



Chandramowli Srinivasan,  
Chief Financial Officer,  
SKF India

**Customer Centricity And Innovation:**  
**Enabling**  
**Profitable Growth**

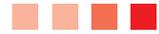
In a business environment where frequent and large market fluctuations are the new norm, CFOs – given their unique, enterprise-wide vantage point – can be the CEO's strongest ally against volatility. Finance can bolster organisational performance through critical initiatives such as business performance monitoring and forecasting, strong risk management, and high-levels of controls and transparency. However, the success of these initiatives depends on highly standardised and effective finance processes. This only adds to the CFO's already action-packed agenda, and demands smarter, faster decision-making to reduce costs, drive revenue, identify new opportunities, and sustain growth. A fine example of this new paradigm is SKF India, which has evolved from being a pioneer ball bearing manufacturing company to a knowledge-driven integrated solutions provider, helping customers achieve sustainable and competitive advantage. One of the key people behind SKF India's high growth standards is Chandramowli Srinivasan, Chief Financial Officer at SKF India.

SKF has been a market leader in bearings, both globally and in India, for many years. The company has beaten sectoral growth consistently by making innovation its most important lever for growth, and by relentlessly focusing on customer needs. SKF is recognised for its manufacturing excellence, and constantly benchmarks itself on the most stringent operational parameters. Over the years, it has grown intelligently, consistently driving up its gross margins by raising its cost-competitiveness.

The Finance office' structure splits the team into two – one that acts as custodian and centres on compliance and reporting and the other, which looks at business partnering with line functions to ensure the smooth functioning of SKF's entire eco-system including vendors. Finance is then a vital partner in achieving business results, providing cutting-edge financial analysis, simulations, and out-of-the-box solutions.

Mr Srinivasan ensures that Finance also keeps a close eye on both financial and operational risks. This is vital to the sustainability of any business, but particularly so for companies operating in multiple jurisdictions. Risk management at SKF is an enterprise-wide function, backed by a qualified team, including the Chief Risk Officer. The Risk Committee conducts an annual deep-dive workshop to assess key risks, while the CFO – together with the CEO and the CRO – oversees business risks. The CRO regularly updates the Board on risk strategy.

## SKF India has beaten sectoral growth consistently by making innovation the key lever for growth and by relentlessly focusing on customer needs



Compared to its industry peers, SKF is well placed on the talent front. Despite increased volumes and complexity, new acquisitions, and an expansion into new geographies, its Finance team has not grown linearly. Company-wide attrition rates are below the industry average, and it even lower for the Finance function. On-the-job learning and personality development courses help team members hone their skills, while regular job rotation allows them to acquire cross-functional skills and become 'all-rounder'. SKF has also developed a 'leadership nurturing programme' that helps accelerate the pace of employee transformation as people transition from one level to the next. A culture of openness and empowerment promotes workplace diversity, and SKF ranks in the '2016 Working Mother' and 'AVTAR 100 Best Companies for Women in India' lists.

Mr Mowli fully understands the pivotal role of technology in improving efficiency. His emphasis on digitisation and automation of processes, with the help of robust business applications and IT infrastructure, led to cost efficiencies and increased productivity. He has embraced the use of latest business intelligence tools to build what is truly a technology-enabled Finance function. Recently, Finance used technology tools to reduce inventories and debtors by Rs 100 crores over one year without sacrificing sales or service levels.

SKF follows stringent corporate governance (CG) practices, and works hard to enhance shareholder value, all without compromising on its ethical or CSR standards. Its CG philosophy is put into practice by means of sound Board governance processes, strong internal control systems and processes, and strict audit mechanisms. These are articulated in the firm's Code of Conduct and its Ethics Policy. A dedicated Group Chief Ethics Officer and a local Ethics Committee at each location ensure that compliance and ethics standards remain consistently high across the enterprise globally.

