

Breathing new life into a struggling giant: An interview with Krakatau Steel's Silmy Karim

A strategic turnaround is helping Indonesia's largest state-owned enterprise to stem eight years of losses, transform company culture and embrace a digital future.

by Rohit Razdan



As Indonesia's largest steel producer and state-owned enterprise (SOE), PT Krakatau Steel (KS) has grown its business over the past 50 years to span the full steel-manufacturing value chain—from iron making to finished product. The company makes a significant direct contribution to Indonesia's economy, employs 6,000 workers including employees across its subsidiaries, and is committed to supporting Indonesia's economic development.

However, in recent years, two significant trends have been sweeping the region: digitization and intensifying competition. The first trend is affecting all businesses, regardless of industry or geography. The impact of the latter however, is magnified in Southeast Asia, where Krakatau Steel operates. Global steel players have been rapidly expanding their footprint in the region, and the effect on Krakatau Steel has been intense, exacerbated by a dampening of steel demand following a manufacturing recession in developed economies.

Over the past decade, the company booked losses and could potentially have collapsed under the weight of its debt. In 2020, the company reported its first profit in eight years, thanks to its continuous measures to transform its culture. In this interview, Silmy Karim, president director at Krakatau Steel, explains how a recent transformation in motion at the SOE has forged a culture of innovation within the company.

On how digitization is driving change in the global steel industry

One trend that cannot be ignored, no matter the industry or geographical market, is the pace of digitization. Even in a more traditional business like ours, innovation in analytics, mobile solutions, and automation has begun to take shape and is propelling significant efficiency gains. This acceleration is driven by the sheer amount of data available, increases in computational power, and mobile technologies. Having so much of this data now available—you can get analysis of data from the factory floor to the sales desk—is contributing to significant productivity gains, efficiency improvements, and a streamlining of

processes, including in the customer value chain and downstream. Going forward, I expect data and digital solutions will gain more and more value, and the top value creators will stand out from the rest by how effectively they capture and leverage data. The stakes are high for all steel players.

The second significant trend is that in Southeast Asia specifically, competitive intensity is increasing rapidly as the global steel players expand their footprint in the region. In parallel, global steel demand had stalled in the last few years due to the manufacturing recession in developed economies. Krakatau Steel was not well prepared to handle the dynamic of this market influx. COVID-19, of course, has meant customers are hit by shutdowns and disrupted supply chains. The duration of the present disruption is hard to judge, but we remain optimistic.

On stepping up to the plate in challenging times

Krakatau Steel today is profitable at the operational level, but that was most definitely not the case when I came on board, in 2018. The company I inherited had been struggling financially and had booked losses for eight years in a row.

At that time, our debt had hit \$2.5 billion, and there were doubts about whether it was feasible to continue running the company. Lenders were extremely worried because we were struggling to even pay the interest on our loans. As a result, we had little in the way of working capital that we could invest back into the company. We had to do something radical to turn around the business, or we would not survive.

On working to transform the business for success

Our transformation trajectory broadly focused on three main areas. First, we focused on restructuring Krakatau Steel by revisiting our financial relationship with lenders and restrategizing our existing partnership and working relationship with associations and subsidiaries.

We have focused on improving customer experience and service through key account management.

Secondly, we embarked on an end-to-end business transformation. We had to be laser focused on creating value to find every opportunity to make our operations more efficient and to reduce costs. Steps we took included improving our procurement practices to optimize our raw-material cost, and reviewing and reducing energy as well as utilities usage at our plants. This reduced operational cost and delivery time by nearly 40 percent and 50 percent, respectively. We also implemented cashlab, a cash-management methodology, which helped identify cash-flow levers across inventory, accounts receivable, and accounts payable. As a result, we managed to release over \$100 million in cash.

Digital was one of the most important enablers to make Krakatau Steel more efficient. For example, implementing a digital control tower helped integrate multiple sources of data from across sales, operations, and finance, which has helped teams reach decisions more effectively and efficiently. Digital implementations are also helping Krakatau Steel lead the industry and introduce new, innovative ways of engaging with stakeholders. Krasmart is a great example of this. We conceived it as an online platform to plan daily operations for customers, but it was later extended as an online B2B marketplace for steel players to coordinate and transact. I'm proud to say the platform is the first of its kind in Indonesia.

