

Mohnish Pabrai's Talk at the Pan IIT, Canada in June 2014

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Mohnish: Umang just asked me, which IIT I went to? The IITs are not just a national treasure, they are a global treasure. All of you grads, you are the very best of the best. It is truly a pleasure and an honor to be with you here today. Many of you in this room here will be worth millions several times over, and many more of you will get there in the decades ahead. Even with a lavish lifestyle, you are going to end up with very substantial estates.

There are just two choices you have in terms of what happens to that estate. You can either give it to your gene pool or you could choose to recycle it back to society. My hero, Warren Buffett, has a wonderful quote, "I'd like to give my kids enough money for them to do anything they want, but not enough money for them to do nothing." Large inheritances are not really a gift to your children. They are a burden and they're likely to cause distortions in their lives that in the aggregate are negative.

I became interested in philanthropy, not because I'm particularly charitable or altruistic by nature. I decided to recycle all of my assets back to society simply because of enlightened self-interest. It is the only sensible choice, and I think if you spend a few minutes thinking about it, you will come to the same conclusion. It is probably okay to give your kids a couple of million dollars each, but I don't think you're doing them any favors by giving them \$20 million.

Most charities are run by humans with great hearts, but they are all heart and no head. They have never ~~ran~~ run a business before. They have never met payroll. They've never had 99% of their network tied up in a business teething on the edge of bankruptcy. I studied the annual reports of many charities and foundations, and I came away deeply disappointed. Not one of them ever highlighted anything that they had failed at, or more importantly, the lessons they might have learned from those failures. They were set up as marketing machines focused on maximizing inflows by putting forward stories and pictures that tugged at the heart.

I thought to myself, "Mohnish, you have all these strange ideas about how a non-profit should be run, about how there's no difference between running a for-profit business and a non-profit, about how non-profits should not be run by humans with tremendous hearts, but businessmen with great hearts, and about how non-profits ought to narrow their focus to one or two well defined

causes.” But all of these thoughts really have no value without execution behind them.

In 2007, when our net worth crossed \$50 million, my wife Harina and I decided to set up the Dakshana Foundation. We decided we'd give away 2% of our net worth every year to the foundation. That would give us at least a million dollars a year, which would allow for meaningful experimentation of putting my strange ideas to a real world test. “Give a man a fish and you feed him for a day. Teach a man to fish and you feed them for a lifetime.” We had no interest in giving away fish. We wanted to teach fishing. The question was, what type of fishermen should we try to create? I was trying to answer this question, I heard about this amazing person, Anand Kumar, who ran this incredible program called Super 30 in Bihar.

Every year, Anand takes in 30 impoverished kids from rural Bihar and coaches them for the IIT entrance exam. His mother cooks all of their meals, boarding, lodging, coaching, tuition, everything is free. Super 30 provides all of it. Anand has been doing this for more than 10 years. Every year between 80 and 100% of the Super 30 kids get accepted by the IITs. It is a tremendous accomplishment. It has a social ROI that's simply off the charts.

Anand is a mathematician, educator, philanthropist, and entrepreneur, all rolled into one. I immediately reached out to him and went to Bihar to meet him. I suggested to him that Dakshana could fund him, and perhaps he could take his Super 30 program to maybe 300 kids a year, from 30 kids a year. He turned me down. He said he did not want outside donor funds. He did not want to scale his program. He liked it exactly the way it was. I asked him if he would object to us cloning and scaling his program on our own, and he strongly endorsed the idea.

From a standing start in 2007, Dakshana has sent 458 impoverished kids to the IITs. We took on a total of 1,033 scholars. We had a success rate of 44% versus a national IIT's acceptance rate of 2%. Most of our scholars come from rural India, and their parents are illiterate, usually farmers or laborers.

