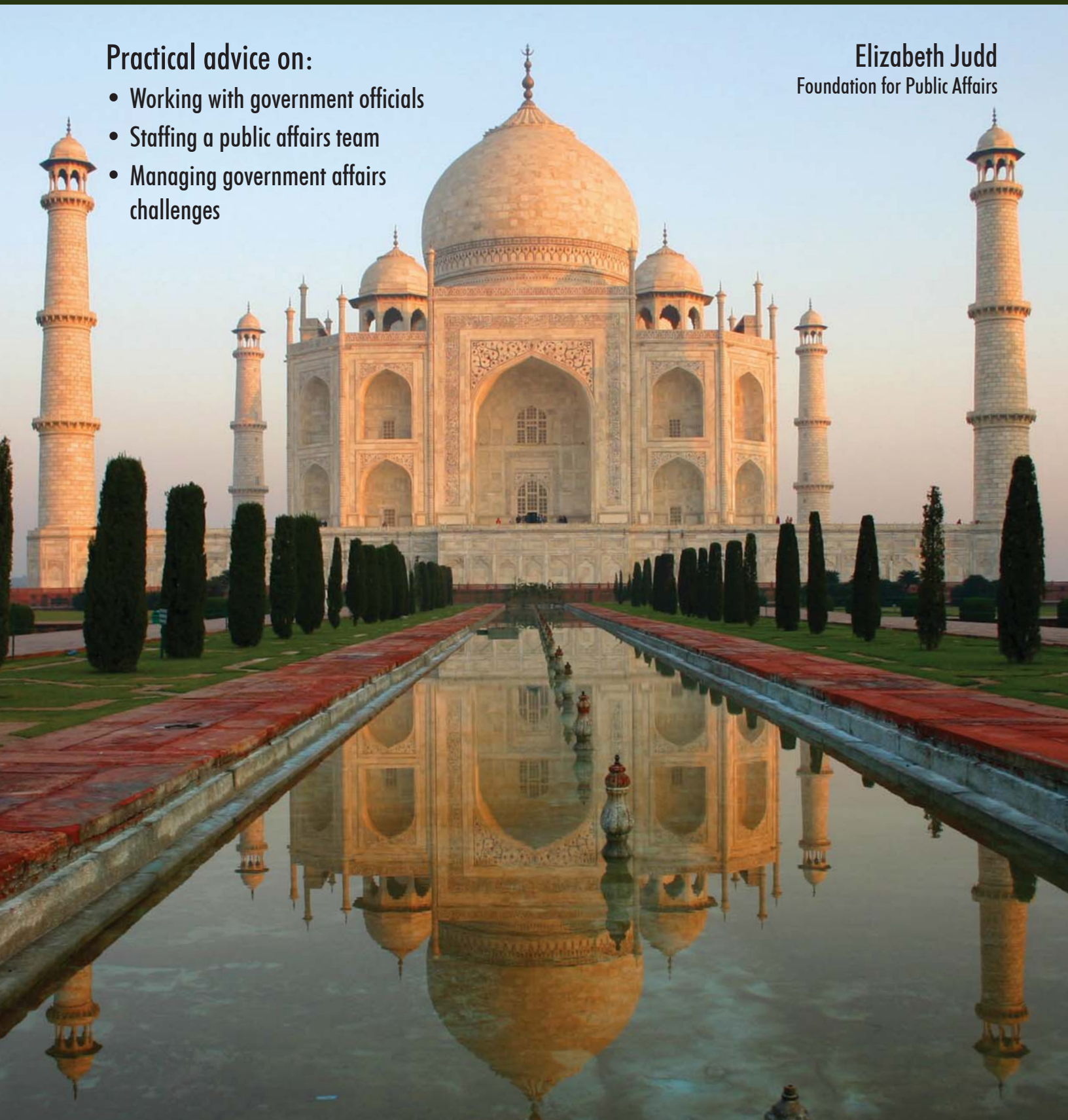
THE JUGAAD PRINCIPLE

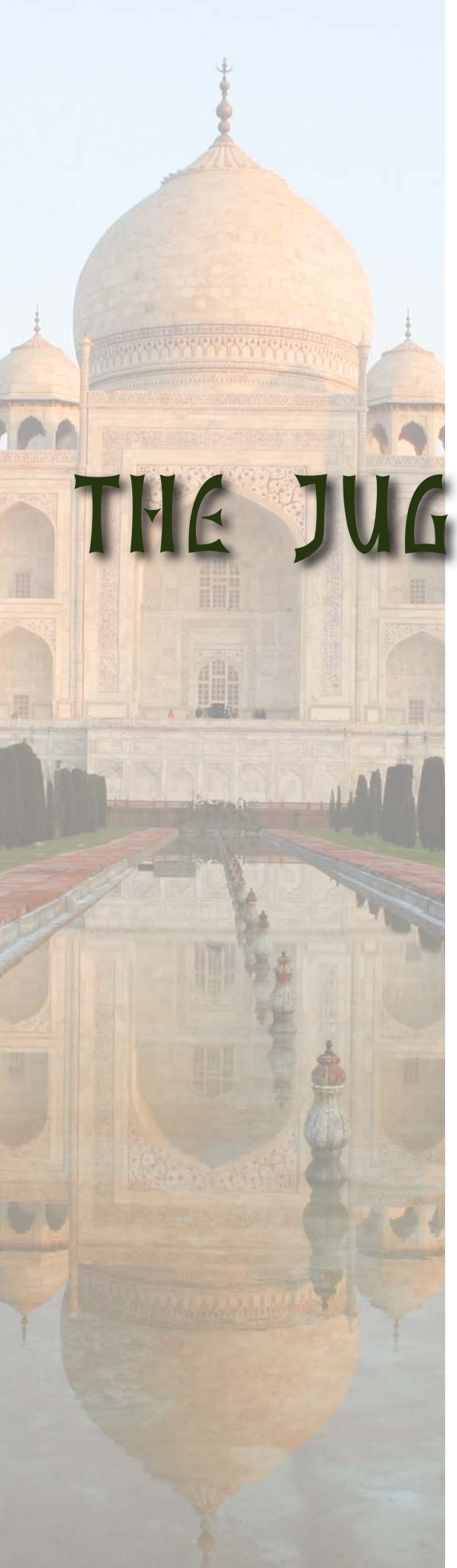
Managing Government Relations in India

Practical advice on:

- Working with government officials
- Staffing a public affairs team
- Managing government affairs challenges

Elizabeth Judd
Foundation for Public Affairs





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FOUNDATION FOR PUBLIC AFFAIRS

The research affiliate of the Public Affairs Council

Published by
The Foundation for Public Affairs
2033 K Street, NW, Suite 700
Washington, DC 20006
Telephone: 202.872.1750 | Fax: 202.835.8343
http://pac.org/foundation
President
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The Foundation for Public Affairs — an affiliate of the Public Affairs Council — conducts research on emerging issues affecting the practice of public affairs.
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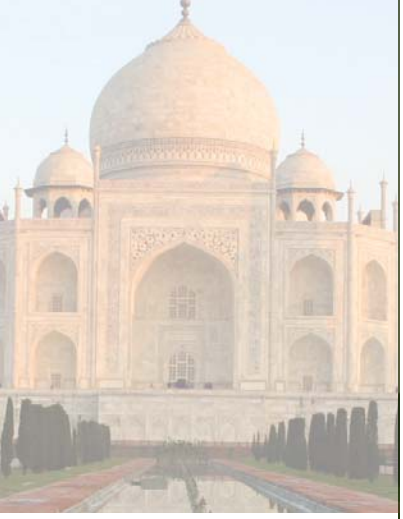

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Acknowledgements

The Foundation for Public Affairs would like to acknowledge Stephen Ciccone of Eastman Kodak Company and Sheree Anne Kelly of the Public Affairs Council for their insights on Indian business and government and their overall support for this project. Adam Korengold, executive director, and Jennifer Poos, research associate, also contributed to the publication of this report.

THE JUGAAD PRINCIPLE:

Managing Government Relations in India

INTRODUCTION

Eastman Kodak Company, the Rochester, N. Y.-based photography icon, has been operating in India since 1913. Recently, however, Kodak considered hiring its first local government affairs professional, rather than splitting the job between the India country manager and the head of one of its Delhi facilities.

Kodak is considering this change because of the tremendously appealing Indian consumer market (half the 1.15 billion population is under age 25). What's more, Kodak is intrigued by the fact that tax and tariff rates are wildly inconsistent among India's 28 states, creating opportunities for a motivated company to perhaps lower its tax bill, explains Stephen Ciccone, director and vice president, public affairs, at Kodak.

"The value-added tax (VAT) for a digital camera can be as high as 12.5 percent or as low as 4.5 percent, depending on whether the state considers the camera a consumer product or a technology product," explains Ciccone. "With those high tariffs and high taxes," he says, "there's got to be gold in the hills somewhere — things we can do by working in partnership with the Indian government to get the tariffs and taxes on some of our products reduced."

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> Vice President, Public
> Affairs, Eastman
> Kodak Company

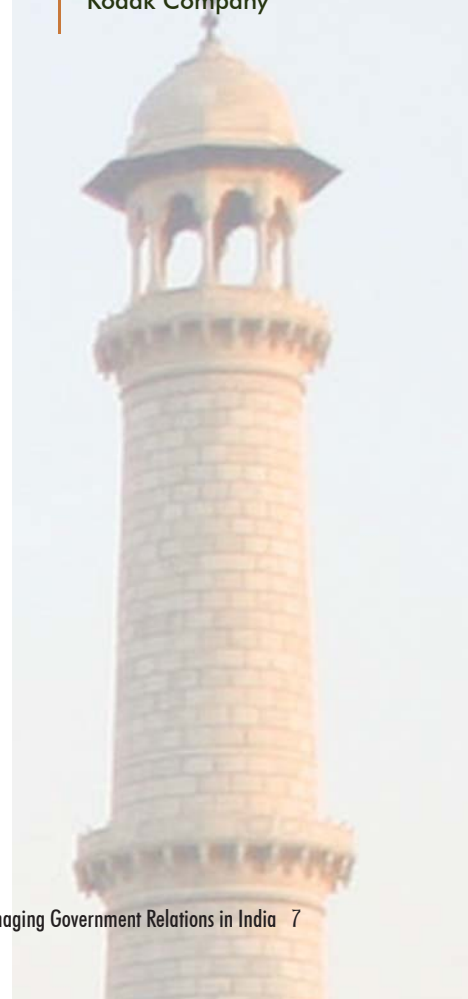
Within the past few years, several American companies with a longstanding presence in India have deepened their commitment by hiring (or strongly considering hiring) a government affairs professional on the ground. Wal-Mart, Caterpillar, Procter & Gamble and Monsanto are among them. On the other hand, at least one Fortune 500 company on the brink of hiring its first government affairs professional in India recently put its plans on hold because of the Mumbai attacks and the economic downturn.

