

Opinion

MONDAY, MAY 20, 2019



WHO CAN BE AMERICAN?

US president Donald Trump

Instead of admitting people through random chance, we will establish simple, universal criteria for admission to the US. No matter where in the world you're born, if you want to become a US citizen, it will be clear exactly what standard we ask you to achieve

Getting credit flows back will be next PM's challenge

Sharp jump in provisioning for next round of NPAs means reviving credit growth tough; low deposit-growth worrying, too

BANKS HAVE NOW been cleaning up their balance sheets for close to three years after the asset quality review process started in 2016. It was expected that, by now, most of the bad loans would have been identified and adequate capital set aside for these in the event the money cannot be recovered from the borrowers. However, the sharp jump in provisions made by a clutch of state-owned banks for loan losses in the March quarter—both existing and potential—to over ₹50,000 crore is cause for concern. Moreover, some private sector banks too appear to be setting aside more capital for potential loan losses than one had estimated. The rising provisioning suggests the NPA cycle may not have ended yet. After IL&FS and Jet Airways, there could be other big exposures that could turn toxic. Also, bankers have been red-flagging stress in the real estate sector and MSME space, too. This is a big concern because, while private sector banks should be able to access the markets for equity capital, the state-owned banks may not have adequate growth-capital to fund businesses and consumers in FY20 unless the government comes to their rescue. This is despite the fact that capital adequacy norms have been eased.

The other big concern is the sharp deceleration in credit growth over the last six months, essentially the shortage of affordable credit. The near-collapse of NBFCs and HFCs has resulted in the flow of credit weakening. A look at the loan data shows that banks, too, have been lending a lot less to certain segments. For instance, loans to the consumer durable segment contracted by 68% year-on-year (y-o-y) in March. While some of this could be attributed to lack of purchasing power, it is also a fact that loans that were being offered were not attractive enough. If growth is not to be stifled, businesses must have access to adequate affordable credit. At this point, banks are finding it hard to mobilise deposits, partly because consumers' savings are thinning as their incomes are growing slowly, or are not growing at all. Deposits are now growing at sub-10% y-o-y, but to support credit growth of 13-14%, CRISIL estimates the asking rate of annual deposit growth would be significantly higher at about 10% in FY19 and FY20, compared with around 6% in FY18. The growth in FY19 has been a little over 8%, with outstanding deposits now at close to ₹12.6 lakh crore. Unless the economy rebounds, and, therefore, consumer incomes get a boost, it is unlikely banks will be able to attract deposits at a faster pace.

It is something of a chicken-and-egg situation. But while some of the currency-in-circulation should come back to the banking system after the elections, over the longer term, banks need to be able to mop up deposits at a quicker pace, else lending will be constrained. Also, liquidity measures being used by RBI—including open market operations—will help. But, unless the government spends far more than it has budgeted, it would be hard to create jobs and boost consumers' incomes and, thereby, savings. The other option, of course, is to attract more foreign flows into the corporate bond market.

A CEO is responsible for risk

RBI diktat on Chief Risk Officer provides cover to NBFC bosses

THOUGH THE PROBLEMS associated with the IL&FS default, and its loans of over ₹100,000 crore, are still very large, there can be little doubt that deft handling of the situation by the government and RBI ensured the country's financial system didn't freeze up and there was no contagion despite the IL&FS exposure across various sectors. But, even those who felt India had dodged—at least, for now—a bullet wouldn't have envisaged that the rot spread so deep and so wide, or that so many other large NBFCs would have such large exposures. In a note last month, Credit Suisse estimated that, of the exposure to four stressed groups that AMCs have, 11% or roughly ₹2,200 crore is through close-ended plans aggregating ₹18,000 crore; around 56% of this is up for maturity in Q1FY19. It is estimated that mutual funds have trimmed NBFC exposure to 27% of AUM (from 34% in Aug-2018) with exposure to NBFC commercial paper down 40%. But there is a need to be watchful since mutual funds have a ₹320,000 crore exposure to NBFCs (including housing finance companies) and ₹130,000 crore of this matures over the next three months.

