Leadership Lessons from Ind

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How the best Indian companies drive performance by investing in people.

by Peter Cappelli, Harbir Singh, Jitendra V. Singh, and Michael Useem

Vineet Nayar, CEO of the Indian IT services giant HCL, likes to rock the boat. Asked what he wished his greatest legacy to be in five years, Nayar responded without missing a beat: "That I have destroyed the office of the CEO." He led the charge that gave rise to the company's bracing motto, "Employee first, customer second"—an idea that would give many managers hives. And he invited employees to evaluate their bosses and their bosses' bosses; then he posted his own review on the firm's intranet for all to see, and urged others to follow his lead.

What's Nayar up to? Pressed to explain, he told us that he sought enough "transparency" and "empowerment" in the company that "decisions would be made at the points where the decisions should be made"—that is, by employees, where the company meets the client. Ideally, he said, "the organization would be inverted, where the top is accountable to the bottom, and therefore the CEO's office will become irrelevant."

Nayar might be dismissed as a loosely tethered idealist except that his company, with nearly 55,000 employees and a market cap of $24 billion, is growing even faster than India's red-hot economy. He's doing something right, and, as we found in a yearlong study of Indian executives, his leadership approach is closer than not to the norm among India's biggest and fastest-growing companies.

To discover how Indian leaders drive their organizations to high performance, our research team interviewed senior executives at 98 of the largest India-based companies. (See the sidebar "How We Did Our Study.") In conversations with leaders at Infosys, Reliance Industries, Tata, Mahindra & Mahindra, Aventis Pharma, and many others, a picture emerged of a distinctive Indian model. None of the people we interviewed suggested that their companies had succeeded because of their own cleverness at strategy or even because of the efforts of a top team. They didn't mention skill in financial markets, mergers and acquisitions, or deal making—talents that Western CEOs often claim underpin their

companies' performance. Almost without exception, these leaders, like Nayar, said their source of competitive advantage lay deep inside their companies, in their people.

That may sound like posturing, but our research puts hard numbers on the characteristic ways Indian leaders invest in people. Far more than their Western counterparts, these leaders and their organizations take a long-term, internally focused view. They work to create a sense of social mission that is served when the business succeeds. They make aggressive investments in employee development, despite tight labor markets and widespread job-hopping. And they strive for a high level of employee engagement and openness.

This is not to say that Indian firms and their leaders are inordinately virtuous. Corruption and malfeasance can be found in the Indian business community as surely as in any other. (Note, for instance, the scandal involving Satyam Computer and its chairman and founder, Ramalinga Raju, who was jailed on charges of misleading investors.) Not all Indian executives are saints or sages, just as not all U.S. CEOs single-mindedly pursue shareholder value while ignoring social concerns. Still, the leaders of the most successful Indian companies do engage with their country, culture, and employees in a characteristic way, and this is an important factor in their performance. Their approach is used often enough that, we believe, it constitutes the centerpiece of a clear model—one from which Western leaders can learn.

Although India's competitive environment is relatively new, company leaders have brought to it a long-standing tradition of business largesse—a commitment to social goals fueled by enlightened self-interest. That mind-set is embedded in Hindustan Unilever's Project Shakti, for example, which applied microfinance principles to create a sales force in some of the subcontinent's most remote and economically challenged regions. And it's revealed in hospitals, grade schools, and virtual universities built across the country by leading businesses.

