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# LEADERSHIP
## IN THE NEW WORLD ORDER

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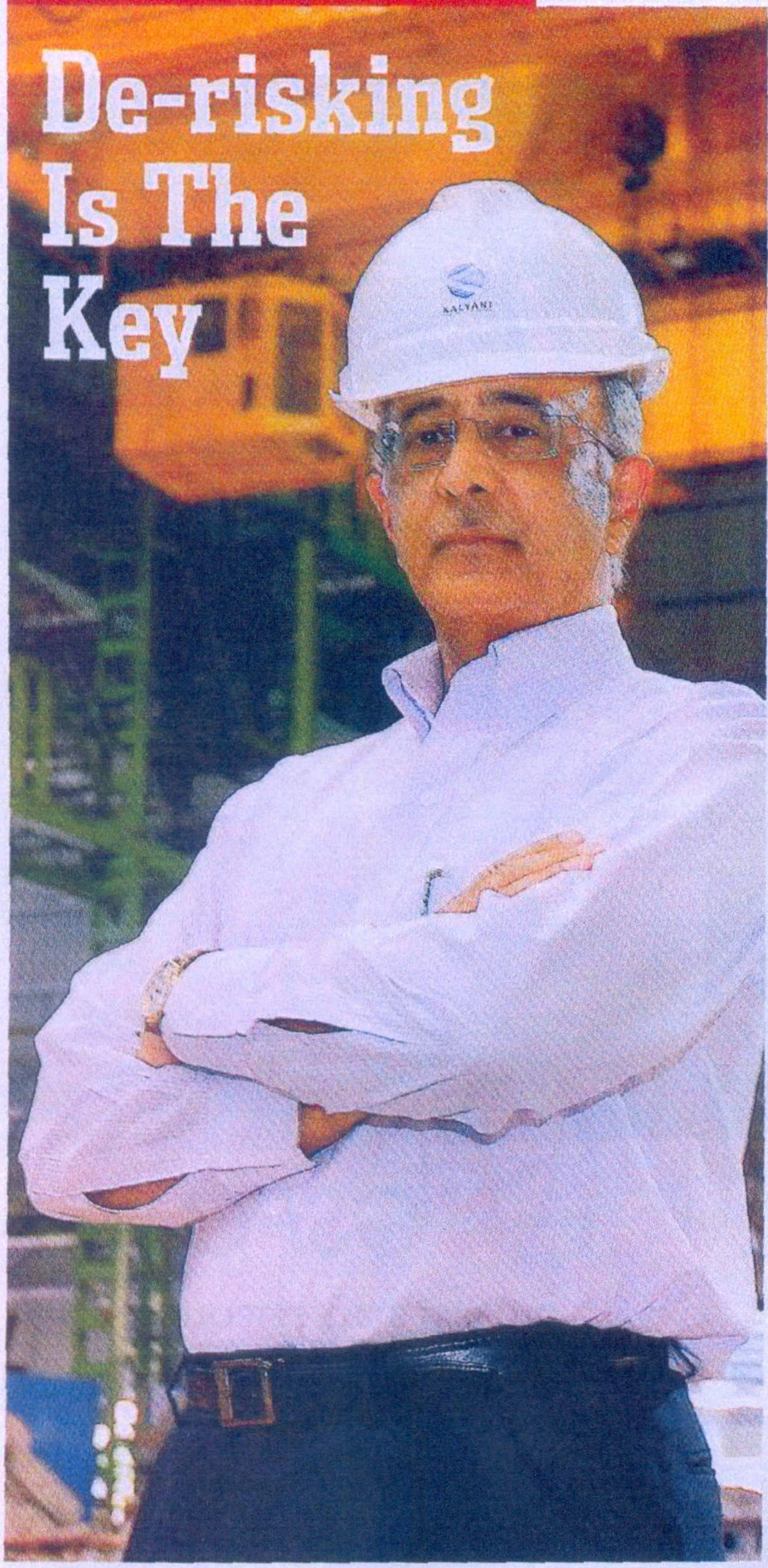
## Cover Story

LEADERSHIP IN THE NEW WORLD ORDER

Adapting the Organisation to Global Changes

# Baba N. Kalyani, Chairman and MD, Bharat Forge

# De-risking Is The Key




SUBHABRATA DAS

**WITH EIGHT OF ITS 12 PLANTS OUTSIDE INDIA, Bharat Forge slowed down as soon as recession hit the US and Europe. Its global business, which was about 50 per cent of its Rs 4,800-crore revenues, came down to 40 per cent. It is still to recover fully. But Bharat Forge chairman and managing director Baba Kalyani found the answers to his problems in de-risking by getting into new areas and re-defining his firm's core competence. Kalyani met *BW*'s Nevin John to explain how nothing works better in a rapidly changing world than rapidly changing yourself. Excerpts:**

**Q: To what extent did the US and European economic scenario affect you?**

**A:** It was a challenge in late 2008 and early 2009. You suddenly had a large drop in demand, and you were caught unawares. But, we took action early. We re-sized our global operations to the demand we saw.

