

Opinion

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TRADE PACT WITH US

Arvind Panagariya, former Niti Aayog vice-chairman

Down the road, the US being such an important strategic partner, one area where we can explore an FTA agreement is services. FTA with US in goods at least in the near future does not look to me like something that can happen

India's rates too high, RBI lost a golden opportunity

If inflation is benign and growth slowing, a 50 bps cut was called for, more so given how long transmission takes

GIVEN HOW RBI'S inflation forecasts have been trimmed and its seemingly benign outlook on prices, it is surprising that the repo rate was not trimmed by 50 bps instead of just 25. RBI on Thursday trimmed its headline CPI inflation projection for H1FY20 to 2.9-3% from 3.2-3.4% and to 3.5-3.8% for H2FY20; for the year to March 2021, RBI sees inflation at 3.8-4.1%. To be sure, RBI has listed risk factors such as poor monsoons, possible rise in oil prices and fiscal slippage but that has been baked into the outlook. At this point, when the economy is struggling to grow at beyond 7%, and India's high real rates of interest are a factor in keeping investment low, a 50 bps cut would have given corporate borrowers some relief; transmission, though, can take 4-6 quarters and yields have, in fact, risen after last week's cut.

RBI has lowered the FY20 growth forecast to 7.2% from the previous estimate of 7.4% and could, therefore, have front-loaded the cut. Private sector investment is already very sluggish and while lower interest rates alone cannot reverse the trend, they could help at the margin. In fact, economists believe RBI's growth expectations are optimistic given tighter financial conditions will continue to impact markets and slowing global growth.

The fiscal situation, however, is now a real reason for concern. This is partly because the government itself is borrowing heavily—gross borrowings of ₹7.2 lakh crore in FY20—but more so because of the extra-budgetary borrowings which were close to ₹1.75 lakh crore in FY19. The spate of loan waivers and chances of more to come would see state governments also adding to the supply of paper. Besides, the several cash transfer welfare schemes being rolled out could necessitate more borrowings. Despite a repo rate cut and chances of another 25 basis points cut in either June or August, the yield on the benchmark jumped 9 basis points on Thursday and rose again on Friday. If an expanding fisc is the reason for the central bank's caution, it should have been reflected in the inflation forecasts. While RBI did retain its neutral stance and did not change it to accommodate, as was widely expected, it also noted that the risks to its inflation forecasts were broadly balanced. Also, given how banks take their time to transmit the cut in the repo rate to customers, a 50 basis points cut would have helped speed up the process. Bank of Baroda, for instance, left its MCLR unchanged after a meeting on Friday. Banks have been loathe to lower loan rates because deposits are becoming harder to come by and, consequently, they are unable to trim interest rates on deposits. Lowering loan rates would mean taking a hit on their margins. A 50 basis points cut may have made it easier for them to cut rates.

Clinical trials get a boost

Welcome easing of norms for drugs approved by Western nations

THE GOVERNMENT EASING the rules for clinical trials of drugs in the country is the shot in the arm that access to drugs in the country needed. The Drugs and Clinical Trials Rules 2019 do away with the necessity to conduct local trials for drugs that have been approved to be marketed in the US, the UK, the EU, Canada, Australia and Japan. This will mean these drugs can reach patients faster than before. Data generated in these countries will be deemed acceptable. Firms introducing a drug in India that is approved in any of the six jurisdictions will only need to carry out the Phase IV clinical trial, which is a post-marketing trial that involves study of long-term effects of the drug. Despite India's high disease burden, the country hosts only 1.2% of the world's clinical trials—this means morbidity and mortality could be actually higher than in a scenario where the newest and most advanced drugs globally are available in the Indian market. The regulator can now choose to exempt orphan drugs—medicines treating conditions affecting less than 5 lakh Indians—from Phase III and IV clinical trials. The changes mandate that ethics committees reviewing clinical trials at universities must be registered with the Department of Health Research; earlier, these ethics committees were just rubber-stamp bodies. This way, the rights and the safety of the patients will be ensured.