It is in this context that the central bank has asked NBFCs to appoint Chief Risk Officers (CROs) and to ensure that they are insulated from various pressures. So, for instance, any premature transfer/removal of the CRO is to be intimated to RBI's department of non-banking supervision. Similarly, the NBFC's risk management committee and/or board is to meet the CRO once a quarter without the NBFC's MD/CEO being present, all credit products are to be vetted by the CRO and the CRO will even have voting power if s/he is one of the decision-makers in the credit-sanction process. But why is the central bank getting into micro-management? Risk-management is part of the NBFC's job, whether it does it through a risk officer is its internal matter; if RBI feels not enough risk-mitigation is being done, it needs to tighten the rules, ask for more provisioning or other mitigation steps. By mandating the CRO as central to the NBFC's functioning, in effect the central bank is making the CRO responsible for everything that goes wrong; surely that is the job of the MD/CEO and the board? In the NSE co-location case that Sebi ruled on recently, for example, the stock exchange's bosses—Ravi Narain and Chitra Ramakrishna over different periods—argued that they never understood technology and so didn't understand that the technology allowed favourable treatment to a few brokers. In its order, Sebi said this was not acceptable and that they had to take responsibility. It is easy to see how, in the future, various NBFC bosses will now try and pass off the blame to the CRO.

Birthing TROUBLE

The gap in institutional delivery means India doesn't have enough data on low birth weight

A RECENT ARTICLE in *The Lancet* on the prevalence of low-birth weight (LBW) examines datasets from 148 out of 195 UN member countries. India was among the nations that didn't figure in the study that found that there were 20.5 million LBW instances amongst all the live-births in the 148 nations. The global nutrition targets set at the World Health Assembly in 2012 is of a 30% reduction of LBWs over 2012 to 2015. The estimated prevalence of LBW was 14.6% in 2015, down from 17.5% in 2000—an average annual reduction rate (AARR) of 1.23%. But, in order to meet the global nutrition target, the AARR should be at 2.74% between 2012 and 2025. *The Lancet*, in an editorial, states that the weight of a new born matters a lot because of its strong relation with neonatal health and survival, growth and non-communicable diseases in adulthood. And this affects the life-stage cycle for women, as those whose height and weight remain low when they become mothers, risk another low birth weight baby.

For India, where a raft of schemes on maternal and child healthcare exist, being part of the *Lancet* assessment should have been important. But, India's non-inclusion is, sadly, linked to the non-availability of updated data-sets. This mars effective monitoring and assessment of the country's various healthcare programmes. Experts believe a top reason for the non-availability/partial availability of birth-weight and similar data is the fact that over a fifth of the births in the country are non-institutional, i.e., they don't occur at a healthcare facility, and instead mostly occur at home. Though India has bettered its record on institutional deliveries—79% in 2015-16, up from 38.7% in 2005-06—the gap is still significant. Tackling this will need a multi-pronged approach—higher costs as well as distance and lack of transportation are cited as top reasons for non-institutional deliveries. This means the cash incentive for institutional deliveries, under one of the maternal and neonatal health programmes, is clearly not enough and there are infrastructural hurdles as well. Also, education makes a material difference to the likelihood of institutional delivery. India is estimated to have a high prevalence of LBW. Fighting this has to begin with having the relevant data, and the hurdles to that are systemic.

● FUTURE TENSE

THE DRAFT E-COMMERCE POLICY INSPIRES COMPARISONS WITH THE DISCREDITED PROTECTIONIST MODEL OF YORE

India's e-commerce policy: Licence Raj II?

JOSEPH SCHUMPETER HAD once observed that “the capitalists' achievement does not consist in providing silk stockings for queens but in bringing them within reach of factory girls.” Inequality, however vulgar it is, ought not to be held up as the reason to preclude interventions that allow an improvement at the lower end of the income distribution. The litmus test for new policy in India, including for e-commerce, ought to be whether it helps the economy to grow and create jobs, especially when evidence is showing a decoupling of job growth from GDP growth. The fact is that with more and more young people entering the labour market, and with India looking more and more labour abundant than ever in its history, it is important we do not repeat mistakes of the past. Placing limits on competition for e-commerce platforms, as the new e-commerce policy attempts to, might actually be counterproductive. The Indian experience with licensing still haunts those who lived through the dirigiste period of the 1980s and earlier. Put in place to limit concentration of economic power in the hands of a few, licensing actually produced outcomes the policy intended to prevent in the first place.

