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CII
Confederation of Indian Industry

March 2012

Thriving in a Volatile World

Conversations with Leaders

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The Confederation of Indian Industry (CII) works to create and sustain an environment conducive to the growth of industry in India, partnering industry and government alike through advisory and consultative processes.

CII is a non–government, not–for–profit, industry led and industry managed organization, playing a proactive role in India's development process. Founded over 117 years ago, it is India's premier business association, with a direct membership of over 7000 organizations from the private as well as public sectors, including SMEs and MNCs, and an indirect membership of over 90,000 companies from around 400 national and regional sectoral associations.

CII catalyses change by working closely with government on policy issues, enhancing efficiency, competitiveness and expanding business opportunities for industry through a range of specialised services and global linkages. It also provides a platform for sectoral consensus building and networking. Major emphasis is laid on projecting a positive image of business, assisting industry to identify and execute corporate citizenship programmes. Partnerships with over 120 NGOs across the country carry forward our initiatives in integrated and inclusive development, which include health, education, livelihood, diversity management, skill development and water, to name a few.

CII has taken up the agenda of "Business for Livelihood" for the year 2011–12. This converges the fundamental themes of spreading growth to disadvantaged sections of society, building skills for meeting emerging economic compulsions, and fostering a climate of good governance. In line with this, CII is placing increased focus on Affirmative Action, Skills Development and Governance during the year.

With 63 offices including 10 Centres of Excellence in India, and 7 overseas offices in Australia, China, France, Singapore, South Africa, UK, and USA, as well as institutional partnerships with 223 counterpart organizations in 90 countries, CII serves as a reference point for Indian industry and the international business community.

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Special Thanks

Our conversations with the following people have made this theme paper possible. Your voice is what gives depth and credibility to our efforts. We want to place on record our sincere gratitude for the support and encouragement you have given us.

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Mr. Ramesh Datla, Elico Limited

Mr. R. Dinesh, T V Sundram Iyengar & Sons Limited

Mr. Jose Dominic, Escapade Resorts Pvt. Limited

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Foreword

Today as leaders we face a radically altered socio–economic, political and business landscape. On the world stage, we are witnessing a rebalancing of economic power away from the developed world. Here at home, while our long term growth story remains intact, the journey is becoming bumpier. Clearly the world has shifted to a 'new normal'.

All of us are actively thinking about how best we can succeed in this new world order. Therefore as your partners in growth, we at Confederation of Indian Industry have chosen "Thriving in a Volatile World" as the theme for this year's Annual Regional Meeting on the 24th of March. We are happy to bring out this comprehensive report with The Boston Consulting Group, as our Knowledge Partner. CII would like to thank Sachin Nandgaonkar and Xavier Sebastian for providing direction to this effort and the working team comprising of Kaushal Narayan and Prerna Shah.

The report highlights the volatility faced by the corporate world today and its impact on corporate performance, before going on to suggest ways to tackle the 'new normal'. The authors focus on six core areas of action covering risk management, planning & budgeting, supply chain, customers, and people. In summary, every company needs to back–up boldness with caution, flexibility and adaptability.

This report is the result of extensive and deep conversations with business leaders across South India. We would like to thank the 25+ CEOs who generously shared with us their personal stories and experiences.

The attempt has been to create for you a guidebook with real–life examples on how best to thrive in this imbalanced world. We hope that you will be able to takeaway specific areas of action and ideas to implement within your organization. A self assessment template has also been crafted to help you dispassionately assess opportunities for improvement within your function / organization.

In the words of Mr. Adi Godrej, President Designate, CII "there are real opportunities for those who plan and execute well". We at CII hope that this report gives you the inspiration to Act Now!

T T Ashok
Chairman
CII Southern Region

The BCG Perspective

"It is not the strongest of the species that survives, nor the most intelligent. It is the one that is most adaptable to change."

— Charles Darwin

The New Normal World

We have entered a prolonged period of unprecedented turbulence and uncertainty. It isn't simply a fallout from the great recession — which is only the most recent symptom of a broader, more fundamental shift in the environment. The forces that have been sweeping through our markets over the past decade — many of them complex and interrelated — are giving CEOs and business managers a deep sense of unease.

At a global level, we are witnessing a rebalancing of economic power away from the developed world towards the more populous but less developed countries. The problems of global trade imbalances, unsustainably high levels of debt, and a severely damaged banking sector are still not resolved and will take years to unwind. Consequently, the western economies, should expect a sluggish recovery, with several hiccups along the way. Even in India, as is the case with most developing economies, while the long term growth story remains intact, the journey is unlikely to be smooth.

Here is India, volatility across all key economic parameters has shown a dramatic upswing in the recent years (as shown in Exhibit 1). Political and regulatory risks have also become material for many industries. Finally, a higher level of globalization and increased speed of information flow has heightened exposure to global volatility. In short, the industry is today confronted with uncertainty and risk of a different order of magnitude.

The impact of this volatility on company performance is there for everyone to see (as shown in Exhibit 2). The turbulence has had an impact on both financial and market performance of firms. On one hand, fluctuations in operating margins have increased. On the other hand, industry leaders are falling from grace as is evident from the fact that 14 of the top 30 companies — by market capitalization — in 2003 no longer feature on the top 30 list of 2011.

Also, leadership no longer means what it used to. The once strong correlation between profitability and industry share has now almost disappeared in some sectors. As a case in point, in the U.S., the probability that the market share leader is also the profitability leader declined from 34 percent in 1950 to just 7 percent in 2007. We are starting to witness similar incidences in India as well.

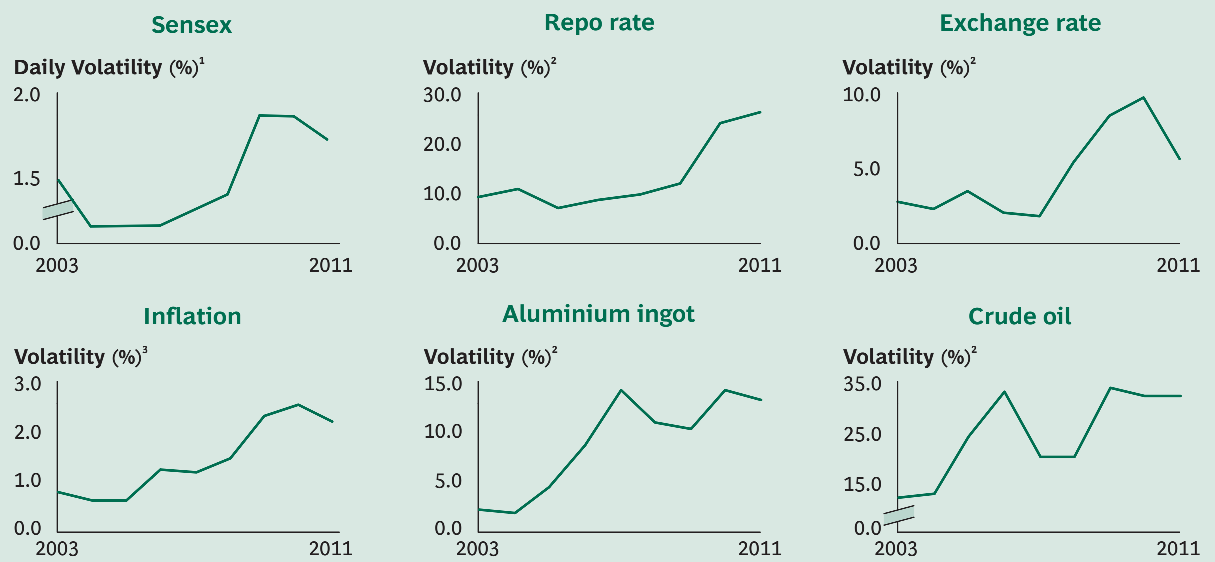
This new normal is here is to stay. Business leaders need to see this as "business as usual".

Call for Action

There is a growing realization that the old sources of competitive advantage are no longer sufficient for success in this new normal. There is a unanimous agreement that we need to recast our management toolkit.

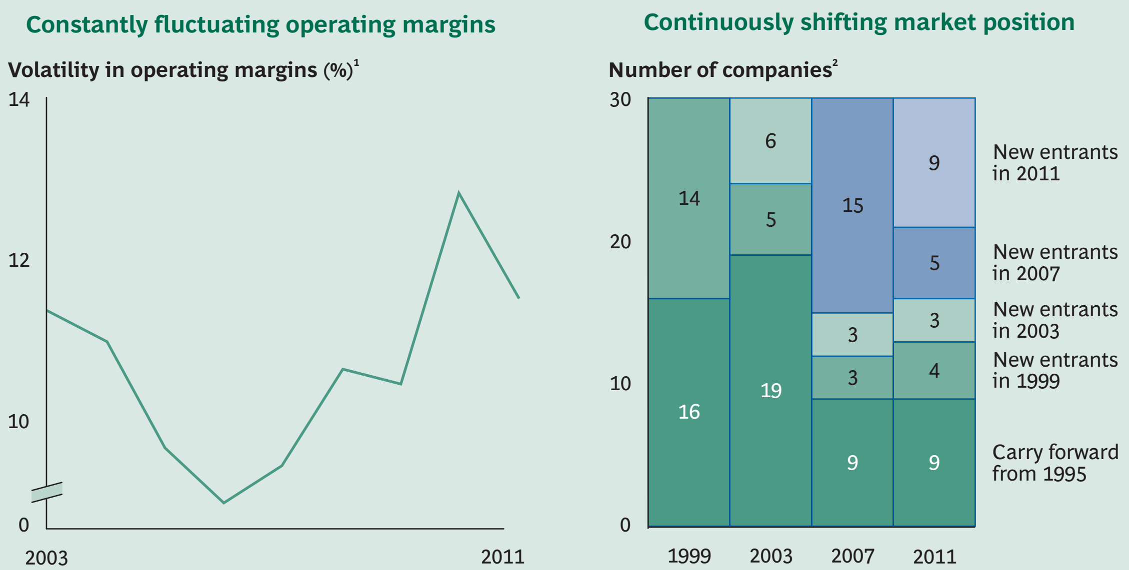
CEOs are seeking ways to "Thrive in a Volatile World". The objective of this study has been to combine The Boston Consulting Group's current thinking on this topic with real life experiences of CEOs to create a contextual and practical white paper, which we hope would provide actionable insights to business leaders and practicing managers.

Exhibit 1. All indicators have shown an increase in volatility



Source: BCG analysis.
[1]Volatility calculated as a three year rolling standard deviation of daily changes in the SENSEX.
[2]Volatility calculated as a trailing twelve quarter standard deviation as a % of mean.
[3]Volatility calculated as a trailing twelve quarter standard deviation of inflation (% change in the consumer price index).

Exhibit 2. Impact of volatility on performance



Source: BCG analysis.
[1]Trailing twelve quarter standard deviation of operating margins (in %) averaged across 150 BSE firms representing 80% of the market as on 31 Dec 2010.
[2]Traces the change in composition of the Top 30 BSE companies based on market cap.

However, there is no silver bullet or magic formula for winning in the new normal. It will require changes, small and large, across the organization in how we do business. The need of the hour is to inject optimism, discipline, agility, and flexibility into the DNA of the organization. The end goal should be to create adaptive advantage as it will be the future source of competitive advantage.

