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22nd ANNIVERSARY

STRATEGY PARADOX

A collision of commitment and uncertainty, 'strategy paradox' plays a key role in determining success and is particularly relevant in the Indian context. Going forward, the ability of managements to adapt prudently to changes in the business environment will be the game-changer....48

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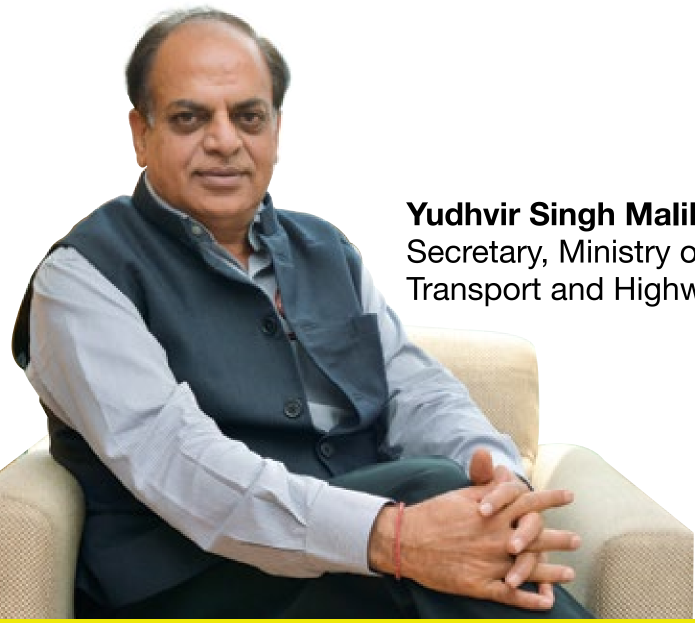

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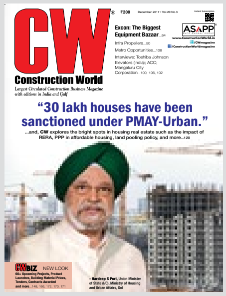

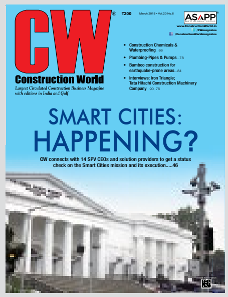

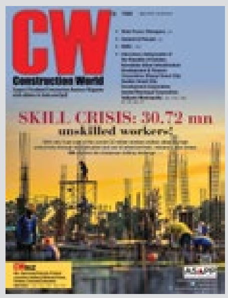

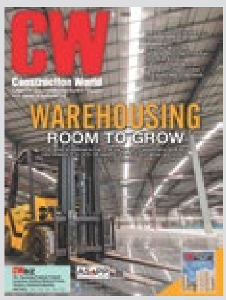

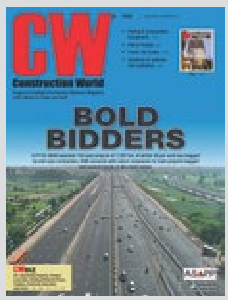

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WILL THE BATTLE CRY OF THE ELECTIONS DROWN THE GROWTH AGENDA?

As we begin the countdown to the elections next year, time is running out on the economy fixes that can be invoked. Last year, in October 2017, I had written this in my editorial:

The national agenda appears to be motivated more towards elections than the fixing of the economy. It is time to change the order of priority. According to CMIE, announcements of new industrial and infrastructural projects remained muted in the first quarter of 2017-18. Only 448 projects were announced during the quarter. This is the lowest quarterly project announcement seen since June 2014, the time when the last capex cycle bottomed out. Further, the completion of projects has dipped over previous consecutive quarters. Lower project initiation and a falling commissioning rate will be a double whammy – the only way to change this situation is to enhance the rate of commissioning of the project pipeline and, at the same time, improve the launch of new infrastructure projects.

It was clear that unless the government focused on the economy, the development agenda would suffer. The PMO instituted the PM's Economic Advisory Council thereafter and between Arun Jaitley's and Piyush Goyal's musical chairs over economic measures, the agenda to expedite the dissolution of debts stood the ground and brought results. However, taxation will continue to hold India back in securing any better results in its 'ease of doing business' ranking. GST's compliance burden has knocked the wind off the sails of small businesses and the cash economy has continued to thrive. However, the number of tax payers has shown a remarkable increase. That said, the oil price increase has choked all wiggle room for public spending and government programmes are likely to suffer from insufficient funding in the run up to the elections.

