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Thought Leaders Strategy & Business ...Booz, Allen & Hamilton

An Interview with Keshub Mahindra

Chairman of Mahindra & Mahindra, Bombay, India

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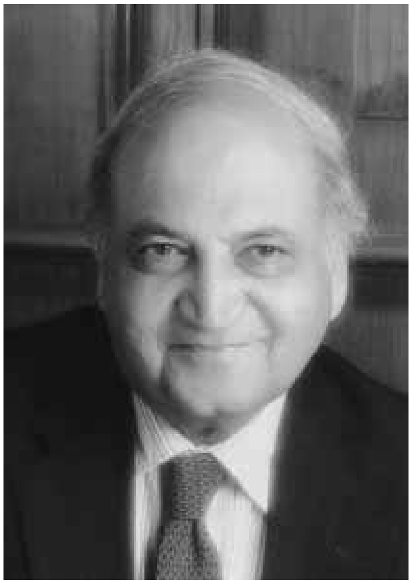
By Joel Kurtzman



Mahindra & Mahindra, with sales of 14 billion rupees (about $500 million), is India's 10th largest company, and its largest manufacturer of utility vehicles--it has 70 percent of the domestic market--and tractors, with a 27 percent share.

During the last three years, under the direction of Keshub Mahindra, the company's Wharton-educated chairman, M.&M. has undergone a radical re-engineering of its shop floor, a restructuring of its corporate core and a refocusing of its strategy around a smaller group of businesses. The aim of the change program was to position M.&M. to compete in the New India, which--since the early 1990's--has been welcoming investment from foreign companies, many of them extremely large, well capitalized, technologically advanced and global.

But while M.&M. functioned well within the protected walls of India's post-World War II economy, it could never be called "provincial." Since its founding by Mr. Mahindra's father and uncle, in 1945, it has been producing Jeeps, at first with a succession of foreign partners that included the now-defunct Willys, American Motors and then Chrysler, before producing the vehicles wholly on its own. For engine technology, M.&M. has worked with France's Peugeot and Japan's Nissan. In addition, M.&M. and Ford recently entered into a 50-50 joint venture to produce Ford Escorts and Fiestas in India. In other areas, like telecommunications and software, M.&M. has teamed up with British Telecom and other partners from around the world.

But how does a company operating in a protected, regional market--albeit a potentially huge one--ready itself for global competition? And what changes are likely to occur in the New India?

What follows are excerpts from a rare interview with the 72-year-old Mr. Mahindra, held recently in his office in Bombay.

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Chairman of Mahindra & Mahindra, Bombay, India

S&B: There is a lot of talk about "The New India," by which people mean that the country is now open and ready for investment. Is there really a new India?

Keshub Mahindra: Before answering that, let me go back to the 1950's and 60's. That's when the story of economic development in India begins. But it begins under the influence of the Fabian socialist school of thought. This was really the British idea that economic development follows from state planning. As a result, a whole host of very strenuous rules and regulations were set up by the Government. These rules covered the whole gamut of industrial activities. Everything was regulated and licensed.

Let me give you a very small example of how things worked. Under the licensing system, the Government would say that we could produce 10,000 tractors a year. That figure was not based on supply or demand. If the market needed 50,000 tractors a year, nothing doing. The Government would say, "Mahindra, you can only produce 10,000 tractors a year." We could not exceed the rule.

S&B: Were you allowed to adjust your prices or were they also set by the Government?

Keshub Mahindra: In the beginning, there were very rigorous price controls set by the Government. So that you really couldn't make any money in business. You couldn't adjust prices to costs. And when you did make adjustments, it was not based on actual costs but on historical costs.

It was all quite draconian. In addition, there were monopoly laws in India, so competition was very limited. These laws were exactly the opposite of the monopoly laws in the United States, where they were set up so no one dominant player could gain too much influence over the market. In India, the fundamental error was that these laws created a concentration of economic power. But these were not the only things that tied our hands.

S&B: What else characterized this period in India?

