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WHAT THEY DON'T TEACH YOU ABOUT INDIAN MANAGEMENT STYLE

Unveiling R.O.S.H.I.N.I - the *Bharatiya* way of managing

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Chapter 1

Introduction

> *"Most of what we call management consists of making it difficult for people to get their work done."*
>
> *– Peter Drucker*

The year was 1990. India had not yet liberalised its economy and was still an inward-looking country in all aspects. I was in the first year of my MBA programme. Gurcharan Das, author, management Guru, and public intellectual, was heading Procter and Gamble (P&G) in India as its first CEO then. On an invitation from our institute, he came to deliver a guest lecture in which he talked about P&G's strategy in India and how their products, like Whisper, became market leaders despite being more expensive than those of their competitors, like Carefree. He also spoke about Ariel, their detergent powder brand in the same length. In the Q&A session that followed, Das answered a wide range of questions from a youthful audience that was in awe of him and his success in the corporate world. One question from that session I remember vividly was if there was something called the Indian management style. He replied that an Indian style probably exists but will get talked about when more and more Indian companies succeed globally as the American and Japanese companies did. This thought stayed with me, and in the past three decades, I have constantly been checking if the time has come to characterise the Indian management style.

In the 90s, homegrown groups like Tata, Birla, Reliance, RPG, and others dominated the Indian corporate space. But their operations were by and large limited to India, and they didn't have a footprint outside of India or had a limited presence outside. Today, three decades later, the landscape is totally different. The economic reforms of 1991 opened up the Indian economy to global competition like never before, removed protectionism with which the Indian companies were thriving till then, and sowed the seeds for the rapid economic growth in India, which we have been witnessing since the dawn of this century. The reforms also unleashed the animal spirits of the Indian private sector, which was hitherto protected from global competition. Even then, the last two decades firmly belonged to China, which clocked a consistent 10%+ growth for years together and firmly got into the league of big economies. Today, its economy has slowed down, yet at US$17 trillion, it is the second largest economy in the world, just behind the United States of America.

In terms of growth rate, however, China is no longer the fastest-growing economy globally, a tag that China owned for over a decade. Today, among the large economies, India has emerged as the fastest-growing and, in size, has overtaken the United Kingdom this year. At this point, there is a global consensus among commentators that the next few decades will be India's. Naturally, compared to 1990, when Indian companies had just local ambitions, today, many Indian groups have become transnational corporations with a global footprint.

Indian company names are no longer new to people outside India. An iconic brand like *Land Rover* is owned by the Tata Group. A company like Infosys is considered an icon in the software industry and is among India's first global success stories. An automotive ancillary manufacturer like Bharat Forge[1] is among the leading engine and chassis components suppliers to international customers. It enjoys a strong relationship with over 36 global customers and is identified as a strong long-term supply partner by leading worldwide OEM and tier-1 customers.

India, or for that matter, Indians and Indian companies, are no longer seen patronisingly or with the kind of disdain today by the world outside as probably they were, a few decades ago. Professionals from India are now accorded respect for being technology and management experts. The Indian Institute of Technology (IIT) is a brand that has a broader brand recall in the United States than most things from India. Therefore, it is not a surprise that today, more than ten global tech giants, including Google (Alphabet) and Microsoft, are headed by Indians. It is not just the tech companies; even a consumer product company like Pepsi was headed by a person of Indian origin - Indra Nooyi until 2018. In 2014, she was ranked number 13 in the Forbes World's 100 Most Powerful Women and was ranked the second most powerful woman on the Fortune list in 2015 and 2017. Last year, another consumer retail giant, Starbucks, named an Indian-born Laxman Narasimhan their global CEO. I believe this trend will only strengthen further in the future, and we will see many more Indians occupying the coveted corner rooms in global corporations.

At the same time, three decades ago, it was unimaginable to see a foreigner as a CEO of an Indian company. But today, many Indian companies are headed by foreigners working out of India. We also now see many foreigners, even from developed countries like the United States and Australia, coming to India and working in Indian companies. These days it is common to see many foreigners being hired by Indian companies in their units abroad. This also points to the emergence of Indian companies as entities to reckon with in the global corporate arena. Cometh the success cometh the recognition.

