BUREAU OF INDIAN STANDARDS

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The Case of RAMCO Cements Ltd. – BIS Management System Certification – A photo opportunity or a chance to reap rewards

The RAMCO Cements Ltd., a well-known brand in South India has ventured into Eastern India for the first time by setting up a cement unit at Kolaghat, West Bengal. Eastern India market is currently dominated by large cement manufacturers and RAMCO Cements is eager to establish its brand and capture a larger market share in Eastern India as well.

Ms. Usha Ramanathan, the Managing Director, of the company contemplates on the various options presented to her during the Board meeting. Her trusted and most experienced General Manager suggest that BIS Quality Management and Environmental Management System Certification may bring in the desired results. However, the skeptics within the Board of Directors are heavily terming is as a photo opportunity rather than being of any benefit.

This case study takes you through the pros and cons of adopting BIS Management System Certification and may help you in arriving at the final decision.

Dilemma

On a pleasant winter morning in January 2017, Col. P. K. Sinha Roy, Senior General Manager of Kolaghat Grinding Unit of RAMCO Cement Ltd. was in Chennai for attending a meeting of senior company officials. The meeting aimed to discuss the probable solutions for problems being faced by RAMCO Cements, Kolaghat in creating its identity and penetrating the Eastern India market. It had been almost one year since February 2016 when the Kolaghat Grinding unit had commenced production. The unit was especially set up to cater to the growing Eastern Indian sector however the capture of market share did not commensurate with the earlier projections.

With his previous experience, he contemplated whether launching an aggressive marketing campaign, increasing the process efficiency, reducing the prices could help in achieving the financial targets set by its management. He also remembered how during their visits to his unit, BIS officers had informed him that his key competitors were already reaping benefits from Management System Certification Schemes and also motivated him to implement Quality Management System (QMS) and Environmental Management System Certification (EMS).

Col. Sinha Roy was a bit skeptical; he knew that implementation of these Management Systems was expensive, required heavy emphasis on documentation and paperwork, dedicated staff involvement and training, including other implementation challenges like employee resistance and the period to achieve Management System Certification was very lengthy and required months of sustained efforts.

A.Chatterjee, Chinmay Dwivedi, Kanika Kalia, Nisha Bura, Surabhi Arya prepared this case. This case study has been prepared as part fulfillment of the training on Preparation of Case Studies organized by NITS of BIS. Cases have been developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

The RAMCO Group of Companies

The RAMCO Group of Companies was established in the year 1938 by Sh. P. A. C. R. Raja. With steadfast focus on R&D and innovation, it has achieved global recognition for its quality products and services and has grown to become one of the most reputed business houses of South India. The current market capitalization of this group is US $3 Billion with the group's interests spanning across Textiles, Cements, Building Materials, Software & IT Solutions and Logistics.

The RAMCO Cements Limited

Formerly known as the Madras Cements Ltd., The Ramco Cements Ltd., was established in 1957. It's first cement manufacturing plant was set up at in Tamil Nadu. The main product of the company is Cement, manufactured in eight state-of-the art production facilities with a current total production capacity of 16.45 MTPA (Metric Ton Per Annum). (Exhibit 4 in appendices lists the location of the company's plants).

As per data available in their Annual Report 2019-2020, the total revenue earned by the company for FY 2019 was Rs. 5405.64 crores. During 2020, The RAMCO Cements was the eighth largest cement producer of India (based on turnover value) (Exhibit 1 lists the Top Cement Producers in India 2020 w.r.t their market share).

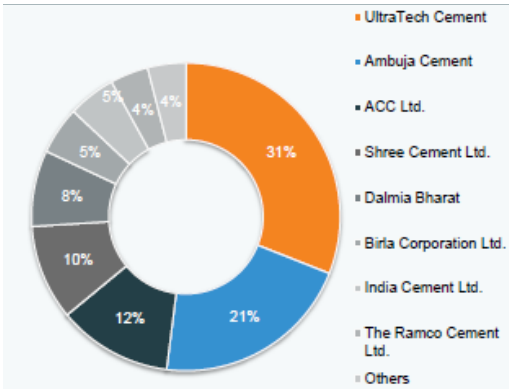

Exhibit 1 Top Cement Producers in India 2020 (market share)

Source: IBEF Report on Cement Industry March 2021

The Vision of the RAMCO Cements Ltd. is to be a benchmarked performer in cement business, through consistent performance in all their endeavours and all-round improvement in people, processes, products, machinery, materials, methods and internal & external environment.

