

Competing with the best in the world - Rahul Bajaj

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Friends,

I am honored by BMA's invitation to deliver the BMA Golden Jubilee Lecture. I still cannot fathom their choice. Especially, when they had got Peter Drucker for the Silver Jubilee lecture. I am no management guru, just a fighter in the trenches. I can only share with you some perspectives and insights gained in the course of fighting the perennial war in the market place.

Quality of management is the key variable in determining outcomes. Management has to be learnt and relearnt from the crucible of experience. The Bombay Management Association has done pioneering work in this sharing of experience to upgrade the managerial quality of its members.

But managerial quality is not a question merely of professional savvy but also of the strength of character and depth of commitment of those with management responsibilities. The capitalist system functions on self interest and even greed; but can only be sustained if its captains are not greedy, else we get an Enron.

Competing with the best in the world is the theme chosen for today. It is both a necessity and an enormous opportunity. For we live in the brave new world of open economies. There are aspects of this process that are within the realm of the company and those that concern its broader operating environment. Our focus as businessmen has to be on our micro world but we cannot be oblivious to the macro world. Inefficiencies of infrastructure, red tape and corruption and labor policy have a signal impact on our operations and competitiveness. So, I will towards the end of my talk briefly touch up on them.

My remarks are restricted to manufacturing, as this is what I understand and where I believe tremendous potential lies, in spite of Mr. Stephen Roach's (of Morgan Stanley's) reservations on the issue. Our friends in the services sector, especially in the Information Technology sector, are doing a wonderful job. Though I believe they will also have their share of challenges.

Most, if not all of us, are already competing with the best in the world, directly or indirectly. Directly when we make a product for the consumer. Indirectly, when we produce a product for someone who makes a product for the consumer.

The Indian market started opening up in the mid 80s, a process that accelerated after 1991. We opened up completely in 2001, when quantitative restrictions were lifted.

Of the top hundred companies in the country today, 83 companies were already in existence in 1980. This speaks of the essential strength, resilience and competitiveness of Indian companies.

There is no major product or brand that is not there in the Indian market. Therefore, we all are already competing with the best in the world. The real issue is how can we do better and win a larger market share?

Exports from Indian manufacturing companies have been rising significantly. A number of companies like Ranbaxy, Bharat Forge, Sundaram Fastners now have over 40% of sales from exports. That shows what is possible. We are beginning to see Indian companies setting up facilities or acquiring companies abroad. This is a sign of the seriousness of their intent and confidence and augurs well.

In the last decade, globalisation has increased in its scope and intensity. This process will accelerate. Today, any seller from any corner of the world, can hope to make his product or service available to any other corner of the world. Conversely, every buyer is seeking the lowest cost, best quality source in the world. Barriers of quotas, tariffs, transportation costs, channels etc. have fallen significantly and can only fall further. The WTO Doha Development round under negotiation, the Free Trade & Regional Trade Agreements and the unilateral liberalisation occurring in a large number of countries including India will ensure this.

To a country with lower manpower costs, for both skilled and unskilled manpower, like ours, this represents a huge opportunity. If our results have not been as dramatic as China's, we have only ourselves to blame, both the entrepreneurs and the government, in not responding better to this situation.

During the last decade Indian industry has gone from exuberance at the opening up of the Indian economy, to being shocked by the fierceness of competition, to finding its feet. Not everyone survived and new entrepreneurs came in. I think in the last 2-3 years, the results of restructuring of Indian industry are becoming apparent. This is why despite everything, industry is growing, investing more, exporting more. Hence, I am very optimistic about the future.

[What does it take to compete with the best ?](#)

It is of-course a multifaceted process but I believe its core has to do with people and change. With leadership, culture, innovation and organisation development.

Foremost, we must believe in ourselves. As I said a few days ago, the MNCs that we compete with are run by mortals like us and not by supermen. Of course they have a lot going for them; size, reach, technology, brand. But, we too have things going for us; the large Indian market and our better

understanding of it, a fundamentally lower cost structure, excellent human resources, and the natural pride of a free people.

The battle is first fought and won in the mind. As is said, "Jo dar gaya, woh mar gaya". One may fight and still lose; but the very process of fighting creates its own opportunities. On the balance, I believe we have seen and will increasingly see many more winners than losers amongst Indian companies.

It is equally critical to have a global mindset. We may not enter all global markets immediately, but we must instinctively view our options and decisions in a global perspective. Are the product and process we are contemplating, globally competitive and appropriate? For, barring exceptions, the product and process that have worked in the developed world will lap our shores as well, may be with a time lag. Perhaps, not in exactly the same form but modified to suit our requirements and our income patterns.

In most Indian businesses we should ensure that our position in the domestic market is well defended. 88% of the output of Indian manufacturing sector goes to the domestic market. Its exports have risen sharply, from 7% in 1997 to 12% in 2003, but still constitute the tail. We must have an attacking intent, but should first make sure our defences are sound.

