

Empowering TIMES



July 2012

Editor's DESK

Dear Reader,

After 1991, when liberalisation was initiated, the Indian economy has grown at a robust pace and many Indian private enterprises today are in the limelight, not only at the national level, but at an international level as well. After independence, the government played its role of a nation-builder by owning major businesses and keeping a strong control through the 'license raj'. But in a more interconnected globalised world, the need of a laissez-faire business environment had peaked. While diverse views exist on whether liberalization happened too soon or too late, what it definitely did was highlight the stark difference in economic performance. Now we come to the question: why did performance zoom in the post-liberalisation era, was the government not efficient in running businesses? Well, we could have a yes and a no as an answer to this question. While the government's goal of running a business primarily is for the public good, inefficiencies in many units crept in due to bureaucracy, but at the other end of the spectrum, there were some star performers. But this is not as easy as stated, which led us to look at government and business in this month's ET. We have got under the skin of this topic and emerged with this thought: governments should make strategic investments, but mainly allow private enterprises to run most of the businesses.

Thinking Aloud this month, features Jay's thoughts on government and business. He says that in the vastly privatised world, the economic crisis led to many private organisations seeking 'bailouts' from the government.

But he argues that this is no ground for government to run businesses, as there are clear signs from myriad examples that governments are inept at running businesses. Having said that, he acknowledges the fact that

In this Issue:

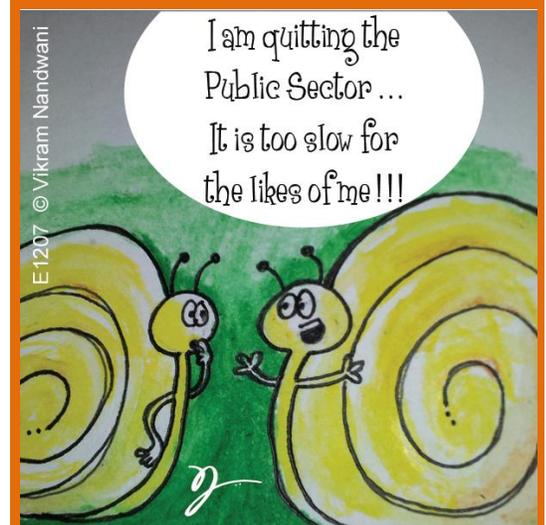
Thinking Aloud: Government and Business - Jay

Podium: Interview with **K V Balasubramaniam**, Managing Director at Indian Immunologicals Ltd (IIL)

Between the Lines: Great by Choice by Jim Collins and Morten T Hansen

Standing Ovation: Sapna, Delhi

Figures of Speech
By Vikram Nandwani



in some cases good leaders have successfully run public sector enterprises. According to Jay, by opening up routes for private ownership in various sectors, a government can ensure efficiency and quality.

Podium this month features **K V Balasubramaniam, Managing Director at Indian Immunologicals Ltd (IIL)**, which is a subsidiary of the National Dairy Development Board. He speaks to us about the core differences of running a private enterprise as compared to running a government enterprise, which meets national needs. He says that many public sector undertakings have managed to be successful by sidelining bureaucracy and he believes that government ownership in some sectors is absolutely necessary in an emerging economy like ours. He also shares with us insights on how at IIL they implemented a performance management system which helped in turning around the company.

In **Between the Lines** this month we have reviewed the book 'Great by Choice' by Jim Collins and Morten T Hansen, which is based on a nine year research conducted by the authors. The book focuses on companies that rose to greatness as compared to companies that failed to be great in the similar business environments. They term the great companies as 10-xers and write that these companies display three core behaviors - fanatic discipline, empirical creativity and productive paranoia. They talk about various ways of entering the market, for e.g. bullets and cannonball approach, which was used by Apple. In one chapter they present the paradoxical relation of luck with the 10-xers, wherein they say success is often attributed to good luck by the 10-xers, but failure is always owned up by them.

Standing Ovation this month features Sapna, a Delhi based NGO which provides social and economic support in the public health, women's empowerment, non-formal education and community development areas. Some of Sapna's activities include providing support to poor patients coming to Safdarjung Hospital (Delhi), supporting needy patients in the Rajgaria Vishram Sadan (AIIMS, Delhi) and running an Old Age Home (Alwar, Rajasthan), among others. For its noble cause and unrelenting efforts, Sapna deserves a Standing Ovation!

In **Figures of Speech**, Vikram presents the snail's pace at PSUs!

As always, we value your opinion, so do let us know how you liked this issue. To visit our previous issues you can visit the Resources section on the website or simply [Click Here](#). You can also follow us on [Facebook](#), [Twitter](#), [Linked In](#) & [Google+](#).