The new rules also provide regulatory clarity. India, after tightening clinical trial regulations in 2013 following allegations of rampant ethics violations, relaxed some of the rules in 2015 after clinical trials in the country took a beating. But the relaxations were done in a piecemeal manner, and there was little clarity for the pharmaceutical industry. Given just 88 of the over 1,400 deaths among participants in clinical trials of drugs in India between 2015 and 2018 were trial related, choking off trials did more harm than good. Junking the upfront compensation clause—paid pending determination of whether the death/disability was trial related—was also much needed. It had a chilling effect on drug-makers, more so because the upfront compensation didn't need to be refunded if the death/disability was eventually proved to be unrelated to the trial. That said, the government needs to calibrate the easing of the rules for patient safety. Oral vaccines, *Nature* reports, may show varying levels of efficacy between populations in high-income nations and low-/middle-income nations. The government must review the relaxation for oral vaccines and other such drugs, if need be. The new rules also reduce the time for the Drugs Controller General of India (DCGI) to decide on clinical trial application from 180 days to 90 days for drugs developed outside India and to 30 days for "discovery, research and manufacture" in India. If the DCGI fails to communicate its decision for drugs discovered in India within the stipulated 30 days, the permission to conduct trials will be deemed to have been granted. This will no doubt encourage the clinical trial industry, but the government needs to ensure that this doesn't become a route for corruption and doesn't prioritise speed over drug-safety. While a review by commercial ethics boards has been allowed in the new Rules—this was restricted to bioequivalence trials before—which can make drug approval much faster, there is a need to ensure that the boards don't sacrifice scrutiny for profits.

Funding POLLS

Public funding of polls, as Congress talks about in its manifesto, doesn't seem to be a good idea

THE CONGRESS MANIFESTO talks of scrapping electoral bonds and setting up a National Election Fund, from which funds will be allocated during elections to recognised political parties as laid down by a law brought to this effect. This has revived the debate around public funding of elections, though it is hard to see how such a fund will generate voluntary contributions, with the incentive for a donor to contribute to a party of her choice gone. The underlying principle in state-funded or candidate/party agnostic public-funded (National Election Fund model) polls, of providing a level playing field, is an admirable one. But it seems impracticable for a host of reasons.

The state funding each candidate from Panchayat to Parliament would mean considerable costs and a mind-boggling number of variables that can't be squared off. To start with, political financing today is as much about the sustenance of whole-time workers of parties as it is about poll expenditure. Even if state funding were to be limited to just elections, parties may just use their own funds to meet election expenses by exploiting loopholes. It will be very difficult to frame who gets state funding and how much. For instance, if every candidate is to be given the same amount for every election, that would mean wasting state money on frivolous candidatures. Also, does a major party's candidate get the same as a local outfit's nominee, or should parties be given funds on the basis of vote share in previous elections (this would mean the winning party always has a financial advantage over the others)? None of the frameworks recommended so far can reconcile the interests of the multiple stakeholders in Indian elections. Also, with healthcare and education requiring more funds, the state funding polls doesn't seem to be the best idea.

STRUCTURAL SLOWDOWN

TO SIGNIFICANTLY ALTER THE SITUATION ON THE GROUND, 25 BPS RATE CUT WON'T CUT IT. MPC MAY HAVE TO AGGRESSIVELY SIGNAL SEVERAL ROUNDS OF RATE CUTS

India risks deflation, not more inflation

WHILE THE NDA government is currently engaged in fierce debates about the veracity of GDP

estimates and unemployment statistics, its achievements in significantly bringing down inflation and sustaining macroeconomic stability during its 5-year tenure are widely acknowledged. The government claims that this stellar success is mainly due to its legal backing of RBI's inflation-targeting (IT) framework, supplemented with fiscal discipline and supply-side reforms in the food economy. The critics point out though that India was no exception—it benefited hugely from the collapse in international oil, food and commodity prices in a persisting global deflationary ecosystem. They also vigorously argue that the government's claims on policy effectiveness could be premature or misplaced.

■ The early claim to success of the IT framework remains unsubstantiated: monetary policy transmission channel remained mostly blocked—a banking system saddled with high NPA levels and legacy deposits raised at higher rates has been operationally less responsive to any rate signal in either direction. For example, SBI, the country's largest bank, did not increase its base rate from 10% since September 2013 through January 2015, in spite of a 75 basis points hike in the repo rate to 8%. When the rate cycle reversed, banks were again slow to respond—SBI's base rate lowered just 95 basis points by February 2019 against a cumulative 175 basis points reduction in the repo rate. Moreover, RBI's desperation to force the marginal cost of funds based lending rate (MCLR) from April 1, 2016, on fresh loans had very little impact—SBI's 3-year MCLR at 8.75% is currently just 30 bps lower than its base rate. That leaves the expectation channel as the key anchor, which is ridden with uncertainty. Numerous explanations are being extended: consumer expectations vs business expectations; forward looking vs backward looking; headline vs core; and food prices vs POT (potato, onion and tomato) prices—one wonders what macroeconomic diagnostic tools are applied to turn correlation into causation!

■ Signals from the bond market weren't any different either. The 10-year bench mark yield declined a mere 30 bps since May 2014 whereas headline CPI inflation collapsed by 600 basis points. Flipping the same point around, one could

ask if the government has been fiscally prudent, why have G-Sec yields not corrected commensurate to such a massive decline in inflation? Following the CAG report's revelations, it is now abundantly clear that fiscal consolidation on the budget conceals large off-budget revenue and capital expenditure—some analysts estimate the general government deficit, which includes Central government, states and PSUs, might have stayed the same as 5 years ago!