In a candid conversation with *CFO Connect*, Mr Mowli shares his insights into the crucial role of the CFO in driving and sustaining growth

at a firm strongly centred on innovation and customer centricity as the two levers of growth.

## The Big Picture

**What are SKF's strategic goals for the next 3-5 years?**

Our goal is to be the undisputed leader in bearings in India by enhancing customer value and combining SKF's various technologies. To achieve this, we aim to grow profitably ahead of the market (stretch target is twice the GDP growth rate). At least 50 per cent of this growth is expected to come through innovation; through continually taking costs down to achieve greater cost competitiveness; making employees 'purposeful action takers'; and becoming a highly customer-centric organisation by helping customers 'win'.

**Where would you position Finance in the achievement of these objectives? What role does the function play in enabling business to manage change effectively?**

Finance is a strong enabler and a support function in the process of achieving these objectives. The Finance function's responsibility is clearly split into two parts. As the custodian function, it is responsible for the integrity of accounting and reporting, compliance, efficiency of financial processes, effective treasury and tax management, implementation of internal controls, and corporate governance. As a business partner, Finance works closely with the line functions, operations, and sales as their financial partner in achieving business results, providing cutting-edge financial analysis, simulations, and out-of-the-box solutions. For instance, Finance helps leverage the strength of the company's balance sheet and its banking relationships to get low-cost funding for our suppliers and distributors; Finance also helps quantify benefits to customers in a performance contract; and it removes FX risks by partly importing in INR. We believe that this separation of Finance helps avoid any potential conflicts of interest and enable a high degree of financial engineering.

**SKF has delivered 'intelligent growth' through consistent improvement in margins while raising cost competitiveness**

**SKF intends to double its CapEx in the next 3 years. What is the goal of such spends? Equally, what are its drivers?**

Our CapEx spends are primarily aimed at capacity enhancement, but we also intend to upgrade our technology, launch new products, improve service offerings, and enhance technology. Our growth goals are based on a two-pronged strategy – to grow our market share in standard product offerings as well as in providing customised solutions (also referred to as 'enhancing rotating equipment performance') using SKF's 100+-year knowledge legacy. Some of this growth could also come through the inorganic route – acquisitions and strategic alliances – if we find the right complementary fit.

**Would you qualify how you will expand CapEx: what kind of equipment/manufacturing locations will be used/built, and how is that different from the past?**

We do not foresee any Greenfield expansions in the near future as we already have enough land at our three factories situated in Pune, Bengaluru and Haridwar. Therefore, most of our CapEx will be through brownfield. We already have three solution factories, and will set up one more to service our customers across the nation for spindle repair, remanufacturing/refurbishment of large size bearings, and made-to-order seals. Clearly, as technology improves in the bearing manufacturing process, our future CapEx will be reflective of such changes including increased automation through robotics and smarter machines that use big data analysis and artificial intelligence.

**SKF's recent results show gross margin at an all-time high. What are the cornerstones of the strategy that have driven this?**

Our steady improvement in margins is a reflection of our continued focus on increasing market share through a customer-centric and innovation led approach; providing solutions to our customers after a deep understanding of customer needs; and a relentless drive to keep reducing our costs through various means (smart sourcing, waste reduction, sustainability projects, value analysis and value engineering, design optimisation, process improvements in operations). Almost 30 per cent of our sales growth in 2016 came from new products and solutions. SKF India's product innovation includes tapered roller bearings for the Indian Railways' fastest train (Gatiman Express);



special ball bearings for one of India's iconic motorcycles; a pinion unit for one of India's largest truck manufacturers; a drum support unit for one of the world's largest washing machine manufacturers.

On product customisation, our indigenously developed cost-competitive housings – the truck hub unit – for commercial vehicles was specially designed to suit the Indian requirements of a lower specification, and yet increased the service life by a factor of ten.

