



Global Entrepreneurship: The Contrasting Cases of China and India

- Moderator: **Tarun Khanna**, *Jorge Paulo Lemann Professor*
- Panelists: **Saad Hamad Al-Barrak**, *CEO, Zain*
Victor Kwok-King Fung, *Group Chairman, Li & Fung Group*
Ganesh Natarajan, *CEO, Zensar Technologies Ltd.*

Overview

High levels of entrepreneurial energy in China and India serve as key drivers of growth in both economies. New companies in a variety of industries (especially IT in India and manufacturing in China) provide employment for millions. In China, entrepreneurs face a highly competitive environment, but funding is widely available and the physical infrastructure supports new ventures.

In India, new businesses must focus on talent and innovation, rather than low costs, as differentiators. A continued emphasis on education and community will build a strong workforce. As entrepreneurs in both countries grow their businesses, they must strive to create a truly global company culture. Globalization and openness are the only ways forward for these countries.

Context

The panel discussed the current state of entrepreneurship in China and India, as well as how global companies can thrive in these countries moving forward.

Key Takeaways

- **Several factors contribute to high levels of entrepreneurial activity in China.**

China has a very active entrepreneurial community. There are a number of factors that contribute to that energy, ranging from China's large and homogeneous market to the country's physical infrastructure and abundant funding sources.

- *Homogeneous market.* From a macro perspective, both China and the United States have large, homogeneous markets. For example, consumers in Los Angeles and Boston buy the same products. The same is true in China. In markets like this, companies can build scale quickly. Entrepreneurial ventures in China tend to grow very rapidly and often use a franchised business model.
- *Physical infrastructure.* China's growing infrastructure helps to support sales into the large, homogeneous market. The highway system is almost complete. Emphasis is now turning to urban planning. The Chinese vision is to avoid sprawl by developing concentrated population clusters connected by high-speed rail. People will use this high-speed rail system, and the current rail system will be used to transport merchandise. In the next ten years, 100 new airports will be built in China. In addition, water-based transportation systems are being re-thought and reengineered, as transporting via water is still the lowest-cost method.

- *Funding.* Chinese entrepreneurs have a significant amount of funding available to them from sources like banks and private equity. Private equity is very active in China and from a venture capital perspective, the country is very competitive.

"China is a cauldron of entrepreneurial activity."
— Victor Kwok-King Fung

- **Despite a significant amount of entrepreneurial activity, China is a challenging environment for new businesses.**

Although there is a great deal of entrepreneurial activity in China, it can be a difficult place to start a business. China is one of the most cut-throat, competitive markets. Price competition and me-too products are rampant. Intellectual property violations are always present. As an entrepreneur, one must learn how to survive in this type of environment. The good news for those Chinese companies that win in the tough domestic market is that they are likely to emerge as formidable global competitors.

"As an entrepreneur in China, you need to learn how to survive and operate in a total jungle environment."
— Victor Kwok-King Fung

In addition, the "soft" infrastructure in the country is still underdeveloped, which leads to many inefficiencies. For example, each province has a different licensing system.

- **Mastering English is crucial for Chinese entrepreneurs to take their companies to the next level.**

The "entrepreneurial class" in China is comprised of people who were educated in the West. While these individuals have a solid knowledge of English, that fluency is not widespread. In the coming years, the ability to take Chinese companies to the next stage of development will depend on people's ability to master and use English.

Language barriers are a key competitive disadvantage. The battle is being fought now over the use of software in China. It is an open question whether software will remain in English or be translated to Chinese. If the country adopts Chinese, it could become like Japan, which has suffered from the lack of the use of English.

"In China, there is an overabundance of people wanting to be entrepreneurs. The challenge is whether the entrepreneurs can go across borders and speak English fluently."
— Victor Kwok-King Fung



▪ **In the coming years, the Indian software and IT services industry must compete on innovation.**

The Indian software and IT services industry has evolved from providing low-cost services to high-quality work. When India first entered this industry, there was no domestic market for software or IT services. The only option was to look outwards to countries like the United States and the United Kingdom to understand the needs of companies in these countries and then to work to meet them. India benefited from a population with good English skills and workers who accepted low wages.

Today, Indian software and IT services companies are totally integrated into the value chains of their customers. They understand customers' business processes and provide high-quality work. Moving forward, the industry faces a few key challenges. Costs are increasing in India. As a result, Indian companies can no longer compete solely on the basis of low costs. Companies must compete based on talent and innovation to develop new products and business models.

"Innovation is the most important watchword for all of us."

— Ganesh Natarajan

Looking ahead, Indian business needs to maintain a talent pool that is as competent today as it was ten years ago, when the Indian software and IT services industry emerged. This means educating people in areas like business domain skills and project management.

Focus on community is also important. There are still 300 million people in India who live well below the basic poverty level. If the economic slowdown continues, it is unclear whether India will be able to eliminate poverty through employment.

