The Globally Competitive Indian Firm

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Despite many similarities in size, proximity and antiquity, India and China chose so differently at their near-contemporaneous births. There are historical similarities between the two too. Yet starkly different paths make the past six decades as close to a 'petri dish' of sorts for a social scientist, where something profound can be learned for anyone interested in how societies develop. Many leading Indian firms today are the result of ground-up, private-sector entrepreneurship unlike the leading firms in China. The private sector orientation of the globally competitive Indian firm has manifested itself in both product (output) and factor (input) markets, argues the paper.

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Benchmark Candidates

The characteristics of the globally competitive Indian firm are best discerned against some benchmark. There are several candidate counter-factuals that could sensibly constitute such a benchmark – Indian firms that are not global, for one, or globalizing firms from other emerging markets. The bulk of the research of which I am aware implicitly or explicitly compares to the first of these sets. To balance the comparisons, I will offer my sense of some of the distinguishing attributes of the global Indian firm, comparing to firms from other emerging markets and from China in particular.

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Why China? As my earlier work has argued (Khanna 2008, Chapter 1), India's choices can be seen more starkly when juxtaposed against China's, and vice versa. These differences are even more striking when one realizes that, despite many similarities in size, proximity and antiquity, they chose so differently at their near-contemporaneous births (1949 for the People's Republic of China and 1947 for India). This is even more so when one also realizes that there are historical similarities —they underwent their first significant unifications in approximately 200 BC, under the Mauryas in India and the Han dynasty in China. And if India was humiliated for two centuries by the British presence, China underwent its own 'century of humiliation.' Both countries were scarred deeply. These surface similarities, yet starkly different paths, make the past six decades as close to a 'petri dish' of sorts for a social scientist, where something profound can be learned for anyone interested in how societies develop.

Let me define 'global' also since it is a term interpreted in many ways. Most common, and sensible, is the idea that the firm sells outside India. This would easily encompass the storied Indian software services firms that have been largely responsible for bringing corporate India to the business world's attention. But this should not be the only criterion. Consider Bharti Teleservices, India's leading mobile telephony firm with a purely domestic footprint. In a sense it is very global on the factor inputs side, with technology in the early years coming from Singapore Telecom, and capital entirely raised substantially from global providers – the private equity firm Warburg Pincus and from Singapore Telecom. I suggest that the criterion for 'global' is that the firm be globally competitive, that is, be able to withstand global competition wherever it operates, including potentially only in India, a criterion that my colleague Krishna Palepu and I have elaborated on elsewhere (Khanna & Palepu 2006, for example). To my mind, Bharti Teleservices qualifies. Hence, also, the title of this essay as opposed to, say, The Global Indian Firm.

Strengths

Here is my candidate list of strengths of globally competitive Indian firms, then.

First, many of the leading Indian firms today are the result of ground-up, private-sector entrepreneurship. That is, unlike the leading firms in China, they are not affiliated with the state in the sense of explicitly being state-owned enterprises, nor are they quasi-state-affiliated, in the sense of being collective enterprises or entities with partial government ownership. This characterization holds regardless of which of several plausible metrics one uses to generate a list of 'leading' firms, whether it be market capitalization or profitability or some notion of economic value added (that takes into account value creation over some cost of capital). The one exception might be a measure of sheer size, through sales or employees, where the state enterprises in India would rule the roost.

There are many ways to further subdivide globally competitive firms. Some, like the globally resurgent enterprises that are part of the House of Tata, are the current manifestations of longstanding business groups (Khanna & Palepu 1997, Khanna & Yafeh 2007). Others are newer creations of the last two decades, including the information technology majors, Bharti Teleservices and others in mobile telephony, Biocon and others in life sciences, and ICICI and others in financial services.

As a benchmark, virtually none of the leading Chinese companies have evaded state-backing in one form or the other. There are, of course, shades of grey. Wanxiang Motor for example is closer to the private sector end of the spectrum, with Haier, the white goods company from Qingdao in Shandong province, coming out of a collective orientation and still partly owned by the local government being in the middle of a private-to-state-owned spectrum, and clearly state-owned and explicitly state-backed entities like Sinopec and CNOOC in energy and COFCO in foodgrains being on the other extreme.

The private sector orientation of the globally competitive Indian firm has manifested itself in both product (output) and factor (input) markets.

On the output side, what is a common characteristic of globally competitive Indian firms? It has to be something that transcends industry, that is, applicable in life sciences and healthcare, manufacturing, financial services, etcetera. One candidate is a superior understanding of the needs of lower-income service providers. We see evidence of this in Narayana Hrudayalaya's low-cost tertiary healthcare delivery (Khanna, Rangan & Manocaran 2005), in ICICI bank's attempt to use technology to reach lower income people, and in Tata Motor's already celebrated attempt to make the low-cost car, christened Nano. (A caveat to this suggestion is that I am unaware of any evidence that suggests that such a lower-cost orientation is better than that achieved, say, by firms in China or Brazil or South Africa.)

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On the input side, Indian firms have well-honed skills at interfacing with the capital markets, certainly considerably better than do Chinese firms. Why is this? It is a reflection of the better-developed Indian capital markets, particularly on the equity side. This has been driven in part by robust competition between stock exchanges, the Bombay Stock Exchange and the National Stock Exchange in particular (Khanna 2008, chapter 5), along with prudential regulation and macroeconomic stability, have resulted in lower transaction costs and better reporting requirements in Indian capital markets. (I say this despite the recent proximity of the Satyam affair, recalling that corporate governance scandals have regrettably occurred in the US and China as well.) In contrast, Chinese firms are routinely ranked less well on investor relations and corporate governance fronts than are Indian firms, reflecting in turn the reduced need for them to be financially aware and savvy.

