

# Convergence & Differentiation

What is  
success in  
a connected  
world?\*

Interview transcripts of Kiran Mazumdar Shaw,  
Chairman and Managing Director, Biocon Limited,  
India



### Kiran Mazumdar Shaw is Chairman and Managing Director of Biocon Limited

**PwC:** Over the last four to five years, your revenues have nearly doubled. Is that what is bolstering your confidence? Tell us about your revenue growth prospects for the coming year.

**Kiran M. Shaw:** Bio-pharmaceuticals has been a new growth sector for us and we have seen tremendous growth in this sector, which obviously has given us a lot of confidence. But what has also helped in boosting our confidence is the fact that we have forged some very strong strategic partnerships in the bio-pharmaceuticals and pharmaceuticals business arena. We have also differentiated our business very strongly which has enabled us to carve out a very strong niche position for our company.

We see good growth prospects in all our segments. As a company, we have taken a very diversified and risk mitigated route – we are into both products and services and into both generics and proprietary products. This kind of product and business diversification has also enabled us to grow rapidly and take advantage of all the emerging global opportunities that are coming to the fore in a risk mitigated manner.

**PwC:** How do you see your revenue growing?

**Kiran M. Shaw:** We are seeing double digit growth and we think we can sustain it in the foreseeable future. We don't see the economic downturn, particularly in the US (which is one of our biggest markets), impacting our growth. We believe we have diversified quite a lot in our overseas markets. At this point, we are dependent on exports. Exports account for a revenue share in excess of 70% of our existing business. And despite recessionary trends in other parts of the world, we think there is quite an opportunity for us out there. We think there is a huge change in the pharma paradigm in terms of the core healthcare and life-sciences sector, where there is a perceptible trend to outsource and partner with companies in this part of the world.

**PwC:** You talked about 70% revenues coming from Biocon's export markets. Do you see this 70:30 export :domestic ratio changing? And within that, do you feel emerging markets will have a larger role to play in the future?

**Kiran M. Shaw:** Today emerging markets like China, South East Asia, Latin America and the Middle East account for 30% of our exports. Going forward, these are going to become more important for us.

**PwC:** As opposed to the developed markets, do you see emerging markets gaining more importance?

**Kiran M. Shaw:** Not really. Each of these markets has their own inherent contributors for us. When you look at the developed world, I think costs are going to be exceedingly important for these markets. And obviously, we offer a very cost-competitive differentiator for such markets. When it comes to emerging markets – these are expanding markets where we will play an even bigger role in terms of getting a better market share. Both markets have very different dimensions to them.

**PwC:** You have a host of strategic alliances for developing products, manufacturing and marketing drugs as well as for research. To what extent do you rely on external partners? How do these alliances benefit you? Do you share risks and rewards with your partners?

**Kiran M. Shaw:** We consider partners very critical to our business evolution and growth. I think partnerships help you to learn, build critical mass and develop a lot of expertise, which you can then leverage. We have carefully selected a number of strategic partners.

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In research services, one of our biggest strategic partners is Bristol Myers Squibb (BMS). It is a very important partner because it has decided to go about tapping the research services aspect of our business in a very integrated way, as opposed to others who have done so in a fragmented manner. This helps us in integrating all the research processes. And that is very valuable for us.

In addition, BMS also brings a host of other opportunities for Biocon, such as those in the areas of manufacturing and clinical development.

In clinical development, we have formed a strategic partnership with Merck. Again, Merck has decided strategically to do a lot of its clinical development in India, because it gives them advantages both in terms of patient recruitment rate, cost effectiveness and, of course, the ability to differentiate its clinical development modules. This again has allowed us to learn and to build our clinical development capabilities in an extremely professional and high-end way.

And when it comes to research programmes and our own innovation models, I think our partnership with the Cuban Research Institute CIMAB has been very valuable. It allowed us to bring a proprietary molecule to the market for the very first time. I think that gave us a lot of confidence to pursue discovery led drug development. We are now looking at other partnerships in terms of forging research relationships.

Finally, we have acquired a German company – AxiCorp GmbH – that allows us to front-end of our business in Europe. This will enable us to build expertise to market our products into the developed and regulated markets of Europe.

**PwC:** How would you rate the relative effectiveness of M&As as opposed to joint ventures and strategic alliances in supporting the achievement of strategic objectives? Have strategic alliances worked better in the case of Biocon?

**Kiran M. Shaw:** I don't think that is true. I think both could play an important role in different aspects of the business. I think we would look at M&As for specific reasons, and at partnerships for other reasons. I think it is a combination of the two that gives us a huge competitive edge.