"Companies are becoming more invested in India, and they're looking to expand their presence," says Anku Nath, director, trade policy advocacy, retail trade and agriculture, at the U. S.-India Business Council (USIBC). "India isn't always the most straightforward place to work, especially for those accustomed to systems like those of the United States. The decision to set up a government affairs presence may be precipitated by regulatory or other barriers, though many companies are merely keen to develop relationships with officials who may impact their investments down the road." She also notes that India hasn't marketed itself as a source of generally cheap labor but as a place that possesses world-class skills in engineering, IT and entertainment (the Bollywood phenomenon) — at a lower cost than in the West.

Ultimately, U.S. companies are taking the leap and developing a formal government affairs function for a variety of reasons. A few common ones include tax and duty problems, an inability to secure necessary permissions for business activities and a sense that domestic companies enjoy privileges that U.S. companies are denied — in other words, a desire for a more level playing field.

Jugaad: Change and Entrepreneurship

One reason U.S. multinationals have hung back, letting country managers handle government affairs as part of their overall responsibilities, is that the practice of government affairs in India is in its infancy and therefore not highly developed or well-understood. There's no term, title, or job description that quite fits the role or the function.



"People don't use any one word to describe government relations because the space itself hasn't been defined before," says Dilip Cherian, founding partner of Perfect Relations, a communications and lobbying organization with offices in several major Indian cities. "Government relations is just now coming out of the woodwork and becoming a legitimate calling."

Another reason for the recent ascent of government relations as a business function is the history of foreign commerce in India. The year 1991 heralded the beginning of a period of reform, in which the country gradually opened to foreign business.

"It took a decade before any significant change in the laws really came about," says Ram Subbaraman, Caterpillar's executive director, corporate affairs for India and the Association for Southeast Asian Nations (ASEAN). "It then took close to another decade for the government bureaucrats' attitudes and mindsets to change." In the old regime, explains Ram, "government enjoyed tremendous power to be a nuisance, and laws were essentially designed to say 'no' to every productive activity." Fortunately, he says, obstruction is no longer the *modus operandi* of most Indian government officials.

During the past 18 years, Indian businesses and even some bureaucrats have honed entrepreneurial strategies that might be filed under the heading *jugaad*. This is a colloquial Hindi term that suggests an innovative fix. It can be synonymous with native genius, lateral thinking or even creative improvisation.

India has far more entrepreneurial spirit than China, suggests Walter Andersen, associate director, South Asian Studies, for Johns Hopkins' School of Advanced International Studies (SAIS) and former head of the U.S. State Department's Office of Analysis for South Asia.

One example? In Mumbai each day, *dabbawallas* (literally "box carriers") deliver tens of thousands of home-cooked meals to offices and schools in a system so intricate it's been likened to that of Federal Express. The 125-year-old business model has evolved to incorporate text messages and e-mail. "In India, where many traditions are being rapidly overturned as a result of globalization, the practice of eating a home-cooked meal for lunch lives on," says a May 29, 2007, article in the *New York Times*. Even with the rapid proliferation of restaurants, the *dabbawalla* business is growing at an estimated 5 percent to 10 percent a year.

U.S. companies that embrace a spirit of *jugaad*, some suggest, can find solutions to even the most intractable challenges within India. When asked whether foreign government affairs efforts might be expected to succeed, Cherian was guardedly optimistic: "Most companies achieve some of what they want to do. It's difficult to achieve everything, but they usually achieve more than they first expected."

AP Photo/Aijaz Rahi

Dabbawallas, in a practice dating from the 19th century, deliver home-cooked meals to clients' offices.

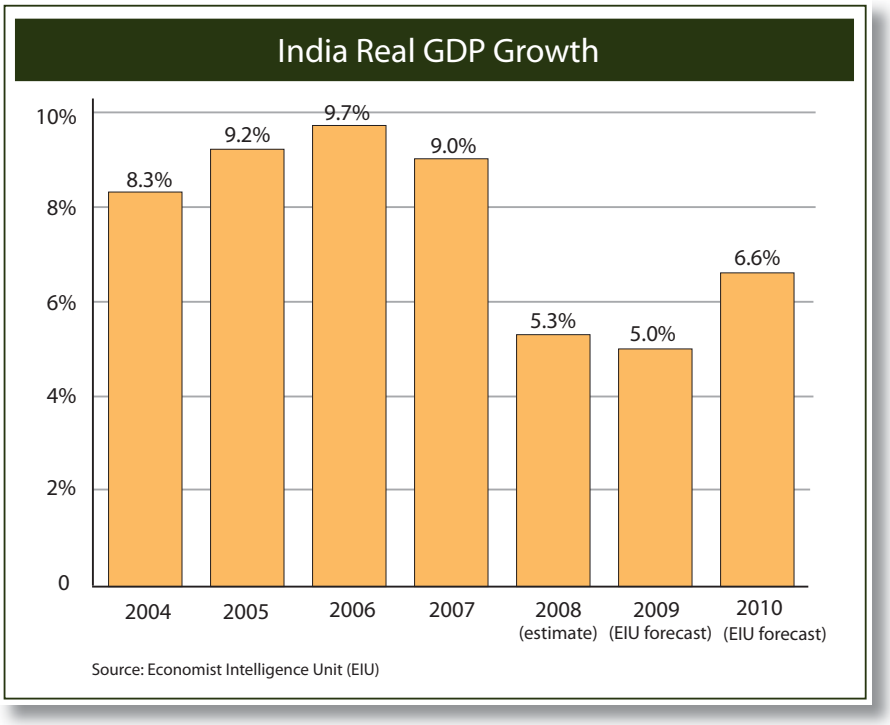
PART ONE UNDERSTANDING THE INDIAN BUSINESS LANDSCAPE

India's strengths as a destination for multinationals are inextricably bound with its weaknesses. In India, the glass can appear to be half full and half empty — often at exactly the same time.

One of India's most appealing aspects is its large and growing consumer market. That market enticed Coca-Cola to return to India after leaving in the 1970s, when the Indian government insisted that the beverage maker reveal its famous formula. According to Morgan Stanley, Coca-Cola invested $800 million in its Indian operations in the decade after reentering in 1993.

Another advantage is India's robust economy. The country's average annual growth rate from April 1–Sept. 30, 2008 was 7.75 percent, according to Arvind Panagariya, Bhagwati Professor of Indian Political Economy at Columbia University. While quite impressive, this represents a decline from the average growth rate of 9 percent for the preceding five years.

The success of the IT and support services industry in India is a shining example of how U.S. companies can successfully outsource key aspects of their businesses. NASSCOM, the National Association of Software and Services Companies, predicts that by 2010, India's IT business process outsourcing (BPO) industry could potentially generate $60 billion in annual export revenues, accounting for 8 percent of India's GDP.



On the other hand, India faces enormous challenges that could potentially derail its economic growth, including staggering poverty and high illiteracy rates. In India, 53 percent of women and 30 percent of men are illiterate, according to the World Resources Institute. Meanwhile, United Nations statistics show that 700 million Indians live on less than $2 a day.

Infrastructure problems pose another challenge. Barely passable roads, massive crowds and unreliable airports plague American companies trying to ramp up their business activities in India. Chhatrapati Shivaji International Airport in Mumbai, India's busiest airport in terms of passengers (21.4 million in 2006), was rated the world's worst for on-time arrivals in a Jan. 14, 2008, article in *Forbes.* Michael DiPaula-Coyle, director for policy advocacy at the U.S.-India Business Council, points out that many U.S. and Indian companies boast impressive campuses that rival Silicon Valley, but just reaching those office parks is a challenge.

Panagariya is convinced that progress has been made on the infrastructure front — although the rate of improvements has recently slowed. "Air transportation has gotten better," he asserts, noting that the airports in Bangalore and Hyderabad are now "excellent," and that renovations at the Mumbai and Delhi airports will bring them up to international standards. Nonetheless, Panagariya emphasizes that infrastructure remains a major stumbling block for American businesses.

Other brakes on progress are simply the persistent realities of Bharat, the ancient Hindi and Sanskrit name for India. Edward Luce, Washington bureau chief for the *Financial Times*, London, and author of "In Spite of the Gods: The Rise of Modern India," observes that India is more British and old-fashioned than England itself. Ciccone of Kodak observed the same phenomenon, noting that meetings with Indian officials are invariably punctuated with cups of tea and cookies.

Although the Indian Constitution officially abolished the caste system in 1950, some remnants persist. An individual's caste might not determine his or her fate, but government officials, known as *burra sahibs*, still tend to be of high caste, usually Brahmins. That said, the fact that Mayawati, a member of the Dalit (the lowest, formerly "untouchable") caste, was elected chief minister of Uttar Pradesh in 2007 is a powerful sign of change.

Finally, Islamic fundamentalism is a problem that rivals corruption and an entrenched bureaucracy, says Dr. Shan Nair, founder of Nair & Co. in Sunnyvale, Calif. A group calling itself the Indian Mujahideen, an Islamic terrorist group, killed 140 in India during the summer of 2008, mainly through bombings. This challenge took a dramatic turn on Nov. 26, 2008, when militants orchestrated the Mumbai attacks.

Government Affairs in India vs. China

U.S. companies turn to India and China for very different reasons. China is a source of cheap labor. Its growth is export-driven and fueled by foreign multinationals, says Andersen of Johns Hopkins' School of Advanced International Studies. While Andersen blames years of Communism for having stifled the entrepreneurial spirit of the Chinese, Indians are renowned for their scientific proficiency and their flair for innovation. In fact, many American companies go to India for the unique skills and technical expertise they find there. China is beginning to catch up on entrepreneurial skills, but at the same time labor is getting more expensive.

Most multinationals believe that it's easier for U.S. businesses to perform government affairs in China than in India — even though Indians speak English and the two nations share a democratic form of government. Why? One reason is that more American companies are operating successfully in China today, and so the terrain is simply better charted.