Back to the question posed to Das and his answer, I believe that the time has now come to define and spread the concept of the

Indian style of management. As India becomes one of the largest economies in the world, which it is poised to, there will be keener interest in India as a country. There will be an increased quest worldwide to understand its people, culture, and way of doing business. This book aims to focus on the business part, particularly the Indian way of management and its essential traits.

In the coming chapters, we will examine the history of business in India and the background of the Indian management style. As in most things in India, an important question that needs to be answered is - Can one homogeneous style emerge for the entire country in a diverse country like India? To answer this, we first look at the distinct business styles available in India itself and then boil down to some of the typical traits of the Indian style of management. Also, before we talk about the Indian style, it is essential to quickly analyse the other globally established styles, like the American and the Japanese styles, to appreciate the commonalities and divergences, if any, compared to the Indian style.

Chapter 2

Japanese Style of Management

> *"Japanese management practices succeed simply because they are good management practices."*
>
> *– Masaaki Imai, Japanese Management Guru*

I worked in a large Japanese group for more than ten years, and before that, I had the opportunity to interact with Japanese companies and Japanese people for another five years. I also had the chance to visit Japan over a dozen times, almost all on business. Working in a Japanese company, interacting with Japanese people, and visiting the country often helped me observe and build my own idea of the Japanese management style apart from reading about it. Source material on the Japanese management style is available in plenty, and it is not difficult to fathom the reason. In the post-World War II global order, the success of Japan and it becoming an economic powerhouse while being such a small country is a story with very few parallels. Therefore, the world looked at Japan and hypothesised how Japan succeeded as an industrial nation.

Japanese products, from cars to appliances, started flooding global markets, mainly developed countries like the US and Western Europe first and then developing countries. As a small country, Japan realised that exporting its products to other countries was the only way to succeed. This also meant that the products had to meet global quality standards; therefore, the Japanese companies focused on product quality first. Japanese brands like Toyota, Sony, and Honda, to name a few, became household names because of their superior quality. "Made in Japan" attracted a premium everywhere. Further study of how the Japanese could manufacture high-quality products consistent across product categories led the world to study and understand the Japanese manufacturing system. Toyota, the car manufacturer, adopted the Japanese manufacturing system, which came to be known as the Toyota Production System (TPS).

The Japanese Manufacturing Techniques:

Some of the concepts from the Japanese manufacturing system that became popular globally include JIT (Just in Time), *Kaizen*, *Kanban*, *Poka-yoke*[2], *and Ishikawa*[3] (Fish Bone diagram). Many of these techniques have found resonance in manufacturing industries worldwide since the late '70s. Various books and papers started getting published on these that made the Japanese manufacturing system the toast of the town. "The Study of the Toyota Production System from an Industrial Engineering Perspective", a book authored by Shigeo Shingo, an engineering consultant in 1989, is a popular academic material on the Japanese manufacturing system in general and the Toyota Production System in particular.

Since enough reference material is available on the various aspects of the Japanese manufacturing system, I am not getting into details of it. All these concepts originated from a production or shop floor perspective but were soon applied in other management functions as well. So, even a sales or service department soon adopted *Kaizen* or continuous improvement.

To a large extent, aspects of the Japanese management style derive from the critical elements of the Japanese manufacturing system. Having observed the functioning of Japanese companies from close quarters, in my opinion, the Japanese management style revolves around the following:

1. Thinking in the Long Term:

Decision making is based on a strategic and long-term view rather than a short-term tunnel view. Short-term loss to gain a long-term advantage is considered acceptable. For example, Japanese companies do not shy away from investing in R&D for core technology development, which may take years to yield results. Similarly, most Japanese companies do not believe in burning capital and spending on disproportionate advertising and marketing expenses to gain short-term market share. Instead, they would prefer to build the brand gradually with limited marketing spending while keeping a close watch on the company's bottom line. Clearly, the thinking is that companies must serve the stakeholders and society at large for many generations to come and not just be there to make money that quarter. It is rare to find a Japanese company exiting the business very soon based on a few quarters' losses as they believe in long-term success, and so they are prepared to take any short-term slide in their stride. This aspect of the Japanese has been researched and confirmed in many behavioural studies.

