

Some thoughts on Indian MNCs



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How we classify a company as an MNC?

- Companies that operate in more than one country with headquarters located in “home country”
- Generally, to qualify as an MNC, the following qualities are essential :
 - Subsidiaries in foreign countries
 - Operations in number of countries
 - High proportion of assets / revenues in / from global operations
 - Overseas operations should have manufacturing / R&D operations
 - Employees / Stakeholders should be from different countries

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The Indian MNCsthe list is subjective and endless....

- Paints – Asian Paints
- Auto & Components – Tata Motors, Bharat Forge
- Chemicals – Tata Chemicals, United Phosphorus
- Metals – Sterlite Industries, TISCO
- Packaging – Essel
- Pharmaceuticals – Ranbaxy, Wockhardt, Sun, DRL
- Oil & Gas – ONGC

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Example : Asian Paints

asianpaints

- Asian Paints rise from a mid sized domestic focused coatings company to a \$ 500 million multinational with a global presence across 23 markets. Among the top 10 decorative coatings companies globally.
 - Key strengths are continuous innovations in all spheres of operations, economies of scale, strong management team, IT capabilities, stronghold over the distribution network, width of product portfolio and strong brand equity
 - Consistently generated EBITDAs of 16%+ and ROEs of 25%+ - higher than most Indian and global peers
 - Operates in 23 countries across the world - manufacturing facilities in each of these countries and is the largest paint company in nine overseas markets. It is also India's largest exporter of paints, exporting to over 15 markets in the Asia-Pacific region, the Middle East and Africa.

(Rs mn)

			Revenues	Stake acquired %	Cost of acquisition
Delmege Forsyth	Sri Lanka	October 1999	180	76	35
Pacific Paints	Australia	November 2000		100	10
Hawcoplast	India	November 2001		100	220
SCIB	Egypt	August 2002	350	60	245
Berger International	Global	September 2002	3,200	50	576
Taukhamans	Fiji	September 2003	90	100	65

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Key challenges that “Indian MNC” would face....

- Domestic market like India vis a vis International expansion
- Language
- Culture
- Autonomy to “local” managers – how comfortable are we ?
- Styles of doing business
- Handling of potential liabilities related to Labour, IPR etc

- AndPatience !

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CAN BRAND INDIA BE GLOBAL? (THROUGH WAVES OF VISUALISATION)



Prof. V. S. Bhakre
Management Consultant
Visiting Faculty, Dr. V N BRIMS

Challenges for Indian Multinationals Workshop

LEARNING OBJECTIVES

- WHAT MADE INDIAN MNCs TO CLICK?



- WHAT ELSE NEEDS TO BE DONE?
- CAN WE ARRIVE AT A VALUE PROPOSITION?

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WHAT MADE INDIAN MNCs TO CLICK? (TRIUMPH OF VICTORY)

- ASIAN PAINTS
 - MATUNGA TO MANY COUNTRIES
- MICRO INKS
 - NO WHERE (1995) TO NOW HERE
 - 2005 - 15TH LARGEST IN THE WORLD – ALLIANCE WITH HUBER (W.G.) – RS.991 CRORES
- UNIVERSITY INSTITUTE OF CHEMICAL TECHNOLOGY (U.I.C.T.)
 - RS. 25 CRORES WORLD BANK FUND, GLOBAL ATTRACTION

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Har rang kuch kehta hai

asianpaints

Har ghar kuch kehta hai



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ASIAN PAINTS – TRULY INDIAN MNC.

- 29 MANUFACTURING OPERATIONS IN 22 COUNTRIES.
- AMONGST TOP 10 DECORATIVE PAINT COMPANIES IN THE WORLD.
- OPERATES IN 65 COUNTRIES THROUGH ITS SUBSIDIARIES.
- MARKET LEADER FOR > 30 YEARS.
- LEADER : NO. 2 = 2:1.

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INTRODUCED FOR THE FIRST TIME

- IMPORT SUBSTITUTE COATING FOR UREA PRILL TOWER (1970)
- ALTERNATIVE TO N.C. COATINGS FOR AUTO REFINISH (1972)
- COMPUTER COLOUR MATCHING
 - AT PRODUCTION –1978
 - AT DEALERS ~ 2000
- TURN OVER - \$ 585 MILLIONS
- ALL AT A COST BENEFIT

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ENVIABLE POSITION – CORPORATE WORLD FOR PROFESSIONALISM

- APPOINTED LEADING MANAGEMENT CONSULTANT FOR RESTRUCTURING.
- RECOMMENDED INTERNATIONAL ACQUISITION FOR ACCELERATION.
- ACQUIRED LOSS MAKING BERGER (HONG-KONG) – 2003.
- 2004/2005 – TURN AROUND, PROFITS.