India's retail sector is growing at unprecedented rates, and as is often the case, growth brings about structural changes. Retail in India is becoming more organised. It is adopting modern technology thus spawning new platforms, both multi-format stores in malls and internet driven e-commerce. There is evidence that e-commerce is growing rapidly in tier-2 and tier-3 towns and in areas where the demand for variety is not being met by the brick-and-mortar outlets. It is a fallacy to assume that e-commerce is catering only for the rich—in fact, on the contrary, it is making inroads into relatively less well-off households, and one can only imagine the impacts it will have when internet in rural areas improves with the completion of the much-delayed Bharatnet project. Already, there are over half a billion internet users and the average Indian phone user now consumes more mobile data than most Europeans. On the demand side, the rise in e-commerce across urban and rural households alike can be attributed to sharp shifts in consumer preferences for convenience, variety and brands. Millions of Indian consumers are buying prod-

ucts on the internet. E-commerce platforms such as Flipkart and Amazon attract customers using their deep discount models. More recently, prices were brought down by moderating delivery charges and offering cash-backs through integrated payment portals. Other spillovers that a strong e-commerce sector promises are improved logistics, reduced prices and above all, jobs that a labour abundant country like India so desperately needs.

This process needs to be helped along. Increase in e-commerce is likely to have disproportionate impacts on GDP because of the reasons mentioned above. While robust evidence exists for other countries, for India, it is yet anecdotal and needs to be spelled out. Sooner rather than later, it will emerge and, hopefully, corroborate the global evidence. Meanwhile, policymakers in India are being cautious for multiple reasons.

One, the sector is politically sensitive, and there is a mindset that India is not ready to compete globally on e-commerce, and therefore runs the risk of being dominated by foreign e-commerce firms. As an aside, if one studies the history of foreign direct investment (FDI) in China, it emerges that it had a relatively smooth ride because there was no strong domestic industry that pushed back (Tarun Khanna, 2008). We, however, feel that Indian e-commerce doesn't need protection to thrive—it underestimates its own ability to compete. India is an acknowledged powerhouse in IT services and knowledge of the Indian market is an unequivocal advantage for operating here. What is hard for both Indian and 'foreign' firms is policy uncertainty. We should make it clear once and for all what model of e-commerce—inventory or market place we will allow in the country. DIPP's Press Note 2 of December 2018 clarified regulations governing the e-commerce sector, including control over inventory, the relationship between a marketplace and its sellers and additional compliance requirements for e-commerce platforms with foreign investments.



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Views are personal

The fear of “capital dumping” in the inventory-based model thus discouraging Indian start-ups due to their ability to offer deep discounts doesn't stand up to deeper scrutiny. The evidence weighs heavily in favour of companies creating complex arrangements to circumvent these. More importantly, the optimal regulatory response would be to invoke competition law to address this, and simultaneously create a financing ecosystem to encourage start-ups. Discouraging the inventory-based model is a sub-optimal policy response if the intent is really to promote domestic start-ups.

Recently, India decided to opt out of the World Trade Organisation's (WTO) e-commerce discussions—the primary concern being unfair market access to foreign players. This is the first time India has formally opposed any negotiations on e-commerce at the WTO. E-Commerce entered the WTO in 1998, when member countries agreed not to impose custom duty on electronic trade, and the moratorium on free trade was to be reviewed periodically. There are several reasons that explain India's resistance to entering a dialogue on e-commerce, including the fact that domestic manufacturing is still reeling under the effect of India's decision to 'over-commit' under WTO's Information Technology Agreement of 2000. Moreover, the dynamism of e-commerce makes conservatism a safe regulatory response. The scope of negotiations on e-commerce have widened since then to include other issues of digital trade, such as cross-border data flows, server localisation, intellectual property rights, etc.

Data and its newly discovered utility is the second, and perhaps more compelling, reason for the reluctance to politically commit to a liberal model. To our mind, whatever the reasons, it is not

justified to abandon dialogue on a sector that will be hard to contain within domestic boundaries. After all, Flipkart and Paytm, to name two erstwhile start-ups, began as domestic players, and have grown enormously due to fund infusion from abroad. There is no doubt that the views central in the draft Personal Data Protection Bill (2018) and the draft E-Commerce Policy (2019) that emphasise the sovereign claim on data management and ownership need intense debate, but not solely from the lens of encouraging domestic industry. The Indian consumer has been subject to much monopoly abuse during the days of the 'licence raj', contending that reposing her data and trust in

an Indian company is better seems a disingenuous argument to make.

But data and cross-border data flows must be discussed for their own sake. What are the implications of the data regime on India's competitiveness for IT outsourcing? What is the regulatory burden on SMEs that we wish to promote as the backbone of our structural transformation? Forcing data centres and server farms to be located in India without adequate access to power and water may just turn

them away instead. Building a strong local industrial base is an absolute necessity but it is irrelevant as to who builds it. Data rules should be equally applicable.

