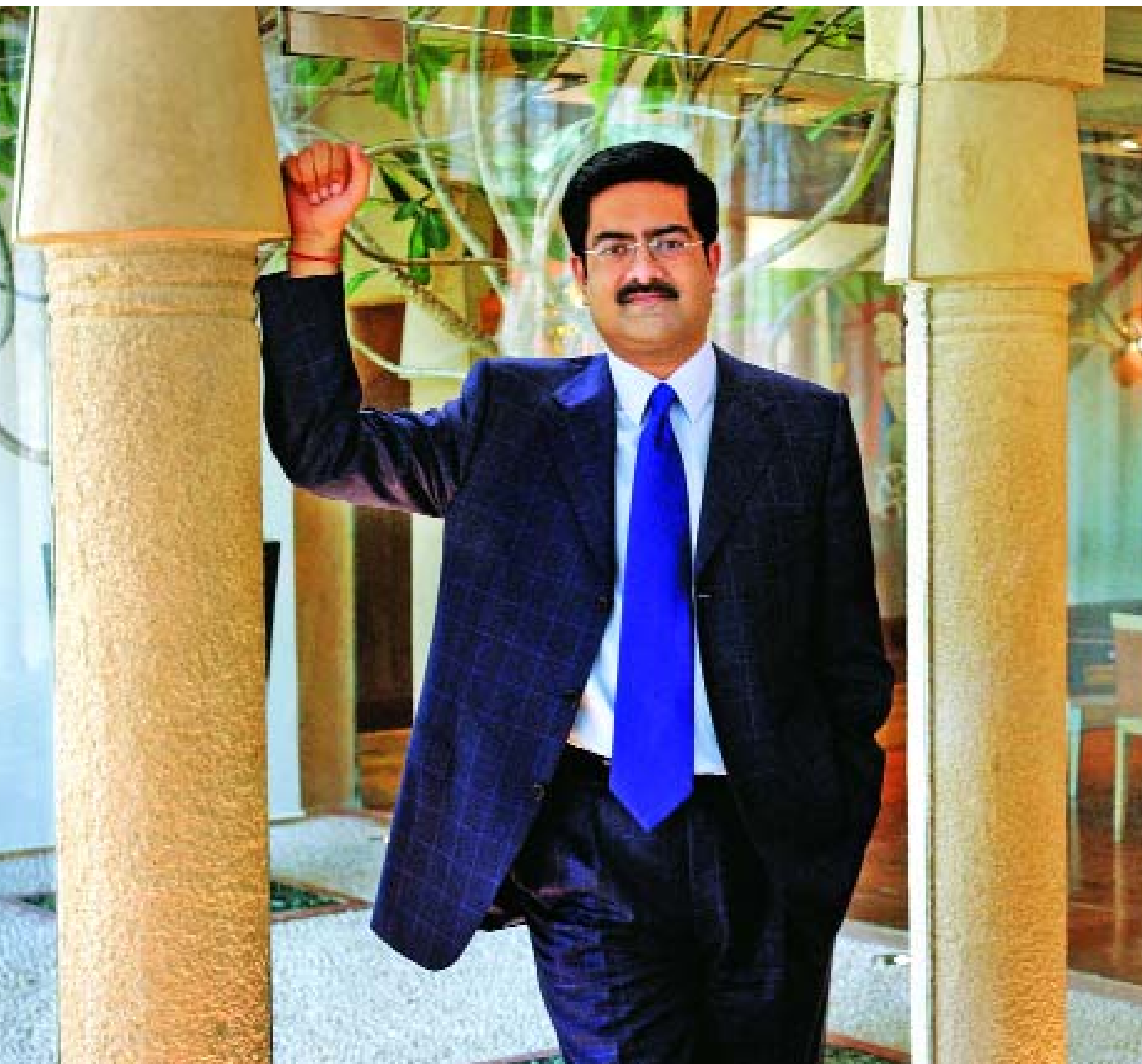


Shaping A Legacy



When Kumar Mangalam Birla inherited his father's vast industrial group at the young age of 28, many were sceptical about his abilities. A decade later, Birla has proved more than equal to the challenge. **Darrel Philip** profiles Birla's endeavours to reshape the house his father built.