Government and Business - Jay

The Prime Minister has recently called for reviving 'the animal spirits' to revitalize the economy. It is an interesting call that has come at a time when the chorus has grown louder for increasing the moribund pace of reforms, and freeing business from government interference.

That phrase brought back shades of Adam Smith's 'invisible hand' and all that is vital to the *laissez-faire* economics that free market gurus keep applauding. Strange that this call came at a time when governments around the world are reassessing the issue whether the 'invisible hand' can be trusted in the light of multiple scams, particularly in the financial markets with 'Libor-gate' just being the latest scandal.

The post-Thatcher era and the end of the Marxist economic model led to a wave of privatisation across the globe, with the post-communist Eastern Europe (and even the new Russia) leading the pack in unshackling government control over business. Suddenly, Hayek and Friedman were back in fashion and Keynes was out of vogue. The bull-run continued while the Fed under Greenspan watched, till matters boiled over with the collapse of Bear Sterns and the subsequent domino effect across global financial markets.

Finally, the tables were turned with the private sector turning to the government for bailouts. The unthinkable had happened: the free markets needed to be rescued and only government held the magic chalice to revive the best and the brightest (including General Motors and Citibank).

Clearly, after the crisis of 2008, the role of pure play market capitalism has been questioned globally. Having been labeled as the cause of the global financial crash, Wall Street financial houses have forever lost their cloak of invincibility and with no end in sight for scandals (they keep erupting periodically), the 'invisible hand' of the markets seem more like a conjurer's sleight of hand. And, there are no more brave or fool-hardy politicians who wish to blindly ape Thatchernomics.

Which still begs the question: should government run businesses? Despite the discredit and scorn poured on market forces, it is still widely held that governments are not the most adept at running businesses! Ownership of stake is one thing but letting bureaucrats run a business enterprise may be clear admission that you are prepared to sub-optimize financial return. Like private owners who treat organisational resources synonymously with their own property, bureaucrats and politicians (whether in India or China) are known to generously help themselves to public resources which are in their safe-keeping. Too often the temptation has proved irresistible and public good has come a poor second. The primacy of the citizen-customer has been forgotten to the extent that goods and services to be delivered to them have proved inferior or in short supply. While there was no choice to the citizen-customer when it came to monopolistic services, given a choice in a competitive space, customers have opted for better products and services from the private sector. Post-liberalisation India has many well-known examples that need no mention.

However, this is not to decry the role that good leaders have provided in certain well-run public sector businesses. Admittedly, for every mismanaged Air India (to name only one of the sick corporations kept barely alive on life-support with tax payers money and which keeps hitting the headlines for all the wrong reasons), there are equivalent examples in the private sector (do I need to mention the public spectacle at Kingfisher?) but I dare say, there are far too many sick public sector firms that should, by pure economic logic alone, have been shut down quietly or been restructured to suit the times. Sadly, other considerations come to play to keep them propped up, however sick they may be, proving the point that Larry Ellison (that true blood capitalist), famously once said: 'A corporation's primary goal is to make money. Government's primary role is to take a big chunk of that money and give it to others.'

But the news in India is that the government is recognising that opening up new sectors to private enterprise in one form or another - be it in defence production, public utilities (road, power, etc.), citizen services and amenities (passport processing, etc.) - could be the way forward to offer efficiency and also quality. Besides, it is also an admission of the fact that by delineating ownership and enabling the right kind of management, we could address the challenging task of inclusive growth for the vast numbers of our society who are still at the fringes.

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Mr. K V Balasubramaniam, Managing Director, Indian Immunologicals Ltd.



Mr. Balasubramaniam holds a graduate degree in Mechanical Engineering from the Madras University, a Masters degree in Management from the Indian Institute of Management, Ahmedabad and a PG Diploma in Patents Law from the Nalsar University of Law.

He has over 30 years of experience in the pharmaceutical industry and management consulting. His key areas of expertise are in starting new businesses, project management and general management. Mr. Balasubramaniam has been involved in the vaccine industry for the last 25 years and has closely followed the development of this industry in Asia. He has been a speaker on the subject of vaccines and its commercial aspects at several international forums.

Mr. K V Balasubramaniam joined Indian Immunologicals in 1996 as Chief Executive and has been instrumental in reviving the fledgling unit of the National Dairy Development Board and making it a professionally managed and result oriented vaccine player. He was inducted into the Board as Managing Director in 1999. Today, Indian Immunologicals is the No. 1 animal vaccine player, the 3rd largest animal health company and the 12th largest biotech company in India. It is also a major player in the human vaccine market in India, holding the fourth position.

ET: You have worked with Tatas and have now turned around and successfully managed a public sector unit. What are the core differences between managing a government enterprise as against a private sector firm?