When I visit Dakshana scholar homes deep in rural India, typically the best hotel is within a hundred mile radius and it's a two or three star property. My daughter and I have slept in rooms that are mosquito infested during monsoons, rooms with no hot water, rooms with dirty toilets. Most of these hotels have no safes. I'm always concerned that we will lose our passports. I have to be honest, these things bother me. They bother me a whole lot less than seven years ago. It has added an amazing richness to my life, a richness I would find hard to describe. But one that I am not willing to give up. I keep going back. The personal journey I'm on is to get to the point where a one star hotel doesn't bother me, where lost passports or dirty bathrooms become irrelevant, where I just enjoy the visits.

This year, 250 Dakshana scholars just took the IIT entrance exam, and we expect at least 70% of them to be accepted by the IITs. We'll know in a couple of weeks. We have a stretch goal at Dakshana, which is 2,020. We call it 2020. We'd like to send 2,020 impoverished scholars to the IITs in the year 2020. I don't know if we'll get there in 2020 or ever, but if you do one in seven, IITians would be from Dakshana. It's all about the journey. The journey is the destination.

I'm reminded of these words by the poet Robert Frost, "Two roads diverged in a wood and eye. I took the one less travel by and that has made all the difference." Thank you.

Speaker 1: Let me ask a question to you, Mohnish. I'd like you to deal with it at a personal level because I think people are interested to know what makes you tick and who you are. How did you decide on Dakshana? In general, how did you decide to not just give money, but also time? And why did you choose India? There's a big difference between philanthropy in India versus philanthropy in the West. As many of us who are immigrants here would recognize, the decision to not just give your money, but also your time is a whole different thing. It's a different thing.

I'd love to know from you, how did you make that decision? How did you decide on Dakshana and the amount of time you're putting into it? What is it about for you?

Mohnish: Well, I actually never wanted to set up a non-profit. I think that was never, anything I wanted to do. I actually would've preferred to just write checks. I meet Anand Kumar every year and I keep blaming him for getting me in the kind of situation I'm in. My sequence of thought was that I have to get to zero in assets by the time I'm 80. I'm assuming I'm gone at 80. I do care that the money is used effectively. I didn't want to just write checks, which may or may not be used effectively. Since I couldn't find a cause that I was passionate about, I could see some things that I could do on my own when we decided to proceed. I have always assumed that it's much more difficult to give money away effectively than make the money. I think making the money is a lot easier than giving it away. In fact, I'm trying to scale Dakshana now. It's hard. Our issue is not money. Our issue is getting the government and other entities to move with the pace we'd like them to. I made an assumption that I might spin my wheels for 10 years or 15 years when I try to give money away. I did not want to start when I was in my 70s or 60s. I wanted to start when I was young and I had the energy. We started when I was 42. We lucked out. We actually got traction within a few weeks. That really was a driver, going from basically zero. That's an important number for me to get to personally be satisfied. The rest of it is just a game, but a fun game.

Speaker 1: But if I could just follow up from that, at the end of the day, you made a decision that is unlike many other folks who get age 40 and make a lot of money. They still want to make a lot more money and they keep going. They don't

necessarily decide to do what you did. Was it in your childhood, your parents? What was it?

Mohnish: No. It's because I overdosed on Buffett. This did not come from my parents, even though they're very charitable to people around them and so on. But I didn't get any lessons about trying to do this from my parents. I did get them from Warren Buffett.

I think most people don't, realize that they're on a treadmill, when they get to 70 or 80 your choices get limited in terms of what you can do. The numbers will get very large for many of you. If you don't give it thought when you're young and able to do things, I personally think that the business world and people who come from the private sector have a huge amount to add, to the world of philanthropy. I wish many more of you will take the leap. It's challenging. It's tough. There are massive paybacks, which are much better than just making more money.

It reminds me of a quote by Buffett's partner, Charlie Munger. Charlie Munger says, "Costco has done better in this world than the Rockefeller Foundation." I believe that. If you pursue entrepreneurship and you build the economy and build jobs, absolutely, that has multiple paybacks in terms of helping society, probably the best way you can help society. I also feel that it's better to keep the two separate in the sense that Costco's mission is not philanthropy. Its mission is to serve its members and they do such a marvelous job.