In the ten years since Kumar Mangalam Birla took the reins of his father Aditya Birla's business empire, few would have foreseen the changes he would implement. No one would have thought that the callow 28-year-old Kumar, grappling with the complexities of the \$1.8 billion conglomerate after his father's sudden death, would step into his shoes with such dexterity.

Armed with an MBA from the prestigious London Business School, but still wet behind the ears, the responsibility of running an industrial empire that spanned several countries in Asia was thrust upon this babe-in-the-corporate-woods. At first, the young Birla's soft and shy approach led critics to comment that he lacked the business acumen and aggressiveness of his father.

But over the years, he has proved he isn't the soft target he was believed to be. He has made the business more focussed, making each company concentrate on its key strengths, and has pushed up sales in the far flung conglomerate, India's first true multinational, to \$7.6 billion, with a market cap of \$7 billion.

In the ten years he has been at the helm, Birla has pulled off a string of acquisitions at home and abroad, professionalised a group that had traditionally placed loyalty over competence and geared it to compete in a global marketplace.

As a result of the consolidation of its overseas business, the Aditya Birla group today operates on a global scale, with manufacturing operations in nine countries and product sales in over 100. It is a world leader in viscose staple fibre, the world's ninth largest producer of cement, the fifth largest producer of carbon black, Asia's largest integrated aluminium producer and also its fastest growing copper company.

Today the group has four major compa-

nies in India — aluminium and copper major Hindalco, Grasim the conglomerate with businesses as diverse as cement, sponge iron, viscose and textiles, Indian Rayon which concentrates on yarn, fabrics and garments, and IndoGulf which makes fertilisers. The group has recently ventured into fast growing industries like telecom, finance and insurance, software and BPO.

In addition, its international businesses range from copper mines to carbon black to palm oil to chemicals to viscose staple fibre and fabric. There are ten companies in Thailand which manufacture a diversified mix from fabrics to carbon black to chemicals, two palm oil and derived chemical companies in Malaysia, two copper mines in Australia, a wood pulp unit in Canada, three yarn companies in Philippines, another five companies in Indonesia, and two carbon black companies in Egypt and another in China. Almost half its turnover comes from its international operations.

Though much of these operations were already in place when Birla took over, the copper mines in Australia and the wood pulp unit in Canada were acquired recently.

Birla's eyes are now fixed on the growing global opportunities. He is expanding the overseas presence to become a global conglomerate in the next few years. "The focus has been on placing larger bets on fewer businesses. It's a portfolio issue and it's a much tighter portfolio today. We have taken hard decisions on exiting businesses, but I am glad we did. We are on a cleaner wicket now," says Birla.

In order to do away with the bureaucratic culture prevalent at Birla companies, Birla launched a feedback programme that allowed managers to question even his leadership style. This was unprecedented in family-run businesses. He also threw age-old financial practices out of the window and revamped power centres.

BIRLA: THE EXTERNAL ENVIRONMENT HAS CHANGED

Not only has the group turnover more than doubled under Kumar Mangalam Birla's stewardship, but the group has also set a scorching pace in M&A activity. It has also entered new emerging sectors, like software, telecom, insurance, with a thrust on knowledge-based service-oriented focus.

In the past, the group's portfolio was heavily focused on capital intensive manufacturing-oriented businesses. What is the future direction?