Leading the India Way

Our survey revealed an important difference between Indian and Western company leaders in how they focus their energy. When we asked Indian leaders to prioritize their key responsibilities, this is how they ranked the top four:

1. Chief input for business strategy

Skills Indian Leaders Value Most

When asked which qualities had been most critical to their exercise of leadership over the past five years,

61%
of Indian leaders said envisioning and articulating a path to the future; strategic thinking; guiding change

57%
said being inspirational, accountable, and entrepreneurial

52%
said supporting careful talent selection, grooming, and practices that advance business goals

43%
said optimizing organizational structure and articulating core values

22%
said understanding competitors and markets; managing outside relations

2. Keeper of organizational culture
3. Guide, teacher, or role model for employees
4. Representative of owner and investor interests

It's striking that they put shareholders in fourth place, since U.S. executives are all but required to say that shareholder interests are their number one concern. This low ranking held for even the most global of the companies we studied, which are exposed to international capital markets and in some cases listed on U.S. stock exchanges. And it held for leaders such as Anand Mahindra, Sunil Bharti Mittal, and Azim Premji, who are huge shareholders in their own companies.

The higher priority these executives place on keeping the culture and guiding and teaching employees underscores their focus on human capital development. As the exhibit "Skills Indian Leaders Value Most" shows, this focus also emerged in their responses to our question "What are the top two leadership capacities most critical to your exercise of leadership over the past five years?"

Given their intense focus on culture and human capital, it may be surprising that the Indian leaders cited strategy as their top priority. But strategy also emerged as important in another of our surveys, which explored changes in U.S. and Indian top executives' allocation of time over the past five years. As the exhibit "A Stark Difference in Focus" shows, U.S. executives became increasingly attentive to external demands—regulatory concerns, the board, and shareholders—whereas fewer than half of the Indian executives gave additional attention to these, and the overwhelming majority said they spent more time on setting strategy.

It's important to understand how Indian leaders see their role in strategy development. Whereas Western leaders often leave it to profit-center heads, Indian leaders are likely to own the strategy function, setting the agenda and taking a visible role in shaping the strategies their managers bring to them. They tend to focus less on Western-style planning and analysis and more on creating the incentives, organizational structures, and culture that will enable an improvisational approach to strategy. They view strategy as a set of enduring general principles for competing, such as developing competencies, embracing social purpose, and taking the long view—an approach to business that they personally encode in the company's culture. This model both enhances a company's agility in the marketplace and allows Indian leaders to develop their top managers. Thus

Idea in Brief

The leaders of India's biggest and fastest-growing companies take an internally focused, long-term view and put motivating and developing employees higher on the priority list than short-term shareholder interests.

To engage employees, these leaders create a sense of social mission that is central to company culture, encourage openness by developing and personally modeling systems that provide transparency, empower employees by enabling communication and pushing decision making down through the ranks, and invest heavily in training.

These individual practices aren't new, but Indian leaders combine them in a coherent package and give them consistent emphasis. The authors advise that Western leaders adapt this managerial approach to their own circumstances, pursuing in particular two readily achievable goals: investing in training, and strengthening social mission.

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strategy and "guiding and teaching" are complementary priorities.

Ratan Tata set a new strategic course for the Tata Group when he took it over, in 1991. At the time, it was doing virtually no business outside India. Against some internal opposition, he asserted that the company had to go global, in part to reduce the risk of dependence on a single country's economy. Beginning in 2000, he led the conglomerate's 96 companies on a wave of acquisitions, using a case-by-case, trial-and-error approach to acquire, for ex-ample, the Tetley Group, the Daewoo Commercial Vehicle Company, and Boston's Ritz-Carlton hotel (now the Taj Boston). Half the Tata Group's revenue comes from other countries. This globalization was accomplished not by an explicit, careful strategy but by Ratan Tata's personal vision for how to compete across international markets.

Consider the development of the Nano. For this affordable car, the decision about pricing and, there-fore, market positioning (a typical focus of Western strategy) came about by accident: A reporter asked about price, and Tata's off-the-cuff guesstimate that the Nano might cost 100,000 rupees ($2,000) made headlines the next day. So Tata decided that 100,000 rupees might as well be the goal, and the company's managers and engineers set to work, unsure exactly how they'd meet the target. Persistently improvising around obstacles, an approach captured by the Hindi word *jugaad*, they cut costs at every turn—for example, by repurposing scooter parts and eliminating extras such as power windows.