To some extent I feel that I actually keep both my lives separate. There is the capitalist Mohnish who spends most of my time on capitalist endeavors, which have really nothing to do with the philanthropic Mohnish. Both are fine. In fact, I would say the capitalist engine is very important because that's the one driving everything else. I think the best thing you can do is pursue entrepreneurship. I only think that philanthropy kind of becomes important and interesting because you're going to end up, we don't live forever. If we did, it wouldn't be an issue.

Speaker 1: When I recently sold my last company, Keynote Systems, I kept coming back to the central question, can you in fact build a business which makes money, but also does good? I'd like to probe that if I could for all of you gentlemen. Because all of you have made money, and all of you can absolutely argue that you have done good by giving employment. But beyond the giving employment question, can you build a business where the focus is not just making money? Some elements of social redemption? Are they separated? Why do you say that?

Mohnish: Well, I would say recalibrate that a little bit. I definitely think that the two should be separate. But I think a business created with the primary objective of making money is a very myopic view of a business. In fact, I think that those types of businesses are not sustainable, won't do well long term. I definitely think you need core principles that are very much core to the DNA of a business. There's

no conflict between having core principles and making money. In fact, those principles are generally good for the ecosystem then by definition the business is going to do well. If you go back to an example of a company like Costco, Costco has a rule that they will not make a gross margin of more than 15% on any product they sell.

They could tomorrow change those gross margins to more than 20 or 25%, and the business will continue to do well. It would probably do much more to the bottom line. But in the long run, it would hurt them because it would violate the trust between them and the members. When you create businesses, at the core got great principles for the ecosystem by products, and it will make a lot of money. I think if you try to create business where the primary and sole objective is to maximize money and not look at wellbeing of employees or wellbeing of clients, then long term those businesses don't do so well.

Speaker 2: Okay. How do you select students? Any specific part of India?

Mohnish: We sent a girl from the Andaman Islands to IIT. We have kids from Kargil District in Kashmir. We have kids from the southernmost tip of India. We've got kids from everywhere. The secret sauce of what makes Dakshana work, and I lucked out actually, is the government of India has an amazing set of schools that nobody's heard of called Jawahar Navodaya Vidyalaya. I think this was the crowning achievement of Rajiv Gandhi. But I don't think most people understand that.

Rajiv Gandhi wanted to replicate Dune School for the rural village kids of India. Indeed, that vision came to reality. There are 600 Jawahar Navodaya Vidyalaya, these are residential boarding schools run by the government of India. One in every district in every state of India and every union territory. The schools go from sixth standard to 12th standard. They're English medium, but when the kids enter the school, most do not speak English or Hindi. Like the IITs, the government runs an entrance exam in fifth standard across India. I think more than 10,000 test centers, in 20 languages, and 2 million kids a year now take that language independent IQ test. The top 2% of those kids get selected to go to the JNV schools. Each district has a school, and each school takes 80 kids. You might have a district like Jaipur, for example, where 5,000 kids might apply for the slots. What Dakshana does, we have a MOU with the government of India where after these kids finish 10th standard. It's amazing. I get a spreadsheet in Irvine, California from the government, which is one of those eight locations.

Then they spent two years there, preparing for the 11th and 12th CBSE exam. But also, for the IIT entrance exam. We've got about 3,000 crores a year to be spent by the government of India. God bless the government of India on the JNV system. The government spent probably another 3,000 or 4,000 crores on the IITs which is also wonderful. We have this very thin layer of Dakshana in the

middle, which is under five crores. The five crores only works because there's 6,000 crores or 7,000 crores sitting above and below it. Life is great.

One of the things that kind of pissed me off before I started Dakshana is that, I'd go and read the annual report of like the John D. and Catherine D. MacArthur Foundation, or the Ford Foundation, or the Rockefeller Foundation. I'm naming these, but you could replace the names of any of them that you want to. They are required by law to give away 5% of assets to maintain non-profit status.

