ASIAN MANAGEMENT INSIGHTS

SMU
SINGAPORE MANAGEMENT UNIVERSITY

Rebuilding Global Supply Chains
An interview with Dr Victor Fung, Group Chairman of the Fung Group

The Dorian Gray phenomenon
In Financial Markets

Pinduoduo
Farmers on an E-Commerce Platform

COVID-19 IMPACT ON THE GLOBAL ECONOMY

VOL.7 S$16.00
ISSN 2315-4284

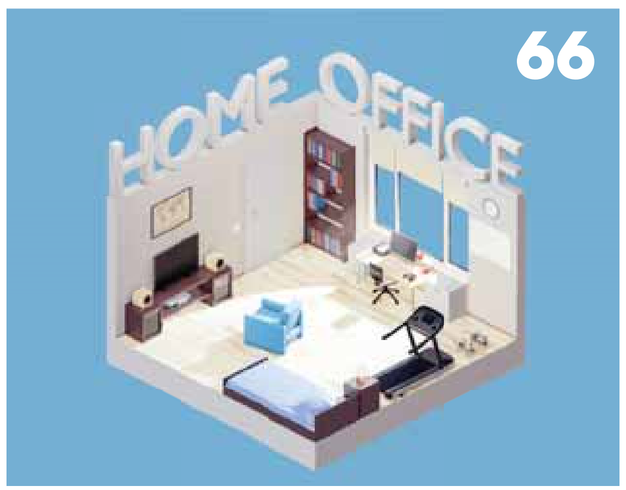
CONTENTS

We are now seeing a major transformation of a distributed supply chain morphing into manufacturing everywhere and selling everywhere.

- Dr Victor Fung, Group Chairman of the Fung Group

Businesses are scrambling to navigate the 'new normal' of maintaining continuity through the pandemic and beyond.

- Havovi Joshi, Editor-in-Chief, Asian Management Insights



ASIAN MANAGEMENT INSIGHTS

Asian Management Insights (ISSN 2315-4284) is published biannually at a recommended retail price of S$16 by the Centre for Management Practice, Singapore Management University, 81 Victoria Street, Singapore 188065.

We welcome comments and letters to the editor, which should be sent with the writer's name, address, and phone number via email to ami@smu.edu.sg. Letters may be edited for length and clarity, and may be published in any medium and at the Editor's discretion. All letters become the property of Asian Management Insights and will not be returned.

Submissions: We encourage submissions. Proposals for articles should be addressed to ami@smu.edu.sg. Unsolicited manuscripts will be returned only if accompanied by a self-addressed stamped envelope.

Subscriptions: Please email enquiry to ami@smu.edu.sg

For further information, to advertise or request reprints, please contact: ami@smu.edu.sg

FROM THE EDITOR

The impact of Covid-19 on Asian businesses and the economy

The Covid-19 pandemic will likely end when a vaccine can be made available to everyone, or when we have achieved some measure of herd immunity. Unfortunately, both are as yet nowhere in sight. In the meantime, businesses are scrambling to navigate the 'new normal' of maintaining continuity through the pandemic and beyond. In this issue, we report on how organisations in Asia are coping and changing the way they operate during this critical transition.

Economists Madhur Jha and Chidu Narayanan lead with how the pandemic is likely to have long-term implications for the global economy. It has already started to reshape the way business and leisure are organised and conducted, and they predict two potentially long-term changes that are areas of concern not only for policymakers, but also for the financial markets: deglobalisation and the backlash against global supply chains, and medium-term inflation.

Global supply chains have been witnessing significant changes even before the pandemic. Three factors—technological developments, geopolitical shifts, and now the Covid-19 pandemic—are going to result in a complete rearrangement of global supply chains, says Dr Victor Fung, Group Chairman of the Fung Group, in an interview with Tan Chin Tiong. He adds that supply chains have now permanently shifted to a new normal, and will become far more agile and resilient.

In 2013, Jeff Tung saw the potential of cross-border supply chain financing between China and Hong Kong. He started Sheng Ye Capital, which became China's first commercial factoring company to be listed on the Hong Kong Stock Exchange, serving over 4,000 small and medium enterprise customers. Tung shares his entrepreneurship journey in the world of supply chain financial services, and discusses some of the key lessons he has learnt in the process.

Suhaimi Zainul-Abidin, Chief Executive Officer of Quantedge Capital, takes us through the evolution of hedge funds from the periphery of the financial world to its current state as a global, institutionalised industry. During these uncertain times, he says that there are a great number of possible outcomes for investors and fund managers, but there is just no way the future can be predicted consistently.

Seasoned banker Ajay Makhija depicts vividly the current state of the global economy and the extent of financial market hedonism through the lens of Oscar Wilde's "The Picture of Dorian Gray". He says the core economy is almost on its knees, and the world needs Dorian to sacrifice itself (the glory of the market) for the sake of the economy.

We then look at intergenerational challenges within organisations, and how Tata Steel has successfully implemented two-way mentoring. The authors—Peeyush Gupta, Michelle D. Steward, James A. Narus, and D.V.R. Seshadri—note that vibrant cross-generational interactions can result in strong relationships being formed, which not only help the company attract and retain talent, but also effectively create new offerings.

Success and better performance, competitiveness, and growth are evidenced when family firms devote resources to innovation, says Rameshwari Ramachandra. She avers that trust and the 'Hive Effect' will boost creativity and innovation in family firms.

Staying with the theme of innovation, Kenneth T. Goh, Richard R. Smith, Cher Heng Tan, and David Dhevarajulu tell us how Singapore's Tan Tock Seng Hospital (TTSH) had to strike a balance between reducing business-as-usual services and increasing outbreak-coping capacity when Covid-19 broke out. TTSH successfully did this by focusing on innovating with an agile mindset, an orientation cultivated over the years through a multitude of initiatives led by its Centre for Healthcare Innovation.

To keep tourism alive in Asia, several countries have started looking inward and are getting residents to spend their vacation dollars in their own backyard. Lim Wee Kiat discusses the promises and perils of domestic tourism, and offers suggestions on how to bring the visitors back.

Deepika Deshpande takes us through the history of debt and shows us how we can move away from using debt to tackle economic downturns. The financial services industry professional believes that the real issue is that the repeated use of a tool that provides short-term relief erodes the motivation to identify and address systemic problems.

Our Case in Point is on Pinduoduo, and authors Hao Liang and Cheah Sin Mei describe the journey of the fastest growing e-commerce start-up in the history of China. They chart its meteoric rise as it transcends its e-commerce roots to empower farmers to engage in e-commerce, and describe its agile response to Covid-19 in bridging the demand-supply gap by setting up a dedicated portal to help farmers showcase their agricultural produce via livestreaming.

The prolonged lockdown has led to a real shift in how we work to a new work-from-home (WFH) culture for the global workforce. Snehal Shah and Vineeta Dwivedi show us how working from home can become a win-win situation for both employers and employees, and discuss the long-term policies that organisations can implement to make WFH an enduring work practice that benefits both parties.

Even though it is not yet clear how things will eventually pan out, businesses cannot wait for the pandemic to run its course. Many will try to leverage the unfolding crisis and transform themselves during this critical period. Those that succeed will emerge stronger, while those that do not will be consigned to the dustbin of history.

DR HAVOVI JOSHI
Editor-in-Chief
Asian Management Insights
havovijoshi@smu.edu.sg

REBUILDING GLOBAL SUPPLY CHAINS FROM THE GROUND UP

Dr Victor Fung, Group Chairman of the Fung Group, talks about how technological changes, geopolitical shifts, and Covid-19 are threatening to turn global supply chains upside down, in this interview with Tan Chin Tiong.

What are some of the key changes taking place in global supply chains?

I believe that global supply chains have been witnessing some significant changes even before the Covid-19 pandemic. About 70-80 percent of global trade is conducted within global supply chains–they are the economic engines of the world today. Now, if you go back even just a decade, you would see that already several factors had begun impacting global supply chains. Let me start with that and take you through the changes leading up to today, as well as discuss the impact of the virus.

The first factor, and this is especially true for the last five years, is the impact of technology. It has changed the way the consumer reacts. Earlier, global supply chains dealt with what we called the 'push' factor–we started with a concept, an idea or a design, then did the market testing and production, and sold it to the consumers. With the advent of technology, especially the widespread use of the cellphone, what you are seeing now is the pushback–it is the 'pull' instead of the 'push' factor. That has turned global supply chains upside down. I don't think the entire supply chain is digitised yet; the parts that are closest to the consumer are probably more digitised than those that are closer to the creation process, like design and manufacturing. So there is still an ongoing search for an end-to-end digitised global supply chain that spans from 'idea to consumer'.

The Covid-19 pandemic has pushed certain sectors like healthcare into prominence, and these sectors will constitute a major component of global trade going forward.

The next thing that really hit us are political changes and the resultant geopolitical shifts. This is especially evident in the last few years as we are in the midst of a U.S.-China trade conflict of major proportions, and this geopolitical change has put real pressure on supply chains. What you're now facing is a world in which products with a 'Made in China' label would be subjected to punitive duties when they are exported to the U.S. and some other major countries. However, if you do the finishing of the product in, say, Vietnam, you may actually use Chinese components that could still add considerable value to the supply chain but it would be 'Made in Vietnam'. Where these products are finished determines their country of origin, so they would be subjected to a different duty structure. Because of this geopolitical change, there has been a complete rearrangement of supply chains as companies look for appropriate countries of origin to finish their products before shipping to the final destination.

So the global supply chains have already been hit by geopolitical and technological changes, and now comes the Covid-19 pandemic–and really, this means you have to rethink the entire supply chain from the ground up. Obviously, it has pushed certain sectors like healthcare into prominence, and these sectors will constitute a major component of global trade going forward. In addition, if the consumer embraces social distancing, and thus wants to have less physical contact, that behaviour too will put a lot of pressure on the supply chain. You really have to think through how you would approach what is referred to as a 'contactless retailing environment', and how this would put a lot more emphasis on the e-commerce retail component as compared to the past. It has been forecast that the component of retail that is pure e-commerce could grow to as high as 30 percent over time. But even more importantly, the merging of online and offline into what we call the omnichannel experience is going to develop even faster and change how consumers make purchases.

I believe these three factors–technological developments, geopolitical shifts, and the Covid-19 pandemic–are going to result in a complete rearrangement of global supply chains.

What is your vision of what these rearranged global supply chains might look like in the future?

I think there's going to be a lot more talk about reshoring and economic nationalism, which is the idea that countries need to be very concerned about certain types of production that they would like to control domestically. The extreme scenario that will result is that if all nations were to do this, then each one becomes an island. This would be a disastrous scenario, but I don't think it will happen. It is very understandable that there are certain essential goods that a sovereign country must control within its own borders. In fact, this has always been so for some areas like defence. Now with the pandemic, these countries would also need to think about ensuring that supplies of healthcare items, like personal protection equipment, are adequate. I can also extend this idea of security to food or energy supply, but my contention here is that there would be a limit to this. It does not mean that once the government mandates that these few essential goods are to be controlled nationally, then all these products must be produced domestically. So I think there are also other factors to consider–cost, availability, product variety, etc. So while I concede that more products will be mandated as essential, or, shall we say, nationalised, not everything will be so. In fact, I would argue that for some sectors, globalisation would increase further. For instance, even before the geopolitical issues and the Covid-19 pandemic sprang up, some were already talking about a 'China plus one' policy–they were trying to hedge their bets by diversifying their sources of supply.

And that leads me to my final point. Fundamentally, global supply chains will move towards what I call 'agility and resilience'. You don't know when the next surprise is going to come. Even after this pandemic ends, we don't know when a new virus will emerge and hit us, so the entire supply chain needs to be more resilient and robust. For about a decade, the world has focused only on greater efficiency, squeezing every last cent out of the supply chain, and perhaps forgetting the need for resilience in the process. It is almost like running a stock portfolio. If I pick two stocks and they happen to do well, I don't need a portfolio manager to help me with a diversified portfolio. But when there is an external shock, I have a problem. What the world has now learnt is that you need a diversified portfolio, for which you need to pay a small premium, and there is a trade-off between efficiency and resilience when building supply chains. That, to me, is the major change that is going to take place.

It is believed that Asian consumers will dominate the global consumer market in the next five to 10 years. How should global supply chains prepare for this development?

Let me first try to put this question in context. If you look at global consumption historically, in 1984, about 83 percent of the world's total consumption was from the Organisation for Economic Cooperation and Development (OECD) countries, mostly in Europe and the United States, while the rest of the world consumed 17 percent. With the development of the rest of the world outside the OECD, primarily in Asia–China, ASEAN, India, and the developing economies–this consumption has increased to about 35 percent today. Most forecasters expect that by the middle of the century, and perhaps as early as 2040, the OECD countries will account for less than 50 percent of global consumption. Global consumption will shift primarily towards Asia. In fact, McKinsey has projected that by 2040, there would be three billion middle-class consumers in Asia, up from one billion today.

So, as a global marketer, you have to ask, "Where are my customers?" As the third-generation leader of global supply chain firm Li & Fung, I can tell you that our company has been sourcing from the East and selling to the West for over a hundred years because our customers were in the U.S. and Europe. I believe there will be a fundamental shift away from that direction over the next 10 to 20 years. So while the West will remain important for the foreseeable future, we now have to take into account the consumption patterns of the new consumers. What do they want to buy? Can I just channel the same products from my global production platform? More importantly, how do I gain access to these new consumers? How are they distributed across Asia? One of the major differences that I can see is that the answers will be different in China, India, and ASEAN. I don't think Asia will go through the same level of consolidation that we have seen in the West. For example, the U.S. market is really quite consolidated, with Walmart alone accounting for around four percent of the market. However, to reach the Asian consumer, you may need to deal with hundreds of thousands, or even millions of small- and medium-sized enterprises–so it is not a business-to-business (B2B) type of situation. It is a B-to-small-B-to-consumer situation, and you have to think about new forms of distribution to reach these consumers, perhaps through technology.

We need to start thinking about sourcing from almost everywhere and selling everywhere. This gives rise to a more complex world, and the whole supply chain will become more agile. It will be buffeted by many forces that were really quite stable in the past, such as a volatile geopolitical environment and new technologies like 5G and blockchain that will now become prominent. Also, we may be hit repeatedly by viruses because of the amount of gene mixing that's happening in the world today. Therefore we need to be aware that whenever events like this happen, everything gets topsy-turvy.

It is not easy to say where my consumers will be eventually, but I think we are now seeing a major transformation of a distributed supply chain morphing into manufacturing everywhere and selling everywhere. While it is complex, it can be put together more easily with the help of technology.

Given the expectation that reshoring will occur for many critical items, what would be the impact of this on global logistics hubs like Singapore and Rotterdam?

Reshoring will happen to control the supply of certain essential products. It will also happen sometimes because of protectionist and nationalistic tendencies that are unrelated to business trends. But a lot of reshoring is also driven by the consumer. Let me give you an example. American consumers–thanks to companies like Amazon–are getting conditioned to ordering online and getting their purchases delivered within 24 to 48 hours. Given this scenario, there is no way you can manufacture far away unless you are prepared to stockpile huge quantities. Therefore this drives the need to manufacture closer to the consumer, and makes the consumer one of the major drivers of reshoring. And Chinese consumers are no different. They too will order through, say, Taobao and JD and expect delivery within 48 hours. However, I don't think everything can be reshored. The parts that are non-essential will have to remain globalised. Indeed, I am arguing that if you want more resilience in those parts of the supply chain, you will need more diversification, and this will result in more globalisation, so centres like Singapore, Hong Kong, and Rotterdam will continue to remain relevant.

> It is not easy to say where my consumers will be eventually, but I think we are now seeing a major transformation of a distributed supply chain morphing into manufacturing everywhere and selling everywhere.

In terms of the intermediation and financing of trade, a deeper question to ask would be about the logistics set-up. On the one hand, you need speed, but on the other hand, given the impact of the virus, there are going to be some changes in the physical movement of goods going forward. So I think we have now permanently shifted to a new normal. In fact, I would almost call it a reconstruction of global supply chains from the ground up.

> On the one hand, you need speed, but on the other hand, given the impact of the virus, there are going to be some changes in the physical movement of goods going forward.

As an experienced leader who has been through several crises, what advice would you have for managers as well as the youth entering the workforce today?

My first piece of advice is related to reaction time. You really need to be well-prepared and have a framework that you can use to handle almost any unforeseen changes.

