

## COLLOQUIUM

includes debate by practitioners and academicians on a contemporary topic

# *Understanding India from a Business Perspective: Opportunities and Challenges for MNCs*

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## INTRODUCTION

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India has, over the last decade, achieved a position of pre-eminence in many spheres of economic activity, most notably in information technology, business process outsourcing, and various other service industries and also increasingly in manufacturing. At the time when the country was liberalized in the early 90s, nobody thought that such a spectacular performance by the Indian industry would be possible only 15 years later. In fact, during several years immediately following the liberalization of the Indian economy, the common refrain of Indian industrialists to the Government of India was for a 'level playing field.' The speed with which the Indian industry has adjusted to these cataclysmic changes in the environment is beyond the wildest expectations of industry watchers and pundits. The Indian industry has, by and large, shown resilience in standing its own ground. Many Indian companies have gone on to take their rightful positions in the world arena. Some of them have even emerged as world leaders in their respective domains. The tide seems to have turned a full circle with many multinational companies (MNCs) with head offices overseas increasingly looking at setting up local operations in India to harness the value that the country delivers.

What is it about India that makes it so much talked about in global business circles? Is it just a flash in the pan or a stroke of good luck for the nation as a whole? Or are there enduring factors and intrinsic aspects in the Indian culture which have resulted in the growth of Indian businesses that were hitherto tethered? What can explain the manifestation in full force of the hidden Indian potential once the shackles were removed through the process of liberalization of the Indian economy?

### KEY WORDS

**Multinational Companies**  
**India Strategy**  
**Business Environment**  
**Indian Economy**

Is the rise of India a recent phenomenon that is barely about a decade old? A walk through history is very revealing. The common belief is that India has risen from nowhere a few years ago to an upcoming leadership position in many industries now. A study of history reveals otherwise.

India's share of global GDP from 0 AD till about 1500 AD was the highest among various countries in the world. The figure for India was between 32 per cent and 25 per cent during that period. This was followed by China which had a share of about 25 per cent during the same period. China's share of world GDP continued to climb to about 30 per cent by 1850 and, thereafter, there was a steep fall to about 5 per cent by 1950. Since 1500 AD, India's share had been falling continuously till about 1973 when it reached its nadir of about 2 per cent. This is attributable to the waves of invasion and the British rule that the country witnessed. The recent limelight that these two countries have taken on the global business arena is hence not happenstance. Instead, it reflects that once the various shackles holding them back were removed, the two countries are rediscovering themselves and racing towards achieving a pre-eminent position that they had once occupied (Dahlman and Utz, 2005).

Undoubtedly, the rebounding of India on the global business map had its origins in the Indian IT industry which proved to the world and to other industries in India that it is possible for the country to deliver world-class products and services at competitive prices. In terms of the strategic potential of IT and BPO industries, the country still has a long way to go to achieve its full potential. While exports in these sectors are currently about \$ 30 billion, it is estimated that the figure could reach \$ 150 billion by 2015 which at that time would account for 10-12 per cent of the country's GDP. The strategic importance of this industry to the nation can be understood if one looks at oil exports in 2004 from Saudi Arabia of \$ 116 billion and Taiwan's engineering and electronics exports in 2004 of \$ 53 billion (NASSCOM, 2005).

The usual perception in the minds of many observers both in India and abroad is that India is a low cost producer. This does not explain fully the current interest in India from a global business perspective. Moreover, if it is a pure low cost producer, this advantage is not sustainable in the long haul as many other countries are also emerging as low cost producers. India stands way ahead of other nations such as Mexico, Ireland, China, Russia, Brazil, Philippines, Israel, Indonesia, Malaysia, and Turkey when one looks at a basket of dimensions such as quantity and quality of manpower and people strengths such as productivity, quality, cost, and English language skills. (Report by the High Level Strategic Group, 2003). However, even this does not fully explain

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the unfolding Indian phenomenon. What then is the secret? Is it attributable to culture-specific issues that are unique to India? Is it related to what the government has uniquely done in this country? If, in reality, there is a unique value proposition that the country delivers, then how may MNCs leverage the India advantage? And, more specifically, how should an MNC manage its Indian operations to derive maximum benefit? These are some of the questions that this colloquium seeks to address.

To understand the various aspects of the India phenomenon as outlined above, a panel discussion

comprising of ten distinguished persons representing academics, captains of industry as well as leaders from the social sector was organized in June 2006. These ten experts were invited to share their views on the drivers of the recent success of India in the global arena and were requested to draw from their experience on what it takes for an MNC to successfully do business in India. The audience for this panel discussion was the top management of a large MNC (Areva-T&D) which visited India to learn about what it means to do business in India. The venue for the colloquium was IIM Bangalore. Additionally, in September 2006, several distinguished speakers were invited to IIM Bangalore to talk to the senior management of another large MNC (TAPI, a division of Teva group, Israel) that visited India to learn about the drivers of success of Indian companies. Some

of these eminent speakers also participated in the earlier panel discussion. The views that these experts presented in the invited talks in September 2006 helped to amplify the views that they had earlier presented in the panel discussion during June 2006. The panel discussions as well as the invited talks were video-recorded and the responses were collated in the form of the following colloquium. For the purpose of this colloquium, the views of 11 experts have been compiled.

The participants in the colloquium (in alphabetical order) are as follows:

- Mr L C Jain, Ex-member, Planning Commission and Political Reformer, Bangalore
- Mr Rakesh Makhija, Managing Director, SKF India, Bangalore
- Dr Ajay Mookerjee, Entrepreneur in Business Analytics and Director, Harvard Business School, India, Bangalore
- Mr Venkatesh Mysore, Managing Director, MetLife India Insurance Company Pvt. Ltd., Bangalore
- Mr Achal Raghavan, formerly Executive Vice President, Ingersoll-Rand (India) Ltd., Bangalore
- Prof. J Ramachandran, Indian Institute of Management, Bangalore
- Dr Ashok Rao, Head, Network Project, CEDT, Indian Institute of Science, Bangalore
- Prof. Shyamal Roy, Indian Institute of Management, Bangalore
- Mr Anand Shah, Executive Director, Indicorps, Ahmedabad
- Mr Ravi Viswanathan, Vice President and Head – Chennai Operations, Tata Consultancy Services Ltd., Chennai
- Mr Arun Vora, until recently Managing Director of Tata BP Solar India Ltd. and Vice President – MOW (Most of the World) of BP Solar, Bangalore

This colloquium discusses the views, understanding, and personal experiences of these distinguished personalities representing industry, academia, and social services sector. The focal theme relates to doing business in India and leveraging her strengths for business growth. This colloquium has been organized around the following four questions:

1. What are the positive and negative aspects of the Indian economy, culture, people, education system, and infrastructure?
2. Is the country's political landscape 'business friendly'?
3. How should MNCs implement their India strategy?
4. What challenges do the Indian customers and markets throw up for companies attempting to do business in India?

Given the wide-ranging set of issues that this colloquium seeks to address, it would be difficult to rigidly compartmentalize the views of the experts into one of the above issues. Hence, their views have been presented in a free-flowing style. It is expected that the colloquium would be of significant value to any MNC that seeks to operate in India. It would also be very useful for a practising Indian manager to reflect on what is driving the country. Such reflection may provide ideas for implementation that could help to further enhance the performance of his/her organization.

**Q. 1. What are the positive and negative aspects of the Indian economy, culture, people, education system, and infrastructure?**

*Shyamal Roy:* The current state of the capital market in India is not reflective of the state of the economy. The positive features of the Indian economy are that we are now 15 years old as far as economic reforms are concerned. Without doubt, *vis-à-vis* the average growth during the pre-liberalization period, post-liberalization India has gone through a tremendous acceleration of the economy. In the post-liberalization period, India has been growing at 6 per cent per annum on an average which has increased to 7 per cent per annum during the last few years. In the 15-year period before liberalization, the average growth rate was about 4 per cent per annum. In the pre-liberalization period, the average population growth was about 2.2 per cent and, post-liberalization, according to the 2006 census, the population growth has been 1.8 per cent. Consequently, the average per capita income growth pre-liberalization was 4 per cent with population growth of about 2 per cent and, post-liberalization, it has increased to 6 per cent with the rate of growth of population being less than 2 per cent. This reveals that there has been a doubling in the rate of growth of per capita income.

There has also been a qualitative improvement in the nature of this growth. Till about the year 2001-2002, the growth was fuelled by the service sector growth which accounted for about half of the Indian economy and still accounts for more than 50 per cent of the economy. With regard to the other half, which was about equally shared by industry and agriculture, the growth has been fragile. The industry growth was sluggish and agricultural growth continues to be entirely dependent on the weather. Subsequent to 2002, the industry growth has been very robust. Thus, 75 per cent of the Indian economy is likely to have robust growth. However, 25 per cent of the Indian economy, which is related to agriculture, will be dependent on rainfall and can have a variable growth.

