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## Politicians for Prosperity

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BY RAM CHARAN, MICHAEL USEEM,  
AND DENNIS CAREY

# Leading Ideas

## Politicians for Prosperity

National leaders, such as India's new prime minister, Narendra Modi, can make or break their country's business climate.

by Ram Charan, Michael Useem, and Dennis Carey

**W**hen a country elects a new head of state, business leaders watch carefully. It's understandable: Any changing of the guard raises questions for their survival. How friendly will the incoming government be to their company, and how supportive will it be of economic growth? For answers, business leaders often look to the policies and beliefs of the political parties that control the government. But the skill and temperament of the leader is generally a better guide.

A good example is the election of Narendra Modi as prime minister of India in May 2014. Once poised to rival China, India has seen its development prospects fall behind since 2012. At that time, India's annual GDP growth topped 7 percent, but today it hovers under 5 percent. Modi was elected because he promised to give the world's largest democracy what it needs most: economic growth, a government that reduces corruption and promotes widespread transparency, and improved quality of life.

However, politicians should be judged not on their promises but on their ability to deliver. Even at an early stage, one can anticipate the impact of a new leader on the country's business climate by looking for the following five signals. Applied to Modi within months of his election as India's chief executive, they provide a glimpse of his potential.

**1. How deep is the politician's insight into the public interest?** It matters whether a leader is a top-down or bottom-up candidate. The more visible a political leader's commitment to the common good, the more effective that leader will be in creating a political environment that

is welcoming to business. That's because this type of commitment is closely linked to economic pragmatism and fairness. The leader's focus on progress, and on raising the standard of living, will trump any instinct to play favorites. It won't just be the cronies who prosper.

Modi's parents were street vendors; before going into politics, he worked at their tea stall. This background contrasts with that of most of India's previous prime ministers, who were born into families of political leadership. Although a modest background doesn't guarantee success, it gave Modi a gut-level appreciation for the daily lives of the people in his country. He understands the grass roots, because that's where he started; he is sensitive to the needs of his constituents, and he has developed connections with the business community that will inform his political decision making.

**2. Can he or she get things done?** Virtually all leaders take office with an ambitious vision for their country, but only a few succeed in transforming that vision into reality. Lee Kuan Yew of Singapore, Margaret Thatcher of the United Kingdom, and Sebastián Piñera of

Chile are among those who have succeeded. Although many did not agree with their respective visions, few disagreed that they were exceptional at implementing them.

Modi is cut from the same cloth. He has a history of making things happen. Before his election to India's highest office, Modi ran one of its major states, Gujarat—which has a population of more than 60 million—for a dozen years. His rule was controversial at the time; he and his Bharatiya Janata Party were blamed for favoring Hindu interests over Muslim interests, and especially, as the *New York Times* put it, “for failing to stop bloody [anti-Muslim] riots in his home state in 2002.” As a result, he was banned from entering the United States for more than a decade.

At the same time, however, Modi grew the Gujarat economy and created jobs at a rapid clip. In one oft-cited example, when Tata Motors was thwarted in 2008 in its effort to build an auto assembly line in the state of Bengal, Modi sent a text message to the CEO of the automaker's parent, saying he would pave the way for the plant to quickly open in Gujarat. Fourteen months later, the facility was up and running. Now, as India's chief catalyst of economic development, he is promoting similarly favorable practices and generating momentum.

**3. Does the leader approach governance with a business mind-set?** A head of state is, in effect, the nation's CEO. It's a role that requires quick and decisive action, along with a steady focus on driving economic growth. Leaders who have a business mind-set find the obstacles to progress—and look for ways to eliminate them. One example is unfolding in Mexico,

where president Enrique Peña Nieto pushed through legislation to break up the country's telecom monopoly.

Just 11 days after his election was announced, Modi reinforced India's standing in the “neighborhood” of nearby countries by inviting all the national leaders in the region to his inauguration—including Nawaz Sharif, Pakistan's prime minister. Among other things, this was seen as a signal that Modi would not tolerate a bias against Muslims within India. Then, before taking office, he began opening doors to other countries (and by extension their companies) that might be ready to invest in India or partner with businesses there. Modi has done this before: He brought companies from Japan, Korea, the U.S., and other countries into Gujarat.

