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MANAGING IN TURBULENT TIMES
PROCEEDINGS OF OPEN SPACES ROUND TABLE

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Suite 102, First Floor,
36 Turner Road, Bandra (W),
Mumbai - 400 050, India

INTRODUCTION

After several years of robust growth, the world economy is now facing some serious challenges in sustaining the brisk pace established in the early part of the millennium. The end of the economic bubble in the United States of America, as well as the unfolding credit crisis, the decline of the United States dollar vis-à-vis other major currencies, the persistence of large global imbalances and high oil prices has been threatening and will continue to threaten the sustainability of global economic growth in the coming years. How deep and long this recession is for different sectors and regions is bound to vary, but the impact will be felt by all nevertheless.
This is the time there is a need, more than ever, to take the maximum precautions and manage the turbulent melt down. The social context of religious and regional polarities being aggravated by terrorist attacks and civil war also add to the sense of depression in the economic recession and create more turbulence than ever witnessed in the last couple of generations.

This round table was held as a part of the efforts of the Technical Papers Committee of the IMCI Convention 2009 to spell out the issues and themes that create the context for consultants and clients to bring their efforts at carving innovative and appropriate response to the situation. This is a report of the proceedings of the round table. Efforts have been taken to ensure complete and appropriate representation of viewpoints of all participants and to synthesize these into a holistic picture as far as possible.

PARTICIPANTS

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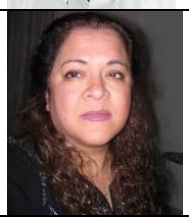

Transcript Editor
Garima Goyal

TURBULENT TIMES ACROSS CONTINENTS

Everybody is concerned about how turbulent things are today compared to the past. The global financial crisis triggered by the combined domino effect started with the sub-prime mortgage meltdown, which triggered a full-scale credit crunch that reverberated throughout the global financial system. Central banks of the major economies have adopted various measures to ease the financial distress, but these measures did not address the more fundamental problems rooted in the unregulated workings of the global financial system and its links with the global economy. Significant spillover effects of the financial turmoil originating in the sub-prime mortgage markets in the United States have been found in major European economies and, to a lesser extent, in Japan and other developed countries. The growth prospects of these economies in 2008 have been downgraded also, confirming that the growth of the other major developed economies is still not strong enough to replace the United States as the main engine of global markets and economies. What started as an American problem has spread across the globe and all countries are affected.

The focus being on India and the response of Indian private, public and multinational sectors to the turbulence brings home the stark contrast and fundamental differences between Western and Eastern managerial styles and governance laws. Sarosh Kuruvilla said that in the US, the average CEO faces extreme pressures for short term quarterly results and this impacts all decisions taken. Some outcomes would mean that the CEO would take decisions which in India are mostly unfamiliar. For example, it is not unusual for companies to decide on firing 1000 workers on the 28th day of the month, if it had the resultant impact of sending the stock market valuation up for that one day. The legal frameworks support such decisions with no

laws to protect worker employment and financial structures and regulations which support the capitalist viewpoint. By contrast, in Germany, much of the investment comes from stable sets of banks and insurance companies which look at the long term resulting in very different corporate governance. They have a supervisory board, workers over management board, and so on, which acts as a counterpoint to American short term-ism. Indian view on layoffs is fundamentally different but with 'globalization' many Indian companies are adopting such short-term measures which do not fit with the laws of the land and managerial styles.

Gopal Sehjpal was of the opinion that the short-term results perspective could have been one of the main reason behind the financial slow down. He feared that if the US did not stop this policy then the market situation could worsen. Jaideep Juneja then stated that until the incentives were withdrawn, the perspectives would not change, since the entire reward system is skewed towards giving a short-term benefit.