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SYSTEMS-CSR

- SUCCESSFUL IN IMPLEMENTING SAP/ERP SYSTEM.
- TO BE IN THE TOP 5 DECORATIVE BY 2010.
- CORPORATE SOCIAL RESPONSIBILITY (CSR).
 - INDIA'S FIRST TOTAL WATER MANAGEMENT CENTRE INAUGURATED AT BHANDUP BY B.M.C. COMMISSIONER FOR MUMBAIKARS AND THANEITES. (FEB. 2006)
- INNOVATION, COST BENEFIT AND SYSTEMS – KSFs.

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MICRO INKS

Wings of Imagination



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METAMORPHOSIS OF MICROINKS (HIND INKS)

- 1994 – DAMAN PLANT.
- 2003 – 4 PLANTS.
 - DAMAN (1), VAPI (2), CHICAGO (1)
- 33% INDIAN MARKET – LEADER.
- 30% AMERICAN MARKET.
- 15TH LARGEST IN THE WORLD – ALLIANCE WITH THE 7TH – HUBER (WEST GERMANY) - RS.991 CRORES.
- A TRUE SUCCESS STORY FORM NOWHERE TO NOW HERE.

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INNOVATION

- UNIQUE PROCESS TECHNOLOGY FOR FLUSH PIGMENTS AND ALKALI BLUE.
- DISTINCTION OF HANDFUL OF COMPANIES WORLD WIDE.
- JULY 19, 2003 – COMPETITORS IN THE U.S. AND SUN CHEMICAL CORPORATION AND APPOLO – APPEALED FOR ANTIDUMPING C.V.D.
- INJURING THE INDUSTRY BY SELLING AT LESS THAN FAIR VALUE.
- MICROINKS – WON THE CASE.
- SET UP A SUBSIDIARY NEAR CHICAGO – CAPTURED 30% THE U.S. MARKET.

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SYSTEMS

- 1998 – IMPLEMENTED SAP/ERP
- 1999 – MARKET LEADER IN INDIA
- 2001 – COST LEADERSHIP
- 2003 – AMONGST TOP 15 COMPANIES IN THE WORLD
- 2005 – ALLIANCE WITH HUBER 7TH LARGEST – RS.991 CRORES (FEB 20, 2006) FINALISED

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SYSTEMS

- VISION – TO BE AMONGST THE TOP 5 IN THE US/WORLD WIDE
- C.S.R. – CORPORATE SOCIAL RESPONSIBILITY
- EDUCATION, HEALTH CARE AND EMPLOYEE WELFARE
- INNOVATION, COST BENEFIT, SYSTEMS

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U.I.C.T.

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UICT – HIGH TECH EDUCATION

- 25 CRORES – WORLD BANK FUND
- ASSOCIATION WITH M.I.T., PURDUE UNIVERSITY
- (2005) - 50 PH.DS, 200 P.G. (TECH)
- (2015) - 100 PH.DS, 400 P.G. (TECH)
- INDUSTRIAL PROBLEM SOLVER
- VISION 2015
- GENERATE RS. 100 CRORES
- PARADIGM SHIFT – SERVE THE BOTTOM OF PYRAMID
- CREATE AN AMBIENCE FOR GLOBAL INNOVATION AND ATTRACTION
- ALL AT COST BENEFIT

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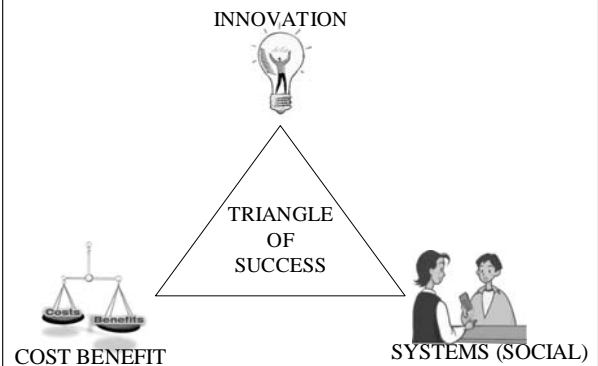
WHAT NEEDS TO BE DONE? (CHALLENGES)

- ABILITY TO STRIKE GLOBAL ROOTS
- ESTABLISHING BRAND EQUITY OVERSEAS.
- UNDERSTAND AND RESPECT LOCAL HABITS AND CULTURES
- POOR INFRASTRUCTURE
- POLITICAL CLASS(???)
- GLOBAL AMBITION
- DEVELOP A WINNING FORMULA
- IF NECESSARY – GLOBAL ACQUISITION



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VALUE PROPOSITION



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BRAND INDIA TO BE GLOBAL

- INSPIRING NATIONAL VISUALISATION (VISUALISE + ACTION).
- SINGLE MINDED DETERMINATION BY GOVERNMENT / PEOPLE.



