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# Chapter 10
# Management in India

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## Chapter outline

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| • A Strategic model of management in India | • Human resource management in India |
| • India's developmental policy and business systems | • Corporate social responsibility, governance and ethics in India |
| • Culture, management, and leadership in India | • Work and living in India |

## Chapter objectives

By reading this chapter you will gain an understanding of:

1. the core drivers of India's technological and economic surge
2. the diversity of business systems in India
3. the specific features of Indian management and their cultural foundations
4. the Indian approach to managing human resources.
5. how Indian firms fulfill social responsibility

## Introduction: A Strategic model of management in India

Management in India has entered a fascinating period of change and success. Indian industry has been growing at a rate of ten percent annually since the mid-1990s, up from a historical rate of 3.5 percent since independence. Per capita incomes has tripled between 1995-2007, and the stock market value tripled between 2001-2007. While the growth in the 1990s was driven by information technology (IT), IT-enabled services, and offshoring, several other sectors are now growing at double-digit rates including aviation, entertainment, real estate development, financial services, and hospitality (Government of India, 2007).

Unlike China, India's managers are focused on value-added designs and services, leveraging the nation's engineering and mathematics capabilities. In fact, taking into account the top 50 companies in terms of market capitalization in the world, India boasts the highest intangible component as percentage of total enterprise value – 75 percent – same as that of the U.S. In 2007, the global average among 32 nations was 65 percent, with China at 58 percent (Dhobal & Pandey, 2007).

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The emerging story of management in India is one of a country that strives for an inclusive approach. Managers are rapidly qualifying suppliers and workers from smaller towns and from under-represented and under-privileged backgrounds through training, gender sensitization programs, and interior-reaching networks and collaborations, and then retaining and advancing them through more complex, diverse, and broader engagements with international business-to-business clients. They are focused on penetrating the customers from second tier towns and increasing the capacity of the rural people to participate in the markets, through innovative use of IT-intensive solutions and bringing out lower priced value-intensive products at huge scales. In parallel, the growing Indian middle class is showing a willingness to spend more, purchase luxury products, and is responding to creative financial and marketing efforts such as loyalty programs, sales, and finance options.

Summary Points!
* Management in India is about the development of intellectual properties to leverage and enhance the value of tangible assets.
* The social benefits of these properties are diffusible across several sectors, and are sharable with various stakeholders, including multinational clients and domestic consumers, as well as vendors and employees.
* There is a great interest in learning why India has been successful in becoming a world leader in the development and execution of a management model based on the intellectual properties.

## India's developmental policy and business systems

India is an ancient land. Her development policy and business systems have evolved from several diverse and well-established cultures and institutions spanning several decades, centuries, and millennia. Below we examine the formative policy influences on the different types of business systems that exist in India today. These influences are examined over the following periods: British Colonialism, Early independence, Post-1980 Enabling Industrial Policy, Post-1995 Public Policy Reforms, and Recent Trends.

**British Colonial Policy and Bureaucratic Business System:** India was perhaps the wealthiest nation of the ancient world, as reflected in her nickname at the time - the "Golden Sparrow." India became a British colony by the 18th century. The British introduced a bureaucratic business system, characterized by a leisurely work ethic (*aaram*); things being left as they are (*chalta hai*); elaborate procedures and numerous approvals (*red tape*); expectation of private rewards for official work (*corruption*); public resources used for private indulgence and family favors (*nepotism*); an expectation of favors for bosses (*yesmanship*); and superficial employment (*employees who have little actual work*).

To facilitate colonial administration, postal, telecom, and railroad technologies were introduced into India in the 1850s as "engines of social improvement" (Bear, 1994). The interior of India was substantially altered. English machine-made goods, made from Indian raw materials, squeezed out skilled Indian village artisans, and transformed them into unskilled workers doing jobs in the colonial British factories.

**Post-independence Mixed Economy Policy and Extension Business System:** At the time of independence in 1947, India's agricultural sector was growing at a mere 0.3 percent, and its manufacturing sector was miniscule (INSA, 2001). India's first Prime Minister, Jawahar Lal Nehru, advocated adoption of the Soviet type Five Year Planning system, along with a Non-Alignment Policy (Nehru, 1937/1972).

The "Mixed Economy" policy entrusted heavy industry projects, such as steel and hydro-power, to the public sector, and introduced a "license raj" to regulate the investments of larger private sector companies. The public sector firms built extension networks with small-scale enterprises for sourcing various intermediate inputs. Similarly, the private sector subcontracted to the smaller enterprises in order to bypass licensing restrictions.

The Soviet bloc chipped in by helping construct a steel plant in 1955, licensed aircraft, tank and other military technology, and expanded assistance to oil, machinery, power generation equipment, and tractors. A network of 40 national R&D labs was created, along with technology and engineering colleges. The nation became 90 percent self-sufficient in capital goods by the late 1970s, though substantial consumer goods supply constraints emerged, along with economic stagnation, inflation, educated unemployment, and growing urban poverty.