■ There isn't much on supply-side reforms in agriculture either. The biggest initiative, e-NAM, has hardly taken off. Nor was there any technology breakthrough comparable to the scale of the 1970s HYV seed-led green revolution; no trend acceleration in crop output or sectoral value addition relative to the previous 5 years under UPA-2, too.

Then what explains the current phase of disinflation? Analysts have been examining trends in two of its major components—food and core inflation. Between the two, it is the sharp decline in food inflation that has surprised everyone—food price inflation (47.25% weightage in CPI basket) has corrected over 1000 basis points since May 2014, remaining below 2% on average since September 2016, periodically sliding into deflation. But core inflation has moderated only 300-350 basis points since May 2014, remaining sticky at around 5%. This was counterintuitive: first, food inflation is mostly a domestic, supply-side problem and generally flares up during droughts (but it fell during two consecutive drought years, 2014-15 and 2015-16); secondly, external shocks mostly reflect in WPI movements, not CPI (Patel Committee report, 2014: page 13); and thirdly, monetary policy has very little influence on it.

What could have pushed down food



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inflation so sharply in the absence of technological breakthroughs or structural market reforms? Intuition guides that lower import parity prices could have acted as a ceiling to domestic price formation for some food items, given the government's alacrity towards cheaper imports (pulses, onions, etc) to augment domestic supply. The government also took some orthodox market intervention measures: a 1970s-like buffer stocking of pulses and rigorous implementation of stock limits upon private traders, besides moderate MSP hikes for cereals in the initial years. Could these measures have been sufficient to push food prices into the deflationary zone without demand-side constraints?

RBI, which examined these trends in a conventional matrix of structural (supply-side improvement) and cyclical (business cycle/demand slow-down) factors, faced severe criticism for its persistent inflation forecast errors. The CSO's latest revised GDP estimates showing trend acceleration in growth, possibly above potential, has further compounded the problem. With demand-side aspects completely knocked off and supply-side factors exhibiting little explanatory power, structural models have ended up assigning undue credit to the new IT regime!

However, the shockingly high unemployment and labour displacement from the workforce revealed by unreleased NSSO reports (Unemployment Survey and PLFS, 2017-18) contradicts this position and raises fresh questions if deflation in food prices reflects structural demand destruction. Critics have long argued that demonetisation and faulty GST implementation turned the cyclical slowdown into a structural one by depressing informal and farm sector activities. The PLFS findings largely corroborate such presumptions although there isn't much ana-

lytical work yet to press this point further. But these unemployment statistics could certainly be correlated with the unprecedented slowdown of private investment, stretching over eight years. Many critics have said that higher real interest rates have exacerbated the condition of private firms with stressed balance sheets. From an investment perspective, the outcomes are even bleaker—RBI data shows the weighted average lending rate of commercial banks these last five years corrected only 170 bps to 10.38% in January 2019 from 12.17% in May 2014. With farmgate inflation staying closer to 2%, the real interest rate from an investment viewpoint was as high as 8%. Not surprisingly, many firms with healthy balance sheets and cash flows have stayed away from investing afresh. A recent CMIE study of 8,544 companies shows the average share of retained profits in net profits in the four years to 2017-18 was 23%; this is about 50% lower than a 47% share in the preceding four years, showing most firms preferred higher dividend payouts.

It is in this context that the MPC's decision to further lower the policy rate by 25 bps is unlikely to alter the situation on the ground. To be able to meaningfully influence the investment dynamics, it may have to aggressively signal several rounds of rate cuts. With core inflation stuck at 5% in a two-paced economy, majority members apprehend that if food inflation rebounds then headline CPI inflation could converge toward core to overshoot the medium-term target of 4%. While food inflation could witness temporary spikes due to monsoon failure or election-related deflation, there is not a single study backing its structural reversal in the medium term. Unfortunately, RBI's in-house research cannot rework its forecasting model using NSSO's unemployment data because these are virtual (unofficial)! If such a model were to project an alternative scenario where core inflation converges towards the headline, the window for multiple rate cuts would certainly open up! Looking back, it is apparent that India suffered a balance sheet recession, which is deep; misdiagnosis and consequent policy errors have delayed the recovery. With the world economy slipping into another round of recession, India risks deflation, not more inflation. Further misdiagnosis could well push private investment into deep freeze and the economy could suffer more job losses.

