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## Columbia Business School International Faculty Profile

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Amar Bhidé, the Lawrence D. Glaubinger Professor  
of Business

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*Professor Amar Bhidé, the Lawrence D. Glaubinger Professor of Business, has published widely in the areas of entrepreneurship, strategy, contracts and corporate governance. Among his eight Harvard Business Review articles are “Efficient Markets, Deficient Governance;” “How Entrepreneurs Craft Strategies That Work;” “Bootstrap Finance: The Art of Start-ups” and “Hustle as Strategy.” He also recently completed a book, The Origin and Evolution of New Businesses, that builds on systematic studies of successful entrepreneurs, cases, teaching notes and his Harvard Business Review articles. In addition, he has written several papers on the emerging market in India, with a particular focus on entrepreneurship. Bhidé is a former senior engagement manager at McKinsey & Company, vice president at E. F. Hutton and associates fellow at Harvard Business School. In the fall 2006 semester, he is teaching the class Introduction to Venturing to MBA students.*

**You recently gave a talk at a conference in Venice. Can you tell us about it?**

The conference was on why Europe is doing badly. In addressing such questions, people often focus on cutting-edge R&D and science—what you might call, the “upstream innovation.” I argued that this is probably the wrong place to look, or at least this is not the only place to look. A country’s capacity to use innovation, wherever it originates, is as important as its capacity to produce innovations. So if you want to look at the difference in performance between the U.S. and Europe, you need to look beyond who has more patents or who is producing more cutting-edge technologies and more at how technology is being used. In that respect, the data I showed suggested that the U.S. uses information technology far more efficiently and extensively than does Europe.

**Taking a step back, what led you to pursue an MBA?**

I earned my first degree in engineering from the Indian Institute of Technology and then went directly to an MBA program at Harvard Business School. I wanted to get out of engineering. I hated engineering with a tremendous passion, so this was a great opportunity to do so. Also, to be less facetious, I was supposed to go back to a family business. I never did.

**Where did you work upon graduating from the MBA program?**

After I got my MBA I spent the year traveling around the world writing case studies in places like Ireland, Singapore, Sri Lanka, Hong Kong and Taiwan. These were case studies

on the countries themselves. I was working for a professor who believed that, just as one ought to study companies in their entirety, one ought to study countries in their entirety as well—look at the big picture, not just focus on one aspect or another. After that I joined McKinsey and worked there for five years. I started off doing information technology and then moved on to finance.

**What enticed you to leave the business world for a PhD program?**

Boredom. McKinsey is a fabulously run firm and a great place to work, but I was getting bored with consulting and didn't really know what to do or where to go.

At some point into my doctoral studies, I decided a doctorate was not a sensible thing to do. I don't know why. By 1987, I had basically done everything I needed to do to get a doctorate, but I just didn't want to, so I moved to New York and became a trader. I worked as a trader at E. F. Hutton, but then E. F. Hutton blew up. So I decided to give the doctorate another shot.

Somewhere in between E. F. Hutton blowing up and my actually going back to finish my doctorate I worked for the Brady Commission studying the stock market crash of 1987. That put off for a few months going back to complete my dissertation. It was a fun experience. It was better than sitting around and doing nothing, which is what I would have done. The guy who was on my dissertation committee, who later on became the vice chairman of the Federal Reserve, said, "Why don't you come out and help us?"

**How did you become interested in studying entrepreneurship?**

For my doctoral dissertation I studied hostile takeovers. I was looking at it from the point of view of those individuals who ended up doing these takeovers. At the end of the day, you could say they were entrepreneurs and that they behaved in a rather entrepreneurial way. They didn't take much risk, or they weren't taking much risk themselves. They were syndicating risk: sort of shuffling pieces of risk around so that they were left with the upside; the downside was sufficiently well spread around that it didn't really matter to the people faced with the downside. This kind of entrepreneurship is extremely common outside the field of hostile takeovers as well.

**How significant is the international component of your work?**

Much of my work has been purely U.S.-centric. The U.S. is a large and fascinating place, and so why does one have to study anything outside? And also, simply by virtue of what the characters I studied did, there was no global element to my work at all. I had done a big study on entrepreneurs in 1989–1990 and found that most functioned as if there was no world

outside the U.S. These entrepreneurs were serving only U.S. markets, and sometimes not even national markets but rather local and regional markets. They had domestic competitors, domestic financing, and the only apparent influence of the outside world on these companies was that a disproportionate number of founders were immigrants. That was it.

But then about four to five years ago, with the integration of India and China into the world economy, things changed. This was a seminal event. I have managed to avoid clichés all these years—I had thought that the hype of the Internet was vastly overblown for instance—but this seemed not a cliché but terrifically important and real, and I wanted to study it. And so since my hunting license is entrepreneurship, I used that. I spent more than 12 months studying entrepreneurs and entrepreneurship in Bangalore. I have also been doing interviews with the CEOs of venture capital-backed companies based in the U.S. to revisit the issue of the degree to which entrepreneurial-based funds in the U.S. interact with the world outside the U.S.