Furthermore, with the aid of the U.S., institutions of higher education in management, the fields of technology (engineering), and medicine were created, and high yielding breeds, new pesticides, and new agricultural implements were adopted. By the late 1970s, agricultural growth had risen to 3 percent, for the first time since independence outpacing population growth, and facilitating a dramatic fall in rural poverty from 60 percent in the late 1960s to 40 percent in late 1980s (Mulford, 2004).

**Post-1980 Enabling Industrial Policy and Professional Business System**: In 1984, India's new Prime Minister Rajiv Gandhi laid a vision of taking India into the twenty-first century. The government policy called for an integrated development of software for the domestic and export markets by promoting the use of computers for decision-making. Public sector computerization generated large complex assignments. The imports of knocked-down computer kits from Taiwan and Korea were liberalized in order to create opportunities for software development firms. To manage their costs, Indian firms performed low-end software work in the U.S., and shifted higher end work offshore to India (Mulhearn, 2000).

**Post 1995 Public Reforms Policy and Entrepreneurial Business System:** In the mid-1990s, the Indian government started massive public sector reforms. Unviable public sector firms were closed, while the potentially viable ones were disinvested. The Ministry of Information Technology (IT), set up in 1999, sponsored hundreds of R&D projects at scores of enterprises, labs, and institutes, including the use of Indian languages for computers and a stronger extension of IT to rural India.

By 2000, a majority of the Fortune 500 companies outsourced their IT services to India (Raipuria, 2002). Soon, India had evolved from the world's software programmer to the world's back office to the world's laboratory, where the knowledge workforce made the cost of risk-taking affordable for companies around the world. Over 100 multinational firms, including General Motors, Intel, Microsoft, and IBM, set up R&D operations in India. Many global investment banks, brokerages, and accounting firms set up research units and hired Indian mathematicians to design models for risk analysis, consumer behavior, and industrial processes. Several Indian companies in IT services, IT enabled services, pharmaceuticals, and engineering became the preferred suppliers to the world. In 2006, besides exporting $30 billion of software and software services, India exported $20 billion of business services, including accounting, auditing, and environment services (trading in carbon credits), growing 80 percent annually (India Brand Equity Foundation, 2007).

**Recent Trends:** In 2007, agriculture accounted for 20 percent, and manufacturing 25 percent, of India's domestic income, but services have grown to 55 percent. With policy reforms allowing foreign and domestic private investments, infrastructure growth has increased to eight percent (Government of India, 2007).

For many foreign companies, India is becoming a design house, a tooling center, a components base, and a manufacturing hub. For instance, Germany's Heubach group produces pigments in India, 90 percent of which are exported to help paint the cars of Mercedes, General Motors, and other major auto firms in the U.S., Europe and Japan (India Brand Equity Foundation, 2007).

The government is also striving to bring about a second Green Revolution in the nation, as agriculture absorbs two-thirds of the workforce in India. Many companies are forming direct contract farming agreements with farmers to grow specific high quality crops, and are providing these farmers relevant technical know-how and extension services.

Summary Points!

* Management in India has been about rediscovering and redeploying the culturally embedded local operational and servicing endowments that were lost during the colonial times, and re-calibrating and re-aligning them through the assembly of networks in the global markets.
- On one hand, the system has forged innovative linkages with local subcontractors and geographies; on the other hand, it has established creative linkages with global multinationals and investors.
- It is interesting to explore why the managers in India have been unusually successful – compared to all other nations in Asia – in arbitraging intellectual servicing cost differentials between the local interior and the global exterior.

## Managing Corporate and Business Strategies in India

Since the mid-1990s, Indian managers have been forced to drastically restructure their business methods, consequent to the dismantling of licenses and controls, reduction of import tariffs and quotas, virtual elimination of public sector reservations, and a much more liberalized regime for foreign direct and portfolio investments. They have sold under-utilized assets, using capital in creative ways, and are intensely focused on the top and bottom line. Many companies and business groups that were on the top of the pecking order in the 1980s have been relegated down. Next we discuss the strategies used by Indian managers to meet these challenges.

**Corporate Strategies:** Traditionally, Indian businesses – under the joint family umbrella -- engaged in multiple activities. Among the top 50 business houses, such as the Tata Group, there was an average of 18 businesses in the 1990s. Some family business groups who restructured early after national economic liberalization in 1991 have been well placed to exploit globalization opportunities. However, many have faced tough challenges. In 1991, 22 of the top 50 firms were controlled by families that increased their power during the License Raj. But by 2000, only four out of the top 50 were run by the older business families. Of the top 50, 35 were professionally managed, of which 14 were first generation businesses (Goswami, 2000).

To meet competitive challenges, many diversified family businesses are going through family splits. Managers often use family splits to recognize the synergies among different business operations and make each business group more focused and cohesive. When the split is done to serve the family sentiments alone, the independent family businesses lack critical mass, and must expend time and resources on divesting unviable business lines.

**Business Strategies:** Indian managers are shifting away from a mindset focused on opportunistic resource accumulation and trading that prevailed traditionally as the basis for the unrelated diversification strategy. In general, they have started building a cost leadership, thereafter enhancing service leadership, and finally evolving into a recognized technology leader in the global marketplace (Das, 1999).