The RAMCO Cements Ltd. — Kolaghat Unit

The Ramco Cements Ltd. Kolaghat, West Bengal first commenced production in February 2010 and currently has an annual installed capacity of 1.95 MT. It has been strategically located and largely serves the customers in the East-Indian states of West Bengal, Assam and Orissa. (Exhibit 2 indicates the Process Flow diagram of RAMCO Cement-Kolaghat Unit).

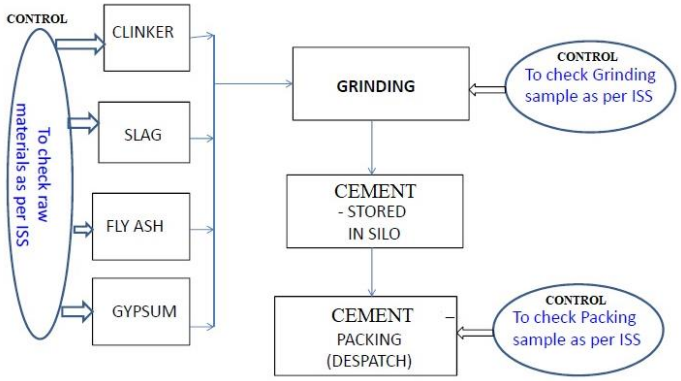

Exhibit 2 Process Flow diagram of RAMCO Cement-Kolaghat Unit
Source: Supplied by RAMCO Cement-Kolaghat Unit

Indian Cement Industry Overview

Demand for cement is closely related to overall growth in the economy and particularly growth in the construction industry. The per capita cement consumption of cement in India is at 235 kgs which is currently the lowest among developing countries as the world averages 520 kgs. The process of catching up with international averages emphasizes the tremendous scope for growth in the Indian cement industry.

Growth in Infrastructure and real estate sector, post-COVID-19 pandemic, is likely to augment the demand for cement in 2021 and the initiative to build 100 smart cities and to boost affordable housing projects is expected to give further stimulus to this industry. In addition to these newly launched projects, existing Government schemes such as MGNREGA, PM Garib Kalyan Rozgar Abhiyan and state-level schemes such as MatirSrisht (West Bengal) and public work schemes (Jharkhand) may also aid demand.

As of 2020, India is the world's second-largest cement market, both in production and consumption. India's overall cement production capacity was nearly 545 million tonnes (MT) in Financial Year 2020 which accounted for over 8% of the global installed capacity. In the Indian scenario, 98% of this installed capacity lies with private sector and the rest with public sector. The Top 20 companies in India account for around 70% of the total production.

The Environmental Footprint

Cement manufacture contributes greenhouse gases directly through the production of carbon dioxide when calcium carbonate is heated (producing lime and carbon dioxide) and indirectly through the use of energy, particularly if the energy is sourced from fossil fuels. Apart from the above, other environmental impacts during cement manufacture include airborne pollution in the form of dust; noise and vibration when operating machinery and during blasting in quarries, loss of green cover etc.

Majority of the above environmental impacts maybe attributed to backward production technology, low operational effectiveness, lack of environmental awareness, weak environmental management and reluctance to bear the cost to reduce the environmental impacts.

The cement industry is identified as one among the highly polluting 17 category Indian industry which require consent for establishment and operation under the Water (Prevention and Control of Pollution), and Air (Prevention and Control of Pollution) Act and other related acts.

Going Forward

Top global corporates have started working on strategy of corporate sustainability based on triple bottom line (3P — Profit, People and Planet). Out of the basic principles of Corporate Social Responsibility, corporates have stated working seriously on aspect of Planet i.e., ecological or environmental sustainability. According to Management Guru C.K Prahalad *"By creating sustainability as a goal today, early movers will develop competencies that rivals will be hard pressed to match. Don't look at sustainability compliance and regulation but as an opportunity for breakthrough innovation."*

Because, traditionally, cement companies do not differentiate on quality, they need to ensure that their cost structure is lower than the industry average to be competitive and profitable.