**Q: How did you handle the reduction in demand?**

**A:** We cut cost, reduced waste, and became lean. We stopped the capital expenditure for more than a year-and-a-half. We also took the time to develop new processes, new technologies, new markets, like the non-automotive business in power-generation equipment, railways, making components for marine equipment, ships, high-pressure components for the offshore oil and gas exploration. This is something we were not doing two years ago. We are still at an early stage.

**Q: Is it a cautious expansion?**

**A:** Yeah, you are never going to allow yourself to get into the same problems that you got into in 2008, early 2009. So, anything you do will be on a very cautious basis. You test the waters; make sure you have a good plan. But growth is part of the DNA of entrepreneurship. You can't get so cautious to say you're not going to do it. Risks — taking acceptable risks — are part of generating growth, except that you'll take risks at one notch lower than you did before.

**Q: Are you doing it as part of a de-risking plan?**

**A:** It is part of de-risking. But I think we've started accelerating it a little bit. We're focusing on that capability. We had already taken steps in 2006 — much before the downturn could kill manufacturing facilities for this area. So, that has come in very handy for us. Plus, the domestic market is growing at a very strong pace. In the automotive industry, the growth numbers are very strong.

**Q: By venturing into new segments, are you not moving away from your core competence?**

**A:** Core competency is important. For example, if I was to get into the retail business, I know I would never succeed. I have core competency in the manufacturing business. (But) It doesn't mean that my core competency is related to making automotive forges. I can use my knowledge in manufacturing, my capabilities of my people, engineering strengths, metallurgical knowledge to expand in areas, which allow these capabilities to be used.

If you look at the most successful companies in the world, you can see that they started with a single product. They excelled themselves in that product, created the kind of capabilities in that, and over 10, 15, 20 years, they got into adjacent products and became a conglomerate.

And this is another challenge and opportunity for Indian firms. There was a study recently by United Nations on multinationals coming out of emerging markets. The study very clearly shows that India is likely to head the list of multinationals that are going to emerge from the emerging economies in the next 15-20 years.

**Q: Most of your plants are outside India. How do you build a global reputation?**

**A:** We are not making a consumer product, which you can see. It is not a car or a television. Whatever we supply is kind of hidden. Our brand is fundamentally built up on the basis of providing value to our own names. And the value comes out of quality, delivery, cost competitiveness, and most important, technology innovations. And because you don't see our products, you will not know what we do.

Whereas, if a new model of a car came out, it's all in the television, it's all in the magazines — everybody knows what's going on. But, there are lots of things we do that are inside a car or inside a machine, which determine our brand equity. And the fact that a company like us has grown consistently on a global basis means we are doing something that is right. And even in a downturn like this, we had a few months of a difficult period like everybody else. But we are back on the growth track.

**Q: What about technological innovations?**

**A:** We have done a lot of work on improving the durability of our products, improving the life of our products through innovations. Everybody wants lighter products. These are the kind of things we can do on the product side. On the process side, we have reduced waste to improve productivity and to make products with fewer steps.

**Q: How did the lenders take to recession?**

**A:** Our experience is very different in India and outside. The Indian banking system has maintained a high level of prudence and regulatory processes. But if you go to Europe, for example, the banking system has gone into a freeze. If you go to the US, it has gone into a freeze. They have suffered the maximum in terms of the crisis.

Second, the government has bailed out the banking system and, therefore, the risk-reward ratio has dramatically changed. The banks don't need to take any more risks to earn money. They get money from the government and put it back in government securities.

**Q: Has the mindset of the governments changed?**

**A:** This has brought out a new issue in the global financial order — you need completely different regulatory processes for the global financial markets. You cannot operate on Wall Street type of processes in the future. So, there is a lot of discussion on regulation — what kind of regulation we need to have in the financial markets. In many places, the banking system is haywire — lot of asset bubbles (are) getting formed and once the bubble grows then the system collapses. So, these dangers are there and, therefore, you need a new regulatory framework.

Otherwise you're going to see the negative impact of a bad financial system on world markets, whether it is in creation of asset bubbles on the one side, or in creation of speculative forces on commodities — like what is happening now. If you look at commodities, certainly, there is a spike in commodity prices and then speculation gets into it and it becomes very volatile — you don't know where it is going. So you need to have a steady state situation. All the leading countries, including India, are beginning to pay attention to this. In the next few months, some solution will emerge.