Continuous improvements in cost is also a key component of this journey. We have achieved big savings in power costs through the use of alternative sources of power like rooftop solar panels, hydro, and wind power. Our corporate office is so designed that natural sunlight lights up the whole office. We have sought, and gained, big reductions in the cost of scrap and premium freight and are continuously developing new sources of components and steel. Effectively, every segment of investment and expenditure is continuously re-assessed with a view to reducing cost impact. We believe that quarterly margins, in the short-run, are influenced by numerous factors such as changes in mix and forex movements. Our long-term margin improvements, therefore, are more reflective of the actions we take to achieve our goals.

**How have you coped with the dual challenges of GST and slow economic growth? Will GST be growth-negative/positive/neutral for you for the current year? What is your view looking outward beyond this year?**

GST has been a disruptor, but hopefully only in the short run. While the main benefits of GST – lower tax rates and avoidance of cascading of taxes – are laudable, the implementation has been inadequate. At every pre-GST session with revenue officials, I vociferously made a point that industry should be given at least six months to fully test the rollout and properly configure ERP systems. Unfortunately, that was not done. We were not fully ready with the ERP system, and worse still, the GST network and portals were not ready, either. Whilst there is a challenge on the business side of GST with businesses unravelling and coming to grips with the impact on costs and prices, there is the added challenge on the compliance side in terms of filing returns. This has affected SMEs the most that do not have the resources to simultaneously manage business and GST related compliances.

However, from a longer-term perspective, clearly GST has to be seen as a positive measure.

## Separating Finance into its respective custodian and a business partnering functions, and achieving the right balance of guidance and governance, enable a high degree of financial engineering at SKF



It will bring almost all businesses into the formal sector of the economy, and remove the unfair cost arbitrage that some informal businesses enjoyed by staying out of the tax net. It is a good thing that the government is proactively correcting glitches and unintended errors that have crept in, but it would have been better if these issues were dealt with during the testing phase.

### Business Performance

**SKF has beaten its peers on growth consistently. What drove this acceleration of effort? How would you define the journey per se?**

SKF has been the market leader in bearings, both globally and in India, for many years now. Since the start of this century, we have grown rapidly with a clear goal of growing ahead of the market in terms of profitability and consistency. Growing market share is a categorical expected outcome from each of our business units. Our annual budgeting exercise reflects this ambition. We have made innovation an important lever of our growth plans, and to that end, we work continuously with a pipeline of new products and solutions, all of which are developed with a deep understanding of customer needs. We have become much more customer-centric in the last few years, and now work with a lot more customised solutions that have helped us win new customers and grow with existing ones. For instance, our emphasis on the 'rotating equipment performance' model of selling is aimed at customers for whom we represent much more than just products. The focus is on improving the overall asset utilisation and efficiency of our customers by combining all the knowledge that we have garnered over 100 years on rotating equipment.

**SKF's manufacturing excellence has been consistently recognised. Could you define the same for us in terms of the benchmarks you**

## **use? How do you ensure a continuous focus on enhancing operational effectiveness?**

Our manufacturing excellence model is based on an eight-parameter index of operational and financial levers such as overall equipment effectiveness, reliability, man productivity, flexibility, manufacturing cost level, capital efficiency, safety and customer complaints. The benchmarks we use are both internal and external. All our factories globally are evaluated on this index, and ranked across the world. Our Indian factories have consistently been in the top quartile, including the top position of at least one of our factories every year. Some of these parameters are ranked on absolute scores, while others are judged on relative scores (i.e., compared to previous years), which helps to keep the focus on continuous improvement. For instance, our world-class distribution centre at Chakan, spread over 64,000 square feet, stocks imported products and delivers it to our customers in much shorter lead times than before. A remote diagnostic centre at Pune monitors almost 80,000 rotating machines today and will do much more in the future in terms of monitoring the health of equipment and conducting predictive preventive maintenance.