The case for Business Sustainability

In the sweltering heat of Chennai on 22 April 2017, all the Unit Heads and General Managers of all plants of RAMCO Cements Ltd. were called by Ms. Usha Ramanathan, the Managing Director, of the company to discuss the business sustainability model for Eastern India. The house was aware that this new venture could prove to be gamechanger, as estimates suggested that cement demand was increasing by 10% in Eastern India as compared to other parts where it is 3-5%. However, stiff competition was hampering sustained business growth of their lone cement unit in this area.

In the presentations that preceded lunch, it was increasingly becoming clear that there were very few opportunities for deriving premium prices in the increasingly competitive market. The idea of launching a marketing campaign is cost intensive and is not financially viable in the present context. The plant managers knew that power costs form the most critical cost component in cement manufacturing and grid pricing was largely government controlled. The mood became grim while the presenter concluded his case by saying that the changing cement market dynamics demanded not only improvement in process efficiency but also reduction in costs. Stricter enforcement of the recently revised/implemented Central Pollution Control Board guidelines had also made the regulatory compliance tricky.

Col. Sinha Roy looked towards his clueless colleagues and rose up to pitch the idea of taking QMS and EMS Certification. He based his initial argument on suggestions received from BIS officers. He confidently remarked how both QMS and EMS foster organizational and process improvements which may contribute to better quality and environmental sustainability, contributing to better financial performance and competitive position including improve increasing the market share, enhance the organization image, and facilitate the access to governmental incentives.

The presentation of Col. Sinha Roy was met with resentment from Mr. Ramaswami, who was also one of the board members. He immediately raised the issue of additional expenditure to be incurred in certification of QMS and EMS in addition to increasing documentation, deployment of dedicated manpower and training of staff responsible for implementation. He stated that the instances of cement companies who have been benefited in actual sense by management system implementation need to be evaluated.

Meanwhile, Mr. Vinod, another Board member questioned Col. Sinha Roy whether a review has been done that the customers are actually demanding for System Certification while making their purchase decision, after all the product quality is guaranteed by the mandatory BIS Certification Mark (ISI Mark).

With no ready data available on the benefits of QMS and EMS certification, Ms. Usha Ramanathan, the Managing Director, expressed her apprehensions about how these system certifications would address the impending issues hampering business sustainability. However, instead of categorically dismissing the idea, she advised Col. Sinha Roy to conduct further market research including into the procedural aspects of obtaining QMS and EMS Certification and present a detailed proposal in the upcoming board meeting.

Management Systems Certification

Management system certification helps organizations improve their performance by specifying repeatable steps that organizations consciously implement to achieve their goals and objectives, and to create an organizational culture that reflexively engages in a continuous cycle of self-evaluation, correction and improvement of operations and processes through heightened employee awareness and management leadership and commitment. There are a number of management system standards, published by the International Organization for Standardization (ISO) each focusing on different issues affecting global business. The most popular amongst them are the Quality Management Systems (ISO 9001) and Environmental Management System (ISO 14001) which have been widely implemented by the industry.

The ISO 9001 standard is based on a number of quality management principles including a strong customer focus, the motivation and implication of top management, the process approach and continual improvement. Similarly, ISO 14001 sets out the criteria for an environmental management system and can be certified to. It maps out a framework that a company or organization can follow to set up an effective environmental management system.

The Rendezvous with BIS

Unseasonal rains greeted Col. Sinha Roy and Mr. Kabiraj, Quality manager in Kolkata, while they set out to visit the Eastern Regional Office of BIS on 5 June 2017. Though Mr. Kabiraj had visited the office previously given his association with BIS because of the product certification, however this was the first visit of Col. Sinha Roy to the BIS office.

The apprehension of Col. Sinha Roy, that a visit to a Government office is extremely time-consuming with long waiting periods in shabby old corridors sometimes even without a proper seating place and lack of positive response from officials, quickly disappeared when they were warmly welcomed and guided to the chamber of Mr. Yadav, MSCO (East), BIS. A courteous welcome was followed by a hot cup of coffee before the discussions began.

The duo of RAMCO Cement officials shared their doubts and apprehensions regarding the Management System Certification Schemes. However, with the experience of number of Management System audits in varied industries, Mr. Yadav, readily understood the actual purpose and expectations of his visitors. He also realized that a little handholding would result in two more management system licenses in his region for BIS.