In particular, six core elements need to be explored for thriving in the new normal:

- **Don't take your foot off the growth pedal:** Growth opportunities have not dried up. Keep eyes open for growth opportunities, irrespective of the external mood
- **Risk not just a check–box:** Risks have clearly been heightened and need to be understood deeply. Consider de–risking the business portfolio and fire–walling the company against operational risks
- **Recast your planning vocabulary:** Old planning and budgeting frameworks are redundant for most companies. Recast on a clean slate to preserve accountability while building in a higher level of responsiveness
- **Stay three seconds ahead of the commodity trap:** Margin shocks are here to stay. Cost excellence is an absolute must but will not be sufficient. Build further protection through relentless pursuit of value addition opportunities
- **Lego–ise operations:** Volume and product mix uncertainty is on the rise. Push the envelope further on end–to–end supply chain flexibility to build higher level of operational robustness
- **Discover your agility gene:** Slowness to sense and respond will push companies to obsolescence. Create a constructive burning platform, rewrite the decision making fabric, and invest in people to nurture agility

We detail the above themes below.

Don't Take your Foot Off the Growth Pedal

Growth opportunities have not dried up. Even though uncertainties have multiplied, business leaders should continue to focus on growth. In fact, most of the CEOs we spoke to, chose to describe the new normal as "exciting" with immense opportunities. Two themes stood out:

There are opportunities for growth at all times

The global economic rebalancing combined with increased volatility creates a fertile ground for growth for Indian companies. As one CEO explains, "Successful organizations have always created opportunities. When you till the land, you are churning the soil. That churn creates the opportunity for a new plant to grow. Similarly, this period of volatility is a time of opportunity for people with the courage and imagination to take risks".

Opportunities for growth can be found in both local and global markets.

Amidst all the volatility, economic rebalancing continues to provide growth opportunities in India. Interestingly companies see growth across the pyramid. An FMCG CEO talked about both rural and urban opportunities. An automotive supplier talked about aggressive growth from all price segments — low, medium, and high.

The globally–focused companies are also seeing interesting opportunities in these times. For example, a leading pharma CEO talks about global pharma companies attempting to make their businesses operationally more robust by cutting down R&D spend while keeping their R&D pipeline intact. This creates unprecedented partnership and product / service opportunities for Indian as well as other emerging market pharma companies.

However, what is changing is the thoroughness with which companies are evaluating newer opportunities, especially the level of depth in detailing and tracking the key unknowns. The CEO of an infrastructure company talks about increased efforts in fleshing out the key uncertainties associated with a large investment decision and staggering such decisions into multiple phases with clearly defined trigger points.

Actively seek M&A opportunities

Volatility is the bane of high valuations. Therefore, these periods of churn present attractive M&A opportunities both within the country and globally.

The larger Indian companies are seeing volatility as an opportunity to leverage deep pockets to strengthen their position in the domestic market. In fact, some are using these uncertain times to consolidate a fragmented domestic market, as was pointed out by the chief of an automotive supplier. Many others talked about targeting local companies actively to improve market position or acquire specialized skills.

Another auto services player has focused on making "below the radar bite–sized acquisitions" as a strategy for global growth. Focusing on smaller companies has helped them contain risks appropriately and also avoid competitive bidding situations which tend to push valuations up.

The CEO of a smaller IT services company talks about leveraging global acquisitions along with a sizeable internal R&D investment to create capabilities at competitive cost that are difficult to replicate. This has helped win share from global players in the last 2 to 3 years.

Risk not Just a Check–box

Heightened risk is the new reality. A casual perusal of any newspaper presents sufficient evidence of companies ignoring the risk lens while growing aggressively in the boom time. However, today CEOs are clearly putting active risk management back on the top management and boardroom agenda.

Begin by really understanding your risk exposure

The key is to know your enemy! Every company needs to clearly define the specific risks that impact it the most. It is also important to define a broad risk strategy for the company. This involves answering the following questions on each kind of risk — What are the threshold limits? Can this risk be passed through? Internally how do we mitigate risk — strategically & operationally? How can it be measured and monitored?

While defining risk it is important to dig deeper and identify the real underlying drivers of risk. Take the case of Indian IT players overweight on the American market. While the risk profiles of financial services clients took a turn for the worse, there were certain niche sectors like mobility applications where the client risk levels remained virtually unchanged right through the recession. Even within financial services, risk levels varied significantly across clients prompting one leading IT player to begin assessing risk exposure at a customer level.

As one CEO opined, "We went beyond measuring generic risks to locating very specific risks unique to our company. We then made risk the centre of our boardroom agenda to drive our strategic choices".

Balance your strategy with a risk lens

Risk mitigation begins with your business portfolio and growth strategy. One needs to model the extent of risk in one's business portfolio, identify its sources, and then rebalance portfolio to reduce risk exposure.

Typical moves exhibited by players include the following:

Sectoral rebalancing: Conglomerates are looking closely at de–risking their overall portfolio. A power player is consciously entering the resources business not only for ensuring security of supplies but also with the objective of being in businesses with a different risk profile.

Geographic rebalancing: We are seeing movements in both directions — domestic companies looking out, as well as global companies looking homewards. With the epicenter of the world economy shifting eastwards, a west–focused Pharma player is redoubling efforts in the Indian market to balance risk. Similarly, an IT player has taken steps to redistribute revenues away from North America, which presently accounts for 60 percent of their top line. A domestic–focused infrastructure player on the other hand is looking outwards. Their focus is on countries similar to India, like Indonesia.

Revenue–mix rebalancing: Companies are expanding across the value chain in the segments that they play in. A Pharma player talks about moving into branded formulations. Another capital machinery producer talks about increasing the focus on growing their parts and services business aggressively. In addition, firms are also readjusting their revenue mix from customer segments. A leading IT company is increasing its penetration into countercyclical sectors like utilities, public services, and health care. An OEM supplier built up a deep distribution network to also serve the after–sales market, which tends to be less cyclical.

The rebalancing moves described above require building new capabilities, in most cases, on a fast track. Hence, varying models of partnerships are being actively considered by all companies we spoke to.

Strengthen your risk governance framework

Managing risk needs to be a top management priority. The CEO of a large business group talked about creating an internal risk committee comprising 3 to 5 members who are drawn from the top management of group companies. This group's role is to monitor risk exposures for the conglomerate and ensure actions are being taken to mitigate risks. The topics for decision making range from strategic to operational — business portfolio, acquisitions, funding, foreign exchange and commodity cover, supplier contracting strategies, etc.

A few organizations have also created a highly capable risk management team. As custodians of the company's risk, they identify, measure, and report on risks across the organization. They also are responsible for planning and executing mitigation steps as and when required.

In addition, the risk committee of the board is starting to play a more active role in most of the organizations. The challenge for the board–level risk committee is to navigate the fine balance between risk control and nurturing growth. While growth without a risk lens puts the company at risk, risk paranoia is equally unhealthy for the long term future of the company.

Lay down operational guide–rails for risk

With growing uncertainty, operational decision making is moving quickly to the frontline. This is inevitable in the new normal when firms need to be more flexible and reactive to succeed in volatile and uncertain markets. The need of the hour is to empower people to take decisions but with the additional lens of risk as well.

Understanding of risks and ownership of mitigating efforts has become a universal requirement across an organization. Deploying risk management more broadly requires simple, foolproof, and easy–to–use systems that make risk transparent to people at the frontline, provides them a toolkit for risk mitigation, and defines escalation thresholds.

Recast your Planning Vocabulary

Old planning and budgeting frameworks have become redundant for most companies in the new normal. Companies need to recast their planning vocabulary for the three time horizons — long term, medium term, and short term. The new framework needs to be in sync with a more volatile world and needs to incorporate themes of higher responsiveness and increased flexibility while still preserving sharp accountability to ensure high performance.

Competitiveness as the litmus test for long term planning

The future characterized by disruptive technologies, economic downturns, regulatory flip–flops, and fast–moving competition is becoming increasingly uncertain. Long term planning continues to be a must in this uncertain world — but it has to be designed for flexibility and supported with decision–making that does not get paralyzed by an overt focus on financials.

The key to preserving relevance of the long term planning process is to plan for multiple realities, and make it singularly focused on improving competitiveness.

Words such as *trends, scenarios, strategic options,* and *goals* form the new vocabulary when it comes to long term planning. All conversations point towards using *competitiveness* as the key yardstick to judge long term strategic options. The CEO of a large automotive company talked about technology and cost advantage as the two key pillars of their long term plan. Decisions associated with cost and technology are therefore taken with a longer term view, with improving competitiveness being the main yardstick for evaluating options and plans.

Stage–gating investments key to medium term planning discussions

Most CEOs talked about medium term planning as the vehicle to make sizeable financial commitments to keep the growth engines revving. "How do we make longer gestation large ticket investments when the list of unknowns only keeps increasing?" is the typical CEO lament.

The focus must be on exploring all possibilities to break down big bets into batches of smaller calls that can be taken systematically in a staggered way as the reality unfolds. The new vocabulary in medium term planning therefore revolves around *modular investments, stage–gates, milestones,* and *early warning signals*.

As the CEO of a large infrastructure player says "We now spend a lot of time in breaking down the total investment into multiple smaller components. We have moved to phasing investments against key milestones. We actively track early warning signals to ensure that we can sense changing market realities faster and course correct. We are no longer averse to taking the hard decisions when required. Above all, a systematic stage–gated decision–making process has brought us discipline and rigor. We have survived a few difficult situations because of this approach".

Become lean and flexible in budgeting

In a volatile and uncertain world, numbers and plans can lose meaning quickly as underlying market assumptions change. Remaining fixated on the start–of–the–year annual plan when ground realities have changed erodes faith in the budgeting system and corrupts the culture of accountability. The challenge is to therefore preserve the discipline of organizational accountability while building flexibility and responsiveness into the budgeting process.

The new vocabulary for budgeting therefore revolves around a *simple, fast* and *just–in–time* budgeting process anchored around a *few key metrics* with the *flexibility* to make periodic adjustments. One CEO even went to the extent of saying "The annual plan has become more of a guidance document. To ensure accountability, final plans are crafted quarterly, based on the real–time business situation."

For example, a services firm we spoke to starts the year with a plan P. It then comes up with revised full year estimates E1, E2, E3 at the end of each quarter. Plans can be revised as the external market conditions change but while plans are readjusted, certain original overarching goals on profit margin and key focus areas need to remain intact. This means that if revenue targets have been revised, levers for cost must be brought into play to keep margins as per plan. This process has helped them ensure very high accountability on signed–up numbers while adjusting the business for changed external conditions.

Stay Three Seconds Ahead of the Commodity Trap

In a volatile environment where high risk–levels and continuous pressure on costs is going to be the norm, companies need to go beyond operational improvements to manage margin shocks. The do or die imperative is to continuously invest in serving customers better. Not only does this help retain customers, it is also key to preserving margins. As one CEO reflected "I have increased investments that we make, in looking for value addition opportunities for the customer. I stop or delay at my peril".

The need for continuous innovation as a route to customer value addition stood out in all our conversations. The key to success lies in investing to better understand consumer compromises and then to have a practical, rapid, and ruthless innovation process.

Invest in understanding customer compromises

Deeper consumer insight and innovative ideas is priority number one — especially in times of volatility when consumer discontent is amplified. Companies can coast along in a booming economy with less–than–perfect insight into consumer behavior because a rising tide lifts all boats. When forced to trim their spending, however, consumers will shun all but their favorites.