## **What benchmarks do you use when you are seeking to improve any operating parameters?**

A lot of our benchmarks on operational parameters are internal, and specific to our industry, but wherever possible, on more generic parameters, we benchmark ourselves externally as well. For instance, when we measure our plant utilisation and efficiency, we consider 100 per cent utilisation to be the maximum available theoretical capacity based on 365 days of 24 hours working at pure cycle time. For such a measurement, even 70 per cent utilisation would translate to a very high level. We like being tough on ourselves.

**Indian industry should ideally have been given at least six months to fully test the rollout of GST, and thereby configure its ERP systems. In the long run, however, GST will be most beneficial for industry at large.**



## **Could you provide insight into how shareholder value is being created at SKF on an ongoing basis? How do you see the role of the CFO in enabling this?**

We believe that our goal is to provide sustained long-term shareholder value, and therefore, all our actions are accordingly aligned. This obviously means taking a long-term view of the business and our customers. Consequently, customer centricity is extremely important for us. We constantly strive to ensure that our customers win at their market place by providing them solutions that reduce their total cost of ownership. We work with the four principles of SKF Care – employee, customer, business, and environment – that encompass and balance the interests of these same four key stakeholders. This year we published our first Business Responsibility Report, which highlights how we create shared value among all these four stakeholders through our operations. I see the role of the CFO as a member of the management team, one that brings financial acumen into the evaluation of business models and ideas while visualising and managing risks, and balancing team dynamics in terms of risk and reward.

## **Finance Organisation Talent Management**

### **What is the size of your finance team? How has it changed over the years?**

I have a team of about 60 people, some of whom report directly into the businesses but have a functional reporting into me. Over the years, this has generally been on a downward trend as more processes have been standardised and automated. Also, as a function, we have graduated from being a more transactional function to one that is much more business-partner focused and analytical.

### **What is the focus of your retention strategies?**

For the company as a whole, our attrition rates have been lower than industry standards, and these are even lower for Finance. While we continuously train our people in terms of both job-related and soft-skills oriented, a big part of the retention strategy includes the work culture and ethics. Openness and empowerment are our two values that our people really appreciate. Making the work place a fun environment is key. We also encourage job rotation – both inside and outside Finance – which helps people learn new facets of work and become more versatile. There are many success stories, including mine: I was a factory manager for three years before becoming the CFO.

**SKF India has an in-house 'centre for learning.' What skill sets have you sought to develop in your team, also bearing in mind the coming decade and preparedness of Finance at SKF for the next phase of growth?**

Our people undergo both on-the-job training and individual development that concentrate on their soft skills and overall personality. As part of the training programme, they learn to work in cross-functional teams on short duration business projects that are generally very different from what they do in their regular work. This enhances their team working abilities and gives them insights into other functions and helps them become future ready. Our team also conducts regular training sessions for sales and operations to teach finance to people with no finance background. Going forward, I see the Finance function's business partnering role gaining prominence as we get into newer business models in a constantly dynamic world.

**What are the 4-5 key metrics that you track to measure the efficiency in the Finance team?**

While there are the usual efficiency parameters of cost of function to sales, speed and accuracy of closing and reporting, treasury income as a percentage of sales, an important parameter for me is the 'internal customer satisfaction' of different stakeholders that the function serves. In addition, our performance on the internal controls testing, various internal and external audits, legal compliances are also key governance parameters and the core foundation on which the Finance function is built.

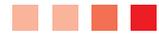
**SKF India has a leadership-nurturing programme to accelerate the pace of employee transformation as they transition from one level to the next. How do you gauge the success of the programme?**

The programme has been very successful – almost 70 per cent of our positions are filled through internal promotions. People have moved from one function to another, within and outside Finance, including to other SKF companies overseas.

**SKF India was selected among the 2016 Working Mother and AVTAR 100 best companies for Women in India. What enabled this?**

SKF has high gender diversity across its workforce, including in terms of the number of high-level positions that women occupy in our company. Most of these women are working mothers who are able to balance work and family

**Our innovation-led approach to growth and a deep understanding of customer needs have enabled us to beat sector-level growth consistently**



very well. We also have some women-friendly policies such as maternity leave and benefits that extend beyond the statutory requirement, a work from home policy for new mothers, day-care facilities, medical insurance that cover parents and parents-in-law, travel and local conveyance policies for women, in addition to the overarchingly open and empowered environment that all employees enjoy.

