direction."

Descriptions of Napoli contrasted sharply with those of Singh, whom one manager saw as "friendly and easygoing." Another described him as "much more patient, but he can also be tough." Jena, the finance director, reflected on his first encounter with the two company leaders: "During the interview Silvio came across banging on the table, but I don't think that concerned me. Still,

Exhibit 5 Indian Elevator Market, Structure, and Product Segmentation

Indian Market Structure



Segment	Stops	Speeds MPS	Schindler Products
Manual	2–8	0.5–0.7	NIL
Low rise	2–15	0.6–1.5	S001
Mid rise	16–25	1.5	S300P
High rise	>25	>1.5	S300P

Source: Schindler India.

I remember wondering during the interview how two guys as different as M.K. and Silvio would fit together in a start-up." Matthews, the field operations manager, added another perspective:

> It's true that if you look at Silvio, M.K., and me we are all very different. At first we had sessions where the discussion would get pulled in every direction, but I think in the end, it did bring about a balance... I would put it this way. Silvio came to India from Switzerland. But things here are very different: You can't set your watch by the Indian trains. M.K. came from the hotel industry where even if you say "no," it's always made to sound like "yes."

"Silvio was the driver and clearly was the boss," said another Indian executive. "M.K. was great in helping Silvio understand the Indian environment. Having worked in the hotel industry he had a very good network. He had been on the customer side. But he had to learn the elevator business."

Out of this interaction emerged a company culture that employees described as "informal," "open," "responsive," and "proactive." It was also a lean, efficient organization. For example, furniture and office space were rented, and there were only two secretaries in the company–one for the Delhi office and one for Mumbai. "People must do their own administrative work or they won't survive," said Singh.

The India Business Plan

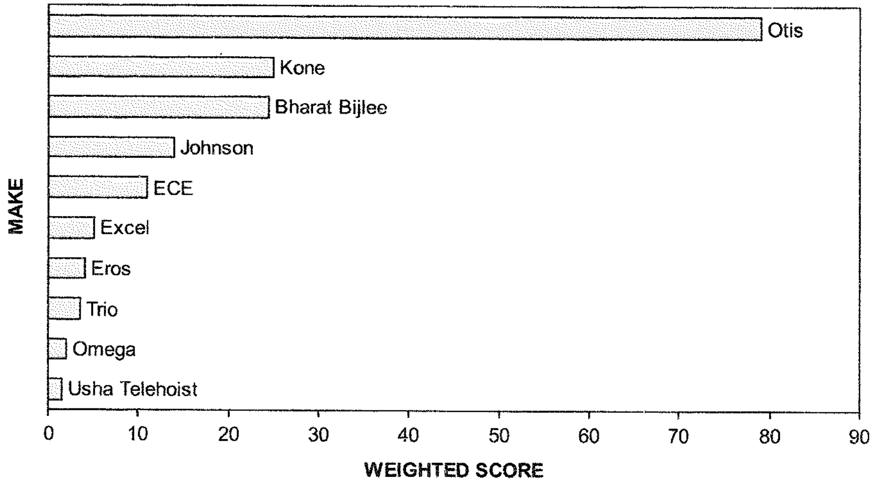
As soon as his team was in place, Napoli worked to gain their commitment to his business plan. At its core were two basic elements: the need to sell a focused line of standard products, and the ability to outsource key manufacturing and logistics functions. This plan had been built on an analysis of the Indian market and competitive environment that Napoli also communicated to his team (see Exhibits 5 and 6 for data from the plan).

The Indian Elevator Market

Economic liberalization in India in the early 1990s had revived the construction industry,