The second half of the current fiscal is likely to be a smooth ride with thick infrastructure order books translating into demand for building materials and equipment. The election results, scheduled in December 2018, will either resurrect confidence in the current government or show the chinks in its armour. Therefore, the outcome will either embolden the government to push hard on its growth agenda or set it into a huddle. In either case, the first quarter of fiscal 2019-20 is likely to be weak and needs to be accounted for.

As a result of the weakness in the economy, many banks and big industrial houses have defaulted on their debt obligations. The prima donna IL&FS was downgraded from triple A to D in a matter of weeks as it defaulted in its obligations. Its Rs 900-billion debt suddenly ran shivers down the spine. This was just after the CEO of the 'blue blooded' ICICI and managing director of National Housing Bank had been made to quit among charges of corruption. YES Bank, too, raised hackles owing to its governance issues and its CEO was refused an extension in tenure. Industrial and construction houses like Videocon, Jaiprakash, Punj Lloyd, Gammon, Essar, Madhucon, Transstroy, Valecha, Soma, IVRCL and others have been dragged by debtors to the National Company Law Tribunal for insolvency. Some others like Electrosteel Casting, Bhushan Steel, Binani Cement and Monnet Ispat have been acquired or in the process of changing hands. While the speed with which large defaults have been processed and addressed, rather than being dragged through red tape as prevalent earlier, has been redeeming, the failure of banks in observing due process and governance standards has been rather unsettling.

Of the suggestions made in this column last year, a few have been addressed and I am repeating them as they still stand as probable solutions to recharge the economy:

- Raise the minimum levels for GST for taxes but keep compliance mandatory within an easier time framework. This will soothe the informal economy, which is gasping for oxygen.
- Raise the levels of income-tax returns exempted from scrutiny.
- No appeals should be filed by government departments against judgements awarded by official arbitrators. This defeats justice and clogs up the legal system.
- Accountability of officers issuing refund of taxes needs to be stepped up. (Exporters are a harried lot, among others.)
- Incomplete projects must receive full attention where investments have taken place but returns are stuck owing to red tape. Change the contractor, transfer the administrator, and use the power of the law where small patches of yet-to-be acquired land are stalling completion. (Take, for instance, incomplete dam projects in Maharashtra.)
- Don't buy land for infrastructure projects. Instead, provide a stake to the owner with a minimum rental guarantee (that takes care of ongoing sustainability) and an alternate marginal land parcel (for occupation). According to recent estimates, the capex for land alone for road projects is Rs 1,850 billion.
- Use government land for BOT affordable housing projects where builders collect rent to offset their investment, akin to a toll offsetting the capex on a road project. (There has been a proposal of this kind of PPP, as announced by the Minister of Housing & Urban Affairs six month ago.)
- Water and waste management projects seek the lowest capex and yet are the least among all infrastructure projects, even within the smart cities mission. They require a special thrust and deserve tax incentives.
- Allow banks, pension funds and provident funds to lend to the infrastructure sector on a 25-year basis with a moratorium.
- If the campaign to penalise black money was carried out nationally with such aplomb, why not a campaign to incentivise honest tax payers and honest business houses! Why not offer a bonus to honesty? Currently, it appears that the honest taxpayer is always burdened with loads of compliances and subject to harassment. Introduce a loyalty point credit system for those who comply. Let those points accumulate to gain certain advantages that offer prestige and esteem. Let them be treated with a level of dignity by government organisations and bureaucracy just as first-class passengers are treated by an airline. It is time to bring back the class system where the divider will be honesty, not wealth. (Recently, there has been an unofficial announcement that such a scheme is in the works.)

The 22nd Annual issue in your hands has attempted to decipher the paradox of strategy in an environment where markets encourage strategising for growth, yet carry the risk of diminutive demand or travesty in policy. In our pages, business captains and combatants outline their take on this paradox.