*Service Leadership:* The traditional trading business families were not cost leaders— indeed they sought to keep their business within their communities, if not families, so they would not be undercut. Even today, the employee in a typical family-run *saree* (the dress traditionally worn by women in India) store unfolds a hundred sarees within minutes, trying to sell a single one. Similarly, waiters in most family-run *dhabas* (the traditional Indian restaurants) deliver a customer's *thali* (the Indian meal plate) in two minutes. Many managers are now rediscovering the secrets of service leadership. Service leadership generates value by delivering superior service through trained knowledge workers.

*Technology Leadership:* Since mid-1990s, Indian companies have shown the highest return on equity in Asia. In 2006, return on equity in India was about 21 percent, compared with nine percent in China. India has followed a business-to-business model globally. However, domestically, the focus has been on a business-to-consumer model. Increasing salaries have resulted in increasing consumer expenditure. It has allowed many entrepreneurs to make large investments and benefit from economies of scale. In 2006, India boasted of the highest number of billionaires in Asia – 36 people, valued at $191 billion; it also had more than 1 million millionaires.

Now supported by a huge supply of funds, favorable policy changes, and their globally competitive business practices, a number of Indian firms – both big and small – are acquiring companies abroad to tap new overseas markets, gain customer portfolios, and acquire niche technologies. For instance, small clinical research firms are acquiring overseas firms in clinical research, bio-equivalence, and data management. India's overseas acquisitions exceed that of China and Russia combined, but mergers and acquisitions within India are less than ten percent of global acquisitions (Gadiesh, 2007). All this has made India's outward Foreign Direct Investments (FDI) greater than her inward FDI in 2007, making her companies global contenders. For instance, Mahindra & Mahindra has cultivated a dominating market share in the hobby farmer market for its low horse power tractors in the U.S.; these tractors were inspired by the small farms of India, and did not compete directly with the high horse power tractors based on larger farms in the U.S. Indian firms are successfully diversifying their customer and investment portfolios from the U.S. to Europe as well as in Asia.

Summary Points:
* Management in India has been about devoting close attention to the fundamentals – technological capabilities, investments, and servicing, as well as trading and exchange – for achieving rapid growth for investors, clients, and employees.
* The impetus comes from the failed expectations from the easy solutions, such as relying on the technology of foreign partners, and recognizing that managers must author the destiny of Indian companies themselves.
* Great interest exists in exploring why the managers in India have been unusually successful – compared to all other nations in Asia – in multiplying the equity investments and in creating new billionaires. .

## Culture, management, and leadership in India

The GLOBE (Global Leadership and Organizational Behavior Effectiveness) Program suggests using a nine dimension framework to study culture (House et al, 2004). We use these dimensions below to study the culture of India, as it relates to management and leadership.

**Performance orientation:** Indian society as a whole recognizes and celebrates accomplishments. Formal performance appraisal systems exist in most medium and large size organizations. At the same time, Indian society tries to not devalue failures; thus poor performance ratings are avoided. The leaders are accordingly expected to follow a nurturing style while maintaining a focus on performance (Chhokar, 2007). As such, weight is also sometimes given to an individual's identity and situational factors; for instance, seniority and suitability play a role in promotions, in addition to performance.

**Future orientation:** Indian society has historically put a priority on acting now for improving the "hereafter." Saving money and resources is encouraged in families as well as organizations. Reusing and recycling resources and products is a common practice; even in services, firms strive to develop mature processes to conserve human effort. A related doctrine of *mahurata* states that if time is not auspicious, then the actions may not be as fruitful. Given this complexity of balancing *act now* with *act at the right time*, outstanding leaders in India are expected to be visionary and inspirational.

**Gender egalitarianism:** Indian society has traditionally been male-dominated. Men primarily make the decisions in families, organizations, and society, and there are very few women leaders at the top of such arenas. At the same time, several women role models are celebrated in Indian folklore. These role models have been invoked by the social reformers focused on the re-empowerment of women within a merit-based framework. As Gandhi (1947/2003) observed, "Women, and for that matter any group, should disclaim patronage. They should seek justice, never favors." To meet the challenges of skill worker shortages, there is now an increasing emphasis on training, mentorship, and enabling social attitudes, family systems, and organizational structures for women in management.

**Humane Orientation:** From very early times, India's culture has been characterized by a great sense of fairness in social and civic relations (Chhokar, 2007). Commenting on the culture of India in the 1st millennium BC, Basham (1967: 8) noted: "The most striking feature of ancient

India’s civilization is its humanity.” Managers in India tend to be highly sensitive to the rights of the workers, who are often seen as members of one’s extended family. The worker and consumer rights are also well protected by law. There is a strong tradition of benevolent rulers in India.

