

Opinion

MONDAY, MAY 6, 2019

GANGA CLEAN UP

Water resources minister Nitin Gadkari

We have finished only 30% work (of Ganga clean-up) yet. During the last Kumbh Mela, the PM of Mauritius did not take a dip in the river as the water was dirty. This time, Priyanka Gandhi drank its water many times



BANKING IN FY20

BANKS MUST LOOK AT SHORING UP CAPITAL ADEQUACY, ASSET QUALITY, MANAGEMENT, EARNINGS AND LIQUIDITY

Getting the CAMEL back on its feet

EVERY YEAR THROWS up new challenges for the banking sector, and FY20 will be no different. The Q4 results of some banks are out and there are signs that the NPA recognition process may not yet be over. In the past, it was always said that whenever there is a change of guard in public sector banks, there are accelerated revelations on the quality of assets that tend to depress the earnings picture. It is now happening for private banks, too, and, hence, we may have to wait and see how things transpire during the course of the year. Against this background, the five pillars of banking that come under the now conventional CAMEL framework may be debated.

Capital is the driving force in banking, more pertinent for PSBs. This issue has to be tackled head-on in the current year as the demand for credit should be better since there would be no disruptive policy. While overall growth projections for the economy are not very different from that in FY19, credit growth, even if maintained at the existing level, would call for more capital from banks. In FY18, incremental capital plus reserves, which forms the core of capital for calculating capital adequacy, was around ₹85,000 crore. Of this, only ₹10,000 crore came from PSBs. If bank credit grows by 13% in FY20, which is the same as in FY19, then to maintain a cumulative CAR of 9%, an additional ₹1.15 lakh crore would be required. This has to come from either retained profits being ploughed back or fresh capital infusion.

The former looks possible only in case banks are able to make profits, which implies that there should be no additional provisioning for bad assets due to the recognition syndrome of the asset quality review process. While it was generally believed that the worst was over in terms of legacy NPAs, it needs to be seen if more banks have any such recognition when the Q4 results are announced. The latter throws the ball back in the govern-



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Views are personal

ment's court as weak PSBs need to be recapitalised further in case there is paucity of the same as of March 2019. The Budget has not made any provision for such recapitalisation that has to be provided in case the need arises. This can be included in the formal Budget in June/July. As some of the prompt and corrective action (PCA) banks will be coming out of the net gradually, the capital issue would have to be addressed with some urgency.

There are talks of some more PSB mergers, which may not actually add to capital of the system, though some of the weaker merged banks may look better. There has, however, not been any mention of divestment, which is understandable as given the present state of banks, the valuation will not be satisfactory.

Asset quality is the other issue of interest. Have all the past NPAs been recognised? If so, have provisions been made? This will have a bearing on the P&L accounts of banks. The other important development will be the way in which banks tackle the resolution process. The Supreme Court judgment on the RBI circular of February 12 does not make the one-day default rule lead to the 90-days resolution channel that subsequently takes the asset to the IBC. It, however, does not stop banks from still taking such action. If the onus is on the banks, the question is whether or not they would look at a solution or prefer to kick the can as was done even earlier before the IBC came in. This will be a call that has to be taken by the banks. Banks, as a rule, have an incentive to keep the asset away from the IBC and defer a resolution as it would mean taking a haircut. At the same time, there is



also pressure to show stronger balance sheets. Hence, there can be an incentive to procrastinate on such resolution.

Management is the third part of the banking outlook for FY20. A lot has been said on this as it raises issues on governance. This, now, holds for both public and private sector banks.

The RBI had a discussion paper on compensation for senior bank officials and brought in the issue of claw-back for the first time. Therefore, the way managements conduct business and are held responsible for performance will be something to be watched carefully. Also, the efficacy of the Banks Board Bureau would be tested as decisions are taken on the composition of Boards as well as CEOs. FY18 and FY19 have been particularly challenging for some banks from the point of view of governance, and it is necessary to have the house in order for ensuring a safe future of the system. There are lessons to be learnt from the past and systems have to be made foolproof given that banks are the fulcrum of the financial system.