Chandrika Shah had a different lens of looking at the situation. She added that the investment bankers in US or the corporate sector there is not only suffering due to their rigid short-term view but also because of overconfidence in their strategies and the assumption that they are right. This is not the first time a crisis has hit the 1st world economy, but no crisis was good enough to make them introspect and learn from their experiences. Also when the question of investors arises, the investors are not small time investors like individuals but they are big investors from all across the world or even nations like China. So there is lots of introspection going on as to who is driving the changes or who will drive the change. Jaideep Juneja took this further saying that the USA has been very self-righteous. They try to behave like a moral posturing economy and tell what is right and wrong without caring to peep in their own backyard. There is no change in the regulatory aspects in spite of incidences like Enron.

"Ok you worship the god of wealth, but at what cost. I think its time businesses start looking within and evaluating their value systems. That is how I would look at it because I would look at it from a more fundamental way whereas all of u may look at it more from a business environment." Added Jaideep: USA as a country needs to introspect and what are the values they propound. The war against Iraq and Afghanistan is self-righteous because they want to create democracy since that is morally correct according to them.

Gopal intervened saying that with Barrack Obama being elected there is a fond hope in the rest of the world that things will not remain on the same platform. It was highly unlikely that there would be any introspection or change in the value systems of US, according to Sarosh. US being a very young country, as compared to India, has no long history and no long conflicts within the society. So they have not dealt with the shades of grey. Moreover, having been blessed with tremendous resources, they have dominated in the post world war era. It is a tremendously successful economy based on the concept of mass production. The US thinks of everything in the mass

production model, including corporate finance. This thinking has brought them a lot of success but it has landed them in precarious situations as well.

As a case in point, the American insurance company AIG is now offering innovative ways of deferred compensation over 5 years or 10 years instead of paying the entire compensation at once. This compels CEO's to take a longer view. We may not be able to change the culture but through such institutional changes perhaps behavior patterns could be changed.

The investors in US were the big investors, and not small investors like in India where individuals invest their savings in mutual funds. The visible increase in the socially responsible investments is an indicator of the long term view being adopted and changes in the evolving system.

IMPACT OF US ON INDIA

Most developing countries and economies in transition have felt the effects Of the global financial turmoil, mainly through increased volatility in their local equity. The relative resilience of these economies is partly due to their improved macroeconomic conditions in recent years and their large accumulation of foreign exchange reserves, along with vigorous growth over the past few years. Part of that strength can also be traced to their growing interdependence, driven by the sustained, rapid growth in the two most populous emerging economies, China and India. Nevertheless, the growth in most of these economies is still not fully self-sustaining and remains highly dependent on the wider international economic environment, which in turn is largely determined by the economic policies and performance of the major developed countries.

According to Sarosh Kuruvilla the current scenario is a real golden opportunity for India. The American companies, which are only outsourcing in parts are now considering of outsourcing wholly from India. Although some outsourcing companies have seen a real decline, the reengineering process will prove beneficial. Also, Indians have a fabulous reputation of generating great managers with the essential quality of being able to see the grey areas in situations. They are aware of the fact that, to get a business started it takes time. Unlike an American CEO, they deal with a whole range of people, take a team together and work with the human capital and the social capital to get a business working.

In India, unlike in US, the short term-ism evolves from a different kind of an outlook, said Uday Arur. The wish of an average young Indian professional to make his mark and retire at an early age, has reduced the working span of a professional from 35 - 40 years to 15 -20 years, infusing a short term approach. Aneeta said that today HR managers also recruit with a 3-year perspective as a response to the talent retention problem.

SMALL SCALE SECTOR

Small and medium enterprises (SMEs), particularly in developing countries, are the backbone of the nation's economy. They constitute the bulk of the industrial base and also contribute significantly to exports as well as to GDP and GNP. India has nearly three million SMEs, which account for almost 50 percent of industrial output and 42 percent of India's total exports.

A large portion of the Indian economy is generated by the small sector which is facing major turbulence owing to the slow down. Due to lack of credit, liquidity and fall in prices, the small sector is being forced to sell even below their cost price said Jaideep.

