

INDIA  
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CONCLAVE

BUSINESS



## BUSINESS

TARUN KHANNA

**“We have just embarked on a very long marathon. It is not a sprint. So this is no time to be complacent.”**

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I was asked to speak on the topic, “Building a Hundred Indian Multinationals”, and I was trying to think of an appropriate metaphor. I realised that one was staring me in the face in the persons of Anand Mahindra and myself. When Anand went to Harvard in the 1980s, there were a couple of Indians in the class. When I went 10 years later, there were still a couple of Indians in my class. Today I teach at the business school, running the strategy group, and I have this habit of counting the South Asian faces in each section. I am unable, obviously, to distinguish between the Pakistanis and Indians, but when I look around, there are 10 or 15 such faces in each class.

That, I think, is a metaphor for what is going on for the following reason. When I went through Harvard, there was essentially no discussion on things Indian, no discussion on cultures, let alone any discussion on business. India was an exotic thing. Today, because of sheer critical mass, the fact that there are 10-15 people in

each class as opposed to one or two, means there are so many little institutions that have sprung up around these 15 people to encourage them to have interactions of various sorts. It encourages the companies to come out. Indians are no longer seen on the Harvard campus as something exotic, they are seen as part of the fabric. It is the largest ethnic group outside of

**“India’s unique facet—free speech and democracy—makes for a more sustainable growth than China.”**

White males at the Harvard Business School and that is a metaphor for what is going on, rather than just Reliance or Infosys which are very recent accomplishments on the world stage. We now have dozens of companies that people are aware of, that people are seek-

ing out, the diaspora is very active and the entire thing smacks of a pleasant and nice explosion. What we are really talking about today is how to create the Tropical Garden model that Anand was talking about, to cause this to ferment and become a thousand companies—why a hundred?—and that is what I would like to speak about.

I thought I had to break my comment into two parts. One is to provide an essence of where I think we are in this process and I will be doing it in two ways. There is a good reason why we should compare with China. It has to do with the aspect of China-India comparison that is utterly missing from public conversation. Most of the comments we hear both from the United States and India are about multinationals in the two countries and the argument is often made, indeed correctly, that China has attracted far more MNC investments than India. But India has a different facet that is far more compelling and smacks of being a more sustainable basis for growth in the long run. By long run, I mean 10-20 years. This facet is in-



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trinsically tied to free speech, democracy of press, argumentative nature, unwillingness to suppress dissent and things of that nature. I want to speak of this facet of the China-India comparison and present some simple numbers I pulled from the Web and which, I think, are very illuminating. The second part of the comparison is with the rest of the world. I assure you that we are indeed at the beginning of a very long marathon. It is not a sprint. It truly is a marathon that we have just embarked on and so this is no time to be complacent. The second part of the talk would be to have the temerity to provide a little of the blueprint. My passion is trying to create and spread knowledge about the private sector that has developed in poor parts of the world. So I spend a lot of time in Africa, China, Latin America and all the countries of Asia essentially on a monthly basis.

The first part is comparisons and benchmarking of Indian companies. *The Economist* magazine has this penchant for calling India a "tiger". It likes to say that India is a "sleepy tiger" or a "caged tiger", and lately it has begun to call India an "elephant on the move". This is meant to be a happy thing that we have moved from being a sleepy tiger to an elephant on the move. Rather than focusing on the software and pharma firms that everybody talks about, I have put together some indicators of cre-

**"There is no such thing as truly private sector in China. China has sold itself to MNCs. India has not."**

ativity. My intent is to highlight that there is so much more private sector initiative, so much more burgeoning entrepreneurship in the private sector. Not just in narrow business spheres but in creative spheres of all sorts—advertising, publishing, non-government organisations, philanthropy from the private sector. In all these dimensions, India handily outstrips China by any sensible matrix. That, to me, is intrinsically tied with democracy, free speech and all the nice things that we keep talking about. Whether we talk about Oscar wins or artists in Hollywood or move to the commercial end of things, talking about food and drug association, certified plants in the pharma industry or patenting done under the US patent system by Indian or Chinese companies, India outstrips China on all these fronts. My focus is not on the GEs and the Microsofts, which are doing good things in both the countries, but on the possibility that an indigenous Indian or an indigenous Chinese can just get up one

day and say, I would like to start my own company. And despite the differences and regulations on paper which make it seem easier to start businesses in China, in practice, there is almost no such thing as a truly indigenous private sector in China. China has essentially sold itself to the multinationals. India has not. India has, for historical reasons, shunned the multinationals and one of the inadvertent, somewhat happy, consequences of doing that has been the nurturing of private enterprise. We are at a place where we shouldn't shun multinationals but celebrate the private enterprise.