### **Utilisation of technology**

**A recent development in realising the potential of Industry 4.0 by SKF is the setting up of a world-class plant at Pune. How critical is technology in driving business value?**

We are just embarking on the Industry 4.0 journey. The recent developments are just the first tiny steps in the world-class manufacturing journey, which is based on factory automation (Robotics), an integrated supply chain ERP system, data analytics and self-learning machines, and artificial intelligence. The Pune plant is a part of that journey currently concentrated on lean production.

**What technology initiatives have you taken to improve supply-chain visibility and reduce working capital?**

Historically, we have worked with our ERP supply chain systems that were developed in-house, and which have their own strengths. However, in today's connected world, we find the need for a more universal ERP system that can seamlessly communicate with all our partners across the value chain. To that end, we have started a global transition to SAP. It will be a few years before it is rolled out in India. In the meanwhile, we continue to use our existing systems, and are taking a number of steps to reduce our working capital. Recently, we concluded a project to reduce our inventories and debt by Rs 100 crores over one year without sacrificing sales or service levels through some innovative measures and 'getting the basics right' with disciplined rigour. We have worked at providing financing solutions to both our vendors and channel partners that

## The Finance function's business partnering role will gain prominence as we get into newer business models in a constantly dynamic world



helped strengthen them and address the growth needs of our business.

### Have you incorporated Artificial Intelligence (AI) into manufacturing?

This is just starting up, though we have for long used online condition-monitoring for our manufacturing equipment. AI, of course, goes far beyond that

### How do you leverage technology to enable data-driven business insights for better decisions?

We are using technology a lot more in our business with customers now. Our 'rotating equipment performance' business model is all about enhancing the performance of our customers and getting paid for doing so, rather than just selling bearings and other products. This we will do by integrating the knowledge from across the five platforms – bearings, sealing solutions, lubrication systems, mechatronics, and services. For instance, we have established a remote diagnostic centre in Pune where, from one central control room, we are able to monitor the health of more than 80,000 rotating machines by receiving and analysing online data from these machines. This is just the start, and will be scaled up very soon to much greater levels. Similarly, we work with the roll shop maintenance for steel plants, pay for performance contracts with paper mills. Increasingly, our customers demand solutions from us that will enhance their overall plant efficiency, and we are happy to work with them on that front. It helps cement our relationships with them, and gives them the value they are looking for.

### Risk Management

#### Could you provide insights into the risk management model at SKF, and how responsibilities are divided, Board downward all the way to the frontline?

We work with an enterprise risk management framework led by a senior manager, who serves as the Chief Risk Officer (CRO). The country management team is the Risk Committee,

and then there are individual functional line managers, who are risk managers for their own business units/functions. The Risk Committee does an annual deep-dive workshop into risk assessment, and periodically monitors for any emerging risks. Consequently, risks are prioritised based on their severity and probability, and action plans quickly drawn to manage them. The Board of Directors, which is ultimately responsible for risk management, is apprised by periodic presentations by the CRO.

#### How do you build in accountability for the forecasting and management of risk in business? Please provide insights into how business teams are tasked with this.

A detailed risk assessment workshop is conducted every year, which takes stock of previously identified risks and how they have been mitigated and managed. Next, new risks that may have emerged or are likely to emerge in the future are recognised. This is followed up with detailed action plans for each function, which are allocated to individual managers and reviewed by the CRO on an ongoing basis. The country management team, collectively and individually, watches out for new emerging risks and draws a response plan for managing them. For instance, big or sudden macroeconomic changes like demonetisation are quickly assessed for the potential risks of slowdown in demand and credit, and a quick mitigation plan is then prepared.