Exhibit 6 Market Research on Indian Elevator Market, 1996

Unprompted Recall of Elevator Brands—Builders



Factors Influencing Elevator Purchase—Unprompted Listing—Builders

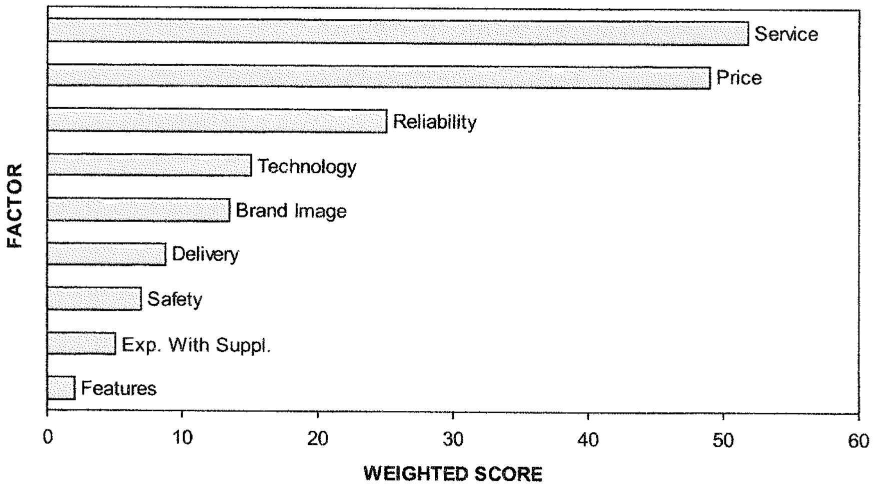
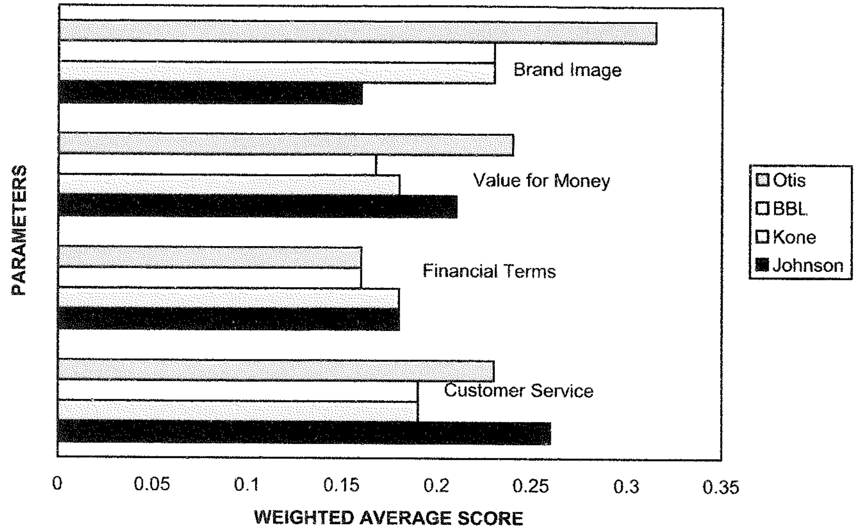
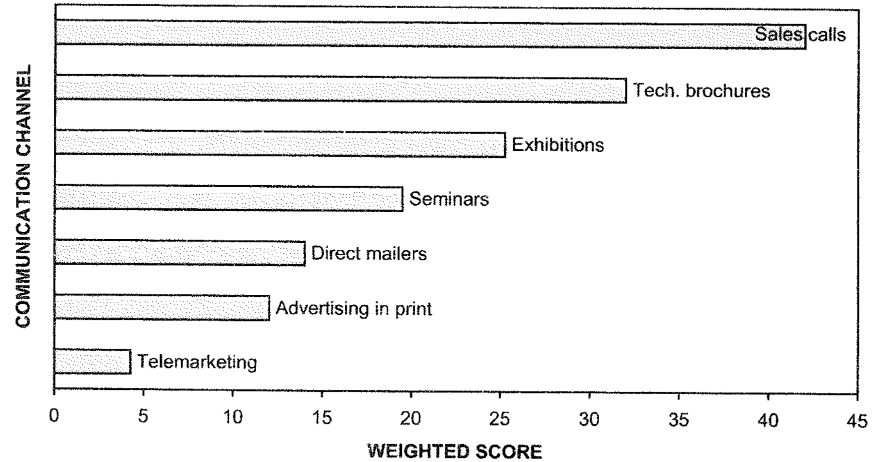


Exhibit 6 *(cont.)*

Comparative Rating of Elevator Makes—Builders



Preferred Communication Channels—Builders



Source: Schindler India.

and along with it, the fortunes of the elevator industry. Roughly 50% of demand was for low-tech manual elevators, typically fitted with unsafe manual doors (see Exhibit 5). But a ban on collapsible gate elevators had been approved by the Indian Standards Institute, and, at the urging of the Indian government, individual states were making the ban legally enforceable. This low end of the market was characterized by intense competition among local companies, but was expected to make this market segment more interesting to major international players when the ban was fully implemented.

The middle segment of low- and mid-rise buildings was promising due to India's rapid urbanization which had led to a shortage of space in Mumbai and fast-growing cities such as Bangalore, Pune, and Madras. Concurrently, traditional builders were becoming more sophisticated and professionalized, leading to an emphasis on better services and facilities and on higher quality, safer, and more technologically advanced elevators.

