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CFO Corner

Dr. Paritosh Basu

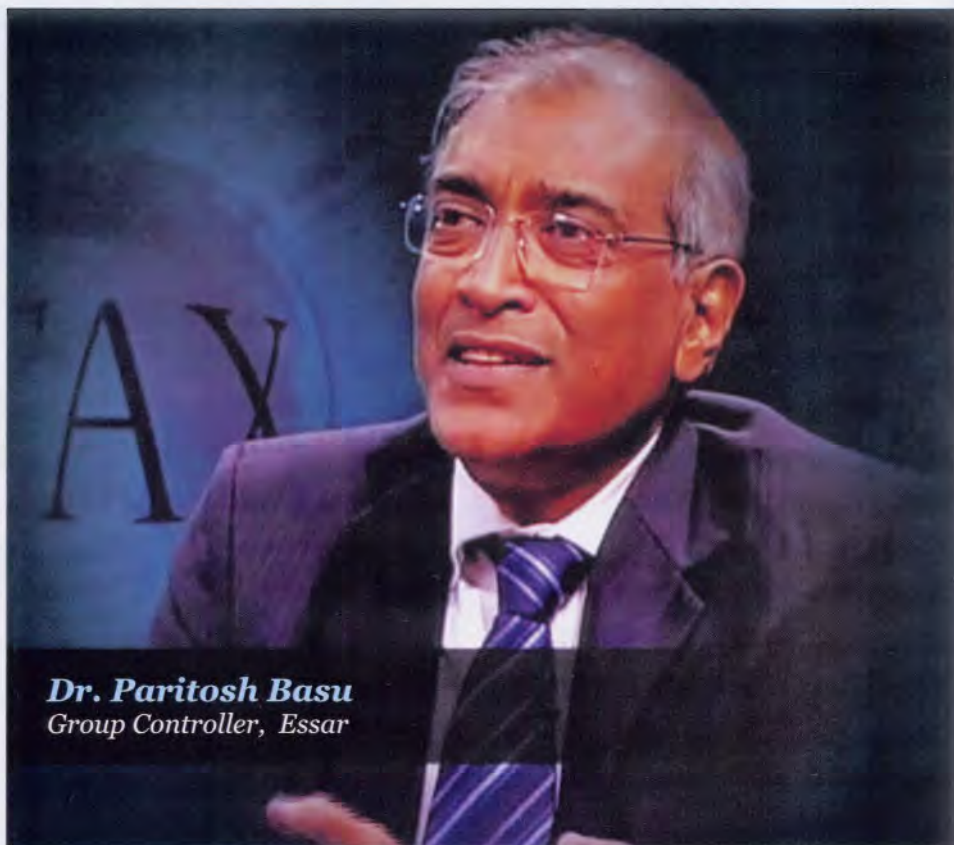
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Managing in Challenging Times

Beginning this month, we are starting a new feature, "CFO Corner." This is a part of our constant endeavor to bring powerful insights and viewpoints of a firm's top management which shape its future growth and offer CFO aspirants learn about what it takes to cope with challenges effectively and steer the firm to greater heights. In a free-wheeling discussion with The Global ANALYST, Dr. Paritosh Basu discusses his journey as an ex-CFO, and as a group controller, a position which he currently holds, and what does it mean for him to be in the hot seat at one of India's largest business groups, his style, the challenges his group faces and the strategies he has to effectively deal with such threats.



Dr. Paritosh Basu
Group Controller, Essar

What are the key challenges CFOs are facing today?