A STARK DIFFERENCE IN FOCUS

Over the past five years, Indian leaders began spending more time on internal issues, while U.S. CEOs spent more time on external affairs.

CEOS WHO ARE DEVOTING **LESS** TIME	CEOS WHO ARE DEVOTING **MORE** TIME

REGULATORY ISSUES

U.S. CEOS: 2% — 98%
INDIAN CEOS: 24% — 41%

REPORTING TO THE BOARD

1% — 78%
17% — 41%

SHAREHOLDER RELATIONS

4% — 58%
31% — 41%

SETTING STRATEGY

9% — 47%
0% — 93%

MEDIA RELATIONS

11% — 31%
17% — 31%

DAY-TO-DAY MANAGEMENT
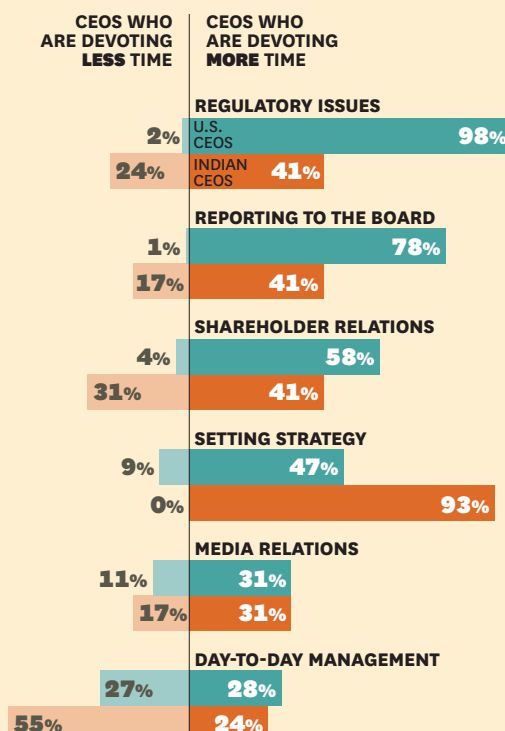
27% — 28%
55% — 24%

Motivating Employees

To get some hard data on Indian leaders' style, we asked the directors of human resources at our executives' companies to assess their top bosses using the Multifactor Leadership Questionnaire (MLQ), the most widely applied such tool in the United States. Perhaps not surprisingly, the executives scored high on "transformational" or charismatic leadership designed to encourage employees to care about the goals of the leader and the organization. When we compared these data with MLQ data for U.S. CEOs, we found that the latter were more likely to use "trans-actional" styles—motivating employees to act in the interests of the business by striking deals with them (If you want a promotion, meet these sales targets).

The leaders we surveyed typically attributed the success of their companies to employees' positive

In India, CSR is a reputational asset. Obtaining industrial licenses and environmental clearance can depend on being known for public responsibility.

Achieving CSR Targets

Our research revealed striking differences between Indian and U.S. companies in attention paid to this goal.

ROUTINELY MONITOR PROGRESS

INDIAN COMPANIES
40%

U.S. COMPANIES
17%

RARELY MONITOR PROGRESS

INDIAN COMPANIES
15%

U.S. COMPANIES
45%

attitudes, persistence, and sense of reciprocity, which the executives inspire in four specific ways.

Creating a sense of mission. As we've observed, Indian leaders have long been involved in societal issues, preemptively investing in community services and infrastructure. Mallika Srinivasan, the director of Tractors & 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 Infosys and many other big companies, Tractors & Farm Equipment maintains a first-world, campuslike facility within sight of third-world slums. "Corporate social responsibility and good governance are related to the state of the development of the country," she 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 this CSR is driven by necessity, of course; national well-being and investment in social goals and human capital are essential to companies' competitiveness. The rapid growth of the Indian market and the inadequate scale of health and education systems have forced companies to develop and help care for their own talent.