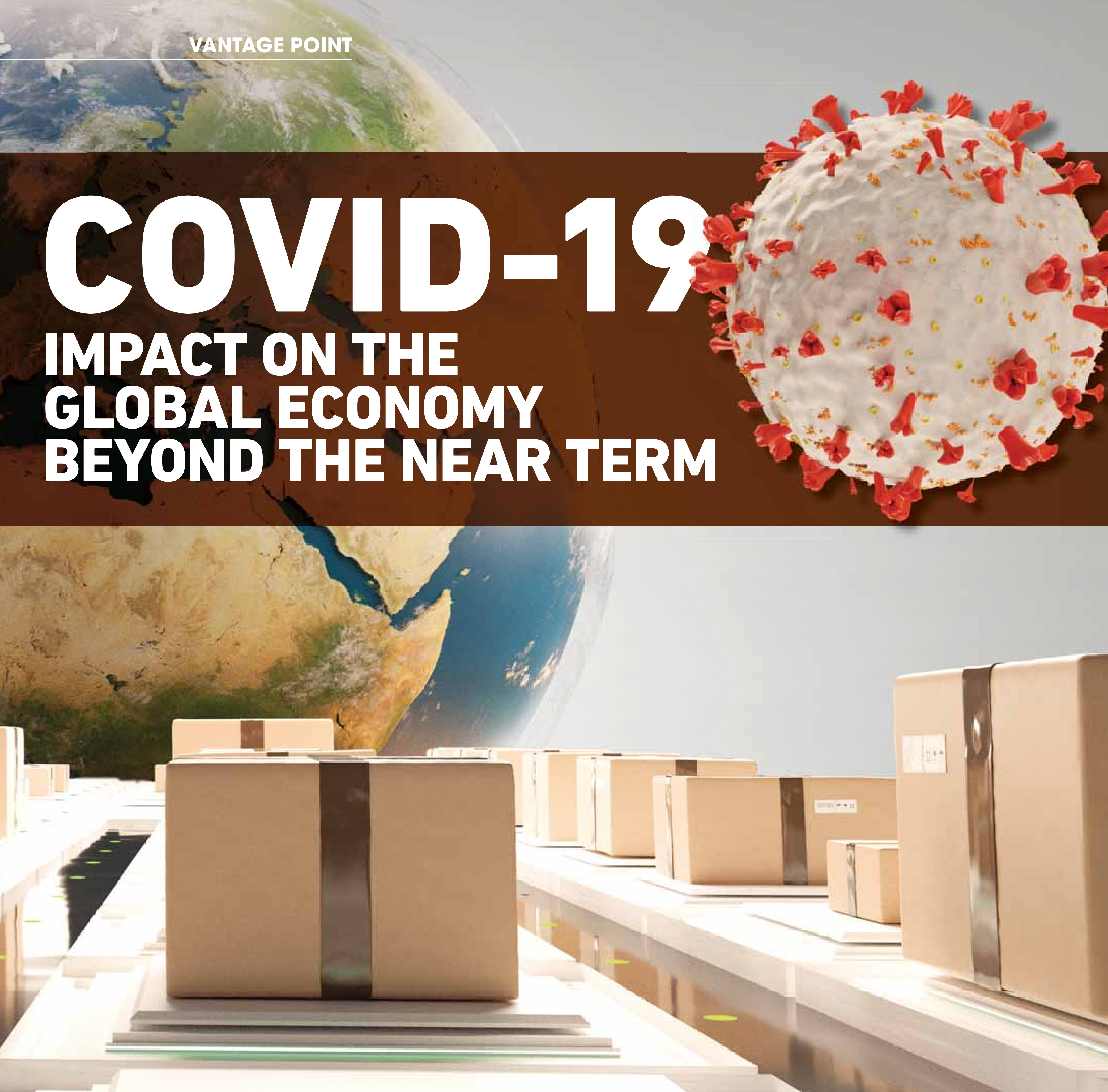
Second is to understand the impact that major forces can have on everything that you do. I talked about technology, geopolitics, and the virus, and you really need to consider their dramatic impact and how this will affect the whole enterprise. It is all about resilience and agility. I used these words for the supply chain, but it is also true for people in the organisation. People must have the resilience to stand up to the possibility of change day after day, and for that, they will need to be flexible.

I think the most essential skill to have now is that of crisis management, since it is almost futile trying to predict what is going to happen. You just have to make sure that the people and the organisation can react quickly to almost any emergency. Obviously, you have to keep in mind some long-term goals. However, in order to get there, you have to be very agile. It is almost counter-productive if you draw up a traditional five-year plan and hope that everything will work according to plan.

Dr Victor Fung
is Group Chairman of the Fung Group

Professor Tan Chin Tiong
is Professor of Marketing and Senior Advisor to SMU President at Singapore Management University

COVID-19
IMPACT ON THE GLOBAL ECONOMY BEYOND THE NEAR TERM



Watch out for deglobalisation and medium-term inflation.

By Madhur Jha and Chidu Narayanan

The human and economic toll of the Covid-19 pandemic cannot be overstated. In 2020, the global economy might deliver its worst peacetime performance since the Great Depression of 1929-31. Besides the short-term stresses and costs, the pandemic is likely to also have long-term implications for the global economy. It has already started to reshape the way business and leisure are organised and conducted. This is evident from the greater use of digital technology for aiding education and work-from-home arrangements. Leisure activities such as shopping and media entertainment are also increasingly being accessed via online platforms.

While these effects might reverse to some extent as the impact of the pandemic fades, there are two potentially long-term changes that are areas of concern not only for policymakers but also for the financial markets: deglobalisation and the backlash against global supply chains (GSCs), and medium-term inflation.

Global supply chains have powered Asia's growth

The rapid growth of supply chains across borders has transformed global production and trade over the past 30 years. GSCs, coordinated by transnational companies, account for nearly 80 percent of global trade. The expansion of GSCs has contributed to rapid economic development in many emerging countries, particularly China, and has taken the emerging markets (EM) share of world exports to more than 50 percent. But globalisation and the expansion of GSCs has slowed since the 2008-09 global financial crisis (GFC), as countries have turned more protectionist and inward-looking in a bid to address slower growth, rising unemployment, and widening income inequality.

The Covid-19 pandemic threatens to undermine the importance of GSCs even further. The vulnerability of 'just-in-time' production processes around the world was illustrated by the shutdown of China's Hubei province in early 2020 after a serious Covid-19 outbreak in Wuhan, the provincial capital. This vulnerability is now becoming a political issue as governments turn their attention to the

> There are two potentially long-term changes that are areas of concern not only for policymakers but also for the financial markets: deglobalisation and the backlash against global supply chains, and medium-term inflation.

shortcomings of their healthcare systems, with insufficient medical supplies within easy reach. This drive for 'health autarky' could spill over into other industries also deemed to be of national importance.

European Union (EU) countries, for example, have already been calling for greater 'manufacturing sovereignty' at both the national and EU level. At the same time, the U.S. administration has adopted an 'America First' policy based on the view that trade is a zero-sum game—implying that if other nations are benefiting, it must be at the expense of the United States. The political resistance to globalisation has also grown since the GFC. Rising inequality, particularly in advanced economies, may have been driven more by technological change than by increasingly complex supply chains, but globalisation continues to take much of the blame in political discourse.

This is already reflected in export curbs and a desire to make essential products locally, so as to reduce export dependence. For example, in response to the Covid-19 outbreak, over 50 countries have imposed export curbs on medical supplies since March this year. This highlights how the changing global environment has resulted in more restrictive trade policies.

FROM JUST-IN-TIME TO JUST-IN-CASE SUPPLY CHAINS

Whether rising protectionism or pure economics is to blame, concentration risk may now become the dominant focus. A supply chain that is dependent on a single source (even for one small part of a product) is vulnerable to paralysis when that source gets cut off. It takes 2,500 components to make a car, but just the lack of one component to not make a car. Company boards will thus need to take concentration risks more seriously going forward. The result may be a shift in inventories away from highly efficient but vulnerable (just-in-time) to more capital-intensive (just-in-case) processes. Most manufacturing firms typically keep only two weeks' worth of inventories. A just-in-case approach would lead to a shift away from the current model of lean inventory management to one that focuses on stocking up.

HOW WILL GLOBAL SUPPLY CHAINS EVOLVE?

The Covid-19 pandemic has highlighted the weaknesses in how GSCs are currently structured. Digital technology, including robotics, automation, and artificial intelligence, is also making it easier to bring back production onshore or shorten supply chains to lower the risk of abrupt stops in production.

The Covid-19 pandemic has highlighted the weaknesses in how GSCs are currently structured.

We expect a few changes to become more evident over time:

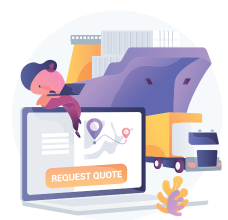
1. Greater transparency

Anecdotal evidence suggests that supply chains have become so complex in some cases that firms are unaware of their exposure to different countries or suppliers. We expect a greater focus on transparency and data-sharing on how GSCs are structured to identify and minimise bottlenecks. In addition to traditional considerations such as cost and quality, there will be an increasing emphasis on the 'three Rs'—resilience, responsiveness, and reconfigurability—to determine how GSCs should be structured.

2. Trend towards 'just-in-case' inventory management

Over the past few decades, the fall in transport and communication costs, as well as the use of technology, has allowed firms to maintain very lean inventories—a 'just-in-time' model of inventory management. This is likely to change as firms face huge uncertainties not only over pandemics but also tariff wars, which would suggest a shift towards the 'just-in-case' approach.

3. Emergence of shorter regional supply chains



Firms are likely to prefer moving their production to local sites. However, cost and quality considerations are likely to mean that the process will be staggered, with a move to more diversified sources (from dependence on a single source) or to centres that are geographically closer to reduce the possibility of disruptions. Since 2012, the share of foreign inputs that cross-border supply chains source from their own region has risen in North America, the EU, and Asia. This is likely to accelerate in the coming quarters. It is, in fact, already reflected in stronger intra-regional foreign direct investment (FDI) flows.

FOCUS ON REDUCING CONCENTRATION RISKS IN GLOBAL SUPPLY CHAINS

A focus for many governments since the start of the pandemic has been to determine whether specific supply chains (especially for critical products) are overly dependent on any single country, and to take measures to reduce this dependence. This might prompt some countries to seek a smaller role for China in their supply chains. Over the past couple of decades, China has cemented its role not only as a mega-trader but also as the key hub around which GSCs are centred. The country's share of global manufacturing of intermediate products has risen to 20 percent currently, from just 4 percent in 2002.

In the immediate future, countries are likely to focus on lowering their significant dependence on China for the key medical supplies needed to fight the pandemic (refer to Figure 1), while protecting their own supplies through export curbs. According to research by the Peterson Institute for International Economics (PIIE), China in 2018 accounted for 42 percent of the world's supply of face shields, protective garments, gloves, mouth-nose-protection equipment, goggles, and visors—all the essential personal protective equipment (PPE) needed to fight the pandemic (refer to Figure 2).[1]

It is likely that countries will increasingly focus on other products for which China is the main player in the GSC. According to the United Nations Conference on Trade and Development, China has a share of over 50 percent in the GSCs of several manufacturing products. These include precision instruments, automotive and communicative equipment, and machinery products.

GLOBAL DEPENDENCE ON CHINA FOR PPE EXPORTS (2018)

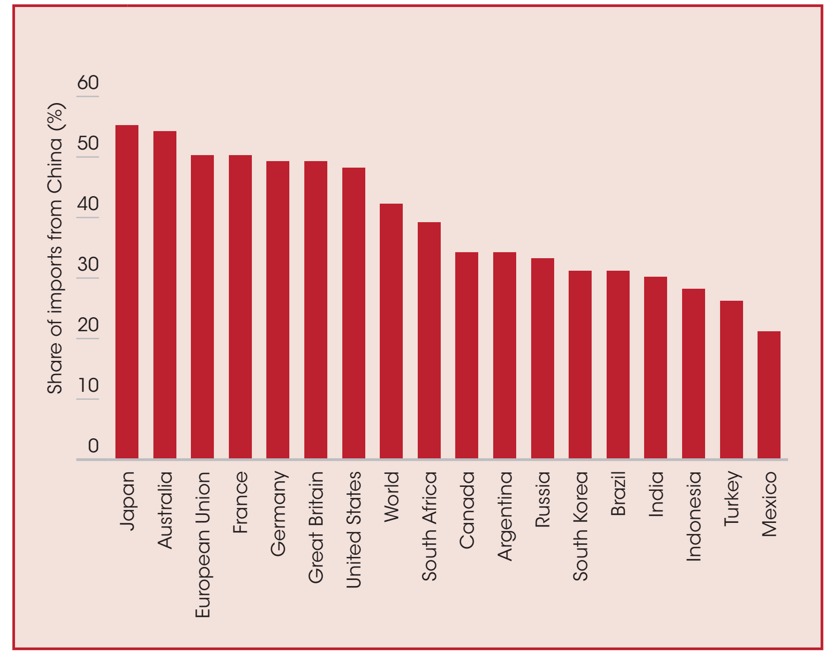


FIGURE 1 — Source: Peterson Institute for International Economics, Standard Chartered Research

CHINA'S DOMINATION OF PPE PRODUCT IMPORTS (2018)

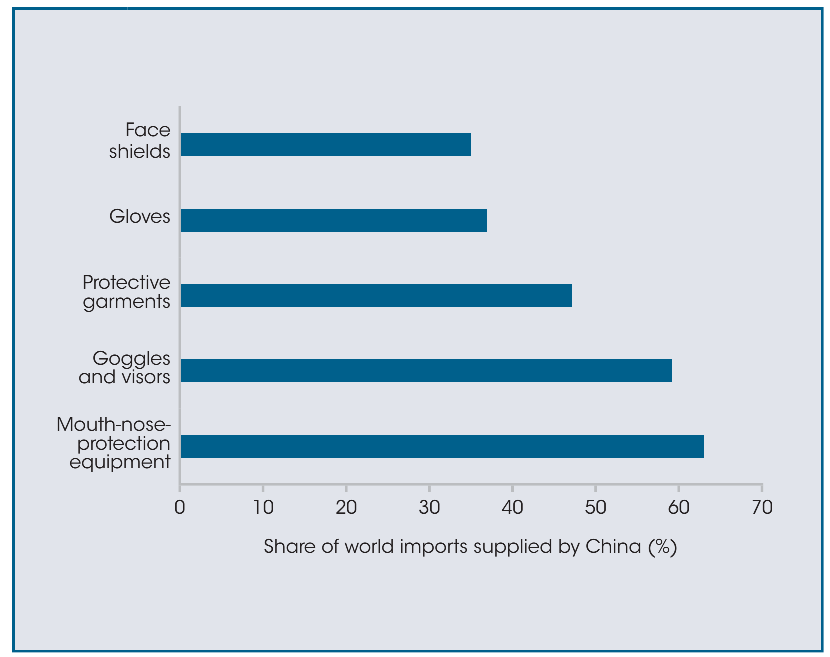


FIGURE 2 — Source: Peterson Institute for International Economics, Standard Chartered Research

Meanwhile, growing political rhetoric against China's central role in global trade seems to be gaining wider public support. In a March 2020 survey by the Pew Research Center, a significant majority of respondents in the U.S. viewed China more negatively after the start of the pandemic (refer to Figure 3).[2] This also translated into a higher proportion of respondents now viewing China's influence and power as a 'major threat' to the United States.

SOUTH-SOUTH TRADE LIKELY TO SUPPORT GLOBALISATION

Deglobalisation for many countries is likely to equate to reducing dependence on China. However, China's dominance of world trade is unlikely to be challenged in the near future. In fact, its growing importance as a source of FDI for other EMs (for example, via the Belt and Road Initiative) is also likely to help it maintain its position as a mega-trader.

In addition, while the shift towards regional supply chains is becoming clearer, factory relocation tends to be a multi-year project involving long planning times and heavy investment. The current macro backdrop is probably not conducive to making such commitments.

Our latest proprietary annual survey of manufacturing firms based in the Pearl River Delta region in China, conducted earlier this year, showed that 43 percent of respondents are actively considering moving their capacity away from China due to the U.S.-China trade tensions and/or Covid-19 crisis (refer to Figure 4).[3] These developments have raised worries that manufacturers operating in China face a high concentration risk. However, respondents are motivated by a desire to diversify their operations rather than to completely relocate their existing China production, which is seen as unrealistic. If we add to this another 24.6 percent of respondents who are not swayed by the trade war or Covid-19, but are still actively considering relocating overseas, then close to 68 percent of respondents were planning to relocate out of China. Among them, 19 percent have already moved and started operations; a sizeable 45 percent were in the 'still under consideration' phase. Firms that are looking to move out of China are planning to relocate production not back to developed markets (DMs), but to low-cost countries in the ASEAN region, led by Vietnam (refer to Figure 5).

