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A REPORT BY
M+V ALTIOS FOR VDMA

SEPTEMBER 2021
HOW HAVE ENGINEERING COMPANIES IN INDIA BUILT RESILIENCE DURING COVID-19?

ORGANISATIONAL RESILIENCE

During the Pandemic

FOREWORD

Dear VDMA Members,

VDMA & Maier+Vidorno (M+V Altios) are pleased to share this summary of our collaborative research into Organisational Resilience during the Pandemic (Covid-19) within foreign subsidiaries in India.

M+V surveyed almost 90 companies—VDMA members and other German engineering SMEs—with in-depth questions about the impact of Covid-19 and the challenges they experience as SME German Engineering companies operating in India.

Companies across India were impacted during the lockdowns enforced to control the spread of the Pandemic, with business survival and people safety of outmost priority for all leaders.

The study revealed that resilience is a strategic priority and is contextual to one's environment, business model, and people.

It looks at various fundamentals of Org. Resilience in perspective with industry trends and methodologies used worldwide to draw out some initiatives taken by companies in India to advance resilience.

We are happy to present this study on "Resilience during the Pandemic (Covid–19): How have companies built resilience within the Engineering Industry" at the 10th VDMA Mechanical Engineering Summit in Bangalore.

Yours sincerely,

Rajesh Nath
Managing Director - VDMA India

Klaus Maier
Partner - M+V Altios

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What is in the report

EXECUTIVE SUMMARY

Resilience is a journey, not a destination.

As a part of our operational support services to International Subsidiaries present in India, M+V (Altios) works closely on a day-to-day basis with the client teams. The pandemic (Covid-19) led this association to go beyond just functional support and develop into a deeper association—collaborating for arranging life-saving oxygen, medicines, access to medical services, among other business aspects. We witnessed this community outreach and support from other companies, thus our endeavour to understand how companies are managing their teams and businesses and continue to re-build a strong position in the times that Covid-19 bought.

We conducted one-to-one interviews to understand what is unique for Indian Subsidiaries, their outlook, and response to such large changes presented. Did they anticipate these disruptions would change the way business will be done and the way forward?

Responses were collected via In-depth Structured Interviews and an Online survey which generated interest and enthusiasm among German-Indian Subsidiaries who shared their experiences and learnings openly with us.

The intent of our research was to get a more overarching view of business health and what unique aspect of their teams helped them not only survive but also successfully get past this, with an intention to create a repository of all practices which may help organisations learn from others and point their focus on areas within their organisation, if actioned, may advance resilience. While the research is based on various models present, it is not our intention to validate the relevance of such tools or models, but to use them as a construct or framework, adaptable to their own need.

COMMON THEMES

We have information from 90 companies (through In-depth Interviews or Survey Responses)

- The pandemic caught all companies (& humanity) across the world by surprise, with no one able to predict accurately what the future had in store. It severely impacted their ability to predict trends and market changes in the context of variables out of their control. The most stated comment was "it was the first time in our careers we witnessed Zero Invoicing for a period"

- In the context of business, almost all companies saw 2020 as a year of "Stabilising the business" with approximately 80% of respondents stating H2 and 2021 (till date) to be the best years over the last 5 years in their tenure with approximately 15%-20% growth seen in the top lines

- The increase in business order booking/intake is attributed to back-logs/pent up demands, opening up of infrastructure sector, agriculture, as well as exports.

- While optimism within the participating companies is very high, there is an underlying attention to the overwhelming increase in supply chain disruptions—increased raw material costs, cost of logistics, and overall delivery timelines that have increased considerably during this period.

WHAT DID WE LEARN?

Key Theme

The journey through lockdowns and total 'standstill' business months (March'20–May'20) had been both psychologically and physically trying for all individuals. Leadership played an extremely pivotal role for companies that have successfully regained lost business—with a true focus on people and unified decision making. There is also a positive optimism we hear from all our participants about the future and a renewed sense of confidence having dealt with two lockdowns—there is clarity & preparedness to handle uncertainty.

