

# The **smart** manager

India's first world-class management magazine



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## “INDIA IS ON THE CUSP OF A MOMENTOUS CHANGE OF COURSE”

**KUMAR MANGALAM BIRLA**



SCAN THIS TO STAY  
CONNECTED

**ZIA MODY** ~ **MORGEN WITZEL**  
CASE STUDY ON THE GEMS AND JEWELRY INDUSTRY

## the right step

**E**very single slogan the present NDA government has adopted is extremely laudable in intent and equally daunting in execution. The Swachh Bharat Abhiyan seeks to convert a billion loiterers and despoilers of public property into responsible citizens with an innate civic sense. The Make in India campaign seeks to increase the manufacturing share in the economy from 15% to a more respectable and representative figure. In this, it wants the country to be a recognized force beyond being an IT service powerhouse to one equally capable of manufacturing according to international benchmarks of quality. Along with plaudits for innovating marketing one can only wish a lot of good luck to the government. For, if the economy has to clock double-digit growth to provide serious employment to the increasing number of youth entering the job market every year, reliance cannot be only on the service sector.

Our host of stellar and erudite commentators Kumar Mangalam Birla, Zia Mody and Morgen Witzel discuss the obstacles in the realization of the endeavor to boost manufacturing in India and increase exports. These hurdles are obvious being regulations, infrastructure, and the pursuit of quality. What will also be a challenge, as elucidated by Witzel, would be to create the perception that Indian built goods will stand the test of quality and time.



Is this initiative then bound to falter or fail? India and Indians have shown a remarkable capacity to adapt and learn, a trait that has been aptly illustrated in the services sector. There are many shining examples of Indian companies who have adopted international best practices in manufacturing management and have received awards and accolades for it. There are many such companies in Mr. Birla's own conglomerate. All that the government needs to do, and of course this is easily said, is to provide a more business-friendly environment and make the country an easy place to do business in. Narendra Modi's government seems intent on doing this.

Why is Make in India our cover story? Because the government's initiative to develop the manufacturing sector and its contribution to the overall GDP will throw huge managerial challenges, not only of execution in the form of establishing state-of-the-art facilities but also in terms of efficiently managing these and marketing Made in India products. For this India will need world-class managers. •

*Maneck Davar*

maneck davar | editor and publisher



But we do not duck direct questions; so here is our pick, the lesson we learned that really took our breath away.

It came late in the game, long after we had invested twelve months on our conclusions. We were on the phone with Bob Engel and sharing some of what we discovered in other interviews when he said, "Yes that's true. When we gave our people the why, they gave us back the how."

That was a true 'aha' moment. Engel gave us a lesson we will value forever (and maybe the theme for the next book). I'll tell you why.

Over the last forty years, business schools and consultants have taken a piece of simple common sense—do not manage your business by impulse and emotion, every minute planning saves you ten—to exaggerated levels.

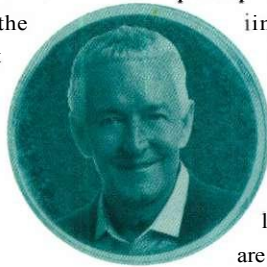
How exaggerated has planning become in 2015? Big companies spend 200,000 man-hours in planning and budgeting for every billion dollars they do in revenues.

200,000 hours is about 96 full-time bean counters and strategy officers.

That means that companies such as Kmart, General Motors, Lehman Brothers, Motorola, and others invested millions to billions of their cash planning an intricate path for the success that never came. (In 2003, a major automaker ran the numbers and figured their planning process cost them \$1.2bn a year.)

Effective planning can save you time and money. But as the North American President of IKEA told us, "Exaggerated planning is death."

- Exaggerated planning wastes time. 80% of meeting time these days addresses only 20% of what's important.
- Exaggerated planning causes executives to become rigid and lose flexibility as they blindly administer the '500 page plan from headquarters.'
- And it contributes to 'paralysis by analysis,' where our worry over being wrong ties individual initiative into knots.