LETTERS TO

THE EDITOR

Lower interest rate

At a time when markets are hovering near record-high levels, a lower rate of interest can enhance socioeconomic activity, reduce the cost of borrowing, favour the real estate sector and encourage lending, besides boosting prospects of credit recoveries too. It can also facilitate unsecured/subsidised lending to the priority sector and the state. However, turbulent international cues and marginal slowdown in NAM economies reflect on the importance to attain sustainable liquidity/growth, lower inflation, reduce the debt levels and boost return on investments. Besides greater lending to small/medium businesses, it is also important to promote domestic production and enhance the export of digital products/services. A rate too low can reduce the income and widen the fiscal deficit, especially when the agenda of public welfare has been prioritised over austerity measures — Girish Lalwani, Delhi

Rahul's act is puzzling

Congress president Rahul Gandhi's decision to throw his hat into the Wayanad ring for the ensuing Lok Sabha polls is the mark of an unsure leader. He will also lock horns with Union minister Smriti Irani in Amethi which is considered to be a Congress bastion. One is puzzled by the Congress president's move to contest from Wayanad where LDF candidate PP Suneer (CPI) and NDA's Thushar Vellapally are in the fray. Though there were massive crowds at the road show in Kalpetta, it will be nothing short of a miracle if Rahul manages to steal the thunder from his opponents — Ravi Chander, Bengaluru

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Why India is so unhappy

India's people expect better, and they are now feeling disappointed

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LAST MONTH SAW

the release of the latest World Happiness Report, produced by prominent economists and sponsored by the United Nations. India's ranking, already low, slid further in the latest report, and stands at 140 out of 156 countries. To rub salt in this reputational wound, Pakistan ranks much higher, at 67th. This news has been widely covered, but discussions have included some basic misunderstandings. Here, I want to clarify what the report really tells us, offer some conjectures on what may be behind the seemingly puzzling data, and draw out some possible implications for the coming national elections.

The main measure of "happiness" is based on responses to surveys of how individuals subjectively evaluate their life circumstances on a 0-10 scale. National scores are averages across individual responses. Finland tops the rankings with a score of 7.769, while South Sudan is at the bottom with a score of 2.853. India's score is 4.015, and Pakistan's is 5.653. India's score has decreased by over one point since 2005-06, with most of this decline coming since 2011, short-circuiting a slight recovery from a post-financial-crisis fall. The report also looks at more fleeting "emotional" states based on reporting recent behaviour indicating positive "affect" (such as occasions of laughter) and negative "affect" (such as feeling anxious). India ranks somewhat higher on these measures, and equal or better than Pakistan. This is important, because it gives a clue to what the main indicator of "happiness" actually tells us.

The report uses data on other variables, some from national statistics, such as GDP per capita and healthy life expectancy, and others also from surveys, such as perceptions of social support, freedom of choice, and societal corruption. A statistical exercise uses these variables to try to explain

subjective evaluations by country and year. These variables turn out to have significant explanatory power, and have estimated effects that fit with our intuition: on average, a richer country has higher subjective evaluations of life circumstances, as does a nation with more social support, lower perceived corruption, and so on. Some commentators have focused on these variables to explain India's low happiness score. But none of them are components of the score, which is based on direct reporting, so these analyses are off base. Certainly, the fact that India has a low rank in social support (142nd) helps to understand its low happiness score, but the real issues are different. These are, why has the happiness score been going down when the explanatory variables (especially GDP per capita) have been improving, and why is the score lower than what the explanatory variables might predict? Indeed, Pakistan's rankings on the explanatory variables are mostly not significantly better than India's, and sometimes much worse. If India and Pakistan had happiness scores that equalled the predictions of the model, India's score would be about one point higher, and Pakistan's about one point lower. The real mystery is why the model has these predictive anomalies.

A reasonable explanation for the puzzle is that India's people expect better, and they are feeling disappointed. The idea of rising expectations is a familiar one in the Indian context, and it is difficult to think of any other explanation, though increasing inequality and feelings of injustice or unfairness are also plausible contributing factors. This also fits with the data on "affect." The low ranking of South Sudan (and countries such as Afghanistan, Yemen and Rwanda) may reflect extreme misery, while Pakistan's population may simply be more resigned to their situation. In all of

these discussions, one should also mention that the report's authors have acknowledged cultural differences in response modes across disparate regions such as East Asia and Latin America, but these are less likely to be significant within a single region such as South Asia.

What are the implications of the happiness data for India's upcoming elections? Unsurprisingly, analyses suggest that higher levels of life satisfaction favour political incumbents. For example, there is evidence from the US that areas with low measured life satisfaction (current and future) were more likely to swing to the insurgent, Donald Trump, in the 2016 presidential election. Given the trends in India, that kind of effect would be bad news for the ruling coalition. One saw some evidence of this possibility in opinion polls from a few months ago, which suggested a loss of their parliamentary majority. But there is a wrinkle in this correlation, because unhappy voters also tend to prefer those they view as strong leaders. Of course, perceived strength may not reflect competence or decency, as the case of Trump amply demonstrates.