The draft e-commerce policy inspires comparisons with the discredited protectionist model of yore. As mentioned above, growth of e-commerce is important not only for itself but more so for the spillovers on the rest of the economy. In a fascinating new book, *Radical Markets* by Posner and Weyl, the new protectionism visible in the world today is rooted in what they call 'stagnaequality'—lower growth combined with inequality being experienced globally. India, on the other hand, and by its own admission, is the fastest-growing market in the world, albeit with rising inequality. If the intent is to provide silk stockings to factory girls, limiting competition to powerful domestic industry is exactly the opposite of what should be done. It is a lesson we learnt the hard way.

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Trump's tariffs could cost China big

If the country falls back on old bad habits, its chances of reaching high-income status may well be threatened

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BY PUTTING MORE barriers in China's path to US markets and, in the process, risking some short-term damage to the domestic and global economies, US president Donald Trump could exact a heavy long-term cost on the world's second-largest economy. Indeed, he may even threaten China's chances of eventually entering the ranks of high-income countries.

Chinese leaders have long known that they need to change their development model if they are to make this difficult transition, powering through the dreaded “middle-income trap” that's tripped up so many other developing countries. For two decades, they relied on global markets to provide a crucial tailwind while they pursued reforms at home. But this is changing now that the US is increasing tariffs on Chinese imports and limiting their tech companies' access to US markets. Also, some US companies have already begun to reorient their supply chains away from the mainland.

With external tailwinds turning into headwinds, China will need to rely far more on domestic demand to generate prosperity. To do so without building up risks in the financial system, Beijing would need to promote far greater household consumption and private investment, rather than relying on the debt-fueled government investment and inefficient state owned enterprises that have helped drive

domestic engines of growth for most of the last several decades.

This effort will fail unless the government can overcome three habits that tend to reassert themselves whenever economic and financial insecurities increase in China.

The first is the tendency for households to sock away more money as a form of self-insurance. Especially when they're uncertain about their economic prospects, Chinese households revert to parking away higher savings to safeguard their future ability to pay for things like hospital bills, education for their family, and retirement.

China's success in prudently reducing its household saving rates in recent years appears to have stalled in the last 12 months. The latest high-frequency economic data, including this week's lower-than-consensus expectations for retail sales and industrial output, suggests the problem may get worse before it gets better. China needs to do more to provide households with pooled insurance mechanisms (including improving health insurance, education and pension systems) so that they can feel more confident spending.

The second trend is the tendency for the government to revert to fiscal and monetary stimulus whenever the economy hits a soft patch. Recent evidence suggests that such measures are less effective than they used to be, requiring much more debt per unit of GDP to sta-

bilise growth. This only adds to the risks building up in China's financial system. Most development economists argue that to avoid the middle-income trap, countries instead must lead with the supply side, securing further productivity gains and diversifying their domestic economic base.

The third is the government's tendency to fall back on state-owned enterprises to boost GDP. Most available evidence suggests that the efficiency and productivity of these companies is low and declining, while their contributions to China's debt load and resource misallocations are increasing. China instead should be empowering its more efficient private companies to be responsible for the bulk of jobs and growth in the economy. So far China has resisted following the examples of Canada and Mexico in making concessions to the Trump administration in order to defuse trade tensions and build a more sustainable economic relationship with the US. If it also cannot resist indulging these three habits, its multi-decade record of impressive economic performance, not to mention its future prospects, will be at serious risk. That would only further embolden those US policy makers who, driven by both economic and national security considerations, hope their actions now will dampen China's ability to challenge America's global dominance.

LETTERS TO THE EDITOR

Rafale documents: Punish theft

A Supreme Court bench, of Justices R Banumathi and R Subhash Reddy, has reportedly held in a May 9 judgment that dishonest and temporary “removal” of original documents to take photocopies and to further use information within amounts to theft. In the Rafale case, the petitioners Arun Shourie, Prashant Bhushan and Yeshwant Sinha have submitted stolen documents. The authority of the Supreme Court is supreme and no power in the earth can prevent the apex court from looking into the documents of any nature. The Supreme Courts seems to have been interested to see the stolen documents to know if the government has anything to conceal. The government has made it clear that the price clause has been kept secret, and it has also come out with the explanation, which is true, that Pakistan and China should not know the details of the deal with France. If the Supreme Court holds the view that the stolen documents can be used to haul up the government in case any irregularity is found, it is also necessary that those who have committed theft of the documents must be prosecuted irrespective of the judgment going in favour of or against the government. There is no need for lecture that one who steals anything is thief. Should the thieves not undergo punishment?
— KV Seetharamaiah, Hassan