INCREASINGLY NEGATIVE PERCEPTION OF CHINA BY U.S. RESPONDENTS

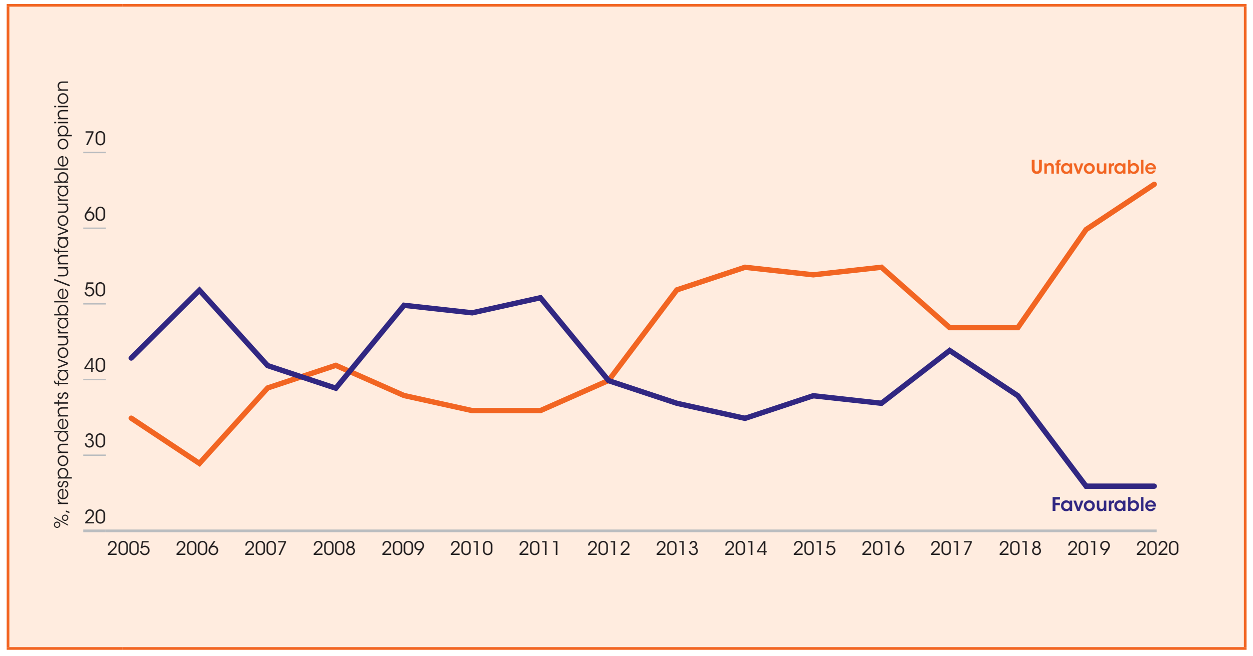


FIGURE 3 *Source: Pew Research Center, Standard Chartered Research*

INCLINATION TO MOVE CAPACITY OUT OF CHINA

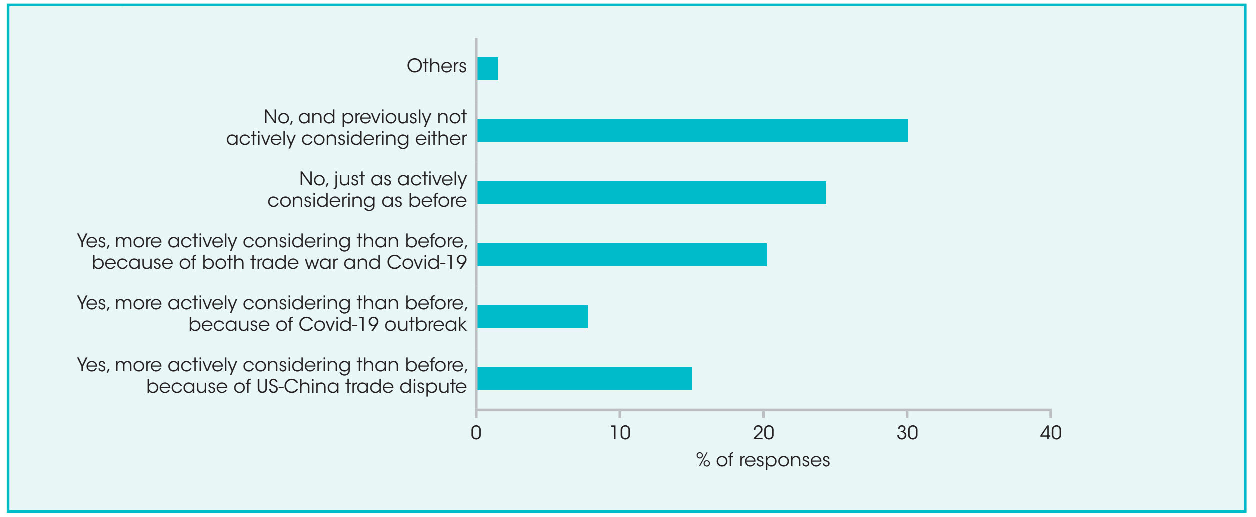


FIGURE 4 *Source: Standard Chartered Research*

DESTINATION IF SEEKING TO MOVE CAPACITY OUT OF CHINA

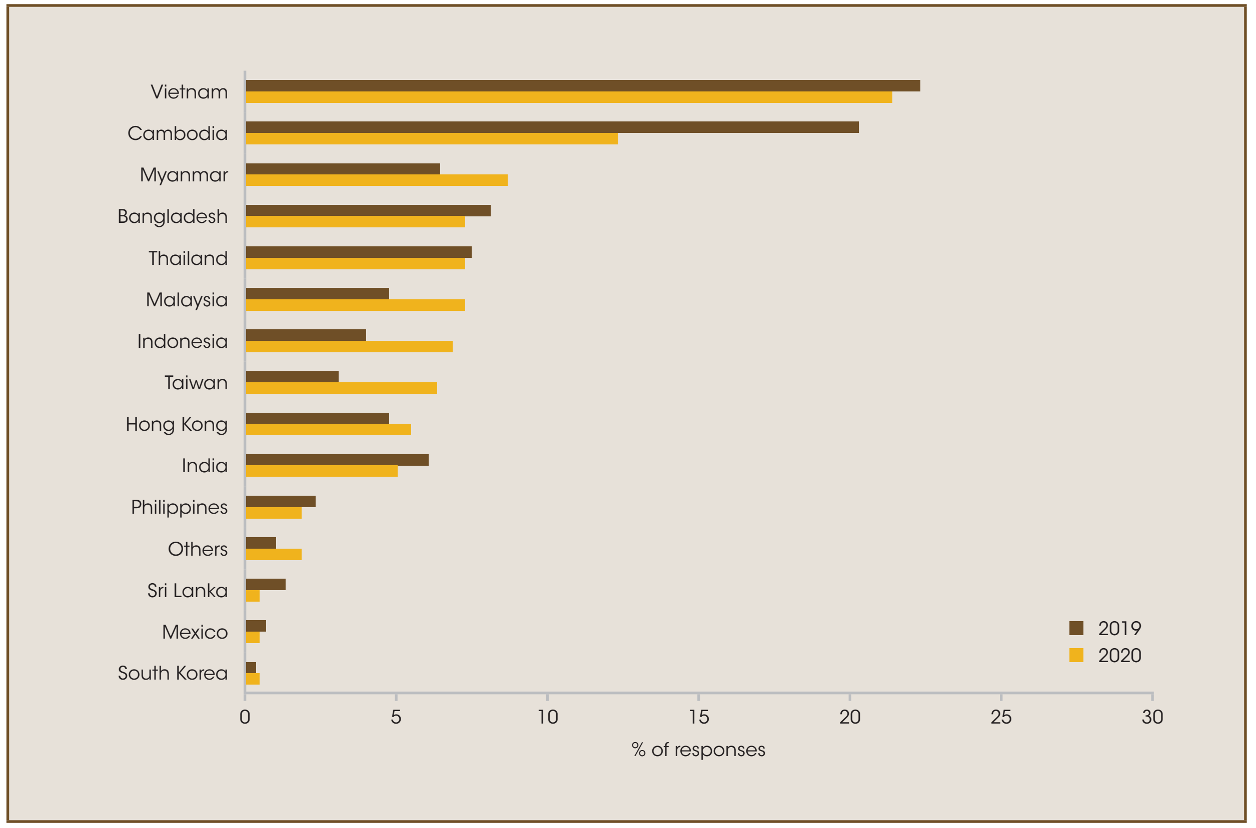


FIGURE 5 *Source: Standard Chartered Research*

Inflation: Back in the saddle again?

Another key change being increasingly discussed by market participants is the likelihood that the pandemic will end the current low-inflation era and inflationary pressures will start to rise again. This will have implications for financial markets and the conduct of economic agents, as well as policymakers.

COST-PUSH INFLATIONARY PRESSURES EXPECTED TO RISE

Deglobalisation and disruptions to GSCs, which have the potential to lower cost effectiveness and push prices higher, are seen as a potential factor supporting higher inflation in the medium term. More importantly, major central banks have responded aggressively to the economic impact of the Covid-19 pandemic, cutting policy rates to the zero lower bound and expanding balance sheets at an unprecedented pace. Governments have also been quick to respond with significant stimulus packages, which are much larger than those seen during the GFC (refer to Figure 6). The sheer scale of the response has reignited the debate on whether inflation is likely to rear its head again, after nearly three decades of easing inflationary pressures. A growing chorus of academics and market analysts believe that the combination of these factors is likely to mean an end of the era of 'lowflation' in the global economy.

FISCAL POLICY IS THE GAME-CHANGER

We think the most compelling argument in favour of higher inflation is the more aggressive use of fiscal policy (in conjunction with monetary policy) to support growth. This is clearly a risk to our view of 'lowflation' over the coming years.

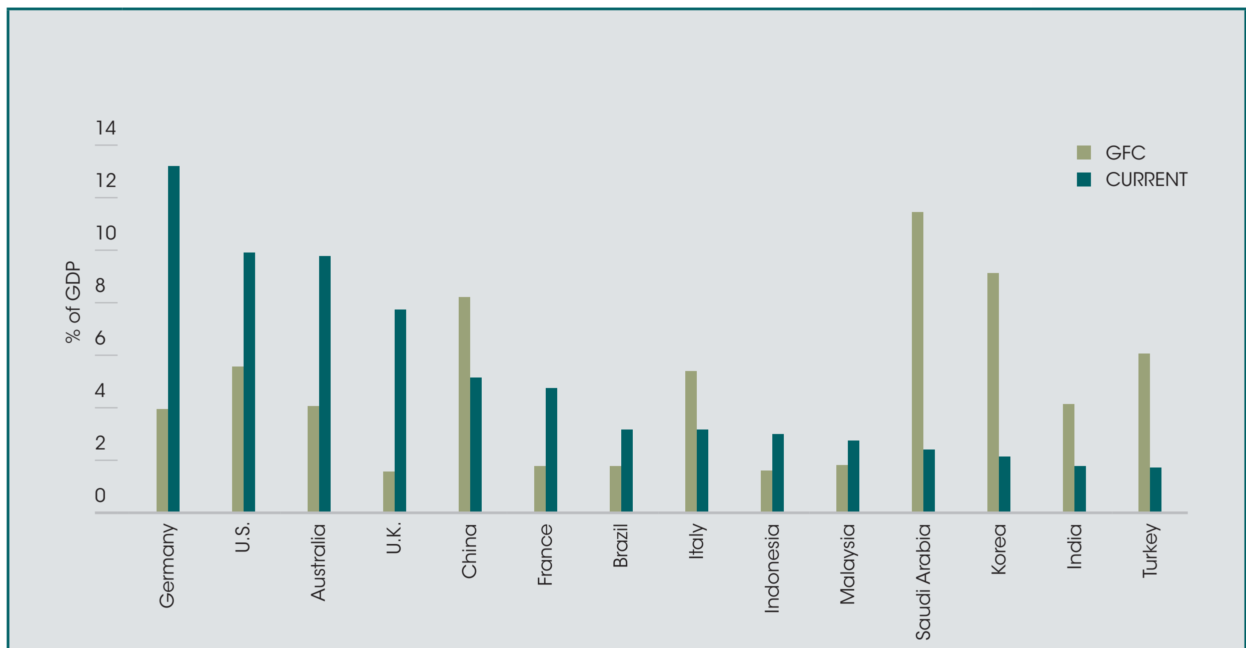
Central banks have opened the floodgates of liquidity into the system by significantly expanding their balance sheets. This concerted central bank action over the past 10 years has been dwarfed by central bank commitments to balance-sheet expansion since the Covid-19 pandemic hit the global economy. However, we are cautious about assuming that balance-sheet expansion will lead to higher inflation. Despite large quantitative easing being undertaken by central banks over the past decade, inflation in the major G3 economies—which include the U.S., the Eurozone, and Japan—has remained well below central bank targets or goals (refer to Figure 7).

A key reason for this limited effectiveness was that commercial banks chose to store extra liquidity back with the central bank in the form of excess reserves, rather than lending it to the real economy (refer to Figure 8), resulting in a drop in the 'velocity' of money. The data so far suggests that this situation persists today as demand for investment loans remains weak, and excess reserves with central banks continue to rise. At the same time, just as uncertainty over job prospects and the health of the economy has risen, so have the levels of precautionary savings.

Fiscal stimulus could be a real game-changer over the medium term and the biggest risk to our view of continued low inflation. However, the stimulus

The sheer scale of the response has reignited the debate on whether inflation is likely to rear its head again, after nearly three decades of easing inflationary pressures.

SCALE OF FISCAL STIMULUS PACKAGES AS COMPARED TO GFC PERIOD



Note: Excludes loan guarantees and other financial support measures; as of 9 July, 2020

FIGURE 6 *Source: International Labour Organisation, Standard Chartered Research*

G3 INFLATION BELOW 2% DESPITE STIMULUS

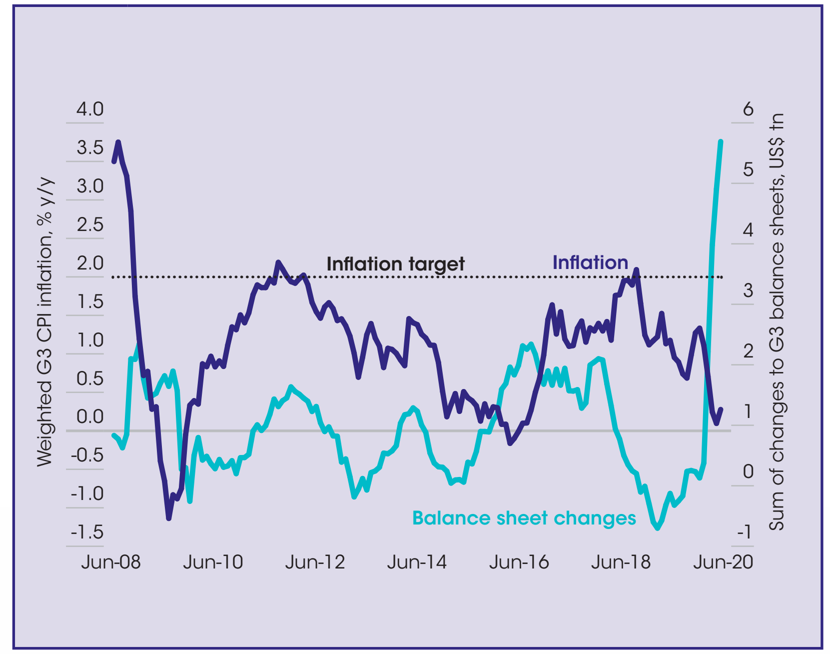


FIGURE 7 *Source: Bloomberg, Standard Chartered Research*

CENTRAL BANK LIQUIDITY EXPANSION RETURNING VIA EXCESS RESERVES

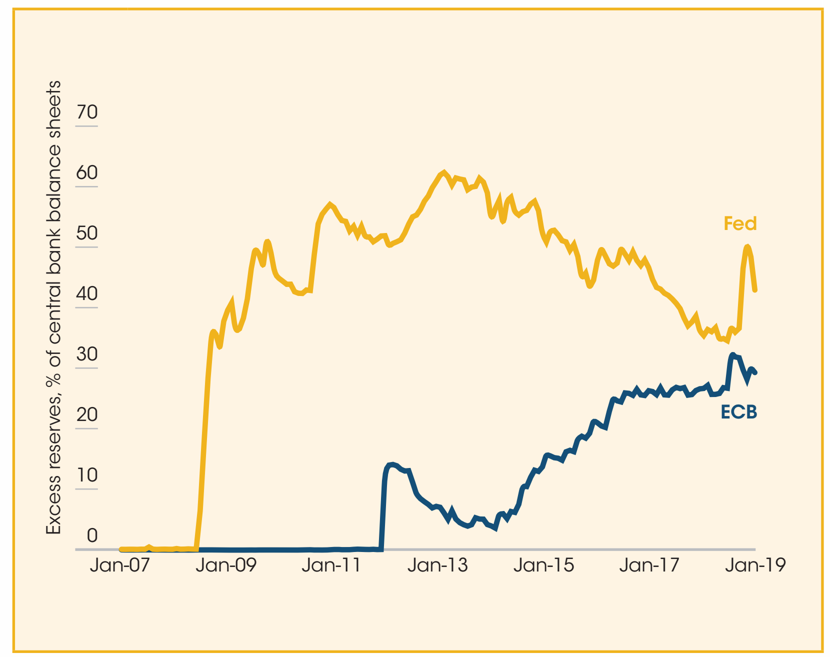


FIGURE 8 *Source: U.S. Federal Reserve Economic Data, Bloomberg, Standard Chartered Research*

packages implemented so far are meant to be temporary and are aimed largely at replacing lost demand due to the pandemic. Governments are still worried about high leverage; we expect nascent signs of economic recovery to be accompanied by renewed talk of austerity and the need to reduce high indebtedness across major economies.