Social investment pays off in other ways, too. For B. Muthuraman, the managing director of Tata Steel, CSR is a reputational asset. "Our history in corporate social responsibility," he acknowledges, "has enhanced the group brand." And for some, acting responsibly in the eyes of regulators is essential: Obtaining industrial licenses and environmental clearance in the United States can be a straightforward, if technical, process, whereas in India it can depend on being known for public responsibility.

Unlike the feel-good statements that Western companies make about, say, improving customers' lives, the social missions of Indian companies are integral to their strategy and often the route to profits. A case in point: The hospital group Narayana Hrudayalaya was founded by Devi Shetty to help the thousands of Indian children who need cardiac surgery

but can't afford it. The group soon discovered that the only way to provide quality operations cheaply was to standardize them, so it set about learning to perform them at scale. It now performs more than twice as many cardiac surgeries as the biggest U.S. hospital, with outcomes at least as good and at about one-tenth the cost, and its profit margins are slightly above those of its U.S. peers. Prathap Reddy, the founder of Apollo Hospitals, a leading private health care provider, conveys a similar mission-as-means orientation in his comment "Our first responsibility is to our patients; second, to people who work for us; and then to our lenders and investors."

Other Indian companies similarly interweave strategy and social mission. The telecommunications provider Bharti Airtel sees its mission as getting cell phones into the hands of the hundreds of millions of people in India who otherwise have no way to communicate with one another. Max India's new insurance product, Max Vijay, combines life insurance with savings in a model that allows people with erratic incomes to pay whatever they can, whenever they can. IT companies such as Cognizant and Infosys describe their social mission in part as showing the world that India and Indian companies can compete and win on the international stage.

Finally, more so than most Western companies, the best Indian companies have a social mission and a sense of national purpose because that helps employees find meaning in their work. Missions motivate by tapping into what organizational psychologists call task significance—a satisfying feeling that small tasks link to the bigger goal. U.S. President Lyndon Johnson loved to tell a story about asking a truck driver who worked at NASA in the 1960s what his job was. The driver's response: "I'm helping to put a man on the moon."

Engaging through transparency and accountability. Indian leaders also build employee commitment by encouraging openness and reciprocity. They look after the interests of employees and their families, and implicitly (or sometimes explicitly) ask employees to look after the company's interests in return. HCL's "Employee first, customer

second" policy, supported by initiatives designed to make employees feel more personally responsible for the company's offerings and give them a voice with upper management, does exactly this. Vineet Nayar's public 360-degree reviews for managers is another example.

The software company MindTree posts accounts of its employees' ethical failures and violations of company policy on the internet and discusses the resulting lessons. The company's executive chairman, Ashok Soota, tells employees in an introduction to the company's booklet *All About Integrity:* "This book is placed in your hands as a rite of passage.... adherence to the Integrity Policy becomes the basic social contract of our mutual existence." There they can read about "some of the dark, difficult moments that were created by people who breached Integrity": the lying accountant, the inside trader, the senior executive who misused his company cell phone, and the dozens of employees caught falsifying prior work experience—all of whom were asked to leave. The motivational message is clear: Employees are accountable to management, and management is equally accountable to them.

Empowering through communication. So that engagement will translate into action, Indian leaders go to considerable lengths to empower employees, although this challenges the traditional Indian deference to hierarchy. At HCL, for example, an online system allows employees to create quality-control "tickets," much like those on an assembly line. These can flag product-quality problems or even personal issues related to management, such as "I have a problem with my bonus" or "My boss sucks." Employees can also post comments and questions on the company's "U and I" website; Nayar himself publicly answers some 50 questions a month. Tata Consultancy Services has a similar system whereby employees can submit grievances about management, which may be settled through arbitration.

