

March of the Two Nations

“India’s stock market has reached the roaring heights of early nine thousands but 98% of Indians are unable to share the glory. India’s story is a tale of two nations. The rich and the middle class have never had it so good but 799 millions earning less than \$2 a day are no better off”, says the author. “The answer lies in the adoption of a third way – development of social enterprises as distinct from to private or public enterprises to solve the environmental and social asymmetry created by accelerated growth and globalisation” says Dr Madhav Mehra.

*Dr Madhav Mehra

Great Strides

2005 has been a year of great strides for India. Never before have the corridors of India’s hotels been humming so much with overseas investors. Never before have India- bound aircrafts been bustling with so many suitors. 2005 saw the rapturous rise of the roaring bull market. The capital market has almost doubled this year. Foreign Institutional Investors have invested with a vengeance. For the first time the market has been wooed even by the Japanese investors. They participated in a big way with an investment to the tune of \$3 billion . The FII in 2005 reached a whopping \$10 billion. As the index stood at 9238 towards the close of the year even the domestic investors had joined the fray. The year also marked a high point in the global reach of Corporate India. Deals of over a billion of dollars were struck by TATA group alone. Trailing behind were Videocon, Matrix, AV Birla Group, Dr Reddy’s & Sun Pharma.

Indian assets were hugely valued abroad and in great demand from the foreign direct investors. All three giants – Microsoft, Intel and CISCO systems have announced multi-billion-dollar investment plans with large recruitments of Indian personnel. Microsoft has announced plans to invest \$1.7 billion in India over the next four years. “The only thing that limits us in India is the speed at which we can recruit,” said Bill Gates. He was competing with Intel who had earlier announced plans to invest more than \$1 billion over five years. In October, CISCO systems had announced their own plans to invest \$1.1 billion in India. Vodafone has invested \$1.5 billion to buy 10% equity of Bharti. Merrill Lynch has bought 50% of DSP for half a billion dollars. POSCO’s commitment of \$13 billion to build a steel plant in Orissa must be an all time record for a single FDI commitment till date. The South Korean steel giant is even developing its own port near the state owned Paradeep port.

Private equity also came up of age in 2005. Many of the best VC firms from US were on road to raise funds. Never before has there been so much liquidity afloat. Companies were able to float IPOs and complete the offerings overnight. Despite all this, IT powered Indian exports got us \$17.2 billion in the year ending March 2005. Compared with it China exported to US alone computer hardware, mobiles and digital stuff worth a whopping \$180 billion.

The unfortunate thing is that only 2% of the Indian population participated in this stock market party. 98% had no part in the spectacular rise of the sensdex. In fact, a very large number of Indians remained homeless and hungry. 63% of India’s children remained under-nourished.

Human Development Index

The Human Development index ranking for India was 127th among 177 countries, as per the Human Development Report of UNDP issued in September 2005. The measure is a composite index of health, literacy, longevity, gender balance and poverty. Our competitive position as determined by the World

Economic Forum was 50th among 117 countries, well below even Botswana in Africa, that ranked 48th. In Corruption Perception Index as determined for 2005 by the Transparency International, India ranked 88 alongside Armenia, Bosnia, Gabon, Iran, Mali, Moldavia, and Tanzania. India regarded as the Software Giant had a dubious distinction of being home to the world's largest number of hungry and illiterate people. 34.7% earned less than \$1 a day. 286 million people live below the national poverty line. 79.9% earned less than \$2 a day. 720 million people do not have access to proper sanitation. 540 million women are still illiterate. 1.7 million live with AIDS.

India Having the Highest Wage Differential

Yet, our corporates are competing with west and boasting giant size executive remunerations. In a country where even those who are lucky to get a job earn less than Rs. 90 a day, companies are vying with each other to offer almost a crore a year even at entry levels to IIM graduates.

A survey of Indian billionaires conducted by a newspaper revealed the obscene spectacle of sickening salaries of several crores pocketed by scores of Indian CEOs. This makes India a country with the largest salary differentials between the salaries of the highest paid and the lowest paid staff in the whole world. There was a huge uproar in US when the salary differential reached 1:400. India has crossed the number 3 times over. The tragedy is that a number of companies that paid huge salaries to their owners or top management showed losses in their balance sheets. It is a stock market miracle that while these companies show losses or nominal profits in their balance sheets, their owners flaunt themselves as billionaires. The worst is the role of media whose perpetual focus on this miniscule section of billionaires is what greeds and fuels consumerism.

