International Business News

Interest rate hike expected as India battles inflation

AFP, *New Delhi*

India is expected to hike interest rates this week for a fifth time in six months after a surge in industrial output strengthened the case for another dose of monetary tightening, economists say.

Although India has been the most aggressive in the Asia-Pacific region in raising rates to check prices, the country's inflation remains among the highest of the leading Group of 20 economic powers, at nearly 10 percent.

Economists had expected the central bank might hit the pause button on rate increases when policymakers meet this Thursday, to allow time to assess the strength of India's recovery from the global financial crisis.

But figures late last week showing a 13.8 percent leap in industrial output in July from a year earlier -- nearly double the market forecast of 7.8 percent -- have dispelled that speculation, experts say.

"We judge that a Reserve Bank of India policy rate hike is a done deal," said Kevin Grice, international economist at London-based Capital Economics.

AFP

Christina Aguilera attends the global launch of The Montblanc John Lennon Edition luxury pen at Jazz at Lincoln Centre in New York City on Sunday.

Vodafone plans sell-off of French assets

AFP, *London*

British mobile phone giant Vodafone is preparing to sell its multi-billion-pound stake in French telecoms company SFR as part of a strategy to focus on core markets, a report said Sunday.

Citing senior sources at Vodafone, the Sunday Times said chief executive Vittorio Colao had decided to sell the French holding in a deal that could be worth seven billion pounds (8.4 billion euros, 10.8 billion dollars).

A spokeswoman for the British firm told AFP that Vodafone owned 44 percent of SFR, but refused to comment on the reports of a sell-off.

Vodafone this week sold its stake in China Mobile for 4.3 billion pounds, in what was expected to be the first of several sell-offs of minority holdings as the firm seeks to focus on core markets to try to improve its share price.

However, the Sunday Times report said Colao was holding back from any swift sale of Vodafone's interests in the United States, where it holds a minority stake in Verizon Wireless that could be worth 35 billion dollars.

Deutsche Bank chief outlines Postbank takeover plan

AFP, *Frankfurt*

The head of Germany's top bank, Deutsche Bank, unveiled on Monday the strategy behind its record capital increase a day after historic new bank regulations were agreed in Basel, Switzerland.

Josef Ackermann told a Frankfurt press conference the bank sought to become "the undisputable leader in Germany's retail banking business and advance to the group of top banks in the European private clients business."

Together, Deutsche Bank and Postbank will have a total of 24 million clients in Germany, he said.

On Sunday, Deutsche Bank said it would raise about 10 billion euros to take over German retail bank Postbank, in which it already owns a stake of nearly 30 percent.

A decision by central bankers and regulators on so-called Basel III rules for banking capital provided clarity to Deutsche Bank's strategy, Ackermann said, while stressing the bank was already on track to meet the new standards.

Venezuela to compensate $650m to Holcim cement

AFP, *Geneva*

Swiss cement giant Holcim said on Monday that Venezuela will pay 650 million dollars (507 million euros) in compensation for nationalising its Venezuelan subsidiary.

"Holcim signed a settlement with the Bolivarian Republic of Venezuela agreeing on the terms for Venezuela's compensation payment for the June 2008 nationalization of Holcim Venezuela C.A," the group said in a statement.

With the agreement, a complaint brought by Holcim to a World Bank panel over the nationalisation has been suspended, added the group.

Total compensation reaches 650 million dollars, including 260 million dollars in down payment which Holcim said it has received.

BOOK REVIEW

Growth for dummies

Smart Growth: Building an Enduring Business by Managing the Risks of Growth, by Edward D Hess, Columbia Business School Publishing, 2010, $27.95

SUMAN SAHA

Growth is not always good for a company, as it can dilute a company's brand and destroy its value if not properly managed, argues professor Edward Hess, of the University of Virginia's Darden Graduate School of Business.

Rather, the author of Smart Growth says, steady improvement is much more important than expansion. "There is no scientific or business basis for the belief that growth is always good," said Hess recently, in an interview with Karen E. Klein, smart answers columnist of the Bloomberg Business week.

A belief in growth above all is one that is perpetuated by Wall Street. Shareholders demand short-term growth, so that's what companies deliver, even if what they're doing is unsustainable in the long term, he added.

Hess recently conducted a study of 54 high-growth private companies located in 23 different states, which provided the basis for his book. Hess points out that the quality of Toyota products declined due to unplanned growth.