- INNOVATION + COST BENEFIT + SYSTEMS



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**VPM'S DR.VN BRIMS, THANE
SEMINAR**

ON

CORPORATE GOVERNANCE

ON

11TH MARCH, 2006

SPEAKERS

BY

DR. VISHNU KANHERE, F.C.A.

**SHRI. R. T. RAJGUROO
SMT. SHANTI SURESH
DR. POOJA LAKHANPAL
SHRI. KEDAR NIJASURE
SHRI. R. S. VERMA**

-: VENUE :-

**Thorale Bajirao Peshawe Sabagruha
Thane College Campus, Thane - 400 601.**

Timimg : 10.00 A.M. TO 1.00P.M.

Seminar on Corporate Governance

“Demystifying Corporate Governance; HR Perspective”

Dr. Pooja Lakhanpal

Corporate Governance is....

- Prudent management of wealth producing resources of a business
- Stakeholders interest is the focus
- Cuts across a wide spectrum
- It refers to the corporate culture which motivates excellence and rises above and beyond the benchmarks of

1

Spotlight on Board Governance

- Director responsibilities now more extensive as Boards are more active in company oversight
- Board's role in financial oversight attracts unceasing attention from regulators, governance experts, public
- Individual and institutional and other stakeholders are more vocal in demanding strong governance practices
- Demand for talented Board members increases

SOURCE: J. Banaji & G. Mody QEH WORKING PAPER SERIES, 2005

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Implications for Directors and Companies

- Qualifications
 - Tenure, succession, retirement
- Meeting attendance reported
- Compensation to be declared
- Succession Planning and evaluating CEO performance
 - Board also to review its own performance
- Board is required to have direct access to management

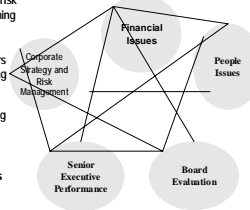
SOURCE: J. Banaji & G. Mody QEH WORKING PAPER SERIES, 2005

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Best Practices in Board Governance - Board Roles and Responsibilities

Finance or Risk Management Committees ensure adequate attention to overseeing company finances

- Corporate strategy and risk management are becoming the board's greatest responsibilities
- Directors act as debaters and challengers, working with management in strategy formulation and planning
- Senior management and especially CEO evaluations are becoming more rigorous



- Boards set the compensation of senior management and the CEO
- Boards are increasingly involved in succession planning and performance management for senior management, as well as for CEOs
- Increasingly boards conduct annual self-evaluations to ensure that they are meeting their objectives
- Evaluations tend to be informal but are becoming more formal
- Individual director evaluations are encouraged by governance experts

SOURCE: HR Bio 2005

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Committees: a closer look

In India there are three committees

- Audit Committee
- Shareholder Grievance Committee
- Remuneration Committee

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Remuneration Committees: a closer look at their most important roles

- Determining the overall executive compensation philosophy
 - Mix of cash and equity, long and short term incentives/rewards
 - Key performance measures and standards
 - Target levels of competitiveness
 - Perks, employment contracts, letter agreements
 - Executive and Board succession planning

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Challenges for HR

- Information/disclosure requirements
- Evolution of roles, both CEO and Boards'
- Board recruitment and engagement
- Adding structure without undue burdens

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Challenges for HR

- Board members realize they must "step up"
 - Some culling may be appropriate
- Recruiting challenges: no longer an honorary post
- Board asking about own compensation
- Changing nature of the Board-CEO relationship
- Individual Board members may downsize their workload by stepping down from some Boards
- Worried about own liability

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Challenges for HR

- Roleclarification including committee assignments (or-non-assignments)
- Delineating governing vs. managing
- Increased workload
- Responding to Board request
 - responding to regulatory requirements (public)
 - Appreciating/anticipating regulatory requirements (Private)
 - Readiness/preparedness for the next stage.

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Challenges for HR

- Board Composition
 - Get know the Board
 - Make observations regarding experience, competency
 - Network with colleagues
- Your choice : find an expert or make yourself into one
 - An expert knows the regulatory/legal side AND best practice
 - An expert has networks, resources of peers with complementary knowledge and skills, and access to relevant data.
 - If you use an outside expert, make yourself their partner!