**PwC:** Your business requires exceptional scientific resource base. And India has a good pool of such talent. But, of late, is the situation changing, somewhat? Are there any threats associated with people? Or are there any missing skills that you wish Biocon had?

**Kiran M. Shaw:** I think we have a rich talent base up to a certain level. I think we have good raw material to take our scientific programmes to a certain level. But once they go beyond that level, we face an acute skill shortage. At the moment we are able to address that shortage by recruiting people who willing to return from the US. These are key people who come with the required knowledge.

Unfortunately, India has been an imitative rather than an innovator in pharma research. We have not really had people who know what it takes to really build new molecules and take it all the way through development to commercialization. That is where the skill shortage is. We don't have people who know the regulatory processes involved in taking new molecules to the market. We are very familiar with the generic molecules and there is a lot of talent in India in that field. What we don't have are people with experience of an innovation-led strategy.

At the moment, we have to depend on people coming back from the US. Fortunately, we are able to find such people due to an ongoing downturn in the sector in other parts of the world.

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Despite this, there is an urgent need in India to develop such skills. And I think we will have to get that culture into our academic landscape. For instance, our medical colleges should become more research-oriented. We need more MD, PhD programmes which are very few and far between in this country. Above all, we need to have a very strong focus on management. In the US, most scientists go through an MBA programme. So a lot of PhD MBAs are available in the US. Not so in India.

In India, a PhD doesn't think he or she would benefit from an MBA programme. There is an urgent need to introduce that thinking here. We need our scientists to think in a managerial way. Scientific thinking has to be strategic. In India, we are more process-driven than strategy-driven in our scientific activities. We need Indian Institutes of Management (IIMs) and other management schools to impart specialised management programmes of either small or large modules that help build strong managerial capabilities in our scientists.

**PwC:** Are there no specialised management programmes in India for scientists?

**Kiran M. Shaw:** There are no specialised programmes or modules that help impart management skills to scientists at this point. However, there are several programs that are under development and which will be rolled out in the very near future.

**PwC:** How do you bridge that gap?

**Kiran M. Shaw:** I think there are some efforts being undertaken. Here in Bangalore, we are working quite closely with both Xavier Institute of Management and Entrepreneurship (XIME) and IIM (Bangalore). While IIM (B) will be addressing the senior management modules or capsules for scientists, XIME would be looking at management programmes for junior scientists. This is a very strong and important effort, which I hope can be expanded to other parts of the country.

**PwC:** Internally, do you have any such management programmes for scientists?

**Kiran M. Shaw:** We work with these organisations. It's difficult to have management programmes within the company. But we are partnering with XIME and IIM (B) to make this happen. There has been a culture within the company to encourage our scientists to attend management programmes. But these are short-term programmes. We would like these programmes to be more long term.

**PwC:** How do you manage attrition? In the last quarter, you have managed to curb it at 4%. But largely, is attrition a growing concern?

**Kiran M. Shaw:** Attrition is a growing concern. But it is also inevitable for growing organisations. What is also of grave concern is the fact that if you don't start expanding the talent base, attrition will prove to be a very alarming feature in every organisation.

We have to invest in creating a much larger talent base than we have today. That will only happen if you start focusing on scaling up colleges and universities.

We need a reform process that encourages privatisation of colleges, universities and schools. Many universities and colleges abroad would want to have a stake in India because there is a global skill shortage. I think a lot of institutions overseas would want to partner to help in this process of talent expansion.

In India, one of our biggest challenges today emanates from the fact that the UGC and our academic system is finding it difficult to attract good faculty staff because the pay scales are low. We need reforms so that the faculty is paid more and we are able to attract better teachers. We can't do that without reforms and strong private participation in the entire academic structure.

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**PwC:** How do you win this war for talent?

**Kiran M. Shaw:** It's like any economic principle. When demand outstrips supply, we are going to see attrition. It can only be addressed by increasing the supply situation.

Today, any new company that enters this sector looks at the success stories and wants to be one of them. And the easiest way they can start up is to get people from existing organisations. That leads to attrition. People today are attracted by the lucrative salary packages that they are offered by the new companies. So obviously attrition is huge. A lot of these companies come with huge expectations, but if they don't succeed and there is a shake-out, we may get back to a more realistic situation. While there is this euphoria (where companies want to come in and be part of the India story), there is bound to be attrition.

**PwC:** What does collaboration mean to you? How does this work within and across different organisational layers?

**Kiran M. Shaw:** We are a very flat and networked company. We really encourage collaborative work across the company. When we take on any project, we ensure that marketing, R&D, production, quality and regulatory all work as a team. So there is a lot of cross-functional collaboration that takes place at any given point of time.