Another is that the Chinese government can — when it wishes — act decisively, granting a multinational permission very swiftly, while officials in India need to achieve consensus, which takes time. "If the government in China decides to get something done, it's easier because they'll steamroll over everybody," says a senior executive at a major multinational that operates in both China and India. "In India, it's a big, messy democracy."

On the other hand, says the executive, India has a government that "is more approachable." He continues: "The Indian political process is pretty open. In India all you have to do is listen to the debates to see who's putting pressure on whom. In China, you never know if there's some hidden edict people are following."

In addition, there are some striking similarities for government affairs professionals navigating the terrain of the world's two newest economic powerhouses. Both countries are eager to open up to foreign business after years of being relatively closed. Both have rapidly-growing economies and populations motivated to succeed. The two even share some concrete strategies for encouraging international business development. Both, for instance, have carved out Special Economic Zones to promote foreign investment.

Even though neither India nor China has a well-established history of government affairs, both operate in a way that's consistent with the fundamentals of government affairs in the United States and Europe. "How do you start to do government affairs in India?" asks Andersen. "You build a personal relationship. If you go in and say, 'Let's do business,' it won't work."

Democracy: Assets and Tradeoffs

The United States and India are both democracies, and the two nations enjoy a largely cordial relationship. "India's democracy is a tremendous soft-power asset and a natural safety valve for its citizens' frustrations," according to Mira Kamdar, a fellow at the Asia Society and author of "Planet India."

Here, too, however, a tremendous advantage has its dramatic downsides. Johns Hopkins' Andersen describes India as "a rambunctious democracy" where it often takes a very long time to get a decision, but once taken has the advantage of a consensus in which the major stakeholders have had a voice.

The rambunctiousness is manifest in the many populations and religions that coexist in India today. India has more than 2,000 ethnic groups. According to the 2001 Indian census (the most recent), 80.5 percent of Indians are Hindus, with 13.4 percent of the population Muslims, making India home to the third-largest Muslim population in the world behind Indonesia and Pakistan. India also possesses the majority of the world's Zoroastrians, Sikhs, Jains and Baha'i.

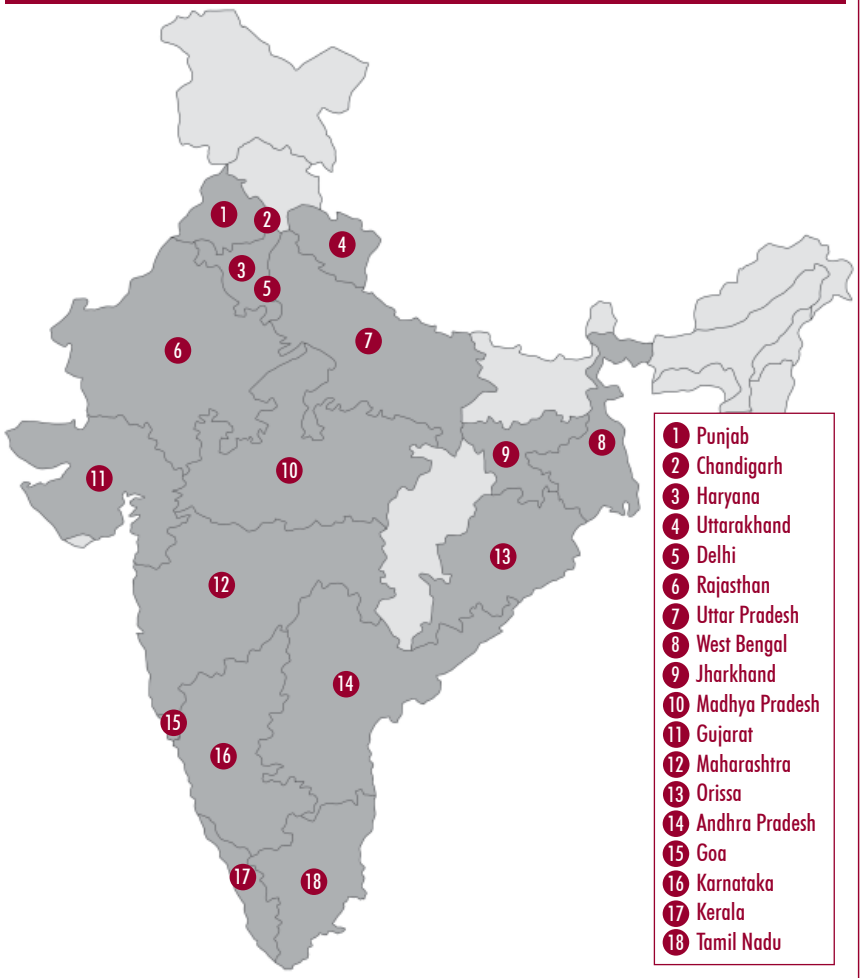
More importantly, democracy means that the Indian people have a say in whether multinationals succeed in India. On September 22, 2008, Lalit Kishore Choudhary, CEO of Indian operations for Italian auto components manufacturer Graziano Transmissioni, was murdered by a group of former employees whom he had fired. Although this tragic event was considered an anomaly, it still points to one of the most daunting challenges for U.S. businesses in India: violent worker uprisings.

Panagariya points out that because of India's stringent labor laws, few U.S. companies go to India to manufacture labor-intensive products. "If you're a firm of 100 workers or more, you can never fire workers, even if you go bankrupt," he says. Exceptions, such as contract labor, exist, but even then the labor situation is thorny. "You basically guarantee employment for life," says Panagariya. "Indian firms try to find different ways to get around this, but American firms can't do the same."

In India, relocating workers is no simple affair, Panagariya explains. While in the United States, with rare exceptions, the government acquires land for public projects through eminent domain, in India, the government oversees land acquisition for public and commercial projects. States compete for large commercial deals, giving the companies leverage and often enraging the farmers who own the land.

In 2008, Korean steel company Posco delayed its $12 billion steel plant project in Orissa state because of protests over a possible displacement of as many as 20,000 people. Similarly, Tata Motors decided to relocate its proposed plant for its Nano car, which has been billed as the world's cheapest automobile, from the city of Singur because of protests over displacing single-acre farmers. Panagariya explains that the state of Gujarat, where Tata now plans to locate its Nano plant, is known for being well managed, free of corruption, and for having set aside vast tracts of land for Special Economic Zones.

Panagariya anticipates change within land acquisition laws in the not-too-distant future. He suggests that companies might negotiate land deals directly with farmers.



Source: India Ministry of Commerce & Industry, U.S. Department of Commerce

The Mumbai Attacks: An International Response

On Nov. 26, 2008, terrorists launched 10 coordinated attacks across Mumbai, India's financial capital and largest city, killing at least 173 people and injuring more than 300 others. Many countries and international organizations rushed to condemn the attacks, publicly expressing their condolences and support.

The attacks highlighted weaknesses in India's infrastructure, observes the *Financial Times*' Luce. He also notes that "in India, the attacks have been dubbed '26/11,' " linking them explicitly to 9/11 in the United States. Luce characterizes the assault as India's "first global terror attack" because many of the victims were not natives of India. The sites targeted (a synagogue, the luxury Taj Mahal hotel, a café and a hospital) also suggest a broader motivation.

Luce speculates that 26/11 may affect the outcome of the general election in the spring of 2009, which was expected to be a contest between the Indian National Congress and the Hindu nationalist Bharatiya Janata Party (BJP). Minister Banashri Bose Harrison, head of the Commerce Wing in the Embassy of India in Washington, D.C., is also interested in the symbolic meaning of the Mumbai attacks. She describes the target of the attacks as "not just India or Mumbai, but also the values of democracy and pluralism that we share with the U.S. Furthermore, what was particularly targeted was the growing U.S.-India economic and commercial relationship."

Harrison is convinced that this event will inevitably bruise India's economy — especially given the worldwide financial downturn — but that the damage would not be enduring or irrevocable. "It's certainly very tragic in human terms, but it doesn't affect the longer-term macroeconomics underlying our growth," she concludes.

From the License Raj 'til Now: A Brief Overview of India's Bureaucracy

The modern Indian government was born on Jan. 26, 1950, when the Indian Constitution went into effect. The Indian government is seated in New Delhi, while Mumbai remains the country's business capital. Under Jawaharlal Nehru, India's first and longest-serving prime minister, the government strictly controlled industrial production, creating a complex and largely ineffectual system known as the "License Raj." In 1991, the Indian government abruptly reversed course, dismantling old laws and opening up to foreign business.

For U.S. multinationals doing business in India today, the Ministry of Commerce & Industry is one of the most important government points of contact. Another is the Directorate General of Foreign Trade , which handles all licensing needs for foreign companies.

Precisely which branch of government will matter most to a multinational depends upon a number of factors, chief among them a company's industry. Pharmaceutical companies, for instance, regularly communicate with the Drug Controller General of India, while industrial equipment manufacturers — the Caterpillars of the world — fall under the jurisdiction of the Department of Heavy Industry.

That said, there's rarely one sole authority capable of handing down a definitive edict for any issue on the table. "India has a system of bureaucracy that is very archaic, very cumbersome and complex," says Ram, the Caterpillar executive. "At any given time, there could be five or six or 10 departments of the government that have a say on an issue that you thought could be easily wrapped up by any one department."

Making matters more confusing, each of India's 28 states has its own representative assembly with proportional representation — which may be controlled by a different party than the one leading the national government. At the state level, the ruling ideology may diverge quite sharply from that of the national government. When a national election is held, as in May 2009, the ruling

parties within each state could be voted out of office, again wreaking havoc on multinationals seeking closure on a particular issue.

Meanwhile, many ruling bodies don't espouse a single ideology but represent some combination of the views of eight or so of India's major political parties. Dan Baxter, senior vice president at Fleishman-Hillard in Mumbai, analogizes the political system of India to that of Italy because "government is almost always a coalition of different political parties."

U.S. multinationals that feel they've been unfairly treated do have legal recourse. Although the courts operate in a way familiar to most Westerners (the barristers even wear wigs as they do in the U.K.), most Americans are unpleasantly surprised by how slowly justice is meted out. The good news? "The Indian court system is slow, but it works," observes Nair.

The bad news, as many U.S. government affairs professionals have learned, is that "slow" means it can take as many as 10 years to resolve a dispute. In cases where American companies allege that they've been taxed unfairly, waiting nearly a decade for a verdict (and for revenues to be returned) may simply not be feasible.