**Power Distance:** Indian society and businesses have traditionally been quite stratified. Historically, in the so-called caste system, Brahmins as educators were spiritual leaders, Kshatriyas as rulers were administrative leaders, Vaisyas as traders were business leaders, and Sudras as farmers and craftsmen were masters of their trade. During the colonial times, the British introduced a hierarchical system of governance for society and organizations. Social reformers have sought to give voice to the underprivileged. In addition, deference to elders is an integral aspect of culture, and so employees tend to be respectful of the leaders. The power distance corresponds with the autocratic-paternalistic style of leadership and micro management; but if the leaders are not nurturing, the employees may use their power of resistance or show dissent.

**Institutional Collectivism:** The community is a fundamental principle in Indian society. It is about nurturing each other's voice despite differences, and unity in diversity, communal harmony, and democratic pluralism. Effective managers are those who are apt at finding a third solution as a way to reconcile the seemingly opposite interests. Simultaneously, defending one’s self-esteem and uniqueness, in the face of oppressive, hegemonic, and homogenizing forces is also a critical aspect of India’s culture. Leaders are expected to be introspective, keep important secrets, protect followers, and help save face.

**In-Group Collectivism:** The family is one of the basic units of Indian society. Support from the family, particularly parent-in-laws, is an important factor for women working in outside managerial and leadership positions. Key positions in family business management are often held by members of the extended family as well as close family friends and confidants. Professional managers in these businesses gain top leadership positions usually after having worked for several years (Gupta et al, 2008).

**Uncertainty Avoidance:** Attempts to reduce and regulate uncertainty are common in Indian society. Life in India is guided by elaborate social customs and religious rituals, especially for major life events such as birth, marriage, and death. Experiential knowledge and oral knowledge passed across generations are held high, though in recent years, professional academic qualification has become a passport to fast track careers. The leaders in India are expected to be administratively competent, i.e. enact policies fairly and proficiently.

**Assertiveness:** One finds that humility, gentility, and charm go along with firmness in Indian society. Indian media encourages and seeks multiple sides of an argument. Culturally, meanings, reality, and interpretations are seen as multi-dimensional in India, just like the multiple forms of God. The leaders in India are expected to be decisive, diplomatic, and team integrators (Chhokar, 2007).

The foregoing cultural characteristics play an important role in the models of leadership in India. The popular image of Indian leaders is one of an action oriented force of development and change. In general, Indian society prefers proactive, morally principled and ideological styles of leadership, compared to reactive, pragmatic, and instrumental styles.

Summary Points!
* Management in India is about the humane-centered mobilization of group loyalties, while carefully negotiating reduction in dysfunctional hierarchical and male-dominated power stratifications.
* Outstanding leaders are ones that dissipate dysfunctional tendencies, and focus group energies using an egalitarian approach for constructive futuristic and goal oriented endeavors.
* Many are interested in exploring if the culture of India played a positive or negative or neutral role in Indian business leadership, and in the success of Indian managers.

## Human Resource Management in India

Pre-British and British colonial roots has influenced human resource management in India. This influence has caused attempts to correct some of the past injustices after independence in 1947, and the adoption of some of the world's best practices after liberalization of the 1990s.

**Pre-Independence:** The early model of human resource management in India was created in the British colonial factories (Ramaswamy, 1997). In busy times, the workers, including women and children, "had to work 22 hours a day for seven consecutive days" (Report of the Indian Factory Labor Commission, 1908). "Those working these excessive hours frequently died" (British Parliamentary Papers, 1888).

The indigenous welfare movement gained pace with the setting up of the Dorabji Tata Graduate School of Social Work (later renamed as the Tata Institute of Social Sciences) by Tata business family. The Tata School offered training in casework, group work, and community organization techniques to deal with individuals, group, and community problems in the workforce.

**Post Independence:** Under the 1947 Industrial Disputes Act, the Indian government established an elaborate management-labor dispute labor mechanism. In the public sector, industry-level bargaining on a nationwide scale is common in core industries such as coal, steel, banks, insurance, and ports. In the private sector, industry-level bargaining on a regional scale flourishes in industries such as textiles, plantations, and engineering, where professional managers from the industry association, the Confederation of Indian Industry (CII) negotiate region-cum-industry agreements for the member firms. Basic wage rates, benefits, and working conditions decided at the company level are adjusted for local conditions at the plant level. Guided by the concept of the Welfare State in the Constitution of India, the collective agreements cover every aspect of business that influences the workforce, including compensation, work norms, staffing arrangements, transfer and promotion procedures, job and income security, techniques, and technologies (Venkata Raman, 1998). While about 90 percent of the workforce in the public sector has been unionized, the private sector has sought to minimize the union effects by subcontracting to small and medium firms.

Since the 1980s, private firms in India have pioneered many approaches for flexible restructuring to cope with the restrictive labor legislation and the emerging global competition. There has been a shift from regional and national-level unions to enterprise-level unions, often not linked with the National Federations, to negotiate willingly on the basis of the business conditions of companies. The restructuring of the larger private sector firms has opened the subcontracting space for the small units in the informal sector.