Having fortified our defences, we should aggressively seek markets abroad. For expanding our size; for facing the full blast of global competition, to be better prepared in our domestic market, and in taking our challenge to the turf of our competitors.

A corollary to this process of globalisation is the increasing speed of change. We successfully sold the Bajaj Chetak Scooter for 20 years. Now, if we sell a model unchanged for 3 years, its an exception. Change in markets is continuous. Any advantage one can wrest is only temporary.

Therefore, companies have to be proactive and ceaselessly reinvent themselves, their products and processes. For this they need scale and financial resources. But more importantly, they need an ambitious, can do leadership and world class talent. Capital can be got, so also most technology. What has to come from within the company, however, is leadership, a world-class core team and a motivated workforce.

In the world of industry certainly, but increasingly in most fields, there is only so much that an individual, however gifted, can do. But there is nothing that a team cannot achieve. An organisation which excels in teamwork is the darling of its customers and a terror to its competitors. When looking for people for his company, EDS, Ross Perrot explained his criteria for selection, 'I want people who love to win. And if I can't have them, then I want the ones who hate to lose'.

In business one has to simultaneously work on the present and the future. On current productivity as also on innovation. There are few if any given long term comparative advantages. One can only work towards competitive advantage; wherein one's products and costs remain continually attractive and competitive.

The companies that are winning are those that are focussed. We are all competing with larger and more organised players. The R&D expenditure of Honda on Motorcycles of USD 670 Mn is almost 70% of the turnover of Bajaj Auto; and even by world standards, we are not a small company. So, we have to focus our limited resources on a few carefully chosen goals.

Though one has to guard against the vision thing becoming wishful thinking, in today's world a positive dissatisfaction, which means a hunger to improve, is essential. We must not become smug or self satisfied. There are always higher mountains out there to challenge our will. Hence, we must be accurate self-critics as well. A paradox ? Solving paradoxes and squaring circles are essential tasks of management.

Those that are winning this race for the world seem to share some characteristics:

1. They are good judges of what are the key drivers of value for the company and focus on them. At the same time they sense and respond to environmental changes quickly.
2. They have a bias for action. They learn fast.
3. They are obsessive about the customer. They use customer insight to build winning products and then sell and service them flawlessly, to create highly satisfied customers.
4. There is something unique about them; and they leverage this uniqueness.

We have to manage more things, more precisely and with narrower margins for error.

Business has to gun for growth. In an open economy any business has to be globally competitive. And size is important for, in global terms, most of us are Davids fighting Goliaths. Any Indian company not growing by double digits per year is skating on thin ice. While our cost positions are intrinsically competitive, we have catching up to do on products, quality, productivity, speed, and, most importantly, the mindset and the capability to continually upgrade in line with market requirements.

As Semon Knudsen, who was President of Ford before Iacocca said " In business, the competition will bite you if you keep running; if you stand still they will swallow you."

Even at the risk of a digression I would narrate a Knudsen story. His father, an immigrant from Denmark, was the President of General Motors in the 1930s. When Semon was 14 his father presented him a disassembled car. Semon had to assemble it to drive it, and he did so. That's what a car nut is like; I admire those who are nuts about what they produce and sell.

One must be nuts about the business one is in, not only to successfully compete with the best, but better still to enjoy himself thoroughly. Competing is no good if it is an anxiety driven process, but is fun if it is a 'thrill of achievement' driven process. The management's role is to make it a thrilling process, while bringing some discipline into it.

There has to be a competitive urgency, a penchant for action, a fire in the belly & a hunger for success, in the organisation. And this comes when performance is rewarded not pedigree. When listening, especially to employees and the market, is emphasised more than talking.

High ethical standards are an end in themselves. But I believe they will increasingly also become critical ingredients of corporate success. No self-respecting individual likes to work for an unethical organisation. And the organisations that we are talking about; consumer centric, alert to outside forces and stretching to deliver, are created and sustained by self confident and self respecting individuals. Large organisations cannot be managed by command & control. They require values to lead and motivate each employee as he or she handles the daily dilemmas of business.

Each company is a unique entity as is each individual. Its physical and human assets have to be used and developed keeping this uniqueness in mind. The culture of the company has to be articulated to reflect its uniqueness. For, it is the culture, a mixture of facts and myths, that guides every individual in the company. Human systems depend on emotional capital. Cultures are mechanisms to create and sustain that capital.

In company after company, be it the Tatas or Honda, one notices the power of culture. Sustaining & reinvigorating its culture is the key task for a large organisation. Do our people enjoy coming to work ? Do they have affection and respect for the management? Is there a positive energy flowing in our organisation ? Is performance perceived to be the basis for advancement in the company ? Is the customer the centre of activity in our company? Do our stakeholders think we are fair, and are they satisfied with the relationship?

