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Start-ups grow in line with their genes

Companies are not 'inanimate' entities; each has its own 'biological' character

INNOCOLUMN

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Every species has a natural growth rate, determined by its genetics, metabolism and environment. Nature discourages a species growing artificially outside certain limits. Fruit flies don't try to become as big as cows and cows don't try to become big like elephants.

Max Kleiber, a Swiss-born academic at Davis, California, demonstrated in the 1930s that every species has, on an average, a stable number of heartbeats. For example, the cow species is 1,000 times heavier than the woodchuck species. Cows have a lifespan that is the "square root of the square root of 1,000", which is 5.5 times longer than that of a woodchuck species. The fruit fly lives only 15 days compared to the heavy tortoise — it simply consumes its quota of heartbeats faster.

Could this logic apply to species of companies, which do behave, after all, like living beings? Steel companies are different from FMCG or media companies. Should management teaching recognise the biological nature of companies rather than treat companies as inanimate entities?

The Silicon Valley model of start-up technology companies requires extraordinary growth. This species is young and its rules are not universally applicable. Their biology is not fully understood in respect of, for example, their metabolism, their heartbeats and their longevity. Business management leaders understand the biology of traditional companies. This is why the appropriateness of the Silicon Valley model for Indian entrepreneurship is much debated.

Foreign funding for Indian technology start-ups fluctuates wildly — from $8 billion in 2015 down to $4 billion in 2016 and up again to $10 billion in 2017. Three important points are worth noting: First, this number is minuscule compared to what flowed into Chinese start-ups; second, the flow is influenced as much by international markets as by the excitement of the Indian start-ups per se; third, venture capitalists (VC) are concentrating their Indian investments into fewer companies — Flipkart alone accounted for 40 per cent of the $10-billion inflow in 2017. At the stroke of a valuer's pen, Flipkart value was diminished by a few billion dollars just a few days ago.

The Silicon Valley model certainly seems to work in the west and east coasts of USA as also in China. The briefing by *The Economist* (September 23) demonstrates how China has surged ahead as a genuine technology innovator, besting American entrepreneurs at their own game.

Common sense suggests that former founders make for better investors as VCs. CB Insights (October 23) crunched the data and found to my great surprise that non-founder VCs dominate the top ranks among VCs; further, there is no relationship between the rank of top VCs and their experience as a founder. This is yet another evidence to doubt the depth of our collective understanding of the biology of start-up companies.

There are alternative and hugely successful models. The case of DMart, started in 2002, is a good example of building an $8-billion enterprise in what might be considered a staid, 1970s' service industry of retailing. Radhakishan Damani does not attend corporate award juries or advisory councils of the finance minister. As his CEO is reported to have said: "Lofty ideas don't work in retail. Wins come from small incremental improvements pursued relentlessly."

The statistics of Patanjali Ayurved, as stated in the media, are impressive and suggest the creation of another highly valuable company. Very little of published financial figures are available and what is printed appears suspect, as the media always quotes round numbers for revenue and margin. Sceptics feel there might be considerable bluster in the business profile that is being written about. Notwithstanding these views, the marketing chutzpah of bringing ayurvedic and natural products into the central consciousness of consumers must accrue to this unusual company with unusual credentials.

Simon Mundy (*Financial Times*, October 25) observed, "As with so much in India, the development of India's digital economy will be hard to predict, and resistant to convenient models plucked from elsewhere." In summary, different pulse rates for different species of start-ups.

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