At the top end of the market, there was small but growing demand for top-quality, high-rise office facilities, particularly from multinational companies. Tourism was also expanding, greatly aiding the domestic hotel industry, a major buyer of top-line elevators. The average value per top end elevator was five to six times that of low end installations.

At the end of 1997, the installed base of elevators in India was 40,000, with an estimated 5,600 units sold during the year. Although this installed base was small compared with those of China (140,000 units) and Japan (400,000 units), India's growth potential was significant. The rapidly expanding residential segment accounted for 70% of the Indian market, followed by the commercial segment (office buildings and shopping centers) with a 20% share. The balance was accounted for by hotels (4%) and others (6%). Total revenues for the industry were US$125 million, including service income. For the first half of the decade, the market grew at a compound annual rate of 17% in units and 27% by value, but due to a slump in the real estate market, the unit growth forecast for 1998 was just 5%. It was expected to rise to 8%–12% in subsequent years. Together, Mumbai and New Delhi represented 60% of the total Indian elevator market.

In India, most sales were of single-speed elevators (65%), followed by two-speed (20%), variable frequency (13%), and hydraulic (2%). Sales of single-speed elevators dominated the residential market, while variable frequency was most commonly used in higher-end commercial applications. Although the Indian market was biased toward the simplest products, it was expected to shift gradually toward two-speed or higher technology in the future.

Competition

Napoli's business plan also documented that four major players accounted for more than three-quarters of the Indian market value: Otis (50%), BBL (8.6%), Finland's Kone (8.8%), and ECE (8.4%). Mitsubishi had recently begun importing premium elevators for hotels and commercial developments, and Hyundai Elevators had entered into a joint venture to manufacture high-end elevators in India. At this stage, however, they accounted for only 1% of sales. With the exception of Mitsubishi, all multinational players relied on local manufacturing for the majority of their components. The remaining 23% of the market–mostly the price-sensitive low end–was controlled by 25 regional players characterized by a lack of technical expertise and limited access to funds.

Otis India had an installed base of 26,000 elevators, 16,000 of which were under maintenance contracts. It manufactured its own components, spare parts, and fixtures at an aging plant in Mumbai and a new state-of-the art manufacturing plant near Bangalore. The company staffed 70 service centers, including a national service center in Mumbai, and held an estimated 85% of the high-end hotels and commercial segment. ("You couldn't name any building over 15 floors that did not have an Otis elevator," said ex-Otis employee Matthews. "Otis, Otis, Otis. Any special equipment, it goes Otis. Any fast elevator goes Otis.") Otis was reportedly one of the most profitable industrial companies in India, and its 3,500 employees had an average tenure of 20 years.

The Indian market was highly price sensitive, and most analysts agreed that elevators were becoming commodity products and that price pressures would increase. However, surveys indicated that service was also important in the buying decision, as were the financial terms (Exhibit 6).

The elevator life cycle had seven distinct phases: engineering, production, installation, service, repair, modernization, and replacement. Over the 30-year life cycle of an elevator, the first three stages accounted for about one-third of the labor content but only 20% of the profits. In contrast, the latter four accounted for two-thirds of labor content but 80% of profits. As a result, annual maintenance contracts covering routine maintenance and breakdown service were vital. (High-margin spare parts were billed separately.) Service response time varied across segments. Most five-star hotels with multiple installations had a technician on call or on-site; for important commercial buildings and hospitals, the response time was usually within two hours, but many residential and some commercial customers reported an average response time of between six and eight hours.

The Standard Product Strategy

Napoli felt that Schindler could not compete just by matching what others did. It had to find its own unique source of advantage. His analysis of the Indian environment coupled with his work on the Swatch Project led him to conclude that, although it was a radically different approach from that of his key competitors, the most effective way for Schindler to enter this market would be to focus on a narrow product line of simple, standardized elevators.

He proposed building the business around the Schindler 001 (S001)–the product developed in the Swatch Project–and the Schindler 300P (S300P), a more sophisticated model being manufactured in Southeast Asia. The plan was to use the S001 to win share in the low-rise segment as a primary target, then pick up sales opportunistically in the mid-rise segment with the S300P. Both products could be adapted to meet Indian requirements with only minor modifications (e.g., adding a ventilator, a fire rescue controller function, a stop button, and different guide rails). Equally important, as long as the company stuck to the principle of no customization, both products could be priced appropriately for the local market. The plan called for Schindler India to sell 50 units in the first year and to win a 20% share of the target segments in five years. It also projected Schindler India would break even after four years and eventually would generate double-digit margins.