Our desire to contribute to build a stronger India emerged when we realised that research showed that engineering process outsourcing opportunity worth $170 billion was likely to move to Asia. FIRST Construction Council, part of our non-profit infrastructure research body, then made a presentation to the Ministry of Commerce and won its support in engaging in making investment-friendly policies. New York-based *Engineering News-Record*, the world's oldest and largest circulated engineering magazine, with whom CONSTRUCTION WORLD has had an engagement for the past six years, then joined in the effort in bringing international engineering companies to attend the India Construction Festival, scheduled on October 24 and 25, 2018, at Taj Palace, New Delhi. We are hopeful of making meaningful policy changes to boost India's engineering prowess where Indian engineering craft will be honed to deliver world-class projects across the globe.

Soon thereafter, FIRST Construction Council gears up to host the 10th CEMENT EXPO in Hyderabad on December 20 and 21, 2018, where it has engaged with the Department of Industrial Promotion & Policy, Government of India, for some policy tweaks to set the ground for better business practices in the cement industry. And our sixth annual smart cities event, SM@RT URBANATION, is set for February 19 and 20 in Bengaluru and is likely to host the largest gathering of Indian and international cities under one roof with smart solutions being exhibited, smart case studies on display, policies on debate and innovation displayed by start-ups.

FIRST Construction Council is inviting partners to join its movement to build the best practices for construction in India. Do write in with your interest to Info@FIRSTConstructionCouncil.com. Here's wishing you a happy and prosperous Diwali and a happy new year!

Follow me on twitter @PratapPadode

The Sustainable Way

Strategic flexibility is indeed needed, but how can a business play catch-up with disrupting forces forever? DEVENDRA KUMAR VYAS offers a solution.

In the late 1980s, the US Army War College coined a new acronym VUCA to describe the then volatile, uncertain, complex, and ambiguous geo-political environment. Post the global financial crises of 2008, this jargon slowly gained relevance in the business world to describe the four distinct challenges, which a business today faces. As the world got flatter, and economies became integrated, so did the VUCA environment. In today's fast-evolving globalised world economy, any adverse event in one part of the world is simultaneously felt by others. Indeed, chaos is now the new normal.

Global risks

The uncertainties get amplified in a developing economy like India, which is caught between the global geo-political and economic uncertainties, and challenges at the domestic front. Unwinding of quantitative easing by developed economies is a risk, which impacts all developing nations. Trade sanctions imposed on certain economies are threatening the trading relationships with the other. From flight of capital, to currency depreciation, to trade-deficits, these global risks manifest themselves in many forms. Domestically too, India faces the challenges of clear political mandates, stress in the banking system, muted credit growth, and policy uncertainties. An added dimension is the business disruptions caused by rapidly emerging technologies like artificial intelligence, block-chain,

Devendra Kumar Vyas,
CEO, Srei Equipment Finance

predictive analytics, 3D printing, and Internet-of-Things.

In this VUCA environment, the traditional approach to strategy requiring precise prediction is no longer tenable. Businesses which do so, increasingly run the risk of being disrupted. Strategic flexibility is indeed needed, but can a business play catch-up with these disrupting forces forever?

The solution

The only solution, I believe, is businesses to adopt sustainability as the core strategy. Evidence suggests that businesses, which incorporate sustainable practices relating to environmental, social, and governance concerns, are more resilient to external shocks than businesses that are not. One such strategy is following a product life-cycle-based approach, an end-to-end approach, which looks to optimise the environmental footprint of a product from cradle to grave.

Holistic business model

At Srei Equipment Finance, we operate a holistic business model providing end-to-end solutions across the equipment life-cycle beginning from the equipment's acquisition to its refinancing or resale. This approach covers the value chain in the equipment life-cycle by providing financing to and sustaining continuous engagement with customers across equipment procurement, deployment, maintenance and exit stages. We are able to leverage our capabilities and relationships to be present across the entire equipment value chain, support customer requirements across the equipment life-cycle and reinforce customer loyalty. Another key strategy that we are betting on is promoting leasing as a tool for asset creation. A leasing economy incentivises the manufacturer to focus on the equipment life-cycle, rather than just selling the product. This has far reaching impact on the product durability and sustainability.

In conclusion, sustainable strategies are a powerful tool for managing business volatilities. Organisations which recognise that integrating principles of sustainable practices are required for long term value creation will fare much better than organisations otherwise. | CW |

About the author:
Devendra Kumar Vyas, CEO, Srei Equipment Finance, has been leading the company with integrity and determination, wearing many hats in the process. He is a strong advocate of professional entrepreneurship.

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