Uday quoted an interview he had read in a strategy related newsletter. In the interview, a US based dancer was asked how she was managing with the slow down in the country. She replied that she was making as much money as always, only now she had to put in extra efforts to sustain it. Entrepreneurs generally react to the slow down with fears and insecurities and land up taking short-term measures which could give him immediate advantage. So Uday advises his clients to do a lot of housekeeping and to get rid of inefficiencies, through performance analysis. This builds sustainability The three critical areas through which Uday aids his clients to look inwards are - performance analysis , responsibility charting [which helps in the process development], and competency mapping. Instead of cutting costs by sacking people or closing down units, the SME could increase their internal efficiency to survive turbulent times.

Aneeta was of the opinion that professors, academicians and consultants , were guilty of over designing management processes and one of the contributing factors to SME failure in turbulent times was not enough simple management processes in place

Mr. Merchant, based on his 31 years of experience of dealing with large and small sectors, said that the SMEs are more honest in their admission that there is need to bring in external help, unlike the large sector, which prefers branding as a status symbol or for a "Page 3 impact".

LARGE SCALE SECTOR

The question raised by Uday was whether the prescription points should be different for large and small sectors, because according to him, both the sectors lack the same things, only their approach is different. As per Nainit's observations, the large sectors prefer a brand, specially the foreign brands, while accepting professional help, irrespective of their affording capacity. Gopal, gathering from Nainit's thoughts, stated that large organizations need to get their mindset changed through a paradigm shift. Whereas the small organizations, having a positive and proactive mindset, need the skill set and tool set which the large already have.
Gopal said that the large organizations need to shift from the point of 'we know everything' to becoming 'learning organizations'. Instead of sticking to a short-term view, it is time to adopt the long-term perspective, so that not only the employees

but also the organizations benefit. Nainit explained the shift saying that it has to be a shift from mercenary to missionary. In the shift a fulcrum should be evolved between the two ends.

WHAT LARGE AND SMALL SCALE SECTORS CAN LEARN FROM EACH OTHER

The large scale and small scale can both learn from each other, said Jaideep. An SME professional always says 'I want my net worth in the next ten yrs to be x', whereas the managers in the large companies do not think in the same vein. That is one paradigm shift required in the large sector. The SME by its very nature, because it is owner managed and run, is very responsive to changes in customer demands etc., while the large sector is not. While the small could pick up the skill sets and tool kits from the large. This would be a case of exchanging competencies. Mr. Deodhar's focus was to bring out solutions for the large and small sectors. In turbulent times in particular how we could provide guiding principles for strategic planning, like changing mindset, brand perception, or FII dominance in the market as seen in India. There is no Indian savings growing into the market at all else there would have been no reason for the markets to collapse. The moment FIIs started withdrawing, the market collapsed.

LAY OFF – A SOLUTION?

The economy and the large sectors should safeguard the level of employment, even if it means bringing down the wage scales, salary or perquisite levels. Firing employees is no solution for the corporates or for the economy as a whole. Aneeta highlighted the stark difference between American mindset and Indian managerial mindset. In America when the CEO faces problems, he gets rid of few employees and it produces results immediately, whereas in the Indian mind set layoff is perceived negatively, not only in the organization but outside as well. A balanced approach should be adopted. People should not be sacked for no reason, but at the same time if the employees are not quite efficient or competent; one should not become sentimental and retain them, since business cannot be run on emotions, said Gopal. Agreeing with this point Marcel Parker said, that employees could be up-skilled, multi-skilled or made more productive through innovative HR practices. It is the dual responsibility of the CEO and the Chief HR Officer to ensure rightsizing in the best of the times, so that in the worst of the times there is no need to lay off opined Nainit.

YOUNG MANAGERS

The traditional way, earn, reinvest and grow organically, is what Aneeta believes will still sustain through economic downturns. She also opined that the whole credit way of operating small business enterprise is not sustainable, because it rides on a bubble and time has seen the bubble bursting several times. Marcel Parker added that the younger generation today thinks very differently. The senior professionals do not know how to manage them and that's what creates the perception gap.