"In order to survive and grow, a company must be able to anticipate, prepare for, respond to, and adapt to incremental change and unexpected interruptions"

Resilience is a journey, not a destination. All companies are resilient; this only helps them learn from others and enhance their own.

Resilience is an interplay of 4 main disciplines—leadership, people, process, and product. The interplay and relationships between these disciplines and harnessing their energy can make companies resilient.

WHY IS RESILIENCE IMPORTANT?

A working definition from experience of doing this research

"It is a strategic goal beyond competitive analysis, risk & crisis management with cognitive learning that an organisation gathers from an unfavourable situation to enhance the capabilities making excellence a habit."

OUR RESEARCH METHODOLOGY

How did we learn what we did

Both qualitative & quantitative approaches were used to gather insights. We then used the "narrative analysis" concept to arrive at main patterns and themes, which were later validated against resilience standards and other research frameworks.

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KEY FINDINGS

What were the 4 key takeaways

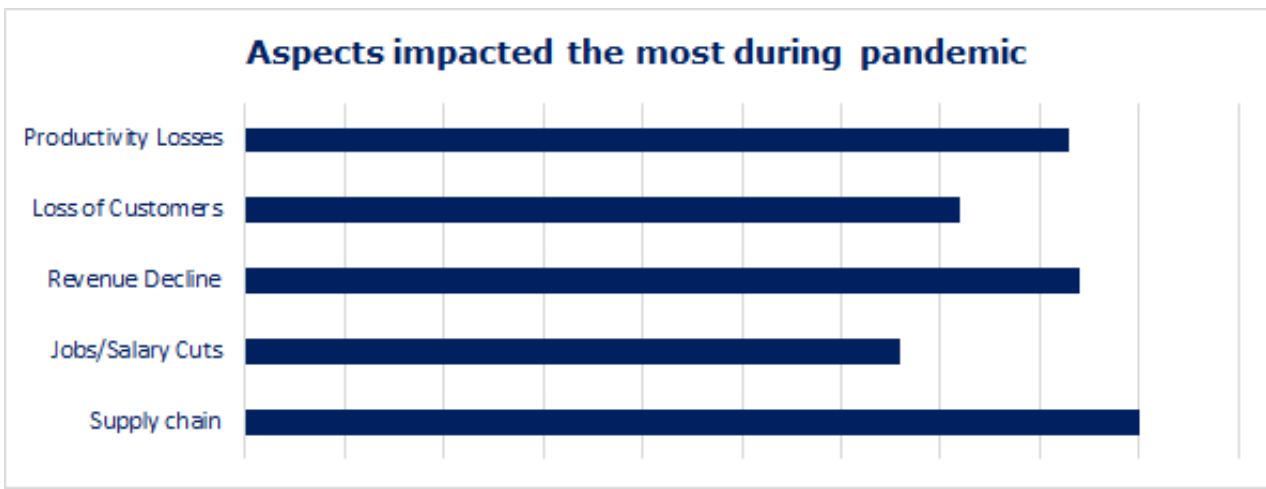**1** Employee safety and well-being is the top priority

2 Increased focus on people & processes

3 Deepened engagement with Customers

4 Emergence of strong leadership

"Resilience: The ability of an organisation to bounce back to its normal operations post pandemic"

IMPACT OF COVID-19

on Organisations

Aspects impacted the most during pandemic

Productivity Losses	
Loss of Customers	
Revenue Decline	
Jobs/Salary Cuts	
Supply chain	

Overall, 32% of the respondents ranked supply chain delays/issues amongst the top impacts of the Pandemic followed by loss of revenue ranked as second by 28% of the respondents. Job cuts or salary cuts were a forced measure taken by 12% of the respondents. Only 6% of respondents lost their existing customers to competitors during this pandemic. While the supply chain has been most impacted by the pandemic, it is expected

"No Customers were lost, we lost business due to challenges of supply chain or deferred orders...."

to remain so until mid–2022 with a very slow recovery.

