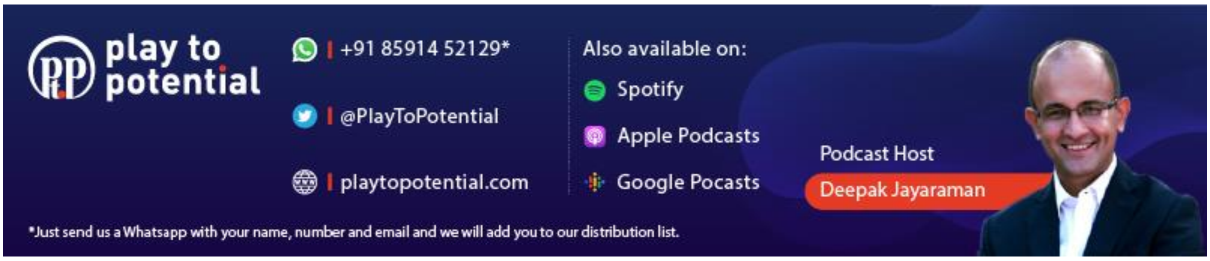

Guest

Tarun Khanna is the Jorge Paulo Lemann Professor at the Harvard Business School. In 2007, he was named Young Global Leader (under 40) by the World Economic Forum, and in 2009, he was elected as a Fellow of the Academy of International Business. In 2015, he was named Chairman of the Indian government's commission on Entrepreneurship and Innovation. In 2016, the Academy of Management conferred on him its Eminent Scholar Lifetime achievement award for scholarship in International Management. He serves on numerous for-profit and not-for-profit boards in the US and India. Recently, he co-founded Axilor, a vibrant incubator in Bangalore.

Context to the conversation

Welcome to the 38th conversation at the Play to Potential Podcast, a series of reflective conversations with leaders across disciplines on topics around Leadership, Transitions and Careers. I am Deepak Jayaraman, your host and curator of the podcast. I am an Executive Coach and work with leaders during high stakes transition –whether it is a role transition, leadership transition in a company or a career transition in an individual’s life. To know more about the advisory work I do, you could visit www.transitioninsight.com

I believe that just like businesses need to be coherent about their answers to “where to play and how to win”, we all need to be thoughtful about our responses to the 2 questions “where to go and how to grow”. This is podcast is an attempt at exploring how some leaders across domains have grappled with these two questions as they have gone on their respective journeys.

My guest this time is Tarun Khanna, a Professor at the Harvard Business School who has been researching and teaching Strategy, Corporate Governance and International Business for over 25 years. For several years, he has served as the Chair of HBS activities in India and South Asia. I had the good fortune of meeting him and interacting with him in the context of a CEO search I was doing for an Indian company where he is a Board member.

He has recently written a book titled Trust – Creating the foundation for entrepreneurship in Developing Countries.

In our conversation we start with him reflecting on some of the choices he has made and his insights on how we can leverage some of the thinking in the field of Strategy to inform how we think about the “where to go” question that we grapple with in our journeys from time to time. We then dive into some of the elements of his recent book and try and unpack some of the elements of how entrepreneurs should think about building Trust in the ecosystems they operate in.

Now let’s jump into the conversation with Tarun Khanna.

Transcription

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Deepak Jayaraman (DJ): How have you channelized your research interest over a period of time?

Tarun Khanna (TK): I would say that, of 18 waking hours in a day probably a set of those are spent at home attending to family issues, secure my kids, spending time with my spouse my extended family whenever possible and two thirds of the time spent on professional activities and after professional activity I would say that the last majority is in my primary day job as an academic at Harvard which is where I have been for last 25 years as a professor and prior to that as a student. Really good fortune to have stumbled on to being at one of the leading intellectual centres in the world today and cross roads of ideas so I spend a lot of time here and some fraction of the time is spent in taking the ideas that I try to work on and develop and trying to get them implemented and practiced seeing how they engage with the world that large outside of this ivory tower which in my case is mostly in developing world, in the countries of course like India which is my country of origin and my home but also another developing countries.

DJ: What can the world of professionals learn from the latest thinking of strategy in terms of how they address the where to play question for themselves?

