

Chazen International Study Tour Report

India: Evidence of Inclusive Growth in the World's Largest Democracy

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Chazen International Study Tours

Designed to enhance the classroom curriculum, Chazen International Study Tours offer students and their faculty adviser an intense, firsthand experience of the business culture of their chosen country or region. Study tours are initiated by students and organized with the help of the Jerome A. Chazen Institute of International Business. During study tours students meet with leading executives and government officials while visiting businesses, factories and cultural sites. Destinations change yearly, as study tours are student-initiated. Recent destinations include Brazil, China, Dubai, India, Japan, Mexico, Romania and South Korea.

Executive Summary

This paper examines the evidence of inclusive growth occurring in India today. Inclusive growth can be defined as an improvement in a country's well-being which benefits all strata of the country's wealth spectrum. By visiting four cities and meeting with eight of the country's leading firms, the 40 Chazen Study Tour participants saw emerging evidence of inclusive growth which can be classified into three categories: organic inclusive growth, deliberate initiatives to make growth inclusive, and deliberate collaboration between India's largest firms and the poor. While substantial evidence was found, concerns remain, including worker safety and the sustainability of certain initiatives.

Growth

India, once infamous for its lumbering bureaucracy and glacial growth rate, is rapidly transforming into a global growth leader. The Economist magazine states that India's GDP growth rate, currently 8.5 percent, could overtake China's by 2013 and remain the fastest growing large country for the foreseeable future.^{i ii} In the process, the Indian economy has created national champion firms which are beginning to compete on the world stage. The question worth asking, however, is whether this rising tide is in fact raising all ships. For what may be emerging is an economy where entrenched national champions extract value from India's vast natural resources and low-cost labor force while contributing comparatively less to national well-being in the long run.

Jayant Sinha and Ashutosh Varshney, writing in the Financial Times, go so far as to compare modern-day India to the Gilded Age of the United States at the turn of the 19th century.ⁱⁱⁱ During that time, legendary industrialists such as Rockefeller, Vanderbilt, or Carnegie, won the ignoble title of "robber baron" for their perceived injustices to America's impoverished masses. According to Sinha and Varshney, the combined wealth of India's billionaires comprises 20 percent of their country's GDP, compared to just 3 percent of GDP in relatively more equitable China. Evidence, exists, therefore, that India's extraordinary success is actually creating more value at the top of the economic pyramid than the bottom of it. If India's growth is not truly "inclusive", then the country is squandering a rare opportunity to improve the lives of millions of its impoverished citizens.

An empirical evaluation of this question involving rigorous data collection and analysis is unfortunately beyond the scope of this paper. What this study tour report can provide, however, is a firsthand account of compelling evidence that India is, in fact, achieving inclusive growth.

By visiting four cities and meeting with eight of the country's leading firms, the forty Chazen Study Tour participants received a unique on-the-ground look at the companies and leaders that are transforming the world's largest democracy.

Inclusive growth, an admittedly broad term, can be defined here as an improvement in a country's well-being which benefits all strata of the country's wealth spectrum. I believe inclusive growth can occur in three ways. Firstly, it can be organic. By this I refer to economic activity occurring at the bottom of the pyramid (a term borrowed from development economics used to define a country's lowest-income citizens) that is largely independent of actions at the top of the country's business hierarchy. Increases in agricultural productivity in India's rural villages or the development of cottage industries in India's sprawling urban slums could be categorized as growth of this nature. Secondly, inclusive growth can be promoted by deliberate initiatives to invest in the very poor. Microfinance activity by global NGOs or low-income housing projects by local developers are initiatives with the deliberate aim of improving the lives of the poor. Finally, inclusive growth can be the result of deliberate collaboration between India's national champions and the bottom of the pyramid. Firms can incorporate impoverished village farmers into their supply chain or can develop specific products and services with the aim of improving the lives of the poor.

A great deal of economic activity is occurring organically at the bottom of the pyramid as the result of gradually improving infrastructure and the wide-scale adoption of new technologies such as mobile phones. For the Chazen Study Tour participants, this evidence was most clearly realized during a group tour of small-scale manufacturing facilities in the Dharavi slum^{iv} of Mumbai. Dharavi ranks as the second largest slum in Asia, where approximately one million people live in an extraordinarily crowded neighborhood of approximately one square mile. Despite the severe poverty of the slum, there exists a vibrant community including markets, schools, and a wide range of industry. In fact, the economic activity occurring within the slum is estimated to be more than \$500 million^v per year.

Our group was given a guided tour of the plastic recycling business within the slum. The value chain of this business is driven almost entirely by the very poor, many of whom are seasonal laborers who live and work part of the year in Mumbai in order to send money back to their families in rural villages. This growth, however small in scale, is truly crucial for the development of India as it creates opportunities for social mobility and for the development of new skills and knowledge. A recent Economist special report, "A Village in a Million"^{vi}, highlights the changes occurring in the Indian countryside as a result of the migratory labor

patterns in slums such as Dharavi. In addition to badly needed funds to support village life, laborers return to their villages with more modern cultural values, such as reduced caste-related prejudices.

Unfortunately, growth at the bottom of the pyramid is rife with problems and difficulties. The most clearly apparent are working conditions for the laborers. Lacking supervision or regulations, laborers work in hazardous and noxious conditions. The plastic-cutting facility, for instance, consisted of two men in an airless shack frantically shoving empty plastic canisters across rapidly spinning table saws before stuffing the pieces into a violently shaking and barely protected shredder. Seeing one worker stick his hand into the shredder to free a jammed piece, the study group winced and looked away, half expecting a finger or limb to come flying out of the contraption at any moment. When asked why the workers did not wear protective gear, our guide responded that an NGO once offered them gear, which they declined for fear it would reduce their productivity. If growth must occur in these conditions, workers may very well find themselves in a race to the bottom, where such behavior is allowed or even encouraged for the sake of profits.