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Challenges for HR

- Corporate governance requirements can often be satisfied when it comes to the letter of the law, but it is the **spirit of the law** which is required to be adopted
- A strong correlation has been found between a failure to embrace the spirit of corporate governance and deep-seated organisational culture problems.
- This can be resolved by creating awareness in the Organisation

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Challenges for HR

- HR can play a critical role in succession planning
- Some of the problems companies have faced are related to not having the right people with the right skills
- HR needs to develop more proactive systems for assessing the skills of people who are in senior roles and potential candidates for such roles
- Leadership has to be developed from within the organisation as well as located from external sources

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Challenges for HR- Changing Attitudes of Business

Present Profile

Success is its own justification (the end justifies the means)

Leadership (right or wrong) is all powerful

Disclosure on a 'need to know' basis

Business is serious and demands total commitment

Projected Profile

Long-term sustainable success depends on an ethical approach

Leadership believes in enabling, empowering and allowing enactment

Transparency is the best long-term policy

Business with a shared purpose should be fun.

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Challenges for HR- Changing Attitudes of Business

Present Profile

Younger employees are better, cheaper and more docile.

Our tribe is better than your tribe.

There are winners and losers (and some survivors)

Not-for-profit activities are second rate

My importance is proportional to what I take.
2005

Projected Profile

The old and the young benefit from working together.

Pool tribal strengths for the benefit of everyone.

Win/Win solutions are better in the long run

Worth is as important as wealth

Giving can be a sign of strength
Source: Dr. Guruprasad Murthy,

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Challenges for HR

- HR has to become the
- Champion of Corporate Governance
- Custodian of the rights of all stakeholders
- Change Agent

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Seminar on Corporate Governance

SEBI

CLAUSE 49

Shri. R.S. Verma

Corporate Governance

What it is?

- It is related with commitment to values & ethics
- It is about how an organization is managed

In Simple Terms

It is ascertainment of the **Accountability** of persons who are expected to govern an organization i.e Chairman, Managing Director, Directors and Senior Managers

Role of SEBI

Being a regulatory authority for securities markets, SEBI is expected to ensure the application of good corporate governance practices in case of companies listed or to be listed on a stock exchange in India on an ongoing basis in order to enhance and maintain investor trust.

The Code

Accordingly, SEBI has formulated a code containing provisions on the corporate governance and these provisions are contained in **Clause 49 of the Listing Agreement** prescribed by SEBI

Applicability of the Clause 49

- A.** The clause is applicable to all the listed companies whose -
- paid up capital is Rs. 3 crore or more, or
 - net worth has been Rs.25 crore or more at any time.
- B.** The clause is partly applicable to listed body corporates incorporated under other Statutes like banks, financial institutions, insurance companies.
- C.** The clause is not applicable to mutual funds since they are regulated by SEBI (Mutual Fund) Regulations.
- D.** Date of application : on or before 31st Dec. 2005

Reporting on Compliance

- A.** Companies to submit quarterly report on compliance to the Stock Exchange on which they are listed within 15 days of the end of quarter
- B.** Stock Exchange to submit report on compliance to SEBI within 60 days.
- C.** Code of conduct for directors and senior managers to be posted on the website of the company

Clause 49 Main provisions

Composition of the Board of Directors

- Board should have optimum combination of executive and non-executive directors
- Minimum 50% members should be non-executive

- Not less than 50% directors should be non-executive directors when Chairman is executive director.
- When Chairman is non-executive, at least one-third should be independent directors

Disclosure about directors' remuneration

All fees/compensation including stock options paid to non-executive directors require previous approval of share holders in general meeting.

Board meetings

Board meetings to be held at least four times in a year with maximum gap of three months and **minimum information** as specified in Annexure 1A of Clause 49 to be made available to the Board. Among other information a certificate from CEO/CFO is also required to be placed before the board certifying the authenticity of financial statements.

Report on corporate governance to members

Annual report to include a separate section on corporate governance inter alia covering the following :-

- Board of Directors composition, BoD meetings held, BoD committees, attendance of directors etc.
- Specified information regarding **Audit committee, Remuneration committee Shareholders grievance committee**
- Training of board members and performance evaluation of non-executive members

Qualified and independent audit committee

Strong audit committee is a part of good corporate governance.

Accordingly, SEBI has specified following main provisions :-

- The audit committee to comprise minimum three members
- Two third of members shall be independent directors
- All members shall be **financially literate**

Audit committee shall mandatorily review the financial condition, operational performance of the company, related party transactions, internal audit report, statutory auditors' letter to the management and the appointment, removal and terms of appointment of the Chief Internal Auditor. These provisions are in addition to the provisions specified under the section 292 A the Companies Act.

Whistle Blower Policy

An optional provision regarding a mechanism for employees to report to the management about unethical behavior, fraud and violation of company's code of conduct etc.