Looking at the future course of India's economic growth, one can deduce that variations around the long-term growth would depend on growth performance of the agricultural sector. If the growth of agriculture is facilitated by good rainfall, then the current economic growth rate of 7 per cent to 8 per cent per annum is likely to be maintained, else, the growth rate could take a small dip.

The present 7 per cent to 8 per cent growth in the economy has additionally been facilitated by a change in the lifestyles of people. This, in turn, has been triggered by the opening up of the economy which opened up various avenues of spending. There is also a good potential for the future if one looks at the demographic pattern in India where the median age of an average Indian is about 27 years. These younger people will have a higher propensity to spend compared to the not so young who have a tendency to save more. Secondly, the existence of young people in the country is seen as a source for future capital formation. There will be a lot of supply of young people in India but creating a demand for them will become equally important. The current euphoria that one sees in the Indian economy is a result of the above-mentioned sustained growth pattern. The future growth of the econ-

omy will be powered by the preponderance of these young people who will contribute to the future growth of the country. We must also keep in mind that there is a very active change in the lifestyles of large sections of the population the effects of which are yet to fully play out on the economy.

Coming to the negative aspects of the growth of the Indian economy, while the overall economic growth has been positive, sector-wise, the growth has been uneven. There is data to suggest that inequality has widened in the economy. The agricultural sector has been largely left out in the growth process. It is to be noted that although agriculture in terms of growth accounts for 25

per cent of the Indian economy, in terms of employment, it accounts for more than 60 per cent of the labour force. Therefore, if the economy cannot carry agriculture along in the growth process, and if the country is not able to generate more employment through the growth process, this abundant supply of young people can become a potential source of the problem.

The growth of the Indian industry now seems very robust. Its growth had peaked during 1995-1996 and, subsequently, the growth was sluggish till 2001-2002. From 2002-2003 onwards, the industry has shown sustained growth. This was significantly facilitated by tremendous effort on the part of the industry itself to shape up which yielded a tremendous increase in the operational efficiency of some of the companies.

This is also reflected in the pattern

of India's trade with other countries. India's export basket now consists of a lot of value-added goods which means that the country is becoming more competitive in terms of its industrial products.

As the industry is doing very well today, there is likely to be no setback to the economy's growth rate of 7 per cent to 8 per cent in 2006-2007 and 2007-2008. The key factor that will determine the sustainability of this economic growth rate depends on how much the country

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is able to invest in infrastructure. Infrastructure development would require investments in agricultural infrastructure, urban infrastructure, rural infrastructure, and industry infrastructure. Such an investment would have dual benefits of sustaining the current economic growth rate of 7 per cent per annum and would mitigate poverty. The poor in this country are predominantly agricultural labourers and the concentration of these poor people is in those areas where the infrastructure is very poor. The multiplier effect in terms of employment through investment of infrastructure is manifold compared to any other type of investment in any other commercial activity. Hence, by investing in infrastructure, the country will be able to gain advantage on two fronts simultaneously.

Resources to strengthen the infrastructure could be mobilized from three possible sources—the private sector, the government sector or through public-private partnerships. The private sector alone would not come forward to invest in infrastructure of this kind, not because industry policies or monetary policies inhibit such investments, but because there is a certain structural rigidity in the Indian economy that acts as a barrier for private sector investment in infrastructure. It must be noted, however, that mechanisms to encourage private sector investment in infrastructure are being put in place. These barriers could range from the amount of time it takes to get clearances from government authorities to apprehensions in terms of how to collect user charges, labour laws, etc.

The government alone would not be able to invest in infrastructure development. One needs to understand that the government basically has two types of deficits. One kind of deficit arises when the government borrows money to meet its consumption needs. This deficit impacts interest rates, prices, exchange rates, and tax rates which is not very conducive for private sector investors. The second deficit arises when the government borrows money to meet its capital expenditure needs which is mainly for infrastructure. Today, over 60 per cent of the money borrowed by the Indian government goes towards satisfying consumption needs of the government leaving

very little money behind to spend on capital expenditure. The Government of India has passed a bill in which it professes that the amount borrowed for consumption will be brought down to zero by the year 2009. This seems to be a tall order particularly because 2008 happens to be an election year in the country. However, if the government succeeds, then the entire borrowed money will be for capital expenditure and the government will be able to play a major role in infrastructure development. In the interim period, public-private partnerships could be galvanized wherein the government could join hands with the private sector to develop the necessary infrastructure. The concept of public-private partnership has already come into existence in many

projects such as building roads, airports, seaports, and also in the power sector. This seems to be the only model working successfully for the time being in India. Wherever the government has shown that it has a committed capital expenditure, the response from the private sector to participate in public-private partnerships has been positive.

In summary, India's economy looks good for 2006-2007 and 2007-2008. The future sustainability of this economic growth of 8 per cent to 9 per cent per annum will depend heavily on what the government is willing to invest in infrastructure which encompasses roads, seaports, airports, power infrastructure, and a good part of rural infrastructure (rural marketing, irrigation, etc.). Given the government's present fiscal

deficit, it would be difficult for the government alone to improve infrastructure and, therefore, the country is looking up to the success of public-private partnerships to fulfil its infrastructure needs. The bigger challenge for the country is how to speed up this reform process.

**Achal Raghavan:** The Indian economy is on a roll. The broad policy directions are unlikely to change regardless of which government is in power. Everybody is talking about India making a transition to the knowledge economy by 2020. The country that was known to be an agriculture country has increasingly moved towards

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services and manufacturing and, today, these sectors have overtaken agriculture.

**L C Jain:** India attained independence in 1947 and is a 60-year old country. The British who ruled the country were one day put on a ship and sent back home and soon after that India was partitioned. With the partition came a lot of unrest and chaos in the country. All agencies that governed the country including the Indian Army, Indian Police Force, irrigation system, etc., were partitioned. Along with partition, the country witnessed unprecedented communal riots. There was carnage. Overwhelmed by the utter chaos in the country, the then Prime Minister Jawaharlal Nehru sent a letter to all the chief ministers expressing his apprehension on the survival of the country. And, it is from such circumstances that India has emerged to where it is today.

India today has 600 million voters and the country has been through a five-yearly round of elections. With a population of one billion, the country harbours enormous disparities. Close to 40 per cent of the population live below the poverty line and 47 per cent of the children in the age group of 0-5 years who live below the poverty line suffer from malnutrition. Scientists confirm that malnutrition at a tender age would damage the physical stamina and mental faculty of the child for the rest of his/her life. India is the largest democracy in the world and has increasingly moved to coalition politics. Our political and electoral systems are based on adult franchise where every person has a right to vote irrespective of whether he/she receives education, food or employment. It is a matter of concern, disgrace, and shame that over the last 60 years, the country has not been able to find a method to address the inequalities and disparities that are pervasive in the society. It was assumed that once a stable government would be in place, the weaker sections in the society would not be neglected. But, now, the country has moved into an arena of coalition government wherein different political parties get elected and come together to form

the government. With such coalition governments coming into existence, there is a perpetual threat to the stability of the government as the elected parties invariably do not work in unison. Agriculture in India absorbs two-thirds of the country's labour force. Its share in the GDP used to be roughly 75 per cent which has now fallen to 25 per cent. But, the burden on the agricultural sector of absorbing the labour still remains the same at 65 per cent thus reducing the per capita of this sector drastically. Simultaneously, the country's investment in real terms in agriculture over the last 30 years has declined. While phenomenal development is taking place in India, there is still a very strong need for employment for everybody. The growth pattern of India's economy over

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the decade has been, what is called, a 'jobless growth.' We are very competitive, we have very good economic growth but we have not created jobs for the vast majority of people. Our political reforms have fallen short of the economy and, unless they move together, one will hurt the other and the growth is not sustainable.

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narrate a small story that reflects the culture of Indians. There was once a running race organized in a school in one of the tribal areas of India. One boy was far ahead of the pack but when he came close to the finishing line he did not cross the line. His teachers asked him to cross the line but he would not. Instead, he kept looking back feeling sorry for his friends who were very much behind. He waited for them to catch up with him. This story astounds me because today's world believes that the one aspect for taking life forward is competition. And, there must be truly something in the culture of that boy who

did not want to win the race at any cost. His intention was not to win the race alone but for all to win together. This is precisely what Indians want—to win together. This virtue may sound inappropriate in today's situation where the economy and competition are growing. However, I believe that, for a lot of Indians, this value is deeply ingrained in them.