Toyota made a major strategy change in 2002, when it set out to be the largest automobile sales company. To do so, it had to open new plants globally, hire many new employees, expand its outsourcing suppliers, and design its automobiles better suited to faster, cheaper production. This rush, however, led it to a recall of more than 8 million automobiles and to be hit with more than 60 class-action lawsuits.

His book debunks the three myths about business growth: Grow or die; Growth is always good; and Bigger is always better. He replaces those myths with the "3 Ps" of proper growth: Plan for growth, Prioritise the processes and controls, and Pace growth so as not to outstrip the company's capabilities.

"My research shows that too much growth can stress a business's culture, controls, processes, and people, eventually destroying its value and even leading the company to 'grow and die," said Hess an article published by the Reliable Plant Magazine.

Growth is the goal of most businesses, of course. It helps increase profits, stability and defensibility; and helps reduce customer concentration; it can build cash reserves, fund improvements and expansions, and even give one a competitive edge over other companies in the marketplace, Hess argues.

But all growth is not equally sustainable. Hess counsels corporate executives and small business owners to pursue growth through improvements, scaling, innovation, and strategic acquisitions. He calls those "4Gs".

Innovations and acquisitions represent low probability, high-risk growth. Improvements are a given -- one must make them to stay in business.

Scaling is the key to growing a private business. It means doing more of what you're already doing, with better distribution and more customers. But you can't scale correctly without the right processes in place and the right hiring and training, says Hess.

The professor argues that the 4Gs will take companies a step beyond the basic strategic options known at least since Harvard's Michael Porter explored them decades ago (e.g., low-cost strategies, a focus on a niche market to add value, or the pursuit of particular customer segments).

The 4Gs will help the company -- no matter how good or bad the economy -- choose the right path for the business growth, he adds. Being the biggest is an inferior goal compared with being the best in quality and dependability. When conflicts between speed, growth and quality arise, no one values the "be the biggest" winner, he says.

From the book, we also understand that hiring mistakes are one of the high costs of growth. As a company grows, the people often do not grow as fast. The personnel team that managed fine in a company of 25 employees can't always perform well in a company of 75 employees.

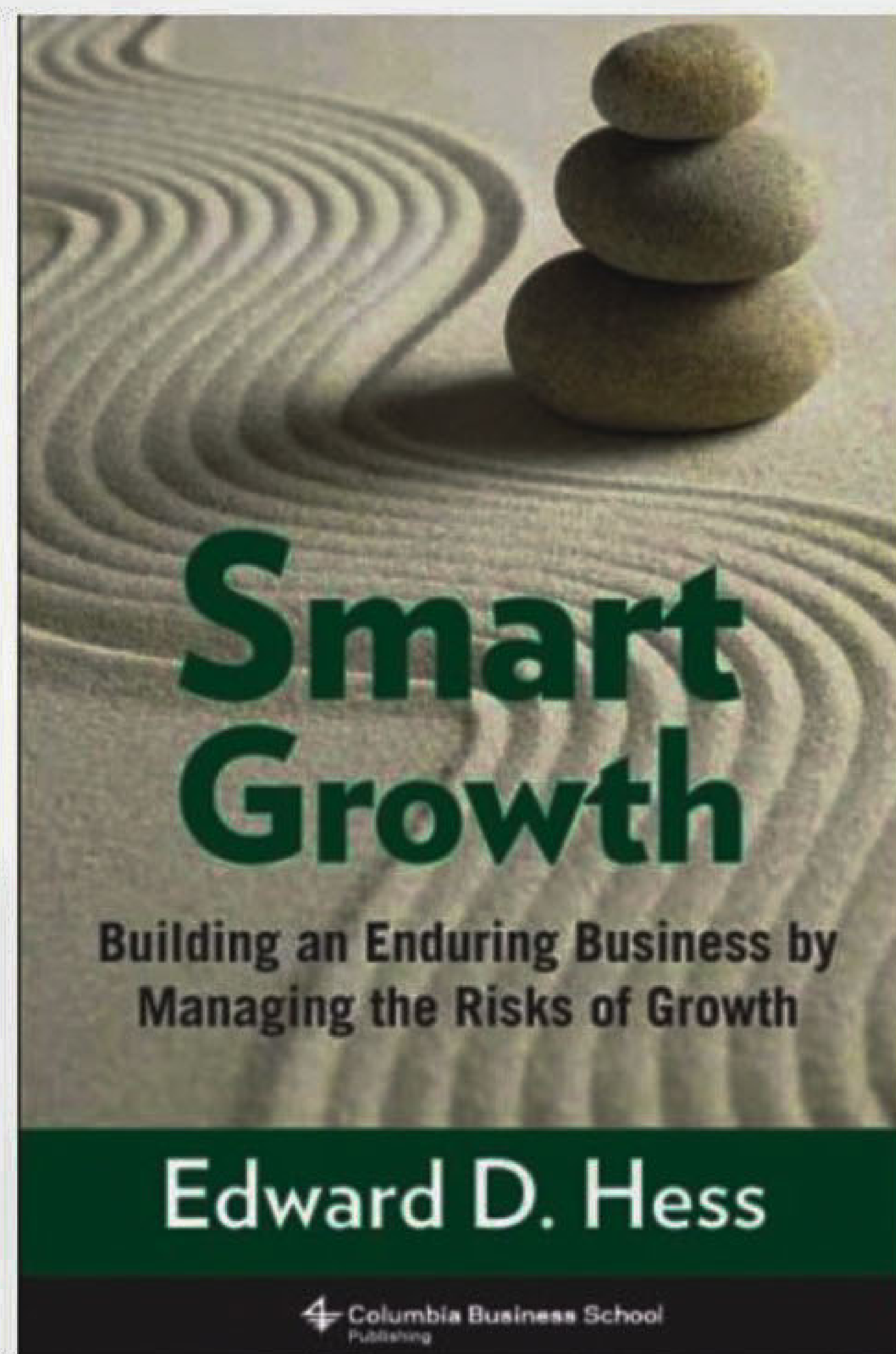
The author quotes the view of one CEO: "I have learned that I have to hire slowly and fire quickly." But most managers pursuing growth do the opposite.