Earnings will come back to the forefront, provided that capital and asset quality issues have been addressed. Here, banks have to work around with enhancing efficiency so as to improve their operating profits in a scenario where interest rates are likely to decline rather than increase. RBI has indicated an accommodative

stance and banks have to follow up with appropriate action to enhance business. The important thing is to balance credit risk with enhanced business levels. Banks have been holding on to excessive SLR paper, which was a safe haven. Some change will be called for as commercial credit demand increases. Risk evaluation has to be at the top of the mind to ensure that growth in new incremental NPAs is contained.

The last part of the approach is liquidity and its prospects for the year. Unlike FY19, liquidity would be less of a challenge as growth in deposits is expected to be higher this year. The recent spate of disruptions in the

mutual funds market, especially in the debt segment, will mean a reverse migration to the 'safer and lower returns' haven of bank deposits. This would be beneficial for banks which had to contend with sluggish growth in FY19. To the extent that RBI would be there to provide liquidity through both OMOs and LAF, it would be comforting for banks.

In a declining interest rate scenario, the sixth element of 'sensitivity to market risk' would be less

of a concern as securities get valued at higher prices which will help the P&L. The risk on forex would be there to an extent but as the rupee is not expected to depreciate by more than 3-4% which is the trend, there would be less pressure on banks as well as corporates who otherwise do run a high currency risk on imports and debt.

Hence, FY20 will be a crucial year for banks as the true picture on the internals would be revealed. The challenge would be to get back from the abyss and move ahead in a meaningful manner so as to take the banks back to a robust, well-capitalised system with a cleaner asset portfolio and governance in place.

GST on a better footing, augurs well for direct taxes

Even without invoice-matching, there has been a step-up in collections; information-sharing will also help income tax

THE FACT THAT GST collections for March 2019 touched ₹1.14 lakh crore, up 10% over that in the same month a year ago, augurs well for the future. There is little doubt, though, that there are several one-offs that have boosted the performance—the best since India first started collecting GST in July 2017. There is, for example, the quarter-end bump that is seen regularly—March 2019 collections were the highest in the previous three months, December 2018 in the three months prior to that, September 2018 in the three months prior to that, etc; this could have to do with the fact that firms try to boost sales before the quarter ends or the fact that the smaller firms have to file their GST returns every three months. There is also the year-end effect where, apart from trying to boost sales, firms work hard to ensure that all vendors upload their GST returns so that they can avail input tax credits. This time around, the impact was even higher since March 2019 was the last month to claim tax credits for 2017-18. With more firms filing GST returns—the number of filings is up from 5.9 million in July 2017 to 6 million in March 2018 to 7.2 million in March 2019.

With March 2019's collections the highest ever, this means monthly collections in FY19 were, on average, 7% more than those in FY18, and the figure is 13% higher when you compare the January to March 2019 collections with those in January to March 2018. The two main reasons for the increase in collections and compliance suggest the system is stabilising. For one, as the growth in the number of filings show, big firms are clearly ensuring their vendor base is fully GST-compliant. And though the government keeps postponing the date for implementing the invoice-matching function of GST which increases the compliance levels quite dramatically—this was supposed to kick in on April 1 this year, but will now have to await the new government—the fact that the way bill has become compulsory for transporting goods of over a certain amount has also played a big role in raising compliance. While the monthly run-rate of GST collections in FY20 is ₹1.14 lakh crore, a dip from March 2019 numbers in the rest of the year implies that, as in FY19, there will be a shortfall in collections in FY20 as well; in FY19, the shortfall was ₹1 lakh crore on account of GST alone.

Greater GST compliance will also help raise both corporate as well as personal income tax collections as, once firms have no option but to declare their actual turnover to GST authorities, they will have to do so for the income tax authorities as well. Indeed, last week, the income tax and GST authorities signed an information-sharing agreement for precisely this reason of boosting income tax collections. This is important because, as FE reported last week, there has been a contraction, albeit a small one, in the number of e>Returns filed for personal income tax in FY19 after averaging more than 25% over the three years prior to this. Indeed, when you compare the number of actual tax filings to the number of registered taxpayers, the ratio is down to 79.1%, a number not seen in the last 5-6 years. It is due to this that direct tax collections fell short of projections for FY19 by as much as ₹50,000 crore, all of this was in personal income taxes since there was no shortfall in corporate taxes. While there has been an impressive jump in the direct tax-to-GDP ratio from 5.6% before the NDA came to power to 6% in FY19, the big jump—from 2.1% in FY16 to 2.4% in FY17 for personal income taxes—due to demonetisation looks like it has played out unless the tax notices sent out to those who deposited unusually large sums of cash during the post-demonetisation phase result in a sharp jump in taxes once the scrutiny of their replies is over. The GST link and the gains from Project Insight—this links various databases like those from credit cards, jewelers, real estate firms, etc—are expected to lead to the next big jump in tax collections.