Mr. Yadav told Col. Sinha Roy and Mr. Kabiraj that BIS has been running the world's largest conformity assessment scheme for around six decades, working with large scale as well as small-scale industry. This in-depth and broad experience in quality control management and regulatory compliance has resulted in a staggering array of auditing experience across all sectors. He further informed them that BIS Management System Certification Schemes are operational since 1991 under an Act of Parliament, through a rich set of well trained and experienced auditors and experts providing timely, efficient and economical system certification services. Through a deftly designed handout Mr. Yadav explained the detailed procedure of obtaining a management system certification license.

(Exhibit 3 Process Flowchart for obtaining BIS Management System Certification). They deliberated regarding the various Management System Certification schemes available along with the requirements for successful implementation of these schemes. As the day turned into late evening, Col. Sinha Roy and Mr. Kabiraj thanked Mr. Yadav for getting most of their doubts resolved and headed back to their hotel room. The structure of their proposal to their Board was increasingly becoming clear to them.

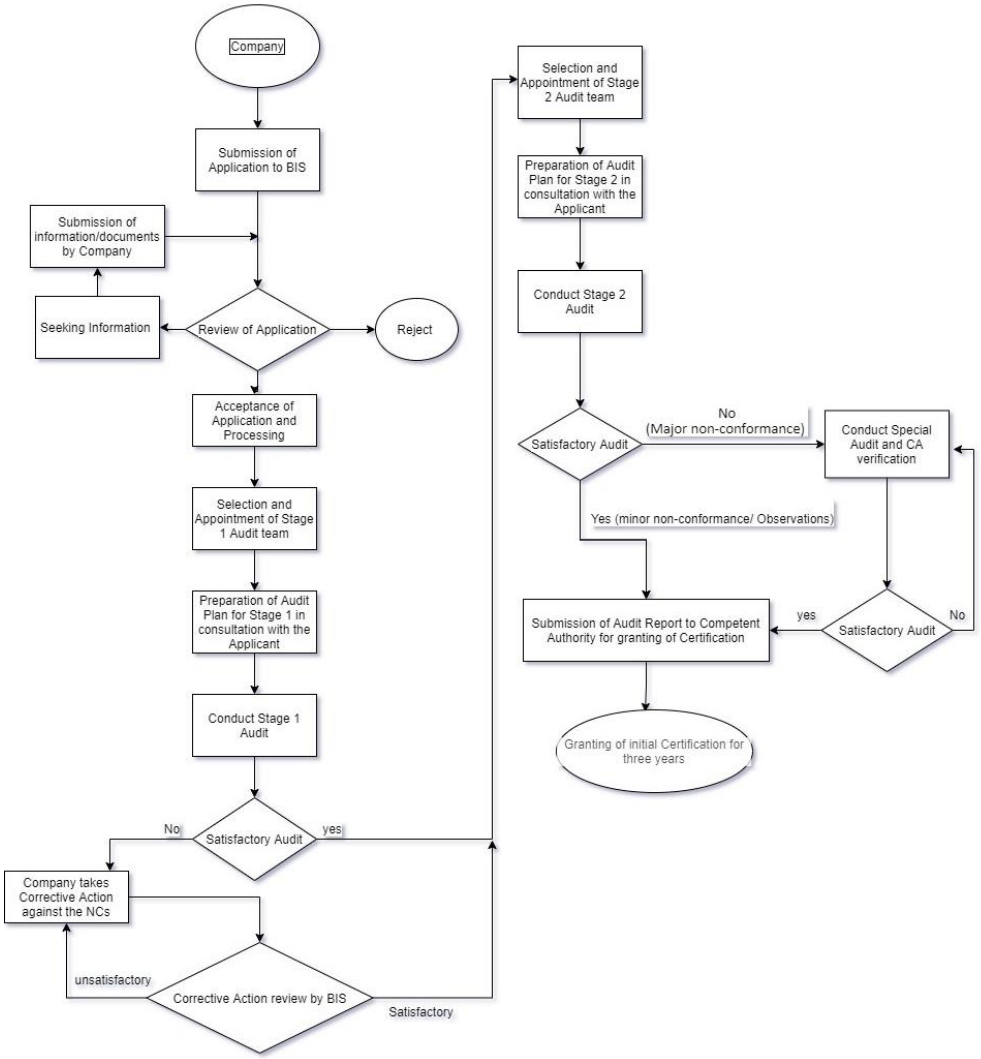

Exhibit 3 Process Flowchart for obtaining BIS Management System Certification
Source: Developed from information on BIS website

Photo Op or Tangible Benefits

Glancing through his proposal notes, Col. Sinha Roy's thought process was interrupted by a phone call seeking his attention. The caller informed him regarding the upcoming board meeting on 5 August 2017 in Chennai which required his presence along with the sought proposal. As he kept the receiver down, the simple thought of facing a new challenge in his career excited him.