KVB: Indian Immunologicals Ltd (IIL) is not a public sector company, but by virtue of being a subsidiary of the National Dairy Development Board (NDDDB) which came into existence by an Act of the Parliament of India, you can call it as a company which meets certain key national needs, in our case making vaccines affordable and accessible to the public. However, we follow systems generally practised in the public systems area in managing our company, which call for equity, transparency and accountability to the people of India.

These requirements call for greater level of diligence in carrying out our operations and we are also subject to greater amount of scrutiny, both internal and external. In order to do this, we have to put in place systems and operating procedures for all functions, bring adequate oversight of operations and be subject to periodic audits. These aspects may not be prevalent in many private organisations. We have been often criticised that this slows decision making, but this is a small price you pay when you are accountable to the public.

Our social responsibility also requires us to address making our products and services affordable, especially to the needy; meet national needs first rather than other lucrative markets; train and nurture talent from the underprivileged sections of the society; make contributions to the general welfare of the society; and not be seen as exploitative of people, environment and the markets.

ET: While many Public Sector Undertakings (PSUs) are epitomes of mismanagement, we can see some government

enterprises excelling. What according to you are the key success factors for them?

KVB: There are far more private companies mis-managed than what we've even heard of and far less public companies in this category than what is commonly believed. The only difference is that when something happens in the public sector or public systems area, things become public. Anyway, notwithstanding this, I must state that the excellent government companies are the ones which have worked without much bureaucratic interference, built a culture of performance with integrity, underscored meeting social needs into their business objectives and, above all, constantly harped on achieving all round organisational excellence.

ET: In your view should Government have a role in managing business enterprises at all? And, if yes, what should its role be?

KVB: The Government's role in managing a business organization is sometimes necessary, especially in a developing country setting which is faced with supply side issues and inadequate entrepreneurial drive in sectors fraught with high business risks. In my view, the Government's role should be restricted only to these situations, given the tendency of the Government run organizations to place high emphasis accountability at the cost of performance. Otherwise, the role of Government is really to set directions for a particular sector, encourage investments, put in place sound regulatory systems, provide dispute resolution mechanisms, all done while ensuring that our social objectives are met with least damage to the environment.

ET: Please share with us some of the steps you implemented to initiate the growth journey at Indian Immunologicals Ltd (IIL).

KVB: Among the most significant achievements has been bringing about a performance orientation in the company. We first corporatized the small unit of NDDB making animal vaccines in 1999, in order to make it more financially accountable and transparent as a business. We then moved all our people from the public sector type of compensation system linked to Central Pay Commission practices to a uniform fixed tenure employment system, where every employee is on a three year renewable contract, based on performance. This compensation system was linked to a Performance Management System (PMS) which looks at individual performance against objectives, the individual's role effectiveness and overall corporate performance. The PMS scores are the basis for payment of performance incentives and the increments for the next financial year. We were probably the first company to do this in the public systems area and we are now over 12 years into it.

We also brought other HR practices which look at talent development, for example encouraging our technical people to pursue PhD programmes, marketing people to pursue MBA etc., we made management of our business more broad based giving chance to younger people to assume higher responsibilities as the business grew; we brought openness in our people processes etc. We gained productivity by abolishing all forms of overtime, work interruptions and the like; we also brought performance metrics to the work place and on the customer front of our business.

We are probably the first pharmaceutical company to introduce TQM and I must say that this changed the perspective of people. We have no employees' trade unions or associations. We have just one common genre of employees who are part of the management.

Alongside this, we invested in our core animal vaccine business and started exporting our products. We saw profitable opportunities in the human vaccine market and entered this market in 2000. Today, we are not only the largest animal vaccine company and the third largest animal health company in India, but also the fourth largest human vaccine company. We have built strong market positions in most of the therapeutic areas that we serve.

We have grown by over 20 % compounded while the industry has grown by about 10% p.a in the last ten years. Our real growth is

only ahead of us now, since the fruits of our new investments will be reaped only in the coming years.

ET: Corporate India has in recent years, in their search for new markets, taken a new interest in rural India, whereas IIL has been focussed in this segment for many years. Could you please share some of the insights your firm has gained by being active in the rural markets over many decades?

KVB: IIL's business in animal health meant addressing the needs of the small and marginal livestock keepers in rural India. We do this not merely by promoting products to veterinarians and farmers in the villages, but by also carrying out education and information programmes, vaccination and health camps, i.e. what we term extension work. This is an important component of all our work in rural India. The other is to provide accessibility and making things available, as much as possible closer to the farmers' door step.

I must add here that corporate India still has a lot of myths about the rural customer, especially on the price quality equation and the 'bottom of the pyramid' dynamics. All this is changing for the better, thanks to a more aware and informed rural customer.