When the Pandemic (COVID–19) started in early 2020, Focus on Employee well-being was the top priority amongst over 62% of our respondents with a close focus on connecting and retaining customers; 17% respondents rated this as one of the top two priorities of the business at the start of the pandemic. Focus on employees shall continue to be the top priority for sustenance, closely followed by focusing on building Supply Chain Resilience.

"…increase in R&D Projects in global markets, and new customers globally."

Less than 2% of respondents were expected to do less than their 2019 adjusted budgets, with over 64% of respondents expected to meet & exceed the readjusted budgets. While it is expected that companies smaller in scale (in terms of turnover) would have struggled to cope with the adversity, it was found that 55% of these companies expected to close 2021* numbers better than 2020 targets (which were readjusted to account for the impact of the pandemic).

The majority of the companies with less than INR 50 crore turnover in India mentioned that they would regain the loss of 2020 in 2021. Interestingly, this is a similar outlook that companies with over INR 100 crore turnover expressed. It is also interesting to note the agility and response towards pandemic from a business metrics standpoint is similar to that of larger setups, thus reconfirming that resilience is not optimism but an organization's ability to adapt and respond.

Less than 7% of the respondents were expected to close 2021 less than or equal to 2019.

Business & Financial performance: Almost all responded positively on the expected financial performance. We did see a nuanced view from manufacturing and trading companies respectively—the former is expected to do "marginally better" as compared to the latter, who responded with "More than the adjusted budgets". This flexibility financial process was effective and meeting the demands with 78% of respondents—cost control measures implemented in the initial months (March–May 2020) helped teams maintain cash/working capital.

"…employees display more ownership & commitment…they value the support company extended to families, and community at large"

* while we do understand companies have different fiscal year closing cycles, for simplicity, year is reported as calendar year

The most effective cost measures that supported companies during the initial phases shall continue to be in focus.

- Accounts receivable had a lot of focus. Collection processes (outstanding payments) were reviewed to ensure stronger follow-ups, automated bank guarantee processes were setup to make things quick, discounts from suppliers were encouraged, and inventory control was enforced for efficient ordering in case of non-standard products.
- ·With cash flow being critical, many organizations resorted to cost optimizing, controlled expenses, and banning CAPEX purchases during the pandemic. However, no employee benefits were marginalized—few also mentioned co-developed plans for employee cost management were initiated.
- There was flexibility allowed for payments within the group companies that helped cash flow management within the Indian Entity.
- A strong trend we saw was in Customer Segmentation—many revised the creditworthiness of customers and implemented different plans for high-risk customers.
- Getting credits on LCs from back in some cases helped a few companies.

There were positive changes during the Pandemic (Covid-19) that were cited that, to a large extent, enabled companies to realign to build engagement with customers and employees. Few cited these changes to have a strong correlation to sales in H2 2020 and H1 2021:

"... Customer focus was always there before the pandemic .... they now perceive us differently ..."
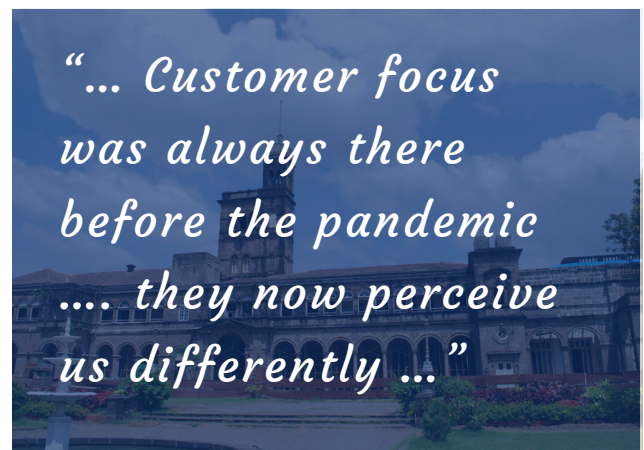
- Digitization & adoption of virtual platforms accelerated outreach to customers and dealers/suppliers, with almost all companies moving to virtual sales and service models. With a digital/virtual tour, companies have successfully conducted demos of equipment (heavy machinery) which has cut down time to sales.
- Decision focused on employees' safety: Job security & wellbeing has unanimously built strong engagement with the company; many companies took a humane approach to managing costs. Majority of respondents stated, if necessitated, level-wise salary cuts were announced to only return to 100% salary with arrears during later part of 2020. 85% companies had no job cuts.
- Customer engagement was positively impacted with accessibility to service and resolution of issues even during lockdowns (to a very large extent).
- Overall change in customer behavior has changed the way sales was done, giving way to more frequent ideation, solution orientated discussions, and efficient negotiations on "online platforms". Largely all respondents agreed to lower costs of sales realization.

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RESILIENT OPERATIONAL PROCESSES

The Pandemic (Covid–19) and lockdowns was a time companies adopted a vigilance on cost and working capital. Almost 90% of the participating companies reviewed their internal processes, controls, and inventories with a view to reduce waste (optimize), cut costs (savings), and review stock levels or slow-moving inventories (cash). While financial processes were the primary focus, companies built efficiencies by cutting down redundancies in existing processes or rules. There was a clear line of command that not only delivered consistent decisions but also built accountability within teams.

During the study, it was evident that cost optimization was a primary focus within companies. Most of the decisions taken were preventive in nature—mitigating risk and arresting losses. Leadership remained accountable, more so during the pandemic, to maintain well-being of business and employees alike.

Top management focused on ways to accelerate revival of business by exploiting alternative markets, industry segments, and opportunities. There was limited evidence captured on a structured approach to scanning opportunities available within a company.

"... digitization was compulsory and also now a necessity..."

75% respondents stated that Headquarters have a strong role in defining boundaries of cost, risk & speed. This ensured accountability within top management of Indian Subsidiaries.

Risk management systems are strong within manufacturing companies who participated, while trading companies can learn on building a risk management (mitigation) protocol. This will help them build accountability within the next line of leadership.

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Our research shows that:

- Most of the Indian Subsidiaries have a highly engaged board—which supports in all Strategic (or directional) decisions, sharing global trends and information that support the local teams to make informed and aligned decisions. Business continuity plans for India were initiated by Headquarters in a few of our responding companies. Most employee well-being & cost optimization decisions were decentralized, while CAPEX decisions were centralized. Indian subsidiaries are taking decisions on their Technology roadmaps.

- Customer communication processes were the first few processes that were strengthened to be more proactive. The top management immediately began communicating directly with customers.

- Innovation processes have taken up focus for Indian Subsidiaries in need of new products and raw material alternatives and a few respondents indicated R&D centres within India will feature on their strategic roadmap.

- This was also a period of internal focus "orientation"; we had an assumption a lot of collaboration within industry segments would be seen, but (apart from some extensive support to suppliers) not much was explored by companies because of internal pressures; however, a few companies utilised government initiatives.

- Digitization processes such as demos and virtual business development meetings opened new customers for products and captured some latent demand.

Some practices we learned from our research:

- Very few companies had worked with other subsidiaries from other locations such as China to pre-empt lockdowns and replicate practices to be ready for disruptions. It is recommended to foster exchange of ideas and learnings across different locations. On top of preparedness, this will positively impact on the ability to scan and scout for opportunities internationally or learn from trends.

- Digitalization and "Real" time information availability is critical to make decisions efficient, with few internal communication apps seeing an upsurge for ease of managing across boundaries.