In India's case, the recent conflict with its neighbour reminded many voters that the country's current leader is strong, precisely in that international dimension. It is possible that some voters would have reached this conclusion anyway, comparing the incumbent to the alternatives. As I have argued previously, India's voters do not have good choices on the political leadership front. Truly strong leadership includes a depth of understanding and the ability and willingness to build a competent team. Until India gets better political leadership, its citizens may continue to be less happy than the data might predict. Hopefully, they will not become resigned to the current state of affairs.

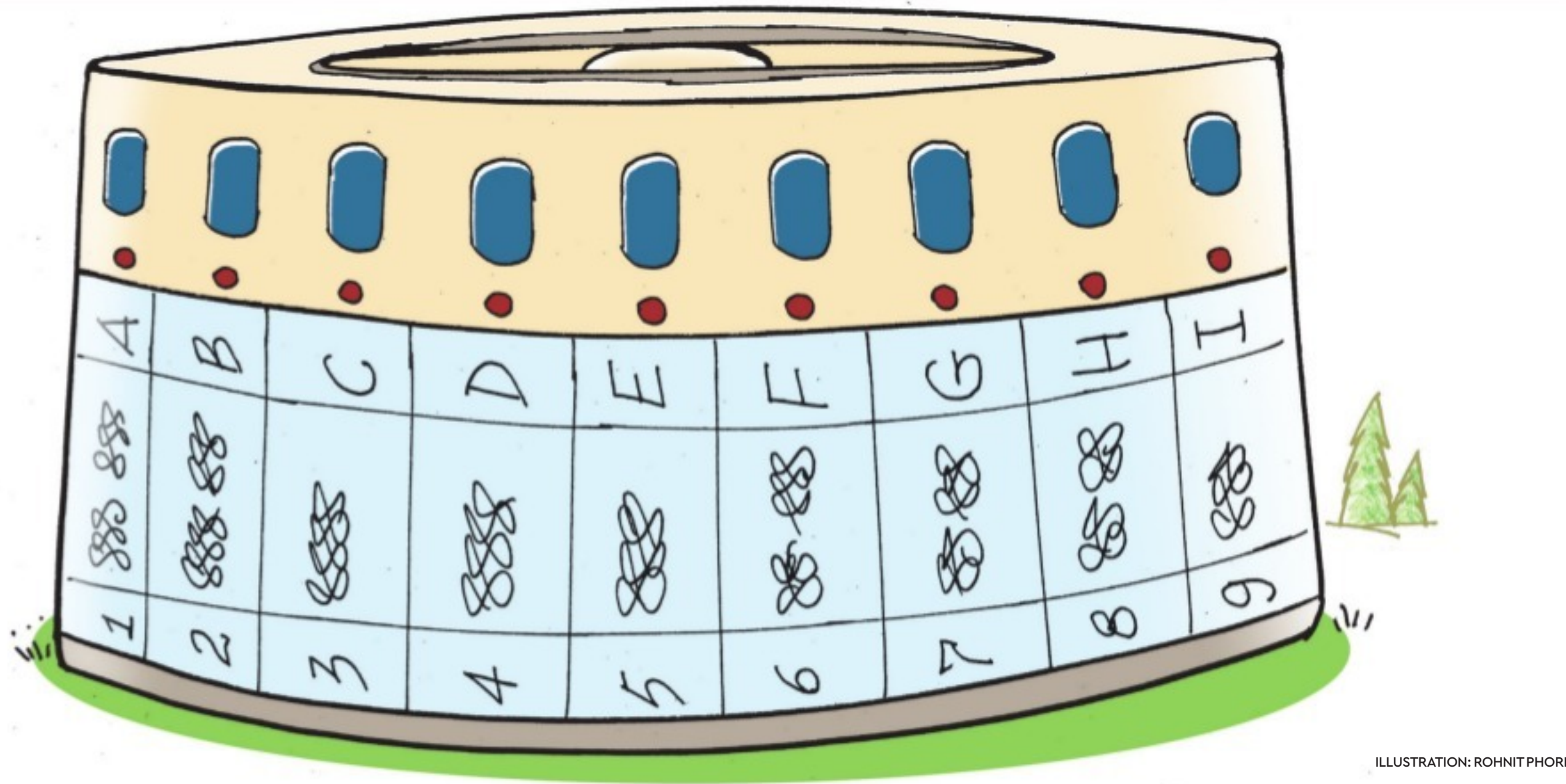


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LOK SABHA ELECTIONS

The greatest dance of democracy in the world

How will voters decide which is the critical factor for India's national interest while casting their votes? Is it the need for a stable government, as voters had realised in 1980, or is it other important factors like inclusion, pluralism, secularism, freedom, equality and tolerance, as argued by most thinkers and writers? If all the pluses and negatives of the NDA are weighed against the opposition, voters are likely to elect Modi, though with less majority, to give a stable government