INFLATION IS A GREATER RISK IN EMERGING MARKETS

Inflation in EMs has remained mostly well-contained since the mid-1990s. Average inflation (excluding outliers) has declined from high double digits in the 1980s to single digits, driven by prudent monetary policy and fiscal consolidation. While inflation is likely to remain well-contained in the medium term, risks are skewed to the upside. Structural factors supporting lowflation in DMs, such as ageing populations, are less in play in the EM space. The use of unconventional monetary policy, dependence on commodities, and the rise of the middle class could all push inflation higher. On the other hand, rising deglobalisation could lead to job losses, thereby weighing on inflation.

UNCONVENTIONAL POLICY IN EMERGING MARKETS COULD PUSH INFLATION HIGHER

Central banks in several EMs have successfully adopted unconventional monetary policies during the Covid-19 pandemic without spooking financial markets. However, if EM asset purchase programmes turn more aggressive to match those of their DM counterparts, this could fuel concerns about the risk of debt monetisation. Fiscal spending in several EMs has been constrained by the lack of fiscal space; debt monetisation could lead to a significant increase in fiscal spending, fuelling inflationary pressures. But less mature EM institutional frameworks increase the perceived risk (among investors) of debt monetisation, fuelling worries of higher inflation through excessive printing of money and subsequent spending.

Looking ahead

We expect to see inflationary pressures over the next year or two as the recovery takes hold. This is also likely to fuel expectations of sustained overshooting of targets even in the medium term. However, we take a cautiously contrarian view and expect the global economy to remain in lowflation over the medium term. Structural forces that have supported weak inflationary trends—such as high leverage, ageing populations, and rising income inequality—will continue to exert downward pressure on inflation, in our view. In addition, while deglobalisation and supply chain disruptions in a post-Covid-19 world are likely to be inflationary in the short run, we also expect them to spur the move towards greater automation and use of robotics in supply chains over the medium term. The falling cost of such technology adoption is likely to make such moves easier, while keeping cost-push inflationary pressures under control.

Despite the substantial policy stimuli recently, it would take a dramatic change in monetary-fiscal policy regimes for economic agents to revise their medium-term inflation expectations. Authorities would need to signal that they plan to move away from an inflation-targeting regime (not just tweak it to reflect average inflation targets, or similar moves) and/or signal comfort with much higher deficits and debt levels. So far, there seems to be little appetite for this. In fact, in the U.S., there is already disagreement over the size and form of further fiscal stimulus, despite the fact that a solid growth recovery has not yet occurred.

Inflation is likely to be a bigger risk in EMs; the use of unconventional policy could push inflation higher. We also expect US dollar weakness to be reflected in stronger EM currencies, but risk aversion driven by geopolitical events could easily reverse this. Higher imported inflation, through weaker currencies or more expensive imports, could push up inflation expectations in EMs. Higher commodity prices could also push headline inflation higher in the medium term. The recent drop in crude prices will likely cause supply losses as investment is postponed and rigs are closed.

With food and fuel accounting for 30-60 percent of consumer price index baskets in EMs, EM central banks might be less willing to accommodate a commodity-driven spike in headline inflation. On this front, it will be important to closely track China's efforts to rebalance its economy away from an export- and investment-led (commodity-intensive) model to a consumer-led economy. A renewed focus on rebalancing would help to lower commodity demand to match the expected fall in supply, given China's status as the world's marginal commodity buyer.

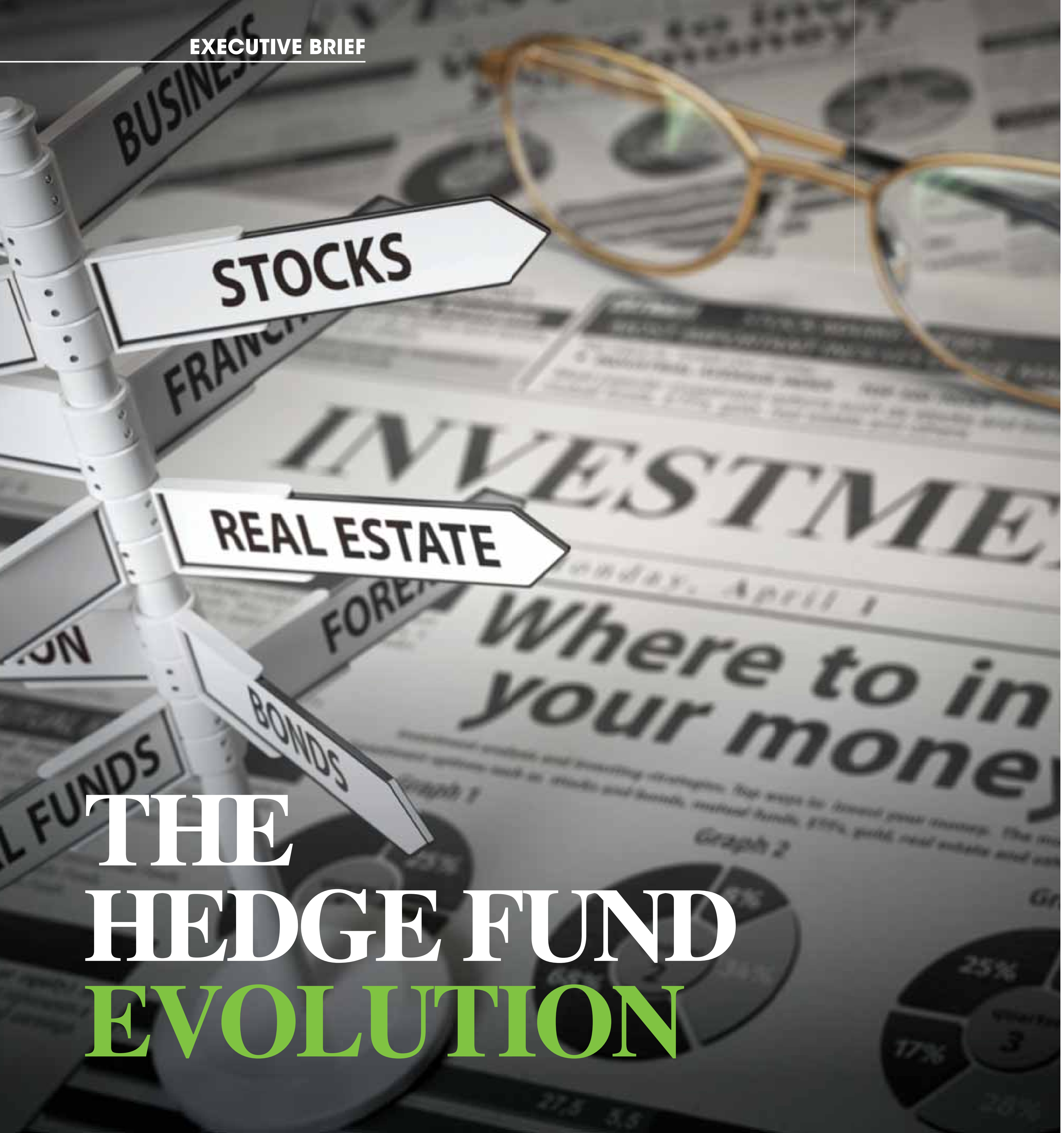
Inflation is likely to be a bigger risk in EMs; the use of unconventional policy could push inflation higher.

Madhur Jha
is Senior Global Economist at Standard Chartered Bank, India

Chidu Narayanan
is Economist, Asia at Standard Chartered Bank, Singapore

References

[1] Chad P. Bown, "How the G20 Can Strengthen Access to Vital Medical Supplies in the Fight Against Covid-19", PIIE, April 15, 2020.
[2] Pew Research Center, "U.S. Views of China Increasingly Negative Amid Coronavirus Outbreak", 2020.
[3] Standard Chartered Bank, "Shop Talk–GBA, Covid-19 and Shifting Supply Chains", 2020.



THE HEDGE FUND EVOLUTION

From periphery to mainstream.

By Suhaimi Zainul-Abidin

In 1966, an article published in *Fortune* drew attention to Alfred W. Jones' hedged fund, describing it as "the best professional money manager" of the era, and reporting that it had beaten the top performing Dreyfus Fund by 87 percent over a 10-year period.[1] The hedge fund industry has grown by leaps and bounds since then, and it is estimated that there are over 20,000 hedge funds worldwide today.[2] It has drawn the interest of the investment world, prompting talented traders and money managers to launch new hedge funds, and attracting wealthy investors to these nouveau investment firms.

While Jones' hedge fund, launched in 1949, was truly a *hedged* fund, this is not necessarily true of many contemporary hedge funds today. It is often said that the term 'hedge fund' is clearer for what it is not, rather than what it is. Hedge funds are not mutual funds, which are highly regulated investment vehicles made available to the public, and typically restricted from the use of leverage and derivatives. Instead, hedge funds span a broad spectrum of asset classes and investment strategies, and have a wide range of tools at their disposal including trading of derivatives, taking of short positions, and investment in illiquid markets. This has resulted in a hedge fund world comprising a variety of risk/return profiles, catering to different mandates and investment goals.

The hedge fund industry initially grew under the radar and without much regulation until LTCM blew up in 1998. LTCM was a hedge fund with US$126 billion in assets, and it boasted spectacular annual returns, including a return of 40 percent in 1995 and 1996. Because of its size, it was deemed too big to fail and the U.S. Federal Reserve had to step in to bail it out. This led to regulatory authorities seeking to make more sense of the hedge fund industry. Over time, as hedge funds negotiated further financial crises, more questions were asked about their role and impact on the financial system.

It is often said that the term 'hedge fund' is clearer for what it is not, rather than what it is.

Despite these challenges and, at times, criticisms, the hedge fund industry continues to draw more talent and capital. As at end-2019, the industry's assets under management (AUM) globally had doubled from its 2011 levels to reach roughly US$3.1 trillion over the eight-year period.[3]

The global financial crisis and effects of the Madoff scandal

The 2008 global financial crisis (GFC) was a trying time for hedge funds in general. Hedge funds were labelled the true villains of the GFC for adding too much risk to the banking system or, at the very least, exacerbating the crisis. Regardless of the role that hedge funds may have played in the crisis, they were nonetheless severely impacted by it. Many hedge funds suffered their biggest losses ever during that period, even though the average industry losses of 15 to 20 percent paled in comparison to the 40 to 50-percent contractions registered in the equity markets during the same period.

Following the GFC, hedge funds were subjected to a slew of new regulations, aimed at improving investor protection, ensuring market integrity and reducing systemic risks. The Dodd-Frank Act in the U.S. and the European Union's Alternative Investment Fund Managers Directive, for instance, imposed very prescriptive regulations on hedge funds.

2008 was also the year that the Madoff investment scandal made the news. The elaborate multi-billion-dollar Ponzi scheme shook the investment world. In his guilty plea, Bernard L. Madoff admitted that he had not actually done any trading since the early 1990s, and all of his returns since then had been fabricated. He was sentenced to 150 years in prison and was ordered to make restitution of US$170 billion in total.[4] However, the price of Madoff's indiscretion was also paid by the fund management industry. Investors were spooked and demanded higher governance standards that zeroed in on the need for independent validation of positions and valuations. Despite this, the industry quickly regained its footing as investors began to recognise the diversifying value of hedge funds—some hedge funds delivered admirable positive returns in 2008 and many others recovered to new highs faster than the equity markets.

> Every strategy will have its day in the sun, but ultimately, it is how a strategy performs through the storm that matters.

Institutionalising the hedge fund industry

In its earlier years, the hedge fund industry attracted mainly high net worth individuals (HNWIs) and family offices as its investors. Then came investors with tax-exempt status like endowments and foundations, and later, insurance companies. The outperformance of hedge funds following the dotcom bust and the GFC led to increasing inflows from corporate and public pension funds, as well as sovereign wealth funds, which led to an increasingly institutionalised investor base. By 2009, the hedge fund industry was managing more assets for institutional investors than for its traditional clients, the HNWIs and family offices.

Although the industry's AUM had quickly recovered and expanded following the GFC, the barriers to entry were also raised, while the inclination to invest only with big brand names began to take hold. This led to a concentration of assets among the biggest firms. The 1,600 or so hedge funds in the 'Billion Dollar Club' today manage over 25 percent of the assets in the hedge fund universe.[5]

Investors now expect hedge funds to have robust operational set-ups, strong governance and risk management procedures, independent board directors, independent valuations of the fund's assets, and reputable independent service providers such as auditors and fund administrators. Not all these standards can be met by start-ups and small managers. So while the tighter regulations and heightened investor expectations have helped institutionalise and professionalise the industry, the number of hedge fund start-ups has fallen over the years.

The rise of systematic hedge fund strategies

Hedge funds were traditionally managed in a discretionary manner, with trades and positions taken based on an individual manager's stock-picking or market-reading skills. In recent times, however, systematic funds that use quantitative computer models to guide trading decisions have become more popular. This is not to say that any one way of investing is necessarily better than others. Each strategy has its own strengths and weaknesses, and different strategies may outperform others at different points in time depending on the prevailing market environment and market cycles.

Systematic investing, as the name implies, relies on a set of rules to make investment decisions systematically, requiring little or no human discretion or intervention. It attempts to remove human weaknesses (such as human emotions and cognitive limitations) from the trading equation and operation. A systematic investment strategy seeks to automate investment decision-making and trading processes, starting from data collection and analysis through to signal generation and trade execution. This allows the fund to trade globally and around the clock, as well as across multiple exchanges around the world, while continually monitoring a portfolio that can comprise thousands of positions, all done consistently according to certain pre-defined rules.

The systematic investment manager would typically create a model comprising algorithms that define the rules that will produce trading signals for the firm to act on. The more complex the rule set and the larger the investment universe, the more complex the model will be. The basis of the rule set can differ depending on the investment philosophy and the approach to portfolio construction. It can be based on macro, fundamental, or technical data, or a combination of them.

Systematic managers typically use statistical techniques to forecast short-term volatility of the markets within their investment universe and correlations among different assets or markets, in order to construct an optimal risk-adjusted portfolio. This approach also allows for a more disciplined approach to risk management, which can be built into the investment models rather than applied as an afterthought. The model can include rules that set hard limits on exposures and risks, including limits for volatility, as well as leverage at the instrument, asset class and portfolio levels. There are also systematic strategies designed to target a pre-defined level of portfolio risk. This gives investors a better idea of the overall risk of the investment strategy.

Singapore as a hub for hedge fund activity

The most successful hedge fund managers have traditionally been based in New York and London. Over time, as financial centres developed in other jurisdictions, successful funds were established in cities like Hong Kong, Sydney, Shanghai, and Singapore, with many of the bigger fund managers establishing offices in multiple jurisdictions.

Hedge funds tend to thrive in ecosystems that are conducive for fund management activity and Singapore is one such location. The country boasts an impressive collection of global financial institutions and intermediaries, a deep talent pool, strong rule of law and a favourable tax environment. The development of the local ecosystem has in turn stimulated the establishment of home-grown fund management companies such as Quantedge Capital and Dymon Asia, two of the largest home-grown hedge funds in Singapore. Local hedge funds Quantedge, Prulev, and Vanda were in the spotlight when they were named as some of the top performing funds globally in 2019, with all three funds adopting a systematic approach to investing and targeting a relatively high level of portfolio risk.[6]

The future of Asia bodes well for Asian hedge funds. While in the past, it may have been necessary for a hedge fund's success to market itself well in the U.S. and Europe (particularly Switzerland), where the largest pools of institutional and private capital were traditionally managed, the outlook is changing. There are increasingly impressive pools of capital in Asia and these investors are largely non-institutional investors looking for high-performing professional money managers. At the World Economic Forum in 2019, it was predicted that the gross domestic product of Asian economies would surpass that of the rest of the world (in purchasing power parity terms) by 2020.[7] Asians have become wealthier, more financially savvy, and more integrated with the rest of the world. According to an article published by *Forbes*, the rate of growth of ultra-HNWIs between 2012 and 2017 in countries like China, India, Bangladesh, and Vietnam had surpassed that of the United States.[8]

High risk, high returns

The occasional headline-grabbing drawdowns of hedge funds create the impression that hedge funds are inherently risky. While it is true that the ability to take leverage exposes hedge funds to higher risks relative to mutual funds and investments in other traditional assets, the reality is that the level of riskiness of any fund depends on its investment strategy.