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LEADING A RESILIENT TEAM

in India

Leadership is one of the critical factors that impacts resilience to a very large extent. The top management of a company has the responsibility to build the culture of trust, openness to share concerns and opinions, evaluate the impact of a decision—this direct impact was witnessed more so during the pandemic. Culture is a corner stone that enables employees to deliver as expected and make the right decisions while at the same time innovate continuously and an ability to think on their feet.

Common Vision & Purpose: Making the purpose and vision clear for all employees is a prerequisite to build resilience. It should not only be communicated but felt throughout the teams in order to assess challenges, changes, and opportunities. Values are critical to help employees act on behalf of the organization to capture all opportunities.

"...as a leader in India, my priority was to keep the team's optimism high. Their safety was first, customers second..."

Our research shows that:

- 90% respondents felt that company values and culture were lived during the pandemic crises; it enabled the top management to make compassionate and humane decisions.
- All respondents agreed that "commitment" from employees as an attribute had highest impact due to the decisions and stand the organization took for their and community's wellbeing & safety.
- The local management or top management had a collaborative decision-making process while still staying accountable for all decisions to ensure minimum risks and high response rate.
- The need to build stronger management practices of risk mitigation and a formal process of evaluating opportunity has been felt within the teams in India.
- An interesting observation was about reputation of the entity; leadership spent considerable time to "Build customer first practices" ensuring their teams stand by the customer in their need of the hour, thus, building a positive brand for the company.
- To ensure there is availability of skilled resources, many companies had started multi-skilling within their front-line staff and in a few critical support/supervision roles.
- Horizon scanning and Innovation were ranked second and fourth respectively across each of the five sectors that we examined.
- 19% of the responding companies experienced low productivity with the sudden change in the way of working—however, with close supervision the transition was fast and inevitable but overall effective from a way of doing business.
- •The batch sizes manufactured may be re-looked at to avoid the supply chain and inventory challenges experienced. During the pandemic smaller batch sizes were produced. It may be a trend going forward so the resource planning may be re-looked. Synchronization of resources, Resource Management, semi-finished and critical components were mentioned, that will require micromanagement and re-looking at the planning processes.

Some practices we learned from our research:

- This was a period of "Leading from the front" with a clear mandate to safeguard one's teams.
- There is need for the next level of management to be trained in decision making, ensuring they can manage conflicting priorities while managing business objectives.
- Some respondents observed that Individual productivity had increased while team leaders experienced a dip in their performance. These companies also saw that Top Performers (as assessed earlier) were not impactful—that forced them to review evaluation processes to be reassessed to ensure good communicators are evaluated stringently.

"...now when we have done our best, and the worst may be behind us... we should now together review what we learnt..."

OPERATIONAL DISCIPLINES

in India

Business model sustainability was tested during the Pandemic (Covid-19) with less than 10% respondents indicating actions taken in this direction, such as building a sustainable reliable supplier base.

During the Pandemic, almost 92% participating companies felt the need to build Supply Chain Resilience was critical after the demand surge experienced. In the responses, companies expressed concern and need to forecast and plan capacities for 2022–23 now considering the global supply chain disruptions. Most felt while the logistics delay was attributed & experienced

"...Customers understand the supply disruptions and cost pressures. They are accommodating by showing flexibility in advance payments..."

during lockdowns, the substantial increase in Raw Material costs (almost 1.5 to 2 times), freight cost escalations (almost 3x escalation), and shortage or unavailability of components were unexpected; further, many respondents highlighted these indirect issues had caught them off-guard.

It was expected that large organisations (over Rs. 150 cr turnover in India) would have had leverage on these supply chain issues, and the impact would be severely felt in smaller companies. However, the latter seems to be more optimistic about their own resilience to overcome these constraints. Both laid emphasis on the need for capacity building planning for the next two years (to meet order backlog, and to mitigate supplier availability and costs). Financial planning needs to be more focused on sustaining margins in the next two years.

Our research shows that:

- 30% of respondents mentioned that supply chain concerns and plans to mitigate the risk within this discipline would be the primary focus as they believe that the adverse impact which started from 2020 may get worse going forward. Almost 85% of responses indicate that these issues shall remain till H2 of 2022.