The key to innovation lies in creatively breaking critical customer compromises. This requires a deep, holistic and segmental understanding of the customer, which is backed up with the ability to generate insights. An FMCG player, for example, talked about their hair coloring product that dries significantly faster than the industry norm while delivering the same level of performance.

In developing markets, this consumer insight capability is difficult to build given the rapid demographic changes, extreme diversity, data availability limitations, and logistical challenges. In this adversity lies the opportunity for someone who chooses to invest!

Some companies have chosen to assign accountability for consumer insight. They have then taken simple steps to ensure engagement of the consumer insight team with the various functions — sales and marketing, R&D, supply chain, distribution, etc. The idea is to integrate the consumer insight process into the day–to–day operational fabric of the company.

Above all, there must be continuous reinforcement from the CEO on the importance of consumer insight. As one CEO says "I ask for one new idea on how to break customer compromises from everyone including the business head, in every meeting so that the organization understands the premium I place on innovation and customer value addition".

Build a practical, rapid, and ruthless innovation process

Prioritize, prioritize, and prioritize! While deeper consumer insight is vital to having a steady flow of innovative product ideas, equally important is applying a more ruthless prioritization lens to the idea pipeline. For example an FMCG company talks about working only on ideas that have a significant probability of winning customers ("sig win"), are fundamentally different from competition and demonstrate a clear path to profitability. "If an idea falls short on any of these three parameters it is back to the drawing board" says the CEO.

A key differentiator of success lies in achieving superior economics of experimentation. In other words building the capability to generate, test, and replicate a large number of innovative ideas more quickly, at lower cost, and with less risk than competitors.

While technology is a key lever, a network of partnerships can also help in experimentation at minimal risk. A CEO of a business–to–business company opined that the fluctuations in the macro–economic environment, offer a series of short–lived opportunity windows. He described his company's business strategy as akin to "jumping in and out of different windows of a slow–moving train". In order to rapidly and cost–effectively respond to emerging opportunities, his organization has established a network of product partners around the world.

Lego–ise Operations

With demand volatility characterizing the new normal, supply chains' flexibility to readjust production and costs rapidly is becoming a key driver for profit maximization.

Every CEO has talked about deploying the traditional supply chain toolkit for flexibility. Modular product design, deep supplier partnerships, deferred customization, shop floor automation, flexible labor, etc. are all standard levers. Flexibility, of course, needs to be built on the foundation of a lean and efficient supply chain.

The relevance of operational flexibility goes beyond traditional manufacturing companies. CEOs across the entire gamut of sectors from services to infrastructure to consumer goods have spoken about supply chain leanness and flexibility as a non–negotiable must–have.

What is important is to make sure that every lever in the toolkit is pushed to the maximum. As one CEO said, "In the good times, we focused on volumes to meet growth. Cost and efficiency did not get the full focus it deserved. Today we no longer have that luxury. I personally go down the list of supply chain levers to see that every drop of opportunity is being squeezed out".

Discover your Agility Gene

Slowness to sense and respond will push companies to obsolescence. The critical imperative is to embed agility into the organization's DNA. Companies need to work on many fronts to be able to do this, and as is the case with most organizational soft–engineering, discovering the agility gene is a complex task. At the bare minimum, this requires creating a constructive burning platform, rewriting the decision making fabric, and investing in people to nurture agility and responsiveness.

Create a constructive burning platform for change

Volatility and uncertainty in the external environment creates the right internal atmosphere for pushing through step changes. Many CEOs we spoke to have leveraged the new normal to galvanize their organizations to higher goals, question holy cows, and push their managers to take hard business calls.

However, the CEOs have also talked about the need to keep the mood positive within the organization at these times, more so considering the magnitude of negative news in all forms of media. The need to continuously communicate "the glass half–full message" right through the organization has been highlighted in many conversations. Celebrating small and big successes was quoted as a simple, yet very powerful lever by one of the CEOs towards creating a positive mood.

Shift to a new balance in decision making

We are seeing two major shifts in how decision rights are being parceled across organizational levels. The more routine day–to–day operational decisions are being pushed down the ranks to the frontline. The belief is that in a constantly changing environment, this improves the sense and response capability of the organization. In parallel, decisions on new and uncertain issues are being pushed up, to a smaller set of core people, with a belief that it improves speed and risk–taking capability.

A global IT services player, for instance, has increased the role and scope of the client account teams to serve client needs better. It has also created smaller new teams to work on future business ideas directly with the CEO. At the same time, take the example of a large infrastructure player, where the key investment decisions are centralized with a core set of senior people. This is also the case with an FMCG player wherein the CEO gets directly involved in new and uncertain decisions irrespective of the financial value, whereas the routine decisions of even large financial values have been pushed down.

For both these changes to be successful, the critical prerequisite is having capable 360–degree managers at all levels. As one CEO puts it, "I want empowered and capable profit owners across the organization".

Invest in people to nurture agility

To make the new decision making fabric a reality, people's mindsets and capabilities need to fall in line as well. And this change has to be universal — no one can be left behind.

Companies need to start by introspecting on the specific behavioral traits that would enhance agility in their business context. The three themes that stood out in our discussions were learning, entrepreneurship, and innovativeness.

Embedding these specific genetic traits into the company DNA takes time and requires systematic effort. Consider the range of efforts taken by an engineering services firm to build innovativeness. They started with a systematic program to recognize, celebrate, and reward. Over time, they recognized that structured training to build capabilities was important for sustainable results, and finally they leveraged the power of measurement. For example, the customer feedback forms explicitly ask for a view on each team's innovativeness.

Start Now!

"The world as we have created it, is a product of our thinking. It cannot be changed without changing our thinking."

— Albert Einstein

As is evident from above, an organization–wide action agenda is required to thrive in the new normal. What is required is a portfolio of initiatives ranging from tactical changes to strategic moves, and cultural shifts. If there is one golden rule, it is that "Thriving in a Volatile World" needs to be a top item on a CEO's agenda today. Every holy cow has to be questioned to avoid strategic drag, every avenue explored to create growth and margin possibilities, and there must always be a razor–sharp focus on execution to actually make it happen.

"Adapt or perish, now as ever, is nature's inexorable imperative."

— H. G. Wells

Measuring up to World–Class Standards

Ramesh Datla
Elico Limited

One of India's leading SMEs, Elico started as an analytical instruments manufacturing company in 1960, with its technology edge helping the company bag large mandates from the Indian government. While the going was steady — and comfortable — in the pre–liberalization era, the economic reforms of the 1990s brought increasing competition, forcing the Hyderabad–based entity to explore uncharted territories for survival. And thus came into being Elico's Information Technology–Enabled Services (ITES) subsidiary, catering to the health care sector.

An economic downturn, like the one that ensued after the 2008 global financial crisis, can break the back of smaller enterprises. Access to capital, talent and clients has always been challenging for SMEs — and more so, in the last 3 to 4 years.

In this discussion, Mr. Ramesh Datla, Chairman and Managing Director of Elico, talks about his company's total focus on technological expertise, as well as the need to keep innovating with value–added products and services to clients.

Excerpts from the conversation between Sachin Nandgaonkar, a Partner and Director of The Boston Consulting Group, and Mr. Datla:

How has the 'new normal' in terms of volatility and turbulence affected SMEs? How did you manage?

SMEs have faced and will continue to face tougher challenges than the larger companies. Even ignoring volatility pertaining to commodities, foreign exchange, etc. for a moment, the fact remains that the Indian market, across products and segments, is becoming highly competitive — with a whole range of players, including multinational majors, now entering the fray. To add to that, the global turbulence led to restructuring at quite a few of our partner companies abroad, who had to sever ties with Elico as part of their downsizing initiatives.

The challenge for SMEs is to evolve a sustainable business model while confronting challenges with regard to people, capital and volatility. I think SMEs will have to diversify their business mix, build world–class core capabilities and focus on value addition to customers.

How have you looked at diversification?

At the start of the last recession, Elico revisited its business portfolio. We first diversified across customer segments. 40 percent of our revenues used to come from government projects, most of these tender–oriented. Also, given the typical 6 to 9 month cycle for a government contract, most of our senior management was locked up in those engagements. Hence, the company took a conscious decision to restructure its client portfolio, in terms of reducing its exposure to the government and targeting new potential clients — both domestically, as well as overseas.

At an overall level, we focused on growing across all our 3 business segments — the Indian instrumentation business, the ITES medical transcription business (primarily catering to US clients), and the technology and engineering services business for competitors, which is linked to the R&D budgets of big, global players. These 3 distinct revenue streams helped us in mitigating risk to some extent.

How have you built and leveraged your core competencies?

To win as an SME in a competitive market, you need to have world–beating core capabilities which for us meant being world–class on technology. We have focused aggressively on strengthening our competencies in instrumentation especially via exposure to global markets through our customers abroad. We have not looked at global players as competitors but as a means to learn about technology by offering them services. These relationships have taught us a lot — exposing our engineers to best practices. We plan to increase the number of partnerships in India and abroad, and also establish our in–house R&D unit as a profit center rather than just being a cost center.

“We have created value of ‘40x’ despite not making much money”

You also need to look at the notion of enterprise ‘value’ beyond metrics such as sales, profit, etc. To repeat what I had said at a recent presentation — Elico has created a value of ‘40x’ during the past decade in spite of not making much money. We are focusing on leveraging our intellectual property (patents, design copyrights, etc.) to strike tie–ups with foreign companies. Elico plans to only enter into relationships where its IP is recognized.

How does Elico view value addition, with regard to its products and services, amidst the current volatility?

Value addition is absolutely vital for any technology company, including Elico, given the intensely competitive nature of this industry and the volatility in the world.

We have constantly strived to move to higher value–added products and services in order to be able to maintain our profit margins. For higher value–added products, higher–end technology is needed. In this regard our relationships with large competitors in the context of engineering services have been a significant enabler. About higher value–added services — an example is our ITES business, which having begun with transcription services for hospitals and physician practices abroad, has diversified into IT services and revenue cycle management in recent years. That has allowed Elico to escape from the commodity rut, while further strengthening its R&D.

How are you handling people challenges?

The biggest challenge Elico faces today is the task of ensuring the continuous development of the technical skills of its workforce. Also, most of our talent pool comprise of engineering graduates fresh out of college, who eventually want to migrate to the software sector — therefore, recruiting and retaining them has always been a challenge for us.

There is no easy answer. We have used a variety of means and continue to experiment in terms of different models. As a result, we have managed to retain a core group of technology enthusiasts over the years, enabling us to build and innovate new technologies.

SMEs are finding it difficult to raise capital now. How has Elico navigated this environment?

Like any typical SME, we initially relied solely on bank loans for our funding needs — be it for long term expansion, or for working capital, and so on. Given our comfortable relationships with banks, that route proved to be very convenient, and we fell into the trap of not exploring alternative avenues for financing. However, the slowdown in the domestic market since late 2008 has forced Elico to seriously consider other options beyond raising debt from banks.

For instance, we are hopeful that something positive with regard to the proposed SME Exchange, which has been a long while in the making, will materialize this year. If this bourse takes off, then SMEs across India will have a channel to tap capital markets for their funding needs.

What advice would you give to other leaders?

Irrespective of whether you are an SME or a large player, salvation lies in focusing on and being world–class in your core element of business — which happens to be technology for us. Also what is important especially as a technological company is to focus on building the intrinsic enterprise value of the company. You cannot sustain if you are not able to continuously create value.