The much-awaited day for Board meeting came faster than expected. Adjusting his tie, as he waited in the corridor for his agenda item, Col. Sinha Roy bought his thoughts back to the proposal notes in his hands, he firmly believed that he had prepared his case well, ably supported by his aide, Kabiraj who had gathered the market data. At the appointed time, as he entered the Board room, his eyes caught the sight of Ms. Usha Ramanathan, the Managing Director of the company, rummaging through her notes. He knew that the stakes heavily weighed against the financial sustainability of the Kolaghat plant and hoped that he'll be able to convince her and the Board for implementation of management system certification.

During his presentation, Col. Sinha Roy analysed the various factors affecting the business sustainability of the Kolaghat plant. While performing the issue analysis, he stressed why the lack of process efficiency has led to lack of pricing competitiveness with other established players. He further stated that "RAMCO Cements" brand hasn't established recognition and credibility in the new market thus customer and dealer retention is a major problem in this area. Building his case further, he highlighted how environmental sustainability of the cement industry is becoming a buzzword globally. Col. Sinha Roy quickly moved to the Key success factors that were identified by his predecessor which however could not bring about the expected turnaround of the Kolaghat Plant.

While highlighting the change in consumer consciousness in India, Col. Sinha Roy informed the Board members how their major competitors in this region such as Ultratech Cement, Ambuja Cements, Nu Vista Ltd. and Birla Corporation have already or are in the process of implementing management systems like QMS and EMS. He further highlighted the projected economic benefits of the implementation of management system certification may include but are not limited to cost reduction, waste management and/or savings in consumption of energy and materials. Through this implementation, he stated how strengthening in their export competitiveness and market positions especially in nearby countries like Bhutan, Bangladesh, Burma, Nepal etc. can also be achieved.

Col. Sinha Roy rested his case by adding that Eastern India has not been RAMCO's traditional market of operation, thus implementation of management systems certification is expected to enhance brand visibility, customer recognition and an overall improvement in the company's corporate image.

While concluding his presentation, Col. Sinha Roy also enumerated that 40 NABCB accredited agencies were certifying for QMS while 15 for EMS in India. He proposed that certification may be taken from BIS as apart from being NABCB accredited it was the only agency operating the schemes under an Act of the Parliament and also represents India in ISO Technical Committees. He also indicated that the Kolaghat Unit management is in regular contact with BIS Kolkata Branch Office for ISI Certification Licence. They have had an exceptionally good experience with BIS while applying for ISI mark and is aware of their working procedures.

He also categorically stated that there is some evidence to suggest that not all organisations pursuing management system certification maintain their systems once the certificate has been obtained. The Kolaghat plant management however intends to use QMS and EMS as a tool to achieve the objective of sustainable and business growth and NOT merely a "paper exercise" where certificate is nothing more than a format filling and record maintaining exercise.

While Col. Sinha Roy's ideas may have seemed novel to many, Mr. Ramaswami and Mr. Vinod were still not convinced. They reiterated their earlier reservations against implementation of QMS and EMS in the Kolaghat plant. Mr. Ramaswami showed his concern regarding the lengthy and time-consuming process of obtaining BIS Management System Certification and highlighted that the competitors such as Ultratech Cement, the largest cement manufacturer of India, Ambuja Cements and Dalmia Cements have obtained the QMS and EMS Certification from an agency other than BIS at highly competitive

rates. He also pointed out that some other cement manufacturers like JK Laxmi Cement, JSW Cements and Penna Cements have maintained their brand image despite not having system certification.

Citing the example of Birla Corporation and ACC Cement Ltd. which were established brands having obtained system certification from BIS, Col. Sinha Roy countered that the price differential, if any, with other agencies can easily be ignored considering the benefits envisaged. He was however not able to convince Mr. Ramaswami as to why an additional financial burden may be set against a unit already struggling to penetrate in an unexplored territory.

Mr. Vinod seconded the opinion of Mr. Ramaswami and further casting doubts whether the already inadequate workforce is ready for another compliance burden. He expressed deep concerns that a below par performance viz a viz the perceived benefits of implementation of Management System Certification may prove detrimental to the already susceptible brand image. He further argued that the unit has to mandatorily comply to the extant environmental regulations and taking EMS certification would not add to any further benefits.