- The critical challenges experienced by ~82% respondents were in the areas of availability of raw materials, critical components (chips & semiconductors), and metals and would require risk mitigation and proper planning. Logistics (lack of availability of shipping containers) has cause the maximum disruptions at present times.

- Building capacities will be critical with a fine balance of margin and cost controls. But for the future, companies have to focus on capacities. We are placing demand on our suppliers for 2022 sales as well considering the supply timeframes.

- 20% of companies built some flexibility by using their own vehicles to transport to customers.

- As most companies expressed that while it may be difficult to do price revisions at this time due to increased cost of raw materials, it will become inevitable in future to balance margin pressures.

Some practices we learned from our research:

- Conduct a good audit (secondary & tertiary suppliers) to get a good understanding and mitigate risk by diversifying the supplier base. There has been a change in the supply chain laws in Germany and building an understanding of the impact for Indian entities will be worth assessing.
- More than ever, it is imperative for production processes to be monitored—reduction in wastage, quality controls, inspect rejection rates, and overall reduce errors—in light of the shortages of raw materials and components.
- There may be more collaboration with vendors in terms of enabling them to adapt quality processes. Some of the respondents shared that their teams were working at the vendor's premises to ensure the quality and outputs. More knowledge sharing and bringing up vendor systems and processes may kick in.

"… our processes need to be efficient …reduce errors and wastage… actions that impact our bottom line are important to be taken now…"
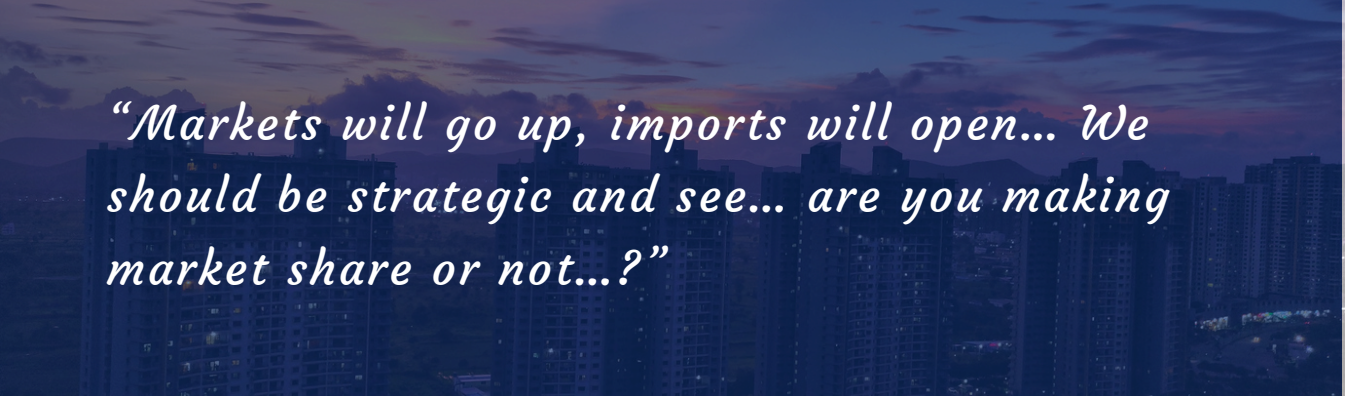
CONCLUSIONS

What stands out

We learned a great deal from this study. Resilience as an ability to bounce back or overcome crises only develops by going through one! Resilience is very contextual to a company's operating environment, conditions, and stage of business. All companies are resilient—it is not a benchmark that one needs to make; however, it is an awareness by which a company can either be more resilient or less resilient than what it already is.

Word of research: Resilience is relative and not an absolute destination!