I would enumerate some of them as follows:

- Effective decision management and accelerate the process for faster decision-making with an 'Enterprise-wide Risk Management' approach. Make decision makers at all stages aware of what can go wrong and insist for making mid-course correction and / or keeping the 'Plan B' ready to move ahead, if met with any sub-optimal result or failure;
- Proactive management of all accounts and finance functions related processes and deliverables as well as keep them ready to enable operating functions successfully, meet challenges in achieving turnover, growth of products and services across geographies and customer segments;
- Be providential and meet challenges in achieving trade-offs, both in Product Pricing and Capital Expenditure through life-cycle based approach which is gradually getting shortened;
- Meet all stakeholders' demands for total transparency in the entire process of corporate governance, both in internal and external environment;

- Talent Management with specific focus on Ring-fencing, Multi-tasking and 'Innovention' (Innovation, Invention and Creation). Stretching and sweating of all human resources to the optimum level for productive value addition without impairing organization's culture and level of motivation; and
- As an aiding process to the above, IT-enablement of all routine functions (SOPs) and thus release time and space to team members so that they can think and work more for maximization of value additions and minimization of 'value destruction'.

How do you see the impact of Euro zone Crisis and Fiscal Cliff impacting India Economy?

In my personal views, India is coupled with the world economy to the extent of about 25 to 30% of her performance with major share tilting towards the USA and Europe. It will be a critical challenge to make good that share from elsewhere and also by expeditiously integrating India with Bharat, i.e., urban and rural economy.

The movement of inclusive growth has to be accelerated and made more effective in real terms. One is not in a position to conclusively fathom out what will be the impacts of Fiscal Cliff in the USA if it really spreads over a decade or so, as we hear seven to eight trillion dollar of debt correction will take place during that time span. This again on its own will cast dark shadows in Europe and China. On the other hand, even if Euro zone crisis does not worsen further, one cannot expect overall growth beyond 1.5% to 2.0% there and that too after around 2015.

How geared are Indian firms to face the challenges posed by uncertain global environment, besides worries on domestic front such as widening fiscal deficit and an apparent liquidity crunch?

India has shown her immense resilience during the crisis period of

2008 and its aftermath. Indian regulatory system, particularly concerning the banking and financial services sector, has been proved to be more successful in avoiding crisis than many other countries.

In my personal view, Indians in general have become used to experience GDP growth of 8-9%, and adversely panic and vocalize through all media if the rate comes down to a level of 5.5%. There is lesser realization that we are not in an isolated island of the global village and to a considerable extent, our growth is dependent upon the state of affairs in the developed economies. Considering their near-recession like situation 5.5% is definitely a good rate to grow at.

Having said so, Indian firms both in large and SME sectors, being the drivers of the Indian economy, continues to perceive huge opportunity to grow within India itself. They are continuously striving to achieve a state of readiness to face all challenges in the path ahead. This is commendable particularly keeping in view that the macro drivers of growth till recently had considerably slowed down due to inactions of government in many facets of managing the economy.

My prophecy is that the day India and Bharat are largely integrated and the demographic dividends start yielding more, upon progressive implementation of the national Skill Development Mission, India will be the 'Power House' of world economy.

The only area of anxiety is the fractured electoral opinion both at central and state levels, coming as a hurdle in the way of policy decisions and economic legislations. If the Parliament is not a hung one, the politicians will also not actively look for their pound of partisan gains. But I think perceived changes are being seen in the recent state level elections. I am also hopeful that India will start experiencing low tide in matters of corruption.

What KEY challenges do you foresee for CFOs in India in the backdrop of growing uncertain business environment and rising cases of scams?

The challenges will be forthcoming, particularly from the context of growing global business environment and rising uncertainties in the socio-economic environment of business in the following areas:

- Establishing a firm position and practicing zero tolerance in each and every matter of corporate governance;
- Risk-based approach in 'Financial Reporting Practices' and 'Business Performance Management' in line with best of combined benefits from SOX 404, requirements for listing and remaining listed at bourses of major European countries, e. g., London Stock Exchange, and so on.
- Overcome the given realities of 'My-money Type of Control' particularly in those organizations where management has still not been separated from ownership. This will help in many ways to avoid another 'Satyam' in India.
- Organise equity capital for growth first and then borrowed funds for expansion and diversification. In a predicted scenario, in emerging economies, there will be an estimated supply of 3.5 trillion dollars from retail equity investors as against demand of 10.5 by 2020, as forecast by McKinsey. This is going to be a huge challenge keeping in view the state of managing and respecting interest of minority shareholders.
- Remaining away from the clutches of Anti Bribery Act of the UK, FCPA of the USA and Prevention of Corruption Act, India, is going to be huge challenges, keeping in view the present practices

prevalent in the corridors of power in India and abroad. This is true for all organizations which have any type of business connections with overseas countries.