Powering Growth with a Strong Brand

Jay Galla
Amara Raja Batteries Limited

One of India's leading manufacturers of storage batteries, Amara Raja Batteries Limited (ARBL) has been a true pioneer in its segment. Be it in technological innovations or supply chain practices, or human resources strategies — the 27–year–old company has led the way for its domestic peers in more ways than one.

All of this has helped Amara Raja successfully weather the recent global and domestic economic downturn, as underscored by the fact that it has grown to almost thrice its size in the last four years.

In this interview, Mr. Jay Galla, Managing Director of ARBL, shares his excitement about India's long term growth outlook, and talks about how ARBL navigated the global volatility of the last few years by diversifying into new products and geographies. He also emphasizes the need for Indian companies to create strong brands.

Excerpts from the conversation between Xavier Sebastian, a Principal at The Boston Consulting Group, and Mr. Jay Galla:

What's your take on the prevailing business uncertainty worldwide, especially in India?

Definitely, we are in "an age of turbulence", as Alan Greenspan would like to put it. Apart from the ongoing economic rebalancing and uncertainty in different parts of the world, political unrest in some countries is also impacting the overall situation.

However, I am confident that India, given the strong underlying domestic demand for different types of goods and services, will continue to grow at a fast pace. Having said that, India will go through ups and downs — driven by a combination of our own actions and international events — which means we would not be entirely insulated from the rest of the world.

You have achieved tremendous growth in the last 3 to 4 years. Has your approach to growth changed amidst the turbulent environment?

Yes, certainly. When the global economy collapsed, we — like a lot of people — definitely hit the pause button. We were not confident enough to continue at the same pace, without reassessing how the new environment would impact us. Amara Raja lost its pace of capacity expansion for about 12 to 18 months because of this, before we realized the need to get back on the growth path, and began investing again.

So, the turbulence did have a short term impact, in terms of the organization having to apply the brakes, and relook at the demand projections. It also made us more tentative with regard to expanding overseas — not only through exports, but also by means of expanding our geographic base. Now we are strongly looking at foreign markets again, but I would have been happier if we had made some of those moves by now.

Can you share examples of strategic initiatives taken by Amara Raja to manage risks in recent years?

We have consciously focused on diversifying our business portfolio, both across products and geographies.

On the product side, our industrial battery business had historically been very dependent on the telecom industry — telecom infrastructure, in particular — for its growth. Realizing the cyclical nature of demand from the telecom space, we decided to reduce our exposure there by improving sales from other sectors such as Uninterruptible Power Supply (UPS). Today, we are a market leader in the UPS segment which continues to grow.

The company has also focused aggressively on boosting exports in order to expand its geographic footprint across different parts of the world. For example, we continue to increase our export base in Africa, in order to lessen our reliance on one specific country. Exports now account for 25 percent of our overall turnover, and we are looking at redistributing exports geographically.

"We cannot survive without having a strong brand"

How do you deal with pressure on margins as a result of price volatility on the input side?

Since the cost of lead — the primary input commodity for our batteries — determines the prices of our end-products to a large extent, we have introduced "lead escalation clauses" in our contracts with customers to protect margins in the event of a large price fluctuation. These clauses, which are applicable for the retail market as well as for our B-to-B clients with long term contracts, ensure that final prices will be subject to the cost of lead, thereby giving us the much–needed flexibility.

Another area ARBL has looked at to take care of its profitability is with regard to sourcing lead. Instead of importing lead (as was the case earlier), we are now aggressively sourcing scrap lead, and recycling it. This has helped bring down our procurement costs. This is part of an overall industry–wide trend toward vertical integration, the aim being to try to delink oneself from the commodity pricing cycle, and exercise more control over lead supply.

What is the importance of branding in the Indian context? How have you created a very strong brand for your retail business?

Unlike the West, the Indian retail market is largely unorganized. Our major customers are the millions of small shop owners, who cannot attract footfalls based on the brand of their outlets, but instead need the help of a branded product.

This is where the need to have a strong brand assumes critical importance — especially in the automotive aftermarket. You, as a manufacturer, cannot survive in such a market without having a brand that will convince small, unbranded outlets to take your products that they feel can attract customers.

Keeping this in mind, ARBL has taken several steps to build a strong brand. We continue to make investments in this regard — our latest commercials for Amaron batteries being a case in point.

You spoke about the retail side. Can you tell us about what you have done on the B–to–B side, as far as value addition is concerned?

The B-to-B market continues to evolve, and ARBL has tried to keep up with that pace of change. For example, we have seen changing procurement patterns for batteries and electronics, as well as new trends for bundling in the telecom market — the game keeps changing every year in this sector. So we have tried, and succeeded to a large extent, in ensuring that our products remain the most relevant — and best option, in terms of performance — for our clients.

Also, with telecom tower companies now owning most of the industry's infrastructure, we see a growing trend of them preferring vendors who can supply high–quality products and deliver long term performance. This increasing emphasis on quality metrics (as opposed to the earlier trend of companies merely meeting specifications) will stand us in good stead.

Any suggestions for fellow CEOs in India?

Undoubtedly, the India growth story represents a tremendous opportunity for every business in the country. However, while the potential for us to capitalize on this growth in demand is huge, we need to make sure that we are going after it in a manner that we can manage. Don't bite off more than you can chew, even as you don't want to let opportunities go.

Opportunities for those who Plan and Execute Well

Adi Godrej
Godrej Industries Limited

Adi Godrej, one of the doyens of the Indian industry, has spear-headed the family–controlled Godrej Group for over decades now, overseeing the 115–year–old conglomerate's restructuring, diversification, and rapid expansion following India's economic liberalization in the 1990s.

Having modernized and systematized management structures and ushered in process improvements during the controlled economy era, Mr. Godrej orchestrated a ten–year restructuring of the Group once the economic reforms kicked in two decades ago. The completion of this initiative in the early part of the first decade of the 21st century saw each business affiliate become a stand–alone company with a chief executive officer from outside the Godrej family, marking the Group's transition from being a family–owned, family–managed entity to a family–controlled, professionally–managed enterprise.

And the results have been impressive; revenues have grown nearly nine–fold in the past decade and the Group's footprint has expanded to 20 countries.

In this interview, Mr. Godrej is "cautiously optimistic" but emphasizes the importance of planning and even more so execution, to capitalize on emerging growth opportunities, all this while accepting volatility as a given.

Excerpts from the conversation between Sachin Nandgaonkar, a Partner and Director of The Boston Consulting Group, and Mr. Adi Godrej:

Are we in a 'new normal'? Could you share your thoughts on this?

There is a definite change since the global financial crisis of 2008. Volatility has increased significantly in recent years — be it in terms of the prices of commodities, the stock markets, foreign exchange rates, etc.

Uncertainties in the developed world continue and this is unlikely to change in the near future. We have to take these as a given and work around them by developing mitigating strategies. That should not be too difficult.

So what you are saying is that companies should think about the robustness of their businesses in the backdrop of volatility as they formulate strategies?

Yes, absolutely. Given today's environment, people should stop five–year planning as it is quite difficult to predict things that far out. You can, at best, have a three–year roadmap which I think is the new long term planning cycle. And this must factor volatility.

But that doesn't mean you cannot have simple long term goals, as a general guideline. There should be enough levers for flexibility. In our case, we have a 10 by 10 strategy of growing to 10 times our present size in 10 years' time — translating into a compounded annual growth rate of 26 percent. And we hope to achieve that target through a combination of organic and inorganic growth.

How do you approach risk management?

Risk management is becoming more important today. And companies need to manage risks at multiple levels.

First, there is the obvious 'business risk', which was already part of the agenda for most corporates. However, the focus on this needs to be more refined now, considering the wider systemic volatility. For instance, capital–raising has become more challenging in the new environment, and should be paid a lot of attention to. You must raise capital "when you can", and not "when you must".

Managing "reputation risk" is another challenge that companies face now. How do you respond to sudden catastrophic events, for instance, the recent fire in a Kolkata hospital? While appropriate systems and processes to prevent such mishaps are obviously required, a company's ability to handle such events — as and when they occur — is also vital.

Furthermore, Indian companies need to manage different types of foreseen and unforeseen risks around the world, given that many of them have globalized rapidly in recent years. With overseas operations accounting for a significant proportion of their revenues, multinational corporations based out of India should factor in events like kidnappings, curfews, political uprisings, etc.

You are exposed to commodity price fluctuations. How have you managed this situation?

We cannot pass on the entire hike in input costs to our customers — the company is very clear on that. One can pass on some of the hit, but the rest has to be managed through continuous improvements in efficiency.

And we are trying to do so in two ways — first, by controlling our manufacturing costs, and secondly, by curbing selling costs (marketing, distribution, etc.). For manufacturing costs to come down, the relationships with vendors must improve. We are also adopting Japanese cost–cutting methods like TQM (Total Quality Management) and TPM (Total Productive Maintenance).

This is a continuous exercise, the aim being to ensure that costs keep coming down. So far, it has worked out pretty well for us, giving us the cushion to make our products competitive — thereby stimulating demand.

Trading up in consumer products has always been talked about. But in the last couple of years a new discussion on trading down has started. How do you see this debate in the Indian context?

India is a complex country, involving diverse demographics and geographies — it is more complex than even the European Union. One needs a differentiated approach to cater to India's diversity.

"Crucial to treat rural and urban opportunities differently"

Today, both trading up and trading down are happening in India. With a significant proportion of the population moving into the upper middle class bracket, the opportunities for trading up are growing.

At the same time, there is a very strong 'bottom of the pyramid' opportunity which is increasing as discretionary spending in rural areas has gone up rapidly. Demand that didn't exist earlier for certain products is coming into play. 10 or 20 years ago, most of our rural population earned enough to barely keep body and soul together. Now there is substantial discretionary income beyond what is required for basic living. But, the mindset of a typical rural consumer is different from that of his urban counterpart, in terms of product expectations.

So, it's crucial from a consumer company's standpoint to treat rural and urban opportunities differently. In fact, you should have two separate teams. Also, one should even be open to leveraging different strategic positions in these two different markets for the same product category. For instance, we are now positioning household insecticides, one of the biggest categories in our group, as "healthcare products" for the upwardly mobile consumer — in contrast to these being marketed as "mosquito nuisance products" for the rural populace.

Mr. Godrej, do you have any closing thoughts for people in similar volatile situations?

I think one should not be weighed down by the complexities and the changes in the global and domestic landscape, and the associated challenges. There are really strong opportunities for those who plan and execute well. Be it the government or the private sector — Indians, in general, are good in planning. It's execution that requires a much greater emphasis and effort.

Firewalling Against Volatility

S. Gopalakrishnan (Kris)
Infosys Limited

In August 2011, Kris Gopalakrishnan stepped down as the chief executive of Infosys following an eventful four–year stint. This period saw the company confront multiple challenges — the global economic downturn in the aftermath of the financial crisis, persisting market volatility, intense competition from domestic and international rivals, and soaring wage inflation across the industry — among others. However, Infosys, under Kris' leadership, managed to navigate these troubled waters.

In this interview, Kris stresses the importance of picking–up market signals rapidly and building flexibility into the system to manage risk and respond immediately. He also shares Infosys' approach to de–risking the business from a long term perspective.