"Indian business and entrepreneurs need to focus on innovation, educating people, and doing their bit for the community locally and worldwide."

— Ganesh Natarajan

▪ **Globalization is a culture and state of mind.**

Globalization means more than just participating in global markets. A truly global company embraces a culture that emphasizes international leadership and ownership. For example, Nokia realized that alone it could not become a global company so it initiated a merger with Siemens and now has a diverse leadership cadre. A diverse leadership team is a sign of a truly global company.

"For me, the litmus test of being a global company is having a very diverse leadership cadre that can take a company places, vis à vis globalization."

— Saad Hamad Al-Barrak

China and India may be making a big mistake by not being more open and economically liberal. The economic state of

affairs in both countries reflects their roots and presents barriers to globalization. In China, the roots of communism restrict openness and foreign ownership. In India, the roots of socialism mean high taxes, which inhibit companies from becoming strong enough to compete globally. While India and China are producing competitive companies in their domestic markets, without liberalizing their economic and legal infrastructures there are limits to the ability of these companies to go global.

Other Important Points

- **Protectionism concerns.** A fear of the panel is that in the wake of the financial crisis countries will focus on their own problems and will pull back from the global economy, as occurred following the crisis of 1929. This would be a terrible mistake. Countries must continue to pursue openness and global trade.
- **Indian heterogeneity.** Homogeneity is an advantage in China, and heterogeneity is probably a disadvantage in India. In fact, the country has 14 official languages along with different cultures and religions, which can make doing business in India and forging national policies a challenge. However, the one thing that binds the population is the need for progress.
- **Entrepreneurship and failure.** In the United States, two keys to entrepreneurial success are availability of capital and the ability to fail. In India, it is almost impossible to shut down a company because failure is such a stigma. This attitude is changing in newer industries. In China, there is not a high tolerance for failure; this is a cultural problem.
- **Venture capital in India.** Until about three years ago, there was no venture capital in India. Financing was entirely debt-oriented. That is now changing.
- **China and risks for business.** China's economy must grow at a certain rate to absorb new people coming into the workforce. Social stability will be the key. There could be setbacks, if the social aspect of the country is not kept on an even keel. In addition, the Chinese economy is driven by domestic consumer demand. If consumer demand is not present to sustain economic growth, it may signal systemic problems.
- **Chinese and Indian cooperation.** It is easy to paint China and India as competitors. However, the relative strengths of the two economies are very different. There are many opportunities for cooperation.
- **Olympic success.** The Beijing Olympics were a tremendous success for China, showing the country's prosperity, capabilities, and pride. (And the opening ceremony provides quite a benchmark for future Olympics to be measured against.)



Speaker Biographies

Tarun Khanna, Ph.D. BE 1993 (Moderator)

Jorge Paulo Lemann Professor

Tarun Khanna, the Jorge Paulo Lemann Professor, has been a member of the HBS faculty since 1993. He has served as course head of the required Strategy course in the MBA Program and chaired the Executive Education program on Strategy, Leadership, & Governance. He now teaches in Harvard's comprehensive general management Executive Education programs. He earned a BS in engineering from Princeton University in 1988, *summa cum laude*, Phi Beta Kappa, and a Ph.D. in business economics from Harvard University in 1993.

Khanna's current research focuses on understanding the drivers of entrepreneurship worldwide. As part of the Emerging Giants project, he seeks to understand how to build world-class companies from emerging markets worldwide. A related project, The Dragon and the Elephant, zeros in on China and India and identifies best practices for local entrepreneurs and multinationals operating in those two countries. Over the past 15 years he has served as coeditor of several prestigious economics and management journals. His most recent book, *Billions of Entrepreneurs: How China and India Are Reshaping Their Futures and Yours*, was published in 2008.

Numerous articles in the *Harvard Business Review* (e.g., "Emerging Giants: Building World-Class Companies in Developing Countries," 2006) and *Foreign Policy* (e.g., "Can India Overtake China?" 2003) distill the implications of this research for practicing managers. Khanna's work has been profiled in news magazines around the world, including the *Wall Street Journal*, the *Economist*, and the *Far Eastern Economic Review*. He has been a frequent commentator on competing in China and India and building the developing country multinational on TV and radio programs.

He serves on the advisory boards of several multinational and emerging market companies in the financial services, automotive, life sciences, and agribusiness sectors. He is also involved in mentoring startups in Asia and volunteering time with nonprofits in India: for example, the Parliamentary Research Services in New Delhi, which seeks to provide nonpartisan research input to India's members of Parliament in advance of legislative sessions with a view to enhancing the quality of democratic discourse.

In 2007 he was named a Young Global Leader (under 40) by the World Economic Forum. He makes his home in Newton, Massachusetts, with his wife, daughter, and son.