Education has been a fundamental asset that India has nurtured over the ages. India had its own system of education called the *Gurukul* system. Unfortunately, when the British introduced their system of education, the *Gurukul* system was dismantled. And, the British system, however good it was, was not able to involve the whole of India because of India's huge and diverse population. Therefore, the local community, local teachers, and local governing systems started to provide necessary access to education. Today, when some of our youth are getting the opportunity for studying in foreign universities, they command attention because the world assumes that coming from a developing country like India, the youth would not be conversant with subjects like physics, chemistry, nuclear physics, medicine, etc. But, India has proved the skeptics wrong. India is competitive in this space. Today, while the world acknowledges that Indians are intelligent, this basic intelligence among Indians is not an accident. The roots had been laid a long time ago and the opportunities are opening up now.

With regard to India's infrastructure, it is being developed along with India's growing business. I am of the view that it is better that business growth remains ahead of infrastructure development and not *vice versa*. When industry grows, there arises a need for infrastructure to grow and both must keep pace. But, a view has been developed in India that without developed infrastructure, the country will not grow. If that were to be true, then there should have been no development in India in the last 25 years! But, on the contrary, amazing development has taken place in the country. If India were to focus on developing infrastructure and the business growth in the country was not very robust, then

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India ranks high on the corruption index. We have not yet found a way of containing corruption in our bureaucracy and political system. Corruption in India is getting into the civic life as well. People have to pay bribes to get water connections, power connections, etc. As an Indian, I cannot promise the rest of the world that India is anywhere near banishing corruption. But, the public consciousness and awareness of corruption is rising. The Right to Information Act passed by the parliament in 2005 is certainly a major development that has taken place in the direction of checking corruption. Bureaucrats are now required to make their activities and decisions public within a month. This has increased public confidence and in about four to five years this act will cut into the roots of corruption.

Corporations wanting to do business in India must be aware of two dimensions—the 'internal factor' and the 'external factor.' The internal factor involves managing the manufacturing unit, finances, people, machinery, etc. in a competitive environment. The management of the enterprise has complete control over these internal factors. But, this enterprise would also need to operate in an environment over which the management can have little control: these are the external factors. Organizations cannot be blind to the external factors. They need to know what exactly is happening in the outside world.

Organizations cannot afford to take anything for granted be it internal within their own unit or external to their unit. The burden that the economic disparity among the Indian population is causing on the national system has to be a matter of concern for everyone. This is a challenge that is ahead for businesses. If an organization does what it has to on the inside to improve itself, it needs to do the same to the outside world as well. It

needs to stretch and extend itself. It was not long ago that a well-known MNC was given permission by the Indian government to set up its factory in the country. Once the unit was commissioned, the factory wastes were being let into a nearby river. The farmers who had paddy fields around the river suffered as the water was contaminated with poisonous chemicals. The company did not take time to see outside its factory as to what was happening. It failed to realize that even the farmers and their cattle had a right to live. Businesses cannot do this any more. Corporations that come here to set up business must make it hospitable for both themselves and the country. Secondly, for an organization to assume that it has now understood India would be ludicrous. It has to wake up every morning and try to understand what India is on that day. What was given as of yesterday, like the political alignments or stability in the country, can cease to exist the next day.

**Ashok Rao:** There is a brighter and better side of India that is well known to the rest of the world. Everyone knows India for its Hindu religion which is a living philosophy rather than a dogmatic religion. Well-known companies like Infosys, Wipro, Reliance Industries, and the Tatas, to mention a few, have successfully put India on the global map and have proved that Indian companies can vie with the world's best and win. Renowned educational institutions like the IITs, IISc, IIMs, and several other technical institutes

in the country have been spawning the best-of-breed graduates and managers who have made themselves and the country proud. India, today, has 400 million-middle class people, a stable socio-political-legal system, a strong skill base, and unlike China that is already worried of its economic growth rate of 10 per cent (which has reached saturation), its economy is yet to grow to that state.

Indians have a strong spirit of cooperation and India is not a competitive country. Indians prefer to cooperate and, I believe, cooperation is superior to competition.

Only weak people compete. Strong people cooperate. Indians are good followers because they have a low ego level and have extreme levels of patience. I have seen no other culture more patient than that of India. The country does not have drinking water for 40 years and yet the people do not fight for their basic rights. Indians are highly innovative people which is not very surprising because 90 per cent of our population is unemployed and hence we have to innovate everyday if we have to survive. If we have to survive tomorrow, we have to innovate the previous day; moreover, we cannot repeat the same thing the next day. We have to find something new to survive. Hence, there is nothing special about

Indians being highly entrepreneurial or innovative.

Unlike the well-known India that makes every Indian walk with his head held high, there is the other face of India not to be known! The country has a very strong residue of the caste system, the negative effects of which flare up from time to time. There are 400 million people in poverty and if this figure increases a little more, our whole socio-economic system can turn upside down. Close to one billion people have no quality-quantity-reliability of basics of life like water, electricity, etc. New Delhi is the best example of this. When the temperature is 47 degrees in the city, there is no electricity to switch on the air-conditioner or fan because the state government issues an order to cut the supply of electricity. Hence, when one needs electric-

ity the most, it is not available. Where it is not needed, it is available in plenty. India has very poor human, gender, and child rights policies. Some of these phenomena are very subtle. For instance, the country has a large rate of child abuse in the form of child labour, etc. The country's ecosystem is rapidly deteriorating. I think the next interesting business in India will be ecology because we are going to mess up things so badly that India will become a fertile land for companies wanting to address the ecology-related issues. They will be able to make money out of its ecological imbalances. More than 80 per cent of India has been neglected by the govern-

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ment and it has always been the case even when the British ruled this country. This 80 per cent comprises of well-behaved, decent people who know how to manage themselves. There are no formal and well-functioning law and order systems governing them; yet they have their own law and order systems which appear to function well without anyone's help!

**Anand Shah:** On the surface of it, India has a strong education system and, consequently, one would expect to find a rich talent pool available here. I am of the view that businesses are unable to find adequate numbers of well-trained manpower because lateral and multi-disciplinary education is not much emphasized. Consequently, the number of employable people who could be gainfully employed by businesses in the emerging market space is relatively small in comparison to the number of educated people that can be found in India. Moreover, while India has an enormous pool of people who have basic education, many of them may not be necessarily available in the country as large numbers of talented people have historically migrated overseas. The second challenge is that these people may not be educated in the way a corporate would have liked them to be.

For example, an institution like *The Times of India* cannot hire a journalist who comes out of a journalism school and on induction expect to write an article of the quality that could get published in *The Times of India*. Consequently, what *The Times of India* had to do was to start its own training programme by sending graduates out of a journalism school to the 'Times of India University' for a year. Many of the corporates have had to do similar things of having to train their newly inducted fresh employees because the Indian education system has not measured up to the emerging needs of businesses. A company training its own people is a good thing anyway because investing in its employees could result in the employees being committed to the company over the long-term.

Another aspect about the Indian education system is that India is known for its many islands of excellence. However, these end up being islands of excellence that provide market-driven education (such as the IIMs). In Bangalore, for instance, many companies do not insist on necessary academic qualifications. If the individual is found capable of doing the job, he/she gets hired. Such things happen in a market-driven education. However, people who have become IAS officers, lawyers, etc., have not necessarily come through market-driven education systems and may not be of the same calibre as graduates of IITs or IIMs.

A professional approach is lacking in the functioning of the government at various levels in India. To give

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an example, a couple of years ago, when I was working on a programme aimed to support people wanting to set up businesses, I met the officer who was in charge of this project and suggested that there should be a 'single-window' system that should serve as the one-point contact for people wanting to invest in small-scale businesses. The officer informed me that such a system was already in place. And, when I paid a visit to see how the system worked, the person at the single-window system handed out a piece of paper to the interested parties which listed the various ministries and offices the individual would have to go to in order to procure necessary forms and clearances. There is a fallacy here, because, a single window would have meant that an individual could just come to that place and get everything processed at that one place. The single-window system I came across simply put information together and essentially required that,

for everything else, the individual would have to get clearances from various other offices. These are the kind of process-related issues that bother anyone trying to work in India.

I would like to cite another example to demonstrate the lack of process orientation that exists in this country.