At one end of the spectrum, there are hedge fund strategies that target low volatility and aim to ensure principal protection. On the other end of the spectrum, there are hedge fund strategies that make large concentrated bets on market moves. In between, there is a wide range of strategies with varying investment philosophies and approaches to risk management.

There can also be varying degrees of transparency for a hedge fund's investment portfolio. For example, quantitative funds are often described as operating within a 'black box', denoting a strategy whose inner workings are opaque to outsiders. 'Black box' strategies are necessary because they are typically rules-based strategies, and a degree of secrecy is required to protect the intellectual property of the fund manager. That being said, it is up to each manager to demystify the investment process and help investors understand the risk-return profile associated with the proposed strategy. A good investment manager should be able to explain how the strategy fundamentally works, and how the investment model will react under different market environments, while still protecting the intellectual property underlying the strategy.

On the other hand, a discretionary fund manager making trading decisions based on macroeconomic assessments can afford to be transparent about the fund's holdings. But since it is a discretionary strategy, there may be less consistency to the fund's trades and performance, and it may be more difficult to explain to investors how the strategy really works.

Choosing a hedge fund

All else being equal, investors would naturally want to choose the fund with the highest returns. This is the single most important criterion applied by investors for choosing hedge funds and it relates to not only the fund's average historical returns, but also the variability and duration (or track record) of its returns. In general, investors would much prefer investing in a fund that has proven itself over a long period of time, compared to a fund with a short track record of phenomenal returns. Every strategy will have its day in the sun, but ultimately, it is how a strategy performs through the storm that matters.

Apart from performance, the size of the fund and the robustness of its team are also important. A firm with more AUM will have a healthier capital base that allows it to invest in talent and systems.

Hedge funds require all parts of the business to be firing. Along with the front-office investment and trading teams, there are back-office operations teams, investor relations and capital-raising functions, and also legal and compliance teams. If not performed well, any of these functions can trip the firm up. Investors also prefer that the investment strategy is not resting on the shoulders of just one or two individuals–something the industry terms as 'key man risk'.

While more AUM is generally considered a good thing, a fund that has raised too much capital may struggle to replicate its historical returns. All investment strategies have a strategy capacity limit, and the more profitable strategies tend to reach those limits faster. Beyond a certain point, the strategy will suffer from diminishing returns. Renaissance Technologies' famed Medallion Fund, for instance, closed itself off from external investors in 1993 when it reached its strategy capacity. It returned external capital and made the fund exclusive to its employees, and therefore prioritised sustainability of the strategy's returns.[9]

There is no one-size-fits-all approach to choosing a hedge fund. Investors individually have different preferences regarding asset class limitations, risk tolerances, liquidity requirements, and so on. There are some managers who are willing to cater to investor demand and design strategies that meet different investor goals. Some of the big brand-name asset management firms like Man Group and Blackrock do a great job of creating something for every investor type and are constantly launching new products. Given that at least two-thirds of the capital in the hedge fund industry comes from institutional investors such as pension funds, university endowments, and sovereign wealth funds, it makes perfect sense for investment managers to try to meet their requirements.

Institutional investors generally prefer hedge fund strategies that have low volatility, deliver returns that are uncorrelated to equity markets (since these institutional investors tend to invest the bulk of their capital in equities), and which can be easily liquidated. This is one of the reasons liquid alternative strategies like the equity long/short is such a popular hedge fund strategy. It involves buying stocks that are expected to outperform and the short-selling of stocks expected to underperform, resulting in a strategy that should be market-neutral and relatively liquid.

However, there are also boutique hedge funds that focus on a single investment strategy, which is typically their core strength. In such cases, the focus tends towards maximising the performance of that single strategy, rather than trying to satisfy investor preferences.

Boutique hedge funds focus on a single investment strategy, which is typically their core strength.

Industry challenges and trends

The alternative investments industry, which includes the hedge fund industry, offers a wide variety of strategies with very different return profiles. Being alternative to traditional asset classes means that hedge funds will always be compared to traditional assets such as equities, bonds, and real estate. Investors often expect hedge funds to not only provide non-correlated returns, but also outperform traditional asset classes. This has been challenging in recent times, given the stellar performance in recent years of developed market equities that are easily accessible through Exchange Traded Funds (ETFs).

The world's largest ETF is the SPDR S&P 500, which tracks the S&P 500 index, an index that has delivered an average annual return of roughly 13.6 percent in the last 10 years. Investing in an ETF is generally considered a passive strategy as ETFs mainly seek to replicate the performance of a broader equity market, or a specific sector or trend. The main benefit of ETFs is its tradability (investors can buy and sell ETFs throughout the trading day), its diversity of holdings (since it seeks to reflect broader market performance), its low expense ratios, and its transparency.

While markets are doing well and so long as alternative strategies struggle to outperform the markets, it makes sense for investors to prefer passive investment strategies like ETFs, rather than pay the higher fees associated with actively managed strategies. This has certainly been the case in recent years as many actively managed funds, including hedge funds, have struggled to match the returns of the S&P 500.

The success and growth of passive investing have led to tremendous downward fee pressure on the hedge fund industry and other active investment strategies. The average management fee charged by hedge funds has dropped from 2 percent per annum in the past to 1.5 percent per annum, on average, today. There are even firms that have done away with management fees completely, offering to levy only a performance fee when the fund delivers gains, in order to attract more capital.

Investment managers are also increasingly experimenting with machine learning to improve performance. In theory, machine learning could potentially improve the model's ability to detect and adapt to changes in market conditions, thus boosting operational efficiency and returns. However, the 'noise' in the financial markets makes the application of machine learning challenging and it will take some time before such strategies are validated.

In the meantime, hedge funds are dealing with the more urgent investor demand to apply environmental, social, and corporate governance (ESG) principles to their strategies. Apart from merely demanding that their portfolios avoid the so-called 'sin' industries, like those dealing with liquor, there is an overarching call for hedge funds to use their capital to generate positive social and environmental outcomes, while still delivering financial returns. Some hedge fund managers have responded by integrating ESG principles into their strategies, but the majority of managers are still grappling with the concept and have been forced to climb a steep learning curve.

There is an overarching call for hedge funds to use their capital to generate positive social and environmental outcomes, while still delivering financial returns.

Investing in uncertain times

2020 has been a challenging year for most investors and fund managers. Not only was the market decline in March one of the steepest ever seen, investors were largely still licking their wounds and were unprepared for the market's swift rebound immediately thereafter.

With the effects of the pandemic on the global economy still unfolding, and the almost inevitable march towards a trade and technological war between the U.S. and China, no one seems to be predicting a good year ahead for the financial markets and the fund management industry. But there are a great number of possible outcomes and there is just no way the future can be predicted consistently. As if to illustrate this point, the S&P 500 fell by roughly 10 percent in September, thanks to a confluence of negative events.

Over the decades, since the advent of the first hedge fund and the birth of the hedge fund industry, hedge funds have traversed from the periphery towards the mainstream of the financial world. During this period and through many crises, the industry has evolved and matured into a global and institutionalised industry, recognised for the important role it plays within the global financial system.

Suhaimi Zainul-Abidin
is Chief Executive Officer at Quantedge Capital

References

1 Sharon Reier, "From Jones to LTCM: A Short (-Selling) History", International Herald Tribune, December 2, 2000.
2 EurekaHedge, "Global Hedge Fund Database", https://www.eurekahedge.com/, October 2020.
3 BarclayHedge, "Hedge Fund Industry", October 2020.
4 Aaron Smith, "Madoff's Day of Reckoning", CNN, June 29, 2009.
5 EurekaHedge, "Billion Dollar Hedge Fund Database", https://www.eurekahedge.com/, October 2020.
6 The Business Times, "World's Biggest Hedge Fund Returns Are Found in Singapore", December 16, 2019.
7 Wang Huiyao, "In 2020, Asian Economies Will Become Larger than the Rest of the World Combined–Here's How", World Economic Forum, July 25, 2019.
8 Niall McCarthy, "Where Super Rich Populations Are Growing Fastest [Infographic]", Forbes, September 27, 2018.
9 Katherine Burton, "Inside the Medallion Fund, a $74 Billion Money-Making Machine Like No Other", The Australian Financial Review, November 22, 2016.

Trust and the 'Hive Effect'

How to boost creativity and innovation in family firms.

By Rameshwari Ramachandra

When we think about innovative businesses, the likes of Apple and Google typically come to mind. However, the vast majority of businesses worldwide are family-run, and this is especially true in developing regions such as Southeast Asia, where formal business frameworks may be lacking. As the main players in the business environment in these countries, family firms are also responsible for many of the innovations here. When family firms are able to devote resources to innovation, they are more likely to enjoy better performance, competitiveness, and growth.

Important as innovation may be, family firms often fail to leverage the full range of resources at their disposal to be more innovative. I believe that paying attention to an important yet overlooked aspect of family businesses–the underutilisation of non-family employees in creative and strategic processes–and thinking of family firms as an intimate 'hive' can provide insights into how family firms can maximise performance and remain competitive.

About 80 percent of people working in family firms are non-family members, and these hired professionals and talents are a potential wellspring of creative ideas. However, family firms often practise nepotism and lack transparency, creating a barrier that prevents professionals from gaining access to critical information and resources that may enhance the quality of their contributions. At best, in-group cliques may sometimes include a select few non-family professionals, but all in all, these obstacles hinder capable professionals from contributing creative ideas to the strategic process, especially if they are excluded from inner circles. As innovation occurs through the successful implementation of novel and useful ideas, family firms are likely to be more innovative when non-family professionals can be engaged to generate creative and impactful ideas. It is therefore imperative that family firms know how to tap into this available but often underutilised resource.

Affective trust is key for family firms

Because individuals in organisations such as family firms are highly interdependent, interpersonal trust is important for workplace cooperation and collaboration to occur. Trust refers to one's willingness to be vulnerable to another person, despite uncertainties regarding their motives and behaviours. Psychological studies reveal two types of trust: cognitive trust in a person is based on confidence in his or her ability to get tasks done (e.g., their competence and reliability), while affective trust develops when parties form deep relational and emotional bonds with one another. Both types of trust are crucial for organisations to coordinate and perform well.

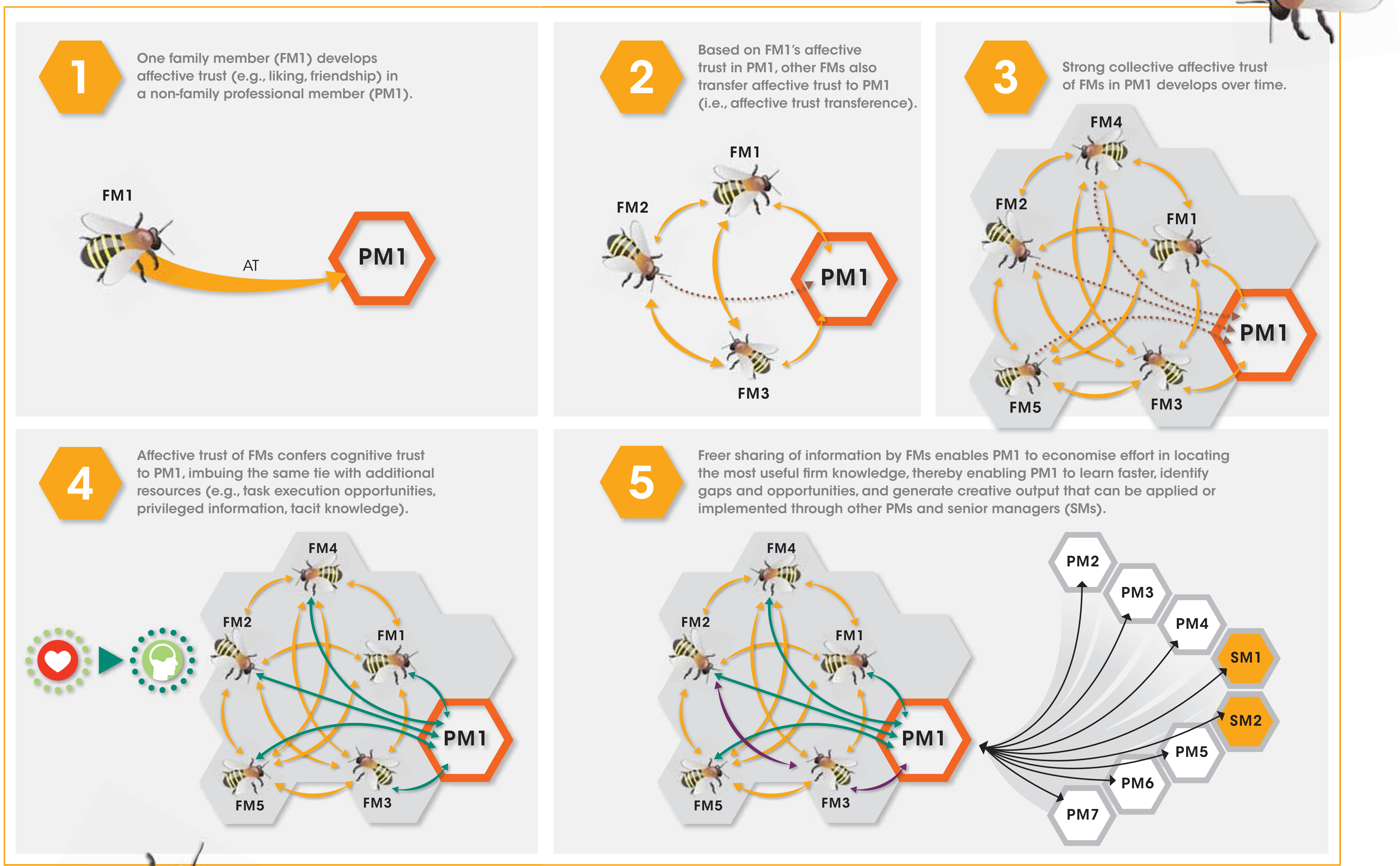
Cognitive trust tends to precede affective trust in non-family firms. That is, a trustor[1] has to find the trustee[2] reliable before making more risky social emotional investments in the latter. Family firms are the opposite. By nature, families are characterised by high levels of affective trust due to kinship familiarity, emotional bonds, shared values, common history, and extended periods of interaction among family members. Indeed, family members are often willing to commit and sacrifice themselves for the sake of the family's welfare without any questions asked. As the family aspect of the business causes relationships and emotions to play a huge role in interpersonal dynamics, the existence of affective trust is a prerequisite for gaining cognitive trust in family firms. Not only does affective trust afford non-family professionals more opportunities to demonstrate their capabilities to the family firm, it can also help weave non-family professionals into the intimate web of familial relations from which privileged information and cognitive trust may be gained.

The 'hive effect'

Our research on family firms in Myanmar revealed that closer ties with family members increased the sharing of knowledge that is critical for creative performance by non-family professionals, which in turn contributed to firm performance and innovation. Noting parallels between this phenomenon and the swarm intelligence of bees that makes them capable of highly efficient collective action, we termed this the 'hive effect'. When a non-family professional's network included more family members, he or she was regarded as more trustworthy by the entire family through a process of trust transference among family members. That is, family members can trust the non-family professional if this person has gained the trust of other family members. Thus, first-hand verification is not required in a family 'hive' where affective trust is the main currency, and family members can develop affective trust in non-family professionals without having established direct contact. As a result of this 'hive effect', non-family professionals can enjoy exponential growth in affective trust despite not having befriended everyone in the family.

High levels of affective trust lead to an increased transfer of cognitive

THE HIVE PHENOMENON IN A FAMILY BUSINESS



Source: R. Ramachandra, "How Ties with Family Members Influence Professionals' Creativity in Family Businesses: The Role of Hive Effect and Trust", Singapore Management University, 2019 trust, opening up a tremendous snowballing of benefits. Our research showed that as a non-family professional becomes more and more liked in a family-run organisation, there will be greater willingness to entrust the person with important tasks (which, if successfully performed, increases perceived competence and reliability), as well as critical information to facilitate task execution. Reflecting on this, one senior family member told us, "It is like a three-step process. When you hire someone, you of course think that they probably can do the job. But then you have to watch them to see if they can get the small things right, such as whether they are sincere and have a good attitude, or whether they demonstrate ownership and can contribute to the collective family spirit. Then you trust them more, after which you can give them more important duties to perform." Another similarly remarked, "I give a trusted subordinate more access to information, knowledge, and resources compared to others that I trust less." Non-family professionals who receive this trust are well aware of the preferential treatment they are afforded. One middle-level purchasing professional said, "I was given more jobs even though there is a senior person above me. They gave me more responsibility and information on whom I can trust and whom I should not."