ANY ELECTION IN India is a festive and exciting time for the poor, the middle class and the rich—for the poor to earn easy money, for the middle class to pontificate and rationalise why no good will come out of voting, and for the rich to get maximum value by supporting the right candidates. Despite the obvious drawbacks, it is a miracle that the largest democracy in the world has managed to elect some good candidates from a set of mostly undeserving, corrupt and incompetent politicians to lead India all these years.

In 1977, Indian voters punished the Congress party for the Emergency. In 1980, they brought back the Congress since the opposition could not provide a stable government. In 2014, against all predictions, Indian voters gave a major-

ity to the BJP after suffering from the corrupt rule of the UPA-1 and UPA-2.

The current general elections are often mentioned as the most important one. We have heard such things before also. However, this time, some argue that there is greater compulsion to vote wisely since the future of India depends on the outcome of the election. Is it really true?

After the loss of the NDA last December in three major states and as a result of different political parties making plans to form coalitions with the single objective of defeating the NDA, it looked as though Narendra Modi did not have any chance of becoming the Prime Minister again. However, after a mini Mahagathabandhan in Uttar Pradesh, there has not been any successful effort to form a coalition at the national level.

Some polls taken during the middle of

the month of March have shown that the NDA may succeed in securing enough seats to form the next government. In the Indian context where caste, religion, money and muscle power, regional affinity, dynasty-oriented politics, celebrity status, etc, often seem to decide the election results, polls have not been reliable.

Many political 'pundits' have written erudite articles discussing why the NDA may not come to power. Demonetisation and GST are the two factors often mentioned to support their argument. In the recent months, the failure to create new jobs by the NDA is another factor highlighted in the media.

Love Jihad, mob lynching and cow vigilantism are the factors that have been discussed regularly since Modi came to power, to point out the glaring failures of the BJP. According to an analysis by the home ministry, there has been 28% rise in communal incidents under NDA watch. As a result of sustained attacks, there has been erosion in the autonomy of institutions in the education space, courts and investigating agencies, and even RBI.

On the other hand, NDA supporters have not been successful in highlighting several good things the government has done. Without doubt, Swachh Bharat Abhiyan, although it has not been a great success, has made millions aware of the need to keep our cities and towns clean—the need to keep our environment clean is definitely on the national agenda now. Open defecation has come down with the construction of millions of toilets. Thanks to the direct benefit of subsidies, corruption in residential LPG has been more or less eliminated. But for the Rafale deal controversy, we have not heard of any other mega corrupt deals, unlike in the case of the UPA government.

In the energy sector, even though much needs to be done, the NDA has done much better job than the UPA did. The NDA had set an ambitious target of 1.75 lakh MW of renewable energy by 2020, which earlier looked impossible to meet. However, based on the performance so far, India may achieve it in good measure. Although millions in rural areas still do not have electricity connection, electricity has reached all the villages. Thanks to the Ujjwala scheme, LPG coverage has increased from 45% to 90% in five years under the NDA, helping the poor.

The NDA has been able to tame inflation (consumer price index was 5% during the NDA versus 8.1% during the UPA rule), and also the management of fiscal deficit is better under the NDA rule. Thanks to a new law to deal with bankruptcy, banks are able to improve their financial position considerably. Of

course, non-performing assets of banks are still precarious, but this was mostly because of corrupt banking practices under the UPA.

With much fanfare, Rahul Gandhi, the president of the Congress party, has announced a minimum income plan and assured an annual payment of Rs 72,000 to each poor family, benefitting 50 million families. Will this help the UPA?

If we compare the overall contribution of the NDA against the UPA in India's economic sector, the NDA will score higher. Where it is in the treatment of minorities where the NDA has failed miserably. They should have controlled cow vigilantism and mob lynching better and not given any scope for criticism. On the other hand, the opposition has not been all that lily white. They have also been guilty of exploiting communal issues to create their vote banks.

Just about every political party, with the exception of Communist and Aam Aadmi Party, has tried to demoralise banks based on caste and communalism—to give two illustrative examples. Despite the well-known corrupt practices of Mayawati and Deve Gowda families, both the leaders have been successful in creating vote banks of Dalits and Vokkaligas to gain political influence purely based on caste consideration.