Because we aspire to be the market leader that can steer the steel market and be a one-stop shop for all customers' steel needs, we are continuing to invest in our customers by deepening and cementing relationships across the board. We have focused on improving customer experience and service through key account management—for example, by spending time with distributors and large fabricators to understand their needs, and upgrading our route to market by partnering with a larger pool of distributors. As a way to improve our customer experience, we have raised the level of performance and customer service for our sales teams by introducing gamification via an internal competition in the style of a fantasy-football league, which has been really popular with employees.

And third was to ensure sustainable change through capability building and cultural transformation across the entire organization.

What we've really seen is a visible change in the mood at Krakatau Steel. We've seen teams work in a much more collaborative way, both with each other and by reconnecting and deepening relationships with customers. Employees have been super open to the capability-building programs and the digital developments. There is excitement to see the company embarking on a new and more stable path.

In 2020, we were profitable for the first time in eight years and delivered over \$15 million in EBITDA [earnings before interest, taxes, depreciation, and amortization], with more than a \$150 million increase annually from 2019.

On engaging our stakeholders in the transformation

As a state-owned enterprise, for Krakatau Steel to do well will mean so much more than just profit. For me, there will be a sense of pride to see a domestic player excelling, not just in Indonesia but among other strong regional and global players. We want to be a reliable partner to our many customers, play an integral part in the Indonesian national development agenda, and offer innovative ways of engaging with the steel community and industry.

This ongoing transformation project and our aspiration to make an impact on our employees and ecosystem was the impetus behind our new logo and company values that we introduced earlier this year: to be a company that is more robust, collaborative, and progressive. We want to improve our financials, of course, but it is equally important to us that we make Krakatau Steel a globally recognized Indonesian brand and a place where our people would be proud to work at.

More than anything, I want to keep growing through the Krakatau Steel family. Today we have nearly 6,000 employees and my hope is for them to feel a sense of pride when they say they work for the company.

On looking to the future

Back when we were starting out on this transformation, the path ahead seemed extremely challenging, but today I am so proud of what we have achieved. Krakatau Steel's upward trajectory in restructuring and the efforts of our business turnaround were recognized by the Ministry of State Owned Enterprises and we have been

identified as an example of a best-in-class SOE. Within our industry, our impact is also being used as a showcase of what others can and should aspire to. However, beyond our current achievement, the greatest and most sustainable aspect of this ongoing transformation is that we are now consistently thinking about the future and innovating so we can stay ahead of the game—it is great to see this culture of innovation spread internally within Krakatau Steel.

Looking ahead, we have three key goals:

1. Tripling the volume of steel production and sales in the next five years through partnerships with steel ecosystem players—for example, through utilizing and developing facilities with partners, and constructing new factories in steel clusters;
2. Doubling our contribution to Indonesia's national GDP by expanding new core market segments among downstream products; and
3. Building a leadership engine that develops world-class executives and equips them with leadership skills.

Advice for other leaders facing a daunting turnaround

There are a few key elements.

First would be to have a laser focus on value. This whole journey is long and requires investment of time, money, and effort. So, more than ever, you need to be extremely focused on resource allocation and your goals. Be diligent and protect the core, and make sure what you are implementing can have an impact on the company's bottom line.

Second is not to forget about improving and upskilling the organization from the inside out. If you want this to be a long-term change, you need to ensure that your employees are being equipped with the right skill sets to keep these new ways of working going.

Ensure that you are building or hiring the right skill sets, mentoring a new generation of leaders, and encouraging the adoption of the new digital culture.

Lastly, communication is key. In a big transformation with a lot of moving parts, leaders need to have transparent and open communication so people

know how they are going to be impacted and what is coming. More than anything, by having the leadership team role-modeling the right behaviors, your employees too will feel excited about the future and continue to drive the transformation forward.

Silmy Karim is the president director at PT Krakatau Steel. This interview was conducted by **Rohit Razdan**, a senior partner in McKinsey's Singapore office, who works extensively with public-sector organizations on strategy and long-term planning.

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