Risk management is a continuous process, and senior leadership is trained to think about risks all the time. The Internal Audit function draws its internal audit plan based on an assessment of the operational risk register. Even safety, health and environment related aspects are managed in great detail as part of the overall risk management framework. We actively work on loss-prevention activities on the insurance front. I was the CRO for a period of two years, and therefore, I bring that mindset with me even now in my role as CFO.

#### Given your own discharge of responsibilities as CFO, what is the role of Finance in risk management?

Within the overall risk management framework, the Finance function specifically takes responsibility for managing credit risks through the implementation of a credit policy, currency risks through business hedging, and property-related risks through a comprehensive insurance policy. As CFO, I oversee the business risks together with the CEO and the CRO.

**How do you balance risk management against the objective of aggressive growth? Illustratively, what are the components of your risk matrix that identify levels of acceptable risk and how often do you review those?**

Business is about taking acceptable levels of risks and therefore, we cannot eliminate all risks. Hence, risk management becomes important. We have, therefore, set up a risk matrix to grade all risks depending on their severity (in terms of financial results, reputation, and brand image) and probability. Investments for growth are of course evaluated on their strategic importance, rate of return and payback, but also on how they stack up on the risk matrix. We are also very clear that we will not go for growth that is not profitable over the long-term.

It helps that many of these decisions are taken by the team, which has a good mix of aggressive and conservative individuals. This helps arrive at a decision that is neither too aggressive nor overly cautious. My CEO always tells me that he is happy to have a CFO who tends to err on the side of caution rather than on the side of aggression. Equally important is to build in, at the planning stage itself, contingency alternatives that can be implemented if some of the risks happen to occur, so that we are prepared with a Plan B if course-correction is required.

## **Governance and Board Management**

**How do you align Chief Executive and Board aspirations, bearing in mind long-term shareholder value creation as your end goal?**

I must say that we are a very well aligned team sharing a common vision for the company. SKF's culture is one of 'building consensus' – so differences are discussed, debated and resolved before we arrive at a decision. We have a strong Board comprising of eminent Directors and IDs representing the majority shareholder, and all decisions are taken upholding the highest standards of corporate governance and the protection of minority interests.

**As a multinational, SKF India adheres to SICS (SKF Internal Control Standards). How do you ensure consistently high standards of transparency and disclosures whilst satisfying stakeholders' information needs? What initiatives have you taken to optimise your reporting process?**

Our SKF Internal Control Standards (SICS) are based on the COSO framework, and largely

**SKF's strong governance philosophy is put into practice through sound Board governance processes, internal controls, and strong audit mechanisms**



mirror the SOX compliance requirements. These standards are uniformly implemented across all SKF units globally with suitable adaptations/additions to meet local needs. Compliance to these standards are tested internally by the in-house auditors as well as tested by an external audit firm, reporting directly to the Group. Our reporting processes and requirements are standardised and recorded into a central reporting global database, which ensures standardisation and transparency in reporting.

**How do you ensure compliance and ethics standards remain consistent across the global enterprise?**

We have a very strict global code of conduct and ethics policy. Every new recruit is trained on our code of conduct, while each employee is imparted with refresher trainings and periodic, e-Training modules. We have a Group Chief Ethics Officer and an Ethics Committee at the individual-company level. We also have a whistle-blower policy that employees and other stakeholders can use to raise concerns – either at the India level, or even directly at the Group level. We therefore conduct our business in an ethical manner. In the long run, we believe there is no opportunity loss in doing so, despite some small short-term misses.

**Do you believe you have the relevant skills – in areas such as fraud risks, IT Controls, and analytics for continuous controls monitoring – as well as focused teams and the necessary bandwidth to support the corporate governance agenda?**

This is a continuous process of never-ending improvement, and I believe we are still evolving. We are reasonably good in some areas like the general internal and IT controls, but we need to evolve more in areas like analytics and fraud risks, including cyber-security. ■