2. Conservatism in Budgeting and Rigour in meeting it:

In most Japanese companies, the budget prepared at the beginning of the year is everything. Once the budget is finalised, it is cast in stone. The same is broken down monthly, quarterly, and across the organisation. Then afterwards, periodic reviews still happen against the budget, and the budget is expected to be achieved. Even if market conditions change dramatically in the year, the original budget is not revised, and a review still happens based on that.

Since the whole organisation focuses on achieving the budget, conservatism is at the heart of the budgeting exercise. At the same time, the expectation is that budgets are meant to be achieved. There is no expectation to over-achieve, and it is perfectly all right to slow down once the budgets are achieved in a year.

Talking of conservatism, the other aspect of the Japanese is to do everything step-by-step instead of going the whole hog. For instance, instead of launching a product country-wide, most Japanese companies would launch first in one market, make it a success, introduce it in three markets, and then go for a national launch. This also ties into their risk-averse nature, which will be covered separately later.

3. Flexibility is a Disease:

Whether it is product planning or sales, Japanese companies do not believe in keeping things flexible. Masaaki Imai is a Japanese organisational theorist and management consultant best known for his work on *Kaizen*. One of his famous quotes stresses the importance of standardisation and shunning variety and flexibility. *"Where there is no standard, there can be no improvement. For these reasons, standards are the basis for maintenance and improvement."*

Flexibility is considered a recipe for uncertainty and confusion within the organisation. Therefore, whether it is the number of SKUs (Stock Keeping Units) for sales production forecasting or go-to-market plans, a Japanese company would like to keep things firm and work towards the same, even if this means losing business opportunities in the short term. For example, there could be large bids or government tenders for products in which the order size will be far higher than the monthly average sales. Deciding to participate in the bid would mean being flexible regarding factory lead time, as the customer would not place firm orders in advance and would require goods with shorter lead times. While an American or Korean company would be flexible in its lead time for such large bids, a Japanese company would prefer to skip the bid rather than take a chance of building inventory or being flexible in its lead time to fulfil the order.

The Japanese strongly that believe being flexible is a disease and therefore they always stick to their time schedules. Meetings start on the dot and finish on the dot as per schedule. There is no question of extending them even if an issue is still open.

4. Risk Mitigation is Critical:

In my experience, Japanese companies have low or no risk appetite. Therefore, risk mitigation is the cornerstone of their decision making. There is a widespread perception, which is also largely accurate, that Japanese companies are extremely slow in decision making, and this general aversion to risk is the main reason. Concluding a commercial agreement with a Japanese company and getting down to business quickly can be an arduous task. They take a lot of time to go through each and every clause of the agreement, its short-term and long-term impact, and risk analysis. When a business case is presented, they look at it from all angles, even if it means several buses are missed. On the other hand, the aversion to risk keeps Japanese companies financially stable and strong.

You will see that most Japanese companies do not conduct business on open credit. The payment terms will be either 100% in advance or need to be backed by a letter of credit or bank guarantee, etc. Even in cases where they decide to operate on open credit, it will be only after availing of credit insurance. So, they don't believe in conducting business without secured collaterals. We all know that "credit" is a business enabler. Not offering credit, therefore, has a dampening effect on sales and can be a spoiler. Yet, Japanese companies would rather bear the loss of sales than endure receivables that entail risk.

Talking about risk aversion, many Japanese companies mandate that staff use an anti-glare shield for company laptops so that it is not easy to figure out what they are doing when working in public spaces. And exchanging data on pen drives with outsiders is, of course, a strict no-no.

While the above are examples of the risk-averse nature of the Japanese at the micro level, it becomes dense and deep at the macro level. Let me cite an example. Japanese banks like the Bank of Tokyo Mitsubishi or Sumitomo Mitsui Bank operate primarily with just one branch in India. I believe that the primary purpose of these banks is to protect the financial interests of their Japanese clients doing business in India. So, when a Japanese company sets up a subsidiary in India, it is more likely that the capital gets routed through the Japanese bank only. From here, on a need basis, money is transferred to another Indian bank, which has a more country-wide retail presence for day-to-day operations. This is a classic example to explain the risk-averse attribute of the Japanese. So, they believe that even if something happens to the Indian bank, their capital is safe being parked in a Japanese bank account.