Sam Pitroda who runs the Knowledge Commission in India once gave me an example of the way India looks at e-governance. About two years ago, the Indian Planning Commission had earmarked Rs.15,000 crore (Rs. 150,000 million, equivalent to about \$ 3 billion) for e-governance across the country. The mandate was to provide computers in all government departments and other government offices to facilitate e-governance to a certain level and thereby improve processes. Pitroda's contention was that merely installing computers to convert data present in the paper form to an electronic version would by no means improve or speed up processes. On the contrary, it would make the governance a lot worse because the task would take up more time and would require more people to do the data entry using the new 'electronic system.' Pitroda expressed to the authorities in the government that the idea of e-governance is to make processes easy and efficient and not to simply make the process electronic. This is one illustration of the kind of process barriers that exist in India.

Such process-related issues in India can slow things down for individuals and more so for businesses. I was born and brought up in Texas and came to India in 2000 to work in the social services sector. I run a not-for-profit organization called Indicorps. To get things done in India, I have to take circular routes and do things over and over again. This could be very frustrating to anyone seeking to do business with India. In my view, these are the invisible barriers for doing business in India.

Companies that want to start their businesses in India can be assured of young talented people who have enormous potential and are not bound by constraints in the same way as older generation people were. This is the first generation in India that has been born completely in the post-independence period, and, hence, they do not carry the baggage of politics, freedom struggle, racism, etc.

There is an incredible talent pool of Indians abroad who are willing to come back to India. They have their roots in the Indian culture. They could be tapped for driving the growth of the country further. However, the first two to three years of getting things in place can be really complicated and painful for any foreign company wanting to start up business in India and have the potential of driving the business out because the foreign company may not be able to handle these problems. If the company can get past this start-up period, the country offers phenomenal potential. Every sector that is opening up in the liberalized economy is opening up for

the first time and every sector that has been opened up has the potential to absorb best practices from around the world. The ability to bring in these best practices has the advantage of being able to improve the country.

The chaotic roads of India are reflective of the country. There are no rules followed on these roads but rules can be made and people can be made to follow them. There are lots of different destinations across the world where a foreign company can go and the opportunity is phenomenal. India is probably not the ideal place where a company can just descend and start its business. But, if the company is willing to come here for the long haul, and is willing to build the business from the ground up, including creating systems, inducting the kind of people that it wants working for it, creating its own work culture, setting standards for performance and innovation, then India would prove to be a country of tremendous potential. There is a

new generation of people who think differently, who are broad-minded, who are not so price-sensitive, and who are looking at the world as their playground.

**J Ramachandran:** India is a dynamic country with a dynamic market. There are several challenges one would confront in this market. But I do not see India as any different from Europe or the US. Indeed, it is ironic that

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There is an incredible talent pool of Indians abroad who are willing to come back to India. They have their roots in the Indian culture. They could be tapped for driving the growth of the country further. However, the first two to three years of getting things in place can be really complicated and painful for any foreign company wanting to start up business in India and have the potential of driving the business out because the foreign company may not be able to handle these problems. If the company can get past this start-up period, the country offers phenomenal potential.

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every time one engages with the issue that India is different and tries to find solutions based on trying to manage this difference, the solutions that arise are exactly the same as those applicable in any other country! Managerially speaking, these solutions include aligning the people in the organisation, executing strategies better, etc. Therefore, my observation is that India is no different than other countries, when it comes to managing organizations. Thus, managing a business in India is no different and not any more challenging than managing a business in France, for example. The more the people highlight that India is different, the more I see it is common. The challenges and aspirations of Indians are no different from those of people in the Western countries. The manifestations might be different, however. One might see overt chaos on the outside and underlying order in India whereas, in some of the developed nations, one sees order externally and chaos internally! The challenges of managing companies in India, such as how the organization engages its people, how it appeals to its customers, etc., are no different in India compared to anywhere else in the world. I only make a distinction between good management and bad management. I see diversity in every country and commonality across countries. France is different being a European country but it is still European. In terms of the challenges a foreign company would face in how to navigate through the seemingly complex systems in India, I believe India is no different. What is different about India, if at all, is that we Indians are hungry people. Previously, we were physically hungry but, today, we are hungry for growth, hungry for our place in the sun. And, this hunger is making us highly innovative and highly adaptable.

After India gained independence in 1947, its engagement in the international markets was very limited and controlled. But, after the liberalization of the economy in 1991, that is, when India got its second independence according to me, there was a remarkable rise in exports. What is interesting about India's growth in the

last decade is that the share of India's exports has grown faster than the growth of the total world's exports. While India's contribution to the global trade is still very small, it has grown in the last five years. The structure of Indian exports has moved from products to services. The share of services in our exports is increasingly growing. Secondly, within the manufacturing space, our growth has been coming from more value-added products than raw materials. Previously, we used to sell iron ore and today we export steel. Thirdly, the share of knowledge-intensive products going out of India has grown. The interesting paradigm of the Indian software industry is that while we talk about globalization of labour, what we see in the software industry is globalization of work instead

of globalization of labour. Finally, increasingly, we are finding Indian firms acquiring firms internationally. The Indian industry is no more in a mood to export out of India by confining itself to the so-called 'cost advantage' but is being serious player in the global space in select industries.

I do not believe that Indians are not 'process-oriented.' In Bangalore, we find many companies that are SEI CMM Level 5 certified which is the highest level of quality certification in software services. Indeed India has the largest number of companies that are SEI CMM Level 5 certified in the software industry worldwide. Indians have been very innovative in how they manage their organizations. Can one imagine an organization that has grown in scale from under 500 to over 50,000 people in

ten years and yet delivering a growth of over 30 per cent quarter on quarter for the last ten years? Such a company exists in Bangalore and this is not an isolated example.

Would one expect to have a world-class company that is into metal forging in a country like India? We have one. India is a great land of opportunity which any company must leverage not only from the point of view of selling its products but also from the point of view of leveraging the competencies that it possesses. India is not a 'low cost' country. It is a country that provides

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India is probably not the ideal place where a company can just descend and start its business. But, if the company is willing to come here for the long haul and is willing to build the business from the ground up, including creating systems, inducting the kind of people that it wants working for it, creating its own work culture, setting standards for performance and innovation, then India would prove to be a country of tremendous potential.

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high quality at low cost. It is not only a cost competitor but a quality competitor too. The industry in India has laid a very strong focus on quality and has competed powerfully in the global markets despite the handicaps of a not very supportive ecosystem—absence of easy access to risk capital being a case in point—and limited, if at all, state support.

I would like to reiterate that Indians are very hungry highly adaptable, and very intelligent people. And what defines India today is its hunger to succeed. India's emergence as a global player is not merely because of India's cost advantage. We have historically had low cost and large talent pool. The interesting point that has happened is, post-1991, the entrepreneurial energies of our people have been unleashed. We were restricted for 40 years and now have been given a platform to compete. India and its people have a great hunger to succeed and it is for the foreign companies to see how they can harness this hunger and adopt it into their own agenda to reap benefits.

Given the opportunity, Indians will leverage their entrepreneurial capabilities. I strongly believe that India's growth is self-sustaining because the country is now experiencing a robust domestic demand that will help sustain growth. And, this is the right time for foreign companies to participate in India's growth. Five to ten years down the line, they may miss the bus. Not that it will be too late but the cost of participation and the magnitude of the impact it will have on this country's growth will be greatly different then.

**Ravi Viswanathan:** Today, India is known outside of India as an IT destination and is admired for its well-educated human capital. Less than 12 years ago, when I used to make presentations to my customers overseas, I had to begin the presentation by showing them where India was on the world map. Secondly, the perception they had about India was that it was a poor country

frequently visited by floods, drought, and plague because this was the only news about India that would go out or be heard of in other countries. But, today, the information technology industry in India has transformed this perception and brand of India.

The country has always had an enormous pool of talented engineers. In fact, the first Vice Chairman of TCS, while delivering a speech at the CII symposium

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in 1974 said, "Unfortunately India could never participate in the industrial revolution because it lacked financial capital. But, 20 years from now, there will be a knowledge revolution in the world and India will participate in it because India has the highest knowledge density in the world and it is for companies to harness this knowledge capital and make Indians leaders in the knowledge revolution." And, his vision has come true today. In the late 80s, the state government of Karnataka deregulated its higher education system opening up this sector for private participation. This resulted in a large number of engineering colleges in the state, especially in the city of Bangalore. Very soon, other states followed suit with private engineering colleges opening up in cities like Mumbai, Chennai, Hyderabad, New Delhi, and Pune consequently increasing the density of engineering graduates in the country. Today, we

have hundreds of engineering colleges in the country most of which have great labs and faculty. The supply of engineers has been beefed up. Although the quality of some of these graduates may be questionable, the density of talent is there in India. Knowledge clustering has happened around cities that are rich in universities. Although the country has a rich talent pool, not all of them are employable by the industry which means, if 100,000 engineers are graduating out of universities every year, only about 30 per cent of them are employable by the industry. Therefore, companies would need to invest a lot on training. At TCS, for example, we invest 4 per cent of our revenues every year in training. Intensive



training is provided especially to the pool of fresh graduates because they need to be calibrated to the TCS standards before they enter into our software development centres. A fresh graduate coming into TCS spends several months in our training school. The issue in India is not about lack of supply of talented human capital but lack of supply of large numbers of talented graduates who can take up the emerging opportunities. Companies wanting to set up businesses in India, especially in the software industry, must be prepared to make significant investments in training their human resources.