NCLAT acts sensibly on RBI

How could it rule IL&FS loans couldn't be classified as NPAs?

AFTER GETTING IT wrong in not allowing RBI to order banks to classify their loans to IL&FS as NPAs, the NCLAT appears to have finally seen sense. NCLAT has now said that while the loans can be classified as NPAs, the banks must make no attempt to recover their loans till further orders. This makes sense since, while banks would normally try and recover their loans by taking IL&FS to the NCLAT, given how large the loans are—and the likely haircuts—the government put a new board in place at IL&FS to try and get the best deal possible for IL&FS debtors; if banks were to be allowed to take IL&FS to NCLAT, the Uday Kotak-led team wouldn't get the time it needs to work out an orderly exit strategy. With the latest NCLAT ruling, banks will now start to make provisions for IL&FS loans and so, even if things don't work out according to plan, at least the banking sector will be better shock-proofed against possible losses from their IL&FS loans.

Indeed, it is to be hoped the Supreme Court (SC) will also learn a lesson from this as it has, much like the NCLAT, said that bank loans to Delhi Airport Metro Express Limited (DAMEPL) cannot be classified as NPAs till it rules on the matter. As FE has argued earlier, DAMEPL may have valid reasons for why it has not repaid the bank loans it took—it handed back the airport metro line to DMRC and it has not been paid the damages it was awarded against DMRC—from a bank's point of view, all that matters is that the loan has not been repaid. And even if DAMEPL is to be given time till the other issues are sorted out, surely banks must make provisions in case things still don't get fixed?

It is also to be hoped that other NCLAT/SC rulings that hit RBI and the banking system will also be reviewed. In the case of Essar Steel, for instance, the resolution is being held up by the NCLAT insisting that the Committee of Creditors ensure that ArcelorMittal pays a greater amount to operational creditors who are getting back a much smaller share of their outstanding in comparison to financial creditors. The SC striking down RBI's February 12 circular, similarly, has been a big dampener as far as making defaulters repay banks. As in DAMEPL, SC seems to be arguing that if faulty government policy hit firms, they can't be penalised for not repaying banks; the point, however, is that banks are not a proxy for government, so they can't be penalised either.

Veiled REALITY

A Kerala-based minority education group has sparked off a debate by banning face veils on its campuses

AKERALA-BASED MINORITY education group, the Muslim Education Society (MES), has banned students from wearing the face veil on the campuses of its 150-plus institutions. This comes in the wake of the Sri Lanka terror attacks and the country ordering a similar ban, though the group insists its decision has nothing to do with the attack. In fact, it draws from a 2018 Kerala High Court judgment that holds that the management of an educational institution has the right to decide a dress code and enforce it, and such dress codes have nothing to do with religion. The MES has deemed face-veils un-Islamic and a form of cultural invasion, perhaps hinting at the Wahabbi/Salafi cultural influence exerted by Saudi Arabia and other Sunni nations in West Asia and the Gulf region, a preferred destination for many migrants from Kerala.

The MES's decision has not gone down well with the Sunni clergy in the state, and a pressure group has said that the group has no right to impede the religious freedom of the students. The clerics' line makes the various forms of veiling/covering—like the *burqa*, *niqab* and *hijab*—as integral to Muslim identity and religious freedom. It isn't difficult to see why, in the *burqa/hijab*-ban debate in various countries, the decision to wear the garment is made out to be a matter of freedom of choice and expression. With increasing marginalisation of the community, especially in the West, the assertion of Islamic identity has also hinged upon *burqa/hijab*, often the first overtly "Islamic" identifier to be attacked in nations insisting on cultural assimilation. At the same time, it is necessary that the debate pay adequate attention to the larger reality of veiling being an instrument of oppression in many nations—from the enforcement of compulsory donning by the infamous veiling police of the Taliban regime in Afghanistan to the *mutaween* (anti-vice squad) of Saudi Arabia that had allegedly prevented girls from fleeing a burning school in 2002 because they were not wearing *abayas* and headscarves—15 died and 50 were injured.