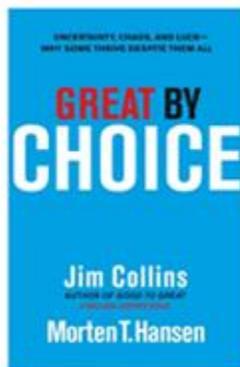
In my view, the boundaries between rural India and urban India will progressively blur as communication spreads, connectivity - both physical and virtual - enlarges, education takes deeper roots and standard of living improves. However, we must seriously address infrastructure bottlenecks like power, water, road connectivity, etc., make legal redress mechanisms work and provide a big thrust to education and health delivery to our people, if we have to become one nation.

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Great By Choice by Jim Collins and Morten T Hansen.



Great By Choice is based on a 9 year research conducted by Jim Collins and Morten T Hansen. The research which started in 2002, with the help of twenty researchers, focused on companies which rose to greatness, beating their industry indices by a minimum of 10 times over 15 years and then comparing these "10x" companies to a carefully selected set of companies that failed to achieve greatness in similar extreme environments.

The authors have considerable track record which makes this work extremely credible. Jim Collins (of 'Built To Last' and 'Good To Great' fame) now operates a management laboratory in Boulder, Colorado, where he conducts research, teaches and consults with executives from the corporate and social sector. Morten Hansen's work has also caught a lot of attention and he is now a professor at the University of California, Berkeley, and at INSEAD.

Uncertainty has become a part of our lives and we tend to connect everything that happens to us with good or bad luck. Roald Amundsen, the heroic Polar explorer, believed that you don't wait until you are in an unexpected storm to discover that you need more strength and endurance. Instead, you prepare with intensity all the time and this is what the 10-xers do. In this book, the authors talk about the three core behaviours displayed by 10-xers, i.e., fanatic discipline, empirical creativity and productive

paranoia.

Talking of creativity and discipline, Collins and Hansen advise us to fire bullets and then cannonballs. A bullet according to them is an empirical test aimed at learning what works and meets the three criteria of low costs, low risk and low distraction. Steve Jobs used this strategy when he decided to move Apple into retail stores. He first used the bullets to create the right store and then used the cannonball to roll it out to the world. The danger in this strategy is firing un-calibrated cannonballs.

By productive paranoia, Collins and Hansen mean leading above the death line. It's all about taking risks and acting accordingly. The critical question according to them is "How much time before your risk profile changes?" It's about thinking first, even when you need to think fast. They have used examples of expeditions to Mount Everest and compared successes and failures. This book also talks of an interesting SMaC recipe which is nothing but a set of durable operating practices that create a replicable and consistent success formula.

An especially fascinating chapter reports their findings on what role luck played in the 10-Xers success and the failure of their comparison companies. They concluded: "The best leaders we've studied maintain a paradoxical relationship to luck. On the one hand, they credit good luck in retrospect for having played a role in their achievements, despite the undeniable fact that others were just as lucky. On the other hand, they don't blame bad luck for failures, and they hold only themselves responsible if they fail to turn their luck into great results."

The world has seen some interesting times since the period of the book's research. And we can quibble that some of the so-called 'Great' companies from Collins' earlier research have gone bust. Be that as it may, for managers with an enquiring mind and for students of management I would still recommend this as a must read for leading in turbulent times.

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STANDING OVATION **SAPNA, Delhi**

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SAPNA, a charitable society which was formed and registered in Delhi in October, 2004, comprises of professionals committed to providing social and economic support in areas like public health, women's empowerment, non-formal education, community development, etc. with focus on the urban and the rural poor.

It all started with weekly visits to the Safdarjung Hospital Dharamshala, Delhi sometime in December 2002. The miserable plight of patients coming from far flung areas of the country especially from Bihar and UP having little or no support in this huge metropolis, led to Dr. B.

N. Sharma realising the need to provide support, both- economic and otherwise, to such indigent patients. The organisation started with an aim of the empowerment of the poor and the needy but has also moved on to other spheres of socio-economic upliftment in the field of education, women empowerment, community development and social welfare.

Some of SAPNA's activities are briefly described as hereunder:

- Providing support to poor patients coming to Safdarjung Hospital, in terms of provision of medicines, investigations, milk, food, (lunch & dinner), rations, blankets, clothing, transportation, etc. In addition, SAPNA also bears the cost of medical operations by providing diagnostic and surgical consumables to the needy patients.

- Supporting the needy patients in the Rajgaria Vishram Sadan (AIIMS) by providing milk and morning tea to all the patients as well as medicines and dry rations to BPL patients.
- Running an Old Age Home which was started on 05 January 2007 at Vijay Mandir, Alwar (Rajasthan).
- Conducting the Outreach Health Programme, wherein it desires to provide health cover to the poor and the needy with focus on women and children who are unable to access health centres.

For its cause and its efforts towards its cause, SAPNA deserves a ***Standing Ovation!***

If you want to get more information and support SAPNA, you can visit the website sapnango.in or write an email at ngo.sapna@gmail.com

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