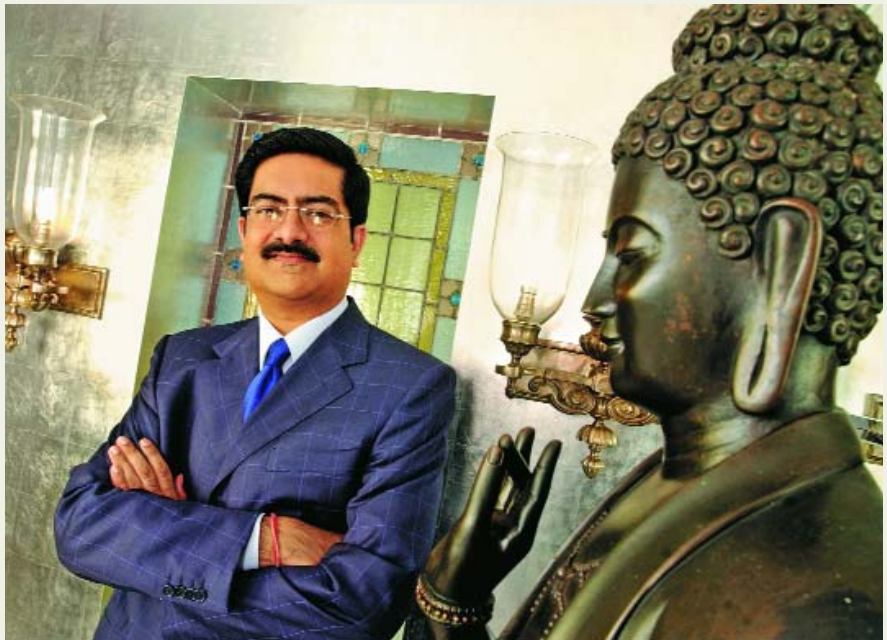
The intent has been to create a portfolio which has a better balance between asset-intensive and not-so asset-intensive businesses. That necessarily does not mean that we are jettisoning all our asset-intensive businesses. They have their mainstay and have created value on a continued basis. What we are trying to achieve is a balance in terms of portfolio. For example, the garments foray or the more recent foray in financial services and insurance, and a relatively smaller foray in IT. That's the intent — to create a better balance between our businesses than what we had earlier.

Are your group companies adopting an umbrella branding strategy?

It's a gradual process. You can't kill a brand overnight. The idea is to move into two or three national brands. One, say, for normal ordinary portland cement, another for slag cement, another for speciality cement. In aluminium, we are clearly branding. The move is clearly to get closer and closer to the end-customer, whether it is in aluminium or cement.

The group is seen tending more towards knowledge-based, service sector, brand related areas...

Manufacturing is clearly the largest. We are not saying we want to become knowledge-based overnight. Manufacturing is a very important part of a portfolio and will remain so. What we are saying is that while going forward, the service part will also become an important part of the portfolio. We are not trying to become a services company or a become a knowledge company. And we have a proven track record in managing different businesses. If you look at all our businesses, we have a dominant position. That's how it has been historically, that's how it will be while going forward. Maybe we would get out of one or two businesses and selectively take on one or two. But I'm not saying that we are completely going to change and become a services company, and that manufacturing will account for say 20 per cent of our revenues.



The group is laying greater stress on international expansion. What are the plans in store?

We will seek opportunities and we have a committed plan. We are looking at areas other than those we exist in for global expansion, but I can't just tell which areas those might be because the team is looking into it. But again, we will use the same rule of dominance, what kind of returns it will give us, and if we have the skills we can acquire, if necessary.

Would acquisitions continue to fuel your group's growth?

No, I think it will be a mix of both organic growth and inorganic growth. It is wrong to say that we have stopped growing organically and we are only looking at M&As. Given the fact that we are in so many different industries, the landscape in each industry is very different. In some cases, there are opportunities to grow through acquisitions. And that we've done in the past two years. But in some other industries it may not be possible. So we are not wedded to any one option. We're looking at creating the best balance for us and for our shareholders in general. That will actually be the driving force.

Having come this far, what would you say are the lessons you've learnt?

The biggest lesson I've learnt is to retain things of the past that are good for today and tomorrow and to let go things that are only baggage as far as the future is concerned. The effort is to contemporarise the business, which is true for anyone because the external environment has changed. Doing that has been a great learning experience.

A great admirer of GE legend Jack Welch, Birla has modelled his group along the lines of GE Capital. The group has clearly identified growth drivers: Aluminium, textiles, financial services, insurance, metals, cement, telecom and software.

The mandate for each of the businesses is to find the best place to grow and the aim is to be among the most profitable in the industry, and near the top in the rankings. "The focus is very much on profitability and growth rather than on increasing market share alone," says Birla. "The intent and desire is to move in a direction where we become a premium conglomerate giving premium returns to shareholders," he adds.

Through a spate of acquisitions and greenfield projects, the group has grown in size and stature. Birla's tenacity was on display a year ago when he successfully completed group company Grasim's acquisition of Larsen & Toubro's cement business, despite initial opposition from the latter's top brass. With this, the group now has a 31 million tonne annual cement capacity, making it the largest cement producer in the country.