Excerpts from the conversation between Navneet Vasishth, a Partner and Director of The Boston Consulting Group, and Mr. Kris Gopalakrishnan:

Kris, as you look back, how has volatility impacted Infosys? And more importantly do you see this as a one–time blip or is this the 'new normal'? How has Infosys responded?

During my four years as the CEO, we saw quite a bit of volatility. The collapse of Lehman Brothers on September 15, 2008 — which started the global financial crisis and the subsequent economic downturn — was a very sudden event. We found ourselves in an altered environment within a span of seven days.

I believe that this is a sign of things to come in the 21st century. We've had significant natural calamities, financial crises, events like the Arab Spring — each of these types of episodes will have repercussions for businesses.

Infosys has responded by laying a higher emphasis on cost flexibility, tighter risk management and accurate forecasting along with strategies for long term de–risking of the business portfolio.

Before the crisis Infosys was focussed on North America — in particular, financial services. The crisis therefore had a severe immediate impact. How did you navigate through this period of uncertainty?

With the world shifting eastward, we have chalked out a medium term to long term strategy to rebalance our portfolio. Currently, North America accounts for 63 percent of Infosys' revenues, with Europe and the rest of the world contributing 23 percent and 12–13 percent, respectively. Over a period of time, we are trying to move towards a 40–40–20 distribution.

We also decided to look at new verticals that are countercyclical to market moves, like health care, utilities and public services. These sectors don't grow fast but they also don't decline fast. We started examining alternative revenue streams such as intellectual property–related solutions and products. Plus, we have had to keep abreast of emerging trends like mobile computing and cloud technology.

But these are all long term strategies. In the short term it is critical to sharpen your forecasting abilities and make your cost structure flexible.

Can you talk about your risk management processes?

Risk management is something we built into the organization in early 2000. We have a risk council and a risk committee of the board — the former evaluates several parameters with regard to our largest customers and reports once in two weeks. We set a goal that no client should account for more than 10 percent of our revenue. We also looked at several other parameters, and articulated clear thresholds that would trigger corrective action.

The 2008 crisis forced us to further tighten the process. Given that the crisis originated in the financial services sector, which accounted for 35 percent of our revenues, we focused on individual clients across the vertical. We looked at credit default swap spreads (which indicate markets' assessment of a company's creditworthiness), as well as the impact of ongoing industry consolidation at that point of time. A review of the financial indicators of our customers was instituted. Based on this, the focus on 'accounts receivables' was targeted more sharply. This risk metric became the No. 1 priority during the downturn.

Having an established — robust but flexible — risk review process helped Infosys immensely in negotiating the downturn.

You talked about the ability to forecast as being key to risk management. How does this work? What have you done in this regard?

We follow a robust, bottom–up customer–wise forecasting process backed–up by strong validation systems. For example, following the Lehman episode in September 2008, we immediately went back to each of our clients to get a better feel of their future numbers. We toned down our revenue estimate further, erring on the side of caution — because experience shows that clients normally take some time to react to a situation.

Now, at the end of every quarter, we poll our clients and get their revised budget for IT spends. We then validate the inputs using estimates from our own client–facing people and projections from analysts — both financial and technology observers. All of this is combined to create a robust company forecast.

"Your organization must have very good listening capabilities"

You talked about building flexibility into the cost model. Can you elaborate on this?

Given that 60 percent of our costs are people–related, we have focused on making this cost base flexible by increasing the variable component of compensation by way of bonuses. We have also leveraged our systems and processes to help control spending better. For example, adding an extra approval step in the system for reimbursement of non–client related travel costs has brought down costs significantly without extra effort.

But it is important to track these market changes on a real–time basis and take real–time course–correcting steps. We revisit the budget every quarter and if need be revise it and take steps to cut costs. As a case in point, during a difficult period we took the decision to delay promotions and salary revisions.

However all of this cannot be achieved without taking care of the employees. You have to constantly engage your employees with effective and open communication. For example, to raise engagement levels we involved all our 100,000 workers by asking them to come up with suggestions for cutting costs. It is also vitally important to take visible and immediate positive steps when the situation improves. For instance, we went ahead with pay hikes before schedule to communicate a sense of optimism.

What advice would you give CEOs?

First and foremost, you must have very good listening capabilities to be able to gauge what really is happening in your marketplace. And this translates into your ability to forecast revenues, which is vital since revenue drives all other decision–making.

Secondly, CEOs must be thoroughly aware of their cost structure. If there is a 20 percent fall in revenue, the CEO should know beforehand where to cut costs in order to ensure minimum adverse impact on profitability.

A Prescription for Risk

Kiran Mazumdar–Shaw
Biocon Limited

Led by its inspirational founder–cum–chief Dr. Kiran Mazumdar–Shaw, Biocon, over the years, has evolved into a fully integrated biopharmaceutical entity with a diversified business portfolio of products and research services spanning the entire drug value chain.

A first–generation entrepreneur, Dr. Mazumdar–Shaw oversaw Biocon's rapid expansion over the past decade. She ramped up Biocon's presence in emerging and developed markets through strategic takeovers, alliances and in–licensing. In the meantime, she took Biocon public in a landmark initial public offering in 2004. Today, Biocon employs over 6,000 workers, with its revenue having almost tripled during the four years, ending March 2011.

In this interview, Dr. Mazumdar–Shaw shares her bullishness — and concerns — on the growth opportunity for Indian pharmaceutical and biopharmaceutical companies amidst the volatile global economic environment. She also talks about how Biocon has diversified its business portfolio across several products and services, in order to survive and prosper in an inherently risky industry.

Excerpts from the conversation between Sachin Nandgaonkar, a Partner and Director of The Boston Consulting Group, and Dr. Kiran Mazumdar–Shaw:

There is a lot of discussion about the world becoming volatile and this being the 'new normal'. What is your perspective? Also, is this a time of opportunity for the Indian pharmaceutical industry?

I think the current environment — where health care systems across the world need affordable drugs — offers a huge opportunity for Indian pharmaceutical and biopharmaceutical companies, considering that we as a nation are the largest manufacturing base for quality, yet, low–cost drugs.

In the area of biopharma and pharma manufacturing, there is a natural business opportunity to be tapped into, amidst growing global recognition of India's potential as an attractive investment destination for manufacturing.

Indian pharma players can also capitalize on the huge opportunity thrown up in the area of research services, as global industry majors continue to carry out extensive cutbacks with regard to their research–and–development budgets.

So, all in all, I do believe we have a great opportunity at hand.

Yours is an inherently risky business and the current uncertainties would only have increased your risk exposure. How have you managed risks at a strategic level in recent years, in terms of diversifying your business portfolio?

Initially, Biocon looked at risk management at a very generic level and we got some rude shocks during the crisis because of that approach. Since then, we have looked at our businesses carefully and identified high–risk areas, and formulated appropriate mitigating strategies.

Today, Biocon looks at a whole range of variables — financial (e.g. foreign exchange), regulation, overall business outlook, and political environment — when it comes to managing risks, and the associated volatility.

At a strategic level, we have balanced our business portfolio between products and services. For products, the company has tried to diversify its revenue base across generics, biosimilars, and novel programs — and now, branded formulations.

So if one identifies the potential risks, and then systematically tracks and manages those factors, I believe companies can still come up with a comprehensive five–year business plan.

One important risk, in particular, is the risk of commoditization. How do you deal with it?

The Indian pharma sector has to move beyond merely leveraging its cost arbitrage to harnessing value arbitrage. You have to use the cost base to deliver value. This is the model for achieving a sustained growth trajectory amidst rapid commoditization.

Keeping this in mind, Biocon has restructured its diversified portfolio. In fact, on the services front, we have switched from fee–for–services model to a value–added risk sharing model, as far as partnerships with other companies are concerned. This helps manage the risk of commoditization.

We are also moving across the product value chain from back–end to front–end — from APIs (Active Pharmaceutical Ingredients) and bulk drugs to front–ended commercialization strategies such as branded formulations and dossiers.

How about the operational side of risk management?

Since we are a global company, we are exposed to multiple currencies — and their underlying volatility. A few years ago, Biocon incurred a huge mark–to–market loss on account of a currency exposure, making us realize that we are not in the speculation business.

“You have to go beyond cost advantage to deliver value”

So we began adopting a much more cautious approach with regard to treasury risk management, and exposed ourselves to a basket of currencies. Plus, Biocon switched from a pure hedging strategy to a more insurance–based currency protection policy, thus reducing its vulnerability.

Besides the currency factor, one also has to be aware of risks associated with innovation and commercialization. And in order to be able to manage these risks, partnerships — based on the right business models — are extremely important. On the commercialization front, we work with several regional and large pharma companies. To share the risks of innovation, Biocon has struck alliances with small, midsized and large pharma players.

What are the external factors that could throw a spanner in the works, as far as the Indian pharma sector is concerned? Any thoughts on the challenges that India, as a country, faces in this period of turbulence?

We need to watch out for a couple of significant risk factors. First, other developing countries are eying the emerging opportunities in the health care industry, with South Korea, for example, looking at the pharma, and particularly the biopharma, segments very aggressively. Similarly, China is targeting research services in a big way.

Apart from increasing competition from international peers, Indian pharma companies continue to grapple with a plethora of local challenges — be it in terms of poor infrastructure, paucity of skilled manpower, or the policy framework. Protracted timelines for project approvals and lack of adequate specialized talent are slowing down the industry’s growth rate significantly. So, from a strategic point of view, India has to ensure that the interest levels — from global industry players — are translated into actual investments on the ground.

Implementation of policy — and in a time–bound manner, at that — is essential. More political will needs to be demonstrated to achieve this objective. Also, authorities must remove the existing uncertainties with regard to investment rules. Frequent flip–flops on this front can really dampen investor confidence.

Breaking Conventional Wisdom to Outperform

Lakshmi Narayanan
Cognizant

The global financial crisis of 2008 forced many leading information technology services companies across the world — including in India — to recalibrate. Most industry players in India turned cautious during this period. But Cognizant stood out in this turbulent period, continuously outperforming its peers and boosting its market share. In the past five years Cognizant has grown to more than four times its size.

In this interview, Mr. Lakshmi Narayanan, a founding member and Vice–Chairman of the 18–year–old company, talks about how Cognizant successfully mitigated various business risks. The industry veteran, who previously served as chief executive of the NASDAQ–listed IT giant, also shares his thoughts on the ongoing evolution of the organization's corporate governance framework, as it seeks to cultivate an entrepreneurial mindset among employees for sustained growth in the new normal.

Excerpts from the conversation between Navneet Vasishth, a Partner and Director of The Boston Consulting Group, and Mr. Lakshmi Narayanan:

How has Cognizant managed to sustain benchmark growth in a sector that has grappled with persisting global economic and political volatility in the last three to four years?

For Cognizant, growth is a passion, and that is what drives us as a company. Technology being an inherently volatile field, we are better positioned — as compared with enterprises in other sectors — to deal with volatility. However, the turbulence during the last three to four years has been unsettling.

We adopted a three–pronged strategy to navigate these challenges and sustain growth. First, we internalized some of the external risk factors, and took control of them. For example, during the crisis, we stuck with our existing customers in the financial sector — assuring them of our support on a long term basis, irrespective of their ability to pay in the short term. Similarly, we doubled our investments in the health care sector (one of our core verticals) despite prevailing uncertainties.