Although India has been painted as *the* IT destination and is home to several software companies, many cities in the country today lack matching public infrastructure. In fact, infrastructure is a bottleneck which makes customers, multinationals, and investors who believe that India is the right place to set up their business rethink. All the knowledge cluster capitals like Bangalore, Chennai, Hyderabad, Delhi, Mumbai, etc. are awfully congested with people and traffic. They have bad roads and power problems. Respective state governments have made some efforts towards solving this problem by directing some of this growth to tier-two cities that are located close to the big metros thereby accelerating the formation of new clusters thus enabling expansion. For example, Bangalore is looking at clustering with Mysore by connecting super-highways. Similarly, Chennai is looking at clustering with Coimbatore, Mumbai has clustered with Pune, and New Delhi is clustering with Gurgaon.

**Q. 2. Is the country's political landscape 'business friendly'?**

**Venkatesh Mysore:** I have been with MetLife for 20 years and in the last seven years I have been building the

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MetLife business in India. When I came to India seven years ago, the mandate was to understand how to build our insurance business in India. At that point in time, the insurance market was not open and MetLife had to lobby with the Indian government. A coalition government existed then and putting up MetLife's case to government policy makers was a very difficult job. As I am of Indian origin, the Indian government did not see me as a person representing a foreign company which made interactions with them a lot easier. Subsequently, the insurance market opened up but a regulatory framework did not exist. MetLife had the opportunity to actually shape the regulation.

There was a lot of openness on this aspect from the government's side and without trying to make the government feel that MetLife was imposing its agenda on the government, it tried to expose it to various aspects of regulation which helped craft the policy of the government. This was a very specific role that MetLife played that is still appreciated by the Indian government.

The political landscape in India is very different. Many MNCs have to interface with the Indian government. I remember the chief of IBM once said to me that everything that happens in India is despite the government and everything that happens in China is because of the government. This is important because the energy, the entrepreneurial spirit, and, the will to succeed exist at the grassroots level here in India which are the drivers of progress. That is why I believe that the change that is happening in India is truly sustainable and, sooner or later, the government will have to catch up to support this progress and enable it. When this enabling does happen, India will move to the next level. The character of the government today is such that any ex-



ecutive decisions or cabinet level decisions can happen despite the coalition nature of the government. For anything that requires legislation, it is going to be held back and delayed. Hence, if a business is dependent on some of the legislative matters to enable the industry, it will need to have a strategy behind it and will have to be willing to wait it out. And, MetLife has been doing this waiting. Two budgets ago, the finance minister announced that foreign ownership in insurance companies would be increased from 26 per cent to 49 per cent but it has not yet happened as this requires legislation whereas taking up foreign equity to 74 per cent in the telecom sector did not require legislation and, therefore, it happened fast.

**Ashok Rao:** We have a very confused, diverse, and stagnant political system. The Left does not know what the Right is doing and the Centre never knows where to stand! Almost 80 per cent of India has been neglected due to a series of coalition governments that have now become the norm. Most of these areas are remote, rural villages with harsh environments (literally deserts with no access to water and no rainfall). These are villages neglected by the Indian government, by the educated population in the country, by the World Bank, and by Indian politicians. This is a symbol of true India—utterly neglected. And, yet, this large section of the country is functioning well based on their own self-reliance and perseverance without anyone's help and people assume that the government is doing its job well.

**Anand Shah:** India has about 26 active political parties in the country. If we take the largest populated states in the country, the top two political parties are actually irrelevant. There are many regional political parties that are dominant in the country. Interestingly, these parties dictate who will actually head the government.

Secondly, the way the Indian legislation moves is very slow. If constitutional amendments are needed, they happen very fast. There have been 99 constitutional amendments in the last 55 years because if the cabinet approves the amendment, it goes through. The Indian government is very executive in the way it operates and not legislative.

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The same thing happens at the state level. People vote for the chief executives of the state and the legislators do not carry much clout. This kind of work environment slows down any business and the people who are interested in starting a business will have to do a lot of running around to get clearances and approvals. There are a lot of words put into a policy document. India likes putting a lot of things on paper. In contrast, a lot of the governance that can be seen in the Western countries is based on decentralization of power. This allows people down the ladder take decisions. In India, politicians at the top dictate what happens which means that a business will have to work through many more layers to reach to somebody who can actually take a decision.

**Shyamal Roy:** Coalition governments can act as big barriers to businesses because with a multi-party government that prevails in India, the moment one tries to speed up things, there will always be somebody else in the system who will put brakes to any of the proposed changes. This is what is precisely happen-

ing with the functioning of various coalition governments in India. One may ask why the Indian government cannot function like that of China or Singapore. I suggest that it is not appropriate to compare India to these countries. It is like comparing apples with oranges. India will not become like China or Singapore. It will move at its own pace except that its direction is clear. Since the direction is clear, it will reach the destination although it may take a longer time to reach there.

**Ravi Viswanathan:** Despite the joke in the industry circles that the IT industry in India grew because there was no government intervention, I honestly believe that the IT industry did receive a lot of help from the Indian government. Many of the luminaries in the industry of today and yesteryears worked with the Indian government during the 80s to formulate educational policies. Today, if India has hundreds of engineering colleges, there is no way this would have happened if the government did not help. But for proactive measures such as these, the Indian IT industry could not have become a \$ 30 billion market. One can jokingly say that the government did not do anything and everything happened despite the Indian government but that is not true. The government has indeed created a fairly conducive business environment for software companies in India.

**Q. 3. How should MNCs implement their India strategy?**

**Achal Raghavan:** What the India strategy should be is best left to the business to decide but I would like to give one tip here. I see a lot of similarity between strategy and the classical Indian music system called the *raga*. Indian classical music has a *raga*, which is a disciplined central theme for a tune. Although in the middle of the *raga*, one can improvise the tune, the musician has to always ensure that he comes back to the main theme. When I implemented global strategies for large MNC corporations in India, I ensured that the main strategy or tune or *raga* is definitely preserved but provided a lot of room for improvisations to be introduced. The key to this approach is that the latitude within which improvisations can be allowed must be fixed. If the parent organization expects the local arm of the MNC to stick to the core strategy and does not provide room for improvisation, there would be a lot of inconvenience caused because of the peculiar nature of the culture, the country, the market, the laws, etc., that are prevalent in India. Therefore, the India strategy of the MNC has to be treated like a *raga* and has to be implemented in a disciplined way.

A lot of MNCs implement strategy using the ba-

lanced scorecard approach. This framework has four perspectives, viz., financial, customer, internal business, and learning and growth perspectives. MNCs setting up operations in India have found that a lot of emphasis must be given to training and motivating employees, doing things in a process-oriented way, and ensuring that the company is customer-oriented. The customer, in turn, would give more business to the company thereby enhancing its financial performance. This is the essence of the balanced scorecard approach.

In my experience, maximizing the involvement of the parent organization's executives during strategy formulation and project implementation phases works well. But, many a times, owing to scarcity of time and paucity of resources, sufficient deployment of people from the

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parent organization is not done. This leads to gaps in understanding and implementation of strategy and in what should be achieved *vis-à-vis* what is finally achieved. Ideally, people from the parent organization must get posted here in India for a few months. This gives rise to a win-win situation because the executive posted in India learns about the Indian company. For the Indian company, this is a very good bridge with the parent organization. For each job function in the local organization, a counterpart in the same function needs to be identified in the parent organization. Many of the MNCs in India are virtually 100 per

cent Indian in terms of manpower staffing because parent organizations traditionally have had a real hard time trying to convince their executives to come and work here in India. But, India is no longer a 'hardship posting.' Parent organizations must ensure diversity at senior and middle levels of management. Creating a two-way traffic of people between the Indian company and the global organization is a great way to ensure alignment and global thinking and leveraging Indian talent globally.

