Indian business leadership: Broad mission and creative value

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E X C H A N G E

The India Way: Lessons for the U.S.

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Executive Overview

We describe a distinctive approach to business associated with the major corporations in India and contrast it with practices in the United States. Specifically, the Indian approach eschews the explicit pursuit of shareholder value in favor of goals associated with a social mission. These companies make extraordinary investments in their employees and empower them in decision making. These practices combine with a distinctively Indian approach to problem solving to create a competitive advantage that has led to spectacular business growth, not just within India but in international markets as well. A particularly important lesson for the United States is that the major Indian companies are not succeeding despite the fact that they are pursuing a social mission and investing in their employees. They are succeeding precisely because they do so.

The contemporary U.S. model for business is in trouble. That model asserts that maximizing shareholder value is the primary goal of business—indeed, some would say the only goal of contemporary business. This model is fairly recent, however. Until the early 1980s, the dominant model in the United States was the "stakeholder" model, which asserts that business has many groups with an interest or stake in its operations, and that the interests of these different stakeholders have to be balanced. This model was pushed aside by theoretical arguments emanating from the field of finance, which then played out in the sphere of public policy beginning in the 1980s (Epstein, 2005; Williamson, 1993).

With respect to management practices, we believe there are three additional elements at the heart of the contemporary U.S. model that are significantly different than practices elsewhere. The first concerns business strategy. The U.S. approach focuses attention outside the firm in the search for opportunities and, to a lesser extent, in a related search for competencies through mergers and acquisitions and joint ventures. The second element focuses on restructuring: When markets or strategies change, U.S. companies lay off employees to cut costs and then hire new ones to redirect the business toward new markets or to meet new skill needs. The ability to restructure is seen as a key to competitiveness. Finally, in this model efforts to harness the motivation and abilities of employees tend to focus mainly at the top, with financial incentives (via equity) offered to

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executives and top managers. They, in turn, figure out how to motivate the rest of the workforce; the threat of job loss is typically an important part of the mix.

There are three recent and important challenges to these aspects of the U.S. model. The first is that it has not worked well for employees, perhaps not surprisingly given that employees are no longer seen as explicit stakeholders whose interests have to be balanced against those of shareholders. Except for a brief period of very tight labor markets at the end of the 1990s, employment outcomes have advanced little in a generation. Compared to previous decades, jobs are much less secure, wage growth is markedly lower, and at least by some measures, employee attitudes toward their jobs and their employers are worse. Specifically, evidence suggests that there has been a long-term trend toward greater insecurity across most occupations and groups (Kalleberg, in press), that even before the 2008 recession outcomes for the "middle class" actually declined slightly during the economic expansion from 2001 through 2007 (Mishel, Bernstein, & Shierholz, 2009), and that outcomes and conditions worsened markedly for those at the bottom of the income and occupational distribution (Bertrand, Mehta, & Mullainathan, 2008). While interpreting longitudinal studies of employee attitudes is at best difficult, those that exist show a downward trend (Franco, Gibbons, & Barrington, 2010).

Second, U.S. corporate governance has been plagued in recent years by a sharp increase in malfeasance. There has been an unending (as of this date) stream of corporate financial scandals that began in the mid-1990s in which we saw executives manipulating finances to improve share prices and pad their own pockets. The most prominent of these were on such a monumental scale that they literally brought down companies—Enron, WorldCom, Adelphia, and Global Crossing (Markham, 2006). The list of companies where financial malfeasance was bad but not quite bad enough to force the failure of the company is much longer: Xerox, Sunbeam, Waste Management, Tyco, HealthSouth, and many more. An objective marker for financial irregularities is earnings restatements, serious accounting errors where companies are forced to revise earnings that had previously been presented as accurate. These restatements, once quite rare, grew by 145% from 1997 to 2001, and about 10% of all publicly traded companies restated earnings during that period (General Accounting Office, 2002). The fact that these scandals were so common in the United States and so much less so in other countries suggests that practices distinctive to the U.S. might be to blame (Coffee, 2005).

Then there is the 2007 financial meltdown, which started on Wall Street and led to a worldwide economic decline (see, e.g., Reinhardt & Rogoff, 2008) and then to profound concerns about U.S business practices. At the 2010 meeting of the World Economic Forum in Davos, Switzerland, for example, any whiff of American triumphalism from the previous decades had given way to U.S. contrition in the wake of the great financial crisis of 2008–2009. Capturing the essence of the mood, one of the event's leading figures put it bluntly: The calamity was caused by a "failure of leadership" in both financial services and government where the centers were the United States and to a lesser extent the United Kingdom (Useem, 2010).

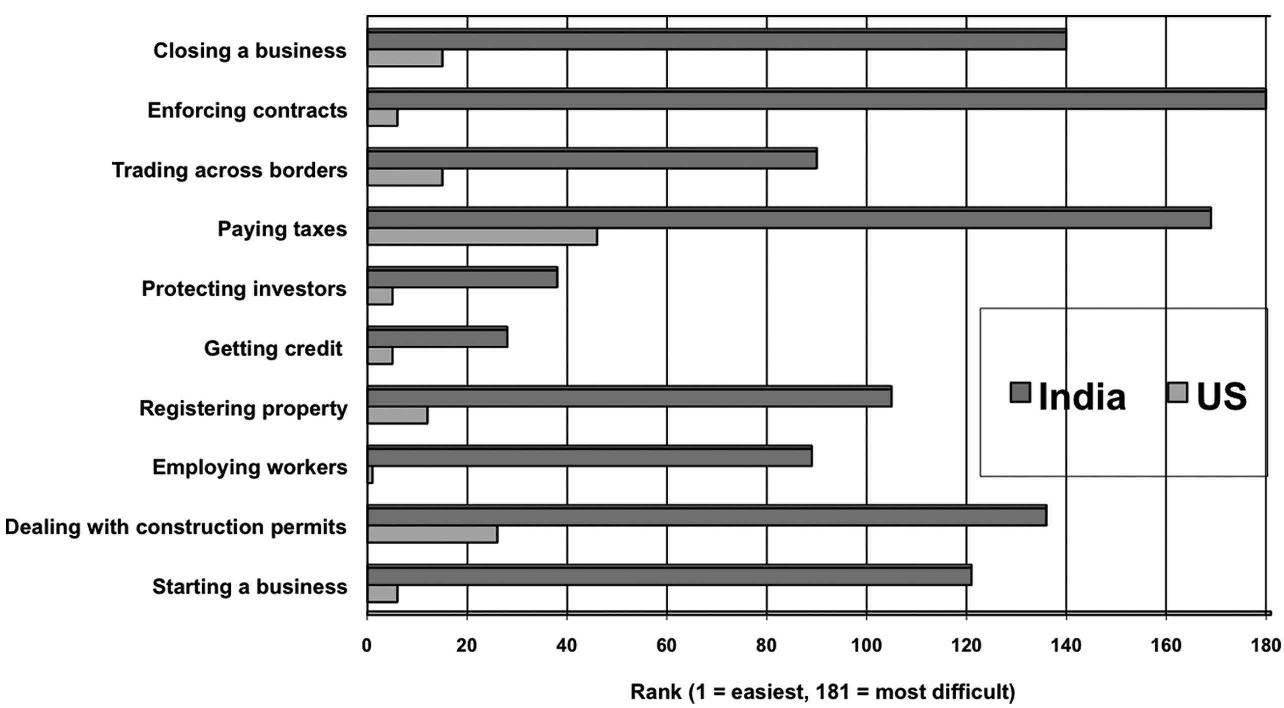
Third, and for our purposes most important, there are now alternative business models that can lay claim to being more successful. Even putting aside the financial scandals, the overall U.S. economy and the corporate sector performed poorly this past decade, especially as compared to international standards. In absolute terms, the U.S. now ranks 14th in per capita gross domestic product (World Bank, 2009), with a growth rate over the 2000s of only about 1.2% per year (U.S. Bureau of Labor Statistics, 2009). Equity prices for U.S. firms, the main measure of success in the corporate world, lost 3.85% in nominal terms over the course of the decade, one of the worst performances in the industrialized world.

There are many alternatives to the U.S. model, but the one from which U.S. corporations could learn the most, in our view, comes from India, the country with the second-fastest growth rates in the world over the past decade. During much of the 2000s, India's GDP has risen by better than 9% per year—several times that of the U.S. and nearly that of China. Foreign institutional and direct investment has grown rapidly as well, rising by a factor of 13 from $4.9 billion in 1995–1996 to $63.7 billion in 2007–2008 (Reserve Bank of India, 2009b). A host of surveys have confirmed that India has become one of the most favored destinations for direct investment, behind China but ahead of the U.S. (India Brand Equity Foundation, 2010). India's foreign exchange reserves rose from less than $1 billion at their bottom in 1991 to more than $300 billion at the peak in 2008, and the value of Indian exports increased by 2.5 times from 2004 to 2008 (Reserve Bank of India, 2009a). And all this occurred despite the fact that the infrastructure in India is by all accounts less developed than that in most Western nations (Hamm & Lakshman, 2007) and the challenges of doing business are great (see Figure 1).

Our interest in India is in the practices of its large corporations. Reliance, ICICI, Infosys, and hundreds of India's other top companies have been clambering on to the world stage to compete directly against Western multinationals in virtually all sectors, including those that had been seen as the future of the U.S. economy: high-human-capital service businesses such as information technology, healthcare, and business services.

And Indian companies have become international acquirers, able to compete with the best of enterprises and operating well beyond the boundaries of India. Tata Steel purchased the Anglo-Dutch Corus Steel in 2007 for $13.2 billion, and aluminum producer Hindalco bought the Canadian aluminum maker Novelis (with executive offices in Atlanta, Georgia) the same year for $6 billion (Economist.com, 2007). In collaboration with Steven Spielberg's Dreamworks, Reliance Entertainment in 2008 invested $1.2 billion in a new U.S. film company (Schuker, 2008), and Tata Motors acquired the marquee auto brands Jaguar and Land Rover from the American Ford Motor Company in 2008 for $2.3 billion (Spector & Bellman, 2008). When Indian companies took over publicly traded American firms, the acquired firms increased both their ef-

Figure 1
Rank of the Challenges of Doing Business in India and the U.S., 2008



Source: World Bank Group (2009).

ficiency and profitability (Chari, Chen, & Dominguez, 2009). And Indian executives are increasingly on the short lists of corporate recruiters seeking talent for Western companies (Yee, 2007).

India shares a great many traits with the United States—including democratic principles and the associated arrangements of civil society such as a free press, a strong and independent judiciary, a highly diverse population, and open capital and labor markets—and Indian business leaders are well aware of the U.S. and other Western models. But they have blazed their own path in the area of business. For example, India was largely able to sidestep the 2007 financial crisis that brought most Western economies to their knees. Though rooted in the traditions and times of the subcontinent, the value of their distinctive path can, we believe, transcend the milieu from which it arose and offer lessons for companies elsewhere.

Our two-year study of Indian business involved interviews with the leaders of the 100 largest companies in India as well as other data from them.[1] We reached our conclusions about the attributes of the Indian approach through an inductive process that was aided by comparisons with U.S. practices and the extensive experience each author has with different aspects of management in the United States. "The India way," as we see it, is characterized by and distinct from the U.S. business model in four fundamental ways (see also, Spencer, Rajah, Mohan, & Lahiri, 2008).

First, Indian companies see their most important goal as serving a social mission, not maximizing shareholder value, as is the case in the United States. An advantage of this approach for corporate performance is that it greatly enhances the ability to motivate and engage employees. As earlier work in job design established and more recent studies in positive psychology affirm, seeing meaning in work is a powerful motivator.

Second, Indian companies take the management of human capital seriously. They invest in the capabilities of their employees, promote internally rather than relying on outside hiring, and engage employees with empowerment and similar arrangements. An indication of the fact that they take these issues seriously is that they measure and manage almost every aspect of human resource practices and effectiveness carefully, more so than U.S. firms do.

Third, the persistence of engaged employees contributes to a uniquely Indian approach to problem solving that we describe with the Hindi term *jugaad*, banging away at hard problems with a trial-and-error approach that is deeply rooted in a culture of scarcity and constraints.

Fourth, these practices come together to create a unique approach to business strategy, one that is internal and rests on innovations in the companies' value chains. They are much less interested in acquiring competencies through mergers and acquisitions, joint ventures, or other externally oriented approaches as compared to U.S. firms. And they are much more likely to stick with traditional customers and search for better ways to meet their long-term needs, as opposed to relying on market research to find new opportunities.

We next delve deeper into each of these four aspects of the "India Way."

Social Mission Trumps Shareholder Value

Chief executives in publicly held American companies are expected to say that maximizing shareholder value is their most important priority. Indeed, everything they do is justified against that goal. When we asked Indian business

[1] Our project began with the National Human Resource Development Network, arguably the most influential business group in India. The network arranged interviews with the leaders of India's largest publicly listed companies by market capitalization. We conducted structured interviews with 105 leaders from 98 companies. Relatively few of these companies use the CEO model. At 71 of them, the top executive is called the "managing director." Leadership is shared at seven of them, so there we interviewed two leaders. We asked what qualities these executives saw as most vital to their success, how they worked with their boards, and where they perceived convergence and divergence with Western practices. We asked how they recruited talent and managed teams, and what legacies they hoped to leave behind. We also gathered survey data from the heads of HR at these companies. We compared the responses to those in a series of surveys of U.S. CEOs and HR executives. The most important data on U.S. CEOs come from a New York Stock Exchange survey, and most of the comparative data on HR practices come from surveys conducted by the Society for Human Resources Management. We supplemented these data with information from previous studies and descriptive information and case studies about the practices in these companies.

leaders to rank their priorities (see list below), they placed maximizing shareholder value fourth, below the interests of employees. We also asked the top human resource executives in the same companies to answer the same question about their chief executives' priorities, and their ranking was virtually identical. No Indian business leaders in our conversations placed shareholder value as the top company priority or advanced the view that investors were the most important stakeholder, which is notable given that many executives were major holders of their company shares, and in some cases their companies are listed on U.S. stock exchanges.

Indian Business Leader Priorities

1. Chief input for business strategy
2. Keeper of organizational culture
3. Guide or teacher for employees
4. Representative of owner and investor interests
5. Representative of other stakeholders (e.g., employees and the community)
6. Civic leadership within the business community
7. Civic leadership outside the business community

Rank ordering from the top executives of 98 companies.

Corporate Governance

The single most distinctive feature of corporate governance across the Indian companies we studied was the determination to balance the interests of the firm's diverse stakeholders, all the groups that have a claim on what the company does. What was especially striking was the emphasis on the interests of the broader community, which extended from the immediate vicinity of the business out to encompass the entire nation (Singh, 2009), reminiscent of the pre-1980s stakeholder models from the United States.

Corporate governance in India differs substantially from that of the United States in the ownership structure of its firms, with many firms operating under the umbrella of business groups and a significant number of infrastructure firms owned by the government (Chakrabarti, Megginson, & Yadav, 2008). The firms we examined were publicly traded, but the ownership of many remained concentrated in the promoter family's holdings. The priority of interests noted in the list above did not vary noticeably with the ownership structure of the companies, however.

This is not to say that there are no problems with governance in Indian firms. The rights of minority shareholders have been a special concern, for example, in companies where concentrated majority ownership and holding company structures create incentives to shift assets inappropriately across companies, a process known as "tunneling" (Bertrand et al., 2002; Sarkar & Sarkar, 2000). Board structure also varies across companies (Tuteja, 2006), and larger boards in particular have been associated with lower performance (Ghosh, 2006). The independence of Indian boards has been questioned, but board quality rather than independence per se seems to be most correlated with corporate performance (Sarkar, Sarkar, & Sen, 2008).

No matter the ownership or board structure, Indian executives generally placed less weight on the board's monitoring function than was common in the West, at least in part because Indian firms and their directors faced a less active market for corporate control than did their U.S. counterparts (Morck & Steier, 2005; Reed & Mukherjee, 2004). Indian boards as a rule monitor finances less than American ones because financial performance is less a concern for these corporations. As B. Muthuraman, the managing director of Tata Steel, explained, "The Tata Group is less rules-based and more values-based. We have always believed you really cannot frame rules for corporate governance."[2] Nonexecutive directors in Indian boardrooms take more of a strategic partnership role with company executives, working with management to create and market new products and services, and comparatively less of a shareholder monitoring or rules-based role, as one would see with the American approach. Protecting shareholder value is not ignored, but Indian

[2] All quotes in the article unless indicated otherwise are from interviews with the authors. Details about the interviews are outlined in Appendix B of *The India Way*.

directors incorporate the concerns of a range of constituencies—just as Indian executives do—in reaching board decisions in partnership with management.

Mission-Driven

Central to the distinctiveness of the Indian model is the sense of mission, a social goal for the business that goes beyond making money and helps employees see a purpose in their work. Every company we saw articulated a clear social mission for their business. ITC, a leading conglomerate, echoed the views of the companies we interviewed in this statement describing the company's purpose: "Envisioning a larger societal purpose has always been a hallmark of ITC. The company sees no conflict between the twin goals of shareholder value enhancement and societal value creation" (ITC, 2010, p. 1).

U.S. companies talk about doing good in their communities, and many do. The difference is that Indian companies describe their social mission publicly as *the* purpose of the business, not just a separate act of charity. Typically, that sense of mission extends to helping India and its citizens. In that sense, they act quite differently from standard notions of corporate social responsibility as self-regulation and a concern about doing good while making money (see Williams and Aguilera, 2008, for a comparative discussion of corporate social responsibility). The social mission for Bharti Airtel, for example, was to get cell phones into the hands of the hundreds of millions of people in India who otherwise had no way to communicate with each other; the Tata Nano story had a similar goal with respect to providing low-cost transportation (see below). The social mission of the pharmaceutical and healthcare company Dr. Reddy's Labs is to address the unmet medical needs of the poor in India as well as around the world. Hindustan Unilever's Project Shakti uses microfinance principles to create a sales force in the poorest regions of the country. Some of these approaches build on the "fortune at the bottom of the pyramid" approach, which emphasizes business opportunities among the poor (Prahalad, 2004). But making money is never presented as the primary objective.

These companies also put their money where their mouth is with respect to mission. Two thirds of the profits of the Tata Group companies, for example, go to its charitable foundations and then back into Indian society. The Godrej Group has constructed schools, medical clinics, and living facilities for employees on a massive scale unknown among American companies, where directors and executives are far more likely to see employee welfare as a drag on shareholder value than an asset for company growth. Dr. Reddy's Labs guaranteed to meet the healthcare needs of 40,000 children. Infosys has built and staffed entire hospitals, rolled out a nationwide curriculum for school-age students in part to improve its future applicant pool, and engaged in hundreds of other projects, all in the same year. ITC developed a rural initiative, Mission Sunehra Kal (the Golden Tomorrow), that includes knowledge portals to advise farmers, help for them to band together to negotiate with suppliers, job opportunities for women, and expansion of education, involving five million people (Lakshman, 2009). Virtually every major company has similar efforts under way. The focus on mission cuts across companies that are family or "promoter" controlled, companies that operate in international markets and every other dimension we examined. No doubt the social needs are greater in India than in most other countries, but the efforts of these companies to address them are nevertheless there for all to see.

The Motivation for Mission

The priority and value placed in India on service to others and the widely held belief that one's goal in life should extend beyond oneself, especially beyond one's material needs, is no doubt part of the driver for the sense of mission. The third of the four stages of Hindu life, the *vanaprastha ashrama*, focuses on the search for meaning, helping others, and a gradual withdrawal from the competitive business world, and it neatly coincides with the typical age (over 50) of senior business leaders. It is worth noting, however, that the concern about mission extends to companies run by non-Hindus as well. In comparative research on leadership, the Indian region scored the highest of any area in desiring leaders who were humane, compassionate, and generous (Javidan, Dorfman, De Luque, & House, 2006). That preference fit nicely with the aspect of national culture manifesting service to others as a source of motivation.

And some part of explanation for the mission fits this altruistic norm. Mallika Srinivasan, director of Tractors and Farm Equipment, told us that almost everywhere companies operate in India they are encircled by throngs of destitute people, needs are stark, and government intervention is inadequate. Like many other big companies, Tractors and Farm Equipment maintains a first-world, campus-like facility within sight of third-world slums. "Corporate social responsibility and good governance are related to the state of the development of the country," Srinivasan told us. "We are all seeing these islands of prosperity surrounded by so much poverty." Echoing a sentiment we heard from many executives, Srinivasan explained that her company feels duty bound to step forward. Some of the social engagement is also driven by necessity. The rapid growth of the Indian market and the inadequate scale of health and education systems have forced companies to develop healthcare and classes for their own talent.

But social investment pays off for these companies as well. For B. Muthuraman, the managing director of Tata Steel, efforts to aid the broader community create a reputational asset. "Our history in corporate social responsibility," he acknowledged, "has enhanced the group brand." That has proved invaluable for recruiting and retaining employees at Tata Steel. A recent study of employee turnover in India found, for example, that the perception of a company's social responsibility is one of the main factors in retaining talent (Grant, E., 2008). Acting responsibly may also pay off especially in dealing with regulators: Obtaining industrial licenses and environmental clearance in India can depend on being known for public responsibility.

Mission as a business goal also affects relationships with customers. Individuals have long memories, and doing good things for people when they have no money and are not customers can redound to a company's advantage when those individuals do have money and are in the market for your products. We also know that consumers care about the values of the companies with which they do business—witness the current rush of companies touting their "green" environmental practices. At least some substantial share of customers would rather do business with companies that do good things for the community (Lev, Petrovits, & Radhakrishnan, 2010). R. Gopalakrishnan, executive director of Tata Sons, said that he believed the Tata Group was *loved* by the people in India, not just by their employees, for the contributions their companies have made to Indian society. How many companies anywhere could make that claim?

Most important, using a social mission is a powerful way to motivate employees. We know from the original work on job design that the connection individuals see between the tasks they perform and the overall product or outcome of the organization is an important source of positive employee outcomes (Hackman & Oldham, 1975). More recent work shows that the effects of task significance on job performance are much more powerful when they contribute to helping others, and social impact more generally can lead to performance outcomes that are orders of magnitude greater (Grant, A. M., 2008). The focus on helping fellow Indians as the social mission makes this connection between the work one does and helping others very clear. There is every reason to believe it leads to the same increases in performance in these companies as research studies have documented elsewhere.

Social Mission Versus the U.S. Model

Contrast this Indian model, where a company's business goal is seen as bettering society, with the U.S. model, where we try to motivate employees around the corporate goal of making shareholders rich. The U.S. approach is at a sizable disadvantage because it is difficult for most people to see making money for shareholders as a goal that is personally meaningful. While it is possible to tie pay to shareholder value, it is extremely expensive to pay the average employee enough in share-based incentives to get him or her to focus on shareholder value.

The overwhelming focus on creating shareholder value in the United States has led executives to concentrate on the interests of their own enterprise and devote less attention to the welfare of the community or society. This could be seen in the recent U.S. financial crisis, where virtually no executives were willing to take measures beyond their own company's self-interest that might have helped avert the 2007 financial meltdown and subsequent recession. When Bear Stearns neared collapse in March 2008, one bank acquired the firm at the behest of the U.S. Treasury to avoid broader disruption to the economy, but when Lehman was on the verge of bankruptcy in September of the same year, no banks stepped forward to help resolve a far bigger threat to the system. With narrow self-interest prevailing, Lehman failed, the stock market plunged, financial institutions such as AIG and Merrill Lynch buckled, the economy went into reverse, and unemployment soared around the world (Paulson, 2010; Sorkin, 2009). Shareholder capitalism had predictably led most bankers to focus entirely on their own immediate welfare, even at a moment when their common interest would have pointed to collective intervention. The fact that Bill Gates and Warren Buffet stand out so prominently for their interest in improving society is because so few other American business leaders have comparably stood forward. Indian executives, by contrast, are willing not only to articulate societal interests but to act on them.

The focus on mission may also relate to differences in leadership style. We used the most widely used assessment of leadership in the United States, the Multifactor Leadership Questionnaire (MLQ), to examine the leadership styles of these Indian leaders (Antonakis, Avolio, & Sivasubramaniam, 2003; Bass & Avolio, 2004). We asked the heads of human resources at the companies whose executives we interviewed to assess the leadership style of their top bosses. Not surprisingly given the picture of Indian business leadership already described—actively engaged in building mission-driven organizations—the executives scored low on passive and avoidance practices. Nor were we surprised to see that Indian business leaders ranked highest in practices that fall generally under "transformational style": inspirational motivation, idealized influence, intellectual stimulation, and individual consideration. On the transactional side, Indian leaders, like their American counterparts, are quick to use contingent rewards—that is, rewards based on performance—but less prone to manage by exception or look for mistakes.

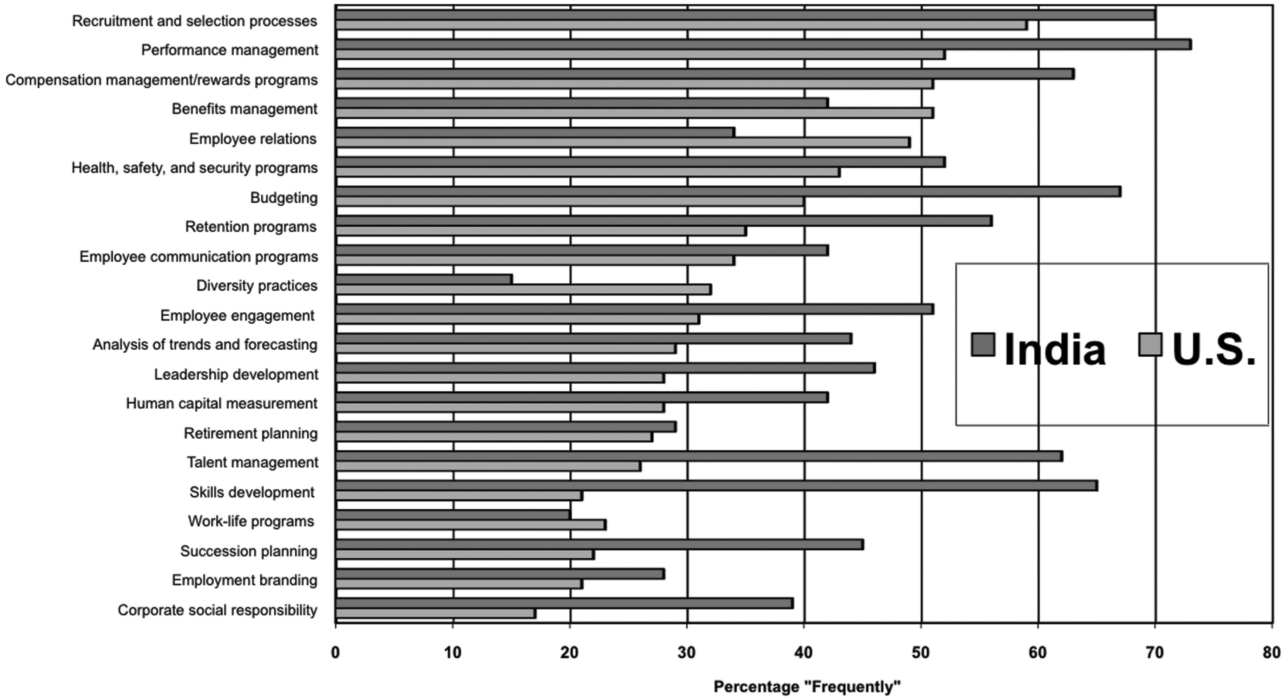
When we compared these results with those from a sample of 48 chief executives of U.S. Fortune 500 companies, however, we found that the American leaders were significantly more likely to use "transactional leadership" styles that tie performance to rewards than were our Indian executives. Comparisons with a different study of 56 American chief executives also suggested that Indian executives create a significantly greater sense of empowerment among employees, scoring higher, for instance, on the "intellectual stimulation" category (Waldman, Ramirez, House, & Puranam, 2001).

Taking Human Capital Seriously

Beyond the sense of mission lies the actual management of employees. Indian companies, we found, built employee commitment by creating a sense of reciprocity with the workforce, looking after their interests and those of their families and implicitly asking employees to look after the firm's interests in return. To translate commitment into action, the business leaders went to extraordinary lengths to empower employees in a way that often conflicted with historical and cultural norms, giving them the freedom to plunge into problems they encountered and create their own solutions. Then they devoted a great deal of executive attention and resources to the practices that support this approach, such as finding the right people to hire, developing them internally, and improving morale. Business leaders directed their attention to building organizational culture, their number-two priority, which shows employees how to behave, and to demonstrating the connection between employee competencies and business strategies.

Figure 2 compares the results of our survey of these top 100 Indian companies concerning their human resource practices to a similar survey of

Figure 2
Company Use of Human Resource Metrics



Sources: Survey of Indian companies, and Society for Human Resource Management, 2006.

U.S. companies. The Indian firms were more likely to measure and track all human resource outcomes than were U.S. firms. Given that it is difficult to manage and take seriously issues that are not measured, these results are consistent with the notion that HR functions in India were at least taken more seriously and are arguably more sophisticated than those in the United States. Companies in the U.S. clearly know how to track these outcomes. They just choose not to.

The biggest differences in measurement had to do with investments in the development of employees: 62% of the Indian firms frequently tracked progress in overall talent management, compared with only 26% in the U.S.; 65% frequently measured the development of skills of employees, versus only 21% in the U.S.; 45% frequently tracked the ability to promote from within through succession, versus 21% in the U.S.; and 46% frequently used metrics to assess the development of leaders, versus 28% in the U.S. Despite high turnover in the red-hot Indian labor market, these leading firms seem dedicated to policies of promotion from within (SHRM India, 2008).

Training

They are also investing heavily in their employees, especially their new hires. One study of practices in India found that the IT industry provides new hires with more than 60 days of formal training—about 12 weeks of classroom training, a massive investment given that employees are paid during that time. Some companies do even more: Tata Consultancy Services, for example, has a seven-month training program for science graduates being converted into business consultant roles, and everyone in the company gets 14 days of formal training each year. MindTree Consulting, another IT company, combines classroom training, mentoring, and peer-based learning communities. Even relatively low-skill industries such as business process outsourcing and call centers provide something like 30 days of training, and retail companies require about 20 days (Wadhwa, de Vitton, & Gereffi, 2008).

New recruits for clerks and other front-line jobs at Pantaloon, a leading retailer, receive six weeks of training, including five and a half days in residence at a company training center followed by five weeks of on-the-job training directed by local store managers. Kishore Biyani, Pantaloon's chief executive, explains that much of their training goes beyond practical job skills: "We run a program in the organization which everyone has to go through, called 'design management,' which basically trains people to use both sides of the brain," both "the visual and aesthetic side and the logical-rational." After that, store staff receive a week of new training each year (Wadhwa et al., 2008). Training is one way the company develops a shopping experience more suited to customers. Even experienced hires get training. Dr. Reddy's Laboratories puts all its outside hires, including those with substantial experience, through a *one-year* training program that includes ten weeks of assignments abroad as well as a culminating cross-functional project presented to the top executives. Again, these investments occur in the context of tight labor markets and high turnover, factors that are often used to explain the lack of training in the U.S.

Systematic data on training among U.S. companies is hard to come by, but the available statistics suggest that 23% of new hires received no training of any kind from their employer in the first two years of employment, while the average amount of training received for new hires—those with two years or less of tenure—was about 24 hours per year in those first two years (U.S. Bureau of Labor Statistics, 1995).

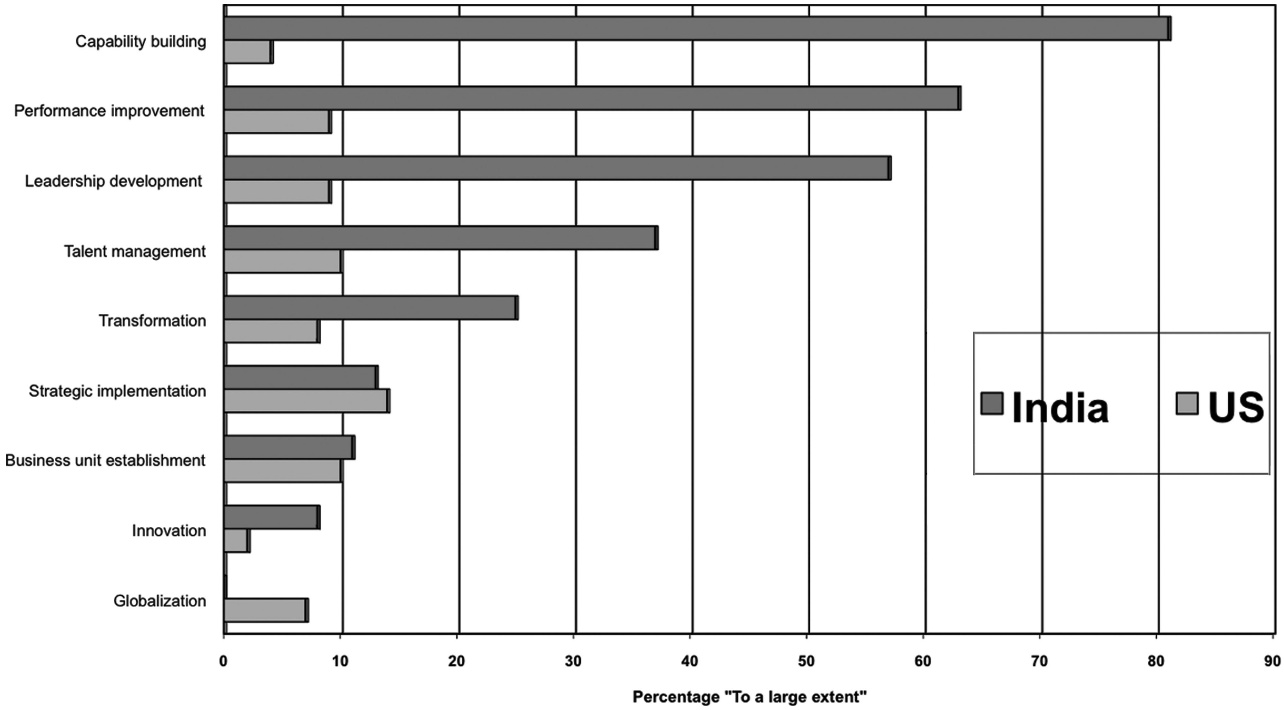
Employee Appreciation

A different measure of the priority that India Way companies place on their employees comes from what they tell shareholders and the broader community about their operations. An interesting study of the annual reports in the Indian information technology industry found that the most common mention of any human resource issue—so common, in fact, that it happened on average more than once in each report—was to thank employees for their contributions. The second most common HR mention was to highlight individual employees, typically for their special contributions or sometimes for their life experiences. That was followed in frequency by mentions of employee capabilities and efforts to train and develop employees. And the fourth most common mention was to discuss contributions employees were making to the broader community, outside of their work tasks (Murthy & Abeysekera, 2007). By contrast, the annual reports of the leading U.S. information-technology companies contained nary a mention of the employees. This is the case for the 2007 annual reports for the five biggest IT employers in the U.S.: IBM, HP, Microsoft, Oracle, and Cisco. The closest statement to the India model is a reasonably generic sentence in Cisco's shareholder letter that says, "While we're proud of the financial results we delivered," we "are also very proud of our people, our culture, and the way Cisco operates as a company" (Chambers, 2007). (See Appendix A for a brief discussion of how Infosys trains its new recruits.)

The reason Indian companies invest in their employees is that they see employees as key to building the organizational capabilities that drive competitiveness. Four of five of the top Indian human resource executives reported that building capabilities for the organization was an important purpose for employee learning. A meager 4% of their American counterparts in training and learning roles said the same thing (see Figure 3). In fact, capability building ranked next to the bottom on the list of U.S. outcomes, a stunning difference. In general, the American executives rarely saw learning as serving strategic-level goals for the organization. The outcome American executives reported most frequently as the purpose of employee learning was to better execute existing strategies: "Learning" seemed more like training, designed to improve performance on existing tasks. Even then it was embraced by only 14% of respondents.

Much like Japanese companies, the Indian corporations also take pains to protect those investments in employees. Keshub Mahindra, chairman of the Mahindra Group, told us that they contemplated laying off workers in the recent downturn but decided against it in large measure because they knew that for every employee laid off, there were five family members who would suffer alongside. They could not in good conscience do this to their loyal employees. So they put their otherwise redundant employees to work in the company gardens. With

Figure 3
How the Learning Function Provides Strategic Value to the Organization



Sources: Survey of Indian Companies, and American Society for Training and Development, 2006.

some satisfaction, he added that the company now has some of the finest gardens in India!

Employee Empowerment and Transparency

Having motivated and skilled employees might not matter if they were not given the opportunity to use those skills. The software company MindTree has adopted a host of innovative methods for fostering ideas and execution, beginning with an entire menu of ways for the employees to give feedback to executives. Among the arrangements: monthly updates called Snapshots that describe the competitive environment and the state of the company; All Minds Meet, a regular open house with the company's leadership where all questions are tackled on the spot; People Net intranet, where grievances are addressed; and Petals, a blogging site (MindTree, 2010b). But the most unusual aspect of the MindTree approach, both in transparency and role modeling, can be found in the company's integrity policy. MindTree posts on its Web site accounts of ethical failures and violations of company policies, and the lessons the firm has learned from each (MindTree, 2010a). The idea is that by acknowledging mistakes, especially those made by leaders, the company encourages others to admit theirs and to follow its lead in making changes.

The high-water mark for a culture of openness and flat hierarchy probably goes to the Sasken Corporation, which Rajiv Mody started in Silicon Valley and moved back to his home in Bangalore in 1991. The company's "single-status" policy means that all employees, from entry-level to Mody himself, are treated identically—same offices, same travel policies (coach class), same criteria for compensation (no separate executive compensation policies). While the company is known for being cheap in the area of compensation, it is otherwise extremely employee-friendly, with policies that include extensive programs for leaves, including a six-week sabbatical after four years of employment (Express Computer, 2007).

As an example of empowerment, Vineet Nayar, the CEO of HCL Technologies, has become well-known for his motto of "employee first, customer second." The point, Nayar said, is that "if you are willing to be accountable to your employees, then the way the employee behaves with the customer is with a high degree of ownership." At HCL, Nayar contended, "command and control" is giving way to "collaborative management." To that end, he has pushed for ever "smaller units of decision makers for faster speed and higher accuracy in decisions" to provide HCL's customers with more timely and customized service.

To make this happen, he spends as much as half his time in town hall meetings with the company's employees, communicating this vision for the company and managing the corporate culture. He makes it a personal goal to shake the hand of every employee every year, and when asked what he would like to be his greatest legacy to the company in five years, Nayar responded without missing a beat: "They would say that I have destroyed the office of the CEO." Pressed to explain, he said he sought so much "transparency" and "empowerment" in the company that "decisions would be made at the points where the decisions should be made"—that is, where the company meets the client. The "organization would be inverted, where the top is accountable to the bottom, and therefore the CEO's office will become irrelevant." His public blogs on the company website include a 2008 post titled "Destroying the office of the CEO" (Nayar, 2008).

HCL seeks to invert the organizational pyramid by making, as Vineet Nayar told us, "our managers accountable to our employees." One tactic for doing so is to encourage employees to submit electronic "tickets" on what needs to be changed or fixed, even the very personal, which have ranged from "I have a problem with my bonus" to "my boss sucks." An even more unusual tactic is to require 360-degree feedback reports on the 1,500 most senior company managers worldwide, including the chief executive himself. Employees have the option of evaluating not just their boss but also their boss's boss and three other managers. And the 360-degree feedback, including Nayar's own, is posted on an intranet site within several weeks for all employees to see—all of it, the good and the bad. As he told us, "our competitive differentiation should be the fact that we are more transparent than anybody else in our industry and therefore the customer likes us because of transparency; employees like us because there are no hidden secrets. So we built transparency." The idea of performance improvement has become more broadly acceptable, and the heightened personal transparency at the top serves to reduce the sense of vertical separation (Som, 2006).

Jugaad and Adaptability

The Hindi term *jugaad* describes the ability to improvise and find a way around problems, often using trial and error methods. The unique cultural context of learning to work in a tough, resource-constrained country where the ability to make do and improvise with what little was available created the necessity for *jugaad*. Keeping old equipment running with improvised spare parts is the classic example. In these modern corporations, though, the *jugaad* phenomenon plays out through motivated and committed employees hammering away at tough problems, persisting until they find creative solutions and workarounds. What makes them willing to do that? Again, having a sense of mission and social goal for the organization helps employees see a purpose in their work that goes beyond their immediate self-interest, beyond the achievements of the firm and its owners. And empowerment provides the opportunity to make use of that motivation. When we combine *jugaad* with the unique Indian approach to strategy, we get a sense of how these firms are competing and winning on the international stage.

Creative adaptation, not weary resignation, is central to the Indian approach to management. Vijay Mahajan, chief executive of Basix, a microfinance organization, argued for many in offering his explanation of the power of *jugaad,* an ability "to manage somehow, in spite of lack of resources." It constitutes a cornerstone of Indian enterprise, in his view, and the "spirit of *jugaad* has enabled the Indian businessman to survive and get by" in an economy that was until the late 1990s oppressed by controls and stymied by a lack of widespread purchasing power.

The English word *adjust* is also spoken in various local accents in India. It is used in a wide range of situations, usually with a plaintive smile. One can use it in a crowded bus, where three people are already seated on a seat for two, requesting them to "adjust" to accommodate a fourth person. Or, it is used by businessmen when they meet government officials, seeking to "adjust" various regulations, obviously for a consideration, to speed up the myriad permissions still required to do anything in India.

Doing More With Less, Strategically

Consider also the better known example of the Tata Nano, the pint-sized car built by Tata Motors, India's largest maker of automobiles and trucks. Conventional market strategy would have suggested staying away from the low end of the market, where Japanese quality and prices dominated. But realizing that India's mass market hungered for even lower cost transportation, Tata set out to engineer an automobile whose price would not just be marginally lower than the lowest end existing products but radically lower, 75% below the cheapest competitor. Here as well, the business goal involved a social mission: creating transportation for the poorest consumers. Meeting this extraordinary challenge for its traditional customers required an extensive application of *jugaad*.

Tata Motors knew that it would have to do the engineering largely on its own, without the benefit of the research and development that one might find in universities and government laboratories in other countries. It also knew that the Nano would have to be developed on a shorter cycle. "We can't have 48 or 36 months to bring out the new products," said Tata Motors executive director for finance Praveen Kadle; now it's just 24 or 18 months. With all that in mind, Tata Motors swiftly designed the Nano from a clean sheet of paper to meet what appeared to be an impossibly low price point: 100,000 rupees per car, about $2,500 at the time. That figure was not generated by market research. It came about as an off-the-cuff estimate by Ratan Tata, which generated huge attention, and so he decided to make it the target price point (ICFAI, 2008). Presented as the world's most inexpensive car when unveiled in January 2008, its sticker price was to be on par with the cost of a DVD-player option in luxury Western autos (Kurczewski, 2009). It achieved this price point not through technological innovation but by a completely new approach that closely resembles the *jugaad* concept: deep frugality, a willingness to challenge conventional wisdom, and a single-minded determination by Tata's top managers to work through the many constraints and challenges of operating in the Indian environment. They designed everything in the Nano from scratch, and they deleted features that were taken for granted by other carmakers, including air conditioning, power brakes, and radios.

The long-run plan for the Nano also includes an important innovation in the value chain: Kits of components are to be sold en masse for assembly and distribution by local entrepreneurs. Ratan Tata talked about "creating entrepreneurs across the country that would produce the car . . . , my idea of dispersing wealth" (Surender & Bose, 2008, p. 1). Tata even anticipated providing the tools for local mechanics to assemble the car in existing auto shops or new garages created to cater to rural customers. Termed "open distribution innovation" by *Business Week*, the method could create not only the world's least expensive automobile but also its largest selling one. "Tata Motors has built up a position," said Gopalakrishnan, "where international car companies are not able to compete with us." And that, in essence, is a large part of what the India Way is all about: a strategy of focusing the energy and attention of company managers on the hard and persistent needs of their customers, achieving outcomes that break through traditional standards of products and services.

The hospital group Narayana Hrudayalaya offers a similar story of *jugaad* and strategy. It was founded by Devi Shetty to help the thousands of Indian children who need cardiac surgery and cannot afford it. The group discovered that the only way to provide quality operations cheap enough for the masses to afford (a challenge yet to be mastered in the West) was to standardize and effectively automate them. So it set about learning to perform them at scale, changing the way surgery is performed. It now performs more than twice as many cardiac surgeries as the biggest U.S. hospital, with outcomes as good and at about one-tenth the cost as the best U.S. provider. Its profit margins are slightly above those of its U.S.

peers, and it is now planning hospitals outside India, including one not far from Miami, Florida (Narayana Hrudayalaya Hospitals, 2010).

ICICI Bank did something similar for rural banking. Whereas a typical savings account in the West might be $10,000, a typical one in urban India was apt to be no more than $1,000, and in rural India only a tenth of that. That meant operating expenses had to be pared down proportionately: Urban banking in India had to be conducted at one-tenth the cost of banking in the West, and rural banking at one-hundredth. "We need to be able to conceptualize how to deliver value to this market at an extremely low cost," ICICI chief executive K.V. Kamath said. "That's where the challenge is, as well as the opportunity and the excitement." A scaled-down urban branch model was still prohibitively expensive for rural banking, so Kamath and his team turned to alternative, far less costly avenues for reaching the poor, ranging from nonprofit microfinance groups to using local fertilizer distributors as agents.

Strategy From Within

None of the Indian business leaders we interviewed claimed that his company succeeded based on his own cleverness or even on the efforts of a top team. Almost without exception, Indian business leaders—and the industry analysts and business journalists who follow their companies—described the source of comparative advantage as coming from deep inside the company, from motivated employees, new and better ideas, and superior execution. And these outcomes, in turn, were traced to the positive attitudes and behaviors of employees. The obvious conclusion: Strategy in these companies comes from internal capabilities. The source of the distinctiveness of the India Way and the ability to focus the business on solving hard problems rests heavily on the management of people: They invest in them, use social mission to create motivation, empower them, and tap into the cultural aspect of *jugaad* to hammer away at hard problems until they break through.

As noted earlier, our interviewees saw being the "chief input to strategy" as their most important task. Strategy is often seen as a staff function in U.S. companies, and in that sense the fact that the number-one priority for the Indian CEOs was to be the main input into strategy may seem like a puzzle. But it makes perfect sense given that the sources of strategy among the Indian corporations we examined are deeply rooted within the firms, supported by a set of attributes such as organizational culture and practices around managing people that help drive their strategies. Building strategy means building these capabilities and stressing alignment within the organization, ensuring that many separate practices are consistent with one another and mutually reinforcing. In this context, being the "chief input into the strategy process" means that the CEOs monitor and maintain the infrastructure of their organizations, the firms' architecture and culture and systems for investing in and engaging their employees.

While most mainstream U.S. corporations are organized into strategic business units each responsible for its own strategy, in these Indian firms, the leaders own a significant part of the strategy function for the entire company, setting the agenda and taking a visible role in the strategies developed in various units. The focus for them is less on the analytics behind the strategies and more on creating the context: designing the incentive structures, managing the organizational culture, and in turn, shaping the strategies that managers then develop. Their view of strategy is therefore as a set of enduring principles, an approach to business that they can encode into the firms' responses to market opportunities. This approach to strategy allows for improvisation and flexibility in unit-level practices while incorporating interventions and inputs from the CEOs into the strategies of various businesses.

Other differences related to strategy concern the identification of opportunities in the market. U.S. companies are inclined to begin the strategy process with market research to identify new customers and opportunities that offer superior profit opportunities. The India Way companies, in contrast, are much more likely to stick with their traditional customers and take on the long-term, persistent challenges those customers face. Table 1 shows comparative data on how these top executives in India and their U.S. counterparts have

Table 1
How Indian and American Business Leaders Have Changed Their Allocation of Time Over the Past Three Years
(Items in bold: More than half of the executives affirmed)

Leadership Tasks	U.S. % More Time	U.S. % Less Time	India % More Time	India % Less Time
1. Regulatory/compliance issues	**98**	2	41	24
2. Reporting to the board	**72**	1	41	17
3. Shareholder relations	**58**	4	41	31
4. Setting strategy	47	9	**93**	0
5. Media relations	31	11	31	17
6. Day-to-day management	28	27	24	**55**
7. Fostering workplace diversity	26	13	21	41
8. Customer relations	22	27	**62**	7

U.S. figures from N.Y. Stock Exchange (2006) survey. Omitted column is "no change."

changed their allocation of time in recent years, an indication of priorities. Indian leaders saw the biggest increases in strategy and in customer relationships. Customer relationships were the area of largest net decline for U.S. CEOs, and their increased focus was all on factors outside the firm. Indian leaders report the biggest declines in their time in the area of day-to-day management, giving more autonomy to lower management. (Careful readers will see that leaders in both countries paradoxically report they were devoting more time to just about every priority in the past three years.)

An even more telling discrepancy emerged in a 2007 Conference Board survey of chief executives worldwide. When asked to identify their most critical challenges from among several dozen, American executives ranked "consistent execution of strategy" considerably above "speed, flexibility, [and] adaptability to change" (Baranowska, 2007). Their Indian counterparts reversed the ranking. For them, speed, flexibility, and adaptability were at the heart of strategy and the greater priority.