TK: Look I think that's the one of the fundamental questions in the discipline that has come to be called strategy in the last let's say three decades or so in which its matured quite a bit and become fairly main stream avocation of a lot of academics and practitioners and consultants and so on, I think the core wisdom which is to really introspect on, what is it that an organization brings to the table, to the collective table as it were, and by extension what an individual brings to that organization should determine the kinds of places that you chose to play and if it turns out that those places are not places that you intrinsically feel that you would enjoy playing in or be good at in the long run, then I think it suggests a direction of investments in your own human capital to sort of move you in the direction you would have some unique value addition to some landscape, some problem space. One of my colleagues used to ask this very sobering question which I find useful to articulate to myself once in a while and the question was, what would happen if you just vaporised one day? Who in the world would notice? And I think it's obviously an existential question and to me a very motivating question because other than my immediate family you have to begin to ask who would notice? I mean in my case I like to say that some of my professional networks would notice for some time and then the world will move on, so whenever one feels that one really is achieving something I think its sobering to bring oneself down and not by saying, Well if you get evanished would you any noticed? And I think for an organization also you can apply that, you can say that look I am competing in a setting, professional setting in an industry and what if my entity ceases to exist how the rest of the ecosystem would recalibrate itself? And it adjust to a new dynamic equilibrium of a some sort and the reason why I think that's not just a facetious question and not just intended to be either an inspirational or demotivating question depending on your predisposition but its intended to be an analytic construct is that it's a very useful thought experiment to really help you identify what is it that you uniquely bring to the table which I think should be the driver ultimately, the question that usually asked it should be the driver ultimately of where you end up wanting to play, where is that that you can contribute something truly unique.

DJ: If we talk about the volatility in terms of let's say career creation if I may use the term in terms of new jobs coming into being that didn't exist five or ten years back, anything we can learn from how the thinking in strategy evolved over time, what is it different today than what it was let's say twenty years back and how does that inform how we think about careers?

TK: Well I think one of the things that's at least I can give you my impressionistic answer to that field as a scholar of it or a practitioner of it, I don't know that in the field as young as strategy that it's very easy derived consensus on these points of view so take it with the proverbial pinch of salt but my own senses that one of the dominating sort of empirical regularities with which we are confronted with more and more frequently is this idea that newer avocations as you were just saying Deepak, new industries if you want to call them that are perpetually being created and created out of existence, created and uncreated if you will that's the word and then this is happening very rapid rate and I think it's becoming more and more transparent, the extent to which this is happening is the result of combination of prior insights so think of it this way this are some very interesting work done by scientists and social scientists saying that, you know precisely because the stock of overall knowledge is exponentially increasing by some measures the amount of codified knowledge that humanity has added to its repertoire in the last decade probably exceeds that in the previous century and probably last two three decades exceeds that of a millionaire before that so the rate at which we are understanding new things is truly accelerating and what that means is that if it's possible to think of exponents of exponents that the combinatory explosion in new possibilities is even more bewildering and that means that this speed with which new combinations of things that were hither to uncombed if you will or things which you would not normally think of in juxtaposition position to each other are increasingly coming into combination and forming new vistas and new possibilities in different ways and of course each of these entails a resetting of the table if you will and if you are not careful you could find yourself out of a role to play, in order to this if you apply this to my previous thought experiment you could find that you may have had some unique value addition in the previous landscape but the new landscape has emerged in let's say last five years and suddenly your particular calling card is no longer in as much value at this point so you see this happening faster and faster and I think the underlying structural construct is that the rate admission you have knowledge and the rate of combinatorial possibilities is increasing very fast and there is no reason to think that that will diminish, so that's the first thing. The second regularity I would say which is also sort of the corollary to and there is a guy at, I think he is at north western university, who has done a lot of this academic that I am loosely remembering at this point in answering your question the other corollary of this interesting finding of sort of exponential expansion of knowledge is that each of us is only going to know smaller and smaller sliver of things. Maybe you lived in the time of this sage Valmiki in India and there were certain set of known things and as a truly wise man, wise woman as the case might be you might expect to know point one percent of things that were known to human kind, and today with the exponential increase in knowledge you may know vanishingly small number may be its .000001 percent of things so the question is how do you ensure that you have a unique capability to contribute given this bewildering explosion of knowledge and the tinier sliver of which you are master or mistress and I think that puts a real premium on being able to communicate what it is that you have to the rest of the world so that you can facilitate the emergence of combinations with your own skillset, so that's the way I think about it, that the specialization isn't going to go away and it's a pretty straight forward corollary of the fact that you have to specialize to survive because things are developing too fast to do otherwise, otherwise you will condemn yourself to mediocrity but you if over specialized then your ability to communicate with people with different specialities is now at a premium so that you can raise the odds that people productively combine with you and find it useful to hang out with you and do things with you, so that collectively you will in to be in new possibilities.

DJ: I love the way you frame it as an opportunity to facilitate a combination of new possibilities based on what gives you energy and your uniqueness.

TK: And if I may say, if this really is a mindset issue confronted with this sort of issue I think a lot people would find it, they may not confessed it but will find it intimidating and it is intimidating at one level but the thing is it helps me to remember that everybody is in the same boat we are all trying to do the same thing, it's not like your that the explosion of knowledge is uniquely disadvantaging your uniqueness if I may say that way and so there is really no reason, there is no upside to being bewildered, befuddled or lost you just simply get on with it and I think that mindset is actually quite motivating and you stop worrying about the fact that you know almost nothing.

DJ: What are some of the things you do which on the 80-20 basis contribute towards you managing your time and attention?

