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Wrong expectations

Expecting the private sector to substitute for the state is unrealistic, unfair and undoable

At a recent Indian School of Business conference on the education crisis, many people were disappointed with the private sector. They felt companies were not doing enough to solve the skill deficit and entrepreneurs were not visionary enough to realise their enlightened self-interest in manufacturing their own employees. Most of what I said in our defence was brushed off as the typical private sector attitude of 'only take and not give' and expecting the government to solve problems.

The source of frustration is obvious; economic reforms since 1991 are fixing many sins of commission of the state, but big sins of omission remain. Our government does not fulfill basic expectations from a legitimate state – such as drinking water, robust sewage, dependable electricity, rule of law, primary healthcare and education, painlessly enforceable property rights and much else. Government delivery is so sloppy that society expects other institutions in society to fill the gap even in core state functions.

I agree with Milton Friedman that the business of business is business. But I also acknowledge that as long as there are 300 million Indians who will never read the newspaper they deliver, sit in the car they clean or live in the house they build, companies in India will be held to higher standards than their developed country counterparts in *partnering* with the government to solve the problems of society. But expecting companies to *substitute* for the government in education (leaving out those in the business of education) is unfair, unrealistic and undoable, because of a) purpose and fitness for purpose, b) stakeholder mandate and, c) it makes an already hostile habitat for entrepreneurship more difficult.

Institutional 'purpose' is a profound question. Most of us have had the frustrating experience of working for bosses or institutions that had multiple or shifting objectives. Because they held you randomly accountable for the flavour of the day, they could hold you accountable for nothing. As Socrates said, a slave who has three masters is free. As

companies have a limited mandate and scope, multiple objectives make them lose focus on their core products and services. Additionally, greater good (creating jobs, productivity, etc) is often aligned with private good (generating a return on capital). The broad mandate (and authority) given to the state arises from a realisation that 'fitness for purpose' in providing some of society's infrastructure requires it.

The second issue is stakeholder mandate. Governments are given a perpetual right to tax, because they invest in projects and services with uncertain and long payback periods. Most entrepreneurs set up companies with other people's hard earned money and the surest way to destroy a company is to confuse it about where to go, how to get there, and get it to believe that equity is free money. Companies invest in employee repair but anything beyond six months gives a spiritual return on investment that they cannot afford and are not mandated for.

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Thoughtful entrepreneurs like Azim Premji, Bill Gates and Michael Dell have set up foundations with personal wealth to fill this gap but thankfully they did not

thrust this upon Wipro, Microsoft or Dell.

The final issue is India's hostile habitat for entrepreneurship. A first generation entrepreneur without an opening balance of contacts or capital, already has the difficult job of raising money, finding customers and convincing employees reluctant to work for a start-up. Entrepreneurship in India becomes more difficult than it already is if in addition to the list of things to which they already substitute for the state (generate power, provide transport, orchestrate security, buy drinking water, etc) companies also have to perform the function of training their own employees.

Andrew Carnegie said that the best way to help the poor is to not be one of them. The Indian private sector is emerging as a powerful engine for social change by doing what it is conceived, capable and mandated for. Let's not kill the golden goose for a few eggs by expecting it to substitute for a state that is not doing what it should.