There has to be a sense of ownership from all these divisions. While certain people champion certain things – one project may be championed by a marketing person, another project may be championed by a production person – we encourage a multi-disciplinary and cross-functional participation in programmes.

**PwC:** Coming back to attrition, IP is a very strong issue in your industry. Aren't there threats attached to attrition? Can you elaborate on those?

**Kiran M. Shaw:** Yes, IP is a big concern. In the past, we have had instances where people have walked away with our IP and we have taken action against them. It is easier to deal with IP that is patented, but difficult to deal with the knowledge you lose which is part of your working system. Employees are often privy to confidential information. And when they leave Biocon to join another organisation, the new company gets a head-start because of the valuable learning they take from our company. So it is a concern. However, it is bound to happen.

As a company, we need to take steps to see how we can prevent information leaking to another organisation. From a governance perspective, it is extremely disconcerting for a company like ours that has very high governance standards. This is really a big question we need to address. Rather than just complain about it, we should address attrition. And the best way to do that is by expanding the talent pool in India.

**PwC:** What makes your workforce unique from global competition?

**Kiran M. Shaw:** Our culture is unique because we have actually inculcated a sense of ownership in our people. I have always told people that Biocon is about owning problems, not tasks. We have encouraged people to take a problem-solving approach. Once you have that approach in your company, people become resourceful and there is a deep sense of ownership and achievement when they solve a problem. When you tend to be task-oriented, you tend to be hierarchical and tend to give instructions to people to follow. That's not our culture. This is what has made our culture very unique.

**PwC:** Does the Biocon culture typify the Indian culture in anyway?

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**Kiran M. Shaw:** I don't think it does. It is a very different mindset. The Indian (work) culture so far has been about carrying out tasks, following orders and doing something that has been told to them. We don't believe in that culture. We believe very strongly in building a sense of ownership among employees and in solving problems. It's about being able to make mistakes and face failure; and about learning from failure. That's what has made us become so successful and special. And I think that's why people like to poach staff from our company. But soon, the people who leave Biocon realise that this kind of a culture does not exist in other organisations. And invariably, they find it difficult to perform in the way they did at Biocon.

**PwC:** Today's world is changing fast. In what ways should an organisation change its internal structure, skills or its culture in order to be successful in an increasingly connected and globalised world? Are there any complexities associated with it?

**Kiran M. Shaw:** Companies in India, in my view, are very well positioned to make a global play. I think today's times are very exciting; companies can look at global businesses for either partnerships or acquisitions or just exports. When it comes to partnerships and acquisitions, you need a mindset which understands cultures and, more importantly, business cultures. In our acquisition approach, we don't like to impose an Indian mindset. In fact, my style has always been to operate autonomously and to meet at common forums where you exchange ideas, business processes and so on management, we at Biocon let it operate autonomously. Instead, we set up a reporting system and an alliance management team that monitors it very closely.

**PwC:** In your business, highly skilled engineering talent is a key requirement. But Biocon has also successfully leveraged India's globally competitive cost base. Is your competitive cost structure confined to low wages alone? What are the other factors that determine this cost structure? How do you expect to sustain or improve it?

**Kiran M. Shaw:** If you are going to build a business model based on just the low-cost structure, I don't think you can sustain it. One needs to use that inherently low-cost base to deliver very high value. If you can do that, it is a sustainable model.

We may have started at a low-cost base, but today our costs – such as salaries and operational expenses – are increasing. If you can leverage low costs to deliver very high value – through innovation – then I think it is a sustainable business model.

**PwC:** Do you expect to advance up the value chain closer to end-customers?

**Kiran M. Shaw:** That's what we are doing. We have entered the Indian market through our own brands. And the acquisition that we have recently made in Germany is all about getting closer to the consumer.

**PwC:** Is innovation a core differentiator at Biocon? If yes, please elaborate.

**Kiran M. Shaw:** Biocon has always looked at differentiation as its mantra. Be it in generics or in proprietary molecules, we have always looked at differentiation, which is obviously about innovation.

Innovation is all about a good idea that can be translated into commercial success. And we have done that in every possible programme. For instance, in insulin we developed a novel expression system. And we were able to convert it into a very successful end product.

In the area of antibodies, we were able to develop a new antibody that we licensed from the Cuban Research Institute and brought into the Indian market. That, too, was a huge success. In all our research programmes, we have some element of differentiation and innovation. And that gives us a very strong market differentiation when we commercialise the product of that research.