Inclusive growth can also be promoted by deliberate efforts or initiatives. Microfinance is one example of this. Supporters of microfinance often include governments, NGOs or private sector banks, and much of their funding is provided so that inclusive growth might result. Another inclusive growth initiative is occurring in India's housing sector and is being spearheaded by the Monitor Group, a global management consulting firm. Monitor has in fact taken thought leadership into the field by establishing a dedicated group to uncover inclusive growth opportunities in the emerging world, Monitor Inclusive Markets (MIM).

During the study tour we had the opportunity to meet with Ashish Karamchandani, head of the MIM practice at Monitor. Ashish and his colleagues described the problem of inadequate low-income housing in India. They presented research which showed that while many truly impoverished Indians are unable to afford any semblance of a home, there is another sizable group of people with a stable income who are otherwise forced to live in slums because quality low-income housing does not exist.

Monitor recognized this opportunity and began mobilizing the necessary resources to "make the market" in low-income housing. The team interviewed potential home owners to evaluate their needs and objectives, partnered with financial institutions to underwrite loans, and even worked with architects to brainstorm appropriate designs for the housing units. As a result

of their efforts, Monitor estimates that seeds have been planted to create homes for 10-15 million Indian families over the next decade, resulting in a market of \$100 billion.^{vii}

While the potential for success of these initiatives is staggering, a valid criticism is whether they might result in market distortions if ultimately there were valid reasons why the market alone had not realized such opportunities. For instance, we learned that some families who qualify for below market-priced homes in order to leave a slum will simply rent out their new home and return to the slum – thus defeating the social objectives of the lenders and developers.

The final driver of inclusive growth for India can be collaboration between India's national champions and the bottom of the pyramid. In the past, an Indian firm's primary stakeholders, such as its staff, customers, and suppliers, might be concentrated in a fairly affluent subset of the country's population. Our company visits confirmed that firms are beginning to think beyond these limits in order to sell to, and collaborate with, low-income Indians throughout the country.

During our visit to Mahindra & Mahindra (M&M), the leading manufacturer of tractors and automobiles in India, we met with Pawan Goenka, president of the firm's auto and farm equipment division (the conglomerate's largest division, comprising 54 percent of 2008 revenues) . M&M built its reputation on designing jeeps and tractors that were tough enough to thrive in India's underdeveloped and impoverished countryside. As a result, M&M has achieved success not only in India but also globally and have even begun to threaten John Deere in the United States.

When asked a question regarding M&M's larger role in helping to bring India out of poverty, Dr. Goenka noted that M&M has given considerable thought to the issue and he now believes that the firm's mission is not just to sell farm equipment but rather to help bring prosperity to the farm. The company runs training centers, for instance, to teach farmers how to farm more profitably and sustainably . This represents a paradigm shift from a conventional customer attitude of value capture to one of long-term partnership in mutual growth.

A second example of collaboration across the income spectrum came from our meeting with Reliance Industries, India's largest company with diversified businesses that include petrochemicals, telecom, and retail. During our meeting with Robinder Singh, Reliance's head of investor relations, we posed the same question as we did to Dr. Goenka: how does Reliance regard its larger role in helping to bring India out of poverty? In response, Mr. Singh cited an

example from the firm's food retail business. A common problem between rural farmers and food distributors is one of inventory forecasting: sporadic order arrival results in severe unpredictability and economic hardship. Recognizing these inefficiencies, Reliance saw an opportunity to deploy its superior technology and scale and gave farmers a predetermined production schedule before the season. This yielded a meaningful benefit for the farmers and a competitive edge for Reliance. Other examples include HCL's track record of investing in the communities in which it operates. During our visit, the group learned of HCL's initiatives to improve housing and education in these communities.

Examples of deliberate collaboration suggest that Corporate Social Responsibility (CSR) in India is a much more collaborative and engaged process than in the West. Not limited to the odd donation to a local charity, Indian firms are finding strategic ways to create widespread well-being. A consideration, however, is whether some of these initiatives are superficial, or whether they are part of a longer-term plan driving permanent change.

In summary, the study tour found impressive anecdotal evidence of inclusive growth emerging in India today. Whether in the slums of Dharavi or in the offices of consulting firms or conglomerates, India's leaders at all levels of the income scale are finding ways to engage the country's poor in the national economic miracle. Although the evidence is promising, there is clearly much more work to be done. Regulations around the health and safety of workers are overlooked in favor of greater productivity, while some deliberate inclusive growth initiatives may result in market distortions. Nonetheless, there is evidence that India's business leaders have moved beyond the attitude of value extraction so prevalent during America's Gilded Age to a much more promising and constructive attitude of creativity and partnership for the future.

ⁱ India's surprising economic miracle." *The Economist*, October 2 – 8th 2011, p. 9.

ⁱⁱ "A bumpier but freer road." *The Economist*, October 2 – 8th 2011, p. 58.

ⁱⁱⁱ Sinha, Jayant and Ashutosh Varshney, "It is time for India to rein in its robber barons." *The Financial Times*, January 6th 2011.

^{iv} "Slum", while sometimes used pejoratively, should be considered a neutral term in this paper and reflects its common local usage as a term to describe dense, impoverished, urban communities in India.

^v *Nyenrode*. <<http://www.nyenrode.nl/business/topics/europeindia/Pages/“JaiHo”Dharavi.aspx>>.

^{vi} "A Village in a Million", *The Economist*, December 16th 2010.

^{vii} *Monitor*. www.mim.monitor.com/mbs_housing.html