Thus, in addition to liking and friendship, ties grow thicker with access to additional resources, such as information and know-how through cognitive trust. This expansion of cognitive trust and knowledge allows non-family professionals to economise their efforts in locating the most relevant and idiosyncratic knowledge in the family firm, which in turn enhances their learning and alertness to gaps and opportunities. As trust grows, family members also relax their oversight and grant trusted non-family professionals greater autonomy, thereby freeing up company resources for more effective exploitation by non-family professionals to generate creative outputs. In sum, transaction costs are lowered while value creation is raised through trust that not only exists among family members, but is also extended to non-family professionals.

Creativity and innovation via the 'hive effect'

Family firms that know how to leverage the 'hive effect' gain a formidable means to outperform rival businesses. Being unique to family firms, the 'hive effect' also confers on them a distinct competitive advantage over non-family firms. In particular, it can raise the creative ideation of non-family professionals, and by doing so, family firms will have more of the basic ingredients that underlie innovation.

Our research on family firms in Myanmar found that non-family professionals exhibited significantly greater creativity as the number of family members in their 'hive' network grew. As trust correspondingly increased with each additional family member in the network, non-family professionals found themselves embedded within an environment that was more and more conducive to creativity, and thus became more motivated to produce impactful ideas. These observations are consistent with the current research literature on creativity, which stresses on the importance of not only individual motivation, but also supervisor empowerment and a supportive organisational environment. As non-family professionals gained access to important information and resources that would otherwise be obscured due to the idiosyncrasies of family firms, they were able to better grasp the strengths and weaknesses of the firm, and propose useful ideas that contributed to innovation. In addition, non-family professionals who had the trust of family members felt more confident about expressing their views. One such professional said, "I can speak up and share my opinions without worrying that I'm stepping out of line."

The implementation of creative ideas also requires a unique set of capabilities, such as the ability to lobby the right individuals for the relevant means and resources to launch ideas. Family members holding important positions in the company can be valuable sponsors or champions of the strategies developed by non-family professionals. As one family member put it, "When I trust non-family employees, I will give them lots of resources and extra support. Sometimes, if they get stuck with small things that are crucial for them to succeed, I will try to help them resolve the difficulties, so that they can fulfil their potential." A non-family professional added, "Although a senior family member put pressure on the entire team to meet targets, I can see that I'm trusted as my proposals are accepted with few amendments and carried out more readily. In comparison, he does not accept the proposals of others as easily." As such, the support of such key family members can be vital to transforming suggestions from mere ideas to actual roll-outs.

> Non-family professionals who had the trust of family members felt more confident about expressing their views.

How can family firms leverage the 'hive effect'?

Now that we have discussed the creative benefits that can be derived from trust through the 'hive effect' of family firms, this begs the question: what steps can family firms, managers, and business practitioners take to harness the 'hive effect'? I recommend the following strategies.

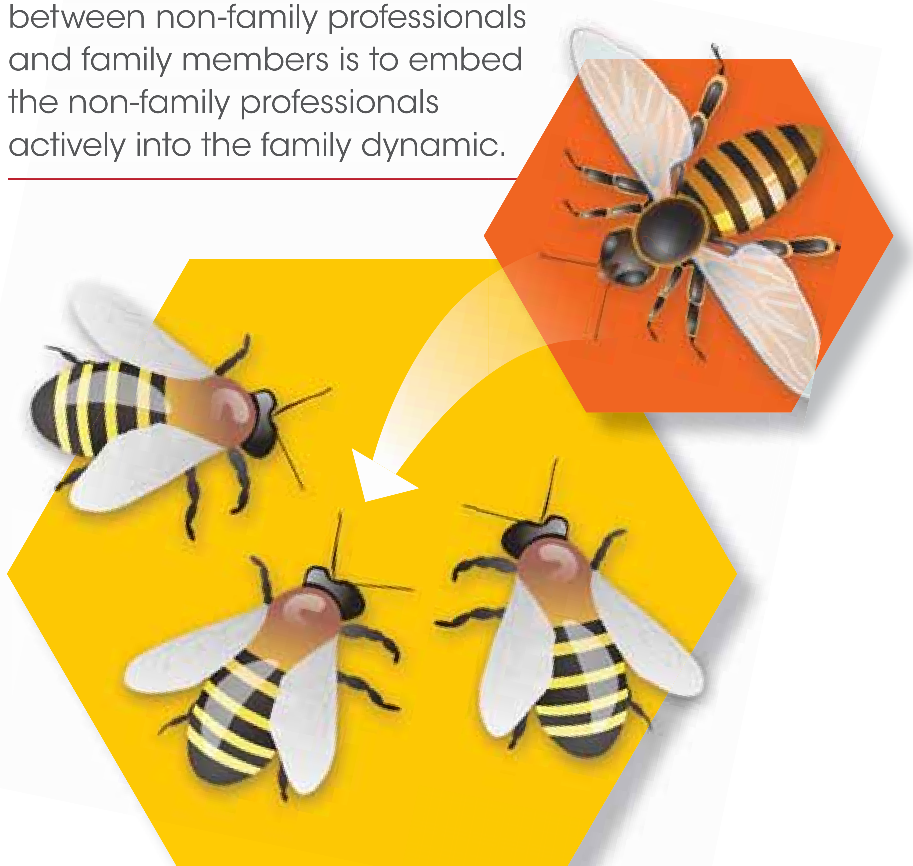
INTEGRATE NON-FAMILY PROFESSIONALS INTO THE FAMILY CULTURE

A clear and straightforward approach to increasing trust between non-family professionals and family members is to embed the non-family professionals actively into the family dynamic. For instance, senior family members with key roles in the firm can increasingly involve promising non-family professionals in a gradual manner, starting first with more informal family conversations and gatherings, before progressing onto more serious meetings about the strategic direction for the business. As one family member said in an interview, "About 95 percent of our conversations with professionals are friendship-based discussions in family or social gatherings." As relations become more intimate, non-family professionals can be entrusted with privileged information and bigger tasks.

Senior non-family professionals who are already part of the family in-group can also help to co-opt new professionals and champion those who are particularly effective and capable. However, our observations of family firms in Myanmar revealed that affective trust from non-family senior managers produced less cognitive trust compared to affective trust from family members. That is, for the same amount of affective trust in junior professionals, non-family seniors gave relatively less resources, such as career guidance, information, and access to networks, compared to family members. As family members have less to prove in the firm, they are much less reluctant to give cognitive trust and associated resources to non-family professionals once affective trust is established. Thus, for this recommendation to work, senior non-family professionals must downplay their competitiveness and be willing to not only acknowledge the work of junior professionals, but also share valuable resources.

Onboarding processes for new talents and professionals can also be tweaked to improve integration into the family business and culture. The need to get up to speed quickly with family traditions and practices is especially important in Asia, where family values and collectivism play a huge role in social and business dynamics. To facilitate a better understanding of family expectations, a transparent checklist of how to not only be successful in the company but also become part of the family culture can be drawn up for new hires. For example, upon joining Tan Hiep Phat (THP), a family-owned beverage manufacturer in Vietnam, employees are given a handbook containing information about the company's history, vision, and practices, as well as the expectations that employees must live up to in order to become a member of the THP family, such as respecting customers and serving the community. THP explicitly states in its handbook: "The emphasis on family is critical. We consider the society in which we operate as an extension of our family. We believe that it is critical for everyone at THP to make a sustainable contribution to the communities in which we operate."

> A clear and straightforward approach to increasing trust between non-family professionals and family members is to embed the non-family professionals actively into the family dynamic.



Beyond grand statements about company expectations, we also suggest that it may not hurt to spell out even the basic minutiae of everyday family life. What is a common practice to a family may not be so for those who are unfamiliar with the family culture, which could result in unnecessary friction. For instance, it is a *faux pas* in Asia not to remove one's shoes before entering a house. Because of the grey lines between the home and the workplace in family firms, employees sometimes walk into the business founder's office with their shoes on without realising that the office is in fact also part of the family residence. Thus, a list of simple family expectations and practices could go a long way in preventing needless misunderstandings.

IMMERSE FAMILY MEMBERS IN DIFFERENT ROLES AND TASKFORCES

Conversely, family members can be encouraged to interact more with non-family professionals in different settings across the business. In our observations of family firms, we found that family members preferred to associate with people they were already familiar with and avoided venturing beyond their own cliques. This tendency fosters an in-group-versus-out-group environment, thus hampering the formation of trust and productive linkages between non-family professionals and family members.

One way to encourage greater intermingling is to incorporate departmental or functional role rotations into the business ecosystem. A fair bit of success was observed when this approach was adopted by the family-owned, engineering-centric Baron's Group and its subsidiaries in Myanmar. However, instead of moving people around randomly, network analysis can be used to determine areas in the firm where non-family professionals are less creative, so that key family members or senior professionals can be transferred there to spur creativity. Although our research showed that well-liked non-family professionals did not have to interact directly with family members to be given trust, departmental units without a strong family member presence have limited opportunities for trust transference, especially since family members are usually a small minority in the firm. Hence, these rotations will enable family members to meet more people outside their own circles and increase the likelihood that trust will be transferred to non-family members.

Lastly, onboarding processes can be structured such that newcomers have opportunities to meet family members informally, thereby increasing interactions in a non-work context that help build affective trust. Activities ranging from weekend family outings to team-building exercises may go some way towards developing intimacy and fostering stronger bonds.

One way to encourage greater intermingling between non-family professionals and family members is to incorporate departmental or functional role rotations into the business ecosystem.

INVOLVE NON-FAMILY PROFESSIONALS IN CREATING A SHARED VISION

Family members and non-family professionals can establish a common understanding and develop shared responsibility for the future by co-creating a vision or strategy for the family firm. The organic processes of such an activity allow participants to interact, communicate, and build trust (particularly affective trust) outside the usual office environment. Non-family professionals would also be able to see the aims and aspirations of the family members more clearly, and experience greater buy-in of the company's goals.

In addition, non-family professionals can learn about what is important for the family firm from these sessions, and use this understanding to build their own credibility, for example, by knowing how to do their part to help the company work towards its goals, and thus be successful themselves in the company. For instance, a medium-sized family-owned business in Thailand that specialises in food ingredients conducted its visioning process and invited some new professionals to take part in shaping the company's future. Two out of three senior professionals who were new to the firm actively participated in the process. Consequently, they were able to integrate seamlessly into the family culture and make informal contact with family members as they were perceived as demonstrating a strong interest in the company. This proved to be an advantage later as they could access idiosyncratic information and resources, whereas the third person who did not actively participate in the process missed the opportunity and eventually became less effective at work.

CREATE FORMALISED SUGGESTION SCHEMES

Feedback and suggestion schemes can also be established to involve non-family professionals further in shaping the direction of the company. In the case of Barons & Fujikura EPC Co., Ltd. (BFE), a subsidiary of the Barons Group engaged in the engineering, procurement, and construction industry in Myanmar, a suggestion scheme was implemented to allow non-family professionals to provide strategic ideas. BFE received about 360 suggestions from a 'creativity test' to derive suggestions to save costs, after which it quickly shortlisted 10 of the best ideas and gave a small monetary prize for the top five. Most importantly, the company saw value in these ideas and implemented three out of the five best ideas. To be sure, many firms do have suggestion schemes, but they lose steam over time if management does not take action and demonstrate that it cares about the feedback provided. However, because family firms tend to have less formalised decision-making and bureaucratic structures, they have the advantage of being able to implement these ideas more quickly.

PROMOTE HARMONY IN THE FAMILY AND REDUCE SOURCES OF CONFLICT

How well the 'hive effect' works depends on the state of relations among family members. More specifically, when conflict among family members is minimal, the 'hive effect' has the greatest positive impact on creativity. Disunity among family members can spill over to non-family professionals who end up having to take sides, causing them to be distracted from more constructive pursuits in the firm. The negative long-term consequences of failure to ensure harmony cannot be overstated. As such, family firms should get their ownership and functional roles sorted out, and be mindful about how family issues can complicate the business.

When conflict among family members is minimal, the 'hive effect' has the greatest positive impact on creativity.

Only when there is an aligned future for the family unit, would it be possible to work with the management on its performance culture, and hence it is important that the family unit first resolves any possible conflicts with regard to roles, processes, tasks, and relationships.

Conclusion

Rather than something akin to complex rocket science, innovation emerges most simply from the integration of creative ideas into useful solutions that can be effectively implemented. When non-family professionals, who form the majority of employees in family firms, are empowered with trust, they are more likely to acquire the resources needed to generate creative ideas and contribute to innovation.

Thus, family firms can become a hotbed of creativity if they can harness the 'hive effect', a phenomenon that can propel them to new innovative heights and afford them a unique competitive advantage over non-family businesses.

Dr Rameshwari Ramachandra
is Managing Director of Talent Leadership Crucible Pte Ltd (TLC)

This article is derived from the author's doctoral dissertation, "How Ties with Family Members Influence Professionals' Creativity in Family Businesses: The Role of Hive Effect and Trust", Singapore Management University, 2019.

Endnotes

1 In this context, a 'trustor' refers to a family member who is putting his or her trust in a non-family employee.

2 Here, the word 'trustee' refers to a non-family employee who gains the trust of a family member.

The Dorian Gray Phenomenon *in* Financial Markets

How financial hedonism and the 'Back to Business as Usual' policy approach have mutilated the portrait of the global economy.

By Ajay Makhija

The Picture of Dorian Gray, a novel by Oscar Wilde,[1] is a perfect analogical device that can be used to demonstrate the effect of the hedonistic policies of corporations, bankers, central bankers, regulators, and governments, which focus only on the strength and vibrancy of the financial markets, but discount their resultant debilitating impact on our core economy, industry, and society.

In his philosophical novel, Wilde narrates the story of Dorian, the young and handsome subject of a portrait, who comes under the hedonistic influence of Lord Henry and pledges his soul in a trade under which the painting will bear the burden of his age and deeds. As the story progresses, Dorian indulges in every pleasure that life can provide and commits several sins, including murder. He then attempts to destroy the painting, which depicts his true dark persona, and ends up killing himself. After his death, the painting is restored to its former beauty.

Dorian's story presents us with a vivid correlation to the current state of the global economy and financial markets. Like Dorian's beautiful portrait, which is not a true depiction of the subject, the financial market ostensibly reflects a healthy image of the global economy when, in fact, it is weak and withering from within. Dorian's pursuit of a deeply hedonistic lifestyle is reflective of the financial market as it stands today, with its unrealistic efforts to reflect a perennial growth trajectory. The forced Back to Business as Usual (B2BAU) approach of the market, even when its health is unable to sustain the pressure, has created a mirage that is at great odds with the real economy.

Is Dorian's tragic death after a pursuit of hedonism possibly a future that can be avoided by the financial world? This article explores this question through the lens of Dorian's story, and tackles the issues of shareholder maximisation and the B2BAU-oriented slippery slope of politico-economic governance, while also highlighting the urgency of course correction.

The origins of the financial market 'persona'

The global economic model transitioned from feudalism to capitalism during the 17th century, when merchants and traders who traditionally made money from trade started to invest in new productive and machine-led businesses, and derive wealth from the ownership and control of the means of production. At the same time, the regulatory umbrella of their respective royal governments sheltered these mercantile corporations, while their quest for colonial expansion further fuelled capitalistic growth.

With the passing of the Joint Stock Companies Act (1844) and the Limited Liability Act (1855) in the U.K., the rise of capitalism gave a unique identity and character to the 'market'.[2] At the core of this market 'persona' was the economy of the rich European nations, which established the eminence of the concept of economic surplus. The deployment of this surplus led to the creation of more jobs and the production of more things with the latest innovative technologies, thereby improving people's lives.[3] With the smooth and free movement of capital and goods across borders, the world started to capture the benefits of trade, commerce, and capitalism. By the middle of the 20th century, the financial market was well-established (just like the completed portrait of Dorian) and it reflected a solid and robust form of the global economy. Today, it is common to monitor and analyse the behaviour of the 'market' as though it had a personality of its own.

Market hedonism and its principles

Market hedonism in the context of a capitalistic environment is the belief that maximising the performance of the financial markets is the primary reason for their existence. The fundamental belief is that tomorrow will be better than yesterday, and if this is not so, then the day after tomorrow will definitely be better! Capitalism transitioned from the mercantile (gold and commodity-based) system to one that is currency and derivative-based, which was built on the philosophy of credit and trust. It further incorporated the concept of the quintessential 'un-violable' financial trust in the government, hence this gave governments an almost unlimited ability to borrow.