The MNCs must also be prepared to compete for talent with other companies that operate in India. It is true that India has a rich pool of talent but every company is looking for competent people with certain skills and capabilities and, in the next five to ten years, while

there will be people available with the required skill-set, there will also be competition among companies looking for them. Today, in India for a company to attract good talent paying handsome salaries is pretty much a given. However, the two other criteria to attract and retain the best talent within the company are: giving responsibility and holding the executive accountable for the results by giving him/her room to play (improvise around the *raga*) while ensuring that he/she stays with the main theme. This kind of semi-autonomous working at a senior level, while giving a decent amount of salary, and tying responsibility and accountability to the results, works well in India. Secondly, Indian managers appreciate softer aspects such as ability to learn something new while working in the organization. These could be in terms of technology or relate to business operations or processes or giving room to be innovative. These factors are becoming more important in attracting and retaining employees for a company. Therefore, opportunities to learn, work freedom, and accountability are what Indian managers treasure, taking for granted that the salary paid will be attractive.

I would like to share some of my experiences that will help in understanding the Indian organization culture. Indians are comfortable with clear, well-defined solid lines and do not function well with dotted lines. I have personally had to wade through matrix global organizations for over ten years and it was really difficult. Probably, the Indian joint family patriarchal system is the reason for Indian employees being more comfortable with clearly defined organization structures. Hence, I believe Indian managers appreciate and prefer well-articulated work processes and well-defined reporting structures. Seniority still matters especially in the brick and mortar Indian industries although this is beginning to change in the sunrise industries. Thirdly,

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public 'face' is crucial at an individual level for most Indian managers. Having a one-to-one meeting to discuss issues concerning a manager turns out to be more effective rather than he/she being told openly about it during a meeting attended by peers and superiors, especially when the discussion relates to lapses or areas of improvement of the individual. A one-to-one discussion would make the manager more forthcoming on the issue and he/she would be willing to do something about it quickly in terms of changing his/her behaviour.

*Venkatesh Mysore:* While implementing the India strategy, the parent organization must be open to the possibility of doing new things differently as may be required in the Indian context. Let me give you the example of how MetLife overcame the foreign ownership barrier that it faced initially while setting up its business in India. As one may be aware, every sector that opens up in India to foreign players has entry barriers. For insurance companies, the issue was foreign ownership. The Government of India stipulated that the foreign entity's ownership in the company could be only 26 per cent or less which meant that MetLife needed to have a joint venture partner in India. It was pretty clear from MetLife's standpoint that the company would come to India only if it had management control. Therefore, MetLife's biggest challenge was to get management control in an ownership structure where the foreign shareholder could have up to 26 per cent shareholding and the Indian shareholding could be 74 per cent or more. To resolve this entry barrier issue, MetLife came up with a very unique structure of building a consortium of Indian shareholders where it could break up the 74 per cent stake of Indian shareholding. MetLife actually broke up the 74 per cent stake four ways, i.e., between four different Indian partners to a point where MetLife is the largest shareholder with 26 per cent share-

holding. It partnered with insurance companies who agreed that MetLife's value addition to the joint venture was its management expertise in the insurance domain and, hence, it ought to lead the consortium of promoters.

As an employer in India, the company has to be able to demonstrate to its executives and managers that they would be losing something if they left the organization. This needs to be done by either moving managers on short assignments to different parts of the world or providing them job rotation opportunities or job enrichment opportunities in whatever they are doing. For some managers, short-term postings outside the country would be a good motivator to join and stay with the company. Merely large compensation packages and golden handcuffs do not work anymore. These only work to a certain extent.

Matrix organizations are a reality in most MNCs. Indian managers are beginning to deal with them quite well. MetLife too is a heavily matrixed organization with straight lines and dotted lines crisscrossing everywhere. Although such a structure is difficult to operate in, it is a part of the challenge and the Indian managers have learnt to deal with it.

It is extremely important for MNCs to be process-oriented, follow the laws of the land, and not look for short-cuts.

**Rakesh Makhija:** In giving my view on how an MNC must implement its India strategy, let me run you through the SKF story and what I did when I came in as the CEO in 2004. SKF Bearings was established in 1961 in India. With an annual turnover of Rs. 7,813 million for 2005 (about \$173 million), the company services four industrial segments, viz., automotive, industrial, electrical, and service (after market). SKF, which enjoyed a very strong brand name before the liberalization of the Indian economy, somewhere lost the race when the Indian economy opened up in the early 90s. Consequently, the company's revenues did

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not grow during most of the 90s. When I came in as the CEO, I set very ambitious growth goals for the company both in terms of revenue and profitability growth targets. I also declared to the press that SKF would become a \$ 350 million company by 2007. Prior to my debut in SKF, the management in India had no power to do what it felt was right. It generally feared taking risks. Its voice was never heard and a few expatriates from the parent company were the ones who actually managed the show in India. However, the Indian management was allowed a lot more freedom when I came in as the CEO. The managers who generally feared taking risks in achieving bold goals were allowed to take risks which resulted in them becoming much less risk-averse. They became more forthcoming in doing the right things that were required to reach the goals which were set for the company. The parent organization, therefore, must empower the Indian management and allow the Indian managers to take calculated risks. A parent MNC organization exercising tight control on the local company will end up stifling the energies of the local management which will hinder the performance of the local company.

SKF India had close to 3,500 employees. Workers were paid three times the regular wages paid by other industries like Tata Motors, Bajaj Auto, and other manufacturing companies. Until the late 90s, SKF India had expatriates as CEOs. These CEOs came with a very different background as opposed to what was required for doing business in India. Some of them made inappropriate decisions. From time to time, they came under intense pressures. For instance, they did not know how to deal with the labour unions which were very strong ten years ago but much less powerful today. When I came into SKF India, the company was amidst the process of reducing the headcount and wage negotiations were going on. By dealing firmly with the union and not succumbing to its demands, the SKF management was able to successfully draw up a satisfactory wage agreement that took care of the interests of both the workers and the manage-

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ment. Through this example, I would like to emphasize that the local company should have expatriates coming in from the parent organization but they must be people with the right talent. Maintaining industrial relations is important for an MNC. However, the Indian management has to take tough decisions when necessary.

Secondly, I wanted cross-fertilization of SKF India with other parts of SKF globally. Cross-fertilization is a great way of ensuring alignment and attracting good talent into the company. Now, SKF India has less expatriates coming into the local organization and a lot of Indian managers going to SKF's global organizations. Providing short-term overseas assignments is viewed favourably by many employees. Global integration is very important. A company needs good talent but a single talented person cannot achieve things in isolation. It requires a team of good managers to build a great organization. It is necessary to find ways of creating synergy in the talent available in the company. Individual value systems need to be integrated into the organization's value systems and individual abilities to achieve results have to be leveraged for the good of the totality. Bringing about global integration leads to the organization having the right performance focus, management focus, and cultural integration which is very important for an MNC operating in India.

Thirdly, I adopted the Six Sigma culture into the company. SKF India had too many people doing the same job for too many years. Six Sigma was aimed to introduce the culture of continuous improvement which I strongly feel is a must for an MNC.

The vision of SKF India is to build customer excellence and operational excellence, implement Six Sigma, drive innovation within the company, and successfully carry out acquisitions. These initiatives are aimed at driving SKF India to a state where we can be competitive and be the best in terms of quality, cost, and customer service. It is very important for SKF India to drive innovation throughout the

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organization and have processes to capture the ideas of the 2,000 employees working in the company to improve systems and processes. Thus, a focus on operational excellence, innovation, customer excellence, etc., is important for the local management of an MNC to gain competitive edge.

In conclusion, the culture that is built in the local company of an MNC parent is very important. This culture has to be in consonance with the local management and the parent company culture. Paying attractive salaries is a given in today's scenario but, more importantly, employees at all levels must feel proud to belong to the organization. They must be involved with what they are doing. MNCs typically have concerns relating to compliance with IPR (intellectual property rights) in countries like India and China. I believe that compliance to IPR is improving in India, at least in the manufacturing business, as compared to what it was five years ago.

*Arun Vora:* India is a land of contrasts. When I was assigned the task of establishing Tata BP Solar in India in 1991, I said to myself that I cannot change India but what I can do is create an island of excellence. Tata BP Solar is a joint venture between British Petroleum (51% stake in the company) and the Tata Group. The company's chief business is solar photovoltaics where solar modules of different capacities are manufactured that convert the sun's light energy into electricity. These systems find applications in water pumping, village electrification, lighting, and other industrial and professional applications. Tata BP Solar is also in the business of solar thermal where the solar modules manufactured make use of the sun's heat energy. These find applications in water heating (domestic, commercial, and industrial), air heating, and space heating. With an annual turnover of over \$ 100 million, the company today earns 65 per cent of its revenues through exports mainly to Europe and the US.

The India strategy of Tata BP Solar was to create an organization focused on excellence in all that it

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Bringing about global integration leads to the organization having the right performance focus, management focus, and cultural integration which is very important for an MNC operating in India.