Secondly, Cognizant decided to deal with protectionism by actively cooperating with clients. We agreed to the demands of some clients to reduce outsourcing, and partnered with them to recruit and work with local people. Also, in order to take care of the risk to free movement of our workforce across the globe, we spent more than USD 40 million on ramping up teleconferencing facilities across the organization — thereby facilitating real–time operations and communication, both internally and externally.

Finally, to stay ahead of the curve with regard to technology volatility that will impact all businesses — including the IT industry — we decided to invest disproportionately in what we call "Horizon 3" opportunities. One of the key focus areas in this regard has been the trend of virtualization, which is likely to keep growing at a breakneck speed. Cognizant also launched a "Future of Work" program — a model that seeks to promote integrated thinking about emerging technologies, social media, globalization, and the millennial worker (young professionals aged 18 to 35 years). This initiative is an attempt to understand the technology aspirations (for example: the smartphone phenomenon) of the millennial generation — both as employees in the company and customers — since their demands are driving transformation in several industries such as automotive, retail and health care.

How do you view governance in the context of positioning the organization for future growth amidst the ongoing volatility?

Firstly and most importantly, a lot more development has been happening in a non–traditional manner — not on the enterprise side, but on the consumer side. This, coupled with the volatile environment, has meant that we have to have a larger number of small teams working independently in an entrepreneurial structure. We are allocating funds over the next 3 to 5 years to foster a culture of entrepreneurship across Cognizant so that prospective business ideas coming up within the organization will be backed by angel investing and venture capital.

“We have many small teams working entrepreneurially”

At the same time, we are aware of the potential unknown risks that we might encounter if such small teams acted independently and too aggressively to deliver growth. Hence, we have restructured our management, with some of our senior leaders being reassigned to focus on the newer Horizon 3 opportunities. Our CEO spends a greater amount of time on these new initiatives, working with smaller teams, teaching and mentoring them. So from a governance point of view, one needs to strike a balance between retaining and promoting the entrepreneurial structure, yet ensuring a certain degree of oversight.

However, any organizational change has to be built on a strong foundation of values, in our case — transparency, integrity and empowerment. With a fast growing young workforce, we are now faced with a huge challenge of retaining our culture. While continuous efforts are on, a clear answer has proved elusive.

What has Cognizant’s approach been towards dealing with the supply–side issues, especially related to the government?

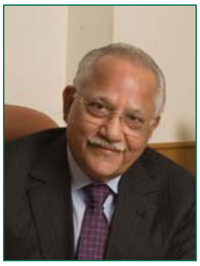
Our “effort and time spend” on external factors, especially with regard to the government, is something that has increased over the last few years. Cognizant decided to take control of these issues, and not be too exposed to external factors. For instance, we have sought to diversify the vendor base to meet our power requirements, and thus make sure that the risk of depending on a single supplier of power is minimized.

Likewise, we have recognized that there is no policy certainty as far as availability of land is concerned. So for our expansion programs, we are not too bent on owning huge pockets of land. We employ a strategy of buying just enough land for expansion and focus on leasing the rest. Also, we usually avoid seeking the government’s help to acquire land, and typically procure the bulk of land through private parties, paying market prices.

Finally, on the issue of taxation for the IT sector, there has been quite a bit of volatility in policy–making. We cannot do much about it, of course, but all we are asking for is long term stability with regard to tax policy.

Sustaining Passion Across the Organization

Prathap C. Reddy
Apollo Hospitals



Since its establishment in 1983 by its inspirational founder Dr. Prathap C. Reddy, Apollo Hospitals has continued to set the benchmark for the Indian healthcare industry. Pioneering the concept of corporate hospitals in the country, the Chennai-based private healthcare provider revolutionized the treatment of complex transplant surgeries — liver, kidney, heart, bone marrow, etc. — and that too, at an affordable cost.

Over the years, Apollo Hospitals has evolved from its signature offering of tertiary care hospitals in big cities to setting up clinics in the primary care space, and of late, foraying into smaller towns through low-cost, low-charge multi-specialty hospitals dubbed the Apollo Reach.

In this interview, Dr. Reddy, Executive Chairman of Apollo Hospitals, shares his views on the sector's growth outlook — and associated challenges. The 78-year-old cardiologist-cum-entrepreneur emphasizes technology and process-related innovation combined with passionate staff as the route to global competitiveness.

Excerpts from the conversation between Samir Agrawal, a Principal at The Boston Consulting Group, and Dr. Reddy:

What is your outlook for the Indian healthcare industry?

The opportunities are huge. Take the demand-supply imbalance in India. Currently, India provides one bed per 1,000 people, as compared with a 1:250 ratio in the United States and a 1:80 ratio in Japan. To put this in context, guidelines issued by the World Health Organization recommend an ideal ratio of 1:300. To fill this gap, India will need to add 100,000 beds annually over the next decade.

In addition, more and more foreign patients are realizing that care and compassion are the core — and unique — traits of Indian hospitals, something which continues to drive the surge in the number of patients coming from abroad. And this trend is only likely to accelerate. I strongly believe that India has the potential to become the global healthcare hub ten years from now, and that the industry can do what information technology did for the nation.

But the challenges are daunting. A big area of concern is the lack of adequate number of human resources. We have to more than double the number of doctors. The number of nurses needs to be tripled — and more importantly, the number of paramedics has to be quadrupled. In addition, investment requirements are daunting. We estimate that INR 60,000 crores is required every year.

Therefore, for the long term growth of the healthcare sector in India, it's really crucial for all stakeholders — private operators, industry associations, and the government — to work together. Also, the government needs to incentivize financial institutions to offer us long term financing — considering the fact that ours is an industry with long gestation periods.

If we can achieve these two goals, India can truly become the global leader in healthcare in this century.

How can private players capitalize on these opportunities?

The healthcare infrastructure offered by private sector operators in India today is excellent, and can match up to global standards. Even though we were the pioneers, a number of our peers — Fortis, Max, Escorts, etc. — also deserve credit for having contributed significantly towards elevating the level of private healthcare in the country.

"We need to excite people with our vision"

The growth of the domestic industry in the last 15 to 20 years has been underpinned by three factors — cost advantage, best-in-class quality, and compassionate care. We, along with several of our prominent peers, have ensured that patients receive treatment at affordable prices without compromising on the world-class quality of service.

To be able to do so, we have put a lot of emphasis on technology, processes — with an emphasis on continuous reengineering of our workflows — and finally people.

You talked about the importance of technology and process to gain competitive advantage. Can you elaborate?

The biggest risk in healthcare comes from cutting corners in order to reduce your costs. To remain cost competitive without taking undue risks, Apollo has continued to focus intensively on innovation in technology and processes, taking into account the unique requirements and constraints of the Indian market.

For example, our innovative techniques in the field of coronary bypass surgery has helped us to become cost efficient. Similarly, checklists are prepared across our group for different types of diseases and their treatment procedures to achieve standardization of care.

We have also used technology platforms such as 2G, 3G, and broadband connectivity to reach out to our patients, almost on a continuous basis — particularly for several of our campaigns, such as the "billion hearts" and "quit smoking" initiatives. Even before the advent of fast connectivity in India, Apollo Hospitals invested in technology. For instance, we bought a CT scan machine much earlier than others, and since then we have developed the confidence to handle all kinds of complex technology.

How have you looked at planning amidst the current business environment to stay ahead of the curve?

Planning is continuously required, for two reasons: one, to protect your market leadership and two, to attain long–term strategic goals.

Keeping this in mind, we launched a "Rocket-14" initiative to improve efficiencies and asset utilization across our hospitals. By 2014, we hope to add 10 to 15 new hospitals, increase the number of operational beds by 30 percent, and boost cash flows from the current 15 percent to almost 23 percent.

Also, we have identified six disciplines — pediatric sciences, neurosciences, cancer, orthopedics, emergency, and critical care — as key focus areas. In each of these segments, we are bringing out clear guidelines in terms of how to manage diseases, and how to rework the entire gamut of processes so that clinical outcomes will have a very significant difference — and will deliver more value to our patients.

Employee engagement is key to your business, given the multiplicity of touch-points with patients and their families. Can you talk about this?

Contrary to common perception, increased automation, in fact, reinforces the need for skilled human resources in healthcare. After all, you need people to operate and manage advanced machines and tools. Hence retaining talent is extremely crucial.

As far as Apollo Hospitals is concerned, we constantly strive to ensure that our people are excited about our vision. For instance, for our "Rocket-14" initiative to be successful, the "can do" spirit of this exercise has to permeate right across the organization.

Finally, you have to make everyone feel important about their respective roles. A ward boy is not merely pushing a stretcher, but actually saving a life. Similarly, our engineers do not just ensure that hot water comes out — rather, their role is critical towards enabling smooth functioning of the hospital.

Laying the Foundation to Weather all Storms

G. V. Sanjay Reddy
GVK Power & Infrastructure Limited

GVK Group, the eponymous conglomerate founded and spearheaded by Dr. G V Krishna Reddy has been one of the pioneers in the infrastructure space. The company has taken giant strides in recent years, creating assets in toll roads, ports, and rail, and also foraying into the domestic aviation sector. Lately, GVK has also diversified into energy and resources. The firm is also eying other verticals including realty, bio–sciences and hospitality.

In this discussion, Mr. G V Sanjay Reddy, the Vice–Chairman of GVK Power and Infrastructure Limited, one of the principal subsidiaries of the GVK Group, talks about how his company and the parent entity are calibrating their approach towards risk management — both in the short term and long term — amidst persisting global and domestic uncertainty.

Excerpts from the conversation between Sachin Nandgaonkar, a Partner and Director of The Boston Consulting Group, and Mr. Sanjay Reddy:

There has been a lot of talk in the past three to four years on the global economic volatility and uncertainty. How has this 'new normal' affected GVK?

The entire notion of the 'new normal' is still evolving; it's not yet final. However, it is clear that developing nations will drive economic expansion in the twenty–first century, a trend that is likely to present us with great opportunities for expanding our business.

The 'new normal' environment, following the 2008 global financial crisis, has brought to the fore the opportunities in India and helped us recognize them. Considering that our country is set for a multi–decade–long period of rapid economic growth, there will be massive demand for capacity increase in infrastructure, energy and transport — all areas of core interest to GVK. Therefore, we are positioning ourselves accordingly in order to capitalize on the India growth story.

However increased volatility and uncertainty has also exposed us to higher levels of risk especially given the nature of the businesses that we are in.

How has GVK's approach to risk management changed?

Previously, we had this cowboy attitude toward managing risks, based on the confidence that we can, and will, tackle any problems that might arise down the road. But the regulatory and policy uncertainty of the current environment has made us switch to an objective approach. There is now a lot of emphasis across GVK's verticals on planning extensively, and watching out for potential roadblocks early on.

Let me give you an example of how we have changed as a company. One of our power projects has constantly been affected by uncertain fuel supply. Once we started getting the full quota of fuel in 2009 — we decided to scale up the project at a cost of INR 6000 crores. INR 300 crores into the expansion, the fuel supplies started to dwindle again. It was a highly uncertain time. We had to take a call on whether we should pull the plug or not. Maybe 3 to 4 years ago we would have gone ahead — not worrying much and hoping that all will turn out well. But last January, we called off the expansion till we were certain of fuel supply. And that decision has really held us in good stead, considering that the entire fuel situation is grimmer today than it was 12 months ago.

How have you de–risked your business portfolio?