Keshub Mahindra: There were extremely rigid labor laws. What the laws meant in practice was that if the market failed, and you had to cut production, you couldn't lay off people. This was a very difficult rule under which we had to operate. All of these rules were made in the rather foolish belief that the only people who had enough wisdom to do anything right in this country were the people in the Government.

S&B: Were the reasons philosophical or political?

Keshub Mahindra: My own perception, and it may be wrong, was that the Government was fearful of change. Perhaps this had something to do with being colonized for 200-odd years. It was scared of foreign and Indian capital. So it tied our hands with all these rules and regulations. It was absolutely ridiculous. The result was that we didn't have growth at all. We were struggling, on the average, with about 31/2 percent a year of growth. But India needs a great deal more growth than that, especially since the population is growing at such a rate.

S&B: So what happened?

Keshub Mahindra: In 1990, we began to see some real progress. A new Government came in, headed by P.V. Narasimha Rao. He had the guts, or should I say the conviction, to review the situation and say, "This is all wrong, I want this whole process changed." What helped, of course, was that the country was facing a tremendous foreign exchange crisis.

S&B: What did he do?

Keshub Mahindra: Well, he set forth some principles for real economic reform. The point is this: Real reform in India started only in the early 90's. We've been at it only four or five years.

S&B: But it seems to have already paid off, in terms of growth.

Keshub Mahindra: Yes, but let me tell you the problem. In terms of growth, we are doing O.K. But we still have all the problems that are associated with a society where the literacy rate is only about 50 percent. As a result, people find it very difficult to relate to what might be called the new technologies.

In addition, people want to see quick results. Unfortunately, real results don't come that quickly. They take time. Personally, I think the results have been outstanding. But that view hasn't gotten down to the people yet. My guess is that we will need some really strong growth--6 to 7 percent per annum--before we have enough funds to provide the kind of care that the country needs.

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S&B: During the last two years, India has grown at about that rate.

Keshub Mahindra: A little bit less than that--more in the 5-1/2 percent range. But we need faster growth for everyone to be on board with the reforms. You know, India is a truly democratic country, with free elections every five years. So people have to be on board. That requires good growth.

S&B: Is there a danger the reforms may be stopped?

Keshub Mahindra: No. I don't see that as a danger. Both major parties are in favor of reforms. It is just a matter of speed. The Congress Party is in favor of bringing on the reforms quicker. The major parties are headed in the same direction.

S&B: Are both parties in favor of privatization?

Keshub Mahindra: That is an interesting question. There are, of course, the loss-making public companies in this country. To privatize them, you have one big handicap to overcome that makes it a very difficult problem. That problem is that in the absence of any social safety net--we have no Social Security system in the country--what do you do? How do you sack thousands of people and still say to yourself that there must be no social unrest? That we must have political stability? This is all very contradictory. It is still a very difficult and unresolved thing.

S&B: Are there other unresolved issues that are associated with the reforms?

Keshub Mahindra: Let me give you some examples. To have real economic reform, subsidies must go. We have subsidies for food and so forth. The minute we start removing these subsidies prices go up. People will object.

Here is another example. As the process of reform moves forward, productivity will have to be improved in order for our companies to compete internationally. That means we have to bring in new technology. But that also implies that you need fewer people--at least at the outset. Trade unions are very strong here. So how do you tell a trade union leader, "Look, I will sack 1,000 of you, but don't worry. In five years, there'll be 2,000 more employees on the payroll." Nobody's going to believe it.

S&B: Just how difficult then is the business environment?

Keshub Mahindra: It is very difficult. But there has been progress. Four years ago, if you talked to trade unionists about productivity, they would throw you out. Now they are beginning to understand. Even so, last year we went through a six-month strike because of productivity issues.

S&B: Was that when you were putting in place your re-engineering program?

Keshub Mahindra: Yes. We had a strike at one of our operations over the question of productivity. We said to the union, "There are 1,200 of you producing X number of parts. Now we need 600 to produce 2X number of parts." And we showed that it could be done. The strike lasted for six months before it was settled.