**Recent Developments:** Since the late 1990s, more dramatic changes have occurred in human resource (HR) management. To manage growth, the firms have scouted for talent deep in the smaller cities. The firms have rapidly escalated the metrics to support HR's contribution to their organizations and help measure effectiveness. Many firms deal with attrition rates as high as 70 percent. The firms with lower attrition rates are focused on increasingly complex, integrated, and challenging projects to generate higher unit values and to keep the more enriched employees from leaving. Many local firms have formed collaborations with universities to start specialized programs. Similarly, some U.S. firms have used their corporate universities, such as Motorola University and Cisco networking academies, to collaborate with vendors in India to provide training in soft and technical skills (Srivastava, 2007).

In this backdrop, a 2007 global survey of 17 nations by the Swedish research and consulting firm Kairos Future reports that Indian youth (16-29 year olds) are the happiest in the world. The AC Nielson Consumer Confidence Survey also finds that since 2001, Indian consumers are most optimistic in the world, with faith in their personal finances (90 percent optimistic) and job prospects (94 percent optimistic). At the same time, Indian men and women also wish to balance family and social life, and are not solely focused on work.

Diversity initiatives have also gained prominence to bring new talent. The proportion of women employees in new economy businesses is twice the average urban rate of 15 percent; and the percentage of women in managerial positions has doubled from 6 percent in late 1990s. However, many firms experience 50 percent attrition in the women employees by the age of thirty, because of marriage and/or childbirth. Firms such as IBM India, who have managed their gender-centering programs well, report single-digit overall attrition rates, an even lower attrition rate for female employees, and an ability to rapidly and successfully scale up local operations.

## Gender in Management and Leadership in India

There are three schools of thought on women managers in India (Mehra, 2002). The first school labels women in management to be part of the "boys club" – these women adopt a masculine style of management, take on tough assignments, are assertive and dominating, and sacrifice their family lives. This school holds that women can be effective managers only by behaving like male managers. The second school assumes that both men and women can be equally effective managers, but holds that women have special needs – such as maternity leave, flexible work arrangements and relocation to their partner's place. The third school posits that women bring special talents and skills to management, including their more interactive, intuitive, and cooperative style of leadership, and the organizations that are sensitive to gender in management are likely to benefit from this diversity.

Over the years, there have been three generations of attempts to address the issue of under-represented women in management and leadership in India. The first generation of issues was defined by the lack of managerial opportunities for women, because of an assumption that they were only capable of holding easy jobs. The second generation issue was the oppression of women using subtle barriers, even in the face of equal opportunity policies. These barriers included a paucity of mentors and role models and masculine policies such as working late nights and rigid hours. The introduction of flexable work hours and other gender-sensitive policies allowed women to enter non-traditional jobs and sectors. Yet, the percentage of women in the management positions has remained very low.

In response to the shortage of managerial and leadership talent, many multinational enterprises, leading domestic firms, and family businesses are beginning to re-evaluate their policies. Anecdotal reports suggest that women managers in India are opposed to the idea of women-specific policies – such policies are seen to demean the accomplishments of the women who have made it to management and leadership positions based on merit. In fact, women-focused policies have resulted in a growing new perception amongst Indian men that the gender sensitization policies are over-hyped. It has made many Indian men uncomfortable about working with women bosses, feeling that they will be asked to do extra work while the women will have it easy.

Therefore, in the firms such as ICICI, India's largest financial institution where women dominate the leadership ranks, emphasis has been on designing policies that address the need for varying work-life balance over the careers of the employees – women as well as men, managers as well as non-managers. Interestingly, men have become increasingly active users of the flexible work arrangements, and of the options to work from home for one or more days a week.

Women in India have rejected the introduction of a quota system for women in management or leadership positions. However, the Government of India has reserved one-third of the seats in rural governing bodies for women leaders. Of the 2.8 million elected officials in India, 1 million are women – more than all elected women representatives worldwide!

Summary Points:

* Management in India is also about engaging employees as partners in development and growth of the firm, the local communities, and the nation.
* It is important that the human resource management policies be formed taking into account the life needs of diverse groups, but those policies ought to be applied universally to provide equal opportunities for every group.
* An important question to explore is if the talent shortage offering space and motivation for the Indian managers to take leadership in improving the fundamentals of human resource management.

## Corporate Social Responsibility, Ethics and Governance in India

Historically, managers of Indian businesses sought to ensure multi-generational continuity of firms' values and resources by satisfying a variety of different interests of community and showed eco-centric values (Sundar, 1999). After independence, the government began enforcing social altruism values. Some public sector companies invested up to 5 percent of their profits on Corporate Social Responsibility (CSR) activities. The conventions of the International Labor Organization heavily influenced public policy. The high corporate and personal income taxes of up to 55 and 98.75 percent respectively, however, encouraged widespread tax evasion.

In the post 1980 era, the new professionally owned firms saw the government as a partner (Sidel, 2000). Confederation of Indian Industry, India's largest industry and business association, developed a voluntary code of corporate governance conduct in 1996 for the listed companies, ahead of the East Asian crisis. The initiative has propelled the capital market regulatory authority of India – SEBI – to introduce a statutory code to elevate the corporate governance to the international standards. The financial institutions have adopted an aggressive market-oriented stand, lifting their unconditional support of management. They have begun converting their outstanding debt to equity, and selling their shares in under-performing companies to professional entrepreneurs and managerial groups.