The missing tax filers

While a number of activity indicators have been signaling a slowdown in parts of the economy, the tax collections corroborate it too

WE ARE SURPRISED with the decline in income tax e-filing in FY19—a first in the recent history of tax filings. If the filings are indeed plateauing, it will be a worry for the fiscal which has seemingly shifted its focus to compensatory expenditure. The Centre must look at further expanding the tax base (optimally using the data repository from demonetisation and GST). Without a significant improvement in the tax base, the medium-term growth path will be at risk.

Based on the e-filing website of the income tax department, returns filed in FY2019 were at 66.8 mn against 67.5 mn in FY2018—1% lower. This is surprising given that post demonetisation it was expected that the tax base would continue to increase. It does beg the question whether compliance was weaker in the latter part of FY2019 given that the number of registered filers has continued to see steady growth. If compliance has been weak, the new government will aim at increasing the filings and collections in FY2020.

One of the positives out of the filing data has been the steady increase in the share of filers in the ₹0.5-1 mn, away

from the ₹0.5 mn bracket. A similar (though quantitatively lower) trend is seen in the ₹1-5 mn brackets too. A focused utilisation of the data on deposits during demonetisation could yield better compliance, especially in the higher income brackets. This, combined with the granular GST-filing data, will be essential in increasing the filings as well as revenues over the next few years. The task is cut out for the next government looking at improving the tax buoyancy—essential to fund the increasing transfers in expenditure.

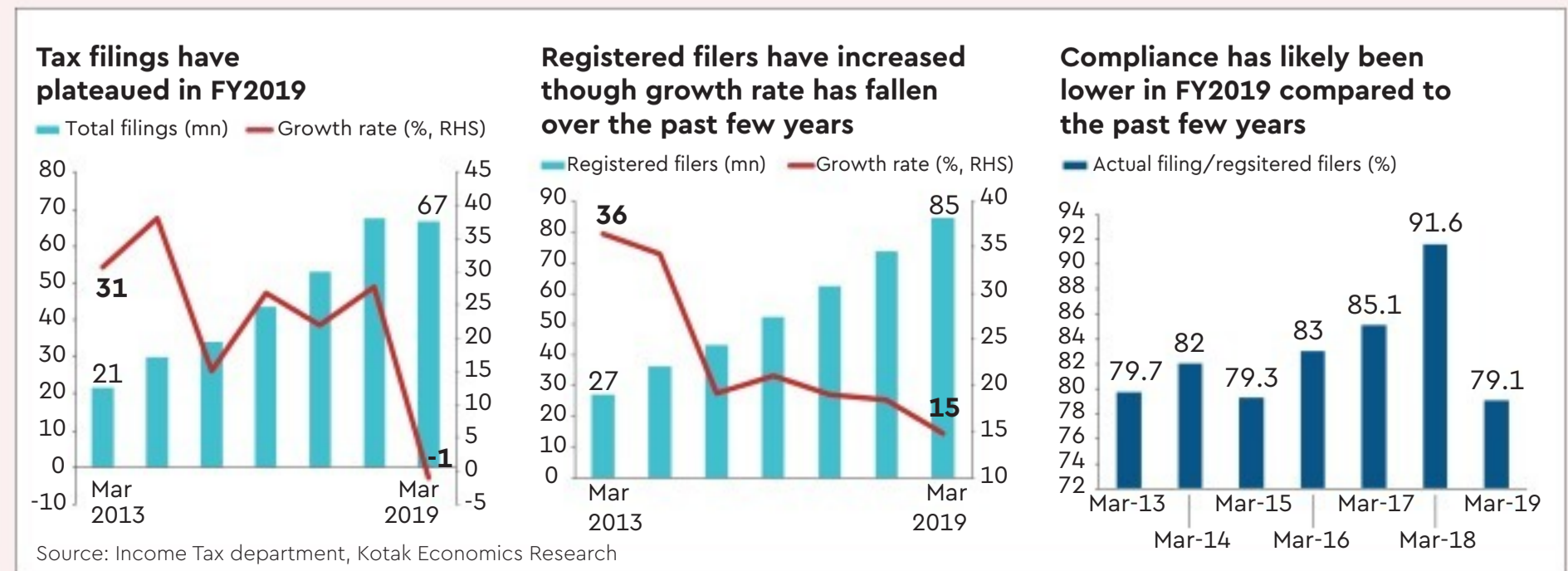
While we hope that the filings for the assessment year increase (around August when filings are completed), a relatively muted tax filing growth will create further headwinds in an already stressed fiscal space. With the recent inception of direct transfers in the budget, the fiscal could easily be on a slippery slope unless there is a rationalisation of expenditure. We note that around 55% of central government expenditure is fixed in nature and the eventual impact could be on further lowering capex. Given the stressed fiscal space, the debt markets are burdened with heavy government and PSE