TK: So, the first thing I would say that, there is a simple guiding principle for me and the guiding principle is that, I would like to be known not out of any ego reason though everybody has an ego but not primarily I hope out of ego reasons I would like to be known as one of the key people whose thinking about issues related to creativity and entrepreneurship in the developing countries, that's my self-assigned space it's the place that I like to think about, I think I have something to say I think it's useful and productive for someone to be thinking about five billion of the world seven billion people on whom inadequate certainly scholarly and maybe policy attention is being lavished but the reason I keep saying that is that, if I can pull that off and to some extent I feel, I have pulled that off but to keep doing it better and better then I become the clearing house for the people coming and telling me things that they think are relevant to me and the measure of that is how often do I for unsolicited reasons get inbound offers of collaboration in other words going back to the combinatory. So today a strange person I had never met before from Indonesia wrote me a very nice long note, saying that he had seen something that I had done or talked about it or a video or a piece of writing and he thought about it and emailed me a long essay and I read this essay and said well this is really very insightful, not that I have any particular desire or bandwidth to collaborate with that individual but he is contributing to the grist of my mill of continuing to understand something about developing countries so if it was the clearing house of something then the world comes to you, makes a lot easier than you chasing around the world what people thinks, so that's the first overarching principle that just become the clearing house for something and this goes back to the specialization point, in terms of the tactical I don't know that I am even above the median of being wise about this, I am trying to think about it in real time what is it that I could say that doesn't sound utterly silly about rationing my time, I hope this doesn't sound egotistical but I think once again the clearing house, if you do have something to say that's valuable then I think you will find that people will be willing to adapt you to some extent, so in my case the way it works is because I am physically resident in Boston in Cambridge, Massachusetts. most of the time and my work is in discreet locations, about half of way it is in India and China and the other half is scattered around the other developing countries in the world that it's not possible for me to be physically immersed in the phenomena on that I want to study 24*7 which is professionally what I would like to be doing. I can't do that because then I don't have access to the intellectual infrastructure that enables me to make sense of those things so that's the dilemma. So what I am able to do to some extent is to for e.g. it's an typical is to show up in a place let people know that I am going to this place from time A to time B and simply in effect allocate the time to different projects, different causes, different events that I might want to participate in, always with a the view to saying am I adding something? Am I bringing something unique to the table? Am I meeting new interesting people? Am I giving the opportunity for others to come and engage with me and of course as an educator, am I educating people who otherwise I may not have a chance to reach when I am sitting in Cambridge mass, so that becomes the allocating mechanism, I don't know that have anything wise to say about devices and emails and phones and so on these seems 24*7 so it's hard to know how to quite set there are, when you figure it out let me know and I will adopt it.

DJ: Please tell us why you wrote the book?

TK: As I said its self-described, it's like two questions to understand the controverts of entrepreneurship and creativity in the developing countries of the world and since I born and grew up in India, India for me is ground zero is the laboratory, where I can go, rethink about things and then see if they tend to make sense and if they do then try them out in different places and learn thorough the variation in the way these experiments unfold that's my … if you will from the research stand point. For me the book was really an exercise in taking stock, it's been ten years since I last wrote the book that was more a travel log book, it was book in 2008 called billions of entrepreneurs how China and India reshaping their futures and yours and it was set of personal reflections grounded in history and grounded in my personal experiences in off the bitten part in China and India, particularly in rural China and rural India so staying away from the big cities and I thought ten years after having engaged in variety of other if you will intellectual and personal experiments including building companies and non-profits in different places I thought its good time to reflect and talk so the book Trust creating the foundation for entrepreneurship in developing countries, which is just out is the set of essays that reflect on four to five themes on why I believe that trust, cultivating trust has got to be the part of central objective function for an individual seeks to create impact in scale in developing world. So, think of it as a marker in my continuing journey of understanding this process of creativity and entrepreneurship.

DJ: When you talk about entrepreneurs and developing markets having to create the conditions to create talk to us about the nuance here and why is the issue pronounced in developing markets?

TK: So, that's a pithy phrase that I came up with, as you know I am an academic in Harvard and one of our most famous graduates is Mar. Zuckerberg he a Facebook fame, so the way I like to say it in public events is to say that building an enterprise in developing world is not like building Facebook in the harm and dorms, you think about it I am sitting here doing this conversation with you Deepak from the Harvard business school we are in the middle of a dense ecosystem here in Cambridge, Imagine there is a lady in Harvard domes here at HBS coming up with an idea she has access to some unbelievable supporting infrastructure there is pools of risk capital there are used to taking risk, they know how to measure risk they know how to deal with the unfolding of risk in different ways they know how to price assets in that environment there are intellectual property, experts and lawyers who can value intangibles in ways that we just don't know how to do it in the developing world because we don't have the experience sets yet. There are so many universities pumping out talent in different ways, you can always find if someone is willing to work on your start-up who has the different skillset that compliments your own, there are logistics providers, there are consulting firms and every level of sophistication, there are bankers of all sources specialized in big amounts of money and small amounts of money, there is arbitration specialist there's bankruptcy specialists there is an array of people who are just there to essentially create a foundation on top of which you can do your start up. Now, go to Bogota or go to Bangalore even and I am very active in Bangalore as an entrepreneur myself and as a provider of risk capital and you are an entrepreneur and unless you are doing some very specific things for which the infrastructure exists by and large none of these conditions that I mentioned really exist to the depth and sophistication that you would like it to so its falls to the entrepreneur to either choose the very circumscribed set of things that is possible to do with that de minimise infrastructure and otherwise you stay away with many things which is not optimal from societies stand points or you take those things on but then it's incubate upon you to compensate for the absence of all this supporting institutions so this compensation for the absent soft and hard infrastructures what I refer to is creating the conditions to create and it's an onerous ask for the entrepreneur but that's a fact of life but I think you better of recognising the facts of life than staking you hand in the sand ostrich like.