And yet American multinationals, especially large ones in the Fortune 100, have increasingly large economic ties to India, according to most experts and to a January 2009 report published by the Asia Society titled "Delivering on the Promise: Advancing U.S. Relations with India." The report notes that General Electric anticipates revenues of $8 billion from India by 2010, while IBM was investing $6 billion in its India operations from 2006-2009.

Case Study: Pfizer Leaders Meet the Indian President

When Mak Jawadekar, director, portfolio management and performance, for Pfizer Global Research and Development in New London, Conn., accompanied then-Pfizer Global R&D President Dr. John LaMattina to India in December 2007, he made contact with an old family friend and longtime associate of India's president, Pratibha Patil. The friend arranged for Jawadekar, LaMattina and LaMattina's wife to meet Patil during their weeklong visit.

"Personal relationships go a long way in India," says Jawadekar. He believes that the willingness of company executives to travel to India benefits the pharmaceutical company's government relations efforts. "Having face to face contact, on the ground, is very important rather than doing everything by phone," emphasizes Jawadekar. Pfizer has had an Indian presence for 60-plus years, with 400-500 employees located in the northern suburb of Jogeshwari and manufacturing operations in Thane, within Mumbai.

In late January 2009, Jawadekar returned to India with Pfizer Global R&D President Martin Mackay. Mackay gave the keynote address at the BioAsia 2009 Summit, a technical conference held in Hyderabad.

Jawadekar, who was born in India, is pleased to act as "cultural ambassador," preparing top executives for the trip beforehand. "People can get a shock when they go to India for the first time," he says. "How do I get through this maze? They need to get ready for facing big crowds and crazy traffic."

As a rule of thumb, Jawadekar recommends scheduling a weeklong trip for a company's top executives. He also tries to build the Indian itinerary around a major international conference, filling in the details of which government officials Pfizer executives will meet on the fly. "I've been in the U.S. for 32 years, but my parents are still in India and I have my family connections there," he explains. "I can call people once we arrive."

Pfizer

Dr. Mak Jawadekar, Director, Pfizer Global Research & Development and Dr. John LaMattina, Former President, Pfizer Global Research & Development, meet with Indian President Pratibha Patil and Dr. D.Y. Patil, Chancellor of Dr. D.Y. Patil University in December 2007.

PART TWO KEY GOVERNMENT AFFAIRS CHALLENGES

"There are many similarities between government affairs in India and everywhere else," asserts Fleishman-Hillard's Baxter. "First," he says, "here like in most places, government affairs is generally very relationship-driven. Who you know counts for quite a lot. Secondly, trust and credibility are everything. Influence comes from knowing the right people, understanding the rules of the game and how to use these rules, and making the right approach at the right time and in the right way."

That said, some unique challenges do exist. "Corruption in India is endemic. It exists at all levels of the government," says Columbia University's Panagariya. Widespread corruption has exacted a toll on legitimate government affairs efforts — and has created problems for U.S. companies — because lobbying has come to be associated with disreputable practices.

After spending more than a year in India, Baxter has been amazed by how unabashed corruption can be. "We've seen people sitting in hotel lobbies with shopping bags full of money," he says. "It doesn't get much more blatant than that."

> **"Companies are taking a stand against corrupt behavior, and it is making a difference with those remaining officials who may have earlier thrived in a more corrupt environment. It's a good sign for things to come."**
>
> — Anku Nath
> Director, Trade Policy Advocacy, Retail Trade and Agriculture, U.S.-India Business Council

A 2007 PricewaterhouseCoopers survey found that within the past two years, 38 percent of entities operating in India were asked to pay bribes to get licenses or orders. Of those firms, 66 percent said that they lost an opportunity to the competition because of corruption.

"In India, you have to be very careful about the FCPA (Foreign Corrupt Practices Act)," says one government affairs professional working in that country. "You don't want to be perceived as doing anything that's not completely aboveboard and squeaky clean."

Although the situation is troubling, many experts agree that corruption in India is lessening. "Government in India is working feverishly to address perceptions of corruption," says Nath of the U. S.-India Business Council. The Right to Information Act — much like the American Freedom of Information Act (FOIA) — has added a level of transparency that hadn't previously existed. She continues: "Companies are taking a stand against corrupt behavior, and it is making a difference with those remaining officials who may have earlier thrived in a more corrupt environment. It's a good sign for things to come."

Tax Challenges for U.S. Companies

"Tax evasion is a way of life in India," says one government affairs professional from a Fortune 100 company. "At all companies I know of, you mention taxes in India, and people just shudder."

Michael DiPaula-Coyle, director of policy advocacy for the U.S.-India Business Council (USIBC), offers a similarly bleak picture: "The assessment and collection of taxes in India have not kept pace with reforms. Today, the system is based on aggressive assessments, often deviating from established international norms."

In part, the problem stems from the fact that tax assessors in some Indian states are awarded bonuses based on how much revenue they collect. "A relatively small proportion of the population in India pays income tax, and so there exists a mentality among many tax officials that multinationals can be squeezed for tax revenue," he says. He points out that even with a booming economy, tax collection remains sporadic, which has contributed to the major deficits being run by the Indian central and state governments.

"At a policy level," says Shefali Goradia, a partner specializing in international tax at BMR Advisors in Mumbai, "there is consensus that the government wants to simplify the tax regime and make it more stable and certain. Unfortunately, there is not as much buy-in from administrators and revenue offices at the lower levels."

USIBC's DiPaula-Coyle notes that his association and others have approached the Indian government to show that existing tax practices have created a "soft infrastructure obstacle to increased investment, growth and job-creation."

DiPaula-Coyle emphasizes that certain sectors of the Indian government are more amenable to reforming the tax system than others. Many ministries are "sympathetic with our position, understanding the importance of multinationals being able to operate effectively and efficiently in India." However, the Ministry of Finance has ultimate jurisdiction over taxation. It has been a challenge for multinationals to engage successfully on tax issues.

Case Study: Securing an Advance Ruling: Morgan Stanley Prevails

Before Morgan Stanley expanded its outsourcing of high-end support services to India, the U.S. investment bank wanted some certainty around the tax implications of the move, explains Goradia of BMR. The problem? Companies that outsource R&D, contract manufacturing and other services fear that the outsourced activities might constitute a permanent establishment — and therefore be taxed in India at a rate of approximately 42 percent.

Goradia urged the investment bank to seek an advance ruling. Through such a ruling, the company would gain assurance that its office in India was not a permanent establishment because Morgan Stanley's primary business is not carried out from there.

"Often, it is better for foreign companies to apply for an advance ruling like the private letter ruling system in the U.S.," says Goradia. "That removes some of the uncertainty. The ruling, whether positive or negative, would be binding on both the taxpayer as well as the revenue [assessment]."

Unlike cases litigated in India, which might not reach a courtroom for five to 10 years, advance rulings must be issued within six months of the initial application. More recently, in fact, Goradia notes that the rulings are often granted before the six-month deadline.

Goradia points out that the Authority for Advance Rulings has a high standing through both the Ministry of Finance and India's judiciary branch. However, a few caveats exist. Indian companies have no recourse to advance rulings; they are only available to "non-residents." In addition, companies can only apply for advance rulings for questions that are not pending before any appellate court. While the applicant company can rely on the judgment from an advance ruling, the findings are not legally binding for other companies facing similar tax circumstances, although they do carry a persuasive value, Goradia explains.

"Many multinationals have gone in for advance rulings and gotten them," says Goradia. In the case of Morgan Stanley, the advance ruling came in 2006, but the government appealed the decision in 2007. The Supreme Court later upheld the advance ruling, deeming it correct. "And now," Goradia concludes, "Morgan Stanley has a very good position in India."

Caps Remain on Foreign Direct Investment

Over time, the Indian government has relaxed restrictions on foreign direct investment. Recently, for instance, India raised foreign ownership limits in defense concerns to 26 percent, says Nath of USIBC. And in 2005, foreign ownership levels in telecommunications-service companies increased to 74 percent from 49 percent. (Some stipulations do exist: the government must approve the sale, and the majority of a company's board and top executives need to be Indian citizens).

Progress has been made in lifting the ceilings for foreign direct investment in spite of opposition from the Communists, who tend to dislike such reforms. However, there's still a ban on retailers such as Wal-Mart entering India — and on insurance companies owning more than 26 percent of an insurance concern. Many different associations, consultants and insurance companies, such as New York Life and AXA, are hard at work, lobbying the Indian government to permit foreign companies to operate in India with a larger ownership share. "If you're providing the expertise and resources and you end up with 26 percent, you might not like that," says Sanjay Puri, president of the Alliance for U.S.-India Business.

"In India there's a huge opportunity for insurance providers," says Puri. "There's a massive population, and as the insurance industry has privatized, it's creating new opportunities for companies to sell many different kinds of insurance products." Puri estimates that only 10 percent to 15 percent of Indian people today are currently insured.

A Reading List

India Unbound: The Social and Economic Revolution from Independence to the Global Information Age
— Gurcharan Das

Planet India: The Turbulent Rise of the Largest Democracy and the Future of Our World
— Mira Kamdar

In Spite of the Gods: The Rise of Modern India
— Edward Luce

India: The Emerging Giant
— Arvind Panagariya

Think India: The Rise of the World's Next Great Power and What It Means for Every American
— Vinay Rai and William Simon

The Argumentative Indian: Writings on Indian History, Culture and Identity
— Amartya Sen

When making the case for raising foreign ownership caps before the Indian government, Puri advises framing all arguments in terms of Indian national interest. Companies might, for instance, cite the importance of increasing insurance levels to safeguard citizens.

Because he's based in the United States, Puri has enlisted the American ambassador to India and other prominent Americans to help him publicize the insurance situation. He notes that when Tom Vilsack, former governor of Iowa and current U.S. Secretary of Agriculture, visited India, he raised the issue at very high levels of the Indian government.

Cherian of Perfect Relations is also involved in pressing the cause of foreign insurers. "We're working quite hard to change the levels for insurers in India, and we've had a semblance of success."