S&B: What was the outcome?

Keshub Mahindra: We settled the strike and our productivity today is 100 percent more than what it was because of the re-engineering. But this is how we settled the strike. Since there is no Social Security system, we said to our laborers, "We will pay you, but you must stay at home. You will stay there until we can find you alternate jobs." I can't tell you how many kinds of problems that created. You see, people here don't like to take money for doing nothing. But fortunately for us, we were expanding some of our operations in some other plants in the same region. In the end, we were able to absorb some of those workers. That is how things are here.

But there are other ways of dealing with productivity issues. There is, of course, the golden handshake--which works here. But it's a very expensive business. However, in the long run, the payback is good.

S&B: Have the rules and regulations been amended so you can lay off workers?

Keshub Mahindra: No. Not at this stage. But I do not believe that the answer lies simply in changing the laws. The laws may allow you to do some things differently, but the culture of the country will not allow you to do it. I would say that all of us in business in this country are facing these problems. We simply must do our best to navigate through the changes.

S&B: You recently attracted a lot of attention in India for undertaking a restructuring of your management system and corporate structure. At the same time, you re-examined your overall strategy. What have you changed?

Keshub Mahindra: We used to do all kinds of things. We were in oil drilling, we were in business machines, construction and so on. When the reforms in India started in the early 1990's, and it was apparent that foreign competitors were destined to come into the market, we said to ourselves, "What is the focus of our business?" And then we took a deliberate decision. We sold our oil drilling business, which was a very profitable business. We sold our business machines business. And we decided that our corporate mission really was in the area of vehicle production. So we refocused our business around our core competencies, which were primarily in manufacturing, joint ventures and so on.

S&B: How did you arrive at that conclusion?

Keshub Mahindra: The way we got to that was to ask ourselves a question. "Where do we have the greatest chance of becoming globally competitive?" We asked the question with a great deal of introspection. We answered by saying that our two main businesses are today automotive and tractors. So the whole focus of this company is now on that.

But that was not enough. After we arrived at that decision, about two years ago, we then began to restructure the company. What we did was to split the company into six proper divisions. We then created a president for each division. The president of the automobile division, for example, has the whole lot. He is responsible for marketing, research and development, finance and so on. And then we said, "You are now no longer able to pass the buck." Simple as that.

The structure now is that we have one division for automobiles and related businesses, a second for tractors, a third for infrastructure, a fourth for trade and financial services, a fifth for telecommunications and finally, a division for automotive components. On top of all that, we set up a corporate body for monitoring each division's performance and the company's performance as a whole. We did this all by ourselves--the managing director, the deputy managing director and I--and we did it quietly. Nobody in the company knew anything about the restructuring plan until we released it.

S&B: What happened then?

Keshub Mahindra: After we released the plan, we came out with a thick list of instructions for each president. But what we really conveyed to the presidents of the divisions was what they can do and what they cannot do. You know, we never had presidents before, only managing directors. Now that we have presidents the job of the managing directors is to sit on top of these businesses and monitor the work, look at long-term strategies, look after human resources and over corporate finance. Now we've only had this plan in place for about 15 months. But the results are quite good.

S&B: What is your oversight role as chairman?

Keshub Mahindra: I ask the presidents to come in with their figures for, say, the next year or the next three years--we do five-year rolling plans--and meet with the managing directors. So the president comes in with his figures. The managing director and the deputy managing director will then sit with him and say to him, "Oh, hold it, hold it, hold it. Your profits are not good enough." The managing directors will go through discussions and give the president their rationale for their questions or reservations and work out a solution together. The managing directors do that with each of the presidents and then they bring their conclusions to the board, which is where I sit. But the board rarely interferes.

S&B: What are the targets that the managing directors use with the presidents? Do they use return-on-equity, return-on-net-assets? Which figures are relevant to them and to the board?