The air strike by the government to destroy terrorist training grounds in Balakot, in Pakistan, after a terrorist attack in Pulwama (Jammu and Kashmir) has certainly helped the NDA. India's successful conduct of the anti-satellite missile test and thus becoming the fourth global power to have such a capability may also marginally help the NDA. If the Election Commission does not object to the release of the biopic on Modi on April 5, it will definitely help the NDA.

How will voters decide which is the critical factor for India's national interest while casting their votes? Is it the need for a stable government, as voters had realised in 1980, or is it other important factors like inclusion, pluralism, secularism, freedom, equality and tolerance, as argued by most thinkers and writers? If all the pluses and negatives of the NDA are weighed against the opposition, voters are likely to elect Modi, though with less majority, to give a stable government.

Let me hasten to state that my prediction is not any more reliable than revealed by the recent poll surveys. It is my hope that voters will send a strong message to all the political parties to uphold India's civilisational values of "simple living and high thinking" and the constitutional mandate of secularism. Then the time of election will be truly the dance of democracy to celebrate.

It is hoped voters will send a strong message to all the political parties to uphold India's civilisational values of "simple living and high thinking" and the constitutional mandate of

The mantra for AI adoption

SYLVAIN DURANTON & SUMIT SARAWGI

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Firms must follow the 10:20:70 rule

GETTING PALPABLE VALUE from artificial intelligence (AI) is at the top of the minds of business leaders. However, the widespread excitement does not always translate into a meaningful strategy focused on AI. Adoption of AI across industries from manufacturing to services is imminent. The success of companies will be dependent on the scale at which they adopt AI, and how successfully they are able to transform the business to leverage its benefits. Now the economic activity of most nations is driven by corporates; hence, successful AI adoption by companies will be a critical driver of competitiveness of nations.

The findings of an Artificial Intelligence Global Executive Study conducted by BCG and MIT Sloan Management Review involving 3,000 executives may be pertinent for India. Twenty per cent of the companies in this survey may be called 'pioneers'; they are companies who have significant understanding of AI and have successfully adopted it. Over a period of time 'pioneers' are likely to increase the gap over the next group of companies termed as 'investigators'. Investigators are companies who understand AI but have limited adoption. Other groups of companies, classified as 'experimenters' and 'passives', have limited understanding or adoption of AI. Globally, Chinese companies lead the pack, with 32% of Chinese companies having adopted AI compared to around 20% in the US, France and Germany. While the proportion of Indian companies actively adopting AI may be less than the top ranking countries, India has not been passive about AI. India is among just 20 countries which have a national AI policy. Thanks to Government initiatives, India is among the most data-rich countries in the world. The data and technical infrastructure around biometric identifiers (Aadhaar) and digital payment capability (UPI) are global benchmarks. Select Indian companies in financial services and telecom, and a more limited set of companies in manufacturing, are likely to quality as AI 'pioneers'. But this number could have been higher.

Unfortunately, certain companies try to 'signal' their AI adoption without making any meaningful investment or commitment to AI. The high-point of AI adoption should not be seen as the presence of robots to greet visitors. Many 'serious' players are opening labs and hiring data scientists; but business use cases of AI come to some as an afterthought. Often these use cases are not scalable, or form only a peripheral part of an existing process. Some companies busy themselves with an ever-expanding list of Proof of Concepts (POCs). The POCs make for excellent talking points in showcasing AI forums, but very few of them are meaningfully scaled up. In one of our recent studies we found that 75% of the companies failed to scale up post POC. Such approaches are hardly useful.

To be successful in AI adoption, companies have to respect the golden rule: 10/20/70. BCG GAMMA has continuously tried and tested this law in its missions. Ten per cent of the work involves building the algorithm. But this 10% is critical because the next algorithm determines the success of the initiative. The next 20% involves implementation of the algorithm and development of the user-interface. The final 70% consists of structured support and facilitation from the business organization. Under this, work processes may need to be redesigned, teams should be designated to maintain and manage the solution, and measure the adoption rate and the results.

Post the initial excitement of algorithm development, some companies are simply unable to deploy resources for implementation. If the use case is very narrow or peripheral, the benefits don't justify the implementation cost; sometimes the priority for implementation is lost as the team chases yet another shiny-new-POCs. Even when companies complete stage two, few actually dare to disrupt existing work habits and silos. They attempt to force-fit the new solution to the older process or organization structure, thereby reducing the efficacy of the AI outcome. Such situations lead to disillusionment with AI.

AI pioneers understand that AI is a mission of business transformation. They tend to focus more on leveraging AI to create newer ways of earning revenue, and not just on cost reduction. Senior management should concentrate on two or three high-potential areas such as personalization engine, pricing, and supply chain optimization that are core to their business; and provide support throughout all three phases.