In his comments about empowering employees by helping them find their own solutions, Jagdish Khattar, the former managing director of the automaker Maruti Udyog, echoes a sentiment common among Indian leaders: "Throw issues to them, let them examine and come back to you with solutions. I have done it again and again....85% of their solution would be what you have in mind....Let them go back with the impression that 100% of the solution is theirs. The implementation would be quick

and smooth, and they will feel very proud of it, but it serves your purpose." This management strategy helped revitalize Bank of Baroda, one of the oldest government-controlled banks, which was increasingly seen as a socialist relic in postreform India. Well-paid, longtime employees were highly resistant to change, and the bank found itself eclipsed by nimbler private-sector competitors. Enter Anil K. Khandelwal, who took over as chief executive in 2005 and immediately created a sense of mission. He met with branch managers, showed them financial analysts' reports advising investors to avoid the bank's stock, and then appealed both to their pride (it should be embarrassing to work in an organization of which experts think so little) and to the broader goal of India's well-being, to which the bank was not contributing enough.

To better meet customers' needs, management decided that the bank must stay open longer. Khandelwal called all the employees of the branches involved in a pilot program to headquarters for a meeting—"from manager to messenger," as he put it—and asked for their help, letting them determine how to execute the new program. They agreed to staff their branches from 8:00 AM to 8:00 PM without overtime pay and designed their own marketing events to announce the new schedule. Khandelwal wrote letters to the employees every week, explaining goals and describing progress, and often met with them at local branches to make the case for change. The program was a huge success. The bank has since added around-the-clock staffing at several locations. Along the way, Khandelwal introduced such empowering innovations as a direct line to his office for employees seeking his input on problems.

Investing in training. Finally, both our qualitative and our quantitative data show that Indian companies invest heavily in employee development—often more so than Western companies. This is partly to ensure that employees have the tools to do their best work, but it's also designed to strengthen their commitment to the company.

When we asked Indian leaders an open-ended question about their human resources development, their responses consistently touched on four themes: managing and developing talent, shaping employee attitudes, managing organizational culture, and internationalization. By far the majority of responses fell into the first category. The most commonly used term in this context was "employee retention," followed by "recruiting." These executives,

Roots of a New Approach

The explosion of the Indian economy following the economic reforms of the early 1990s is well known. Liberated from a stifling regulatory environment and exposed to international competition, Indian firms were forced to rapidly develop world-class capabilities. Companies that had built their advantage on low-cost labor abruptly found they had to compete on quality. Although at first Indian companies imported technologies, foreign managers, and global consultants to take advantage of the new opportunities, many learned in time how to do so on their own.

> "After having been shackled for a couple of decades by overly suppressive and retrograde government policies, our businessmen had their first real shot at competing on the basis of relatively free-market principles." Amit Chandra, managing director of Bain Capital Advisors in India

by and large, see no trade-off between recruiting and development, and they expect their firms to pay attention to both.

U.S. companies have largely abandoned investment in employees, especially in developing managers, for fear that it will be lost if they leave. Statistics suggest that about a quarter of new hires in the United States received no training of any kind in their first two years of employment. In contrast, Indian companies take an aggressive approach to training, despite—or perhaps because of—a competitive labor market in which employee turnover is estimated at

close to 30%. Skilled workers are in short supply in India; major investment in employee development pays off because it helps ensure the quality of the workforce that remains. Consistent with this starkly different attitude toward training, three times as many Indian as U.S. companies measure and track their skill-development efforts.

A recent Kauffman Foundation study indicates that the Indian IT industry provides new hires with about 60 days of formal training. Some companies do even more: Tata Consultancy Services has a seven-month training program for science grads who are being groomed for business consulting roles. In addition, all TCS employees receive 14 days of formal training each year. Even relatively low-skill industries, such as business-process outsourcing and call centers, typically provide 30 days of training, and retail companies require about 20 days. Programs like these are not limited to entry-level workers. India's second-largest pharmaceutical company, Dr. Reddy's Laboratories, puts outside hires through a one-year training program that includes 10 weeks of assignments abroad and culminates in a cross-functional project presented to top executives. Infosys managers are assessed on the basis of how many of their groups' recent hires achieve an "A" on tests of their new knowledge, how many achieve various competency certifications, and how many outside or lateral hires are rated as "good" in their first review. In addition, senior managers are evaluated on their employees' job satisfaction and the percentage of leadership positions that have an identified internal successor.