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**PwC:** Is the focus more on R&D and new products and services or on adapting the existing product and service lines to the changing business environments?

**Kiran M. Shaw:** Our entire model is about innovation and differentiation. And innovation doesn't happen only in research. If you have an innovative mindset, you will do marketing, research, manufacturing and even HR in a differentiated way. All you need to do is to challenge yourself into innovative thinking. As we say, the difference lies in our DNA.

**PwC:** In what ways can government activity affect your business?

**Kiran M. Shaw:** I would say the Government is playing a crucial, proactive and a pragmatic role when it comes to the biotech sector. The Department of Biotechnology within the Union Ministry of Science and Technology is beginning to play an important role. For the first time, there is a strong public-private partnership that is addressing issues pertaining to this sector, which will help us look at growth in a very strategic way.

This sector is working closely in the public-private forum. But in our country, working with one ministry does not suffice. We have to work with several other ministries as well. And this is proving to be very challenging. There doesn't seem to be a meeting of minds across the board. For instance, the Ministry of HRD doesn't seem to be in sync with our thinking on academic reforms. Similarly, the Finance Ministry isn't paying heed to innovation and the needs of a sector like biotechnology, where the gestation periods are long. Financial help and fiscal sops can really help grow this sector to the level that we need to. We need to educate the various ministries. The regulator is not in sync with the regulatory needs of the sector. There is a need to bring all these ministries onto a common ground on various issues.

The underlying debate on infrastructure is also an issue. If we do not have the adequate infrastructure policies, norms and investments that are needed to grow this sector, we are going to be strongly disadvantaged.

I have been able to grow Biocon by providing all the captive infrastructure needs, such as power, water and even effluent treatment facilities. But this is not sustainable in the long term. If companies are going to build businesses based on what I have done at Biocon, it's going to be very expensive and they will lose their global competitive advantage. Therefore, the Government needs to do huge amount of work in terms of providing this infrastructure support.

Firstly, we need land reforms. Without land reforms it becomes difficult to build roads, elevate roads or to just lay cables or pipelines.

If you look at our roads – their condition is appalling. Everyone seems to be talking about China, which has done wonders with its infrastructure. But I have just returned from Mexico, which is considered to be a developing economy. I was amazed. Mexico has fantastic infrastructure – wonderful roads, impressive connectivity... even though Mexico City has a very high population base, it doesn't have any of the problems that Bangalore does. That's because government has invested in infrastructure in a very intelligent way. It is not just about roads, it's about building metro links and other forms of transportation. Unfortunately, we act only after we reach a crisis point.

**PwC:** Do you think India could lose out on its competitive advantage if it does not improve its infrastructure?

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**Kiran M. Shaw:** We are going gung-ho about India's growth rates. But 10% GDP growth rate has already started slipping down to 8%. If you ask me why, I would say it's because we have not invested in infrastructure. We keep talking about inclusive growth. But how are we going to include the rural hinterland in the economic growth process if we are not going to connect them to the larger cities through roads, rails and other things? That is really the key issue.

In fact, it's a no-brainer. You have got to connect the rural hinterland and take economic growth to rural India. Unfortunately, politics and development are like chalk and cheese in this country. Politicians who have done tremendous work in their states never survive. Therefore, they realise that it's better not to focus on development.

**PwC:** What is your perspective on entrepreneurship in India?

**Kiran M. Shaw:** I think we need more initiatives. I think there is a lot happening on the entrepreneurial front. I am involved with the National Entrepreneurship Network, which has a network of 200+ colleges and is doing an amazing job. And the kind of energy levels that I see in young people in terms of pursuing entrepreneurial opportunities is tremendous. I think there is a huge transformation in the way young people think about their future. And entrepreneurship is one of those changes that I see coming.

Entrepreneurship is all about being self-employment and building a viable and sustainable business model. It's about the ability to take and manage risks; about being able to take advantages of a growing economy and exploit opportunities wherever you see them.

Everybody has an entrepreneurial spirit. Indians don't have it more or less. I think what has happened in India is that the economic reforms have unleashed opportunities and helped people look at them far more pragmatically than they could under the License Raj.

**PwC:** What are some of the people development initiatives the Indian Government needs to undertake to increase the pool of skilled and employable talent?

**Kiran M. Shaw:** We do need to change our educational models. We need to get into a project-oriented education system and focus on problem solving. If I look at my own school days – it was rote learning. There was no project or problem-solving orientation. The Government needs to open up the education sector. It needs to team up with domestic and foreign partners in education..

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