He cited an example of a young 24 -25 year old, typically in his first job, still living at home with parents , earning 25-30,000 Rs a month with a large spending capacity. A survey of 154 youth (95 men) in Mumbai-Pune, conducted by him broke the stereotype assumption of their expenditure pattern and surprisingly revealed that 70 percent invested 30 percent of their savings in the stock market.

Chandrika has worked with the youth and loves working with them since they are not that irresponsible. They may want to wear branded clothes and there is no harm in it if they have that much of disposable income. If one takes the analogy, in US the children are suppose to fend for themselves. As soon as they are out of school they do not have their parents to give them rent and meals.

Effects of urbanization are penetrating in the Indian rural areas through BPOs . An ordinary graduate gets a job and earning ten or twenty thousand rupees a month. One of the messages to be spread to the globe is that India, Indian youth, Indian managers are a valuable asset, irrespective of the forces that are influencing them. Aneeta, being a teacher, has seen that the MBAs coming out of the current system are far more competent, capable, responsible, sensible and rational than the earlier generation. She believes that the education system in India has produced good citizens, not only of India but also of other countries. When Chandrika used to look at EOUs in 1980s, she would tell everyone abroad that an Indian manager needs to comprehend over 2000 administrative circulars and requirements to run his business.

Continuing the thread of value systems, Uday asserted that there was a need to distinguish between personal and professional values. Jaydeep denied any difference saying that values are inherent and they are a platform. He cited an illustration, where he had given a situation to his students, where ethics was involved in giving a bribe. At the beginning of the class at least 50 per cent of the students, who were mainly in the age group of 20 to 27 years, were ready to give that bribe. By the end of the class, after being exposed to Enron and world COM, in a repeat poll, just 15 per cent students were still willing to give the bribe. The inherent values just need to be reiterated and educated so that they don't get overshadowed by the environment. Uday has been working with CEOs who are extremely disturbed because they have to give a bribe against their will. In a class anyone could get influenced by the lecturer, but the main question is whether the entire system can be changed. Each one defines success differently. For some, may be more money means more happiness, and for others may be little but honest money would mean happiness and success, said Jaideep.

SOLUTIONS

During turbulent times, everyone strives for sources of stability. The notion of collaborating in a competitive environment has served many institutes, said Sarosh. This model is used in SMEs in Taiwan. He further asserted that someone has to take an initiative to bring the SME's into a cooperative model. Cooperative model works very well in a collaborative environment and also when competing businesses face similar problems. The second solution given by him was creating self-sustaining

ecosystems. In the eco system there are SMEs servicing a larger industry which in turn is connected with many organizations, universities and the recruiting agencies. Sometimes it is good to get the ecosystem together and bring to light the strong and powerful interdependencies of business. Also, the supply chain is far more stable than the single entity of a multinational. The new face of the MNC is that it occupies a nodal position on a supply chain. So that should be the analogy for the SME in its struggle for survival in turbulent times.

Jaideep gave an example of the ecosystem working very well is The Indian Entrepreneur (TIE). It is an ecosystem where there are the small entrepreneurs, the consultants, the service providers and all so on. In the IT industry people are grumbling about the employee turnover after every 3 months. They need a stable supply pipeline. So they all could collaborate and start a school. Each of them could take the percentage of graduates equivalent to the percentage of their contribution. This model is used successfully in Singapore said Sarosh. Macel Parker shared the example of the garment industry in Chennai. The industry employs only young women, between 18 to 24 years, whose fingers are nimble and flexible. Each employee has a short employment span. Many of them work to earn money for their dowry and get married by the age of 20. Once they have their first child by 22 or 23, and their mother-in-law refuses to take care of the child, they face a problem, since all the SMEs cannot arrange a crèche. So they have collaborated and taken the land from the Tamil Nadu government for creating a centrally located cooperative community crèche. Chandrika raised the matter of the townships developed around a supply chain. For example in these townships if someone is producing orange juice, the whole town will be involved in that activity right from pulping, manufacturing, packaging to transporting. So it goes beyond just the manufacturing clusters like the Chinese townships. All the aspects like logistics , development , timely delivery and quality control are part of those townships. India, being a democracy will take a longer time to build such a model.