Saad Hamad Al-Barrak, PMD 59 (1990)

CEO, Zain

Saad Al-Barrak, deputy chairman and managing director (CEO) of Zain, is a distinguished engineer and businessman of international repute. Since his appointment in 2002, the Zain (formerly MTC) customer base has increased from

600,000 to a conglomerate of 22 operations with over 45.7 million customers across the Middle East and Africa. In this period, Zain's market capitalization on the Kuwait Stock Exchange has increased from less than US\$3 billion to over US\$29 billion (as of March 31, 2008).

Al-Barrak holds a BS in electrical engineering and an MS in systems engineering from Ohio University and a Ph.D. in information systems and technology management from the University of London. He attended the Program for Management Development at HBS.

Before his appointment with Zain, Al-Barrak was managing director of International Turnkey Systems (ITS), one of the leading IT companies in the Middle East and North Africa region. Under Al-Barrak, ITS's revenues grew from \$5 million in 1985 to over \$100 million in 2000. He has served as vice chairman of the Social Development Office of the Amiri Diwan in Kuwait, chairman of Egyptian software developer IT Soft, chairman of Arab Telecom, and a nonexecutive director of the Arab Management Association in Cairo. He is also an executive board member of Celtel International and a board member of the GSM Association.

Al-Barrak received the 2005 Middle East CEO of the Year Award in the information and communication technologies sector, the 2003 E-Businessman of the Year Award in the region, and the 2007 Lifetime Achievement Award from the industry magazine *CommsMEA*.

Victor Kwok-King Fung, Ph.D.

Group Chairman, Li & Fung Group

Victor Fung is the group chairman of the Li & Fung Group of companies, which includes major subsidiaries in trading, distribution, and retailing, including publicly listed Li & Fung Ltd., Integrated Distribution Services Group Ltd., and Convenience Retail Asia. He is also chairman of the Hong Kong University Council and the Greater Pearl River Delta Business Council.

Fung was chairman of the Hong Kong Trade Development Council (1991–2000), the Hong Kong representative on the APEC Business Advisory Council (1996–2003), and chairman of the Airport Authority Hong Kong (1999–May 2008). He is now chairman of the International Chamber of Commerce and a member of the Commission on Strategic Development.

On the Chinese mainland, Fung is a member of the Chinese People's Political Consultative Conference and the International Business Leaders Advisory Council for the Mayor of Beijing and an economic advisor to the People's Government of Nanjing. He is also an honorary trustee of Peking University, and a member of the advisory board of the School of Economics and Management at Tsinghua University.



Fung is chairman of the Asia advisory board of Prudential Financial Inc. (U.S.A.) and an independent nonexecutive director of Bank of China (Hong Kong) Ltd., Orient Overseas (International) Ltd. in Hong Kong, Baosteel Group Corporation in the People's Republic of China, and CapitaLand Limited in Singapore.

In 1995 Hong Kong Business Awards named Fung Businessman of the Year for his entrepreneurial success and his contribution to Hong Kong's economic development. He was also chosen as Hong Kong Leader of the Year in 1998, and *BusinessWeek* named him one of 50 Asian leaders leading the region out of economic crisis. He was made a commander of the Order of the British Empire in 1993 in recognition of his commitment to public service. In 1997 the University of Hong Kong awarded him an honorary doctor of laws degree, and in 2001 he was awarded the Harvard Medal for outstanding service to Harvard University. In 2003 the government of the Hong Kong Special Administrative Region awarded Fung the Gold Bauhinia Star for distinguished service to the community.

Fung holds bachelor's and master's degrees in electrical engineering from MIT and a doctorate in business economics from Harvard University. He also taught for four years as a professor at HBS before returning to Hong Kong in 1976. Fung is married with three children.

Ganesh Natarajan, AMP 169 (2005)
CEO, Zensar Technologies Ltd.

Ganesh Natarajan, one of the most dynamic professionals in the Indian IT industry, has been CEO of Zensar Technologies Ltd. for over seven years. Under his leadership, Zensar has become one of the most successful IT and BPO service providers in the country and among *Fortune's* top global offshore outsourcing companies from India.

Natarajan has been appointed chairman for 2008–2009 of the National Association of Software & Services Companies and has served as chairman of the association's Innovation Forum in 2005–2007. He also chairs the Outsourcing Forum of the Confederation of Indian Industries in Western India and is part of the confederation's Western Region Council.

Earlier in his career Natarajan was part of two major success stories in IT training and consulting: NIIT and Aptech. During his 10 years as CEO of Aptech, he grew the company's revenues 50-fold and listed it on the Indian and London Stock Exchanges.

Natarajan was named CEO of the Year by the Asia Pacific Human Resources Conference in 1999 and received the Asia HRD Congress Award for contributions to the organization through HR in 2005. He was also a finalist for the Ernst & Young 2005 Award, where he was recognized for exceptional entrepreneurship.

Natarajan earned a Ph.D. in knowledge management from IIT Bombay. In 2005 he completed the Advanced Management Program at HBS. He is the author of three McGraw-Hill books on business process reengineering and knowledge management and is a regular columnist for India's top business and IT magazines.