borrowings, which is likely to keep the yield curve steep in FY2020E.

While a number of activity indicators have been signaling a slowdown in parts of the economy, the tax collections corroborate it too. Aggregate indirect tax revenues' buoyancy has been weak along with targets being missed on direct taxes too. Further, persistently high borrowing cost for financial institutions and companies (given crowding out by the government sector) will weigh on the near-term aggregate demand in the economy.

From a medium-term perspective, if the government doesn't expand its capex (higher transfers and muted tax growth), growth prospects will be under doubt given estimated fiscal multipliers. Further, the drag from the government on the savings also needs to reduce to create space for higher investment rate without impacting macro balances. With a more moderate fiscal policy, an investment-led growth (and a lower consumption rate) will be essential to keep the savings-investment gap in check.

Edited excerpts from Kotak Economic Research's Public Finance Update dated April 30



LETTERS TO THE EDITOR

EC overlooking PM's MCC violations

It is strange that the Election Commission has found Prime Minister Narendra Modi's appeal to the first-time voters to dedicate their votes to the martyrs and his 'majority-minority' remark made in the context of Rahul Gandhi contesting from Wayanad not violative of the Model Code of Conduct. The commission's clean chit to Modi has led the Congress to ask 'Is it Model Code of Conduct or Modi Code of Conduct?' its differential treatment of leaders based on political hues and positions they hold does not put in the best possible light. In being soft with Narendra Modi and Amit Shah and giving them exemption from following the Model Code of Conduct, the poll panel sees to subscribe to the Orwellian axiom that 'some are more equal than others'. It deleted the complaints on Narendra Modi and Amit Shah from its website, for no acceptable reason. Its eyes are so clouded that the capital letters BJP beneath the 'lotus' symbol in the EVMs were just water lines. This is while even a person with poor eyesight won't miss the letters (the party's name). By not providing a level playing field to all in the electoral fray, the Election Commission has not acted as a neutral umpire. It is a self-evident truth that its failure to enforce its own rules, its selective penal action and its procrastination bear on the sanctity of the election process involving the will of the people. The Election Commission must be fair and seen to be fair lest it will lose credibility as a constitutional body capable of conducting free and fair elections, a major exercise in a democracy worth its name.

— G David Milton, Maruthancode

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OVER THE BARREL

Can non-dollar overpower the petrodollar?

The rest of the world must find ways of creating a non-dollar based trading system, particularly with regards to petroleum, and thereby weakening America's stranglehold over the global financial system. For Trump is pushing the Middle East onto a collision course and the consequences for everyone could be severe

ONE SHOULD NOT BE SURPRISED by Donald Trump's imperious approach to the rest of the world. He has but one concern—to keep his domestic constituency intact and to win the 2020 presidential elections. He may not even care if, in the process, the 'rest' goes to hell in a hand-basket. His latest missive against Iran is a manifestation of this attitude. The question that one must ask is: What can the 'rest' do to prevent such an outcome.

On April 22, Mike Pompeo, the United States Secretary of State, had announced that the exemptions granted to seven countries (and Taiwan) from the US sanctions law CAATSA (Countering America's Adversaries Through Sanctions Act) against Iran would be withdrawn on May

3. He said these countries would have to bring their imports of Iranian oil/gas down to zero within the next two weeks and the policy objective was to choke off the principal source of revenue of the 'outlaw regimes'.