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Instead of exaggerated plans, high-speed companies like CoBank have figured out the why and created guiding principles that act as boundaries for quick decisions and improvising. The science of serendipity, where chance has led to great innovation shows there is a lot of value in Engel's simple revelation. There is proof as well in the many random paths astute executives have taken to incredible growth opportunities. 'Play your own game' we learned long ago from Petco among others. There are many roads to glory.

But mastering the fundamentals of leading the high-speed company takes the speed bumps off whatever the road you choose. "Fortune favors the well prepared mind," Louis Pasteur observed. The same is true in business. Nicholas Bloom of Stanford and Van Reenen of The London School of Economics have studied 10,000 organizations in twenty countries and have found good management practices make a

hell of a difference across all industries.

Fundamental #1 - Give your people the why and they will show you the how. •

*As told to Anitha Moosath*

# MAKE IN INDIA

## IS IT THE RIGHT PATH?

*Ever since its celebrated launch, Make in India has generated a massive body of opinion both in support of and in denigration of its timing and feasibility. Is there a need to make India ready for this initiative? Are we well-placed to sustain the spirit of the drive? Our cover story explores the various facets.*

- ~ KUMAR MANGALAM BIRLA
- ~ ZIA MODY
- ~ CASE STUDY ON THE GEMS AND JEWELRY INDUSTRY
- ~ MORGEN WITZEL



KUMAR MANGALAM BIRLA IS  
CHAIRMAN, ADITYA BIRLA GROUP.

# the India of our dreams: seize the moment

India has embarked on the Make in India journey, harnessing its inherent strengths and chalking out plausible solutions to tackle weaknesses. Apart from being an effort towards proving our manufacturing prowess, the initiative is a strident statement of the nation's determination to leverage latent potential.

While lauding the Government's efforts to take Make in India from the realm of intent to that of implementation, Kumar Mangalam Birla identifies three core areas where change is imperative—regulatory mechanism, infrastructure bottlenecks, and the palpable skills deficit.

**M**ake in India' is the buzzword today, given the Modi Government's clarion call and India's huge economic potential. The decibel level of the campaign is indeed high. And the Government is doing its best to give the right signals. It has taken a slew of initiatives to draw investment to the country. Among these are easing foreign investment caps in defense, construction, and railways. These go a long way towards bolstering infrastructure. I believe, infrastructure and growth are symbiotically linked.

The future that beckons India is glorious. India's manufacturing sector is one of the critical building blocks that will enable India's economic vision to be realized.

India has all it takes to be a global manufacturing hub. An analysis of the current trends and data is a vote of confidence for India as a nucleus for manufacturing activity.

Let me therefore share with you my thoughts on why Make in India and its potential fallout as I see it. As we know, India has made great strides in emerging as a global IT hub, and also is a reservoir of intellectual capital. Almost all Fortune 500 companies get their IT services from India-based companies. IBM, for example, has a workforce of more than 100,000 based in India, their largest country team, outside of the US. But it is high time that the manufacturing sector also achieved similar global recognition and clout.

Undoubtedly, we have made some strides in developing our manufacturing capabilities. Today, India is the world's largest manufacturer of two-wheelers, and a major manufacturing hub for small cars. India leads in the pharmaceutical sector in the production of generics and formulations. 90% of the world's diamonds are

polished in India. We have the world's largest refineries, and have become a major exporter of diesel and petrol. In automobiles and auto ancillaries, Indian companies have distinguished themselves globally.

India's manufacturing sector has many winners of the Deming Prize. The award, considered the Nobel Prize for manufacturing, epitomizes quality of the highest order, nearing perfection. Of the 232 Deming Prize winners worldwide, 10% are from India. In fact, five of our Group companies have been recipients of this award— Thai Acrylic Fibre Co. Ltd. (Thailand); Thai Carbon Black Public Co. Ltd. (Thailand); SKI Carbon: Hi-Tech Carbon GMPD, India; Grasim: Birla Cellulosic, India and Aditya Birla Nuvo: Indo Gulf Fertilisers Ltd., India.