Keshub Mahindra: The first target is the full cost of each president's plan. We include in that our guess for inflation. We also take a guess at what the company's economic growth will be and what the national economic growth rate is likely to be. Then we set all sorts of efficiency targets. Like return on assets, the return on investments and so on. We have a whole gambit of efficiency targets.

S&B:: How often do you look at each president's progress?

Keshub Mahindra: We have a very varied system of reporting. Each president is required to report his division's overall performance every month. They are also required to report their production every day, which I get on my computer. And if we find out something is not right, we go and find out why.

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S&B: What is the role of the managing director and deputy managing director?

Keshub Mahindra: Although the responsibility of the operation of the whole company rests with the managing director and the deputy managing director, their role is not day-to-day operations any longer. Their role is more long-term thinking, strategy, technology, new products--what to do. For example, one area where we are concentrating is in human resource development. This is a corporate function. Corporate finance is a corporate function generally, as well. That insures that the presidents don't overindulge the budgets given to them. So some limited degree of control over money stays with corporate.

S&B: If the president in the automotive division wanted to develop products and move into Europe, for example, could he do it?

Keshub Mahindra: As long as he can afford to do it. What he has to do is put forward his plan to the managing director and the deputy managing director. He needs to get their permission. And if any capital is required, he has to be able to obtain that too. Then he does what he needs to do.

S&B: Do other Indian companies use this system? Do they have divisional presidents, for example?

Keshub Mahindra: No. But I think it's coming. What is happening is that Indian companies are becoming more professional. I take great pride in the fact that our company uses professional managers, for example. My family used to own 100 percent of this company. Now it is public. We have more than 100,000 shareholders. But even when we owned 100 percent, we hired professional people in every sphere--and we have taken tremendous pains to do that. Right now in this company, the only family members working here are my cousin, my nephew and myself. That's it. Just three of us.

S&B: This is not typical of Indian companies.

Keshub Mahindra: No. It's not typical of Indian companies at all.

S&B: India has very low-cost labor. How relevant is that to the competitiveness of your company?

Keshub Mahindra: It is a myth that low-cost labor is an advantage. For instance, Indian labor, in terms of dollars per hour, is very cheap. No question about it. But if you look at overall productivity, the cost of Indian labor looks very different. Take automobiles. Today we produce roughly 60,000-odd vehicles. With truly world-class technology, our competitors could produce in excess of 100,000 or so vehicles with far fewer workers than we have today. So what happened to the advantage we were supposed to have from our so-called cheap labor? It is a myth.

S&B: You have a number of licensing and technical assistance agreements covering technology. How are you approaching the technology issue? What are you doing to become more competitive?

Keshub Mahindra: Our philosophy on technology is very simple. In all our businesses we have technology agreements together with investments with foreign firms. I really do not believe in just buying technology. I believe that technology should come with investment. So our partners have a long-term interest in what we do. And I must say that's good for them and it's very good for us.

S&B: You recently made a significant deal with Ford.

Keshub Mahindra: It is a 50-50 joint venture with Ford. Together we set up a separate company. Now it is very interesting. Ford said to us, "You know, our only concern is that we'd like to manage the plants because of new technology." And I think we shocked them, because it took us only one minute to say, "Go manage it." In fact, we said, "We'd love you to manage it." That is unusual.

S&B: What was your rationale?

Keshub Mahindra: We don't know how to build passenger cars. We make utility vehicles. It's entirely different. True, we have an automotive business, and we have local knowledge that they can use, but we are not aware of the latest technologies and so forth. So we said, "You know, it is crazy for us to do it." Our people will learn what they should do by working with Ford. Production hasn't started yet, but the whole process is working extremely well. And our people are learning. It is something of a laboratory for us.

You see, this is not a pure technology transfer issue. Ford shows us how it manages purchasing, for example. How they manage their personnel. How they manage their internal systems. From us they will get input as to how to do business in India. And it's not that simple. You just can't come in. Doing business here is complex.

S&B: You also have a joint venture with Nissan, don't you?

