

'Entrepreneurs must also create the conditions for success'

A tall order, but more practical than relying on a fictitious 'other', Harvard Business School professor **TARUN KHANNA** tells Shubhomoy Sikdar

In your new book, *Trust: Creating the Foundation for Entrepreneurship in Developing Countries*, you emphasise building trust is key to enterprise success, more so in an emerging market, and cite examples where entrepreneurs have gone out of their way to innovate and find solutions to local problems? Given the constraints they work with, how challenging is innovation in the developing world?

It's very challenging indeed, but also very exhilarating, with large personal and societal payoffs. One of the main initial challenges in my view has to do with accessing risk capital. Now, in countries such as China and India, this has improved a great deal in the past decade, where angel investors and incubators of all sorts are now into this business, and getting analytically better at it over time, but there's still a long way to go, particularly for truly novel ideas. In the developing world, truly novel ideas still do not attract risk capital, as it's difficult for our investor base to value ideas and their manifestation as intangible assets well (as opposed to counting unit sales, or store openings, or app downloads, or something very

concrete). In more developed ecosystems, ideas get valued as they progressively develop, well before there is concrete manifestation and there is a 'thick soup' of investors who specialise in valuing such ventures at different stage of its going through such a life cycle. In India, and in virtually all developing countries, we don't yet have the maturity of investor experience to do this. But we're getting there!

For an entrepreneur past the very early stages of venture creation, accessing talent is the key challenge. As yet, we don't have enough young talent that has requisite skill

sets, nor do we yet have enough folks who have exposure to a broad set of life experiences, either through diverse professional backgrounds, or through travel overseas, for example, or other ways. Of course, all these will come with time, but currently it's a real bottleneck to scaling a venture.

Things are improving though, I'm a glass half-full kind of guy! The ecosystems popping up around the IITs in Mumbai, Delhi and Chennai are neat! Look at Axilor in Bangalore, where I am cofounder, that incubator and accelerator takes a very scientific approach to venture curation, we're

quite pleased with the way our reputation has shaped up in just a few short years. These well run entities are realising that capital and talent go hand-in-hand. They provide capital, but equally importantly, provide mentoring and hand holding.

The book talks about Taobao and how it took the ethos of the prevailing Chinese market dynamics on an online platform and came up with a hugely successful business model. Do you think Indian start-ups lack that spirit of differentiation? Also, has Flipkart's majority stake sale to Walmart shaken consumer trust?

Well, when Taobao launched, eBay was the behemoth in China. Jack Ma realised that rather than import the look-and-feel of the US site, it was better to customise the experience to the desires of the Chinese consumer, and that, in my view, was one huge reason why Taobao got traction against the incumbent and eventually marginalised it completely. Now, the question to ask about the Indian online consumer and Flipkart and such is whether or not the Indian consumer is as different from the median Amazon

consumer as is the Chinese one. If the Indian consumer desires a different look and feel, and the likes of Flipkart are just mimicking the US site, that would definitely be a lost opportunity.

I don't think that selling to Walmart shakes the trust in any way. In some ways it might even strengthen it by showing a significant exit for an entrepreneurial venture from scratch. Having a lack of

profitable exits is the bane of any nascent start-up ecosystem, so the more we have of that, the better for would-be entrepreneurs and providers of risk capital.

The book seems to suggest that compared to India, micro finance institutions in Bangladesh and Mexico scripted bigger success stories. Does the stranglehold of private moneylenders and hierarchies and differences within the society make the country's ecosystem less receptive to community-driven models?

I don't think I said that microfinance in Bangladesh and Mexico is a bigger success story! It's certainly different in as much as the institutional backdrop is different in both those countries from that in India.

I do admire BRAC, started by Sir Fazle Hasan Abed. There's nothing like that in any other country, including India, by the way.

The Andhra microfinance crisis was really a revealing moment for me. There was widespread unsavoury behaviour, on the part of politically connected individuals and the vernacular media in particular. Further, while the rest of India's institutional checks and balances did the right thing eventually, for the most part, the wheels of justice in India grind slowly.



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