DJ: What does it mean in terms of leadership, again how does a leader again if you looked at the prototypical leader in emerging markets as compare to the leader in developed economies with deep support infrastructure, what have you observed about, what leadership muscles they need to have in addition to what their counter parts in the developed markets have?

TK: So, I think there are lots of people who specialized in characterizing the contours of leaders and I am not one of those experts but let me provide a more arm's length characterization to some extent, my feeling is that a leader particularly in the business world, you know there is a very famous saying it tribute to Milton Freedman the economist from university of Chicago won the noble prize saying that the business of business is business, in other words if you are a business man or a business women, the best that you can do for society is to forget about Society and just get on with making money because if you do it really well that's your contribution to society there are other people who will take care about other things. There are doctors who are taking care of the sick, there are teacher who are taking care kids who need to be educated, there are social service workers who taking care of those who are down on their luck and so on and so forth but what happens when you go to the most of the world? And none of these conditions are available then I think at a very practical level this admonition from Prof. Friedman falls on its face, it cannot be the business or business is business the business or business in the interest of business, in the self-interest of business is to engage in in my view in the partial private provision of so-called public infrastructure. Let me that elaborate what I mean my public infrastructure is infrastructure that you put out there, you can use it but other people can use it also a Road your canonical example, public security is a canonical example, the fact that their security and you feel secure doesn't detract from somebody else's sense of security in the same ambience. Economist says that such things are called non-rival risks. Now, who is going to provide these public goods? The support services that help creativity that help entrepreneurship, we could point fingers at the government and bemoan its corruption and it venality and its incompetence and whatever else you want to complain about and some of it is true and depends on obviously place and time and setting but by enlarge its neither here nor there is my very practical point and admonition to all of us, what's the point of pointing fingers, why don't we just get on with it? And find the people within the state apparatus who are willing to work on constructive things and willing to extend a hand to the private sector and do work with the private sector and I am convinced that they exist in every single society it's only a few bad apples that give the public sector less than glowing reputation in many instances and work with them to help them to create the conditions to create and if that means that a private entrepreneur has to contribute to something that the public ends up benefiting from, I think that's just fine and its often in their own private interest because the acid test is you better of as an individual as a private business person doing this or you better of sitting on your hands and saying that's the task of the government, the latter is almost never true the former sometimes is.

DJ: So, when you talk about enlightened self-interest as well in the book, in the context of you take the example of Charl Chao and the way he shared IP do you want to talk about that for a minute?