Pompeo's announcement should not have come as a surprise. The exemptions had been granted for six months and were to expire on May 3. It did rattle the market, though, because of the impracticality of the demand. How were these countries going to reduce their purchase to zero at such a short notice. Together, they were purchasing 1 million barrels of oil daily, and Turkey imported almost 15% of its gas requirements via pipeline from Iran. It was also not clear what the US would do if China, Turkey and India cocked a snook at this diktat. Would the

government prevent US banks from financing US business in these countries? If so, what and how would these restrictions be implemented? Any way, the uncertainties led to a tightening of the oil market despite Trump's characteristic tweet that he had "spoken to the OPEC" to make up for the shortfall.

On hearing this announcement, the issue that concerned me was not the impact on the oil market or on India. It was the reaction of Iran and whether this might trigger actions and decisions that could lead to a broader conflagration. I knew that India had already substantially reduced its petroleum imports from Iran and that whilst the costs of making up the 11% that it still imported would push its import bill higher, this increase was affordable and it would not create a major economic disruption. Of course, I did wonder whether India would readily accede to the diktat or whether, on a matter of principle, it would signal to America that it could not compromise its principles and be seen as a fair weather friend and ally. After all, India and Iran have had long-standing strategic, cultural and trading relations. But these were subsidiary thoughts to the contours of a possible disaster scenario that was taking shape in my mind. It was also subsidiary to the follow-up question what if anything can the 'rest' do to prevent Trumpian foreign policy from disproportionately and adversely impacting the people in the region?

Consider the following: The relatively moderate government of Iranian President Hassan Rouhani collapses because of public disaffection with the dire state of the domestic economy and because of an emboldened opposition. It is replaced by a hard-line government opposed to the Joint Comprehensive Plan of Action (JCPOA), the multi-nation agreement that had placed constraints on Iran's nuclear programme and resumes work on the nuclear programme. John Bolton, the National Security Advisor of the United States and arguably the architect of Trump's hard-line policy towards Iran, finds he now has the excuse to 'bomb' Iran. He has often expressed this wish. Trump signs off on this act of muscularity because he believes it will go down well with his domestic constituency. Iran reacts along multiple fronts. It endeavours to block the Strait of Hormuz through which flow 22 million barrels of oil every day, it intensifies its support to

anti-American Shia factions in the region, and it reaches out to China for support. The price of oil shoots up, the global economy hits the skids and...

So, what, if anything, can the global community do to avoid such a scenario? What can it do to ensure that Iran continues to exercise 'strategic patience'?

The answer clearly does not lie in a 'jaw jaw' with Trump, Bolton and Pompeo. They have set their stakes in the ground. They will not ease off until, as Pompeo put it, Iran learns "to behave like a normal country." Moreover, they are persuaded that the portrayal of Iran as 'an outlaw regime' plays well with their Republican base.

So, what are the other possibilities? One of several reasons for America's economic leverage is that it sits at the epicentre of the global financial system. The dollar is a reserve currency. Global trade is preponderantly carried out in dollars. Oil is priced in dollars. The US Treasury is the favoured haven for risk-averse investors. And it controls the financial messaging system (SWIFT). Banks, financial intermediaries and corporates would not be able to function if they did not have access to this system. This latter reality is the threat that hangs over every entity that continues to trade with Iran after May 3.

Clearly, this threat would lose its edge if there were an alternative messaging system that enabled non-dollar transactions without SWIFT. The European signatories of JCPOA (Germany, France and the UK) have created such a system. They announced in January the establishment of a special-purpose vehicle (SPV) called the Instrument in Support of Trade Exchanges (INSTEX) to enable companies to trade with Iran without having to deal with dollar-based US banks. It remains to be seen whether companies will avail of this mechanism. Also, the threat would dilute if the countries decided to engage in barter, but this is not a sustainable alternative.

I am sure there is more that can be done. The larger point is that the 'rest' must find ways of creating a non-dollar based trading system, particularly with regards to petroleum, and thereby weakening America's stranglehold over the global financial system. For Trump is pushing the Middle East onto a collision course and the consequences for everyone could be severe.