Employee investment continues with leadership development; almost twice as many companies in India as in the U.S. formally track leadership training. In Wipro's sophisticated program, each of roughly 1,000 managers and executives is scored on 12 leadership measures, and individual scores are com-

How We Did Our Study

Our project began with the National Human Resource Development Network, arguably the most influential business group in India. The network helped arrange 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 prac-

tices. 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 with 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 Resource Management.

We supplemented these data with information from previous studies and descriptive information and case studies about the practices in these companies.

> "Indian leaders … have been trained or groomed in extremely fluid, dynamic, uncertain environments. [Thus they have] a much greater ability to cope with uncertainty, they don't get disturbed by uncertain events, they keep an even keel….They also tend to be more creative as a result, because they have to face these sorts of untoward situations almost on a daily basis." Hindustan Unilever's former CEO Manvinder Singh Banga

Indian leaders' approaches often grew out of their long experience with surmounting obstructionist bureaucracies; crumbling, antiquated infrastructure; and inadequate schools, health clinics, and other social services. Growing up in hardship and uncertainty gave many an ability to persistently improvise around obstacles.

pared with company averages. The top 300 leaders are reviewed by Wipro's chairman, Azim Premji, in a process that extends over five days. Following those reviews, the company draws up a development plan for each candidate that includes coaching, training, and rotational assignments. The process creates a pool of candidates to fill anticipated vacancies. This may sound similar to some U.S. "academy companies," but Wipro adds other features, such as tracking possible hires outside the firm with an eye to when vacancies at Wipro will create an opportunity to recruit them.

MindTree's cofounder Subroto Bagchi, whose title is vice chairman and gardener, spends much of his time coaching the company's top 100 leaders. Dr. Reddy's managers all receive training in coaching and are required to coach as well as evaluate employees. As S. Ramadorai, the former head of Tata Consultancy Services, said of his company's success, "It's all about human capital at the end of the day."

Is the India Way Transferable?

Just how much leadership practices contribute to the overall success of these large Indian companies is not easy to sort out. Does the focus on employees reflect the limitations of context? In other words, must these firms invest heavily in human capital in order to cope with heavy turnover? Are Indian firms successful not only because their leaders personally drive strategy but because they're sailing on the Indian economy's rising tide? Is their emphasis on social mission as important to greasing the wheels as it is to motivating employees? The answer in each case may be yes, in part; nevertheless, these practices confer advantage in and of themselves by enhancing the value of human capital.

The Indian leadership approach arose from the unique circumstances of the Indian economy and society (see the sidebar "Roots of a New Approach"),

but unique roots do not mean that lessons cannot translate, as we know from management practices that started in the United States or Japan and have spread globally. The practices that define Indian leadership are not new; individually, they've been seen as effective in a range of circumstances. Indian leaders simply combine them in a coherent package and consistently give them high priority.

That said, it would be well nigh impossible for U.S. CEOs in particular to announce that shareholder value was no longer a top priority, given expectations in the investment community. And it would be difficult for them to sustain these practices over the long term—to spend time and attention on managing culture and developing employees while the siren call of mergers and acquisitions beckoned or the financial community tempted them with short-term restructuring deals. But some practices, such as measuring and tracking training and development, are straightforward. Creating a real sense of social mission, whereby employees can feel that their work has impact, is a harder but achievable goal—as is becoming a role model for employees. Western leaders would do well to understand the managerial approaches that have fueled the rise of India's largest companies, and mindfully adapt them. ▽

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