Furthermore, the market was seen as forever dynamic, growth-oriented, and profit-generating. It was deemed capable of intelligently valuing the future earnings of a firm on an analytical basis. The capital market with its globally, publicly-traded businesses operated on the basis of the core belief that financial performance, as measured by profit, whether current or potential profit over the long term, was *the* measure of financial success.[4] In fact, Milton Friedman in his seminal 1962 book *Capitalism and Freedom* reiterated the view that maximising profit was a 'social responsibility' of the corporation.

The tools of the market hedonist and their impact

Over the years, the hedonistic beliefs and principles reflected in organisational presentations and pitchbooks have been driven by the core tenets of leverage and growth through monetary and fiscal policy, and these have been further supported by the cognitive and moral impropriety of policymakers.

HEDONISTIC PRINCIPLES AND THEIR CONSEQUENCES

Hedonistic Principles	Tools	Impact/Actions	Dorian Effect	Portrait Effect
Maximise Corporate Profit	Leverage in Banking Policy	Credit Growth – Consumption Lifestyle & Aspirational Living	'Growing' Capital Markets	Over-inflated Asset Prices
Maximise Shareholder Enrichment	Monetary Policy	Corporate Debt – Cheap Cost of Funds Driving Corporate Debt	CEO – Hero	Income Disparity
Maximise Market Growth	Fiscal Policy	Government Debt – Unbridled Government Expense Funded by Treasury Borrowings	Unicorn Race	Compensation Disparity
	Capital/ Risk Frameworks	Financial Innovations – Derivatives/Hedges/AI-based Capital Market Instruments and Actions	Market-driven Politics – Power of 401(k)/ Retirement Fund Valuations	Weak Balance Sheets for Corporates, Banks, Governments
				Government Abandonment of Social Objectives – Health, Education

LEVERAGE

The market, under the influence of bankers, economists and regulators, thrived on the core principle of the depreciating value of money, which has enthused global consumers to enjoy a hedonistic view of life, seeking pleasure by buying everything they desire 'now' on credit.[5] A large part of the developed world today has household debt well above 50 percent of their Gross Domestic Product (GDP). The American dream of a big house and a driveway full of cars has spread beyond the shores of the U.S., and there are many other countries like Switzerland, Denmark, Norway, and Canada where the household debt is over 100 percent of GDP.[6] Asia-Pacific economies are not very different. Australia and South Korea belong to the same club. Real estate prices built up during the early part of this century led to excessive borrowing among households globally, which ultimately led to the 2008 global financial crisis.

The debt phenomenon extends beyond individuals to businesses, where the global corporate and government debt has increased from US$87 trillion in 2009 to over US$115 trillion in 2019.[7] Private corporates have been borrowing heavily, especially across the developing world. Corporate debt in China for instance reached 166 percent of GDP in 2018, while the country's total debt to GDP increased by almost 80 points from 2010 to reach a staggering 257 percent in 2018.

MONETARY POLICY

The consequence of the global financial crisis was the immediate collapse of the market—the U.S. stock market crashed from a high of 14,000 in November 2007 to just below 7,000 by February 2009. The financial economy needed strong intervention to first protect, and then resurrect the market to its past glory. Monetary policy stimulus across multiple economies was thus used as a blunt instrument to support the market. The central banks across the globe acted not only to dramatically reduce interest rates, but also used unconventional instruments like Large Scale Asset Purchases (LSAPs) to arrest the decline of the markets.[8] Research reveals that quantitative easing (QE) programmes launched by the U.S. Federal Reserve and the European Union did manage to have some positive effect on the core economy, and the QE2 is believed to have reduced the unemployment rate in the U.S. by 0.3 percent.[9] However, the real objective was to transmogrify the market, which then magically recovered to the September 2008 pre-crash levels by April 2010, such that the Dow Jones Industrial Average (DJIA) hit 11,000, thus quickly erasing memories of the lows of February 2009.

At this stage, rather than look at the severe hits that the real economy across the world had taken, the financial world quickly went on to enjoy the public image of market glory. The aggressive monetary policy steps involving excess liquidity, the exceptionally low interest rates, and the LSAPs were sustained for inordinately long periods across Japan, Europe, China, emerging markets, and even the United States. Theoretically, the central banks could have unwound the excessive interventions like the LSAPs. They however failed to do so, reflecting either their intellectual weakness or their lack of moral courage to address the underlying painful issues. The hedonistic pressures of capitalism thus forced them to revert to B2BAU, resulting in the market quickly returning to its self-indulging ways, to achieve new highs almost every year.

The market along the way had also invented new hedonistic values. CEOs were proclaimed as heroes who drove multi-billion dollar corporations to gain trillion-dollar valuations. Venture capitalists and investment bankers/ wealth fund managers meanwhile were fuelling the unbridled desire towards obtaining unicorn status. As for ordinary people, they were enjoying the gratification from the ballooning 401(k) and other retirement fund valuations. And amongst all this, the market was back to its shining and roaring best, culminating in DJIA's peak of 29,551 in February 2020. The Dorian effect was at its apogee once again.

FISCAL POLICY

The recent Covid-19 pandemic is yet another example of an external shock that is expected to have a serious long-term impact on the global economy. As the debilitating effect of the virus rampaged across the globe, the market took a huge tumble globally. The DJIA fell from 29,551 on February 22, 2020 to 18,591 on March 23, 2020, and gave up 37 percent of its peak valuation. For a moment, there seemed to be no bottom in sight for the market. The global political and financial leadership intervened with the tried-and-tested monetary policy intervention to provide solidity and stability to the market. However, the underlying malaise was clearly more powerful than the medicine, and the market was unable to recapture its past beauty. Undeterred, the heroes of capitalistic philosophy unleashed their next weapon—fiscal stimulus. Across the world, nations announced trillions of dollars' worth of fiscal spending, with most

large regional economies like the U.S., Europe, and Asia pumping in over 10 percent of GDP for this.

The underlying economy, however, seems to have become so weak that small businesses and factories across the world are shutting down at a rapid pace, causing unimaginable levels of unemployment and income destruction. As the real economic impact of the virus pans out over the next several years, the fiscal stimulus will struggle to provide strength to the underlying economy. Each revision of estimate of economic output for the global economy is likely to become more negative than the previous one.

CAPITAL/RISK FRAMEWORKS AND RELATED POLICIES

There is already talk that to provide any sort of sustainable strength to the market (this remains the core tenet of market hedonists even now), and with a commitment to do whatever it takes, the fiscal stimulus would need to be multiplied in strength. In addition, the financial and corporate world may need further support for the global capital and risk frameworks. Banks are being asked to defer loan payment schedules for individuals and businesses, and there is talk of relooking at capital requirements for financial institutions. This is because non-performing loans will build up as the crisis deepens. There is also talk in the U.S. about the issuance of a 30-year or 50-year trillion-dollar Covid-19 bond. This is, once again, a B2BAU approach, where we are regressing to the philosophy of kicking the can down the road for future generations to pick up and pay the bill for us.

The portrait (economic fundamentals) effect

The effect of the profligate credit, fiscal, and monetary policies over the last few decades is that the social objectives and responsibilities of political governance have been compromised. There has been a huge increase in personal debt.[10] Wealth inequality has widened, with the wealth of the poorest half across the world falling by a trillion dollars since 2010, and the wealth of the top 62 people in the world increasing by half a trillion dollars during this period.[11] The income and compensation disparity between employees and CEOs has also worsened, with CEO compensation having grown 940 percent since 1978 while the average worker compensation rose by just 11.9 percent.[12]

In addition, national debt across the world is on a dramatically increasing trajectory. Since 2000, the world's two largest economies have doubled their debt to GDP ratio (the U.S. from 55 percent to 106 percent, and China from 22 percent to 50 percent).[13] Consequently, we have continuously overburdened the economic engine, and it is now sputtering and threatening to slow down significantly.

Unfortunately, with all the policy interventions implemented since the onset of the Covid-19 crisis, the whole focus of the financial industry and the political class has been on speculating how the market will recover—the quick and sharp recovery like a V, the moderate damage followed by recovery like a U, the double dip-shaped recovery like a W, or the pessimistic long-drawn recovery where previous highs will not be reached again like an L. Meanwhile, the excess liquidity and fiscal backstops are bringing some colour back to the market. Hence the hedonists' victory conches and bugles are starting to sound once again with the DJIA back at 26,067 as of July 8, 2020.

What is probably being continuously ignored here is the fact that every such action that purports to reinvigorate the market is actually draining the last remaining drops of blood from the portrait, i.e., the economy. While the equity market is showing an almost V-shaped recovery, the economy is looking at an L-shaped future as the forecasts for most economies are continuously worsening. On April 6, 2020, the International Monetary Fund (IMF) had forecast that global GDP would contract by minus 3 percent and revised it further downwards to minus 4.9 percent by June 24, 2020. The probability of further downward revisions remains high. The hedonistic economic model has long focused on the performance of the market, and continues to celebrate the recovery of the DJIA while ignoring what the IMF had reported in June 2020—that the global decline in work hours in the first quarter of 2020 was equivalent to a massive 130 million full-time jobs being lost, and this was expected to worsen to 300 million full-time jobs being cut in the second quarter.

The way forward

There is an emerging belief that policymakers and political leaders need to shift their focus of attention. The time has now come where it is imperative that businesses should be focusing on the benefits of the firm and society, rather than just investors/shareholders. This is in line with the Stakeholder Theory, which can be considered an alternative version of capitalist thought. The theory focuses on the multiple interrelationships amongst the various entities that have a stake in the organisation—its customers, employees, regulators, investors, communities, etc.[14]

The IMF report of June 2020 finally acknowledges that "the extent of the recent rebound in financial market sentiment appears disconnected from shifts in underlying economic prospects". It is extremely important now that the policy framework globally should place emphasis not just on the financial efficiency of the capital deployed by corporates and governments, but also on its overall efficacy in achieving societal objectives like employment and livelihood, social equality, job security, and reduction of financial uncertainty. Firms and businesses need to develop new models not just of operation and delivery to overcome the immediate challenge of Covid-19, but they also need to develop the right stakeholder-oriented business models. Corporations and businesses need to recognise that they have a responsibility towards their employees, the families of these employees, their vendors, the local communities where they operate, the national economy that they are a part of, and the global economy to which they are directly or indirectly related.

> While the equity market is showing an almost V-shaped recovery, the economy is looking at an L-shaped future as the forecasts for most economies are continuously worsening.

We are already seeing companies starting to announce lay-offs, which are being couched in public relations terms as "business realignments" necessary for their survival. This should be strongly disincentivised by regulators and policymakers. Companies need to provide high levels of confidence to their employees (and indirectly to their families) in terms of job stability. Firms like DBS Singapore have shown the way by pledging to protect the livelihoods of its employees in the short to medium term. Higher levels of employment will have a significant economic multiplier effect, and create a virtuous cycle of income-based consumption, which will provide robustness to the core economy. Firms need to dramatically reduce the wage dispersion and rebalance the slippery slope of management variable compensation. They should use their resources to create new jobs that will foster growth and build buffers for surviving economic cycles, rather than use low-cost liquidity to do share buy-backs and bolster equity prices.

The market has clearly thrived on the short-term focus of the management on profits, and the desire of the financial/ regulatory apparatus to implement immediate fixes to keep it vibrant. The last few years have shown that the challenges of the hedonistic view of the market have become very difficult to manage and sustain. The events of the recent past clearly indicate that if the leaders of global finance and politics continue to adopt short-term, value-maximising solutions, this would once again lead to B2BAU as soon as the

> The transition has to be made from embracing the short-term stockholder maximisation view to adopting the stakeholder optimisation strategy.

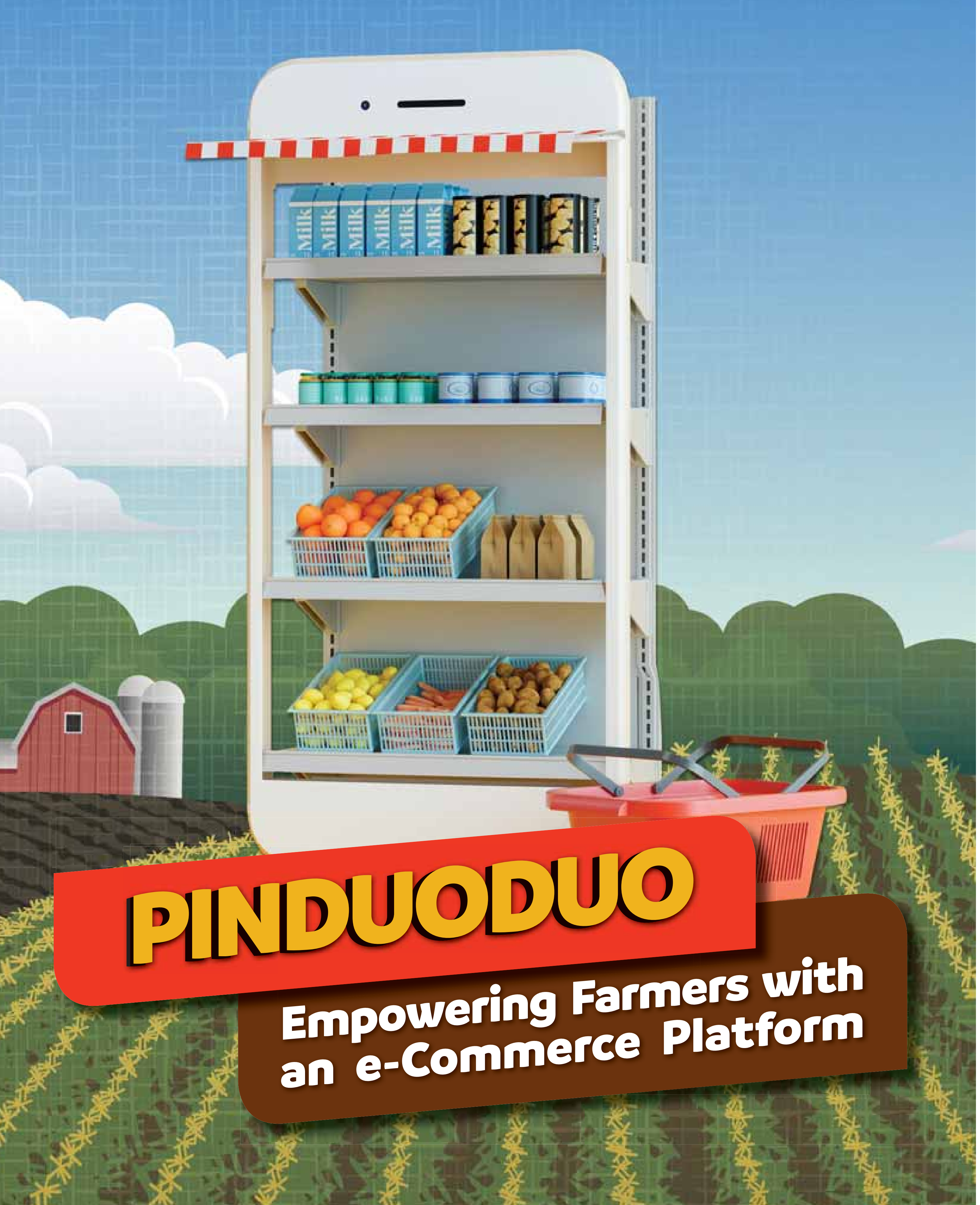
market stabilises and returns to its growth phase. Rather, the market needs to recalibrate its expectations with the new paradigm shift from shareholder to stakeholder.

As such, we need to reject the philosophy of market hedonism. The market today needs to undergo a mindset shift from prioritising shareholders to doing so for stakeholders instead. The pursuit of the narrow goal of financial value maximisation needs to give way now to a scenario for optimising across long-term financial value, in conjunction with sustainable economic fundamentals and equitable social objectives. The core economy is almost on its knees, and the world needs Dorian to sacrifice itself (the glory of the market) for the benefit of the economy. The transition has to be made from embracing the short-term stockholder maximisation view to adopting the stakeholder optimisation strategy. The exogenous responses in terms of monetary, fiscal, and regulatory policies that need to be taken now should focus on rebuilding the health of the economy, and not the beauty of the market. It is still not too late to do so.