Even so, the share of manufacturing in our GDP is only 15%, vis-à-vis 34% for China, 31% for South Korea, and 22% for Germany. In manufacturing, we have a lot of catching up to do. The economic centre of gravity of the world has been shifting from the West to the East. Making India a global manufacturing hub will capitalize on this inevitable shift, positioning India at an inflexion point.

Manufacturing should be the next big wave for us. As articulated in the national vision, we need to move the share of manufacturing in GDP from 15% to 25%. The Government's Make in India campaign is a clear and bold articulation of this ambitious, but eminently realistic vision.

Let me reinforce my conviction about India's potential to become a global manufacturing powerhouse with some examples from our Group. Many of our manufacturing businesses are fully global, in every sense of the word. In these businesses, we have achieved global benchmarks, in terms of scale, cost competitiveness, and market share.

One of them is Birla Carbon, which produces Carbon Black, a chemical filler used in the tyre and mechanical rubber industries. Birla Carbon is the world's largest producer of Carbon Black. It has plants in twelve countries and customers in more than forty countries. It serves many of the global tyre majors, among them Goodyear, Michelin, Bridgestone, and Pirelli. Birla Carbon operates out of twin headquarters, in Mumbai and Atlanta, and its 2,500 employees represent two dozen nationalities.

Another example from our Group is the pulp and fiber business, which is part of the textile value chain. With plants across six countries, this business has more than 850 customers in 70+ countries. More importantly, this business has close linkages with end customers, who include global marquee names such as Zara, Gap, Walmart, Marks and Spencer, H & M, and Johnson & Johnson. This business employs more than 16,000 people from about twelve nationalities.

Our aluminum business provides yet another fine example of our global reach. It combines an upstream primary metal producer, Hindalco, with a downstream sheet and pressed metal company, Novelis. Hindalco is India's largest and the world's 8th largest aluminum producer, whereas Novelis is the world's largest provider of can stock, and a leading provider of sheet metal to the automotive sector. Novelis services companies such as BMW, Mercedes, Jaguar, Audi, Daimler, and Volvo, and of course Coca Cola. Every second can in the world, be it Coke, Pepsi, or Tiger Beer is made of our can stock.

Hindalco has operations in nine states in India with customers all across the world. Novelis has 25 plants spread across nine countries. Novelis is, by far, the world's leader

The economic centre of gravity of the world has been shifting from the West to the East. Making India a global manufacturing hub will capitalize on this inevitable shift.

## The skills of India's manpower will have to be massively upgraded, calling for an educational ecosystem that can support a modern economy.

in using recycled aluminum, and has a goal of increasing its usage of recycled metal from 50% at present to 80% by 2020. This is what our Group has achieved. There are many other compelling examples in India, across a number of sectors, who have demonstrated global excellence in manufacturing.

So Make in India must become our clarion call. And doing this calls for a hard look at what stands in the way of India becoming a major manufacturing powerhouse. I see three broad areas that we need to address with a sense of urgency if we are to make it happen. First, regulatory hurdles; second, infrastructure bottlenecks; and third, developing talent through appropriate skills development.

**Regulatory hurdles:** Setting up a manufacturing unit in India is an uphill task. It involves a long and tedious process for land acquisition, securing a plethora of clearances, and approvals from regulatory authorities at the central, state, and local levels. What is needed is clarity of regulation, less clutter, more consistency, greater transparency, and speed in decision-making. All this is doable.

The NDA Government has brought these issues center stage and has been addressing them. For instance, it has cleared a large number of projects that had been stalled because of problems such as land acquisition and environmental clearances. Attempts are being made to reduce the number of windows required for clearances. Projects above a certain threshold are being monitored at the top level. In this context, it is essential that the pending Land Acquisition Bill be passed through the legislative route.

**Infrastructure bottlenecks:** Infrastructure remains a critical bottleneck. This includes roads, ports, railway, power, and communication—the basics for growth. Take

power for example. Peak power shortage is estimated at about 15% of demand. Over one fourth of industrial power is still generated by captive units. This is in the year 2014! The availability of coal has become a major constraint, though India has the third largest coal reserves globally. Just as in the case of regulatory hurdles, the Government has been working hard to create the enabling environment to drive infrastructure development. The recent successful auction of coal blocks, which were marked by speed and transparency, point the way forward.