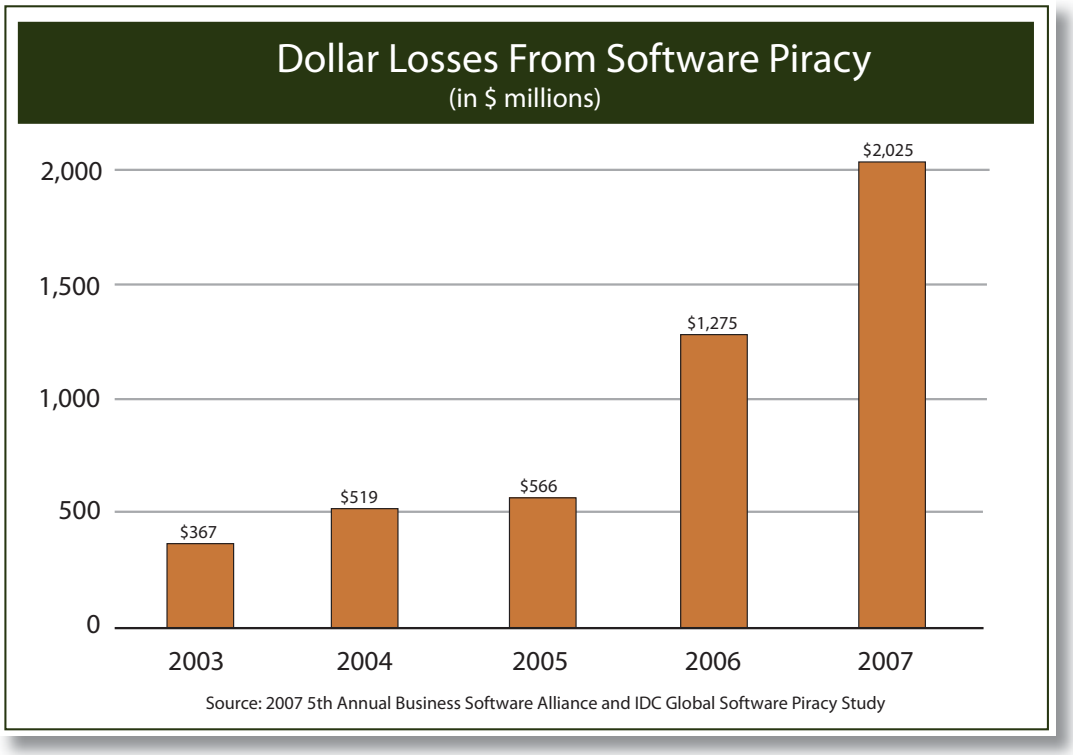
On Oct. 30, 2008, the Indian cabinet approved a draft bill on insurance reform. If passed, says a Dec. 11, 2008, article in *The Economist*, the ceiling on foreign ownership of insurance firms would increase to 49 percent.

Intellectual Property Protection

Unlike in China, intellectual property is fairly protected under Indian law. Practically speaking, though, problems arise. The Indian software piracy rate (the number of pirated copies of installed software as a percentage of all copies) was 69 percent in 2007, down from 71 percent in 2006, according to the Business Software Alliance.

"Protection of intellectual property used to be weak in India, but we're getting much tighter," says Cherian. He notes that the one exception is pharmaceuticals. In India, there have been several landmark legal rulings concerning generic drugs. The courts have upheld the right of generic drug makers to sell products that are protected by patents because the Indian Constitution guarantees the right to healthcare for its people, and this includes ensuring that medications are within financial reach of everyone.

Novartis lost a patent-protection suit in the High Court in Chennai in 2007 that would have granted the company intellectual property protection for the leukemia drug Glivec. Novartis Group's country president in India, Ranjit Shahani, warned that his company wouldn't continue to invest in research centers in India should the bar for patenting drugs be set so high, according to an Aug. 27, 2007, article in the *Financial Times*, London.



PART THREE SUCCESSFUL GOVERNMENT AFFAIRS TACTICS

"Government affairs is a fairly new concept in India," says Dev Dasgupta, managing director of APCO Worldwide in New Delhi. Until recently, "CEOs of companies typically took on that responsibility." He continues: "It's important to have internal government affairs people because that's how most of the large Indian companies — the Tatas and the Reliance Groups of the world — operate. They typically have a strong internal team of government affairs people."

Some multinationals are reluctant to engage directly with the government. "Sometimes, there is a fear of retribution or retaliation if a company raises a specific issue with the government," says DiPaula-Coyle of the U.S.-India Business Council. Such circumspection may or may not be warranted, but anecdotes about U.S. companies falling out of favor with the Indian government continue to circulate.

And yet many experts believe that establishing a coordinated government affairs function in India is increasingly the best route to pursue. "Government officials don't expect companies to have government relations professionals, but it is the way in to them. If you just go and knock on their door, the door won't open," says Nair. "It's not going to happen."

Preparing to Visit India for the First Time

When Kodak's Ciccone began planning a trip to India in the fall of 2008, he chose to forego the conventional route of hiring a government or public affairs consultant to pave the way.

"For those of us living in Washington, there are a lot of people knowledgeable about government affairs in India," says Ciccone. As examples, he lists the U.S.-India Business Council, the Federation of Indian Chambers of Commerce and Industry (FICCI) and the Confederation of Indian Industry (CII), all of which have offices in or near Washington. In addition, Ciccone notes that the State Department can provide a wealth of valuable information, and that the U.S. Commerce Department has a desk devoted to South Asia. He also emphasizes how accommodating and helpful the Indian Embassy in the United States is to American businesspeople visiting India.

Minister Harrison makes a similar point: "At the Embassy, we're very accessible, willing and eager to help anyone wanting to do business in India." She points out that her office can provide background information and advice, as well as set up one-on-one meetings with key individuals based in India. The Indian Embassy can also help plan what's known as "buyer-seller meets," or mini-tradeshows for American companies interested in testing the Indian appetite for a given product or concept.

Ciccone recalls that upon first arriving in India, he attended a Bollywood movie in the afternoon and the Ganesha Festival at night (Ganesha is the god of auspicious beginnings and possesses an elephant head atop a man's body): "There were thousands and thousands of people in the streets for the festival, and mine was the only white face I saw." Indian officials whom Ciccone subsequently met were impressed that he had sampled the culture and ventured alone to such an event.

He concludes: "An American can go to India, be picked up at the airport by a driver who takes you to a fabulous hotel, where the service is better than any place you find in the States. Other than out the window of your car, you'll never really get a feel for the sights, the sounds and the smells of India. I really do believe you have to walk around and see things for your own experience and your own credibility."

The Ganesha Festival, held in August or September, is a major public event in many Indian cities.

Setting Up the Function

Because New Delhi is the seat of India's federal government, many companies establish a government affairs office there, says USIBC's Nath. However, she advises that companies consider the realities of their industry before deciding where to base the function.

Nath notes that some industries are under the purview of state governments, others are regulated by the central government and some fall under the jurisdiction of both. While, for instance, the central government oversees defense companies, state government is responsible for agriculture concerns. "An agricultural firm," she says, "needs to reach into the states, but it also needs to talk with the central government to formulate model rules or laws."

Companies operating within Special Economic Zones usually interact mainly with state governments — and may have little involvement with the central government once the SEZ approval process is complete. For those companies, says Nath, a country manager can often handle the government affairs function without a dedicated person in the role.

When weighing the relative importance of the national and regional governments, Nath points out that developing relationships with state and local officials is just as important, but too often overlooked. Frequently, local governments are sensitive to the potential for grassroots activism against a particular corporate initiative but may not be quite so aware of the advantages that multinationals can bring to a community. By engaging with local officials, says Nath, "U.S. companies can properly explain the value-add, and this may prove a huge boon in the long run."

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> **...**
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>
> — Sanjay Puri
> President,
> Alliance for U.S.-India Business

Next, companies need to carve a space for government affairs on the organizational chart, determining how government affairs in the home country will communicate with the office in India. "Government affairs professionals in India travel back to the U.S. quite often to get direction and make sure their message is on point," explains Nath.

Finally, experts counsel government affairs professionals to go slowly, making sure they truly understand the terrain. In India, personal connections count and government officials and private entrepreneurs want to establish real relationships with the individuals they're meeting. "In an Asian context, personal ties are all important," says John Hopkins' Andersen. He advises government affairs professionals and prospective private entrepreneurs — either themselves or representatives — to spend six months to a year in India, understanding a company's issues, before launching any serious initiatives.

Hiring the Right Person

One of the most daunting tasks U.S. and European firms face in creating a government affairs function is choosing the right person to lead the organization. Given that the government affairs industry is in its infancy, companies attempting to woo an exceptional government affairs professional may find a dearth of skilled candidates.

"There are very few people in India who have the typical qualifications that you'd find in more developed countries like the U.S.," explains APCO's Dasgupta. Typically, a company would look for someone with an independent knowledge of how the Indian government functions, how legislation is enacted and of macroeconomics and international affairs, he says.

In practice, most companies wind up selecting someone who's recently departed from government. "You'd typically engage the services of a civil servant who's just retired, and that person would have contacts in the administration," says Nair, who notes that seasoned professionals don't come cheap. "In India," he says, "the middle-class, skilled professionals are earning salaries 50 to 90 percent of a western salary."

"Government affairs is a nascent industry and function, and the challenge is defining the role," says Puri of the Alliance for U.S.-India Business. "You want someone with high integrity. You've got to explain the rules and regulations and make sure that the person lives by that." He continues: "You can't just wash your hands."

Ciccone also emphasizes that companies operating in India need to draw the "right lines" so that the country's corruption problems don't jeopardize one's corporate reputation. He fears that placing heavy demands on a single individual could be disastrous if the only way to accomplish a stated goal is to compromise ethics. "You have to be careful not only in terms of who you put there, but in terms of what kinds of rules you put around them," advises Ciccone.

Ram, of Caterpillar's India and ASEAN division, notes that government relations in India has a checkered past, with the role having too often been "merely a fixer's job — we don't care what you do, get us an appointment with so and so, and open doors for us." Unfortunately, says Ram, this "spawned a whole tribe of government relations experts who were mere hustlers." The bad apples notwithstanding, Ram insists that ethical government affairs professionals can and do accomplish their goals in India: "The straight and narrow absolutely works."

Eaton Builds Relationships to Hire & Retain Talent in India

In 2008, Eaton Corp. moved into a new professional services center in Pune, a city approximately 80 miles from Mumbai, where roughly two-thirds of the diversified industrial manufacturer's 2,000-plus Indian employees work. For the most part, Eaton's employees in India are IT specialists and engineers, says Barry Doggett, senior vice president of public and community affairs.

Like many U.S. companies, Eaton maintains a presence in India because its major customers are there — and because the level of technical expertise among the Indian populace is world class. In fact, India is home to the single largest concentration of Eaton's technology employees and engineers, says Doggett.

To maintain ties with India's pool of English-speaking engineers and IT specialists, Eaton's senior management travels to Pune fairly frequently.