Also, in order for a company to grow, Hess urges the entrepreneur to learn to delegate, manage, lead, and change roles nearly every day, if they are to achieve smart growth. "Humans, like markets, are not efficient or rational actors all the time," said Hess recently.

Growth can be good and it can be bad. But one can increase the probability of a good outcome if one assesses the risks of growth and manages these while the company grows, he believes.

So, grow for the right reasons -- and grow "smart".

suman.saha@thedailystar.net



Too much growth is a bad thing, according to a hot business book of the season.

REGULATIONS

Basel eases banks' capitalisation fears

REUTERS, *Amsterdam/London*

New bank capital rules agreed by global regulators brought relief to the world's banks on Monday although one of the architects said the sector would have to raise hundreds of billions of euros eventually.

The new requirements, known as Basel III, will demand banks hold top-quality capital totalling 7 percent of their risk-bearing assets but a long lead-in time eased fears that lenders will have to rush to raise capital.

The new capital ratio will be a substantial increase from the current requirement of 2 percent, but is significantly lower than what banks had feared earlier this year and comes with a phase-in period extending in some cases to January 2019.

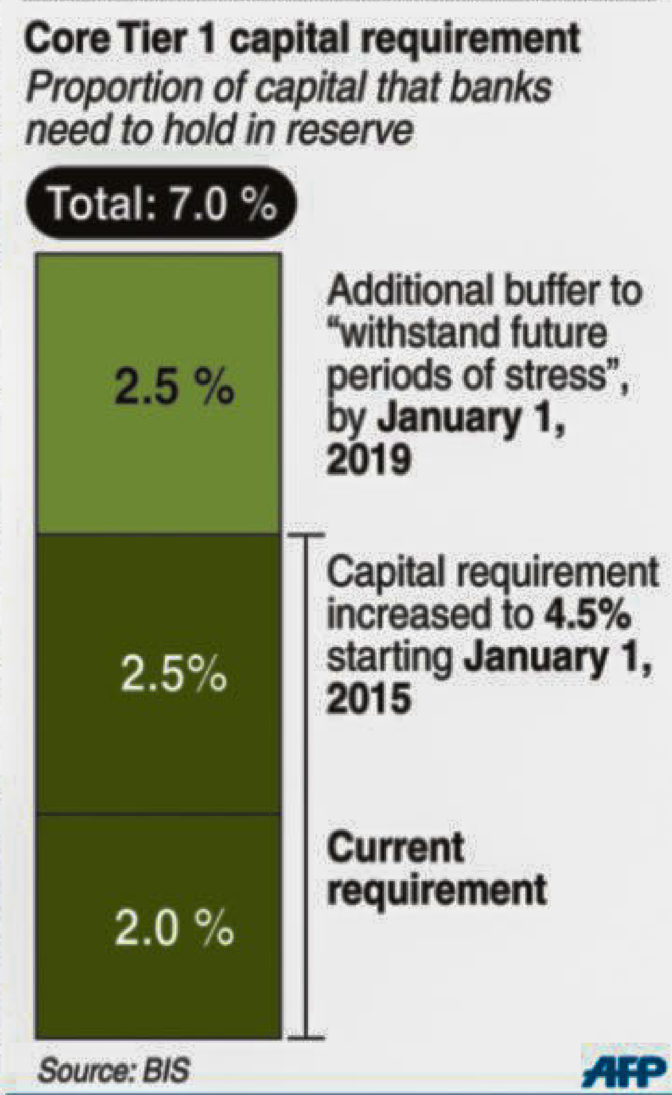
Banks in Europe are most likely to need to raise funds, notable in Germany, Spain and other weak spots.

