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Inventing new ways to get rid of the fat, flab and fab:
Several companies are meeting the slowdown with very simple, yet innovative measures to shave off costs and improve efficiencies.

By Vikas Kumar, *The Economic Times*, January 23, 2009



Tough times often never last. Rather how you deal with them determines how long your company will survive and grow. Entrepreneurs are hardwired to handle and overcome difficult situations but the current economic slump is something no one was quite prepared for. ET spoke with a few homegrown ventures, big and small, which are responding to the slowdown with very simple, yet innovative measures to shave off costs and improve efficiencies.

Umesh Chowdhary, vice chairman of the Kolkatabased Titagarh Wagons has a unique take on how to fight the slowdown. The company ranks among India's leading railway wagon manufacturers. "Rather than the routine of cutting costs on heads like stationery, electricity and travelling, which we feel damages the morale of workers, we instead

thought of dealing with it smartly,” he says. Among the measures taken at TWL are negotiating harder with suppliers to reduce raw material costs and several business “de-risking” initiatives. So the company has begun aggressive marketing for its newer verticals like building shelters to protect against NBC (nuclear, biological and chemical) weapon attacks, where it’s been a recent entrant. “I feel one must keep the customer in mind and understand his difficulties in times like these. This is why we have started offering various value-added services like flexible finance options by tying up with GE (which holds a stake in TWL),” says Chowdhary.

The company has also drawn up plans to help customers “de-bottleneck” by creating synergies between customers who specialise in varied services. Take for example, a transporter who’s about to bag a contract for ferrying goods but is unable to secure a warehouse at the destination due to which he could lose the contract. TWL, which has both the transporter as well as a warehousing company as clients, intends to help both parties connect and work out mutual synergies so they could both benefit. TWL has also initiated a process to recycle scrap for use in its products through which it’s saving costs. Chowdhary says the company has been recycling scrap for the last five months to make over 30 wagon components.

Not all solutions can be found in your backyard though. Figuring out when to join hands is equally important while sailing in choppy waters. A month ago when Rajiv Chawla, promoter of Jairaj Ancillaries and president of the Faridabad Industries Association sat in on a routine industry meeting, the mood was sombre and most of the 18,000 units in Faridabad industries were bracing for layoffs. But good sense prevailed as they discovered that by pooling resources they could drive costs down much better. As a result, 35-40 units have come together for common sourcing. The group has negotiated with a single supplier for electrical goods, computer stationery and mobile phone connections at much lower rates. Also, a common CNC programmer has been hired for every five units instead of each of them paying Rs 15,000. All this has begun saving each unit up to 10-15% in just one month. “We are including as many units in this savings programme. We all need to understand the requirements of this situation and deliver the best possible solutions,” says Chawla. What’s more, the association has just finalised a unique arrangement with Small Industries Development Bank of India where every unit with a strong track record would receive funding for raw-material procurement at cheaper rates.

As the slowdown began to intensify late last year retail, which till then was among the fastest growing sectors in India, began getting hit hard too. News of retailers postponing their expansion plans and even considering shutting down outlets began pouring in. Despite the evident negative affect on sales, some retailers were able to sustain their businesses through new approaches. Explains Kishore Biyani, founder-CEO of the Future Group: “We have set up a ‘cost board’ in the company that monitors, evaluates and keeps all costs under control. This should have been done much earlier but sometimes as growing companies we tend to miss out on these ideas.”

It’s God not the devil in the details. Sometimes it’s not the big ideas but a string of basic and executable measures that bear the most results. The Rs 137-crore Royal Orchid hotel group, which operates twelve business hotels across the country follows this tenet

and cuts costs where feasible. For any hotel chain, it is a challenge to reduce operational expenses without compromising on service quality. So the management is taking a number of steps to rationalise power, maintenance, and vendor-related costs. Says Chender Baljee, CMD, Royal Orchid Hotels, “During the good times inefficiencies creep into the process. We’ve now become conscious of the fact that costs have to be controlled under various heads.” For instance, the company is negotiating for better rates with the vendor who provides vehicles for airport pick-ups and drops for guests. “We are asking them to pass on the benefit of lower fuel costs to us,” says Baljee. The hotel chain has also reduced advertising costs by cutting down on the number of its hoardings in states where it has a presence, by as much as one-third. Electricity costs are being reduced by introducing LED lighting instead of CFL, which has high initial costs but is cheaper in the long run. “Things like painting and minor maintenance, which used to be outsourced, are now being performed by our own staff,” says Baljee. The chain hopes to shave off at least 10% of its costs following these steps.