To boost retention, Eaton is taking concrete action. "We've worked at building relationships with universities, and we've started to work with young people while they're at school," says Doggett. "We've tried hard to build community relations activities with our employees and to get our employees engaged. We want them to feel good about working for a company that is engaged in the local communities."

PART FOUR APPROACHING THE GOVERNMENT, AND GETTING RESULTS

Securing a meeting with a government official in India is not that difficult. "There are many open doors. Almost any multinational that seeks an appointment with a government official in India gets it almost immediately," says Vinay Rai, founder of the Rai Foundation and author of "Think India: The Rise of the World's Next Great Power and What It Means for Every American."

Interestingly enough, at the highest reaches, meetings between the Indian government and U.S. industry often proceed more smoothly than talks with mid-level functionaries. High-level officials, says Fleishman-Hillard's Baxter "are very educated and erudite. They're comfortable talking to industry, and they're willing to share their views and to agree or disagree with what's being said." In contrast, notes Baxter, "the middle level of the bureaucracy has a tendency to avoid speaking to the private sector due to disinterest, insecurity or even fear."

More than 20 languages, and 1,600 dialects, are spoken in India.

What is difficult, almost everyone agrees, is accomplishing precisely what you set out to achieve. Says Puri of the Alliance for U.S.-India Business: "American companies either make it big or they have a short-term setback and may leave. Indian officials are always saying, 'Tell them to have patience.'"

The Conventions of an Indian Business Meeting

The fact that the British Empire ruled India from 1858 until 1947 means that the stamp of colonialism is still keenly felt. Arguably, one positive legacy is the widespread use of the English language. "More people in India speak English than speak it in the entire United States," says USIBC's Nath. In India today, English is unquestionably the *lingua franca* of international commerce, but Hindi continues to be the country's official language. And indeed, the Indian Constitution specifically mandates that English be used alongside Hindi for government purposes.

Although Americans usually find it fairly easy to communicate with government officials and other businesspeople, the language barrier can be a problem when a contentious issue arises. In land disputes, for instance, the fact that local farmers might speak any one of a number of dialects makes it far more challenging for a company to make its case successfully. In fact, in India today, there are 22 languages spoken by more than 1 million people, according to Mira Kamdar of Planet India.

Some of the greatest challenges, however, arise from subtle differences in how Americans and Indians communicate. Too often, Americans don't understand the rhythms of an Indian business meeting.

"Americans come straight to the point, and talk business issues right away. Indians like to warm up to the topic. They like to create an environment and then get to the point," says APCO's Dasgupta. "An Indian government official will feel a bit offended if you directly approach him and ask for a favor, or what he perceives as a favor."

Dasgupta notes that Americans also tend to assume victory far too quickly. Rarely are meaningful changes agreed upon after a single meeting. "Getting a meeting in India is the easiest thing in the world to do, unlike in China," he says. "You may walk out of the meeting thinking you've made your point and everything is done, but that isn't always the case."

A Few Rules of Business Etiquette in India

- Indians greet western male executives with a handshake and generally wait for female executives to extend their hands first. Women may also greet a businessperson with a handshake or a polite nod and a "hello." Increasingly, women behave just as men do and do not wait for someone else to extend their hand first.
- Saying "no" explicitly is often considered rude in India, as it is in many other Asian countries.
- Many Americans are unfamiliar with the way in which Indians nod their heads in conversation. When someone in India nods or "bobbles" his or her head from side to side as if in disagreement, it's actually a sign that the person understands what you are saying.
- In a business setting, it's culturally inappropriate to eat from another person's plate or share food already on your plate.
- When addressing an Indian government official or businessperson, always use the appropriate formal title, whether it's "Professor," "Minister," "Mr.," or "Mrs."
- Many Indian Hindus do not eat beef, while Indian Muslims generally do not consume pork or liquor.

Crafting Your Message

When making one's case to an Indian government official, statistics and research reports can help — but they rarely seal the deal. "You want to give them something to rely on," says Puri, "but saying, 'Here's a study, now I want you to make a decision because this is what the study says,' isn't going to work."

Government officials in India are also attuned to the messenger. It's important to send a suitably senior member of a company's team to speak with a government official. In addition, most experts agree that it's highly desirable to have an Indian native or someone of Indian descent do the communicating.

"My first advice is to put as much of an Indian face on activities as possible," says Johns Hopkins' Andersen. "Public affairs people should be Indian. This is especially true in India because of a strong sense of nationalism and of being a country that was formerly a colony. It is also important because Indians are far more sensitive to cultural nuances necessary for business deals and longtime business relationships."

A government affairs professional, who preferred to remain anonymous, agrees: "It's important that Indians or Indian Americans are the public face of the company." He continues: "If you're a foreigner, there's a different ambiance."

Although some practitioners believe that Indian ancestry may prove an advantage, others find that being American is not an insuperable barrier. APCO's Dasgupta says that he simply doesn't "buy" the need for an Indian individual to approach government officials: "Indians are very international and open in terms of their outlook," he says "I don't think there's any kind of bias towards Indians over foreigners." As evidence, Dasgupta points to Ron Somers, president of the U.S.-India Business Council, noting that some foreigners can be wildly successful making arguments before the Indian government.

Measuring Progress: Caterpillar Strives to Lift Ban On Remanufactured Goods

In April 2007, when Caterpillar hired Ram to a newly created post — executive director, corporate affairs for India and ASEAN — his first priority was identifying a few pressing government affairs issues that the construction and mining equipment company faced. "In this function, one needs to quickly get involved with one or two burning issues," says Ram. "You've got to demonstrate value very early on."

Within his first week, Ram had decided that encouraging the Indian government to reconsider its restrictions on remanufactured products was the burning issue he should tackle — and he immediately began scheduling meetings with government officials.

Caterpillar, he explains, remanufactures engines and other heavy equipment rather than consigning them to the junkyard. Through a unique process that Caterpillar has dubbed "Reman," the company can totally remanufacture any component or sub assembly, or even an engine, so that the remanufactured product is either as good as — or better than — new.

"An engine that is remanufactured is not the original engine," explains Ram. "Every nut and bolt is stripped and put through remanufacturing. We're proud of this model. It's eco-friendly and there's a huge cost advantage for the customer — anywhere from 40 to 60 percent of the original cost of the machinery."

Just before Ram joined Caterpillar, the Indian government banned the import of all remanufactured goods. Ram explains that the ban originated with the Indian automobile industry lobby, "which thought that the term 'remanufactured goods' could be misused to bring into India secondhand and used cars." Arguably, the ban helps some Indian producers and Mom-and-Pop outfits that sell only new goods and new spares.

Caterpillar has yet to succeed in lifting the ban against remanufactured goods in India, but Ram considers his efforts so far a success because of the number of industry and governmental minds he's changed about this issue. He estimates that Caterpillar has literally had hundreds of government meetings on the "reman" issue, and he's even met with some senior individuals 25 times or more on this one topic alone.

"Every time I walk away thinking I've got them all convinced, the next day they have an issue flagged by someone else and the whole thing starts over again," says Ram. He analogizes the situation to a stubborn knot: "Untangling the ropes of government is very difficult. You convince one arm of the government, but they can't do a thing unless another arm agrees, too."

Although Ram is absolutely committed to getting the Indian government's ban on remanufactured goods lifted, he argues against construing success too narrowly. He recalls that when Pfizer hired him as its first India-focused government relations executive in 1998, he was asked to list both his lobbying successes and failures. "And guess what?" Ram recalls. "Pfizer picked me because of my failures" in which he had developed valuable government relationships by working hard to present his arguments, even though he had not achieved legislative success.

Ram emphasizes that "striving for outcomes and results is fine, but government affairs is a sensitive area where reputations are made and broken." He continues: "The process and the underlying approach to government affairs is as important as the outcome. At the end of the process, do you leave a 'good taste'? Have you contributed to the body of knowledge? Ultimately, it's the cumulative effect of all your efforts that counts."

Harnessing the Power of Associations and Coalitions

Industry associations carry particular clout in India because so many companies are reluctant to be a lone voice, highlighting a particular issue to the government on their own. "There is a certain mindset in government that if an argument comes only from one company, even if it's the best of logic, there's a hesitation to change anything," says Ram. "That's where industry associations give the government an ability to act."

According to one government affairs professional, the case for tax reform must really be made by the U.S.-India Business Council and other coalitions of companies: "We don't want the Indian government to think this is just a bunch of whining multinationals that want to pay less tax," he says. "It's much more effective to go in partnership with an Indian organization, get their advice and put things from an Indian perspective."

Most experts agree that while industry associations and coalitions can pave the way for change, companies need to make their unique case to the government on their own terms. According to Nath "more often than not, it's most effective if companies speak to the government directly, and we do all that we can to facilitate that dialogue. However, in the instances where an issue applies to a broad group or entire sector, USIBC will serve as the visible face of the advocacy effort."

"Industry associations can't talk about any specific company," agrees APCO's Dasgupta. "That's why firms like ours start where an industry association would leave a matter."

Public relations, lobbying and media relations consultants have recently begun carving a role helping U.S. multinationals achieve their government relations goals. APCO Worldwide is now operating in India, and Fleishmann-Hillard is also building a presence. In January 2009, Puri announced plans to launch a new firm, Engage Experts, that would enable global firms to access, engage and advocate to the Indian public sector. Engage Experts is "assembling a massive network of former government officials, as well as industry-specific policy and regulatory experts — all trained in consulting skills and U.S. laws, such as FCPA — who will provide government relations services and policy insight in a transparent manner," he explains.

Some homegrown Indian firms such as Perfect Relations are also helping U.S. companies represent themselves to government. Here, too, companies usually rely on consultants to learn "the lay of the land" before pressing their cases directly with government officials, says Cherian. "The Indian government likes to see the face of the person who wants the change," he notes.

While participating in industry associations is necessary for advancing a company's case with government, it's also a way for government affairs professionals to raise their profile and gain credibility. Caterpillar's Ram, who's active in CII and the Associated Chamber of Commerce and Industry of India (ASSOCHAM), says that his responsibilities outside Caterpillar allow him to voice his opinion and ensure his agenda is heard.

"The asking or seeking element of government affairs cannot be more than 20 to 25 percent of your total interactions," maintains Ram. "The other 75 to 80 percent is being viewed as a valuable partner and contributor on a range of issues. If I'm there to be consulted — and present a viewpoint — that's seen as real value."