Divide Unsettling for Business

Thus India is verily marching as two nations each remaining widely apart. The situation is most unsettling for the business, if they can read the writing on the wall. The potential for social disorder caused by these inequalities can be infinitely more than witnessed in the suburbs of Sydney and Paris in 2005. In this internet world, people may be able to live in poverty but they will never stand inequality and obvious injustice.

Heads I Win, Tails you Lose

The greatest irony of the post globalisation era lies in business accusing the government for the sharpening inequalities and inadequate infrastructure. Little do they realize that the phenomenal growth that they boast of was achieved by businesses mopping up all the natural, human, social and infrastructural resources while keeping the government at arm's length. Take the case of Bangalore which has become the butt of business's criticism. It is only by mopping up all the social, economic and civic infrastructure that Bangalore has placed itself on the top of the world and given the Bangalore based companies access to world markets. Is it not time these companies contributed towards rebuilding the infrastructure they have used up?

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In an age where the business has been the greatest beneficiary of globalisation, when we are making every effort to reduce government intervention, how can the business escape responsibility for bridging the yawning asymmetry caused by the accelerated post globalisation growth? In fact the sharpening inequalities are the direct outcome of the short-term approaches of the business in the post Globalisation era. If it is the business that benefits the most from Infrastructural investments why should it not contribute in it? Instead of condemning the government for inadequacy of public services, business should partner with it and show its prowess and efficiency in improving it for their own sake. You cannot say “Heads I Win, Tails you Lose”.

Poor are the Greatest Source of Innovation

Socio economic inequalities provide imperatives that provide compelling reasons to make poverty alleviation a business issue. These compelling reasons are not altruistic. Poor are the greatest source of innovation. They offer a huge untapped market.

Secondly, for the first time in human history business has the power and technology to make a difference in human lives. It has a social cause to make profits instead of the invisible hand of Adam Smith.

Throughout history businesses have expanded and multiplied only by reaching what C K Prahalad, the noted management guru calls, 'the bottom of the pyramid'. Both Microsoft and mobile telephony that spawned some of the 21st Century's most successful businesses have proved the point. IBM failed because the vision of its founder Thomas Watson was "there was to be a world market of just five computers". Microsoft succeeded because it aimed to deliver computer in each home. Reliance Infocom, a mobile phone operator in India received one million applications in the first 10 days when it offered a mobile phone for \$10. India today has more mobile phones than landlines.

The success stories of Gramin Bank in Bangladesh, Casas Bahia in Brazil, Cemex in Mexico and ICICI Bank and Nirma in India show how accessing the poor markets have transformed both these businesses and the poor constituencies they served. No amount of handouts could have improved the lot of the poor served by these businesses. ICICI Bank has developed a new model of relationship with its customers. It has no direct contact with its half a million rural clients. It monitors their loans which are as little as 6 dollars with instalments of 20 cents each month through self help groups formed by rural women. Cardiac care and cataract operations are reaching new heights of process innovation in India. A cataract operation in Aravind Eye Hospital costs barely \$50 including stay. 40% of the patients are treated free. Yet, the hospital is debt free and has a return on capital of 120 to 130%.

ITC's Farm Forestry

ITC, a former subsidiary of British American Tobacco, has transformed sections of rural India. It had serious problem in sourcing pulp for its paper-mills and soyabean for export. It organised the poor tribals of Andhra Pradesh with wastelands into self supporting farm forestry groups. It provided them with high yielding, disease resistant saplings. It claims to have greened some 26500 hectares of wastelands with 108 million saplings and ensured high quality woodbased raw material for its paper-based business. In another initiative called e-choupal linking the villages electronically through a PC kiosk, it has saved Rs 270 (US\$ 6) per tonne for farmers and the same amount for itself in procurement of soyabeans.