The policy framework has sought to resolve the "shareholder vs. stakeholder" debate by promoting the rights of shareholders, while ensuring that the interests of other stakeholders are not adversely impacted. Secured credits such as banks, financial institutions and insurance companies offering long-term debt have the right to appoint their representatives as "nominee directors" on the board of the client companies. They have exercised this right with almost all major listed companies that have a sizeable debt. Well-defined laws protect the interests of employees, insofar as the labor market is very restrictive, where adjustments, retrenchments, and downsizing are difficult to implement. Increasing popularity of equity stock options, particularly for the managerial and leadership level, has aligned employee and shareholder interests.

As the firms have faced competition for capital, human resources, customers, and public goods, the pressure groups have become vocal, asking to support poverty alleviation, address unemployment, fight inequity, and do affirmative action. Similarly, the foreign clients have demanded new CSR activities, including advancing women to managerial and leadership teams, and grassroots action for eliminating adverse impacts on environment, human rights, and child rights. The Indian CSR initiatives have evolved to cover employees, customers, stakeholders, as well as sustainable local and national development through corporate citizenship.

India has gained the dubious distinction of having the world's largest slum population. In Mumbai, half of the population now lives in slums, because of the migration from rural areas and real estate values that are reputed to be the highest in the world. Therefore, many public, private and nonprofit firms have launched initiatives for making urban life accessible within the villages. For instance, the State Bank of India introduced the concept of no-frills accounts to give poor and rural people access to banking, affordable credit, and financial literacy. Through a range of IT-enabled initiatives, corporate India is blurring the line between corporate philanthropy and business (Soota, 2007).

In 2007, India ranked in the 60th percentile on the Transparency Index of the Transparency International. Public institutions continue to be compromised by corruption. In 2005, the Right to Information Act was passed to allow civic institutions to hold public institutions accountable and create an empowered citizenry. Indian judiciary has also supported Public Interest Litigations as a way to spur public bodies to positive social action. The economic growth has resulted in improved social indicators such as reduced poverty, morbidity and mortality rates, and higher literacy levels, with rapid improvements in the Human Development Index. However, with growing income inequalities, India's score on Human Development Index in 2005 was 0.62, ranked at a dismal 28th percentile internationally.

Given the vast scale of the challenge, Indian managers recognize that for sustainable development, they need to take a greater responsibility for linking economic growth with social development. In addition to improving the overall quality of life and increasing social stability, it will also make India an international destination of choice for “socially responsible investment” and differentiate Indian firms for long-term, high quality investors.

Summary Points:
* Management in India is also about trusteeship of various and diverse constituencies, including employees, community, investors, lenders, and vendors, particularly around rural and urban boundaries.
* Socially and culturally sensitive strategies are essential to sustainable management in India.

## Work and Living in India

A growing number of expatriates are being hired by Indian firms and by multinational firms in India. The most popular category of expatriates is people of Indian origin who have studied and lived in other nations, and who may want to relocate to India for emotional or family reasons. In addition, many firms in the knowledge process outsourcing sector employ expatriates for 6-12 months, and charge them with the development of global contacts. For the expatriates, working in India has become increasingly lucrative. Since 2000, Indian workers have enjoyed the world’s highest percentage of annual salary increases (nominal: 12-14 percent; inflation adjusted: 7 to 9 percent), per the surveys conducted by Hewitt Associates. During the late 1990s, senior/top management enjoyed the highest salary increases, but since 2000, entry-level professional/ supervisor/technical positions have received the highest increases. While the top ten cities in India account for 45 percent of the shopper’s base, the most rapid growth has now shifted to urban uptowns, emerging uptowns, and other towns. The expatriates find healthcare to be very economical in India, but the cost of housing is extremely high.

Most expatriates find the diversity of Indian religious and social life, and its influence on management and leadership, to be a refreshing eye opener. Yet a major psychological challenge is to reconcile the vast differences in income and opportunity. At the base, India has a 700 million strong bottom of the pyramid, comprised of poor people living in urban slums and rural areas. At the top, a quiet but dramatic rise is noticeable in India’s rich, comprising of more than a million millionaires and a few billionaires. In 2006, the upscale, premium and luxury market in India was $15.6 billion (Technopak, 2007). The middle class is distinguished by the rise of the twenty-something Indian urban consumer. From 1996-2006, middle class families with an annual household income of $5,000 and above tripled to 100 million (lower middle class being another 200 million strong) [NCAER, 2007].

**Reflective Questions**

* Is the enormity of social challenge a drag on the success of Indian managers, or an opportunity for new business models?
* Can managers make an unprecedented impact on the world’s population hitherto excluded from the developmental processes and rewards?

**Chapter summary**

1. India is fast emerging as a major economic power. India has retransformed herself from a lower income to lower middle income nation. The role of government has shifted

from that of tight control to partnership with the private sector for inclusive and sustainable development.