(With inputs from Ashish Agashe, Nikhil Menon, Sachin Dave & Tapash Talukdar)

Groupthink’ and the crisis in global banking

An HR perspective of how banks laid the foundation for the economic crisis

By Ganesh Chella

I worked with an international bank for four years and 11 months. In the last year-and-a-half of my stint there I used to head the compensation and benefits function.

In retrospect, that was the most trying period of my professional life. I finally quit the bank and took up a job I really loved, albeit at a 40 per cent cut in pay. I was so keen to leave that I did not wait to complete five years to claim my gratuity. After all, I was able to reclaim my professional life and this was a very small price to pay.

In the midst of the current global economic crisis the world is angry with bankers. US President Barack Obama termed as “height of irresponsibility” and “shameful” the act of Wall Street bankers to give themselves about \$18 billion in bonuses even as their companies teetered on the verge of collapse and were asking for taxpayers’ help to sustain them.

My stint in the international bank gave me a first hand experience of how bankers, in general, think and act and more importantly, helped me understand their motives and drives. And there was no better vantage point from which to see this than from my position as the Head of Compensation and Benefits.

In this article, I wish to use this personal experience to try and understand some of the systemic issues that plague some banking professionals across the globe.

A weak HR function is a huge symptom of the malaise. The bank I worked in and most other international banks at that time never really had a HR function. The foundational values and beliefs about people and human motivation (like humanness, respect for people, belief in the human potential, and so on) that all HR functions rely on were not really central to the way people were managed. It was, therefore, impossible for HR to find ways to engage and influence.

So, what really drove people to perform and what gave these banks the edge in the labour market and the 'day one' status on premier b-school campuses? Money was the lead and sole mechanism that drove everything. Most people joined these banks to become rich and not to become great professionals.

So look at the deadly combination — the absence of a value foundation, a weak HR function and a lot of money! This was compounded by the fact that all the levers of rewards were vested in the hands of supervising managers.

Given their innate style of being profitable deal makers, managers in banks ended up adopting a similar deal making approach with their employees too — 'you do this and you will get this'. Given the power vested in the managers, the brightest talent soon realised what was good for them: do what pleased the boss and avoid dissent. Given the way rewards were designed and its lone place in the employee value proposition, the short term was often celebrated.

Added to this, the phenomenon of 'groupthink' was also in force. Most bankers were from similar backgrounds and ended up thinking similarly. Those from outside just did not fit in and either left or had to fall in line. As a result, there were few original ideas, dissenting voices and healthy debate and a culture of extreme risks and even irrational decisions. (*See box on Groupthink*). Any effort by the 'laterals' (a term used to describe those who came from outside as mid-career hires) to bring a dissenting or even a different point of view was seldom appreciated.

It was very clear to me that the root cause was greed. It was sad to see how some of the brightest managers could not transcend the money aspect and focus on all the other things that could contribute to creating a sustainable work culture and organisation

The collapse of the banking system in the US and other countries will inevitably bring into sharp focus the way rewards are designed and administered. Bank Boards will end up playing a very significant role, not only in scrutinising the quantum of rewards, but also the basis on which rewards are designed and in ensuring that the behaviour that drives people to work towards the rewards does not destroy the institution. Given the increased role of the Government in the running of banks, their role in shaping reward policies cannot be ignored.

Unfortunately, this is no solace for the millions of people who lost their jobs and their savings and their future because of what some of these bankers did. We will have to let their bad Karma catch up with them.

Groupthink

Groupthink is a type of thought exhibited by group members who try to minimise conflict and reach consensus without critically testing, analysing and evaluating ideas, as a result of which individual creativity, uniqueness and independent thinking are lost.

Groupthink may cause groups to make hasty, irrational decisions, where individual doubts are set aside for fear of upsetting the group's balance.

Some of the key symptoms of groupthink identified by Irving L. Janis and Leon Mann Janis, I. L. & Mann, L. are:

- *Illusion of invulnerability: Ignoring obvious danger, taking extreme risk and being overly optimistic.*
- *Collective rationalisation: Discrediting and explaining away warnings contrary to group thinking.*
- *Illusion of morality: Where members believe their decisions are morally correct, ignoring the ethical consequences.*
- *Self-censorship: Where members withhold their dissenting views and counter arguments.*

Mind guarding: Where some members appoint themselves to the role of protecting the group from adverse information that might threaten group complacency.

Social psychologist Clark McCauley saw three conditions under which groupthink occurs — directive leadership, homogeneity of members' social background and ideology and isolation of the group from outside sources of information and analysis.

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