Both these experiences have led to unanticipated payoffs in terms of what I've learned about the processes of development and innovation. You can think of the former as what is important in catching up to the technological frontier, and the latter as what is important in keeping the technological frontier expanding outwards.

### **What is the main difference between entrepreneurship in emerging economies and advanced economies such as the U.S.?**

Ultimately, it comes down to the idea that in the U.S., entrepreneurship is involved in the process of advancing the technological frontier. People try to create new combinations that advance the frontier, or equally important, they observe new combinations that have been created and that seem to work, and then they advance the processes that diffuse these innovations. But it's all at the frontier.

India and other developing countries are so far behind the frontier that that role for entrepreneurship is irrelevant. What is really needed is some process by which advances which have taken place somewhere else can be dragged and dropped, and to a moderate degree, adapted.

Significant advancement of the frontier by entrepreneurs in India is not going to happen for at least 100 years or so. If you think about it, Europe and Japan have not yet caught up with the U.S. Of course there are some areas in which they are ahead, but overall, the U.S. is still ahead of Europe and Japan. If one regards productivity as a crude proxy of where you are on the technological frontier, then U.S. productivity is still 20 percent or more higher than European productivity. India is, of course, way behind.

**Can you talk to us about some of the key takeaways in your recent papers?**

The recurring theme in these papers is that off-shoring (probably a more accurate term than outsourcing, although outsourcing is the more fashionable term) is of value to these underdeveloped countries, like India, only to the degree that it helps pay for the know-how that is missing in these countries. Step back for a minute: What makes for a backward country? It's not the backwardness of its physical plant; it's the backwardness of knowledge. If it were simply a matter of physical plant, the process would be relatively easy; but in fact there is an enormous amount of codified and uncoded know-how which is necessary to derive value from the physical plant. And there is a cost to acquiring this know-how. More often than not, a lot of the know-how in advanced countries is in people's heads—and you can't just reverse-engineer what is in people's heads. So one way or another, you will have to pay for this know-how.

India's export of call-center services or China's export of umbrellas (or whatever is exported) will transform these countries to the degree that the earnings are used to acquire know-how. If the process is successful, it will allow India and China to catch up, and then there will be no more need to export call-center services and umbrellas.

Conversely, from the U.S. point of view, it is absurd to imagine that the trade between the U.S. and China will result in huge markets for physical goods and services produced in the U.S. It's not what these countries need. What will be sold, if it is sold as opposed to simply appropriated, is know-how. So that's sort of the significance which is frequently missed.

Some people in India think they are going to prosper by simply turning the entire country into a gigantic call center; and the defenders of free trade in the U.S. think that if India sells us the services of call centers, we will sell them all our goods and services. Neither is accurate. In most economies (Hong Kong and Singapore are tiny exceptions), the majority of goods and services are produced and consumed locally because it is quite expensive to do otherwise, both in terms of shipping costs and delays. Plus we live—at least in advanced countries—in a service economy, where most goods are not tradable. So, there is an obsession with exports and imports of goods and services and there is a corresponding neglect of what I consider as the most significant of global interactions, the transmission of know-how and knowledge.

**What are some key insights from your research and experience?**

One of the important insights is that innovation is not a zero-sum game, especially upstream or cutting-edge innovation. Innovation generally benefits everyone. The capacity of an economy to absorb, use and deploy innovative goods and services is what is crucial. So this hysteria about outsourcing—the belief that because of China and India we need to

turn everyone into an engineer or a scientist—is ridiculous. Engineers and scientists play an important role in developing new technologies, but there are a great many more actors involved in putting these technologies to use. So having a good organization and good managers is every bit as important in technological change as having good engineers.

**What are you currently working on?**

For the next 15 months or so, I will be focused on writing a book on the globalization of innovation. The idea behind the book is that innovation is getting more globalized and that this is a development that ought to be welcomed rather than resisted. For example, if someone comes up with a cure for cancer in China rather than the U.S., then so what?

**What advice do you have for students interested in entrepreneurship?**

One of my regrets in observing how students think of the world is that they don't seem to be sufficiently ambitious. There have been vast opportunities in the past and there will be vast opportunities in the future, but you need to be really driven to seize them. It is one thing if you get to be my age and start thinking small, but not in your 20s! In a school like Columbia, if 100 people try to do something really ambitious and four or five succeed, that's great. But if only five people try, that's another story. The innate talent is all there, but perhaps the hunger isn't there to the degree that it should be. Too many people are going after ants instead of trying to snare elephants. Why not at least start out by ignoring the ants?