The recent Union Budget has also blazed a novel trail. It announced that five Ultra Mega Power Projects would be implemented in a plug-and-play mode. Thus, private investors will begin participating after all the ground level clearances have been obtained. This will result in less uncertainty, faster implementation, and lower costs. It is positive that the Government plans to extend the plug-and-play mode to infrastructure projects in other areas.

**Leveraging our demographic dividend:** We are aware of India's demographic advantage. Our labor force is young, and expanding much faster than the general population. India is in the enviable position of providing manpower, even for the rest of the world. To seize this opportunity, the skills of India's manpower will have to be massively upgraded, calling for an educational ecosystem that can support a modern economy—vocational, on-the-job training, curriculum redesign, teacher training, apprenticeship development, leveraging distance education, and more.

The Government has been moving to capitalize on the demographic dividend. In the recent Budget, significant investments are being made in increasing the number of higher institutions of excellence in the areas of engineering,



medicine, and management. The Budget has also spelt out measures to upgrade Government-run schools. One area that needs to be addressed urgently is vocational education, so that the link between education and livelihood is made more direct.

The entire education system needs an overhaul. It calls for creative solutions, much greater private sector involvement, and a huge ramp up of teacher training programs. The special focus on youth and startups that was evidential augurs well. In the coming years, the largest chunk of job creation will be from small businesses and startups, and it is imperative to free them from the stranglehold of red tape. The small and medium enterprises face a challenge of financing their working capital. To this end, introduction of the system of an electronic market for trading the receivables of SMEs is a step forward, potentially releasing them from funding constraints.

The one metric that effectively captures many of these constraints is the 'Ease of Doing Business' global ranking. This is compiled annually by the World Bank for 189 countries. It follows a well-defined, comprehensive and transparent methodology. Let us see where India stands on this ranking. Overall, India's rank is 142 out of 189. In 'ease of starting a business' it ranks 179th; in 'dealing with construction permits' it ranks 182nd; in 'enforcement of contracts' it ranks 186th. India's performance in 'access to electricity' is also low at a rank of 111.

Seized of this issue and our vision for manufacturing resurgence, the Government is determined to significantly push India's global ranking in terms of 'Ease of Doing Business' to the top fifty countries. In the recent budget, the Finance Minister has sought to remove the maze of multiple prior permissions with a regulatory system that makes setting up businesses much easier. There is a lot of good going for India. We must leverage it. India's economy is the third largest in terms of purchasing power parity.

Towards this end, the announcement that the corporate tax rate would be reduced from 30% to 25% over the next four years is welcome. So are the moves to ease the processes related to settlement of commercial disputes and the streamlining of processes related to bankruptcy. The friendly moves in the areas of retrospective taxation and GAAR are positive signals.

Recent policy measures such as labor reforms, dilution of the factory 'inspector-raj', deregulation of diesel prices, and coal sector reforms all point to an improvement in the investment climate going forward. Business confidence indicators are rising, and the pipeline of announced projects is bound to increase. Foreign exchange reserves have now swelled to their highest ever, covering about eight months of exports. The current account deficit is low, and if oil prices keep going lower, we may even end up with a current account surplus. The currency has been quite stable for the past one year. India is well-positioned to withstand changes in monetary policy in the US and Europe, according to the RBI. Foreign fund inflows are quite healthy, and the stock market has been among the topmost performers during 2014. The fiscal deficit is also on a downward trend. If this favourable tailwind is combined with a determined push, India can become a key global manufacturing hub.

I believe that India has reached a stage of sure-footedness and confidence. There is the palpable sense of excitement as our leadership takes the initiative and the decisive steps, at a faster clip, to build the India that we have always dreamed of. We are now tantalizingly close to seizing the moment and to getting it right. All the pieces finally seem to be falling in place.

Today, the change is being driven by a sense of conviction, and reinforced by a broader consensus about the direction we are headed in. India is on the cusp of a momentous change of course. •

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