Firstly, while the opportunity in India is huge, we have looked to de–risk by exploring other geographies. For example we undertook two major initiatives last year. GVK has taken up a couple of greenfield airport projects in Indonesia — one in Bali, and the other in Jakarta. We believe that the Indonesian economy is today at a stage where India was 10 to 15 years ago, and so, we have decided to focus on this market. This will give us a foothold to expand into other geographies.

“Negative mood serves as a catalyst for transformation”

Secondly the company has forayed into the resources business for de–risking, which is likely to become a huge opportunity over the long term — even a small change in the consumption patterns will impact resources heavily. Energy resources, for instance, can mitigate fuel–supply risks for our power generation business — especially given that we have a lack of certainty of fuel supply in India.

Here we have looked at two spaces — oil and gas and coal. We have secured rights to explore 35,000 square kilometers across the west coast of India for oil and gas, with BHP Billiton serving as our partner. This project should yield returns over a 5 to 10 year time frame. In coal, GVK last year acquired Hancock Coal and Infrastructure Projects in Australia, which includes a USD 1.25 billion greenfield coal mine — one of the largest in the world, with about 8 billion tonnes of coal reserves — plus infrastructure involving a 500 km railway line and a 75 million tonne port. The total estimated investment for this project is USD 10 billion, the largest investment abroad by an Indian firm to date.

How have you aligned your leadership to the new normal?

Today’s uncertain business environment requires corporate leaders to embrace a different mindset, compared to the pre–crisis era.

In the last two years, we therefore hired an external agency to restructure our leadership completely, help us rethink the firm from ground–up and make ourselves more future–ready. Internal reorganization and leadership building are going to be key focus areas for us over the next 18 months.

Even as this restructuring goes on, we have adopted a two–pronged approach towards leadership hierarchy in order to ensure business continuity. There is an ‘execution group’ at GVK, which takes care of basic day–to–day execution of projects and other operational aspects. And then, we have a small, core group that looks at key strategic decisions such as deciding whether to explore new business opportunities. These are the people who interact with each other almost on a daily basis. The mindset and the thinking are aligned in this group. This helps us in taking critical business decisions.

Any final thoughts on how one should navigate this environment?

You need to maintain a positive mood within the organization. Communicating that we are in the right place at the right time poised to rebuild ourselves is very important. However, a negative environment, sometimes, can be advantageous — it forces you to think outside the box and makes you flexible. Negative mood serves as a catalyst for transformation. So, we should strike a balance between projecting a positive mood and using the negative climate to activate changes.

One of the good things about Indian companies is that we thrive in chaos, and are not scared easily by setbacks and challenges. I believe that there is always opportunity in adversity. We must focus on this opportunity — internal and external — without losing sight of the need to address adversities.

Establishing India in the Global Network

B. Santhanam
Saint–Gobain Glass India Limited

A year after launching its Indian operations in 1996, Saint–Gobain hired Mr. B. Santhanam as Managing Director of its local subsidiary to mastermind the unit's expansion. Over the last 15 years, Saint–Gobain Glass India, with Mr. Santhanam at the helm, has grown rapidly — through organic and inorganic means — to become a major player in industries such as glass, ceramics and concrete.

Mr. Santhanam's efforts didn't go unnoticed at the parent company's headquarters back in France. In January 2009 he was also made President of Flat Glass, South Asia and Egypt of Saint–Gobain Glass.

In this interview, Mr. Santhanam delves into how the CEO of the Indian operations of any MNC should balance the global and domestic ecosystems to achieve systematic growth.

Excerpts from the conversation between Sachin Nandgaonkar, a Partner and Director of The Boston Consulting Group, and Mr. B. Santhanam:

There is a prevailing belief that multinational corporations, amidst the current global turbulence, tend to apply one broad brush stroke to their operations across geographies — when it comes to cutting costs, freezing recruitment and investment — rather than taking a segmented view. How did you handle this?

Fortunately, Saint–Gobain has always had a fairly segmented view of the world. Even before the 2008 global financial crisis, we recognized India as a growth market, a market where Saint–Gobain can have profitable and sustainable growth over the long term.

However, there are a few lessons that I learnt on the way. I think that for any MNC, the early phase involving a major greenfield investment in a new geography is crucial for gaining credibility on two key aspects — performance and people. Getting operational performance parameters (yields, cost levels, etc.) right is most important, as this can be a major attention grabber for the global senior management.

And since the middle management actually runs the whole show, CEOs must expose their mid–level leaders to corporate management. For instance, say a company, at a strategic level, has decided to make an investment, but is yet to zero in on the geography as it weighs the pros and cons of various locations in Latin America, Eastern Europe, India, China, etc. The clinching factor here will be the comfort level, the firm has in terms of execution — and that is where the multiplicity of connections through your middle management helps.

So we actively connect our middle management to the international guys (marketing, finance, etc.) to project a clear view of the Indian operations.

Could you elaborate on how to create connections between your middle management and global headquarters?

The most important thing is super transparency — if you want the backing of your international team, you cannot selectively present facts. Because, the reality is that all plans will not work well. Therefore, one cannot just project a 'goody–goody' image.

We see to it that every middle– or senior–level executive visiting Saint–Gobain India from overseas gets open and complete access — they just don't sit with me, and are not selectively taken on a guided tour. Presentations are made on the shop floor and in customer premises, rather than in boardrooms. This brings solid credibility to the middle management.

Moreover, we have institutionalized an employee–exchange program across the company's worldwide operations — allowing our staff to be trained abroad and learn best practices. Finally, we fiercely compete for benchmarks with group companies. For example, Saint–Gobain India won the award for world–class excellence in manufacturing and marketing.

"We fiercely compete to set benchmarks within the global group"

How do you achieve the balance between following global guidelines strictly and striking out on an independent path?

For most multinational CEOs, I feel there is a rigid code of conduct imposed on how to interact with the broader ecosystem. While this type of approach is good in many ways with regard to cutting down risks, the need in India is different. India is changing rapidly, and it's important for us to play an active role in shaping the direction in which things are going. So CEOs of MNCs should figure out the role they can play in shaping the ecosystem.

For example, Saint–Gobain India works very closely with the chamber of commerce, as well as with the regulators. We began working with the Bureau of Energy Efficiency as we saw energy as a very important issue and today, we are their knowledge partners in training the regulators on energy efficiency. We also work with TERI for sustainable housing, design, and a variety of other initiatives.

Hence I feel that an MNC CEO must be able to explain to the head office that global guidelines cannot always be enforced — he must move out in the public space, and engage with the ecosystem.

How have you managed the imbalance resulting from the large volatility on the input side (commodity, inflation, foreign exchange exposure) and the sticky nature of prices on the customer side?

First of all, our price premium of 4 to 6 percent provides us with a good cushion. In addition, we also realized the need for cost rationalization in 2008, following which Saint–Gobain India carried out a large–scale efficiency drive with regard to its manufacturing and logistics operations. In the last four years, we have managed to cut our manufacturing overheads by 10 percent, helping us absorb some of the input–side inflation. However, cost–reduction can only take you up to a point.

The real long term solution lies in value addition via new products and ideas, resulting from innovation. So we have constantly explored ideas for advanced products in green buildings, special products for fire safety, and this strong technological and intellectual property has helped us to make a significant margin in these areas. Take another example — we backed solar control products in India when this niche had negligible market share. And today, this segment has grown to 10 percent of the overall market, with Saint–Gobain India having a 60 percent share. It is a good situation to be in because this segment is reasonably margin–rich as it is driven by application engineering and technology.

Any final thoughts that you would like to share?

CEOs love cost–reduction exercises due to their underlying certainty. Expanding revenues is a much more involved process in terms of seeing where the discontinuity is, and hence identifying new business opportunities. But it is much more rewarding! So it's vital for CEOs to invest a lot externally because that's where a lot of the ideas are going to come from.

Engineered for Durable Competitive Advantage

R. Seshasayee
Ashok Leyland Limited

Ashok Leyland is one of the few Indian companies to have registered uninterrupted growth since its inception, way back in 1948. This record continued even during the global and domestic volatility of the last 3 to 4 years. In fact, a look at the history of this Chennai–headquartered commercial vehicle major shows that it typically boosted its market share during market downturns.

Ashok Leyland has achieved this feat by prudently managing its financial risks — deliberately avoiding headline–grabbing acquisitions, and opting for fairly steady growth — as well as by creating a balanced business portfolio. The company's conscious decision to focus on less volatile segments (e.g. buses, defense, power solutions, etc.), coupled with its strong brand value in terms of reliability and product strength, have stood it in good stead across business cycles.

In this interview, Mr. R. Seshasayee, the Executive Vice–Chairman of Ashok Leyland, talks about how his firm has navigated the volatile environment in recent times by diversifying its geographic footprint, focusing aggressively on building technological competence, and managing relationships with key suppliers. The former president of the Confederation of Indian Industry also stresses the need for organizations to regularly pick up signals from the market to calibrate their long term planning.

Excerpts from the conversation between Sachin Nandgaonkar, a Partner and Director of The Boston Consulting Group, and Mr. R. Seshasayee:

Does the global economic and political volatility over the last 3 to 4 years represent a 'new normal'?

I am not sure whether this constitutes the "new normal". The world has certainly changed, and will keep changing. What's very unusual, though, is the fact that the amplitude of change — with regard to volatility — is going to be significant in every aspect going forward, be it in terms of markets, interest rates, availability and pricing of commodities, foreign exchange, etc.

Therefore, the big challenge for every enterprise will be not merely to predict this change, but to manage it. Whether we call it the "new normal" or a "new abnormal", we still have to be prepared for it.

What have you done to achieve uninterrupted growth in times of volatility?

Recognizing the new environment, we have rethought our businesses, and built them around four strong pillars, to ensure sustained growth and continued viability.

First and foremost, the company has invested heavily in new product development, to be able to come up with more reliable, value–for–money, fuel–efficient products based on competitive — yet, cutting edge technology. Today we have a technology center that is benchmarked against global best practices. Plus, we have reduced our dependence in recent years on others, like OEMs (Original Equipment Manufacturers) for technology.

Another focus area for the organization has been to position itself as a top–quality employer, in order to attract globally competitive young talent, given the intense competition in India for limited human resources from international rivals in the West and China. Keeping this in mind, we have undertaken a series of initiatives to boost our profile as a respected and admired employer.

Thirdly, we also realized the need to build scale to gain leverage with our best suppliers. Therefore, apart from striving to bolster our share in existing products, we consciously tried to enlarge our product range in the last few years by diversifying into light commercial vehicles (LCVs), expanding our defense product portfolio, and forming joint ventures with global majors for construction equipment.

"Supplier inability to deal with volatility can be the weakest link"

The final pillar of our risk management framework has been to expand overseas to become a global player, and we have done this through several acquisitions, including the recent one of a bus company in the UK. The rationale for the international expansion was simple — we need to hedge our product portfolio by being present across both the ends of the spectrum — high–tech products appealing to certain parts of the global market, as well as more frugal products catering to other segments. And, this is still a work in progress.

Can you share your thoughts on the importance of supplier relationships to build an agile supply chain?

The once–fashionable concept of having your own dedicated ancillary estate with exclusive suppliers is, I believe, outdated. While some Indian companies, particularly a few non–auto public sector undertakings adopted such an approach in the 1970s and 1980s, we decided very early on in our history that this was not a good business model.