At Bajaj Auto we are proud of our Indianness and our legacy. We are comfortable in our simplicity. We are focussed on volumes and reliability. We try to be fair with whosoever we deal with. This is why "Hamara Bajaj" resonates with varied stakeholders; be they vendors, employees, shareholders, dealers or customers.

But a company has to change with the times, not really its essence, but its expression. There is a new leadership at Bajaj Auto and it is taking the company forward by building on this culture but also daring to be different. A faster, more youthful culture.

I am saying this essentially to illustrate the power of culture in relation with something I know well. At Bajaj Auto we are clear that we have a tough task ahead and many failings. But we cherish the challenge.

A word about family management. Of the 100 private sector companies in India with market capitalisation of over Rs. 1,000 Crores, in my assessment about 75 are family managed, 18 are subsidiaries of MNCs and 7 are managed by professionals. One can quibble about the numbers, but the overwhelming fact is of family management. Of course, the only relevant dimension is whether a company is well managed or not. But we will be deluding ourselves if we ignore the family dimension.

Internationally as well, family management has not vanished even in large companies. In the auto sector, Toyota, Ford, Fiat, Peugeot, BMW or almost half of the top 10 companies have significant family ownership and/or management involvement.

In the last decade, there has been a move away from the simplistic "professionals good, family managements bad " cliché. This has been partly due to misconduct by professionals in Enron, Tyco etc. Even legends like Jack Welch have been found lacking discretion. It is also because family managements bring some valuable things to the company. First, a deep commitment to the company. They are not in a hurry to make money from the company. Secondly, they are able to take a long term view of the company, because quarterly results do not materially affect them. Their shareholding is for keeps and not for trading. Thirdly, there is much less jockeying within their companies. Relationships are stable.

At the same time, there are also higher chances of things going wrong in family companies. Errors of the owner CEO cannot be corrected easily. Also, over generations, the chances of failure increase since positions are not always hard earned, based on performance. The new generation sometimes tends to feel insecure about their capability and are thin skinned about criticism. Add to that differences within families, typically between brothers. I know from personal experience! This is possibly why the life cycle of a family firm is said to be three generations.

So, training of successors and the planning of succession is extremely important. Separating ownership from management where possible and a clear division of equity holding and management control of different companies, while the head of the family is around, seems to be the best way of avoiding messy squabbles later.

As companies get larger, and specially if there are not many capable family members, family controlled and not family managed may be the way forward, as is happening in some large companies. What is important for the management, whether family or professional, is to ensure that the principles of good corporate governance and interests of minority shareholders are kept in mind. Only family businesses that treat the interest of the company as distinct and higher than their family interests are likely to succeed.

Let me now come to what we expect from government.

Reform is not a favor that the Central and State governments do to the economy and business. It is largely the unraveling of a host of mistakes made by successive governments.

To increase the tempo of growth we need a reformist government. Reformist by conviction, not because of circumstances. The world today needs alert, ethical and responsive governance.

At the root, the notion of government as mai-baap has to go, because this is not true. It is taxpayer's money they are handling, not their own. Government is there only to provide services and to regulate, not control, the market. If we accept this premise, which I believe most thinking citizens do, then the agenda for the government becomes obvious. A complete overhaul of the principles and practice of

law & administration is required. We cannot be globally competitive if we suffer from poor governance.

Hence,

1. We must speak frankly and clearly to the government about what needs to be done in the national interest. Fiscal balance, better infrastructure, less red tape & corruption, a flexible labor policy, companies that create wealth and employment, are in the national interest. It is the government's role to provide a conducive and stable macro and political environment, and to create rules and incentives that encourage productivity growth and keep improving on these. We should never tire of telling the government these facts of life.
2. We must oppose hare brained government ideas that distort markets and harm competitiveness. Be they reservation in the private sector or non-merit subsidies. We must fight such ideas with all our might, while being sensitive to the genuine concerns of the poor and the government.
3. We must proactively provide to the government, information and substantial inputs, for policy making. I have found often that governments at the centre and the states are quite open to sensible proposals provided someone tells them! Often business wakes up after something inappropriate has been done. Then, correcting that is more difficult, because procedures and egos come into the picture.

All of us want the rampant poverty and human miseries that exist in our country to be removed through economic and social development. Productive, gainful employment is the foundation of economic and social progress. Indian industry, the manufacturing and service sectors, have played a yeoman's role in the past and have an even bigger role to play in the future.

As Shaw put it in "Man & Superman", all progress depends on the unreasonable man. Competing with the best in the world is a formidable, never ending task. But it is an opportunity and a challenge to the will, which unreasonable men will enjoy.

Friends, these are challenging times. Exciting times. The rewards for those who get it right will be enormous. But let us remember, when we go out and compete with the best, we not only bat for our companies, we bat for our country. We redefine what an Indian is, what India is. We set in motion a ripple of prosperity that travels far. We light a lamp, whose light and warmth light other lamps, starting an endless chain of joy. This is our privilege. This is our responsibility. The future, ladies and gentlemen, is in our hands ! Let us make it happen!