The NGOs are essentially voluntary outfits that have some social cause at hand, whether it is education, women's rights, children's education or environmental causes. The number of organisations that are recognised by any impartial international body is far greater in India than in China. Turning to another dimension, there is much more manufacturing activity in China, but the amount of environmental waste and pollution is also far greater in China than in India. What's more, it is becoming worse at double the rate than it is in India. China has seven of the 10 most polluted cities in the world and this number is not going to go down in the near future. Besides, nothing is being done in a systematic way to curtail it as yet, public investment notwithstanding. Everything that I have been led to believe suggests that multinationals do much bet-

ter here than in China.

Sticking to the private sector enterprise or indigenous firms, Indian firms do better on almost any measure of return on invested capital, their productivity is much higher, the amount of energy they use per unit of output is much lower, the pollution is much lower and the corporate governance readings handily outstrip those of China. None of the top 15 or 20 Chinese firms would figure on the Top 10 lists in terms of corporate governance for Indian indigenous firms. That is the scale of difference. So there has to be some long-term implication. If the potential of these young boys and girls entering the world economy in both China and India is not going to be allowed to be harnessed in China, but will be in India, then it has to show somewhere. But before we get complacent, I think we have started on this journey.

Let me turn to the less encouraging part to try to guard us from complacency. These are two simple numbers; one can cite many others. Look at the number of patents filed under the US system, which is probably the best indicator of leading edge areas in the world today. The growth rates of patenting out of India are extraordinary in the past 10 years. Twenty per cent per year. Extraordinary. But as a percentage of all the patents filed in the US, the stock of patents in India is still less than 0.5 per cent. It is like a pigmy.



“Compared to the developed nations against whom we have to compete, we are just getting started.”

It is not like an elephant. It is like a sleepy elephant, if anything.

World trade is not even growing. Our share of the world trade is stuck at 0.8 per cent, less than 1 per cent. In terms of world trade, we have just started. I think our private sector is considerably more

healthy. But compared to the rest of the developed countries against whom we have to compete in the days to come, we are just getting started and we need to go much faster. So how do we do this? I don't pretend to have all the answers, but I'll suggest a three-part blueprint which is based on working with the companies that have built themselves into multi-billion dollar enterprises from far more dire and disastrous circumstances than we were in 10 or 15 years ago. The first of my simple three-part ideas is to leverage India. We have to do something that capitalises on the strength of India. This is the first and possibly the only sensible lesson that we teach at the strategy courses in the Harvard Business School: to try to do something that capitalises on your strength and that, importantly, is very hard for others to imitate. It is very easy to state and almost impossible to pull off because if you are smart, the next guy is smarter. So whatever you do, he will copy. But the name of the game is to come up with some clever way to build these various imitations. The way we can do it in India is to think about what is unique about India that we can capitalise on, moving beyond simply saying let us capitalise on the talent that is available at a fractional price. That everybody knows and that game everybody is on to.

The second thing, which might come across as kind of intuitive but which I'll attempt to convince you of, is that we have to embrace

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our neighbours. By neighbours, I mean, not just geographic neighbours; we have to learn to do business in our neighbourhood. All the companies that have come from the emerging world have built critical mass, first in their home countries, then in the regions surrounding them, and have then used that foothold to propel themselves into the global markets as opposed to competing directly with the most advanced country in the world.

The third thing is that we have to learn to borrow strategically from the rest of the world. If capital is not available in sufficient quantities here, we have to learn to tap into the deep capital market

“India must learn to do something to capitalise on its strengths which is also hard for others to imitate.”

pools around the world. If talent is not available, we have to learn to tap into the rest of the world. Companies like Samsung always do this beautifully and I'll share some anecdotes about Chairman Lee with you later on.

I will give three examples be-

cause I think they are all beautiful, inspirational, success stories that started from circumstances I regard as far more dire than our own. The first is Cemex. It is the world's most profitable cement company from Mexico and is built on a truly unique insight about that country. The second is South African Breweries which is the most profitable and almost the largest brewer in the world. It started from South Africa and I don't mean the White, pre-apartheid South Africa, but the Black townships far more disadvantaged than ours. It has now acquired Miller Breweries in the US and is making a success of it. The third is Nokia, which we think of