After communicating this strategy to his Indian management team, Napoli was pleased when they came back with an innovative approach to selling the standard line. If the product was standardized, they argued, the sales and service should be differentiated. Singh's experience with hotel construction led him to conclude that projects were more effectively managed when one individual was responsible for designing, planning, contracting, and implementing. Yet, as Matthews knew, the traditional sales structure in the elevator industry had different specialists dedicated to sales, technical, and installation, each of whom handed the project off to the next person. Together, these managers proposed to Napoli that Schindler organize around an account-management concept designed to give the customer a single "hassle-free" point of contact.

The Outsourcing Strategy

India's high import duties had forced most foreign elevator companies to manufacture locally. But again, Napoli chose a different approach. To keep overheads low, his business plan proposed a radical sourcing concept for the S001 that was expected to account for 75% of sales: Schindler India would have no in-house manufacturing, no centralized assembly, and no logistics infrastructure. Instead, the production of most components for the dominant S001 model would be outsourced to approved local suppliers. (The S300P would be wholly imported from Southeast Asia.) Only safety-related components (the safety gear and speed governor, together representing 10% of the value), would be imported from Schindler plants in Europe. In addition, the entire logistics function would be handled by to an internationally reputed logistics service provider. And some basic installation work–part of the on-site assembly of the drive, controller, car, doors, rails, and counterweight–would also be outsourced. However, maintenance contracts resulting from new sales would stay with Schindler.

Inspired by the local automotive industry–Mercedes outsourced most components of its Indian vehicles–Napoli believed he could set up a local manufacturing network that would preserve Schindler's quality reputation. To ensure this, localization of each component would follow the same "product-creation process" criteria used by Schindler worldwide. Furthermore, before the first pre-series batch could be released, it would face an additional hurdle of testing and approval by experts from Schindler's European factories and competence centers.

From Analysis to Action: Implementing the Plan

By June, Napoli's management team members had settled into their roles, and the newly hired sales force was in the field. Almost immediately, however, the young expatriate leader began to experience questions, challenges, and impediments to his carefully prepared business plan.

Business Challenges

From the outset, several of Napoli's new management team had questioned him on the feasibility of his plan. In particular, those from the elevator industry wondered how the company would survive selling only standard elevators. They also worried about the outsourcing strategy, since no other company in the industry worked this way. "Some of the doubts were expressed as questions," said Napoli. "Many more were unspoken. My guess is they thought, 'We'll soon convince this crazy guy from Europe that we have to do something a bit less unusual.'"

In August, Napoli traveled to Italy to be with his wife when she gave birth to their third child. On one of his daily telephone calls to key managers in India, he discovered that the company had accepted an order for an expensive custom glass pod elevator that was to be imported from Europe. "I was at first just surprised, and then pretty angry, since it clearly was a violation of the strategy we had all agreed on," said Napoli. "The project was committed, and it was too late to stop it. But I had a long talk with M.K. and followed it up with an e-mail reminding him and the others of our strategy."

After his return to India, Napoli was delighted when he heard that the company was ready to accept another order for four S001 elevators for a government building in Mumbai. But in later conversations with a field salesman he discovered that there was a good possibility that each of the elevators would be specified with a glass wall. Although the managers insisted that this was really a minor modification to the standard S001 product, Napoli believed that, especially for a new team, installing it would be much more difficult than they expected.

The next challenge to his plan came when price estimates for the proposal was received to Schindler's plants in Europe. (Sources had not yet been qualified for local production.) Napoli was shocked when he saw the transfer prices on the basic S001 elevators at 30% above the costs he had used to prepare his original plans. "When I called to complain, they told me that my calculations had been correct six months ago, but costs had increased, and a new transfer costing system had also been introduced," recalled Napoli.

The impact of the transfer price increase was made worse by the new budget the Indian government had passed during the summer. It included increased import duties on specific "noncore goods" including elevators, whose rates increased from 22% to 56%. Napoli recalled the impact:

> This was devastating to our planned break-even objectives. The first thing I did was to accelerate our plans to outsource the S001 to local suppliers as soon as possible. We immediately started working with the European

plants to get design details and production specifications. Unfortunately, the plants were not quick to respond, and we were becoming frustrated at our inability to get their assistance in setting up alternative local sources.

Reflections of a Middle Manager

As darkness enveloped the neighborhood surrounding his townhouse, Napoli sat in his living room reflecting on his job. Outside, the night was filled with the sounds of barking dogs and the piercing whistles of the estate's security patrol. "Each family here has its own security guard," he explained. "But because guards fall asleep at their posts, our neighborhood association hired a man who patrols the neighborhood blowing his whistle at each guard post and waiting for a whistle in response. But now the whistling has gotten so bad that some families have begun paying this man not to whistle in front of their houses. Incredible, isn't it?"

