

The Smart Manager

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india on brakes: managing operations in a global downturn

by Jayashankar Swaminathan

Should India view the global downturn as an opportunity for changing the way it does business, even as it pauses to focus on hitherto neglected aspects of the economy?



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Post-independence never have Indian firms been more intertwined with the global economy like today. India is now considered as one of the emerging economic powerhouses of the world. The success of infrastructure projects such as the Delhi Metro, Hyderabad airport, Quadrilateral and related roadways; efficient public private enterprise collaborations in many capital projects; the expansion of Indian industry into global business beyond information technology enabled services (ITES); the continued focus of political parties on economic development (albeit sometimes with vested interests); and the young, educated and success hungry working class of India have been important elements of the economy's success over the last decade and a half. In addition to the above, there were two other important factors that led to this phenomenal growth - foreign capital infusion in the form of foreign direct investment (FDI) which reached roughly \$30bn in 2008 and rapid consumer spending facilitated by the emerging middle class that was expected to place India in the top five consumer markets of the world by 2010.

As the financial economy in the developed world crashed in the past six months, these two factors related to consumer spending and foreign investment are both going to be affected significantly in the upcoming years. Indian firms that are

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focused on the international market are going to find reduced demand for their products and services due to the economic downturn in the western economies. This in turn is going to reduce the buying power of hundreds of thousands of Indian working class that are part of the global supply chain of multinationals – either as direct employees, as employees of captive operations, as employees of offshore facilities, or employees of their suppliers. This in turn will lead to reduced consumer spending and reduced demand for firms focused on the domestic market. For many Indian firms, this has been a rude awakening for doing business differently. In order to be successful, they would need a relentless focus on “downturn operations”. Here are four strategies to follow.

strengthen quality of operations

When times are good, emphasis is on growth and the top line while when times are tough the focus turns to the nuts and bolts of operating a firm and the bottom line. Operational tuning during downturns typically deals with cost measures in most firms but there is a lot more to it. Based on my experience in India, I have found that firms are quite conscious about operating costs in the first place. Therefore, cost measures may not yield great benefits. Indian firms should work to improve quality of products or services. Improving quality of products will mean tightening quality measures at source for components, better oversight of the manufacturing process and improving compliance with global standards related to labor, pollution, health and workplace processes. Improving of service

quality would mean careful attention to the training process for new employees. During the last decade, when the Indian economy was bursting with growth, firms concentrated more on ‘getting the job done’ whether in call centers, banks, software or airlines. That meant a short and intense training for standard procedures and more ‘on the job’ training. While most employees did great on standard procedures, there was no training or process for exceptions handling. For example, a couple of years ago, I was on a domestic flight from Mumbai to Hyderabad on one of India’s favorite airlines. One of the crew member while serving refreshments, lost her balance and accidentally spilled soft drink on my trousers. She apologized profusely several times and was ashamed to return to work for the rest of the flight. However, it was at least ten minutes before another stewardess could find towels for me to clean my trousers. Clearly, the firm had focused on training for good quality of service on standard procedures but had spent little time on exceptions handling. Investments in improving product or service quality may seem costly in a downturn but such measures will prove to be advantageous to the firm for success in the long run.

recruit and retain talent

As the global economy slows down, there will be less demand for new employees across the board as well as less stress on the organization due to employee turnover. Firms rarely think about this as an opportunity, however this is the time that many other employers will not be hiring. India has been a source for talent not only for domestic firms but also for multinationals. The last few years saw the labor market tighten up extensively in India, particularly in the managerial rank and in the ITES sector in particular. This led to rapid escalation of wages and an acute situation related to employee turnover in many sectors. In the next few years, the labor market across various sectors is not going to be tight. Therefore, if a firm has resources, it should invest in recruiting and retaining talent that would have been expensive in a tight labor market. Further, firms should invest more in current employees so that the talent pool feels an affinity to

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the firm and will stay with the firm even if the times change.

innovate for india and the world

As times have gotten tough across various industries, it is clear that survival is not guaranteed whether one is catering to the domestic or international market. The only way to guarantee that a firm would still be generating profits is by focusing on new ways to innovate. Innovation could be in the product or service offering like Apple iPod or Nintendo Wii, or could be a technology innovation like the Internet or a business process innovation like the Dell Direct model in the early 1990's. It is unfortunate that there are very few firms in India who are focusing on long term innovation goals. Tata Nano and iFlex are the only two examples that readily come to mind. Take the Indian software industry for example; while top firms in this industry such as TCS, Wipro, Infosys and HCL have shown great performance in terms of delivery and process innovation, they have not come out with noteworthy new product innovations despite so much experience and success. On one hand, India's loose intellectual property laws should take some of the blame, but on the other hand, the lure to make quick money by doing a lot more of the same is also responsible for this. Going forward, Indian firms should think strategically about innovating not only for the domestic market but for the world.

integrate into the global value chain

As the economy slows down across the world, there will be more pressure in many

western economies against offshoring and globalization. It is clear that in these tough times overseas partners would need to provide more for the buck. Given that so much of the Indian industry is outward focused, here are some ways to become an integral part of the global value chain. One way to integrate is to develop strong information and process integration with clients. This may involve IT integration but also integration with respect to business processes. Transparent policies complying with various international standards for product, information, people and financials, would go a long way in rebuilding some of the confidence that has been lost due to the recent Satyam fraud. Such measures would also mitigate additional concerns related to global operational risks that firms might have in these tough times. Yet another way to integrate, particularly for cash rich Indian firms, would be to target selective acquisitions in developed markets that may be available at much lower prices today in comparison to a year before.

The economic downturn across the globe has put brakes on the growth of Indian firms and the economy. Simultaneously, it has also provided a breather to think about the path from here on. While our focus thus far was on individual firms, here are a few things that the Indian government and policy makers should think about

- what would be the best way to convert an economic system that has led to development in the cities and for the upper and middle class into one that will include villages and lower economic classes in future?
- what policies at the national and regional levels will move India to average levels in the international community in terms of literacy, sanitary conditions, pollution, corruption, taxation, copyrights and women's rights?

While the above questions do not have quick and easy answers, neglecting them would only prolong India's wait to be an economic powerhouse of this century. ■

To read an extract from Jayashankar Swaminathan's *Indian Economic Superpower: Fiction or Future?* turn to page 88.

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