These models only exist in Italy, Indonesia and Germany. In India also the Jullundar cracker business, Uttarkashi, Shivkashi and Tirupur are all clusters, informed Jaideep. SEWA, Lijjat Papad, Amul are some other successful examples of cooperative clusters. In a presentation seen by Uday, a young activist lady had a formed a central hub in Gujarat, where all the women from small villages came and deposited their embroidered work. This is a very simple small cluster model and created effective ecosystems for business to flourish and survive through turbulent times.

Many management schools study supply chain management but they study in the global context and not in the local context. Sarosh put forth the concern of what is taught in management schools. The schools largely do not teach any thing about the small-scale sectors nor is it a part of their research. This would create gaps in the learning of the youth about the cooperative models , cluster models, the small-scale developmental models, and so on. Some policy should be evolved to coax the management institutes to change their curriculum and incorporate subjects on the SME.

In India, now-a-days , a lot of business schools have started programs that enable professionalization of family business management , SME management and also NGOs. There are special MBAs targeted at both non-profit and small-scale sectors and there is content and curriculum being developed for all such expertise informed Aneeta.

According to Monish the focus should be on what is turbulence because it is different for different people. For some, turbulence could mean the uncertainty of being employed or not at the end of the day, while for some the turbulence could be the worry of the success of an expansion plan. India is in a better position to come out of the turbulent times because India is economically resilient. Monish further said that there are many economic India's. There is a small businessman doing a business of used machinery and surviving, which actually adds a lot to the economic value, since there are no new people investing in new machinery because there are five more years left of the old machinery. Even if a 25-yr- old car is dumped on the road, there will be a B category and C category town which will be a market for it and this is what makes India more resilient.

In turbulent times each company should look within and assess where they have gone wrong and the strengths they could use and capitalize to come out of it.
For most of the companies the mistakes will be similar. The asset prices were high due to the bubble and the returns are not going to justify the original investments. The plant expansion and capacities for which the demand is not there now. The other problem will be that they may have invested in human capital and there may not be enough work for all the people they hired in easier times. One should try to find out the economic strengths, and not only the strengths of individuals, or small organizations or large organizations, and capitalize on them, to extract themselves out of turbulent times. India is still growing at 8 per cent, and ours will still be the best 5 performing economies in the world. The turbulence in India is of a different nature and often it seems to be a case of trying to find a sense of direction in the global environment which may be more turbulent than the internal environment.
He added that the government sector is where most inefficiencies lie, not only from the policies point of view but also from the PSUs point of view. The time is right now need introspection - what are the 5 things we need to do better and may be 5 things we did wrong that should be discontinued. This can be started at the economic level and then those get translated at the firm level.

Mr. Uday then spoke about purpose and mission which according to some is too abstract, it is too philosophical. But he strongly thinks that companies need to decide what their purpose is since that gives a great deal of strength knowing what kind of business they are in.

OPPORTUNITIES

It is a human tendency to look at the means to survive in a stormy night. The survival instincts are so strong that most but a few forget to even access the possibility of the opportunities the night could offer. The creative question raised by Jaideep Juneja nudged everyone's thinking caps to find out the opportunities available in the

turbulent environment. Jaideep gave an example that assets were down and that was a huge opportunity. Aneeta, as per her experience, said that in HR firms a lot of people were going back to training. Instead of cutting on the training cost, they are considering the facts that there are no sales, no revenues etc. So people are available, they should be trained. .

Another big opportunity, as per Nainit, is that of consolidation, especially in the small sector because our country is flooded with thousands and thousands of such units. Many of the small units even in the normal times feel shy to openly declare closure. Now they have got a legitimate regulatory support to come out and scout for a buyer. From the buyers point of view the market price at which he can buy is probably the best now. As a potential buyer it is like the share market. For people having liquidity and following certain portfolio analysis, every fall in the Sensex, is a great opportunity to buy the shares of those companies, which at a 12000 or 15000 levels would have been out of their budget.