Foreign companies that conduct business in Japan will tell you how complex it is to carry out banking transactions in Japan because many Japanese companies only do business with Japanese banks. You have to necessarily open an account with a local Japanese bank, as some companies make and accept payments through them only.

5. “Made in Japan” is the Best:

The Japanese clearly think they make the best products in the world. So, in general, their first preference is “Made in Japan” products. Only if there is no option of a Japanese brand would they opt for another make. So, selling your products to other Japanese companies is easy if you are a sales manager in a Japanese company in India. In the initial days, the Japanese company I worked for, its brand name in India, was not as famous as it is today. So, our first target to sell our products was other Japanese companies operating in India, and for a particular niche product, this approach helped us achieve initial success. Similarly, when we had to purchase cars for our company’s use, our first choice was a Toyota, though Toyota was expensive and did not have a large footprint in India.

6. Japanese are the Best:

Japanese people generally feel that their fellow Japanese are the best. In fact, the notion of “Made in Japan” being the best stems from this belief. Though the Japanese come across as humble people who have a lot of respect for others, close and extended interactions with Japanese people will reveal that the Japanese have a sense of superiority about themselves. The notion of them being the best leads to patronising behaviour by the Japanese towards other nationalities.

7. Japanese are the most Trustworthy:

Alongside the belief that the Japanese are the best comes the idea that only the Japanese can be trusted. Japanese do not trust others so easily. Building trust with the Japanese is challenging and takes a lot of time. This is why Japanese companies do not opt for joint ventures with foreign companies unless there is no other option. For the same reason, you will find that Japanese companies would only have a Japanese national as the head of their subsidiaries outside Japan with the authority to sign cheques firmly with that person. Though this is now changing, you will still find most Japanese companies headed by Japanese people, even in India. Again, due to their belief that the Japanese are the best and most trustworthy, it is rare that you will find a non-Japanese heading a Japanese company globally. When the top Japanese automaker Nissan announced Carlos Ghosn, a Brazilian person of French/Lebanese origin, as the Chairman and CEO of Nissan in 2001, it raised the eyebrows of business analysts worldwide in general and Japanese in particular. Probably, the belief of the Japanese that others cannot be trusted stood vindicated when Ghosn was arrested for cases of impropriety as the head of Nissan.

Not trusting other nationals also comes in the way of the growth of Japanese companies, particularly in the context of crucial investment decisions. For instance, a Japanese company will seldom take a call to invest, say, in India, in setting up its subsidiary or a manufacturing facility unless the proposal is first made by a Japanese and then vetted by other Japanese. This also can happen only after they come to India, spend time in what they call a market survey and do the smell test by themselves. While they may go by published reports on India regarding how the economy is faring and so on, a final decision on investment will be taken only after it is recommended by the Japanese and approved by Japanese management.

The so-called market survey is most likely to include meetings with Japanese staff based in India in other Japanese companies (maybe even competitors) and, more importantly, with Japanese teams in the Japanese banks based in India to get first-hand feedback on the Indian experience, problems they encounter and so on. These meetings also help them understand the living conditions, like housing, schools, food, general living conditions, etc., for the Japanese in India and the precautions the Japanese staff needs to take to live in India. I know for a fact Japanese who are going to be based in India on a long-term basis go through a round of health check-ups and preventive vaccination doses for different diseases. (As an aside, Japanese staff posted in countries outside Japan are paid a "Hardship allowance," which depends on the country's nature and their salaries.)

The extent to which the Japanese prepare themselves to live in other countries reveals their risk-averse nature. I don't think nationals of different nations go to this extent to prepare themselves.

8. Lifelong Employment for Japanese:

Though this aspect has changed since the dawn of this millennium, most Japanese, even today, start work in one company and retire from it. While based on the competence of the individual, the pace of career growth varies, a Japanese employee rarely gets fired from a Japanese company. One may think this kind of job security may encourage employee complacency. Here's the paradox that I found very interesting. Even though they have high job security, the Japanese are stressed the most at work. They take their assigned jobs very seriously and get stressed too much regarding the position.