A reason for America's economic leverage is it sits at the epicentre of the global financial system. The dollar is a reserve currency. Global trade is carried out in dollars. Oil is priced in dollars

ADAMS' EQUITY THEORY

ADAMS' EQUITY THEORY, also known as the Equity Theory of Motivation, was developed in 1963 by John Stacey Adams, a Belgian psychologist known for workplace behaviour. When people exhibit inappropriate behaviour at the workplace, everyone suffers. For instance, if someone frequently tells lies, his/her disruptive behaviour affects co-workers' morale and productivity. Equity Theory is based on the idea that individuals are motivated by justice. In simple terms, Equity Theory states that if an individual identifies inequity between himself and a peer, he automatically will adjust his working style to make the situation fair in his own eyes. As an example of Equity Theory, if an employee learns that a peer doing exactly the same job as him is earning more money, he may choose to do less work, thus feeling justified in his own eyes.

Equity Theory focuses on influencing whether the distribution of resources is fair to both relational partners—employer and employee. Equity is measured by comparing the ratio of contributions in terms of costs and benefits in terms of rewards for each person. This theory is also considered as one of justice theories. John Adams asserted that employees seek to maintain equity between the inputs they bring to a job and the outcomes they receive from it against the professed inputs and compare them to the outcomes of others. According to Equity Theory, organisations must maximise individuals' rewards, by creating sys-

Finding motivation at workplace

Employees compare their perks to others; if they perceive inequity, they will adjust their inputs to restore balance

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tems where resources can be fairly divided amongst members of a team. If employees feel they are treated unequally in treatment and rewards, they will shy away from giving the best inputs.

The structure of equity at the workplace is based on the ratio of inputs to outcomes. Inputs are the contributions made by the employee for the organisation. Inputs, for instance, come in form of the number of hours worked (effort), the commitment and enthusiasm shown, the experience brought to the role, personal sacrifices made, and responsibilities and duties of the individual in the role. Outputs are the result an individual receives as a result of his inputs to the organisation. Some of these benefits will be tan-

gible, such as salary, while others will be intangible, such as recognition. Common outputs include salary, bonus, pension, annual holiday allowance, company car, company home, stock options, recognition and promotion.

It's a universal truth that company cultures are strongly interrelated with employee happiness. The more appealing and enjoyable an organisation's culture is, the happier its employees will be. It is not possible for workers to be engaged when they are unhappy. Employees keep comparing with each other with regards to salary, perks, recognition and promotion. By cultivating a strong corporate culture, organisations increase the chances of good employee engagement.



And engaged employees are more likely to be great advocates of the organisation brand. When organisations maintain rational inputs and outputs, they get clarity in defining equity. Equity is defined as an individual's outputs divided by that same person's inputs. Adam's Equity Theory goes a step further and states that individuals look around and compare their promotions and perks to others. If they perceive inequity, then they will adjust their inputs to restore balance.

The airline industry is often mocked for grumpy employees and poor customer service, but Southwest Airlines of the US bucks those trends. Customers loyal to Southwest often point to happy and friendly employees who try hard to

help. This airline has managed to communicate its goals and vision to employees in a way that makes them a part of a unified team. Southwest gives employees 'permission' to go the extra mile to make customers happy, empowering them to do what they need to do to meet that vision. Employees who are convinced of a larger common goal are people who are excited to be part of a larger purpose.

Adobe is a company that goes out of its way to give employees challenging projects and then provide the trust and support to help them meet those challenges successfully. While it offers benefits and perks like any modern creative company, Adobe's is a culture that avoids micromanaging in favour of trusting employ-

ees to do their best. Adobe does not use ratings to establish employee capabilities, feeling that it restrains creativity and harms how teams work. Managers take on the role of a coach/mentor, more than anything, letting employees set goals and determine how they should be assessed. Adobe gives its employees stock options so they respect both a stake and reward in the company's success. Continual training and culture that promotes risk-taking without the fear of penalty are part of Adobe's open company culture. Putting trust in employees goes a long way towards positive organisational culture, because trust leads to independent employees who help their company grow. Employees who are high in equity sensitivity place more importance on inputs in terms of what they can give in a situation; higher scorers have been labelled 'benevolent'. In contrast, those who score towards the low end of the pole on equity sensitivity place greater importance on outcomes; they value what they can get in a given situation and are labelled as 'entitled'. Towards the midpoint are those individuals who adhere more closely to the originally proposed norm of equity—i.e. those who desire their inputs and outcomes to be balanced, and they are labelled as 'equity sensitive'. In sum, along the range, individuals who score high on equity sensitivity lean more towards benevolence, whereas individuals who score low on equity sensitivity lean more towards entitlement.