Who's Who in Associations

- **U.S.-INDIA BUSINESS COUNCIL (USIBC)**
  Founded in 1975, this business advocacy organization is dedicated to increasing investment flows between the U.S. and India.
  www.usibc.com

- **CONFEDERATION OF INDIAN INDUSTRY (CII)**
  Founded more than 113 years ago, CII counts 7,500 organizations from the private and public sectors as members.
  www.cii.in

- **FEDERATION OF INDIAN CHAMBERS OF COMMERCE AND INDUSTRY (FICCI)**
  FICCI espouses the shared vision of Indian businesses and has a nationwide membership of more than 1,500 corporations and 500 chambers of commerce and business associations.
  www.ficci.com

- **THE AMERICAN CHAMBER OF COMMERCE IN INDIA (AmCham India)**
  Amcham India, established in 1992, has more than 550 members, 95 percent of which are American in origin.
  www.amchamindia.com

- **THE NATIONAL ASSOCIATION OF SOFTWARE AND SERVICE COMPANIES (NASSCOM)**
  With more than 1,200 members, NASSCOM is headquartered in New Delhi and serves businesses in software development and IT-enabled/BPO services.
  www.nasscom.org

- **THE ALLIANCE FOR U.S.-INDIA BUSINESS (AUSIB)**
  This Washington-based trade association changed its name from the U.S.-India Business Alliance in January 2009 to reflect the growing strategic, economic and cultural bonds between the two countries.
  www.ausib.org

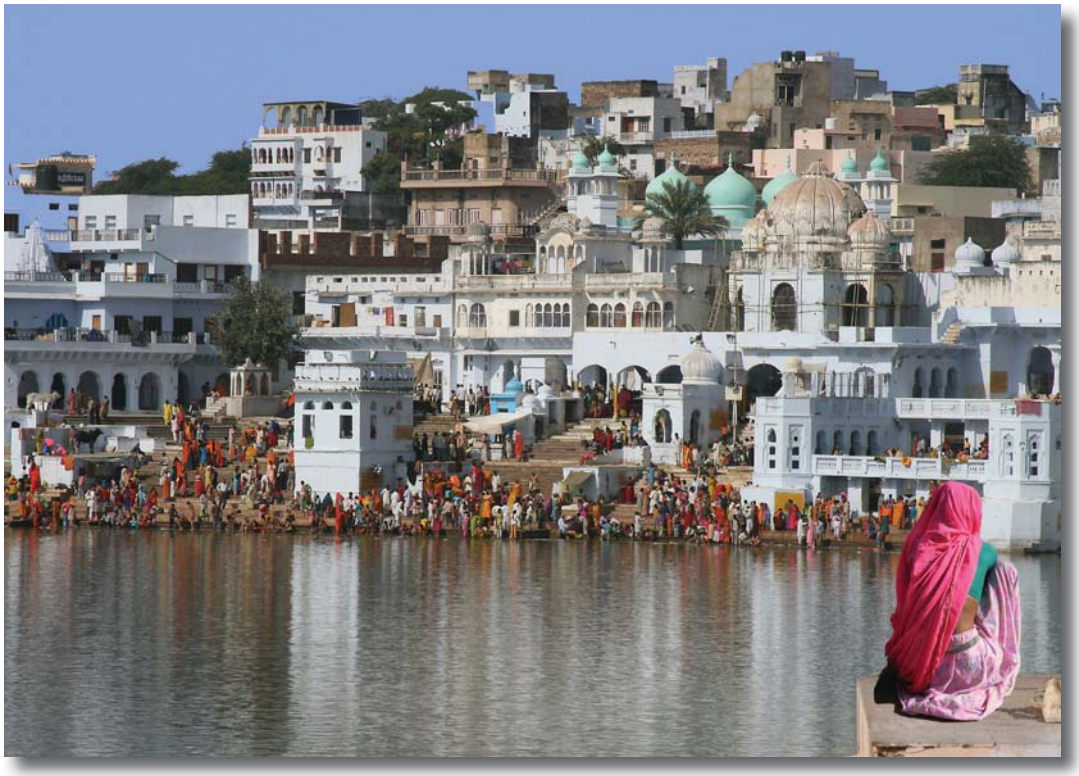
Using the Media

In 2008, the international organization Reporters Without Borders ranked India 118th out of 173 countries worldwide in its annual report on the freedom each country's press enjoys. While the study lauded India for having an active independent media, it indicated that attacks on journalists and outdated laws adversely affected press freedoms.

Perfect Relations' Cherian believes that the media in India can be a terrific asset. "We help policy-makers who want a change by having the media put pressure on some issues," he says.

Others, however, suggest that using the media to convey a message is a strategy that sometimes backfires. Dasgupta of APCO points out that a policy that benefits some will inevitably be controversial with other groups. "You don't want things to come out in the media so that government feels uncomfortable pursuing a certain path and therefore stops," he says.

While English is the language of business in India, the poorest and the least literate often are the ones who carry the greatest voting clout, observes USIBC's Nath. Many of these populations, she says, don't speak English or even Hindi. The language barrier may therefore complicate the waging of a media campaign on a given policy issue. As a result, media relations is a useful potential tool for public affairs in India, but may not be as initially effective as government relations or corporate social responsibility (CSR) work.



CSR projects should be consistent with the firm's core competenciess, with demonstrable impact on Indian communities.

PART FIVE CSR: COMMITMENTS FOR A FUTURE IN INDIA

Ram recommends that U.S. companies take whatever steps necessary to demonstrate their commitment to India. "When you set up a local operation," he says, "start a local advisory board and bring in credible people. That shows you're here to stay and you're part of the fabric of the country. Indians really appreciate that because they don't believe in short-term things."

Similarly, he emphasizes that corporate social responsibility (CSR) projects are a concrete, memorable way to demonstrate that a company plans to remain in India for the long term.

Puri agrees: "In addition to thinking about the benefits of doing business in India, a company should consider what it can leave behind and contribute." He continues: "CSR is about being a good corporate citizen. It's what distinguishes the successful companies in India from the ones that aren't."

Engaging in CSR is such an important strategy that Cherian urges multinationals to incorporate CSR as part of their Indian entrance strategy. CSR, he argues, makes a very strong impression on state and local government officials, those individuals wielding the authority to grant or deny local permissions. "Locally," says Cherian, "being seen as a responsible corporate citizen helps a lot."

"Everyone's engaged in some level of CSR, and if you're not already doing it, it's definitely something you want to do," says USIBC's Nath.

> **"Everyone's engaged in some level of CSR, and if you're not already doing it, it's definitely something you want to do."**
>
> — Anku Nath
> Director, Trade Policy Advocacy, Retail Trade and Agriculture, U.S.-India Business Council

Finding a Focus

Examples of CSR programs run the gamut, although the best stick fairly close to the company's core competencies. Pfizer, for instance, focuses on "areas where we can make a difference," such as distributing medicines to needy individuals free of charge, says Pfizer's Jawadekar.

"We want to make a real difference by offering our medical and scientific expertise," says Pfizer's Senior Director, External Medical Affairs, Bob Miglani, who accompanied Jawadekar on his 2007 trip to India. Miglani works closely with partners on the ground to improve healthcare through Pfizer India's Partnership for Health Initiative. Miglani emphasizes that the public health needs in India are great, and Pfizer wants to do its "small part to work with others to bring capabilities in science, medicine and technology to bear on issues that may potentially improve the health of people in India." He continues: "Through this work, we are demonstrating our commitment to work together for a healthier world."

Similarly, Caterpillar has launched education and skills-development projects around its two largest facilities, one near Chennai and the other in Hosur, a city outside Bangalore, says Ram. He notes that Caterpillar supports schools in both areas. Specifically, the company has created a skills-development program that prepares young people to become trained operators of earth-moving equipment.

In recent months, Caterpillar has tried to find ways to support skills development within a broader context by, for instance, lending its expertise to welding schools and other vocational centers, says Ram. Many CSR programs have arisen internally after employees took an interest in a particular project, he notes. In the future, though, Caterpillar would like to find more ways to work with non-governmental organizations (NGOs) to use the company's skills and competencies to shape the evolution of vocational training in India.

Cherian emphasizes that the leading areas for companies to pursue in terms of CSR include health, the environment, the promotion of livelihoods and women's empowerment. In addition, he's observes that new CSR programs revolving around microfinance, neighborhood improvement and agricultural development are also proving popular.

Although embracing CSR is a no-brainer for most multinationals, that doesn't mean that CSR initiatives function as the proverbial "get out of jail free" card for American companies. One government affairs expert cautions that CSR projects alone won't inoculate companies against

bad press and governmental obstruction: "I've seen companies with a very strong CSR presence still get slammed. They're doing amazing things throughout the country, but they get hit with the notion that they're here just to serve themselves. And they wind up with a bad name."

Cherian agrees that CSR projects must be chosen carefully and executed well. "It's very important to make sure that CSR is done in a way that has integrity and doesn't seem too self-seeking." He argues that if a pharmaceutical company were to choose educating doctors as the theme for its CSR initiatives, the effort might rightly be viewed skeptically because this form of "philanthropy" directly benefits the company's bottom line.

Beyond projects that are inherently self-serving, Cherian says that Indians are also wary of "goody-goody" initiatives. Far better are programs that are linked to a company's expertise and employ executives' native skills.

Harrison of the Embassy of India in Washington, D.C., agrees, noting that "Indians will see through a false message." She believes that American companies' CSR efforts in India today represent "a mixed bag," with some businesses doing an excellent job and others falling short. The finest CSR projects, she says, are consistent with corporate initiatives that are being undertaken elsewhere in the world: "If a company is doing something in the U.S. and Europe, it's easier to do the same in India. The program would ring true."

Harrison notes that Indian corporations such as Tata have set a very high bar for CSR in India. Tata is largely responsible for Jamshedpur, a steel town of 800,000 founded a century ago. Tata "still pays full health and education expenses for all employees, and runs the schools and a 1,000-bed hospital," according to an Oct. 31, 2005, profile in *Newsweek* titled "A Kinder, Gentler Conglomerate." Says Harrison of this social experiment: "It shows that Tata looks upon its workers as human beings."

Harrison applauds sincere efforts on the part of companies that want to be good corporate citizens, noting that companies that do CSR well will reap benefits over the long run: "Goodwill may not be an immediately cashable check, but it will help you when you have an issue."

Cargill

Cargill-CARE education programs support nearly 40,000 students in the Kutch region of Gujarat.