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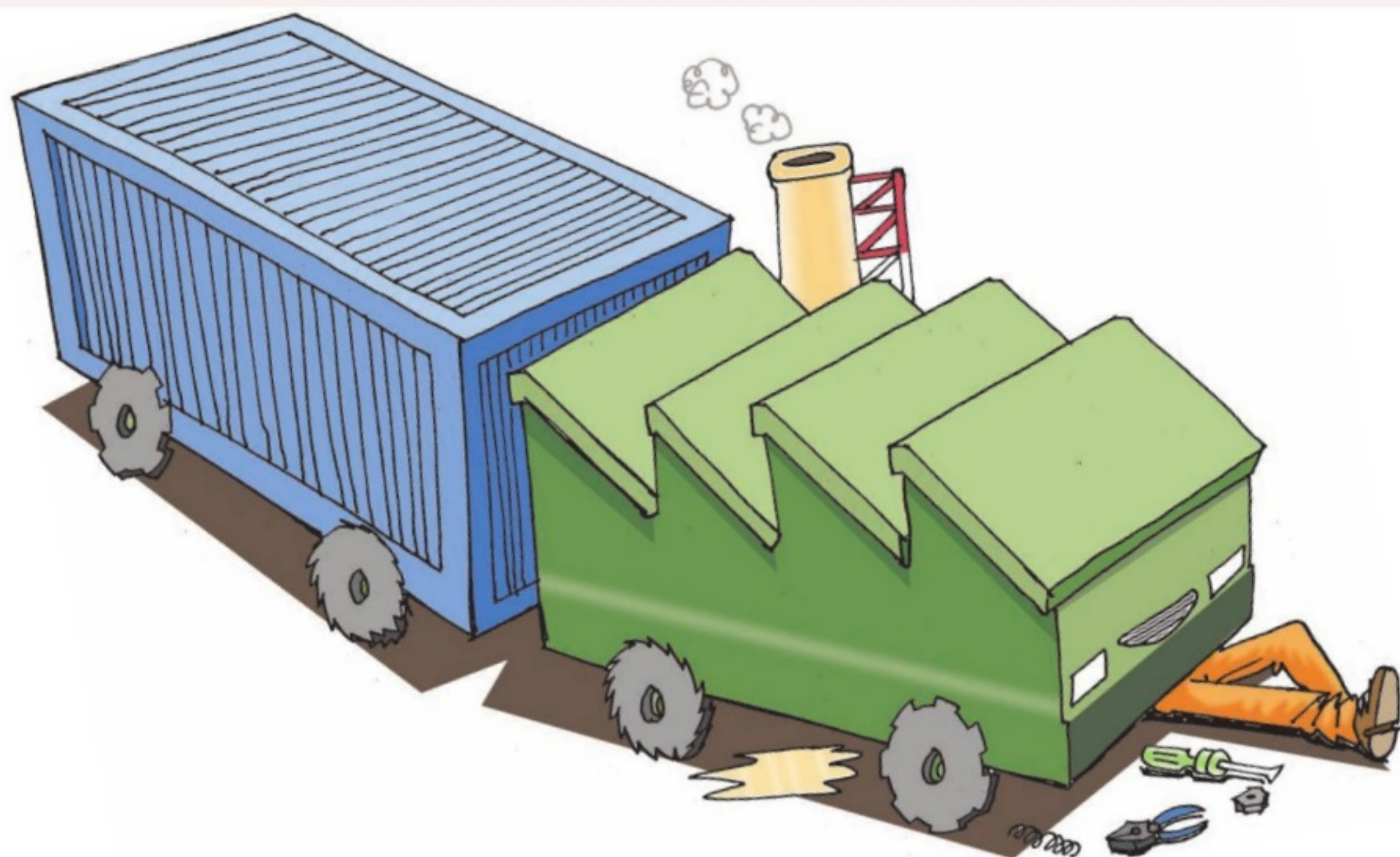


ILLUSTRATION: ROHNIT PHORE

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New industrial policy needed, aligned to trade policy

Making the case for an integrated trade-and-industrial policy, which means that the ministry of commerce and industry, the DIPP, and the ministry of finance (which takes a final view on taxes) will need to work together

ALTHOUGH INDIA'S GDP growth rate since Independence has consistently increased, industry accounts for only 25% of GDP (in 1950, it was 8%). Manufacturing contributed in 2017 only about 16% to GDP, stagnating since the economic reforms began in 1991. By contrast, in east Asia, the industry's share has exceeded 30-40% while that of manufacturing is 20-30%. Malaysia roughly tripled its share of manufacturing value-added in GDP from 1960 to 2014 to about 24%, while Thailand's share increased from 13% to 33% over the same period; Vietnam, too, has seen a sharp recent increase. In India, manufacturing has never been the leading sector other than during the second and third Plan periods, and certainly not since 1991.