In September 2014, Modi and Japanese Prime Minister Shinzō Abe announced that Japan would invest US\$35 billion in India's infrastructure over the next five years. For Modi, this was a powerful move in the first 100 days in office, and it will help change India's reputation

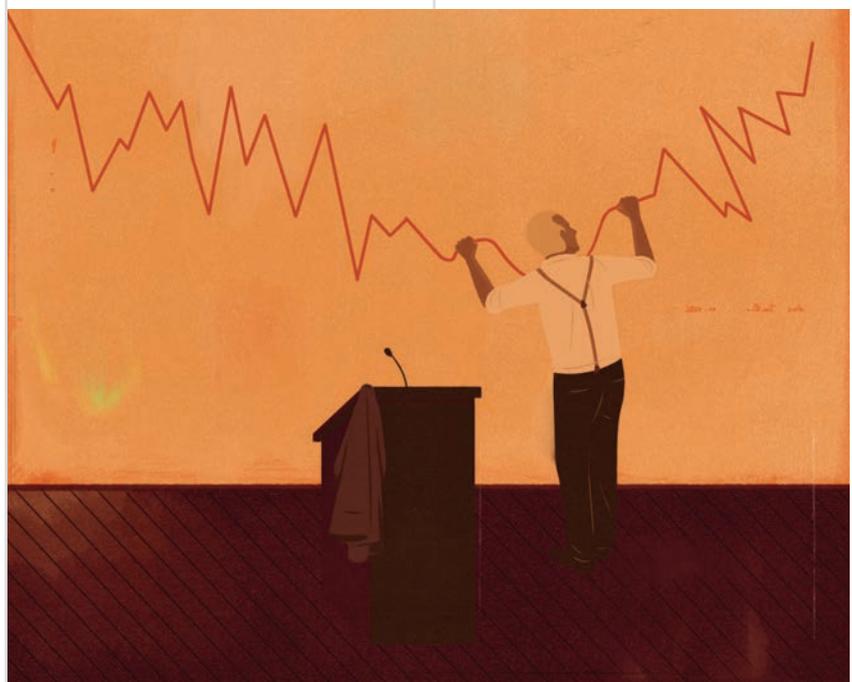
as a place that rejects foreign economic involvement. It also suggests an upward trend in foreign direct investment; it is likely that Taiwan will follow Japan's lead.

Moreover, after assuming office, Modi quickly set 10 business-friendly priorities for his new government. These include building confidence in the state bureaucracy; welcoming innovative ideas; focusing on infrastructure, education, health, and energy; strengthening transparency; and implementing policy in a timely, stable, and sustainable manner. He's running the government like a business, which is new for India.

**4. How skilled is the political leader at engaging others—particularly senior government employees?**

One of the most essential factors for national impact is the ability to move people to pursue common goals. It is critical for leaders to surround themselves with the right people, and then to be able to motivate them to set and accomplish goals that will benefit the country.

During his first two weeks on



the job, Modi cut the number of government ministries by almost half. He then appointed ministry secretaries—the nation’s highest-ranking civil servants—who he believed were ready for rapid change. He selected people who were action oriented and battle tested. Modi also asked his ministers for a set of priorities for the next 100 days, summarized in just a few PowerPoint slides, compared to the usual hour-long bureaucratic presentations. And he had them determine what they could tangibly accomplish. He requires his ministers to maintain visible lists of these priorities for their departments, and uses dashboards to monitor progress and ensure accountability. Early results have been impressive; for example, ministries have accelerated the traditionally long and complex process for granting licenses to businesses.

**5. Can the politician attract and hold broad support?** There is always potential for reaching across partisan lines to earn the goodwill of the general public, but many politicians fail to do so. The struggles of the U.S. Congress come to mind.

Here, Modi’s contentious past might suggest he has difficulties, but the grand sweep of the last election indicates that he must be aware of the problem, is acting as a pragmatist, and is actively seeking the trust and confidence of the whole country. He and his party were given an absolute majority rule in India’s fractious parliament. Compared, for example, with the divided U.S. Congress, India’s parliament has relatively broad public support. It should be able to muscle through useful legislation in the months ahead, with Modi at the helm. In July 2014, Modi’s government increased the foreign direct

investment limit in the defense and insurance industries from 26 percent to 49 percent, to help raise the game in both sectors. It is likely that more business-friendly legislation will follow.

Of course, no one can know for sure how political events will unfold. But any politician with a firm grasp on these five indicators should inspire confidence; they are universally linked with stability, consumer confidence, and growth potential. In the case of India, Narendra Modi knows how to execute, and has the mandate he needs to do so effectively. India’s vast and growing consuming public has long made the country a good economic bet, and now its national leadership may also make it a good investment bet. +

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