- Throw away executive summaries and treat every piece of detailed information as a strategic asset even when working under huge stress and pressure days-in, days-out. Have a 360-degree approach for knowledge in all allied subjects, otherwise the CFO will not be able to work and decide based on advices received from his subject matter experts in accounting, taxation, currency exchange risks and so on.
- **Business Performance Management** with specific focus on 'Sustainability' from the perspective of Planet, Profit, People and Product and prioritization of those 'Four Ps'. Challenges are to be met keeping in view given internal realities and existing pillars of financial strength of every organisation as well as external economic and geo-physical environment. Questions to ponder over are:
 - i. Are resources of the Earth finite or infinite?
 - ii. Is the capacity of the Earth limited?
 - iii. Is it possible to restore or reform its capacity?
 - iv. Will growth in the earth be limited to its capacity?
 - v. Can an organisation ignore such questions and grow?

(The above questions are based on findings of Dr. Paritosh Basu's research.)

Who will take the lead to answer the last question and work on? Is it the CEO, CFO or other CXOs? In my view, being the common factor across all operations and the principal strategic partner of the CEO, it is the CFO who has to take the lead role in 'Sustainability Management' which by itself will require an organization-wide

change management. If I may quote maverick A M Naik, Chairman and Managing Director of L&T, "At L&T Sustainability is embedded in our vision and growth plan."

Do you foresee CFOs acting more as catalysts and strategist, going ahead?

Certainly yes, but let me hasten to add that he cannot be considered as the panacea for all problems. I agree that the CFO to a very large extent will have to play the role of Lord Krishna for the CEO Arjun in today's Kurukshetra of cut-throat competitive commercial world. But there have to be many more CXOs in leadership role with convictions to collaborate and perform and deliver results in their respective functional area.

What are your key expectations from Government and Policy makers on Financial and Taxation Regime?

- A long-term approach with fair but firm standing in all matters of policy decisions and implementation. The directional thinking, as manifested through various actions, should be such that it is perceived by all stakeholders of India Inc., including entrepreneurs from overseas, as predictable one towards a definite vision with milestone based objectives of making India a super power.
- We should not see reversal or stacking into cold storage type of actions for legislated policies and procedures. Government should be seen to be out of lackadaisical attitude towards implementation.
- More collaborative and consultative approach towards the political parties in Opposition without 'our - their' attitude and respect for constructive criticism which are in the ultimate long-term interest of the people in general. At times the approach could be to accept some critical changes and move ahead so that corrections can be brought in the path ahead.

- Make direct credit of subsidy to the real beneficiary's bank account an accomplished reality in near future. This is a path-breaking momentous initiative and a great example to the world that Indians are also creative and innovative in matters of simultaneous macro- and micro-economic management and that too in a country with a population of over 120 crore.
- Continuously support and lead the world-wide movement for sustainability management and thus preserving India in particular and the planet in general for handing over to the next generation in a state as we have inherited from our previous generation, if not better.
- Maintain India's dignity, wisdom and age-old respected tradition as a responsible citizen of the world.

What are the key challenges Indian Industry is facing and what support do you envisage and expect from the government?

Industries as a whole in India is facing the key challenge of living with uncertainties in policy decisions, and lack of predictability about the man-made state of affairs that are going to unfold from Delhi and State Capitals. The Industry leaders are not in a position to set a goal for their own business operations and work towards achieving them as there are many ifs and buts to be handled in the external socio-economic and political environment. Volatilities are there in too many matters which cannot be addressed only through actions at individual organization's level.