2. The backbone of the growth of India's economy has been information technology, but new areas such as biotechnology are fast emerging as new growth drivers.

3. The Indian management style is built on craft traditions and community values. However, it also received an imprinting of British bureaucratic and human rights exploitation and welfare-oriented socialist policy.

4. Women are playing an increasingly important role as entry-level workers and as managers in Indian companies, though women in leadership remains quite limited.

5. Expectations for corporations to be socially responsible have become very high. Though philanthropy, donations, and welfare-oriented employee policies remain important, the emphasis has now shifted to business models that are inclusive and enable sustainable engagement of under-represented, under-privileged, and under-served segments.

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***Key Concepts***

*Business-to-business model:* Direct relationship between two businesses or business partners.
*Business-to-consumer model:* A relationship where businesses interact with the end-consumers.
*Cost leadership:* Developing an ability to compete on the basis of low cost structure.
*Extension Services:* Services offered by an academic or public institution to the larger public.
*First generation family business:* Family businesses that are owned and run by the founders.
*Green Revolution:* A significant increase in agriculture productivity arising from the introduction of scientific methods and systematic management models.
*License Raj:* The bureaucratic system of controlling the economy through license permits for investment capacity and production outputs.
*Mixed Economy:* A system of economic governance where the public and private sector collaborate and play an equally important role.

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***Discussion/Review questions***

1. Why did the Indian economy transform and grow so fast since the mid-1990s?
2. What are the distinguishing features of Indian culture? What are the implications of this culture for the management and leadership of Indian firms?
3. What is the role of gender in Indian firms? How has this role been transforming? What other forms of diversity are important in Indian management? What factors are influencing the salience of these forms in the strategies of Indian firms?
4. How are Indian companies acquiring and advancing their workers and managers?
5. Indian firms have increasingly globalized their activities in recent years and acquired subsidiaries overseas. To what extent can they learn new practices from their subsidiaries in Southeast Asia to enhance Indian management? What can be expected to be some crucial areas where the Indian style of management will be worthy of research and consideration by the local firms in Southeast Asia?

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***Other Activities***

1. Search for Indian businesses in your community, and evaluate them broadly (in terms of price, quality, ethnic uniqueness, product diversity, inclusiveness, service). What distinguishes them from similar businesses from other countries in your community? Think about whether and how the features of these Indian businesses can be related to the peculiarities of Indian management.
2. Imagine you are working for an Indian company. Discuss with your classmates how you would be able to deal with the Indian management style, and what would probably be the biggest cultural challenges for you to accommodate to such an environment.

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***Interesting web links***

On the story of India: india.gov.in

On the success story of Brand India: www.ibef.org

On tourism in India : www.incredibleindia.org

On news from India : samachar.com

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## Mini case:

## Reliance Group – Emergence of an Elephant from an Ant

The origins of the Reliance Group – India's largest business house – date to 1958, when Dhirubhai Ambani founded Reliance Commercial Corporation (RCC) with a borrowed capital of Rs. 15,000 to export spice commodities to Yemen. In 1966, he left the spice business, and launched Reliance Textile Industries with a borrowed capital of Rs. 280,000. He started this business after the government announced an export promotion program to allow the import of nylon fiber against the export of rayon fabrics. Reliance enjoyed rapid growth under a follow up government program in 1971, which allowed the import of polyester fiber against the export of rayon fabrics -- in fact, 60 percent of all firms' exports under this program were from Reliance.

After the government decided not to renew these programs beyond 1978, Reliance decided to shift its focus to the domestic market. Reliance went public in 1977 and roped in 58,000 middle-class investors from the smaller cities in one of the largest public issues of the time. That was revolutionary in a market dominated by state financial institutions, and when the stock market was deemed something only for the rich.

Reliance bypassed wholesalers and focused on non-metro urban markets where the power of bigger wholesalers was weaker. Within two years, Reliance gained a national reach. Reliance rejected the model where a few experts run a company as if it is a secret operation.

In 1981, Reliance decided to integrate backward by starting its own polyester fiber plant. It produced at a capacity almost twice the current demand. Dhirubhai brought in his elder son – Mukesh – who had just finished his MBA from Stanford – to start the polyester fiber plant from scratch. At this time, the government had decided to reserve polyester fiber for the small scale sector. Reliance designed a subcontracting program wherein it would sell its polyester yarn to small mills for spinning, and then buy the spun cloth back for finishing and sell it under its Vimal brand name. Since no other large mill offered polyester cloth, Reliance enjoyed rapid growth once again.

To sustain its growth, Reliance remained diligently focused on talent management. Reliance hired managers from the public sector to introduce the best practices for setting up standard operating procedures and processes. Different groups of people were given charge of different competencies. Some were entrusted with obtaining government licenses, such as for importing something quickly to reduce the cycle time. Others were responsible for timely project execution. And still others focused on the operations – how to run the company efficiently.