TK: So, Charl Chao is a colleague, friend who I met some years ago and he was former entrepreneur, actually in the tech industry, originally Taiwanese, worked in southern California and really got fixated on this problem of milk poisoning in China back about 10 years ago in 2008 and realized that all the solutions the government had put forward, better information, more education, severe punishment, chastising, public shaming none of it really worked, the number of people who got to touch milk from the time that it came out from the cow to the time that a child consumed it was far too many to police and too many ways to make mischief and people were adding these contaminants that made the milk look as though it had a higher protein content but actually were chemicals that damaged the organs of kids and immune compromised patients so he decided that he would come up with the technology based solution to tracking each and every cow, to making sure that the care of the cow is individually customized to the cow and he had this feeling that his objective was to generate happy cows and then he had a lot of measurement systems in place to say that happy cows clearly deliver something like I don't know 20% more milk than if you take the some cow and put her in a conventional dairy setting, we don't have all these customized sensors and so on plating data and customizing the feed and robots that clean the cow poop away in very pleasant cow sheds, if we don't do that the productivity goes down very simple and ultimately economic and economic argued and to cut a long story short, the main constraint that emerge to his growth of this successful farm that he created was that dairy farming was never sexy in China still isn't and he couldn't find techy people from the big cities to come and work on his techy dairy enterprise because he was much cooler to go work for Alibaba or Tencent or do WeChat or something like that. So his gimmick was let me just give away the IP, now why give away the IP? The intellectual property involves in creating happy cows and a tech enabled dairy farm but the idea was that somehow of a young person graduating from a reasonable university came and saw only Charl Chao is the maverick doing this, one could imagine that they would have some trepidation in banking their careers on Chao's efforts whereas if they saw that Oh look there's dozen farms or twenty farms or fifty farms or a mini industry setting that's doing it maybe my career is not hostage to Charl Chao and its situation so essentially by giving away the intellectual property to the horror and chagrin of his financial backers he was able to begin to attract some tech talent to come into the tech dairy industry in a way that they alleviated to some extent to the constraint will began to grow so this giving away of IP precisely in order to foster an ecosystem in which talent came in to then help them to grow the core enterprise, so that he became a smaller piece of the overall pie but the pie was immeasurably bigger is sort of the essence of creating the conditions to create and that's why I like that example and you see this everywhere I spend a lot of time in the city that I was born in was Delhi but also in Bangalore where I went to high school and in Bangalore I do a lot of work with Devi Shetty, the Surgeon and when you think about the story of Devi Shetty, how he has created sort of Cardiac factory or sorts which I have been chronicling now for 14-15 years it's really a sequential creating the conditions to create, so his operation is premised on scale and a lot of patients coming in but the problem is the patients will not come into the hospital because they live too far away, they are uneducated they can't get away from their work they physically unable to get there so on and so forth so you have got to invest in transportation, in logistics, in medical insurance, in education in satellite delivered telemedicine, you have got to create all these conditions and that's not what you want to do as an entrepreneur, you want to do heart surgery and cardiac care and to do that you have to create the enabling conditions before you allow you to do that so there are lots of examples like this but that's why I say create the conditions to create and it requires that particular mindset to be able to say it's a mindset change that of course my core skill is going to be in developing happy cows for more milk or in doing cardiac surgery very efficiently and cheaply for poor people but to be able to do that I have to have mindset shift and say it's shouldn't be outside the remit of possibility or beneath me to think of ways in which I can either create these conditions myself or catalyse others to do it along with me and that requires sort of a perhaps a more eclectic model of leadership than you would when only specialization is adequate.

Reflections from Deepak Jayaraman

DJ: This is your host Deepak Jayaraman. I am reminded of my earlier conversation with Arun Maira (AM) (Former Member of the Planning Commission of India and Former Chairperson for BCG India). He spoke about the distinction between leadership in an open system versus a closed system.

AM: "We have a much more open world a*nd in this world we need to partner with or work with organizations who are in other parts of the world and also we are finding because of as you said the* *world is more dynamic and information technology even them is enabling us to be communicating with partners outside our boundaries, how to be successful in a more open world."*

DJ: While Arun makes this point in a different context, I guess at some level the key insight for me here is that we need to look at the system we are operating in and solve for the system. Bringing it back to what Tarun says, as an entrepreneur, if I just solve my piece of the puzzle, the jigsaw is not going to complete itself. I need to work on some of the adjacencies as well for my business to flourish.

I hope you are finding this content purposeful. Just a quick note on the Podcast, if you wish to be intimated when more content is uploaded, please sign up on the website – www.playtopotential.com. If you want to listen offline, it's available on Google Podcast Player, iTunes, Stitcher, Saavn, Spotify and most other platforms. If you find the content purposeful, do take a moment to rate and leave a review on iTunes. It will help others discover the content. Now let's get back to the conversation with Tarun Khanna.

DJ: You spoke about Narayan, the other thing that struck me was, you talked about that lady in the reception who needs to make a snap decision on how to price a certain patient and based on often a limited data and real time data so again back to your point about let's say developed versus developing, do you have an insight on how decisions and judgment calls need to be made? Is there a different paradigm in the way choices are made in some of these entrepreneurial companies?

TK: So I wouldn't say it's a different paradigm but I do think there are some differences, I think there is always a balance between data and intuition and in the HBS classroom I always tell our young students at the beginning of their careers, you get these case studies that we used for our instruction, very neatly packaged, there are ten pages, 12 pages, 15 pages you read them you think about them you come in you debate you are masters of the universe in effect at that particular moment but when you go in the real world the parallel decision that you are confronted with at all times is how much time do I invest in gathering data? Because you will never have enough data at some point you have to develop the intuition for saying Ok the whole situation is uncertain, its unfolding rapidly but I can't keep investing my scares resources and getting a better and better delineation of the problem, I have gotten enough let me try and experiment and go on and I think what happens at the developing world because you are generally operating in what I would characterise is something closer to more of a data vacuum than a surface of data. You have to have those intuition muscles much better honed and part of the again going back to creating conditions to create, part of the conditions that you have to create is in environment of some alleviation of data scarcity which again requires resources, so there's a judgment call is to how much time to spend on this.

DJ: The point in the book about how entrepreneurs should think about pricing versus market share and I loved the metaphor of the Titanic, rescuing people on the Titanic of either you take a life boat or you call another ship, talk to us about what's the insight here?