In my previous answers my views on some of the issues that can also be considered to have consequential effects for the points to be covered under this question:

Balance of Trade and Fiscal Deficit continue to be major areas of concern, where Industry will expect explicit and quick corrective actions from the

government. Let the huge burden of subsidy not continue to breathe hot air through shoulders of the executive machinery of the country. Perhaps the demon should be killed through bitter medicine which one of the senior ministers has recently suggested!

Government's actions taken in that direction can prima facie be seen to be a fuel to the fire of inflation, but in ultimate analysis if it reduces fiscal deficit and regulates / controls consumption of commodities like hydro-carbon, etc., so be it. Let the real user pay for the cost like the owner of a diesel car. Let all others indirectly or surreptitiously enjoying benefits of subsidies innovatively find out solutions to live without subsidies.

How do you see India's competitiveness vis-à-vis China, and, in your view what policy intervention is needed to enhance India's competitiveness?

I feel, India is on the right path of its own deep routed value system, i.e., 'Satyameva Jayate'. Contextually by that I mean more focus towards quality without compromising for short-lived gain in cost and quantity. I strongly believe that the world-wide movement of sustainability management is gaining momentum. One of the prime mottos of this movement is to increase life of a product by material substitution and increasing quality of inputs and processes, which in ultimate long-term analysis reduce consumption of raw material, energies, utilities and cost for maintenance, green/reverse logistics and recycling/bio-friendly degeneration of used items.

However, by no means, I have any intention to undermine the achievements of China in becoming the 'Workshop of the World'. India must have to work hard for long to reach that level of output volume which gives economies of scale and competitive cost advantage without impairing quality. For this, we need

definitive policies and support from government for all-round development of the Micro, Small and Medium scale sectors including cottage industry.


With a directional policy decision and right approach India has taken up skill development as a National Mission and aiming to accomplish it through a nation-wide movement. The government has by now facilitated quite a few public-private joint business initiatives, which will ensure that none from a 'class-eight drop-out' to a graduate level youth remains unemployed due to non availability of employability skill. This will go a long way in making every human being a productive resource capable of generating values and wealth. This will make millions of vocationally trained young people available, who can either be deployed by SMEs and / or on their own set up cooperatives, self-help groups for entrepreneurial initiatives. A case in point is the Agarbatti industry in Odisha.

Government should also intervene in ensuring that proper technical assistance is available to SMEs on the basis of solicitation. For that it should open many Technology Assistance Centers at District Level and make the existing ones more effective so that they provide technical and knowledge inputs. Lots of visibilities about availability of their services are to be created in rural and semi-urban India.

Inclusive banking should no longer remain in pages of planning documents of the government. Besides technology, more and more funds are to be made available to SMEs, through duly structured, transparent and monitorable routes - by way of loan with more attractive terms. Responsible behavior in repayment of installments and interest should be encouraged by tracking each borrower. For this financial institutions should serve with a collaborative approach, instead of a mere lender.

Outlook

Ans. Through this publication I wish to pass on a few of experiential learning points to all budding professionals in any discipline. I am sure this will help them in successfully addressing many issues and turning threats into opportunities in the new era.

- Let us first become a good human being and then a good professional with a positive approach. Otherwise the fruits of our good deeds and efforts will not ultimately contribute towards the overall development of our society and the humanity as a whole.
- Let us proactively assess the impacts of seeds in the womb of time and covert the same into a unique business opportunity to reap larger benefits of being the first mover.
- Every resource has a capability to generate values, but that does not mean that we shall not be dispassionate for what is to be dropped. However, we have to first put up reasonable efforts to gainfully use it. In this one should not hesitate to include human resource also.
- Do not ignore any thing small or any new idea. Try to see opportunity and generate value out of small things keeping in view that "Value has a value, if its value is valued" – as propounded by Bryan Dyson, the former CEO of Coca Cola. Bring in the benefit of collective wisdom, encourage and involve young performers in all matters of analysis, evaluation and strategic decision-making.
- In a competitive world, sustained value generation skill will be the only criteria for occupying the driver's seat of a business firm and not ownership. 

(The views expressed by Dr. Paritosh Basu are his personal and do not represent the views of his employer.)