To outsiders, it seemed that Reliance's success was mostly based on the web of relationships it created with influential politicians, government officials, and the media. These relationships helped it lobby with the government and gain favorable policies, licenses, approvals, and foreign exchange for its expansion and diversification initiatives. However, for the same reason, Reliance was constantly criticized by its rivals – including one who owned a major national newspaper – for manipulating government policies through bribes and unfair influence.

Reliance was committed to use its competencies and cash flows to invest in the businesses of the future, and to make a difference in the lives of millions of Indians. Therefore, it moved further upstream backward integration into polyester resins, and produced a range of petrochemical end products such as detergent intermediaries whose capabilities were related to the manufacturing of these resins. Consequently, by 1990, Reliance's stock market value had soared to nearly Rs. ten billion.

Reliance consolidated its capabilities to move further upstream into petrochemical intermediaries in 1991, by building the world's largest ethylene cracker plant. The stock value nearly reached Rs. 100 billion by 1995, when Reliance became the first Indian company to report a net profit of Rs. ten billion. As after liberalization, the government reduced tariffs first to 150 percent, then to 30 percent and finally ten percent, thus creating a booming opportunity for Reliance.

When the government decided to offer licenses for cellular phones in 1997, Reliance decided to take the plunge into the growing information technology sector.

Reliance moved further upstream in its core business into oil refining in 1999 with a state-of-the art integrated complex which accounts for 25 percent of India's refining capacity. For the next three years, Dhirubhai was rated "India's Most Admired CEO" in the Business Barons – Tylor Nelson Sofres-Mode Survey. In July 2002, Dhrirubhai passed away, leaving his legacy behind. As India's largest company, and India's only Fortune 500 company, Reliance had given its original investors a compounded annual return of 43 percent over its 25 years as a public company. Indian corporate history had been rewritten, and the way Indian business thought and operated had been changed forever.

In June 2005, Dhirubhai's wife decided to split the group to sort out the rivalry between Mukesh and his younger brother Anil. Mukesh was given Reliance Industries (oil, gas, and petrochemicals) worth 70 percent of the family's equity in the group worth $23 billion of market capitalization, and Anil received 20 percent in the form of Reliance Communications (telecom), Reliance Energy (power utility) and Reliance Capital (financial arm). Their two sisters received 5 percent each.

Under Anil, Reliance Communications grew into the country's second biggest in subscriber numbers, and Reliance Capital became the biggest private sector mutual fund within a year. Reliance Energy announced a major expansion plan to transform India's power landscape. Anil also acquired an entertainment company Adlabs Films to enter the entertainment business. By mid-2006, his Group was worth nearly half of Mukesh's Group.

Mukesh's Group grew more modestly by 50 percent in one year, as he focused on projects that proved more socially controversial. One of the unfulfilled dreams of Dhirubhai was for Reliance to enter Agri-business and make a difference in the lives of the 60 percent of the Indian population engaged in agriculture. Mukesh believed that fragmented landholdings of the farmers could be integrated with technology, and farmers could become world-class with proper inputs. For that to happen, distribution had to be fixed by putting world-class technology at Indian costs, to connect the small farmers directly to the U.S. market so that they could get market price for their fresh produce. Mukesh planned to invest Rs. 250 billion in retailing, structured into 34 independent companies for each of the verticals that might in future be listed as a public company, and to form global alliances. The vision was to create 1 million new jobs for college graduates by 2010, and increase farm incomes by 6-10 times. However, the small traditional food retailers in the unorganized sector were soon out in the streets to protest the entry of Reliance in groceries. Mukesh's other major plan was to invest in Special Economic Zones (SEZs) that would offer integrated airport, seaport, transportation, power and housing capabilities at sensible costs. The vision was to bring in global employers to different sectors to tap the talent that India had to offer.

In March 2007, Forbes ranked Mukesh as the 14th richest person in the world, with an estimated wealth of $20.1 billion. However, after a stock market rally, Mukesh's wealth had jumped to $50 billion by end October 2007. Anil's wealth grew even faster, and reached $38.5 billion. Reliance group was worth a total of $196.7 billion, having grown 8.5 times since the split in 2005. In this situation, sibling rivalry played a role in driving each respective businesses to excellence.

**Case questions**

1. Which internal and external factors have helped Reliance Group growing into its current position?
2. In which aspects has the management at Reliance Group been typical for Indian management? In which aspects has it been atypical?
3. Do you think Reliance Group has to transform itself fundamentally to remain successful in the future? Why or why not?

*Sources:* Majumdar Sourav, Shetty Sudhir, The Dhirubhai Legend: The Bond With the Market Still Endures, The Financial Express, June 27, 2002; Srinivasan Raghuvir, Driven by the power to dream big, Business Line, July 8, 2002; Karmali Nazneen, A Lifetime Achievment, Business India, July 8 – 21, 2002; The Rediff Interview/Mukesh Ambani, chairman, Reliance Industries Ltd, 'Always invest in businesses of the future and in talent', January 17, 2007; Ambanis 1st to hit $100-bn mark, but together, newindexpress.com, Oct 30, 2007.