Steering through change

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Tata Strategic Management Group chief executive Raju Bhide talks about the current economic scenario and how the company proposes to beat the downturn

Change, it is said, is the only constant in life; and business, it seems, is no exception to this rule. The past few months have brought this home to companies, in many ways, as they are forced to negotiate their way through the uncharted waters of a global economic downturn. Tata Strategic Management Group (Tata Strategic), India's leading strategy management firm, has developed a bouquet of offerings to help companies tide over the crisis. Chief executive Raju Bhide spoke to Christina Fernandes on the current economic scenario and how Tata Strategic proposes to beat the downturn.

How would you describe the current economic downturn?
The current economic downturn is a black swan event, an event as improbable as sighting a black swan. The event is so remote that nobody plans for it or factors it in the business plan. And if more than one such event occurs in a single year, it means serious problems. Indian companies saw two major changes within a few months. On the demand side, there is an unmistakable downward trend. Domestic demand is tapering down; in some cases it has even turned negative. The financial, equity, forex and credit markets coming under pressure, is the second major change. The days of easy availability and abundance of finance is over and it is basically a manifestation of the economic situation in the US and Europe. Added to this, is the fact that foreign funds are not available and there are massive capital flow reversals as companies worldwide are in the process of de-leveraging. As long as this process continues, the crunch will continue.

How long do you think the crisis will last?
I can offer no better insight than what US treasury secretary, Henry Paulson, said. According to Mr Paulson, whose column I happened to read in the New York Times recently, it is not possible to predict when this crisis will end. He says it is the most severe and the most unpredictable crisis we have seen in our lifetime. Nevertheless, at present, most forecasts suggest four quarters of negative growth in the US — with a revival around mid/end 2009. The magnitude of de-leveraging is such that, in the US, total leveraging in March 2008 was 350 per cent of GDP. This essentially means that total debt was three and a half times the national income. It used to be 250 per cent 10 years back — that is the extent to which the US has piled up borrowing over the decade.

What does this bode for industry and business, especially in India?
For India, the key is to place the numbers in perspective; it is time to look at the emerging liquidity crunch within the larger corporate framework. There are three key points we need to recognise: FII withdrawals, falling exports and repayment of short-term foreign debt. The three factors together are going to ensure a liquidity crunch for the country for some time to come.

What opportunity does this unique crisis create in terms of the advice Tata Strategic can render to the infrastructure sector?
It is a question of what kind of problems the infrastructure companies are facing and which of those problems we can solve. It has been our experience that the major problems in most projects relate to defining what kind of a business case to have, what is the logic for an investment, and what the returns will be. We have done a fair amount of such work — for example on SEZs, including the Navi Mumbai SEZ and several others projects.

Going forward, as more such projects are established, there will be a need for performance to be improved, cost to be controlled and strategies to be redefined. And those are the kind of offerings for which we are seeking tie-ups.

We may not have had solutions to offer for such problems in the past. But, with several alliances on the anvil, we will soon be able to consult on how to refine plans to enhance revenues, how to improve processes and how to improve cost structures.

What is the way forward for companies caught in this downturn?
A great deal depends on how the companies are positioned in terms of existing commitments, existing leverage, existing projects, etc. For cash-surplus companies still at the starting point, with no previous fund commitments, a new set of opportunities including acquisitions is available. They can make a fresh assessment of demand and draw up their growth plans accordingly.
With companies feeling the heat of the downturn, what are they asking for from Tata Strategic?

A lot has changed in the past few weeks. It used to be growth earlier, but increasingly revamping business plans, performance improvement and cost reduction are becoming the key concerns. Times are changing fast and what worked well six months back may no longer be valid now. Accordingly, we are revamping all our offerings to gear them towards navigating through this downturn.

Since we have always been quick to adapt to change, we are in a position to cater to the major questions of the day and the top-of-the-mind issues that a CEO is facing, at any point in time.