Start by assessing current resilience levels and these should be re-evaluated at a predefined frequency (once or twice a year). A governing body makes these decisions basis risk, needs, and the organizations' aspirations.
For your organization to be resilient, it needs people who can respond quickly and effectively to change while enduring minimal stress, which is enabled through a systematic interaction between all aspects of the organization.
These positive adaptive capabilities are what differentiate the competition. Advice on organizational resilience has been slight, but child psychologists and crisis management specialists have been working on these concepts for years.

"Markets will go up, imports will open… We should be strategic and see… are you making market share or not…?"

MORE RESILIENT COMPANIES

in our study did the following:

- Designed effective actions to mitigate risk

- Shared or collaborative decision making leading to effective responses

- Were able to distill positive experiences from the crises

- Focused a lot more on the outcome than output alone.

RECOMMENDATIONS

to build Resilience

Organizations that intend to embark in this strategic direction should start by asking these questions to assimilate learnings the from Pandemic (Covid–19):

- What is it that our teams learned from this time?
- How can we reach operational resilience?
- How to create and maintain resilient processes?

PRINCIPLES

We reviewed these as Core Resilience Principles which should help teams make some tangible actions in that direction.

ASSIMILATE EXPERIENCES CONSTRUCTIVELY

Dialogue with Top Management/key personnel/target employee groups to explicitly celebrate positive experiences, openly share opinions to build a positive outlook, and develop a shared learning.

IDENTIFY & PERFORM POSITIVE BEHAVIORS

Allow responses to adapt to the needs of the situation, rather than execute ineffective "programmed" responses.

ENSURE ACCESS TO EXTERNAL RESOURCES

Build positive exchange of ideas across subsidiaries and formal mechanism of inter & intra entity communication.

EXPAND DECISION MAKING BOUNDARIES

Re-assess decision making authority to support the newly acquired positive response (rather than seek direction and guidance) and access to resources to achieve the objective (e.g. financial risk/cost estimation matrix). Build tolerance within the system for unavailability or incompleteness of information.

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ORGANIC INNOVATION OR PROBLEM-SOLVING

Reliance on what we have than what we need—encourage solutions through ideation & creative thinking process.

BUILD VIRTUAL ROLE SYSTEMS

Individuals have a shared understanding of the team's mission and can fill in wherever needed to ensure smooth functioning of the team.

DYNAMIC LEADERSHIP

By making sure their organization is resilient & demonstrates this, the leadership will ensure the company enjoys a reputation of reliability and trustworthiness—a company that others want to do business with.

PROCESS RELIABILITY

Critical processes must be robust and compliant, with clear control metrics mentioned and decision-making roles clearly defined. This should be extended throughout the supply chain as it will improve efficiency and lower costs.

EMPLOYEE BEHAVIORS

Alignment to overall values, beliefs, and shared vision.

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IMPLICATIONS

What are the implications for Management Teams?

With the dynamic business environment, uncertainty, and easy access to confidential business information—such as price, quality, and performance—the time to make effective decisions has considerably reduced. Management must rely on first touch points to be well informed and trained to take critical on-the-spot decisions with minimal next level approvals. This has become the starting point of resilient organizations/cultures. The Pandemic (Covid-19) was the time for "Leadership walk-the-talk" and "Lead from the front" approaches, and at the same time making such gaps very evident where they exist.

Most critical for business continuity and sustenance is an immediate response to building supply chain resilience; strategy to build alternative supplier base, R&D to find alternatives, work with different raw material availability—actions leading to sustainability in business.

Leaders will be required to start re-thinking the way interaction between organizations critical resources strengthen these inter-plays — it is "paradoxical" thinking that shall support leaders*:

- Controls AND Actions
- Responsiveness AND Efficiency
- Optimism AND Innovation
- Innovation AND Governance

This means reassessing all approaches (organizational structures, systems, routines, and behaviors)—balance key drivers protecting results and achieving results and consistency in operations v/s new ideas.

Foot note: *BSI paradoxical thinking process on the tension quadrant

References

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*BSI Standard Organizational Resilience

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