Participating in electronics GVC

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How to integrate Indian firms into global electronics manufacturing value chain

INDIA'S EXPANDING INCOME LEVELS have translated into a growing trade deficit, with imports of electronic products as a key component—electronics imports (under HS code 85) grew to \$48.3 billion in 2017-18 (10% of total imports), jumping \$10 billion over the previous year and at third rank in total imports after oil, and gems and jewellery. Spurring domestic manufacturing in electronics is thus the need of the hour.

While the Phased Manufacturing Programme (PMP), introduced in 2017, curbed imports under this category over 2018-19, India must build its electronics exports. A way of doing this is to effectively participate in global value chains (GVCs), where Asia has emerged as a major player. There are important takeaways from Vietnam, which expanded its electronics exports by over 700% between 2010 and 2016. A reason for Vietnam's success is FDI by leading MNCs in the electronics sector. Over the past few decades, Vietnam liberalised its economy and instituted laws to protect investments. Huge swathes of coastal areas have been allocated to building economic zones and industrial parks. Corporate income tax has been slashed to 20% with additional financial and tax incentives, which, along with a sound ports and logistics infrastructure, have attracted major MNCs. These companies have further promoted growth of ancillary enterprises, creating a robust ecosystem that is now gaining from the movement of manufacturing out of China.

India's strengths include a vast pool of engineers, competitive labour force, familiarity with English, and others. Many MNCs have set up design and R&D centres in the country, connected with manufacturing sectors. With the right policy environment, a thriving electronics sector well-integrated with shifting regional supply chains could help boost exports and create new jobs.

First, strategising imports of electronics in terms of final and intermediate items is important, as imports of certain products remain essential. Vietnam's import bill in electronics at \$47.7 billion in 2016 is testament to this. While India increased import duties on certain electronic products in the 2018-19 Budget, it recently exempted 35 machine parts used for manufacturing mobile phone components from basic customs duty to promote local handset production. A balance will need to be maintained on the import duty structures of such products.

Second, India needs to continue focus on easing the way business is done, especially in terms of trade across borders such as time and cost of border compliance, documentary compliance, etc, both for exports and imports. The time taken for border compliance of imports in India is more than five times that in Vietnam and the cost is almost 25% higher, as per the World Bank. Dedicated industrial parks could help develop a supportive trade system.

Third, GVCs demand high quality and on-time delivery, necessitating behind-the-border logistics support, with high-speed and reliable linking of industrial parks and ports. Equally, contract enforcement, recourse available to firms in case of violations, length of settlement periods, legal processes, etc, need to be considered.

Fourth, for upgrades within a GVC, backward linkages between MNCs and domestic industry are critical. India's electronics SMEs need hand holding, both by the government and MNCs. Workshops by MNCs with suppliers including those at lower tiers could assist in building quality and meeting requisite standards. The government could also set up training centres for SMEs in key manufacturing clusters.

While Vietnam's experience of attracting MNCs is a model, integration of its domestic firms into GVCs remains at low levels, mainly in assembly, packaging, etc. India must ensure that it reaches better value addition with deeper local supply chains. An advantage for India is that even if it were to integrate into the GVCs at a lower level initially, its strong private sector ecosystem, coupled with the large pool of talent and entrepreneurial spirit, can help the country rise within GVCs—initial integration is, however, critical.

The electronics market in India is projected to grow to \$400 billion by 2020 and this, coupled with global demand for electronics, creates huge opportunities for firms to invest in India as a hub for exports. The PMP has contributed to lowering imports of handsets while imports of circuits and micro assemblies has concomitantly risen. Systematic government and industry interventions could create a fertile ground to enable development of the electronics sector.