In Japan, about 53.3 percent of employees felt strongly troubled by their current working situation as of 2021, down from 54.2 percent in 2020, as per a report[4]. Within the last decade, figures for employees feeling severely insecure and stressed within their working environment peaked in 2012, reaching almost 61 percent. As a corollary, it is also common for Japanese employees to excessively smoke, drink, play *Pachinko* (Gambling machines), and visit *Karaoke* rooms and bars as a matter of relieving their work-related stress. In summary, the employer-employee equation in Japan is mutual. The employees stick to a company by and large for life, and employers do not sack or fire their staff, come what may. I must add that Japanese companies provide lifelong employment only for their Japanese team. In other countries, they do not have qualms about sacking people due to performance and in the same way the other nationals do not stay loyal to their companies so much.

9. Japanese are Generalists and Multi-functional:

One of the interesting aspects of the Japanese I noted was that they are generalists and multi-functional. This means that a typical Japanese person, regardless of educational or functional background, can easily pick up another function and perform satisfactorily. In Japanese companies, you will find that staff are rotated in diverse positions every three years, from sales to procurement, logistics to marketing, administration to production planning, and so on. Except for core and specialised functions like design, engineering, and finance, the Japanese believe in continuous job rotation for their staff. I think there are a few reasons why the Japanese can manage to do this successfully. First, Japan has the highest IQ level in the world[5], so they are sharp at picking up new things. Second, they are very logical in their thinking approach. This emerges from the Japanese *"Gembaism"*[6] system, combining intuitive, rational, and holistic thinking through experience. The belief is that if a person is trained naturally to think logically in any given situation, he can fit in any role, apply the thinking technique, and perform exceptionally well. I have seen this myself with many Japanese who keep shifting positions every three years and still perform well. Third, Japan follows a very homogeneous education system. In the words of one of my ex-Japanese colleagues, the education system in Japan is like inserting a round pipe into a chopping machine. It just ejects out multiple concentric rings of the same diameter and shape. What he meant was the output from a school or college was very homogenous. Because of this homogeneous system, Japanese are trained to be generalists and can quickly pick up on the job. In summary, because of their higher IQ levels, their logical thinking process, and the fact that they are generalists, it is possible for the Japanese to be multi-functional and successful.

Now, the above points can be turned on their heads and used to critique the Japanese education system. The homogeneous system also doesn't augur well for fostering diversity in thinking and creativity – one of the reasons why we don't find many success stories from Japan in the new technology internet space.

10. Commitment to the Consumer:

The one aspect of Japanese companies that has kept them in good stead is their unwavering commitment to the consumer. In decision making, the consumer's interest comes first and then the organisation's, even if it costs the organisation. I feel this is an aspect Indian companies could learn from the Japanese.

11. Decision making by Consensus:

In Japan, decisions are made by reaching a consensus among all people concerned. This is another reason for the slow decision making among the Japanese apart from their low-risk appetite. Every issue involves discussions involving stakeholders who go through the problem from their angle and come up with their observations. Much of the observations veer around risk mitigation, which, as mentioned before, is the cornerstone of decision making. This conventional decision-making style in the Japanese system, which is bottom-up and consensus-driven, is called the *Ringi*[7] system. *"Rin"* means submitting a proposal to one's superior and obtaining approval; *"gi"* means deliberations and decisions. This word, in a sense, conveys the essence of the Japanese decision-making style. When a consensus is reached, the issue is discussed threadbare, everyone is on board, and there is no looking back. For example, once Japanese companies want to invest in a particular market, they will take their time to analyse and decide, but once they have chosen, they will be in the market for the long term. While consensus in decision making exists, in my personal experience, I have noted that the team builds consensus around what the boss has in mind. In this sense, it is no different from an authoritative decision-making mode. So, yes, the Japanese decide by consensus, but after knowing what the boss has in mind!

While on this, an exciting anecdote comes to my mind. When you make a business proposal to the Japanese and if it is not acceptable, they seldom say "No" to your face. The most likely answer will be *"We will consider,"* (pronounced as Konshider). So, one of my ex-Japanese bosses told me that when a Japanese says "Consider," it actually means "No!"