No major country managed to reduce poverty or sustain growth over long periods of time without the manufacturing sector driving economic growth. This is because productivity levels in industry (and manufacturing) are much higher than in either agriculture or services, and it is the source of productivity gains across primary and tertiary sectors, through the spread effects of technological change.

The 1991 reforms reduced barriers to

entry for private industry (ending industrial licensing), reduced the sectors reserved for the 'public sector' from 17 to eight (apart from the beginning of disinvestment in public enterprises), and significantly reduced import duties. It was the thrust of policies over two decades.

By the late noughties—the decade from 2000 to 2009—the need for a real industrial policy was being felt. Hence, in 2011, the National Manufacturing Policy was announced. However, by this time, the rapid reduction in tariffs had led to Chinese and other imports flooding India with capital goods, intermediates as well as consumer goods.

While the most severe effects of open-economy policies on India's manufacturing were felt from the early 2000s onwards, those effects had begun in the 1990s. In manufacturing, the simple average tariff fell from 12.6% in 1990-91 to 3.6% in 1997-98, and then to 1.1% in 2014-15. Tariffs were reduced to well below the upper-bound of rates permissible under WTO rules.

Meanwhile, GDP growth in India was led by the services sector, led by communications, software and air transportation since the early 2000s. Services growth was accompanied by a sharp rise

in import demand for manufactures—computer hardware, telecom equipment, and aircraft. So, economic liberalisation, while contributing to growth in the services part of the GDP, had the reverse effect on manufacturing.

This situation from 2001 onwards was not helped by the spate of free trade agreements (FTAs) signed by India, which led to an inverted import duty structure (IDS)—it means higher duty on intermediate goods compared to final/finished goods, with the latter often enjoying concessional customs duty under some schemes. Due to such a duty structure, domestic manufacturing units end up importing finished goods from China, Europe and East Asian countries. As a result, the trade deficit in manufacturing on account of import competition was 44% of manufacturing GDP during 2008-09 to 2010-11.

One sector that did not face IDS and prospered is automobiles. In this sector, most final goods are under the negative list of imports; components are not. MFN tariff rates have been also quite high for importing vehicles in completely built-up form. However, duties are quite low for the completely knocked down version of the vehicle, which is expected to promote local vehicle assembly. Hence, prima facie, the duty structure is in line with promoting domestic production in automobiles. Not surprisingly, India has become, in the last 15 years, one of the world's largest manufacturers of two-wheelers, three-wheelers, cars and trucks.

Second, since 1991, the import-intensity of manufacturing production has dramatically increased. For India, an upward trend in import intensity since 2003 explains capital intensity, to some extent. The implication is that manufacturing would be characterised by 'jobless growth', while numbers of youth joining the labour force was rising.

According to economist Dani Rodrik, it will not be possible for next-generation industrialising countries to move 25% or more of their workforce into manufacturing, unlike the East Asians. However, this shouldn't mean that India cannot increase manufacturing share in GDP, or the share of employment above the current 12%, relying both on domestic and export markets.

We are making the case for an integrated trade-and-industrial policy, which means that the ministry of commerce and industry, the Department of Industrial Policy & Promotion, and the ministry of finance (which takes a final view on taxes) will need to work together on

such an integrated trade-and-industrial policy. However, there is no constituency for manufacturing in any ministry, especially ministry of finance.

IDS constitutes negative protection of India's merchandise industries. If the effective rate of protection (ERP) is positive in the presence of IDS, then the latter may not affect domestic industries. A 2017 study of ERP in Indian manufacturing, with a view to examining the effect of IDS, shows that inverted duty structure exists in paper and paper products, chemical and chemical products, pharmaceuticals, computer, electronics and optical products, machinery and equipment, other transport equipment for the majority of the years under consideration. Another study by Hoda and Rai (2014) had also reported IDS in electronic products such as refrigerators, air conditioners, washing machines, microwave ovens, etc. Tariff Commission studies have demonstrated the same.

Action too little, too late

In the Budget for 2014-15, the government had, with a view to boost domestic manufacturing and also to address IDS,

reduced the basic customs duty (BCD) on various inputs (for example, for the chemicals and petrochemicals sector). This initiative was carried forward in the Budget 2015-16 (for example, BCD was reduced on 22 key inputs/components).