The group introduced a path-breaking retirement policy that saw 325 senior executives step down after years of service. The executives between the ages of 62 to 65 were replaced with 190 young executives. Birla is giving importance to new economy businesses such as IT, ITES and telecom, insurance and apparel. "We are making the move from mature businesses to businesses for tomorrow, admitting that even over the next 10 years the group will continue to be commodities-heavy," he says.

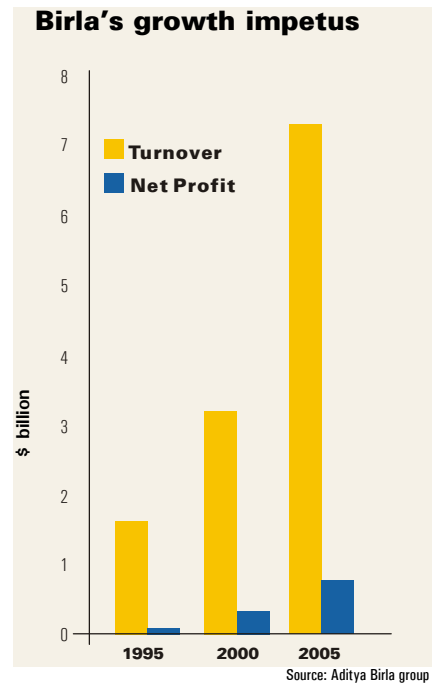
While the group has excelled in the commodities business and is possibly the lowest cost producer in the world in many of its businesses, the real challenge is

where the company has to face the customer. Birla believes, "The way to insulate commodities from business cycles is to go downstream and get closer to the consumer — like going from cement to ready mix concrete, from aluminium to foil for housewives."

And as for Madura Garments, the company he acquired in 2000, the idea is to turn it into a completely retail focussed company, given that there's an explosion of malls in India. It could also be the group's entry into organised retail. How do financial analysts and fund managers view Birla's efforts at rebuilding his business group? Says Kalpesh Parikh, an analyst with ASK Raymond James, "The group is almost on auto-pilot and he can play the owner's role rather than a manager's role — given the structures he has created, Birla can be the constructor rather than the fire-fighter that many CEOs have been reduced to in these competitive times."

Ask Birla, and he says "My natural choice would be to work more on building the organisation, that keeps me ticking." The organisation has already achieved a lot. It's among the global leaders in industries like viscose staple fibre, carbon black and insulators, is among the world's lowest cost aluminium producers and is Asia's largest producer of aluminium and cement. Its recent forays into cement, financial products, telecom and ITES have been successful in placing the group in a leadership position in the domestic market.

The focus now is to further consolidate its geographical leadership in each of the industries it's present in now. The Aditya Birla group is now at its 'inflection point' to borrow a phrase from Andy Grove, and gearing up to "really move into the growth phase". The existing businesses have to clearly dominate their own spaces. Birla has segregated the group's diverse business activities into three segments — or 'buckets' as he calls them —



defining their geographical and business domains: international, regional, and national.

Where the group can achieve international dominance leadership, like in carbon black, go for it. Ditto for businesses where it can emerge as a strong regional player, in the Asia-Pacific region, or else, at least national leadership. In businesses like carbon black, insulators and viscose staple fibre, the group has the potential to emerge as a global leader. For aluminium and cement, it's poised at the pole position in Asia. For other businesses like sponge iron, insurance and branded garments, the aim is to achieve local dominance or a leadership position in specific countries.

Growth will come through both acquisitions as well as greenfield and brownfield expansions. "Though we have a fairly good portfolio now, we have the bandwidth to look at one or two new businesses. The decision will be based on its strategic role and whether we will be able to achieve a certain amount of dominance by being the largest or second largest player in the sector," says Birla.

Having set the priorities and having identified leaders for each of the businesses, what's his role going to be from now onwards? It's about moving from being tacit to being explicit. This is the journey Birla is on at the moment, a professional parenting role much like Jack Welch. 🌈

On the Web
The Aditya Birla group: www.adityabirla.com

Major companies in the Aditya Birla group

Company	Businesses	Revenues (\$ bn)
HINDALCO	Copper & aluminium	2.45
GRASIM	Viscose staple fibre, cement, sponge iron, chemicals and textiles	2.26
INDIAN RAYON	Viscose filament yarn, garments, carbon black, insurance, insulators, IT and ITES.	.75
INDO GULF	Fertiliser	.16