Of course, talent is the other 'factor of production' that matters along with capital. Here, there are two things that advantage Indian firms, relative to Chinese firms. The first is a vibrant private sector market for talent, at least in the urban areas. Some of the intermediaries that allow this market to exist include executive search firms and a plethora of business schools that have been operating for several decades. In China, in contrast, business school education is a more recent phenomenon.

The second factor helping on the talent management front is the sheer diversity of India, on ethnic, linguistic and religious lines, relative to a more homogenous population in China. This has meant that Indian firms have had to deal with no small measure of diversity in their labor force, leaving them better equipped to deal with the smorgasbord of backgrounds they inevitably face when they cross India's borders. One area where this has become somewhat more apparent is in the more frequent failures of Chinese companies' cross-border acquisitions, compared to Indian companies' similar attempts. My conjecture is that cross-cultural issues might well have played their parts in these failures. (See, for example in Khanna 2008, Chapter 7, the disastrous acquisition by Chinese consumer electronics firm TCL of France's Thomson's relevant assets, or the energy giant CNOOC's aborted attempt to acquire Unocal in the US.)

Weaknesses

Of course, along with these strengths of Indian companies, there are significant weaknesses; it would be absurd to suggest otherwise. Four important ones come to mind, though I hasten to say that these are deserving of systematic research that goes further than the primarily case-based empiricism on which I rely here.

First, the internal processes for nurturing talent are underdeveloped. More generally, the companies tend to be managed in a hierarchical way, albeit with some notable exceptions (see Hill, Khanna and Stecker 2008 for an interesting example of HCL Technologies which has radically tried to involve rank and file employees in many aspects of management).

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Second, Indian companies have not developed an ability to collaborate with one another. It is true that there are some well-functioning consortia, like the CII (Confederation of Indian Industry) or FICCI (Federation of Indian Chambers of Commerce and Industry) that represent the position of the private sector toward the state, serve as a constructive lobbying arm, etcetera, but relative to the scale of the opportunity to create, say, industry specific public goods, there is less action than needed. For example, consider the retailing industry. India woefully lacks formal retailing and wholesaling infrastructure, relying instead on unorganized channels. Physical supply-chain issues are an obvious need, but so also are less capital –intensive 'soft infrastructural' needs, like standards, quality control agreements etcetera that industry participants could, in theory, come together to collectively back without falling afoul of any anti-competitive prohibitions.

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Third, Indian companies have tapped into the Indian diaspora less well than have Chinese firms into the Chinese diaspora. It would only be a small overstatement to say that the post-1978 Chinese economic miracle was partly catalyzed by the Overseas Chinese, who were encouraged to contribute capital and talent to China's development story (the other important catalysis of course was rural reform). Wooing the diaspora was a deliberate act that paid enormous dividends. India, in contrast, has, until a few years ago, actively shunned its diaspora. Mirroring this policy vacuum, Indian companies have generally not benefited nearly as much from a vibrant and successful diaspora as have Chinese companies. Thankfully this has started to change, with India's attention drawn by successes of Indians in Silicon Valley and, prior to the current meltdown on Wall Street, in New York, as well as in diaspora communities around the world. But it is still early days in tapping this global resource (Khanna 2008, Chapter 8).

Fourth, Indian firms must learn to work with the public sector. The rhetoric and intent of so-called public-private partnerships must give way to Indian companies and entrepreneurs working to strengthen the capacity of the state, rather than criticizing it. This is a work-in-progress, heading in the right direction. At some level, this is unsurprising, since the suspicion of the state is a residue of the confrontational attitude of the 1970s and 1980s and perhaps somewhat earlier, when the state sought to contain private enterprise, binding it in absurdly rigid regulatory chains.

However such partnerships are works-in-progress, heading in the right direction, thankfully.

In Choudhury and Khanna (2009), for example, we study the dramatic transformation engineered by the civil servant-scientist, Dr Raghunath Mashelkar, at the Council for Scientific and Industrial Research (CSIR), a state-owned laboratory complex, by hitching the laboratories to judicious private-sector incentives, even while the state retains full control, sans privatization. Recently, in a different vein, software icon and Infosys co-founder, Nandan Nilekani, joined the government to help create unique electronic ID cards for Indian citizens. Importantly, he holds the rank of a Cabinet minister. The symbolism of this move – a leading businessman embracing the opportunity to work with the state constructively – should not be underestimated. In a similar vein, entrepreneurial start-up Teamlease Inc., based in Bangalore, is helping the state reconsider anachronistic labor laws that hamper the existence of a flourishing temporary staffing industry. It is, in a sense, helping the state articulate and develop some of its regulatory responsibilities in the process. These, and many others, are nascent examples of the public spiritedness of private entrepreneurs that India will need in no small measure.

Mirroring & Shaping, the Context

Ultimately, much of my work suggests that companies mirror their context. Indian firms can be understood against the backdrop of particular features of India's institutional context – better developed equity markets and markets for talent than China for example, or poorer state capacity and poorer links with the diaspora than China.

In contrast, the reverse is probably equally significant but less well understood. That is, companies shape the context, in addition to reacting to it. In our own work, we have shown this in select circumstances. For example, in Khanna and Palepu (2004), we show how software companies' actions have catalyzed good corporate governance practices in India. Similarly, in Fisman and Khanna (2004), we showed that Indian business groups have contributed to development in less-developed, usually rural, parts of India, with no profitability-penalty on average. However, this research is in its infancy.

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