We have deliberately encouraged our suppliers to diversify their client base, and build their businesses on a countercyclical basis by catering to other segments such as tractors and cars, so that they are not completely reliant on us. While developing our supplier base, we go in for those suppliers who have the managerial and financial expertise to manage crises. Otherwise, the inability of your supplier to deal with volatility can form the weakest link in the chain, and bring you down.

While there is a lot of talk about the importance of not planning too far ahead (say, over a 5 to 7 year horizon) given the current turbulence, industries such as yours have to do precisely that. What have you done to be able to take long term calls?

We continuously focus on increasing our competitiveness, with regard to both technology and cost, in order to deliver value. We invest to retain this competitive edge, regardless of market events and changes. This is a differentiating factor for us.

However we have the advantage of being in a growing industry (driven by the overall India growth story) — expanding every year, albeit, at a sinusoidal and not linear, rate. India's strong fundamentals allow us to take long term calls on investments and product development. So even if we are wrong in the first two years, we would be right in the next two.

Even then we have taken steps to facilitate long term decision making. We have tended to be modular in our investment approach, picking up signals from the market, and calibrating our strategy accordingly. For example, we keep a tab on freight rates, frequently ask clients for turnaround time, and query finance companies for potential delay in repayment. So, even as we take a long term 5 to 7 year view, we are very alert to the straws in the wind, in order to stay ahead of the curve.

How have you managed the mood of employees in these uncertain times?

I have tried to create a theoretical construct around this interesting issue of how to manage the mood of the workforce — but have given up. What I have realized is that there is no one standard solution to this challenge.

At times, it is important for you to exploit the burning platform to drive the company to another level. For instance, during past downturns, I have grabbed that opportunity to capitalize on the burning platform. In fact, sometimes I crave for a downward cycle for the opportunity it presents! Yet, it is also necessary to motivate people in terms of opportunities. So, one has got to strike the right balance between these two aspects.

As a leader, you have to very carefully judge the mood of the company at a given time, and calibrate your actions to realize your goals.

Agility Through Continuous Learning

Anand Sudarshan
Manipal Global Education Services

Over the next decade, the education space in India is likely to grow exponentially. One of the players poised to capitalize on this opportunity is the India–based Manipal Global Education (MaGE), which has rapidly expanded in recent years to establish a global footprint. Be it distance education, professional and skill development courses, online education, or testing and skill assessment services — MaGE has a diversified business portfolio that has helped it navigate the turbulence and volatility of the last 3 to 4 years.

In this interview, Mr. Anand Sudarshan, Managing Director and Chief Executive of the Bangalore–based firm, shares his excitement about emerging global opportunities for his company. Mr. Sudarshan also emphasizes the need for organizations to foster a culture of learning across the board, as well as the importance of being agile when it comes to strategy and execution.

Excerpts from the conversation between Xavier Sebastian, a Principal at The Boston Consulting Group, and Mr. Anand Sudarshan:

You have described the present scenario as exciting. What do you see as exciting, and what are the new opportunities?

Successful organizations have created opportunities in any given situation. Opportunities get created when there is a possibility of change. To use a metaphor, when you till the land before planting the seeds, you are kind of churning everything over. And that churn and movement actually creates the opportunity for something new to grow and come up.

Today, the market is offering exciting opportunities for people with imagination and courage to take risks and create something new — be it through exceptionally disruptive methods, or more gradual mechanisms. That is why it is exciting for me. Specifically for us, we see opportunities wherever there are young people aspiring to learn, educate themselves, and therefore, through that process, create a new future for themselves.

India is among the world's largest nations with the youngest population and several decades of economic growth ahead of it. And that growth is going to be fueled by the energy of the youth — hence, India is very exciting. By the same token, there are many parts of the world — including parts of the developed world — that are exciting. Of course, developing markets such as Indonesia and Africa offer huge potential. Even advanced nations like the US — the world's third most populous country with a reasonably large young population — look pretty attractive to us.

What do you think would be the key differentiators of a company that is enabled to successfully navigate the new normal?

While standard measures of success such as execution, focus, the need to be defined by outcome, the importance of investing in people, etc. remain valid, let me talk about three hitherto less focused–on factors which have now assumed critical importance.

First, corporations have to become learning organizations — the true ability of a learning environment is to use knowledge in a much more accelerated fashion. The ability to synthesize learning quickly, and then let it percolate across the corporation is important.

The next requirement is the need to be agile. Agility in thought and deed, in strategy and execution, is going to be an absolutely critical aspect.

Finally, corporations need to tune themselves with the ongoing generational shift — enabled by technology — in consumer behavior. The enterprise workforce, cutting across generations, must align itself with a very different marketplace, society, and consumer base that is emerging. I think this is likely to be the toughest of all the three challenges, because it is behavioral, and calls for change at an individual level.

"Agility in strategy and execution is going to be absolutely critical"

What kind of initiatives have you taken to foster a learning environment across your organization?

In each of our international locations at Malaysia, Nepal, US, Antigua and Dubai, we function as a local university or institution, responding to the needs and conditions of the local marketplace, and complying with the regulatory framework in that country. This requires quick learning about the local ecosystem. Keeping this in mind, we have given a huge amount of freedom and leverage to our local units. Centralization is not really the way, unlike in the case of, say, an IT company.

Also, being a services set–up, we realize that nuggets of learning happen all the time across the organization. While the markets may be different contextually, the learning can be repurposed for another market. Therefore, this ability to take what we have learnt at one end, and proliferate it across our units and people, is our first step toward becoming a learning organization.

You are in an industry that is continuously evolving. How do you stay agile?

Our curriculum construct has to be agile enough to respond to the changing needs of the industry. Therefore, we continuously engage with businesses to gauge current and potential trends for the future. We look at the sectors making a big difference to the economies of individual countries, assess the kind of manpower that is needed, and then make investments in those areas.

Secondly being regulated is a part of life. Therefore for us, our key strength lies in our ability to read the future and understand the general direction of the wind, and make the necessary adjustments in terms of ensuring that we create the capabilities that regulators will recognize as providing value in the context of a specific country.

In order to achieve this goal, we try and track the conduits that regulatory movements are taking in individual nations. Also, we keep a close watch on emerging segments of the local economy which could become major sources of employment in 7 to 8 years' time — and then, make important investments across various areas, ranging from counseling of prospective students, recruitment of faculty, and collaborations with industry. When you do that, regulators appreciate the effort, and become more supportive.

Agility therefore requires a flexible but continuous focus on the long term trends shaping one's markets. The focus is on always being ready to respond. Agility, in the context of an organization, means having people with the right mindset. And to be agile enough to respond to the changes and engage with employees, an enterprise needs to build leaders, not managers.

What would be your suggestions to your fellow CEOs?

My only suggestion is that we should embrace change, which can be both exciting and challenging. The strongest message that a CEO can put across the entire corporation is when she embraces change and leads from the front, visibly articulating and demonstrating it through her actions and demeanor.

Self Assessment — Locating Your Action Points

A Self Assessment Template

An organization-wide action agenda is required to thrive in this new normal. What is required is a portfolio of initiatives ranging from tactical changes to strategic moves, and cultural shifts. All of us in our own ways have made a series of adjustments in our respective organizations. However, there is always value in stepping back and taking stock — Are all the bases covered? Have we set the right end goals? Are the results in line with goals? Where do we need to place extra focus?

The self assessment form below has been designed to help you dispassionately measure where you stand against the end-state that one should ideally strive for. For each dimension, mark your organization's position on the scale of evolution defined below. 1 implies that your journey is just beginning while 5 implies that your are close to meeting your desired end-state.

We hope that this simple self assessment form will help you introspect and identify your potential areas of action

Don't take your foot off the growth pedal

Stage of evolution

	1	3	5
Mindset for growth	Growth is not the priority now	Conservative growth aspirations	Undiluted aggressive growth aspirations
Focus on M&A	M&A is off the agenda	Not averse to M&A	Pro–actively seeking M&A opportunities

Risk not just a check–box

	1	3	5
Importance of risk	Risk not a top priority	CXO an active risk watchdog	Risk is core to boardroom agenda
Understanding risk	Need further clarity on relevant risk metrics	Relevant risk metrics in place; tracking haphazard	Systematic tracking of relevant risk metrics
Awareness of risk	Risk still only a top management issue	Department heads sensitized to risk	Front–lines sensitized to risk
Risk expertise	No risk 'experts'	Sporadic efforts to build expertise	Risk 'experts' for all key issues

Recast your planning vocabulary

Stage of evolution

	1	3	5
Long-term decision making	Only financially focussed	Financially focussed but incorporates scenario thinking	Focussed on competitiveness and incorporates scenarios
Investments in medium term	Status quo	Phased investments but weak stage–gated review process	Phased investments with effective stage–gated review process
Flexibility in annual budgeting	Status quo	Flexible but cumbersome	Flexible; also simple and fast

Stay three seconds ahead of the commodity trap

	1	3	5
Importance of consumer value addition	Status quo	Everyone aware that consumer value addition important to CEO	Consumer value addition is a Key Performance Indicator for all
Responsibility for consumer insight	Responsibility not explicitly assigned	Responsibility assigned but team works in isolation	Responsibility assigned and team plays strong facilitator role
Level of experimentation	No increase in flow of 'good ideas'	Upward trajectory but not significant	Step jump in flow of 'good ideas'
Efficiency of the innovation process	No change in annual number of "successful" introductions	Upward trajectory but not significant	Step jump in annual number of "successful" introductions

Lego-ise operations

	1	3	5
Importance	Supply chain flexibility not a priority	Priority for supply chain function	Supply chain flexibility a key CEO priority
Extent of effort	Status quo	Sporadic efforts to build flexibility	All levers for operational flexibility systematically explored
Where you stand	Limited progress on operational flexibility	Upward trajectory but not significant	Step jump in operational flexibility in last 2–3 years

Discover your agility gene

	1	3	5
Creating a burning platform	Status quo	Dispersed pockets of change	Systematic organization-wide change efforts
Balance of decision making	Status quo on decision rights at the front–line	Routine decision making pushed to the front–line but people not ready	Actively engaged in developing 360 degree managers
Efforts to embed agility in org.	Status quo	Sporadic efforts in pockets	Comprehensive long term program; results encouraging
Sensitivity to mood	No special focus on tracking organizational mood	Systematically track mood but linkage with action weak	CEO actively pushes for action in–line with mood

For Further Reading

The Boston Consulting Group publishes other reports and articles on diverse topics including corporate development, global advantage, strategy and organization that may be of interest to senior executives. Recent examples include:

Adaptive Advantage: Winning Strategies for Uncertain Times
BCG Perspectives, January 2012

Going to Market in Developing Economies: The Consumer Insight Advantage
BCG Perspectives, January 2012

CII–BCG Manufacturing Study
A report by Boston Consulting Group, December 2011

Making Your Company Inflation Ready
A focus by Boston Consulting Group, March 2011

Strategy 3.0
BCG Perspectives, October 2010

Cash Advantage
A white paper by Boston Consulting Group, March 2010

Collateral Damage Series: Part 8 — Preparing for a Two–Speed World
A focus by Boston Consulting Group, January 2010

The Consumer's Voice — Can Your Company Hear It?
A report by Boston Consulting Group, November 2009

Winning Consumers Through the Downturn
A report by Boston Consulting Group, April 2009

Driving Success in Turbulent Economic Times
BCG Perspectives, June 2008

Does Your Strategy Need Stretching?
BCG Perspectives, February 2008

Note to the Reader

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