Dr Ajay Makhija
was CEO of Global Consumer Banking at Samba Financial Group, Saudi Arabia from 2006 to 2015. Prior to joining Samba, he spent over 16 years at Citigroup working across India, Africa and other parts of Asia

References

1. Oscar Wilde, "The Picture of Dorian Gray", 1891.
2. Steven A. Edelson, "Promethean Business: From Financial Hedonism to Financial Eudaimonia", Journal of Management Enquiry, 2019.
3. Adam Smith, "The Wealth of Nations", 1776.
4. Joel Bakan, "The Corporation: The Pathalogical Pursuit of Profit and Power", New York: Simon and Shuster, 2003.
5. Yiannis Gabriel and Tim Lang, "The Unmanageable Consumer", London: Sage, 2015.
6. "Household Debt to GDP", Trading Economics, June 2020.
7. Spriha Srivastava, "Global Debt Surged to a Record $250 Trillion in the First Half of 2019, Led by the US and China", CNBC, November 15, 2019.
8. Simon Gilchrist and Egron Zakrajsek, "The Impact of the Federal Reserve's Large-Scale Asset Purchase Programs on Corporate Credit Risk", Journal of Money, Credit and Banking, 2013.
9. Lars E. O. Svensson, "Monetary policy after the Crisis," Proceedings, Federal Reserve Bank of San Francisco, November 2011.
10. Sarah Brown, Gaia Garino, Karl Taylor and Stephen Wheatley Price, "Debt and Financial Expectations: An Individual- and Household-Level Analysis", Economic Inquiry, 2007.
11. Oxfam International, "62 People Own the Same as Half the World, Reveals Oxfam Davos Report", January 8, 2016.
12. Lawrence Mishel and Julia Wolfe, "CEO Compensation Has Grown 940% since 1978", Economic Policy Institute, August 14, 2019.
13. John C. Williams, "The Federal Reserve's Unconventional Policies", FRBSF Economic Letter, November 2010.
14. R. Edward Freeman, Jeffrey S.Harrison, Andrew C. Wicks, Bidhan L. Parmar and Simone de Colle, "Stakeholder Theory: The State of the Art", Cambridge: Cambridge University Press, 2010.



PINDUODUO

Empowering Farmers with an e-Commerce Platform

The start-up's meteoric rise and its agile response to Covid-19.

By Hao Liang and Cheah Sin Mei

Pinduoduo may have just turned five years old but with a market cap of US$109 billion (as of September 1, 2020), its valuation is higher than that of oil giant Shell (US$108 billion) and HSBC (US$88 billion), one of the largest banks in the world. In fact, it is the fastest-growing e-commerce start-up in the history of China, attaining a gross merchandise value (GMV) of US$15 billion only two years after it was launched, a milestone that took incumbents Alibaba and JD.com 10 and five years to achieve respectively.

Established in Shanghai in September 2015 by serial entrepreneur Colin Huang,[1] Pinduoduo was the result of Huang[2] drawing upon his experiences from the e-commerce and gaming start-ups he had established previously.[3] Its tagline, "Together, More Savings, More Fun", encapsulates the essence of its brand name. Explaining his vision for the company before its debut on the U.S. stock exchange Nasdaq two years ago, Huang said he saw Pinduoduo turning into a Costco and Disneyland all rolled into one, such that it offered bargain products together with entertainment offerings. Today, over 600 million users in China would agree that he has succeeded, as they access the Pinduoduo app daily to snap up deals, share products with friends, and play games.

Huang's experience as one of the earliest team members of Google China and his strong entrepreneurial credentials soon attracted investors. In two successive rounds of Series A and B funding, Pinduoduo secured more than US$100 million in 2016.[4] Among its investors was Tencent, the owner of WeChat, the largest messaging network in China.

Since its early days, the young tech giant has been adept at manoeuvring its way in the e-commerce space. Pinduoduo made a swift pivot from direct sales to a marketplace model and continued to innovate by integrating games into otherwise quotidian online shopping. Along the way, it made a meaningful impact on rural revitalisation efforts by enabling millions of farmers to tap into a wider consumer base via e-commerce. By bypassing unnecessary intermediaries, farmers could offer fresh produce to consumers directly and a better price could be secured for both parties. Through its Duo Duo Farm initiative, Pinduoduo also aimed to raise farmers' incomes in poverty-stricken counties by providing them with both agronomic knowledge and e-commerce know-how.

As of mid-2020, while the world continued to fight against the Covid-19 pandemic and uncertainty was plaguing decision-makers, one thing was for sure—the survival of any business would hinge on its ability to adapt to the new normal. In such a climate, how did Pinduoduo continue to evolve its business in the pursuit of sustainable agriculture solutions that improve the welfare of impoverished farmers?

Pinduoduo is the fastest-growing e-commerce start-up in the history of China, attaining a gross merchandise value of US$15 billion only two years after it was launched, a milestone that took incumbents Alibaba and JD.com 10 and five years to achieve respectively.

The business model

'TEAM PURCHASE'

Unlike the typical group-buying mechanism where consumers are motivated to make more referrals to reach the tipping point, Pinduoduo offered a much simpler way for customers to enjoy discounts. The company introduced the 'team purchase' concept, whereby the consumer chooses between a single buyer price and a 'team purchase' price (refer to Figure 1). If buying alone, an individual would have to pay the product's regular price, but if consumers bought items as a 'team', the price would be substantially reduced–in some cases, up to half.

It was a 'pricing on purpose' approach, where the price difference clearly indicated the value proposition offered by the company, as the choice between the two options was designed to be instinctively obvious to anyone.

As Pinduoduo's user base rapidly expanded, most merchants only required two people to form a 'team' for group buying . One could invite a friend or simply join thousands of existing 'teams'. Adding to the virality of the platform was the 'price chop' feature on its app, which allowed buyers to potentially get a product for free if they could rally enough friends to click on the product link to help reduce the price to zero within 24 hours.

VIRAL SOCIAL SHARING

Word-of-mouth referrals made through WeChat, the ubiquitous mobile messaging app with one billion daily active users in 2018,[5] also helped channel much of the user traffic to Pinduoduo. For instance, millions of users accessed the Pinduoduo app through a mini program embedded in WeChat and QQ[6], making it the most popular mini program in WeChat in May 2020.[7] Thus, Pinduoduo's strategic partnership with WeChat and its push for organic user-sharing were key growth strategies that had contributed to its rapid user acquisition in the early years of its launch.

> The company introduced the 'team purchase' concept, whereby the consumer chooses between a single buyer price and a 'team purchase' price.

In addition, the app's irresistible deals, such as the RMB 9.90 (US$1.45) special buys and flash sales, were particularly attractive to bargain hunters. Homemakers who made decisions on high-frequency purchases of low-value necessities, such as grocery and household items, flocked to the app in its early days. As the platform grew, its user base expanded. Eighty percent of its users were aged 18 to 35. Many of these buyers lived in tier three or lower cities and they became loyal customers of Pinduoduo, forming the majority of its customer base in 2019. This segment had been traditionally underserved, and it was not until the past decade that the development of logistics infrastructure and the penetration of smartphones had gathered speed in rural China.

Within the app, product virality was boosted through a 'virtual bazaar' on its landing homepage where users could browse through a gallery of recommended merchandise. The gallery amplified the exposure of these items, thus increasing their chances to go viral.[8] Unlike other e-commerce websites that were search-centric, Pinduoduo achieved platform differentiation through stock keeping unit (SKU)-centric personalised recommendations that encouraged user browsing, and it leveraged this feature to

'TEAM PURCHASE' PROCESS

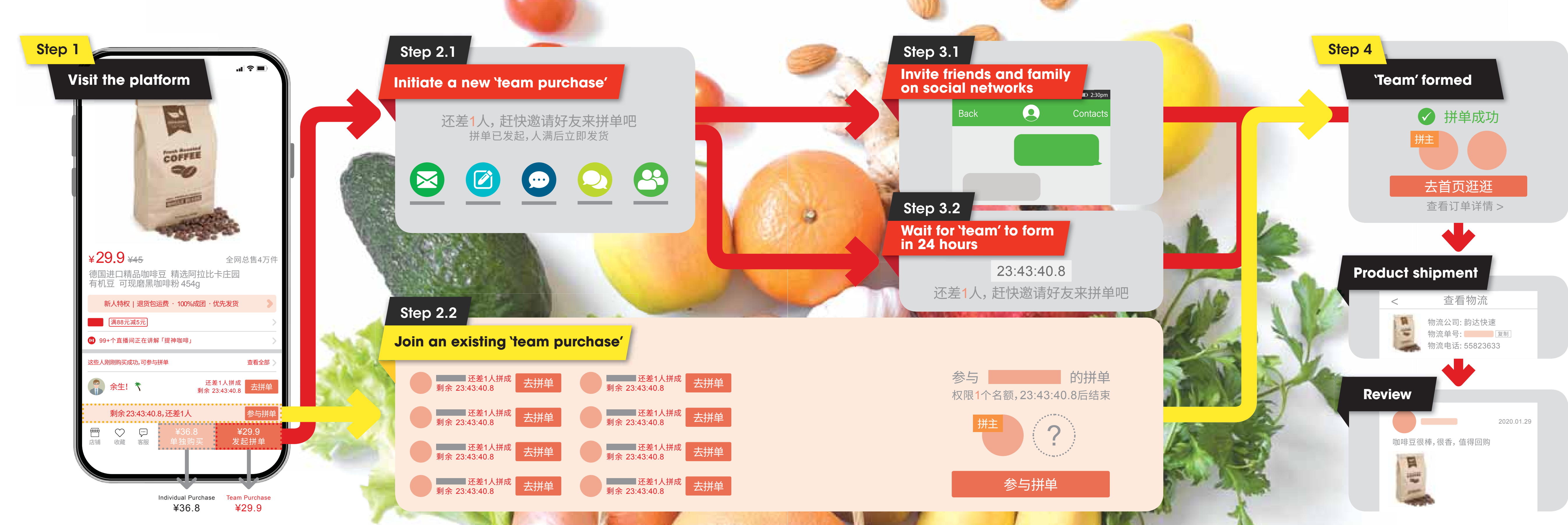


FIGURE 1

Adapted from: Pinduoduo

aggregate consumption demand for a narrower range of products, turning what might have been an initial disadvantage for a fledgling e-commerce platform into a strength.

GAMIFICATION

Launched in 2018, Duo Duo Orchard aimed to provide a gamified shopping experience through an addictive mini game (refer to Figure 2). It is essentially a digital loyalty card whereby Pinduoduo rewards the buyer with virtual water droplets that are used to water a virtual tree. When the virtual tree bears fruit, Pinduoduo sends the customer a box of real fruit, which is the loyalty payoff.

Duo Duo Orchard was an instant hit with Pinduoduo users upon its launch. As many as two million virtual trees were planted after the first month, and as of end-2019, over 60 million users actively logged on to the app daily to nurture the 'fruit tree' of their choice.[9] To accelerate its growth, users showered the 'trees' with 'water droplets' and 'fertilizer' using special 'watering cans'—all of which could be obtained by simple acts of logging in regularly, sharing products, buying items, playing other mini games and so on. To augment the fun factor, the game allowed players to visit their friends' 'orchard' to 'steal water droplets' from unattended 'trees'.

Using gamification to promote frequent usage and purchases on Pinduoduo's platform proved to be a successful engagement strategy. The number of average monthly users increased more than twofold from 195 million in 2018 to 487 million in 2020.

Beyond a platform business to enhancing rural e-commerce

EMPOWERING FARMERS THROUGH DUO DUO FARM

In April 2019, Pinduoduo launched the Duo Duo Farm programme with the goal of alleviating rural poverty through an integrated approach that helps farmers from planting to selling their harvest. Through the delivery of entrepreneurship training, coupled with the allocation of marketing resources worth RMB 15.9 billion (US$2.2 billion) and cash subsidies amounting to RMB 2.9 billion (US$413 million) in 2019, Pinduoduo transformed the farmers into farming entrepreneurs,[10] and helped raise incomes of the farming community. It plans to support one million rural online stores over a five-year period (2020-2025).

> Using gamification to promote frequent usage and purchases on Pinduoduo's platform proved to be a successful engagement strategy.

Duo Duo Farm operates on a tripartite partnership model involving Pinduoduo, local provincial governments, and agronomic research institutes (refer to Figure 3).

To support the farmers' upskilling efforts, Duo Duo University, Pinduoduo's training arm, equipped entrepreneurial farmers with e-commerce operations know-how, as well as marketing knowledge and tools to promote farm products to urban consumers. In 2019, on top of its regular online course

DUO DUO ORCHARD GAME

FIGURE 2

Adapted from: Pinduoduo

DUO DUO FARM'S TRIPARTITE MODEL OF COLLABORATION

FIGURE 3

Adapted from: Pinduoduo

offerings, Duo Duo University conducted over 1,400 hours of offline courses for over 490,000 farmers across 12 provinces in China.

Pinduoduo also helped farmers optimise their planting decisions by providing advice generated from its artificial intelligence (AI) capabilities. Leveraging on its distributed AI algorithm, it could effectively predict the demand for various types of fruit, and make recommendations to farmers ahead of their planting and harvesting schedule. Farmers could then maximise their earnings by meeting the expected level of consumer consumption.

As rural areas in China became more urbanised, the younger generation that had earlier left their villages to work in larger urban cities were attracted by the increasing number of job opportunities back in their hometowns. Upon their return, they were readily employed in areas such as farming business development, web store operations, and logistics, as they tended to be more tech-savvy and proficient in e-commerce. By spearheading the homecoming of the younger generation and providing them with employment opportunities in the local farming business, Pinduoduo played a considerable role in revitalising the local agricultural industry.

LIFTING FARMERS OUT OF POVERTY

The Duo Duo Farm programme was also aligned with the country's campaign to eradicate poverty and revitalise rural areas by end-2020. It was introduced in the southwestern and northwestern parts of China, which were designated by the Chinese government as areas of extreme poverty. These included Nujiang, where mandarin oranges grew in high-altitude valleys; Baoshan, where high-quality coffee beans were harvested; as well as Wenshan, where yacons (a South American root vegetable) lined the fields. For the first time, orange growers in Nujiang experienced the efficiency of the drip irrigation system, while Baoshan and Wenshan planters could produce higher quality coffee beans and yacons respectively.

The seasonal fruit given free to Duo Duo Orchard players for achieving a certain target are sourced from these impoverished regions. Farmers from these regions sold more than 500,000 kilogrammes of fruit to Pinduoduo, which were delivered to Duo Duo Orchard players on a daily basis as of 2019. Collectively, these impoverished farmers benefited from increased incomes as a result of improved productivity, higher prices charged for better quality products, and recurring sales.

As of 2019, Pinduoduo had onboarded over 150,000 poor merchants and was on its way towards extending its reach to another seven provinces, to set up 1,000 Duo Duo Farms by 2024. The produce sold by these farmers on Pinduoduo's platform fetched RMB 4.8 billion (US$684 million) in 2019, an increase of 413 percent over the previous year.

Agile response to the Covid-19 crisis

PROMOTING AGRICULTURAL PRODUCE VIA LIVESTREAMING

The Covid-19 pandemic had shaken the world and brought many economic activities to a standstill. When China was locked down in January 2020, fresh produce at the farms piled up as it could not be transported out of the villages to urban markets. On the demand side, consumers were stocking up on fruits and vegetables as they cooked more frequently while being confined at home. Pinduoduo attempted to quickly bridge the demand-supply gap by setting up a dedicated portal to help farmers affected by the lockdown showcase their agricultural produce via livestreaming.

Farmers were thus encouraged to promote their agricultural produce directly to consumers through live video broadcasting, a promising new sales channel that had taken off in China in the late 2010s. Livestreaming on video-sharing apps such as Douyin, the Chinese version of TikTok[11], skyrocketed as more growers in China turned to social media to sell online. Farmers were first coached on the basics of video production, which turned out to be particularly useful for the first-timers. Launched on February 10, 2020, the portal hosted 35,000 livestreaming channels, received an overwhelming 27.5 million orders, and sold over 120,000 tonnes of produce over the first five weeks.

Pinduoduo further collaborated with the government of Hubei province, the hardest-hit area, to extend the initiative to 500 farmers two months later. As of May 2020, the nationwide programme had reached out to 180,000 farmers from nearly 400 agricultural regions, including 230 poverty-stricken counties that needed help most.

SUPPORTING THE SPRING PLANTING SEASON

Other than offloading the surplus of harvested produce, farmers had to contend with the disruption of the spring planting season, which takes place from March to May each year. Faced with shortage in cash flow to purchase seeds, fertilizer, and planting equipment for growing crops, farmers turned to Pinduoduo's subsidised sales of these items during the Spring Planting Festival in March 2020. Through its partnerships with major agricultural brands, the company subsidised 15,000 SKUs of purchases made by farmers to help them reduce their production costs. The estimated potential savings for the farming community came up to a total of RMB 300 million (US$42 million).

In conjunction with the Festival, millions of farmers benefited from attending online training classes conducted by agronomists from the China Agricultural University, and the National Engineering Research Center for Information Technology in Agriculture. The classes were a part of a New Farmer Lecture Series that taught farmers about smart agricultural services and equipment, pest control, and so on. