The Three Paths

Meeting Leadership Challenges in China and India

Businesses in Asia, notably in China and India, have traditionally been endowed with entrepreneurial energy. Where they have often fallen short is in efficiently structured, professionally run, and inspirational corporate leadership. An analysis of the three routes through which individuals in China and India become business leaders will go a long way toward resolving this disconnect.

In Asia today, especially in China and India, sound corporate leadership is frequently found wanting. Managing a business often remains undifferentiated from owning a business. Ownership is widely seen as automatically conferring the right of management. Spectacularly successful entrepreneurs frequently fail, often equally spectacularly, at professionalizing the management of their businesses after the initial success. This typically leads to disarray and decline.

A prevalent disconnect seems to exist in Asia between dynamic and visionary entrepreneurial energy on the one hand and sound corporate leadership that results in companies that are efficiently structured, professionally run, and competently and inspirationally led on the other. Successfully bridging this disconnect would foster the emergence of a new generation of business leaders in Asia. They would be endowed with entrepreneurial energy, just like their predecessors, but they would also be fully in tune with the need for professional management and also inspirational leadership. In attempting to bridge this disconnect, however, the process of how Asian business leaders emerge must be taken into account.

Three distinct pathways to becoming a business leader are found in Asia: the pioneering pathway, the inheritance pathway, and the professional pathway. The pathway each leader experiences indelibly stamps him or her with lasting personal and business values, tastes, and managerial styles and predilections. Understanding these pathways and

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their associated experiences is a good starting point for designing an effective approach to improving corporate leadership in Asia, especially in China and India.

THE PIONEERING ROUTE

One of the truly amazing phenomena of contemporary China is that despite nearly half a century of socialism, with repeated and violent campaigns against capitalism and the bourgeoisie, the spirit of private entrepreneurship has managed to stay alive. As hard as Mao Zedong tried to stifle this spirit and as much as he believed he had succeeded, the urge to engage in private enterprise somehow could not be eradicated. As soon as entrepreneurial opportunities opened, it became evident that beneath every drab Mao suit lurked a would-be capitalist ready to don a business suit. Even more surprising is the fact that the belief in private enterprise is alive and well not only among the young but also among those who suffered grievously through the Cultural Revolution. These older individuals responded with great enthusiasm when given permission to set up their own businesses.

Leveraging China's rising consumer spending, the urbanization boom, and the proliferation of new personal services, many Chinese entrepreneurs have made it big in property development, retail, and manufacturing. However, many of these entrepreneurs, especially those from the generation whose education was interrupted by the chaos of the Cultural Revolution, are not well educated. Many come from humble backgrounds in rural China. Most operate with an extremely short time horizon: focusing on making sure that the bank account is not in the red at the end of the month. They act more on gut instincts than on reasoned and sophisticated business planning. And they face intense, cutthroat competition daily. The pioneering pathway in China is a school of hard knocks, governed by a ruthless, Darwinian survival imperative.

Make no mistake about it: private entrepreneurs are transforming China. However, the environment in which they operate, which includes the need to deal with the still formidable government bureaucracy and the inevitable collisions with state-owned enterprises as competitors, shapes their behavior and outlook as entrepreneurs and as business leaders. They still need to tread carefully, for instance, and to demonstrate their contributions to China's development wherever they can. Being a "successful" corporate leader may have less to do with business strategy and visions than with managing government relations.

Zhang Yue, founder of Broad Ltd., a Changsha-based maker of giant cooling systems that has successfully marketed its products worldwide, conspicuously displays in his office certificates attesting that Broad has paid more taxes than any other private company in China. Not far from his office is a hangar that houses his private helicopter and jet. This juxtaposition of on the one hand being a champion taxpayer and on the other having a private helicopter and jet is highly illustrative of how Chinese entrepreneurs have chosen to travel on the pioneering pathway to affluence today.

In India, not surprisingly, the pioneering pathway works very differently. The momentum driving the pioneering pathway to being a business leader in India comes from the information technology revolution. The story of Infosys, a global provider of IT consulting and services, is a good example. In 1981, Narayana Murthy and six partners set up Infosys in a garage in the southern Indian city of Pune, with $1,500. The seed capital came from their personal savings, as no bank would consider extending them a business loan. A graduate of the prestigious Indian Institute of Management, Murthy led Infosys's exponential growth. Infosys now has more than $2 billion in annual revenue, is listed on the NASDAQ stock exchange, and counts among its clients many of the world's leading companies. Today Murthy has stepped down from directly running the company to be its *chief mentor,* a concept more Californian than Indian.

Murthy is just one of many Indian entrepreneurs who successfully rode the wave of information technology and the Internet to establish world-class businesses, amass huge personal fortunes, and create hundreds of thousands of well-paid jobs for young, well-trained Indians. Other names in this group include Shiv Nadar, founder of HCL, India's leading computer company; Azim Premji, founder of Wipro Technologies, one of the largest software companies in India and the world's largest provider of research and development services; and the Raju family, which founded the IT consulting and services company Satyam Computer Services.

This wave of entrepreneurship was made possible by a convergence of three factors. The first was the emergence of India's technical brainpower, which combined with the rock-bottom wages in India to form a formidable competitive advantage. (The brainpower was nurtured by elite schools such as the Indian Institute of Technology, but these

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schools came with a price, as basic education for the majority of Indians was and remains neglected, a situation that demands urgent reform.) The second factor was that the license *raj*—the elaborate system of licenses and regulations that were required to set up businesses in India until 1990 and that had stifled India's entrepreneurs for five decades following the nation's independence—had not anticipated the emergence of the IT industry. IT entrepreneurs were able to operate with relative ease as a result. The third factor was the emergence of the Internet, which became the virtual highway for India's IT exports. (India's physical infrastructure was and remains a serious bottleneck for the export of goods.) Economic reforms in the 1990s rapidly expanded India's already burgeoning IT industry. Within a decade IT service exports grew from virtually nothing to more than $40 billion a year. Service exports have also evolved, from basic services such as call centers to increasingly sophisticated (and higher value-added) business process outsourcing. Urban centers such as Bangalore and Chennai have become booming hubs of a dynamic IT industry. This industry, while building personal fortunes for the successful pioneers, has also become the standard path to affluence for young, well-educated Indians.

In sharp contrast with their Chinese counterparts, most of the Indian business leaders who have come through the pioneering pathway in the IT industry are well educated, technologically savvy, and have had some exposure to international business dealings. Their technological orientation and familiarity with corporate leadership tends to give them an air of sophistication.

DIFFERENT LEGACIES

Given the almost total destruction of private wealth in China over a period of four decades, one may well ask whether there is anything left to be inherited. Surprisingly, the answer is "quite a lot." The reason is the *princelings* phenomenon.

The children of China's top leaders and officials are known as princelings. Before the 1980s, most princelings were given priority in schooling, and many ended up being groomed for high positions in the government. Starting in the 1980s—and this development was a powerful sign of overall change in China—many princelings opted to go into business instead of government. Through their personal connections and family pedigrees these princelings have been able to pursue the inheritance pathway to becoming business leaders.

Many such princelings grew up in relative comfort and had privileged access to higher education and other opportunities, such as international travel. Because of the still sizable and influential state sector, their connections and pedigrees continue to carry weight and remain valuable assets. It is therefore not difficult to imagine that their conception of corporate leadership is closely tied to the role of the state and government authority.

In India, the inheritance pathway could not be more different from China's. If there is a business aristocracy in India, it would have to be the Tatas. The business conglomerate currently known as the Tata Group was founded in 1868 by Jamsetji Tata. He started in textiles, then expanded into trading, quickly establishing a stronghold in Bombay (now known as Mumbai). From the beginning the Tatas ran their business with a strong sense of social welfare for their workers. Jamsetji Tata introduced pensions for workers in his textile mills in 1886 and accident compensation in 1895. In this respect he was way ahead of his time and certainly ahead of other Indian business enterprises. This tradition of employee benefits has continued through vastly shifting economic, political, and business conditions over the past 138 years, even as the Tata Group has grown to become one of India's largest business conglomerates, with enterprises spanning heavy industry, manufacturing, chemicals, agribusiness, financial services, hospitality, and IT.

The Tata Group is also known and respected for its tradition of entrepreneurial energy and vision. Again, Jamsetji Tata set the pattern. After


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being refused entry to a hotel reserved for the British in Bombay, he built the legendary Taj Mahal Hotel on the waterfront of that bustling city, opposite the India Gate. The Taj chain of hotels and resorts today is among the most successful in India and the region. Two generations and a few decades later, J.R.D. Tata pioneered commercial aviation in India.

Ratan Tata, the current chairman of the Tata Group, took the reins in the 1980s and started a remarkable process of rejuvenating the business, which had started to wilt and lose focus under the license raj. Educated at Cornell University and Harvard Business School, Ratan Tata began to professionalize management and moved to invest aggressively in the booming IT sector by launching Tata Consulting, which has since become a global leader in computer software and services. Active overseas, Tata

Consulting is a leading investor in China's IT sector, and an ambitious multibillion dollar plan to invest in neighboring Bangladesh was unveiled in 2005. Seizing opportunities opened by economic reform in the 1990s, the Tata Group has also expanded into financial services to take advantage of rising domestic purchasing power. There are also plans for manufacturing a "people's car" that could be sold for $2,000.

The Tata Group is just one of many large, family-owned business enterprises in India. Some are more flamboyant than the Tata Group and have succeeded to different degrees in the environment of market reform. One thing they all have in common, however, is the sense of family tradition and a shared responsibility for preserving the family fortune and legacy. Accordingly, their sense of corporate leadership is closely aligned with the values of families, legacies, and traditions.

GOING PRO

The professional pathway started to operate in China relatively late, with the arrival of foreign multinational companies in the 1980s. Foreign businesses, including some from Hong Kong, created a market for skilled business professionals and paid competitive market wages, typically a high multiple of what could be earned working for a government-run enterprise.

Such professional employment in turn stimulated the supply side—Chinese institutions of higher learning started to develop a capability to meet the demand for graduates in business administration, finance, marketing, IT, and so on. Even before Chinese educational institutions started to respond to the new demand, enterprising Chinese students took to studying overseas. It is estimated that between 1978 and 2005, some nine hundred thousand Chinese students went overseas for higher education and that about five hundred thousand have returned to their homeland, mostly since 1999. By 2005, about ninety licensed institutions of higher learning in China offered an M.B.A. program. The best of these schools, such as Fudan University in Shanghai, have curricula developed in partnership with leading international institutions, such as the Massachusetts Institute of Technology's Sloan School of Management. Most of these well-educated business professionals in China, however, are still in their twenties and thirties. So in a society that is still largely organized by seniority and hierarchy, not many of them have reached leadership positions. Their time is yet to come. In many ways they hold the most promise for bridging the disconnect between entrepreneurial energy and sound corporate leadership in China.

In India the main thoroughfares in Bangalore are lined with sparkling, new, steel-and-glass office buildings housing IBM, Oracle, SAP, and a host of other leading international IT companies as well as Indian IT giants such as Infosys and Wipro. Tens of thousands of well-paid technical and managerial jobs are being created each year by these companies. They attract the best and the brightest graduates of India's elite academic institutions, such as the Indian Institute of Management and the Indian Institute of Technology, and are the points of entry for well-educated and skilled Indians to join the ranks of the affluent.

Collectively, these companies form the professional pathway for a whole new generation of young Indians to lead businesses in the future. Young Indian managers and professionals employed by and rising through the ranks of these companies are therefore constantly exposed to sophisticated management concepts and techniques, are given opportunities in international training and postings, and become well informed on the latest trends in business strategies and management know-how. An added advantage of these individuals' focus on technology is that they are less burdened than many other workers by the tradition of seniority according to age, because IT and related fields thrive on being innovative and creative—domains of the young more than the old. The leadership challenge for this generation of young Indian professionals is to go from technological prowess to genuine understanding of what leadership really means.

STRONG INFLUENCES

This brief comparison, organized in terms of the three pathways through which individuals in China and India become business leaders, suggests that the corporate leadership challenges in the two countries are very different. This is largely because the three pathways function very differently in China and India. In both nations, however, the pathways exert powerful influences on emerging business leaders, molding them to have certain strengths as well as certain weaknesses. Meeting the challenges of corporate leadership in China and India must begin with understanding these pathways and their impacts.