We also asked Indian business leaders to identify the capacities that have been most critical to the leadership of the firm over the past five years. They placed their greatest stress on four capacities: visioning, architecture and culture of the firm, personal qualities, and human resource issues. This is consistent with the notion that developing enduring capabilities is the key to success.

Strategy in the Indian context, then, is about the CEO's involvement in setting the core business principles by which the firm or business group will compete in the marketplace. CEOs recognized the need for capability development as the market opened up postreform. Beyond setting the architecture of the firm, CEOs provide input into strategies developed in the units reporting to them to a far greater extent than we see in U.S. corporations, making sure those strategies remain consistent with the core business principles. Adaptation, improvisation (*jugaad*), and doing more with less characterize key elements of strategy. The Tata Nano example and others above illustrate this adaptability and creative extension and utilization of resources. There is always the risk that quality could be compromised in this search for ever more creative ways of competing. But a theme present throughout is an emphasis on capability development and on resilience in a rapidly changing environment.

The process of driving strategy through core principles, especially social mission, also helps these companies find opportunities where no one else was looking. Hindustan Unilever's (HUL) development of a system for selling products through rural self-help groups illustrates how new structures made it possible to address a new market. HUL challenged head-on the assumption that standardized consumer products could not be sold to lower income consumers. Although a subsidiary of a multinational consumer products company, HUL was also very much an Indian company with many products unique to India. That helped it to look past Western business models that use standard marketing and supply-chain practices.

A persistent and previously unsolved problem for retail in India is that the rural market is scattered in some 600,000 villages, more than half of which were not effectively connected to urban centers by electronic media, newspapers, and rail. Project Shakti (meaning strength or empowerment), launched in 2000, was designed to address this gap. With rising competition from Procter and Gamble and local competitors in traditional markets, HUL realized that opening new markets was a way to create new opportunities. The project aimed at the most remote and lowest income consumers to extend the firm's reach beyond traditional marketing channels. They reached the new market through women's self-help groups. These groups, set up by nongovernmental organizations, typically comprise 10 to 15 women from a single village. They operate as mutual thrift societies, combining small amounts of cash toward a common pool. Microcredit agencies then lend additional funds to finance approved microcommercial initiatives.

Shakti entrepreneurs borrow money from their self-help groups, apply it to the purchase of HUL products, and then resell them to their neighbors. As most of the women in the self-help groups have no prior sales or business experience, HUL hires rural-sales promoters to coach the nascent entrepreneurs. The self-help-group entrepreneurs work as social influencers, increasing local awareness and changing attitudes toward usage of various products, mostly those targeted at women. At the same time, Shakti creates jobs for the rural women. HUL has extended Shakti to 15 states, and by the end of 2010, the company plans to have more than 100,000 Shakti entrepreneurs covering 500,000 villages.

Roots of the India Way: Can It Translate?

Is the India Way so unique to the Indian context that it cannot apply elsewhere? It has aspects that are consistent with traditional Indian culture, especially Hindi culture, such as obligations to the community, but it is nothing like a simple application of Indian cultural norms or business practices to modern corporations. In fact, the model looks relatively little like the practices of companies before the 1990 economic reforms. The new generation of leaders who created the India Way for the most part did not come from the executive ranks of the legacy companies. They were by and large entrepreneurs who started from scratch or, in the case of existing companies such as the Bank of Baroda, leaders with a mandate to reshape the drawing board. The India Way model they created responded to the remarkably different environment for business offered up by the economic reforms and more open markets after 1990.

The India Way is unique, but the set of practices that comprise it are not necessarily dependent on the Indian context. At least some of the practices, such as stakeholder-based governance and investments in employees, were part of the U.S. model in a previous generation. While it might be tempting to think that Indian practices might over time evolve into something closer to the current U.S. model, there are no apparent forces to drive such an evolution: The Indian firms are already exposed to the international investment industry—several are listed on U.S. stock markets—and they are succeeding mightily in international competition. It is more likely, we argue, that the India Way should serve as a model for other countries in part because it addresses the intense pressures for greater social responsibility but most importantly because it is succeeding in the competitive environment with a competitive advantage that appears to be sustainable in the long run. (See Appendix B about the accepted views on Indian culture as they relate to business.)

Conclusions

We understand that not all Indian business leaders are saints, not all Indian companies pursue the practices we describe here, and that even for these leading companies, we may be describing their best attributes. But the same can be said for accounts of companies in other contexts as well. Models are built on archetypes and the attributes that distinguish them from other models. While there are bits and pieces of the India Way in other contexts, the complete package of the India Way could be found nowhere else. Some parts of the system, like *jugaad*, seem unique; others, such as the dedication to a social mission, are practiced elsewhere but not at the level we see in India.

Clearly there are limits to the transferability of the India Way to other contexts. The fact that so many of the current business leaders in India were also founders of their companies gives them influence over organizational culture and company goals that professional executives of long-established firms do not have. The spectacular growth of Indian corporations may also make it easier to find resources for pursuing social missions, and the extraordinary problems of Indian society make the need for such missions much more urgent than in the West. And the fact that so many leading companies are all going down the path we describe creates normative comparisons that make it easier to keep going in that direction.

As concerns about current U.S. corporate practices mount, it is especially important to look at other models. The India Way offers a compelling example of a model that succeeds financially while succeeding socially. Indeed, we argue that its success is precisely because of its social mission. While the culture and context of India may seem quite foreign to the U.S., the practices that make up the India Way are easily recognizable to managers anywhere and indeed may not be all that different from what we might have seen in U.S. corporations a generation ago. It is time to take a closer look at those practices.

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Appendices

Appendix A: Training at Infosys

Once hired at Infosys, new recruits move to the largest corporate training facility in the world, just short of 300 acres outside of Mysore. The facility can handle 6,000 trainees at a time, with plans to quadruple in size. The training center was designed to feel like a college campus. When we visited, we were struck by how much the training-session rooms resembled typical college classrooms, a similarity that makes the transition from college to the company as smooth as possible. The 14-week training regimen includes regular exams and assessments that the new hires must pass to continue in the program. Candidates hired from outside India receive even longer training, six months, to help them adapt to the Indian and Infosys cultures. Company managers are assessed based on the percentage of new hires in their group who achieve an A grade on these tests, the number who achieve various competency certifications, and the percentage of outside or lateral hires who are rated as “good” in their first reviews. More senior managers are assessed based on the job satisfaction of their employees and the percentage of leadership positions that have an identified internal successor. Holding supervisors similarly responsible for the achievements of their subordinates was quite common in the U.S. before the mid-1980s but is now extremely rare (Rao & Hoyt, 2007).

Appendix B: Indian National Culture and Business

Suresh Gopalan and Joan Rivera (1997) summarized the accepted views about Indian national culture as they relate to business as follows: The Hindu religion’s belief in predestination reduces personal ambition and persistence; the country’s deep historical orientation leads to conformity with the past and resistance to change; a long tradition of hierarchical social relations make individual leaders more important than the goals they pursue. Others have made similar arguments, for example, that Indian salespersons perform better under more hierarchical authority arrangements than do their U.S. counterparts and that the greater power imbalance between superiors and subordinates in Indian society requires leadership styles that are much more task-oriented, leaving little room for individual autonomy. These views of Indian culture, however, are hard to reconcile with the fast-moving, innovative Indian business scene, empowered employees, and ambitious leaders who populate the India Way.