TK: So you are referring to the chapter that I wrote in Trust on microfinance, where I was comparing and contrasting two different micro finance ventures that I know reasonably well, one was what used they call BFIL (Bharat Finance Inclusion Limited) but then was called as SKS Microfinance headquartered in the AP at that time with Banco Compartamos which is Mexican micro finance firm and the unique think about both of these are they are both publicly traded entities and their respective stock markets in Mumbai, in the case of SKS … with the name at the time of vignettes described this in the book and Comport Thomas in Mexico now both these companies are for profit enterprises and they are avowedly and explicitly and unashamedly so, and in both cases I think the logic is very much look we can be a non-profit enterprise in which case we would take any and all economical surplus that we create and distribute it completely to all the stake holders but it will compromise the extent to which where we able to reinvest in the business and grow the system to serve the tens and millions of mostly women, poor women in these countries who desperately need access to cheap credit, now in theory the state should be providing that through subsidies loan and so on and certainly in India we have any number of state-run programs and subsidies credit available from the government the problem is that the market speaks pretty loudly, then when you have a well-functioning micro finance firm competing with the state run self-help groups the poor women choose to go to the well run micro finance firm because there is frankly less corruption involved in the disseminations of funds from there and even though the nominal interest rates seems higher the de-facto interest rate is much lower when you go with a well-run, reliable, professionally run, ethical microfinance firm, whether it’s for profit or not is a separate issue, whereas if we go with the state run entity, sometimes the lenders are there sometimes they are not there the side payments demanded, there’s other unsavoury action that goes on that I don’t want to go into on this podcast and so on. So the women vote with their feet and go to for profit entity but the key point is that both entities Comport Thomas in Mexico and SKS in India both decided that they would prefer to grow overall pie and there is the big distinction there is still a lot of day light between the extreme position that you should give away all the surplus and the proposition that you should revert employees and shareholders also, there’s a degree to which you would reward people and here I should say that I have been in independent director for the board of SKS for some time since before it became a public traded enterprise, I am much more comfortable with the SKS approach which is to say let’s make sure that we make a healthy return that we return money to the shareholders that we treat the employees really well make sure that they compensated fairly, go out of the way to equip them with the latest technologies in different ways to do their job well so that they can build on the reliability of being there for the poor women when they needed but then make sure that you also consistently and steadily pass on more and more of the gains of continuous improvement and innovation to the poorer women in the form of a lower and lower interest rate and that’s what we have delivered year after year other than one or two hiccups recently with demonetization quarters after quarters our interest rates keeps on going down. Compartamos has taken a different approach it said that we want to keep our interest rates pretty high. So our interest rates as SKS is I want to say 19% and change which is probably the lowest of any microfinance firm in the world, that’s pretty amazing and it is an explicitly for profit firm so it’s able to square the circle much like Devi Shetty can square the circle of saying I want to be a for profit entity but I want to make sure that I serve the poor and ensure that nobody has turned away who had heart disease or tertiary health care needs so also I think the SKS now BFIR is able to square the circle and say there is an intermediate position where you can return capital with shareholders that they keep reinvesting growing the pie and you can keep serving the poor people I have no problem with this Compartamos is to my mind anyway privileging the shareholder much more than I would like to see happen but you know that’s between them and their customer and their eco systems I am not in the business of value judgments there and again the market speaks there because they are growing in a very healthy clip and women continue to go to them to borrow money and are quite happy with their services so you know that’s the nature of the trade off, on a personal note I am a teacher and an educator and researcher so I take every opportunity to use these materials that I have been studying and working on and bring them into our classroom environments wherever I am teaching around the world and one interesting thing about both these instances of Devi Shetty’s heart hospital and from microfinance from around the world, if you post the simple question to let’s say a classroom of hundred undergraduates or a hundred CEOs of companies or hundred policy makers in any country and you say how many of you think that it is absolutely and categorically unethical to make money by selling services to the poor that’s one extreme position the another extreme position is how of many of you have no problem at all saying that as long as you follow the law and are ethical in all possible respects and letter and spirit if you can make money by selling to the poor, you have no issues with a company being very profitable. So two extreme positions and I tell the students that they cannot hedge their bets, they cannot be both, they cannot be in the middle, they have to choose one or the other this plate is invariably 50-50, no matter who you pitch this to, it will be 50-50 so it appears that all of us, my hypothesis, as an academic is to say that we appeared to evolved pretty hard wired notions in our heads of what is legitimate and not legitimate to do with catering to the poor bringing the market to serve the poor and again I say my class that it's not for me to make value judgments, I wear my heart my sleeve and my actions tell you where I stand on this debate but if you and your god have a different answer then god be with you go for it.

DJ: But it's interesting that you say that across different start up it's a

TK: Across cultures across ages across backgrounds its roughly 50-50 give or take and further there's no, I also say in these classes that look my job here given that these attitudes are so ingrained by the time you show up in my classroom in my circle I have no hubris or arrogance that I am going to pursue you to change your mind I just want you to see that there is another side and that there are good people on all sides of this and I think that mutual forbearance and tolerance can go a long way in a civilised discourse.