Thinking back on his eight months in his new job, Napoli described the multiple demands. On one hand, he had to resolve the challenges he faced in India. On the other, he had to maintain contact with the European organization to ensure he received the support he needed. And on top of both these demands was an additional expectation that the company's top management had of this venture. Napoli explained:

> When we were discussing the business plan with Mr. Schindler, he said, "India will be our Formula One racing track." In the auto industry, 90% of all innovations are developed for and tested on Formula One cars and then reproduced on a much larger scale and adapted for the mass market. We are testing things in India–in isolation and on a fast track–that probably could not be done anywhere else in the company. The expectation is that what we prove can be adapted to the rest of the group.

While the viability of the Formula One concept was still unclear, Alfred Schindler commented on Napoli's experience:

> This job requires high energy and courage. It's a battlefield experience. This is the old economy, where you have to get involved in the nitty-gritty. We don't pay the big salaries or give stock options. We offer the pain, surprises, and challenges of implementation. The emotions start when you have to build what you have written. Mr. Napoli is feeling what it means to be in a hostile environment where nothing works as it should.

Napoli reflected, "You know the expression, 'It's lonely at the top?' Well, I'm not at the top, but I feel lonely in the middle. ... Somehow I have to swim my way through this ocean. Meanwhile, we have yet to install a single elevator and have no maintenance portfolio." At this point, Napoli's reflections were interrupted by the question of visiting vice chairman Luc Bonnard, "So, how are things going so far, Mr. Napoli?"

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CASE 7.4 LARSON INC. IN NIGERIA

David Larson, vice-president of international operations for Larson Inc., was mulling over the decisions he was required to make regarding the company's Nigerian operation. He was disturbed by the negative tone of the report sent to him on January 04, 2015, by the chief executive officer (CEO) of the Nigerian affiliate, George Ridley (see Exhibit 1). Larson believed the future prospects for Nigeria were excellent and was concerned about what action he should take.

Company Background

Larson Inc. was a New York-based multinational corporation in the wire and cable business. Wholly-owned subsidiaries were located in Canada and the United Kingdom, while Mexico, Venezuela, Australia, and Nigeria were the sites of joint ventures. Other countries around the world were serviced through exports from the parent or one of its subsidiaries.

The parent company was established in 1925 by David Larson's grandfather. Ownership and management of the company remained in the hands of the Larson family and was highly centralized. The annual sales volume for the corporation worldwide approximated $936 million in 2014. Revenue was primarily generated from the sale of power, communication, construction and control cables.

Technical service was an important part of Larson Inc.'s product package; therefore, the company maintained a large force of engineers to consult with customers and occasionally supervise installation. As a consequence, licensing was really not a viable method of serving foreign markets.

Background on Nigeria

Nigeria is located in the west-central part of the African continent. With 178.5 million people in 2014, it was the most populous country in Africa and the seventh most populous nation in the world. Population growth was estimated at 2.8 per cent annually. About 44 per cent of the population was under 15 years of age. A majority of the labor force in Nigeria worked in agriculture but there was a trend of more people moving to urban centres.

The gross domestic product in 2014 was about $510 billion, making it the largest economy in Africa. While per capita GDP was about $3000, on a purchasing power parity basis it was substantially higher at $5676. GDP had grown from 2005 to 2014 at about six per cent annually. This increase was fueled in part by growth in services and the export sales of Nigeria's oil reserves.

During the 2005 to 2014 period, Nigeria's average annual inflation rate had been 10.3 per cent. This high level had contributed to the change in the value of the naira from about 132 to the U.S. dollar in 2005 to about 165 to the U.S. dollar in 2014.

The Nigerian Operation

Larson Inc. established a joint venture in Nigeria in 2005 with a local partner who held 25 per cent of the joint venture's equity. Sales revenue for the Nigerian firm totalled $45 million in 2014. Of this revenue, $39.4 million was realized in Nigeria, while $5.6 million was from exports. About 40 per cent of the firm's Nigerian sales ($16 million) were made to various enterprises and departments of the government of Nigeria. The company was making a reasonable profit of 10 per cent of revenue, but with a little bit of luck and increased efficiency, it was believed it could make a profit of 20 per cent.

The Nigerian operation had become less attractive for Larson Inc. in recent months. Although it was widely believed that Nigeria would continue to be one of the key economic