Case Study: Cargill Partners with CARE to Help Children Stay in School

As a food company, Cargill India emphasizes both education and nourishment in its CSR projects, explains Ishteyaque Amjad, director, corporate affairs, in Gurgaon. To operate as efficiently as possible, Cargill has teamed up with three global partners — CARE India, GAIN Business Alliance India and the United Way of Delhi — to accomplish its corporate social responsibility objectives.

From early 2006 until late 2008, Cargill spent $4.5 million on CSR in India. Cargill considers this "a great success story" and so has committed another $2.5 million to India for future education initiatives in 2009, according to Amjad.

In India, Cargill's largest CSR projects have been undertaken in partnership with CARE. "In the coastal part of Gurgaon, we run an education program with CARE India in which we have so far reached out to almost 40,000 students," explains Amjad.

Cargill is concerned about the high numbers of elementary-age children who drop out of school. And indeed, according to the American India Foundation, nearly 25 percent of the total population of elementary-school-aged children in India don't attend school — and 53 percent of children leave school before completing the eighth grade.

"What CARE and Cargill do together is to work as an enabler," says Amjad. "If you start a scheme all by yourself, you can reach out to one or two schools, you can even run a few schools. But what you don't achieve is the scale to reach out to 10,000, 20,000, or even 40,000 children."

Specifically, Cargill participates in programs that serve meals to schoolchildren in rural parts of India so that they'll be more likely to continue their educations. CARE and Cargill have also partnered to train teachers and to motivate parents.

What's more, Cargill is trying to remedy some of the underlying problems that create such a high drop-out rate in India. Amjad notes that many parents in rural areas view children as "part of the workforce and a source of income" once they turn 10 or 11. Cargill and CARE have therefore helped 9,000 households increase their income through agriculture, animal husbandry and fisheries so they are financially secure enough to allow their children to complete their educations.

Amjad also underscores that Cargill has encouraged its staff to volunteer. Cargill has adopted two schools in Gurgaon, and around one-quarter of the 200 employees at Cargill's Indian headquarters are actively involved in volunteering at these two schools, taking students to museums, parks and festivals.

"We have a tremendous ambition to take this forward for the next four or five years," says Amjad. He hopes to replicate Cargill's model in the eastern and southeastern parts of India.

"At the end of the day," concludes Amjad, "these are very encouraging and inspiring stories to share with your stakeholders."

Involving Employees in CSR

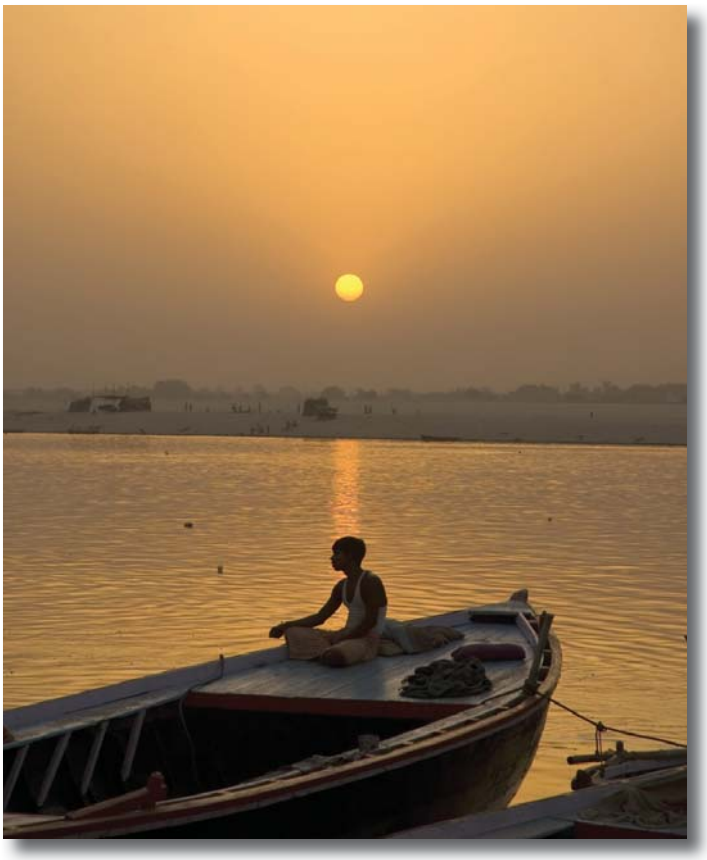
Eaton Corp.'s Doggett explains that his company tends to provide contributions to the local communities where its facilities are based. Specifically, Doggett notes that many Eaton employees are engaged in helping the villages outside of Pune. "It's good for the employees themselves to be out and active," he says.

Ram emphasizes that CSR is — and should be — a central part of any good government affairs function. How a company treats the community, he argues, is central to its ultimate success. "Basically, a company manufactures and markets its products. Over and above all that, though, every company realizes that there is something more intangible but equally important: how the company is perceived. 'Reputation' doesn't just happen by accident; it has to be shaped."

"All the parts of a company add up to a corporate personality," he says. "CSR and corporate citizenship is an aspect of how a corporate personality is manifested."

CONCLUSION BUILDING ON THE *JUGAAD* PRINCIPLE

As American companies begin to establish a more formal government affairs presence in India, they're considering new ways of communicating about issues of vital importance to both the U.S. and Indian business communities. While many challenges exist — everything from India's inconsistent tax system to corruption, a choked infrastructure, high levels of illiteracy, pervasive poverty and nagging labor and land issues — individuals performing the government affairs function in India are reasonably optimistic that they can secure the necessary meetings and discuss vital issues in a cooperative fashion.

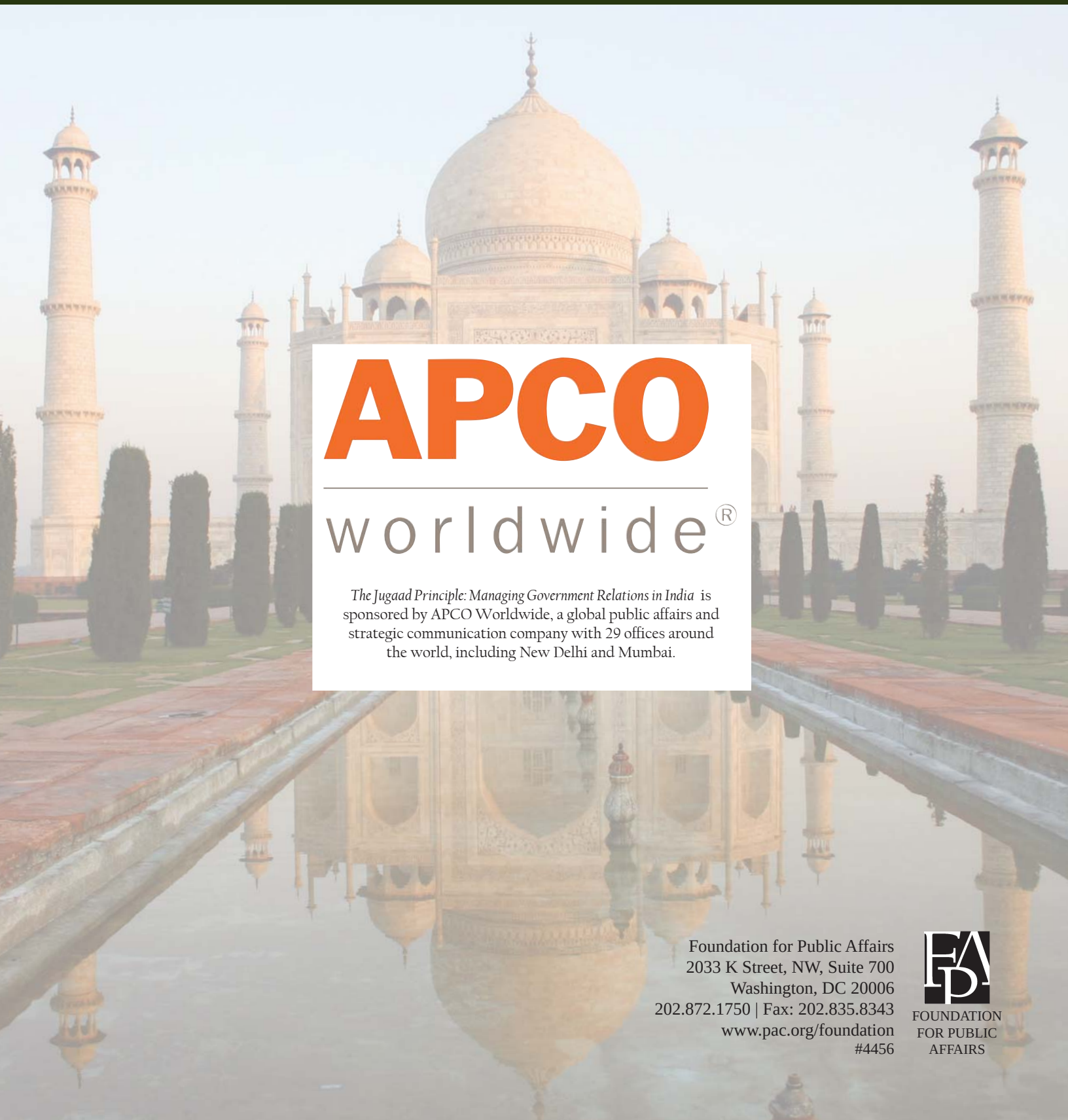


The sun sets over the Ganges River, one of India's spritual hubs.

India and the United States share a language, a commitment to democracy, and (perhaps most important) an entrepreneurial spirit embodied in the Hindi term *jugaad*. Barriers exist, but both sides are demonstrating a willingness to find creative solutions that are in the best interests of both India and the United States.

More than anything else, experts on India urge U.S. government affairs professionals to be patient — and to take a long-term view of the evolving relationship between the two business communities. "In India, relationships are ultimately everything," emphasizes Puri. "When you build relationships, you don't put your finger in the air and see where the wind is blowing." He concludes that a short-term mentality won't work in India because India's political system simply doesn't allow it. "In India," says Puri, "the wind changes very fast, much faster than it changes in the U.S."

Puri is convinced that companies with the diligence and patience to build relationships slowly, meeting regularly with government officials and gradually developing a mutual understanding of vital issues, will ultimately succeed. "Relationships don't happen over one cup of tea. They happen over time," he concludes. "India is an important market. You need to be invested there for the long term."



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