Both Mr. Ramaswami and Mr. Vinod expressed their apprehensions whether getting a certification would guarantee the envisaged benefits or will it prove to be just another photo opportunity.

The house was divided and the opinions varied. While the debate heated up, a consensus was suddenly reached and all the Board Members and Col. Sinha Roy expectantly looked at Ms. Usha Ramanathan, the Managing Director, to take the final call.

Disclaimer:

Some of the dates, names, places and incidents in the above case study have been changed to maintain the flow and essence of the case.

Appendix A

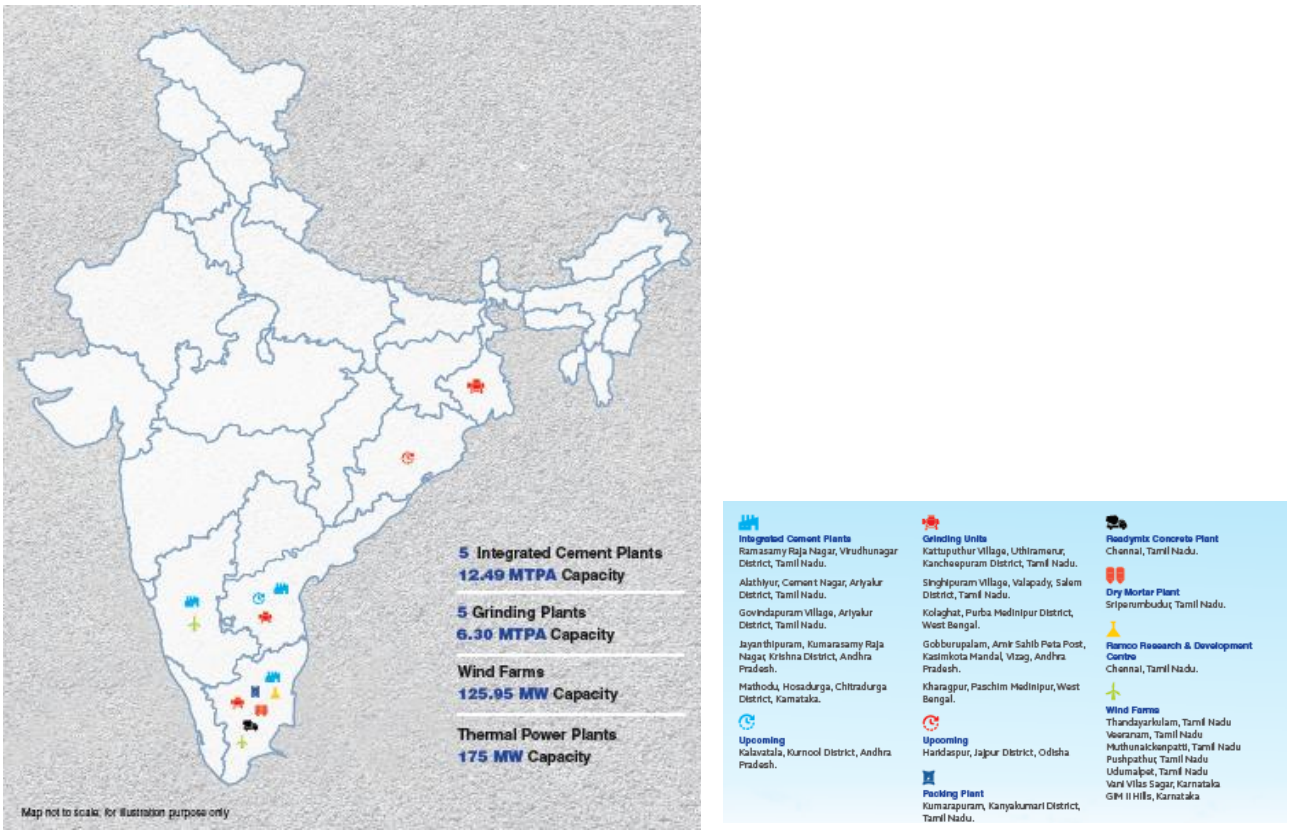

Exhibit 4 Location of manufacturing plants of The RAMCO Cement Ltd.
Source: Supplied by RAMCO Cement-Kolaghat Unit