However, the existing FTAs contain long-term contractual obligations, which cannot simply be modified. Although the government can consider invoking the WTO's 'safeguard clause' (embedded in most FTAs to sanction the adoption of countermeasures to guard a domestic industry facing 'threat of serious injury' from imports), maintaining a symmetry between applying safeguard measures and the objective of trade liberalisation is always a challenge.

The goods and services tax (GST) does deal with IDS in a specific clause. The law provides for refund of unutilised input tax credit (ITC) where credit accumulation is on account of IDS, subject to certain riders. However, this action is insufficient to counteract IDS. All that the GST has managed to do is neutralise the negative protection, and possibly level the playing field—but levelling the playing field for the potential domestic manufacturer cannot lead to a manufacturing sector investment boom. A new government will need to take rapid action with a new Industrial Policy aligned to Trade Policy.

Productivity levels in industry (and manufacturing) are much higher than in agriculture or services, and it is the source of productivity gains across primary and tertiary sectors

Smartphones and laptops can be used as easily at home as in office. Turning an office into a prison does nothing for the creativity. To be productive you need presence of mind, not being present in the flesh

THE ECONOMIST

The joy of absence

How some companies fight the curse of presenteeism

RONALD REAGAN FAMOUSLY quipped that "it's true hard work never killed anybody, but I figure, why take the chance?" Beyond a certain level, extra effort seems to be self-defeating. Studies suggest that, after 50 hours a week, employee productivity falls sharply.

But that doesn't stop managers from demanding that workers stay chained to their desk for long periods. At the blood-testing firm Therasys, Sunny Balwani, then boyfriend of the founder, Elizabeth Holmes, had an obsession with employee hours, and would tour the engineering department at 7.30pm to check people were at their desks. All those hours were wasted when the company eventually collapsed (prosecutors have charged Ms Holmes and Mr Balwani with fraud).

Jack Ma, the founder of Alibaba, a Chinese e-commerce group, recently praised the "996" model, where employees work from 9am to 9pm, six days a week, as a "huge blessing." To be fair, Mr Ma said employers should not mandate such hours. Still, presenteeism is the curse of the modern office worker.

There will be days when you do not have much to do, perhaps because you are waiting for someone else in a different department, or a different company, to respond to a request. As the clock ticks past 5pm, there may be no purpose in staying at your desk. But you can see your boss hard at work and, more important, they can see you. So you make an effort to look busy.

Some of this may be a self-perpetuating cycle. If bosses do not like to go home before their underlings, and underlings fear leaving before their bosses, everyone is trapped. Staff may feel that they will not get a pay rise, or a promotion, if they are not seen to be putting in maximum effort. This is easily confused with long hours. Managers, who are often no good at judging employees' performance, use time in the office as a proxy.

The consequence is often wasted effort. To adjust the old joke about the Soviet Union: "We pretend to work and managers pretend to believe us." Rather than work hard, you toil to make bosses think that you are. Leaving a jacket on your office chair, walking around purposefully with a notebook or clipboard and sending out emails at odd hours are three of the best-known tricks. After a while, this can result in collective self-delusion that this pretence is actual work.

But presenteeism has more serious consequences. It is perhaps most prevalent in Japan, where people attend the office even when they are in discomfort. In doing so, they are doing neither themselves nor their employers any favours.

As well as reducing productivity, this can increase medical expenses for the employer. According to a study in the *Journal of Occupation and Environmental Medicine*, these costs can be six times higher for employers than the costs of absenteeism among workers. To take one example, research published in the *British Medical Journal* found that Japanese employees with lower-back pain were three times more likely to turn up for work than in Britain. As a result, those workers were more likely to experience greater pain and to suffer from depression. What could be more dispiriting than being in pain while feeling trapped at work?

None of this is to say that employers are not entitled to expect workers to be in the office for a decent proportion of time. Inevitably there will be a need for some (preferably short) meetings. Dealing with colleagues face-to-face creates a feeling of camaraderie, allows for a useful exchange of ideas and enables workers to have a better sense of their mutual needs.

In the grand sweep of humanity, presenteeism is a recent phenomenon. Before the industrial era, most people worked in their own farm or workshop and were paid for the amount they produced. Factories emerged because new machines were much more efficient than cottage-industry methods, and only a large employer with capital could afford them. Suddenly, workers were paid not for their output but for their time, and were required to clock in and out.

But modern machinery like smartphones and laptops is portable. It can be used as easily at home as in the office. Turning an office into a prison, with inmates allowed home for the evenings, does nothing for the creativity that is increasingly demanded of office workers as routine tasks are automated. To be productive you need presence of mind, not being present in the flesh.