Deceptively prudent strategies such as 'wait and watch' may increase the gap between early adopters and late entrants, to the extent that catching up may become difficult. In matters of AI, one needs to dare to have a big vision, take risks and allocate the required resources. Brave and tough decisions will have to be taken. This is the 'AI or die' imperative.

STUDY WAS CARRIED ON by the Reputation Institute (RI) in 170,000 companies from 15 countries to find out how customers perceive governance of the companies from whom they buy products and services. It was found that consumers prefer companies who work towards achievement of a social cause. Also, how companies treat their employees matters consumers' impression about a company. RI is a global business consulting firm that helps big organisations to build their credibility with their people worldwide. The result of the study was that the world watches organisations closely on their CSR theme. People are concerned whether organisations think of CSR as just a giveaway, or are they really concerned. Consumers watch organisations closely on whether they treat their employees respectfully, how ethical they are in operations, and whether the company respects the ecosystem. Consumers prefer companies with a cause.

Businesses have to handle societal changes by recognising its magnitude in effect of its responsibilities for the future of civilization. Businesses do not exist in vacuum. Social responsibility has become increasingly important for companies over the last several years. Whether it is by empowering women, serving the environment, trying to end poverty, towards the cause of education, towards improving healthcare facilities, etc. We are seeing more and more companies incorporating social

Brand and values

For developing an authentic CSR programme, it is important for organisations to engage their employees

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responsibility into their overall business strategy. The social issues may be local, national, or global, but a concern for the health and wellness of others in society cannot be ignored.

For aligning the cause of the CSR, organizations need to match their brand with a cause. A strong alignment between organizational brand's goals and the cause it wishes to support is very critical to the success of its CSR initiative. If the match is poor, the CSR programme ends up confusing consumers and it makes them feel disconnected. It sometimes even results into the brand's values slowly falling off the radar. If companies want to look at how to get good value from investing in CSR they should look at aligning it with their brand.

A strong brand offers many different business benefits ranging from the ease of acquiring good talent at reasonable costs and often earning customer loyalty in enhancing their business. All these benefits translate into improving the brand equity. The Coca-Cola Company's global commitment is to enable the economic empowerment of 5 million women entrepreneurs across the company's value chain by 2020. It has given a facelift to brand Coca-Cola.

An easy way to ensure that CSR matches the company's vision is to check if there is a logical tie between operations of business and the cause. For instance, Lifebuoy soap and hand wash aims to improve health through better hygiene. This daily-use product helps prevent disease and improve peo-



ple's health and well-being; ultimately, helping save lives. This product of HUL enjoys a robust market share. In another example, two divisions of ITC, namely, foods and greeting, gifting and stationery work with a strong CSR message. On purchase of Aashirwad, Sunfeast or Kitchens of India products, consumers invariably support issues such as water conservation and tree plantation. How does this happen? A percentage of the sales proceeds get channelised into these areas. Similarly, the sale of ITC's Expressions Greeting Cards helps the cause of SOS Villages that look after orphan children in India. Again, on the purchase of ITC's Classmate notebooks, ₹1 is donated for the cause of rural development and children's education.

P&G has been championing the cause

of gender equality both inside and outside the company. P&G will expand its supplier development and sourcing from women owned businesses across the world. This initiative of P&G has given boost to millions of women in world. In India, P&G hires 50% women into entry level management roles and they get promoted in their next assessments at the same progression as men. P&G was the also the first consumer goods company with a license to employ women in Kingdom of Saudi Arabia. It employs 15% women managers in KSA across all commercial divisions, including HR, finance, operations and IT.

Global consumers expect companies to do more than make a profit, but also operate responsibly to address social and envi-

ronmental issues. For developing an authentic CSR programme, it is important for organisations to engage their employees in the ideation process. This is helpful in boosting employee engagement and thus helping retention. Some employees at American Express Corporation initiated CSR with the issue of restoration of Statue of Liberty. American Express is known for their smart marketing ideas.

Consumers like companies that make the world a better place. Millennials are 66% more likely to buy from a company that not just sells a quality product but also gives back to society. Companies use social media platforms to create awareness for an effective cause and for attracting donations. It's been observed when companies are not honest to their cause and not regular in their efforts, consumers overlook their products.

Partnering with organisations for the CSR cause enhances the achievements of organisations especially when CSR is aligned with the brand's vision and goals. It is the fastest way to generate more results and goodwill. However, it requires a clear intent and budget in mind to make it work. The process of choosing an NGO partner typically involves a screening process. This includes a credibility test, a field visit, and background checks. It also requires regular assessment from the NGO.

Gradually, organisations all over world are aligning their brand to a worthy cause.