They give away like 5.2%. Especially let's say, John D. and Catherine D. MacArthur Foundation, the degree of sprinkling is incredible. They've got at least 300 different programs where 5% gets sprinkled over. Nowhere in their annual report did I ever read anything about a comparison between the social ROI differences between these programs ever. No comparison done ever. I would think that if you have five programs, you will compare them, and pick the best four, for the year after. Then the year after that from four, pick three. It just keeps narrowing to the ones that really get you there. The 5% giving away is basically designed so that the people running the foundation have jobs forever. They can never be out of a job because it's 5% of whatever's left in the pie. They just try hard to make sure the pie keeps growing, which is why actually I commend Bill Gates. He and Melinda have mandated that 50 years after they're gone, the Gates Foundation must go to zero. Warren Buffett has mandated that after all his money goes to the Gates Foundation, when he dies in 10 years, they must spend it all. Both these foundations did this because they saw the abuse.

If Henry Ford came back today and looked at his, looked at what Ford Foundation does, he would just be flabbergasted. That is not what Henry Ford is all about. I think when philanthropies get started by entrepreneurs, they have a certain direction, but then subsequently when you get professional managers in, and especially when you don't have any confidence on those managers, you get the results that we see in philanthropy today.

The logic that Bill and Melinda Gates used in the 50 years is their perspective was there will be other Bills and Melinda's who will have created fortunes in the future and who will identify problems that Bill and Melinda cannot even conceive of today. Their perspective was that whatever they are able to do, they want to do the good for the good of humanity. Let the next generation carry the torch from there. The next generation probably be smarter because they've got the history. If you set a 50 year sunset, that's a really good idea.

I also think that foundations run by entrepreneurs is really exceptional. The Bill and Melinda Gates Foundation, there's no difference. I think there's still a public charity, but they're a private charity. There's no difference between that and the Ford Foundation in terms of how it's been run. The difference is you have an entrepreneur who cares a lot about how the money is spent, whereas at the

MacArthur Foundation, they care a lot about whether they have a job next year. That's the driver. The sprinkling continues.

There was another law that said that you couldn't give to more than five or 10 causes, that would go a long way. My take is the best thing that entrepreneurs and wealthy individuals can do is number one, try to do most of the giving while they're alive and try to establish some sunsets. It doesn't continue forever because eventually it's going to go down. Good things about capitalism and entrepreneurs is there's a feedback loop. If you go down a path where it's not profitable, in the end, you're going to crash. In the end, the business is not going to exist.

So basically, there's a feedback loop in capitalism, which keeps you on a straight narrow path. Basically, if you're not delivering value to your customers, in the end, your auto business, that feedback loop does not exist in philanthropy. I mean, if you've got like the John and Catherine MacArthur Foundation, large pot of money, and you keep giving away 5% a year and your investment returns are more than 5% a year, it really doesn't matter what's happening. You can go forever.

There's a critical difference between entrepreneurship and philanthropy from that point of view where philanthropy does not have these market driven signals. When an entrepreneur runs a business, he has an idea in his head, he goes out of the idea. 99% of the time that idea is wrong, maybe 30% wrong, maybe 20% wrong. He has to make changes and he's continuously making changes zigging and zagging until he finds the path. Even then, he keeps kind of making changes. In philanthropy, you don't have those natural feedback loops coming back.

For example, what I did with Dakshana is I inverted the problem and the inversion of the problem was that I was only going to go into areas where there was a feedback loop. I eliminated everything in terms of giving where there was no feedback loop. I wanted a feedback loop just like an entrepreneur has. For us at Dakshana, the feedback loop is selection of IIT percentage of our kids getting to accept into IIT's and NIT's every year. We get a data point from the IITs. We don't control that, they control it. That number goes up and down. As a team, the entire management team looks at the numbers, looks at the data, analyses it, tries to figure out what we need to change, and then adjust to it. I wanted to make sure that's the case. It's not possible to do that in many parts of philanthropy. Many parts of philanthropy deserve funding even though there's no feedback loop. But I think it's useful if the heads of philanthropic organizations understand that the feedback loops are important and try to set up some way to get that artificially created so it becomes just like an entrepreneurial engine.

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