Keshub Mahindra: It is more complicated than that. Years ago, Nissan joined a state government to make trucks. In those days, they were licensed to make only 10,000 trucks. Which is ridiculous, given our country's needs, but that's how it was. The local company went into bankruptcy. The state government said to us, "Will you please take over this plant and this company?" Which we did. So today we have a technical cooperation agreement with Nissan. We then took this company and merged it into our own company last year. So it's now a division of our company. But it is not really a joint venture, only a technical agreement with Nissan. I think Nissan has only one man here.

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S&B: Events are changing very rapidly in India. Can Indian companies keep up with the pace of change?

Keshub Mahindra: In my opinion we opened up too fast. I don't think that you can suddenly jump from total Government control of the economy to something that is truly open. Today, you know, India is more open than China. We have foreign companies coming here with 100 percent equity. Hyundai of Korea, for example, is coming here to make passenger cars in a 100 percent equity investment. Because their plant will be brand new, they will come here with no excess workers to shed. Now, how do I compete with them, with all my old processes?

S&B: Many of the foreign competitors are technologically very advanced.

Keshub Mahindra: That is a problem. This is why I say that India opened up a little too fast. In the old days, there were so many restrictions, you couldn't come in. You couldn't have equity of more than 40 percent. India did not really invite foreign investors. The attitude toward foreign investors was totally ambivalent.

S&B: In the white-goods sector, Electrolux and Whirlpool are coming into India with 100 percent equity deals. Similar deals are being made in the automobile sector. How will Indian companies compete against these overseas firms?

Keshub Mahindra: These 100 percent equity deals make it very difficult for a number of reasons. So what we are saying, is this: "For God's sake, let's have level playing fields." Now what does that mean in our context? A big company like Hyundai or Samsung can borrow money overseas at 6 percent. Our interest costs today in India are 19 percent. But I can only borrow overseas in limited ways. So all of my working capital requirements come from India and at 18 to 19 percent. How do you compete like that? It must change. Then, on top of this, these companies are bringing new technology into the country. So it is very difficult for Indian companies right now.

S&B: Are you restricted in the technology that you import?

Keshub Mahindra: No, not anymore.

S&B: As a strategist, how do you take aim at your new foreign competition?

Keshub Mahindra: What we are trying do in our company is to say that within a certain span of time, maybe four, five or six years, our products must be globally competitive. Now if that means more investment, O.K., fine. If it means new technology, fine. New products, fine. But we must be globally competitive. To get there, we will develop our exports and as we do we will begin raising our productivity to world-class levels. We will do that alone and through joint ventures.

We will also begin expanding our exports and set up a trading company, which is in its very earliest stages. But let me give you an example of where things stand. We have sent 1,000 tractors to the United States--mostly in the Southern states--as a test. They were small horsepower tractors for smaller plots of land and they worked beautifully. But if I am going to sell the utility vehicles that we make, which are really diesel Jeeps, I would not have a chance at all in the United States. We tried an experiment to sell them in Europe. It was a complete disaster. Our product is not refined, it is just not as good as those on sale there. However, my Jeep does have great appeal in, say, Africa and South America.

S&B: Are there specific Indian characteristics of the company?

Keshub Mahindra: Let me put it like this. If you study the Indian social culture, you would find that it is very much a patriarchal system. Now, I think that you cannot get too far away from it, even in our company. I think that sometimes these workers of ours, they look to a father figure. And, you know, I must tell you of an experience that I had that absolutely shook me.

Last year, we completed 50 years of our existence. The workers at our plants said to me, "Please come out on the day of the 50th year." So my wife and I went to the plant. And do you know what? Ten thousand workers, standing around, put my wife and me in a Jeep and they took us for a ride around the grounds. And as they did, they were cheering and throwing rose petals on us. It was an unbelievable kind of affection that they showed. It was true affection.

So if there is a characteristic of an Indian company, I would say it is rather like a large village, or family even. And you know, we try to give our workers the feeling of family. We take a lot of trouble looking after them and we care for them. I mean we fight with them on wage agreements and so on, but we care.

I think that's the nature of an Indian company.