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did by creating an excellent management team and building leading edge technology. When the company was started, the technology worldwide was new and evolving. The parent company BP gave Tata BP Solar the latest technology which was later further improved upon in-house. In many joint ventures, technologies and equipment that have outlived their lives get dumped onto the local entity, especially if the subsidiary is in a developing country like India. However, this was not so in our case. Tata BP Solar has been very successful in creating benchmark technology through on-going in-house R&D starting from the technology that BP gave to it at the time of setting up the Indian operations. While many other companies in the solar energy business have invested large sums on technology and R&D, Tata BP Solar has been fairly modest in its R&D spending (in dollar terms) and yet the results have been very good. This was made possible as the company focused on making small improvements in technology in a systematic way rather than targeting radical breakthroughs backed by large budget R&D spending.

The India strategy of Tata BP Solar was a three-pronged strategy. Phase-I of the strategy sought to take the company to a turnover of \$ 25 million. Phase-II aimed at making it a \$ 100 million company. Phase-III seeks to make it a \$ 300 million company. The strategy implementation was done with tremendous passion and dedication by the management of the company. A people strategy was adopted wherein people who could be moulded to be part of a global company were recruited at the worker level. At the staff/engineer/manager level, above average 'mouldable' people were recruited who were systems-oriented. They were pushed into working with global teams.

Leadership in the company was entrepreneurial and hands-on. The organizational structure was made more or less flat. A few layers did exist but were not hierarchical. A two-way communication was encouraged between management and workers. This helped workers

gain an understanding of what needs to be done, why, and what necessary actions needed to be taken to achieve the desired results. At the working level, teamwork was encouraged. Monitoring mechanisms were put in place to ensure result-orientation at all levels. The culture of continually bettering performance at every stage helped contain costs and improve profits. Technological improvisations, unique methods deployed to enhance performance orientation, introduction of a performance culture, focused marketing orientation, and customer service propelled the company towards excellence. The company today manufactures products of first world quality at third world costs! This has been achieved through

high manufacturing yields, low overhead costs, extreme flexibility (less automation), and low capital intensity.

I believe that a majority of Indians are highly creative and innovative. At first sight, it appears that there is a lot of chaos in the country if one looks at things like the traffic on the roads in the country. However, even there, one can find some order in the chaos. Indians are less systems-oriented. Huge diversity exists in the minds of the people. They may appear to lack discipline in doing things day after day and year after year. However, they are very passionate about what they do and are emotional people.

**Ravi Viswanathan:** Companies wanting to set up businesses in India, especially in the IT and software services space, need to primarily grapple with two variables. The first

is the culture and mindset of the Indian workforce. For example, an Indian project manager expects his team members to forget everything including his family when working on a project to deliver what the customer requires. Indians are prepared to work 16 hours in a day. Their deadlines and commitments for project completions would be based on 12-hour working schedules. This is very culture-specific as Indians have it in them to go all the way out and deliver necessary results.

Let us take the illustration of an Indian project

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manager of an Indian software company who is responsible for the delivery of a project for a large global client. The project may be done out of China, for instance. The project could have teams working out of the software company's operations in Brazil, Chile, and China. This is very challenging since the project manager would be handling diverse sets of people. The teams in Brazil or Chile, for example, would typically come in to work at 9 in the morning and leave at 6 in the evening. Expecting that the team members in these geographies would work beyond office hours is unrealistic. However, for an Indian project manager, it is difficult to accept that the software engineers in these geographies will only work from 9 to 6 for five days a week and no more because for him/her working overtime comes quite naturally. These are cultural issues that must be kept in mind by an MNC that has footprint in many countries and which also has significant Indian operations. As the company starts scaling its global operations, it naturally has to deal with culturally very different sets of people who have very different mind-sets. To meet this challenge, the company has to be aware of these cultural differences and manage these differences effectively. Secondly, Indian managers are adept in managing ambiguity. If a customer describes to an Indian software company the software program that has to be made, the Indian firm may not even ask what the client's exact requirements are. Instead, it may go ahead and build the software even if it involves considerable overtime work. When the software is delivered, the customer firm may come back and say that what was developed is not what it wanted. The Indian firm may then capture more exactly the client's requirements and make necessary changes. In this iterative fashion, the software will get completed. The above may perhaps be an exaggeration but the point I am trying to make is that Indians are quite comfortable with ambiguity *vis-à-vis* many cultures from the developed world. I am not trying to say that Indians are not disciplined; they need to be taught to adopt a systematic work approach. Perhaps this explains why Indian software companies tend to be very process-oriented.

The expectations of the workforce from different parts of a global organization tend to be quite culture-specific. I am the biggest disbeliever of the concept that the 'world is flat.' The world is not flat. It has many tall boundaries and is culturally divided. The world may appear to be flat but there exist cracks which cannot be wished away based on the assumption of homogeneity. Instead, they must be navigated by companies having a global presence.

Multinationals coming into India also need to have a strategy in place to counter the high attrition levels that are not uncommon in India. The problem is perhaps more acute in the software industry where companies could lose up to 30 per cent of their people every year to competitors.

#### Q. 4. What challenges do the Indian customers and markets throw up?

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**Venkatesh Mysore:** The Indian marketplace is very dynamic. For the local management of an MNC, to start business in the country with the general assumption that they know how the Indian market works is erroneous. This is also true if the local management is comprised largely of Indians posted from the MNCs in different countries to manage the Indian operations of the MNC. The assumption on their part that because they are Indians they understand the Indian market better is erroneous. The Indian market has changed in a very significant way. It now has a huge ability to leap-frog. This can be seen in sectors such as telecommu-

nications, information technology, etc. To give a simple anecdote of how the Indian market is changing, a few years ago, only NRIs (non-resident Indians) would carry bottles of mineral water with them when travelling within India, but, today, even auto-rickshaw drivers are seen drinking water out of a branded sachet or bottle. Indian people are buying branded bottled water everywhere in the country. This is the level to which retail marketing has been taken to in India. Somebody once told me that the concept of paying for drinking water would never work in India but it has happened. This is how the retail market has changed.

This just reminds businesses that the Indian market cannot be taken for granted. The market keeps changing and is advancing by the day.

Another classic example, to highlight the dynamism in the Indian market, is that of potato chips. In India, people preferred buying hot, fresh potato chips from small shops that would make it right then and there for the consumer. When Lays wanted to enter the Indian market with their bagged potato chips, I thought it would never work. But, today, when one drives down any small town or village in India, one sees packets of Lays potato chips hanging down every petty retail shop. The buying behaviour and attitude of the Indian consumer is changing dramatically.

Insurance was earlier being bought by the Indian consumer to save taxes because insurance premiums are tax deductible. However, today, this has changed. Car loans, which were impossible to get ten to fifteen years ago, are easily available today in the Indian market. Close to 90 per cent of the cars are financed in India. All that a customer needs to do is walk into any finance company and his/her car gets financed.

**Rakesh Makhija:** India is a market where the customer behaviour is changing very fast. Businesses have to be geared to meet these changes quickly. The local entity in India needs to be innovative and agile and must come up with specific solutions that the customer wants and not what the company thinks is best for the customer. Often, businesses forget this. Businesses need to be aware of the key concern areas of its customers and demonstrate to them how the company's products could impact these key concern areas of the customer. If a business can do this, then its value proposition gets demonstrated very clearly. For many years, the various global companies of SKF were competing within themselves. Today, the situation has changed considerably. The management of SKF India finds that some of the Indian companies manufacturing bearings are much more aggressive than what SKF as an MNC is in terms of customer excellence, innovation, and operational excellence. Therefore, India poses to be

a very competitive market and MNCs need to have a very strong customer focus in order to succeed here.

**Achal Raghavan:** The Indian customer is very much aware of what is available globally and is very value-conscious. Providing total solutions to customers is the only way to get out of price wars and discount spirals. It is important that there is no time lag in rolling out global technologies. There was a time when an MNC parent organization would introduce a new technology-based product in the developed countries and only five years later would introduce the technology in India through its local company. But, Indian customers today demand sophisticated and latest versions of products and hence simultaneous roll-out of the new product into the Indian market by the parent organization is impor-

tant. Designing a product from scratch for the Indian market using the Indian R&D team would often be required which later can also become a solution for the Asian and global markets.