DJ: Just bringing it back to the work you do in strategy Tarun given your thinking around the notion of building the trust what's the difference you see in how the entrepreneurs in developing economies frame this strategy question as compare to some of their counter parts and developed economies is there a difference in the way they should be thinking about the problem?

TK: So, you asked two questions and the answers are different the first question was is there a difference in the way entrepreneurs in the developing world frame the problem compare to those in London or Boston and the answer is no! they frame it the same way, however I think that's the mistake I think the entrepreneurs in the developing world should privilege trust as being a central core objective of whatever is it they set out to do, that's the reason I wrote the book and that's the reason I wrote it in the narrative style as oppose to in more academic jargon because I am trying to reach would be entrepreneurs or would be investors to recognise that cultivating trust should not be an ancillary avocation it should be absolutely central to the enterprise and in the book I have a chapter which I think is the probably most interesting chapter to me that's called the mindset change, when I was going through classes at HBS and at Harvard economics department there was a very strong and continues to be a very strong ethos, which is with good foundation to say that you should quote unquote stick to the knitting, you should focus on what's core to your enterprise and so on and so forth there's a lot of logic to it and it's not hard to see why? Which is don't get distracted it is tough enough to do something world class and you shouldn't be distracted however I think it's a bogus advise for the developing world because it's not practical at the end of the day as I said at the outset in our conversation at a practical level if I want to do something that remotely scientifically sophisticated even in Bangalore, I quickly hit road blocks which is up to a certain point when within a few pretty narrowly constraint domains, are we able to make progress? After that I will rapidly find that I don't have these skillsets around me, I don't have a dense enough pool of talent around me I don't have people who can converse in the scientific language, I don't have intellectual property, sophistication, I don't have a common law precedent to help me, I don't have a variety of functions of intimidation that I need to make that happen so I have to do something that is not my core which is I don't want to be an IP lawyer or an IP valuer, I don't want to be an educated intellectual property in that particular example so it's not my core competence but I have to do it, because without creating the conditions to create, without the mindset shift that allows me to say left brain right brain, I have got to do this and I have got to do that you are essentially sunk or to put it differently your enterprise may very well be profitable and so called successful but it's not likely to have impact at scale and by scale just to fix numbers I am saying if we want to effect at least 10 or 20 million people at a time so I think that's what should be done differently, is it being done differently? No! Because people are aping what is happening in, I am guessing why this is happening people are mechanically aping what we are teaching in a strict US curriculum or a curriculum in Europe and translating it without thinking about the underlying logic and how the conceptual circumstances are different in Johannesburg or Jakarta. .

Reflections from Deepak Jayaraman

DJ: This is your host Deepak Jayaraman here again. While Tarun makes this point about building trust in the objective function when it comes to entrepreneurs in developing economies, a similar insight came up in a different context during my conversation with Ravi Venkatesan (RV) (who happens to be an HBS alumnus). He spoke about the criticality of trust in a world where the Gig Economy has made it possible to get things done through these platforms where Gig workers aggregate. He spoke about the criticality of building trust and how people sometimes don't build that transaction cost in the economics of business.

RV: *"Lower and lower transaction cost idea is at some point trust also dietarians and then the transaction cost curve starts going up, going back up, if people don't trust each other than the transaction cost to establish trust will also start rising so I think we are reaching a point, where there maybe that inflection where it starts climbing again, and then you will have to find some new equilibrium."*

DJ: At some level, the insight from Tarun is similar. The higher friction and the greater transaction costs in emerging markets need to be acknowledged and systemically solved for by the entrepreneur. Just focusing on your business alone may not move the needle when it comes to impact at scale. Now let's get back to the conversation with Tarun Khanna.

DJ: Back to the point about what gets measured gets managed and especially if you have taken risk capital and you have VCs following you and who set metrics what have you seen about measuring trust, again not to make it too numeric but what are some of the insights around how an entrepreneur could calibrate himself or herself on whether they are doing enough to build trust in the ecosystem as they focus on their core business as well?