Uday Arur explained the opportunities by sighting the example of his client. He has been coaching a Southeast Asian restaurant owner in Pune, who was trying to expand the chain. Being an entrepreneur, sharing his profits with someone was a big resistance for him. So bringing a venture capitalist was also disagreeable, since he would have to share 50 per cent of his revenues. This was the main hurdle stopping him. Now is a nice time for him to buy his own property. The opportunity is that the costs and rentals in malls have fallen. Since malls are not able to sell their property, they are going for revenue sharing. Earlier they were thinking of 10 to 12 per cent of revenue, now they are thinking of 6 to 8 per cent. Uday went on to illustrate the opportunities for SMEs- having a re-look at the customer segments. One of his clients was only focusing on the A class customers. He was suggested to look at his product mix and the benefits it could offer in other kind of businesses. He was focusing only on pharmaceutical manufacturers, for selling his blender and mixer machine, which could also be used in food businesses. The essential point is to explore new customer segments. Even in the existing customer segment, one should become more proactive. The other point to remember is moving from A class to B and C class of customers. The real opportunity was BPR- i.e business process re-engineering for all organizations, according to Gopal. The need is to have a re-look at all the processes and take stock of SMEs strength in terms of men, money materials etc., when they are redesigning their model or refocusing on their needs.

Chandrika came up with an unusually creative suggestion. The slow down and its repurcussions lead to spare capacity in some or the other units of major corporates. There are SMEs which require extra capacity. So Chandrika's suggestion was to create a bank of the machineries and spare capacities. There should be a credible authority to take charge of these capacities so that it can be shared in such a way that no new investments would be required and at the same time the spare capacities do not go waste.

CONCLUSION

Every participant then shared his or her key take away from the conference. Jaideep appreciated the idea of a bank for spare capacities and was eager to see some actionable.

Parker reasserted his thought of creating better young managers through coaching, mentoring, or internship, since in his opinion the older generation owes it to the younger generation.

Uday's learnings for every CEO in these turbulent times were managing the environment, the business and managing the self. For Monish, managing turbulent times is post correction introspection. He opines that it is time to realign oneself with the environment, because the environment, on the basis of which one makes certain assumptions and takes decisions, is not true any more. If 2003 is compared with 2008, then India is not worse off, but better off. If 2007 and 2008 are compared then the same may not hold true, but then again one has to adopt a longer view. In the long run companies will need to decide where they are creating value, either product advantage, where they can produce a particular product, cost advantage, where they can produce it cheaper, or quality advantage or a knowledge advantage. These are few generic factors which each person will have to identify and work towards. Sarosh focused on the sources of stability, unorthodox solutions and importance of collaborating. He further suggested that may be like Ebay one could start a website to auction unused capacities. That would be like carbon trading, which is working very well.

Chandrika looks at it as an opportunity and insists on creative solutions. Another thing she insists on is thinking of some instruments which will help to reduce the shortage of foreign currency in India.

Aneeta explained that it is the propensity of people to get caught up and react to the changes in the turbulence. So they try to look inwards , they try to cost cut, they try to reduce manpower, and squeeze themselves so that they can survive, but companies should also realize that they can create change rather than just respond to the change. They can deal with turbulence not just by coping with it but growing through it.

That would mean relentlessly searching, by changing strategies and avenues, for growth and searching for business opportunities, and looking to broaden their horizon despite the slow down. Deodhar said that after the SWOT analysis and the discussions, the convention should be able to bring out what the management and the managers can do to manage the turbulent times.

Nainit insisted that the convention should not only look at the large and the small sectors but also at the government sectors or the PSUs.

Gopal was able to precipitate a structure for the IMCI convention
1 Large sector and SME and combined value creation

2 Resources management and unutilized capacities
3 Educational or futuristic view of General Managers
4 Building resilience and helping the closed down businesses to bounce back and become profitable.