**Ajay Mookerjee:** The reason I wish to bring up the importance of marketing to India's masses is that to know India, foreign businesses must understand the power of the bottom of the pyramid (BOP) because these masses are the clear driving force of the markets in India. Before the liberalization of the Indian economy, the focus of companies was on the elite markets. In the past, India was described as a market of only 25

million people who had purchasing power. The net income of the lower and middle income groups in the country became significant over the last several years. Manufacturers for consumer markets have started to feel that although the poor and the middle income group's shopping basket is one-fifth or less of the shopping basket of the elite markets, yet the number of consumers in the lower and middle income segments are 25 times or more than elite markets. This constitutes a huge market. Increasingly, companies are turning to these segments for fuelling their future growth. This phenomenon is happening in many countries such as India, China, and Russia.

In terms of size, the BOP market in India is about

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\$ 10 billion today but is very much under-penetrated. Of this, the rural segment is the most important. Rural India has 70 per cent of population that are classified as poor. Consumer goods are increasingly penetrating into these markets. The purchasing power of lower income groups is increasing and creating significant demand for consumer products both in rural households and the urban population. In India, more than half (53%) of FMCG (fast moving consumer goods) products, 40 per cent of two-wheelers and 50 per cent of insurance policies of India's largest insurance company, LIC, are sold to rural markets. Sixty per cent of the households in rural markets have bank accounts. The compounded annual growth rate (over a ten-year period) of the Indian rural market is 13 per cent as against the 8 per cent of the urban market.

The size of the Indian rural market is roughly 125 million poor households whose income varies from \$ 350 a year to \$ 3,000 a year. They have a combined consumer spend of \$ 375 billion. Although these incomes are small individually, when multiplied with the purchasing power parity of five, as well as the number of consumers, the resultant market is huge. In terms of consumption, the lower income households spend a significant proportion of their income on food, clothing, footwear, and education. Invariably these households own a tractor/motorcycle, black and white TV, land, and do not have access to organized fair-priced credit. Most of the money they borrow is from moneylenders at very high interest rates. Highlighting the geographic rural spread, there are about 3,700 cities, towns, and feeder towns and about 600,000 villages in the country. However, the top 15 per cent of these 600,000 villages (i.e., about 100,000 villages) account for 50 per cent of the rural population and 60 per cent of wealth. This makes the market more manageable. Till date, this

## CONCLUSIONS

This colloquium focuses on understanding the fundamental drivers of the success that Indian companies are experiencing in many industries in the international

is the segment which has been the real focus of companies which have chosen to expand their markets to encompass the rural and BOP markets.

For businesses to capture the rural market in India, things have to be done differently. New business models need to be created. New innovations are needed in the marketing mix. Although the opportunity is massive, marketing in rural India requires a new mindset. From the traditional focus of revenue, businesses need to shift their focus to volume maximization. Clearly, this would yield lower prices but higher volumes. The focus of the business has to shift from high-value individuals to high-volume communities because much of the purchas-

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For businesses to capture the rural market in India, things have to be done differently. New business models need to be created. New innovations are needed in the marketing mix. Although the opportunity is massive, marketing in rural India requires a new mindset. From the traditional focus of revenue, businesses need to shift their focus to volume maximization.

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ing in the lower-end market is driven by people purchasing in groups and communities. Innovative business models need to be created. While it is true that there are 25 times more consumers in numbers *vis-à-vis* elite markets, prices have to be dropped drastically to make the products affordable to these masses. This will necessitate product innovations. This requirement of low-priced products will necessitate tremendous amount of innovation from companies. An important feature for the new business model to be successful in these markets is that it must necessarily include making cheaper products that are of simpler designs. The distribution must be direct, relationship-oriented or through third party chan-

nels. Products need to be sold more through promotions as against branding. Interestingly, because the business system infrastructure is lacking in these geographies (no retailers, distributors, financiers, etc.), companies wanting to market to these masses must build a business ecosystem from scratch. In doing so, the company would also create a lot of social value as a by-product since a lot of economic prosperity gets created resulting in job creation for the masses.

arena. India has, in the recent past, been much talked about as the emerging economic power-house. All this has happened in a very short period of less than 15 years



since the country's economic liberalization.

The colloquium seeks to address in broad terms, questions such as: 'What is the true secret behind the emerging India phenomenon? Are there likely to be show-stoppers to this juggernaut? How can foreign MNCs that seek to leverage the India advantage succeed in engaging with India? What are the market dynamics that foreign companies need to understand if they wish to tap into the Indian market?'

Clearly, while being an important aspect, low cost is not the only reason for the recent success of India. There is simultaneous co-existence of cooperation and competition in the Indian population which is a major, yet unrecognized culture-specific asset in this growth. Resilience and patience are virtues that Indians have in great measure. These are assets in coping with today's turbulent world. The large Indian diaspora that is incredibly talented and networked at a global level is a huge and as yet not fully tapped strength that the country will leverage in the coming years making it even more formidable as an economic power. Indians are extremely entrepreneurial, innovative, and passionate in what they do. They have a tremendous hunger to take their rightful place under the sun. While all these differences are real at the ground level, yet, from a panoramic perspective, there is also a lot of commonality with other nations. A successful MNC manager has to recognize the commonalities as well as the differences to be effective in managing the Indian operations. The fact that much of what is happening in India is despite the government, while much of what is happening in China is because of the government, makes India's economic growth sustainable over the long haul. Inherent order amidst chaos; simultaneous co-existence of opposites, such as seeming lack of discipline, yet willingness to be subjected to processes; diversity on a massive scale; etc. are some unique aspects of the country's culture that contribute significantly to the current growth spectacle that we are witnessing.

Is this phenomenon because of the government or

despite the government? Even here one finds the co-existence of opposites. At one level, one comes up against a callous, self-serving, and downright corrupt government. Yet, the same governments, both at the federal and state levels had the vision to create large numbers of massive educational institutions which served as knowledge hubs that could leverage the opportunities that emerged as the world increasingly transitioned into the knowledge and service eras. The entire surge of Indian IT industry was facilitated by government's education policy. Hence, it is uncharitable to deny the governments, both at the federal and state levels, any credit in the prosperity and growth that the country has been witnessing over the last decade.

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Clearly, while being an important aspect, low cost is not the only reason for the recent success of India. There is simultaneous co-existence of cooperation and competition in the Indian population which is a major, yet unrecognized culture-specific asset in this growth. Resilience and patience are virtues that Indians have in great measure. These are assets in coping with today's turbulent world.

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Is the India phenomenon durable? The reality is that there are many concern areas. Infrastructure could pose serious restrictions on the continued growth. However, should infrastructure lead growth or could the growth occur first and infrastructure closely follow behind? India seems to be on the latter course. Another big show-stopper, if not addressed satisfactorily, is the emergence of two Indias. There are large sections of the country that are left out of the current growth. The resilience of the Indian population has enabled the people to patiently endure this growing disparity. 'For how much longer?' is anybody's guess. The reality of coalition governments, which has become the norm in India

at the federal government level and also at many state government levels, is slowing down the decision-making progress which could act as a dampener on the growth. The paradox of 'people, people everywhere, but not very employable people (in comparison to the emerging opportunities)' is a concern that could also result in a lot of lost opportunities. It will also raise the costs as the companies employing these people have to incur large costs to bring them up to speed.

Companies seeking to do business in India need to manifest considerable patience. For the first few years, they will have to be prepared to 'rough it out' and 'learn the ropes.' There is no magic wand that guarantees



instant results. Mistakes will be committed but the winners will be those who quickly learn and move ahead. Less patient companies tend to walk out of the country in a huff, frustrated in their attempts to operate here. They do so at their own detriment, as they lose the Indian opportunity, both in terms of a supplier of cost-effective and highly productive knowledge workers, and also in terms of access to the 'great, big Indian market.' Hence, the MNC companies entering India need to commit for the long haul. While managing the internal aspects of their businesses, they must also satisfactorily address external aspects as well, addressing the concerns of various external stakeholders besides just shareholders. This includes paying attention to the environment, society at large, government, etc. The MNCs have to compete for talent. Good salary alone cannot serve as a magnet anymore. Competitive remuneration packages are a given. Other factors such as giving latitude to the local managers, giving them responsibility and a sense of

challenge, making them accountable for performance, appropriate reward mechanisms, etc., are key to attracting and retaining talent. Managing in the Indian context requires the MNC managers to manifest flexibility in their approaches to management. Moulding value systems of different individuals into the company's value system is very crucial for success. In this sense, the MNC managers must understand that the world is definitely 'not flat,' if one factors in culture specificity of employees and other key stakeholders.

India is a vast, yet dynamic, market-place. One has to be on the continual learning mode to really understand the Indian market. The bottom of the pyramid market is a collectively huge yet individually insignificant opportunity that cannot be ignored any longer. Harvesting this opportunity requires innovative approaches in marketing to the vast numbers of rural and poor urban populations who have enormous collective buying power. ♡

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