HLLs Shakti Ammas

A revolution has been brought by a Unilever subsidiary in India, Hindustan Lever. They have created a distribution network of some 30,000 women called Shakti Ammas to distribute their products in remote villages as direct-to-consumer initiative targeted at individuals at the bottom of the pyramid. Training these women in entrepreneurial skills will have a cascading effect on the rural economy.

Invest in Bridging Infrastructural Gaps

There is a need for the business to create value proposition for the rural India and identify infrastructural gaps that inhibit the delivery or supply chain in of rural areas. There is a huge potential in the life style products in Indias villages if businesses can invest in bridging these infrastructural gaps. This can transform the rural populations and improve the bottomlines of the businesses.

Two Billion Teenagers

By far the most important reason for business to adopt the social agenda is the shift in public values. The purchasing power in the 21st century is fuelled by two billion teenagers who contribute a third of world population. They are highly sensitive on social and environmental issues and look for companies, which have a social and environmental agenda. No wonder companies are using CSR as a powerful PR platform. They can do much better if they use CSR instead as a business goal. 60% of the customers surveyed in a millennium survey said they would punish companies who were found to be environmentally or socially

irresponsible. ITC has increased its market capitalization phenomenally since its adoption of a triple bottom line approach focusing on people, planet and profits, as a way of doing business.

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Social Enterprises

This brings us to the need for building social enterprises as distinct from the public enterprises and private enterprises. Social enterprise is an entity structured specifically to solve social and environmental problems through entrepreneurial approaches. SEWA is the best example of social enterprises in India. Social enterprises are UK's best guarded secret. Until this summer, no one knew how many people were employed by social enterprises. But an economic mapping of social enterprises by the Department of Trade and Industry last July showed that the sector makes an £ 18bn contribution to the economy, three times the size of agriculture. Nearly 500,000 are in paid employment and 200,000 are working voluntarily. A substantial majority of social enterprises make most of their income from trading, and 50 per cent are located in disadvantaged areas.

Thanks to a new company legal form, the community interest companies, social enterprises can now use assets to borrow against. Access to finance is easier. Share issues to outside investors are not uncommon. In fact, annual returns from shares in projects run by Baywind – a renewable energy community-based enterprise – approach a healthy six per cent.

UK is not the only country where social enterprises thrive. Australia uses social enterprises even to run most of its job centers. The result is a marked increase in the quality in skills training and the placing in jobs of long term unemployed.

Outsourcing Public Services to Social Enterprises

Social enterprise models can be scaled up to include India's public services, healthcare, education, bridging the infrastructure gaps and providing new transactional platform for promoting services and products for the poor and disadvantaged. Social enterprises have the potential to offer a dedication that blue chip corporates only talk about. They can offer the possibility of social cohesion in neighborhoods, solve the environmental problems and alleviate poverty through cooperative effort. Social enterprises benefit the community, because they offer entrepreneurial solutions. At the same time they help the cooperatives as the profits are ploughed back to the employees. Social enterprises break the dominant paradigm of seeking employment. They encourage a culture where skilled people are involved more in creating jobs than seeking jobs. Since the focus of social enterprise is ethical and its operations transparent, it can attract a substantial section of socially responsible investors. It is time that the government, business and the NGOs joined hands to develop social enterprises in India. India's global dream cannot be realized until the poor become part of our economic miracle. The alternative will be a monumental debacle. We cannot allow another division of India into two nations. Social enterprise is the third sector that has the potential to bridge the yawning gap and fuse the two nations into an invincible monolith.

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The rapid expansion of trade and flows of cross border capital and technology made possible through globalisation, have created unparalleled opportunities for growth and financing of business. Globalisation cannot work properly if the poor are not made part of it. They need to be reassured that globalisation can benefit them equally. Businesses should do that as a matter of top priority in its own self interest. Sharpening inequalities are the spring wells of terrorism and the greatest threat to the security and sustainability of businesses. The communities that are marginalized harbour a strong sense of injustice that provides lush-recruiting ground for extremist organisations. Terrorism cannot be stemmed by wars, just as democracy cannot be imposed by force. It is no good for business to curse the darkness. It has a lot to gain by lighting a candle and make sustainability the core business agenda.

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