TK: So, before I answer that with a partial and unsatisfactory to me answer let me address just the side comment about risk capital and VCs I think one of the reasons it's very hard to do what I am advocating must be done is that it itself requires an ecosystem change you are absolutely right in saying that the convention of VC and I have got a lot of VCs and private equity guys invested in my various ventures by and large I don't find them sufficiently thoughtful about different realities in which these businesses are being built or to put it more charitably what they end up doing is finding those very narrow circumscribed segment within which the necessity to create conditions to create is relatively less in other words some sectors require less infrastructural support they are relatively easier to pull off so you find risk capital going into there, I don't blame them because that's the … where you make a buck but if they were to recognize that to build other kinds of ventures including for profit ventures that additional metrics would be needed to recognize the centrality of the trust that's the long conversation with the venture capitalist or the private equity guy who typically has a funds structure where he has got limited partners and their money needs to be returned in the X years and essentially he has forced to start from the standpoint of the entrepreneur behaving not in the best interest of the enterprise when his fund is due to be retired there's just no structural fix around that particular constraint, so the VCs are as much a source of the inertia of the system as many of the other actors so that's one comment, let me turn to the measurement of the trust because it's a hugely important issue the one that I have thought about and I am thinking about a fair bit I don't have any silver bullet answers to be perfectly honest the one thing that I can say is that in all the vignettes and stories that I profiled in my book one thing that's clear is that when you are communicating this ethos of trust it almost always suffices to do it in the initial term for one category of stake holder, in other words there appears to be some sort of human level reassurance that people draw from let's say the fact that your employees really trust you and your turn overs are extremely low. Lower by the than you would predict by the kind of industry that you are in or the size of business that you are for example piece of the rest of the stake holders in the system potential collaborating partners provides as a capital etc. seem to draw a lot of human level reassurance from the idea that there is a critical bunch of people who trust this guy a lot enough to stick with him and maybe get benefits which are significantly lower so there must be something more to the enterprise than what's trying up in the P&L and in the balance sheet so let me also take a leap of faith so therefore it's not a corollary to that is that it's not as difficult to create this ethos of trust in the entire stake holder system if you just get started if you just get up and get on with it so that's the one issue, and the second corollary is that in principle one could measure these things, so it's a tricky exercise as an academic I don't know how to write a rigorous paper measuring this because I don't know how the econometrics would work out but at a practical level as an entrepreneur I don't think it's that hard once you put your mind to it and once you recognise that the cultivation of trust should also be a central core objective of your interest of creating a venture that impacts at scale once you do that you can start with the single stake holder whether its providers of ideas, providers of capital, providers of talent, cultivate the trust with them and use that as a de-facto signalling mechanism to other stake holder to this is how you can go and those things can be measured a little bit better.

DJ: Just wrapping up, your insights on how to play to Potential.

TK: I would say I have the accidental good fortune of being at the cross roads of ideas so I am obviously answering this from my particular vantage point but to me it seems like the and even when I am in my home in New Delhi or my office is in Bangalore it applies much there the sense of multiplicity or even exponentially growing possibilities it's just hard to get around and one has two choices to be bewildered sort of like a deer in headlights to pause for a second and the other is to just embrace this sense of the unknown into embrace the beauty in it, the possibilities for imagination all this amazing stuff that is unfolding in front of her eyes so my admonition to all your listeners to my colleagues, collaborators, mentors, students, my children and younger people in particular is to not be afraid of the unknown as the cliché goes you have got nothing to fear but fear itself and just get on with it.

Reflections from Deepak Jayaraman

DJ: I hope you found the conversation purposeful.

As I was reflecting on this conversation, I couldn't help drawing parallels between what Tarun said and my little enterprise in a limited way. I started the Podcast as a passion project a couple of years back where I felt it would be a great opportunity to learn from various people and share it with the world at large. People would often ask me about the commercials of the podcast and whether it is making revenues. The short answer to that is No or Not yet.

But a couple of weeks back, something interesting happened. I signed up to work on a Coaching assignment with a client after a few rounds of discussion. I started by saying "why me". And it was interesting to hear what the client said. They mentioned that listening to a few of the podcasts gave them the comfort around who I was, why I was doing what I was doing and my capabilities. Now that was not the stated objective for me when I started out the podcast but now when I juxtapose that with the insight from Tarun around putting building trust in the objective function, I can begin to appreciate the significance of doing something that may feel like a distraction in the context of the business you are building, might even be hard to measure in the short term but I am beginning to see the value of building an intangible asset of trust that you slowly build over time that eventually comes back to aid your core business.

I guess a similar point comes up in a different context in the work of another Harvard Professor Clay Christiansen in his book "How will you measure your life". He says that we are often tempted to allocate the next unit of time towards things that give us measurable outcomes in the short term and that leads to people over indexing on work and under indexing on family.

Resisting the short term, taking the long-term view and building trust with the ecosystem you are in I guess is counterintuitive but value additive in the long run, whether you are an entrepreneur in emerging markets, a gig economy worker or a professional that is balancing work and family.

Signing off – this is Deepak Jayaraman here. To know more about the Coaching and Transition Advisory work I do, please visit transitioninsight.com. Bye now.

End of transcription

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Nugget from Arun Maira that is referenced: Leadership in an open system.

Nugget from Ravi Venkatesan that is referenced: Gig economy and careers.

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Tarun Khanna - Nuggets

- 38.00 Tarun Khanna - The Full Conversation
- 38.01 Tarun Khanna - Strategy and Careers
- 38.02 Tarun Khanna - Managing time and attention
- 38.03 Tarun Khanna - Creating the conditions to create
- 38.04 Tarun Khanna - Leadership in Emerging Markets
- 38.05 Tarun Khanna - Business model choices
- 38.06 Tarun Khanna - Framing the Strategy question
- 38.07 Tarun Khanna - Measuring Trust

About Deepak Jayaraman

Deepak seeks to unlock human potential of senior executive's / leadership teams by working with them as an Executive Coach / Sounding Board / Transition Advisor. You can know more about his work here.

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