THE MEANING OF THE word 'adverse' is a hostile or critical situation. We all face some or the other adversities in life; it's only during adversities that one really comes to know who are friends and well-wishers. Like IQ (intelligence quotient), EQ (emotional quotient) and SQ (spiritual quotient), there is an AQ (adversity quotient), which is a score that measures the ability of a person to deal with adversities in his or her life. One needs to increase resilience to overcome adversities in life.

The term AQ was coined by Paul Stoltz in 1997 in his book 'Adversity Quotient: Turning Obstacles into Opportunities'. To quantify AQ, Stoltz developed an assessment method called the Adversity Response Profile (ARP). AQ is one of the possible indicators of a person's success in life and is also primarily useful to predict attitude, mental stress, perseverance, longevity, learning and style of responding to changes in environment.

There are umpteen examples of people who fought adversities and have become successful. The richest person in the world couldn't make any money at first. Do you know that Bill Gates' first company, Traf-O-Data (a device that could read traffic tapes and process the data), failed miserably? When Gates and his partner Paul Allen tried to sell it, the product wouldn't even work. Gates and Allen didn't let that stop them from trying again to fix the problem. Traf-O-Data helped them prepare Microsoft's first product a couple of years later.

What's your adversity quotient?

Organisations are emphasising on testing AQ rather than just EQ and IQ

VIDYA HATTANGADI

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In 2000, when the world was celebrating the new century, Amitabh Bachchan was feeling disastrous because he had no films, no money, no company (ABCL), a million legal cases against him, and the tax authorities had put up a notice of recovery on his house. The mega star was then in his late 50s. Yash Chopra offered him a role in his film *Mohabbatein*. It was this time when Bachchan got a huge break through *Kaun Banega Crorepati*. It propelled him into national stardom and helped in the reversal of his fortunes. In my opinion, nobody can match Bachchan on *KBC*.

AQ is the key determinant of success and winning in a person's life. This does not

mean that EQ and IQ are irrelevant; resilience in the face of stressful situations and in a world of rapid changes determines success in life. At workplace, in business, in personal life when one faces difficulties yet fights out the problem courageously and moves ahead is a person with a good AQ. Such a person is the real hero. There is a magic that comes when one is strong enough to identify a goal and move steadily towards it, while also being flexible enough to pick oneself off the ground when obscurities come in way.

It does not matter whether you are an entrepreneur, a musician, a home maker, a student, a clerk, a CEO or a plain Jane, rising



to the occasion, especially during the times of difficulty, should be included into the mentality of those who desire growth, development and success. It's effortless to remain stagnant when you are not happy, but it takes strong character to utilise how a transitional phase can work for you.

I don't know the exact number of attempts and failures Thomas Alva Edison had before he created the light bulb; it is debated that he failed 10,000 times. But what a great man Edison was. His response to his repeated failures was: "I have not failed. I've just found 10,000 ways that won't work."

Across the world, organisations are emphasising on testing AQ rather than

just EQ and IQ. It can be difficult to test AQ, as seeing how people think and behave under pressure is not easy to simulate in an interview context. However, it is possible to screen a 'fair-weather employee' from the resume; also, you can screen a hard-working employee; whether an employee can adapt to change easily or not; whether a person can cope when things get challenging at work; whether somebody is capable of taking more responsibility, or asked to do something he/she has never done before.

Look for resilience in the CV: Organisations must avoid individuals who tend to be easily discouraged when confronted

with even minimal adversity. Such people will infect and weaken others in a team. They will kill the overall morale and culture. On the contrary, candidates who stuck out a job in dire circumstances even though the business subsequently closed deserve consideration. Often, such people exhibit greater depth and breadth of work experience because they have been the last persons standing and have worn many hats.

Rewards: Usually, incentive structures reward contribution primarily on an origin basis. But with a very simplistic appraisal model is it doesn't work—it may fail to reward someone demonstrating high AQ because often such employees fail to project their hard work as they get lost in solving problems or finding solutions to a sticky snag; it has been observed that people, who are committed, do not run after getting rewarded for their work.

Appreciation: Members of the team who demonstrate the highest AQ and deliver results, all other things being equal, should be promoted to leadership positions in the organisation. Often, these team members will be the ones who are also the most productive and get things done as they are less prone to distraction or dissuasion by adverse circumstances surrounding them. A worker who is engrossed in his work, and is busy fixing some problem, will not have time to gossip.

Conclusion: Adversity is the state in which a man most easily becomes acquainted with himself.