"It will be hundreds of billions (of euros)," European Central Bank Governing Council member and head of the Basel Committee on Banking Supervision Nout Wellink said.

"Partly they will have to retain profit for years which they cannot use to pay shareholders or bonuses. For another part, this will vary from bank to bank, they will have to get it from the capital market," Wellink, who heads the Dutch central bank, told Dutch NOS Radio 1 Journaal on Monday.

European bank shares rose 1.9 percent and the euro jumped one percent versus the dollar as the prospect of a rush to raise cash receded.

Banks will not be required to meet the minimum core tier one capital requirement, which consists of shares and retained earnings worth at least 4.5 percent of assets, until 2015. An additional 2.5 percent "capital conservation buffer" will not need to be in place until 2019.



AFP

Two pedestrians walk in front of the logo for the Bank of China in Beijing yesterday. China welcomed a major overhaul of global banking rules.

Top German lender Deutsche Bank is seeking a headstart on rivals such as Commerzbank by announcing plans to raise almost 10 billion euros to bolster its capital. It said it would meet the Basel III rules by the end of 2013.

Credit Suisse analysts said they would now regard 7 percent as the bare minimum for core Tier 1 capital, 8 percent as the market standard for adequately capitalized banks and 10 percent as the level at which surplus capital could be identified and potentially returned to investors."

Banks in Asia also rose, including Japan, whose banks have some of the lowest capital levels in the region. Mizuho Financial Group gained 2 percent and Mitsubishi UFJ Financial Group increased as much as 3.0 percent.

Analysts at Macquarie estimate Japanese banks have on average a common equity ratio of 6.3 percent, just shy of the 7 percent requirement, suggesting little need to raise capital.

"It's no big bang for banks, not with a phase-in arrangement of five years," said Commonwealth Securities analyst Craig James.

When regulators issued an initial consultation document last year the new rules were expected to come into force by the end of 2012 but banks urged delay, citing worries that a speedy introduction would hit a fragile economic recovery.

Andrew Lim, analyst at Matrix in London, said the new rules were significantly positive for Europe's large commercial banks.

Banks that will benefit from the longer transition period for the new rules were among the top gainers in Europe, with France's Credit Agricole up over 5 percent.

Most banks in Asia, outside Japan, have capital levels well above the minimum levels under Basel III. So do many top banks in the United States and Canada, the Nordic and Benelux regions, Britain and Switzerland.

Clarity on the Basel rules could see them become bolder in reinstating or raising dividends.

But there remains uncertainty over whether extra measures will be imposed on systemically important banks.

A separate body, the Financial Stability Board, is due to make recommendations by November on options for tackling the "too big to fail" problem. Sunday's Basel statement said this could include "combinations of capital surcharges, contingent capital and bail-in debt."

There will also be an additional counter-cyclical capital buffer of up to 2.5 percent, which national regulators will apply during periods of excess credit growth.

The long implementation period raised questions about whether heavy lobbying and economic recovery reduced regulators' resolve following the deepest financial crisis in decades.

The Basel III agreement was reached in Switzerland by central bank governors and top supervisors from 27 countries, after a year of horse-trading and lobbying that involved banks and governments seeking to protect their national interests.

Along with the capital standards, Basel III includes a range of reforms agreed earlier this year to reduce risk-taking by banks, including rules on how liquid banks' assets must be and how banks must treat tax assets on their books. Some changes were watered down in July after strenuous lobbying by banks.

Leaders of the Group of 20 rich countries and big emerging economies, blaming the global credit crisis partly on risky trading by banks, called on regulators in 2009 to work on tougher bank capital rules.

The G20 leaders are set to endorse Sunday's deal when they meet in Seoul in November.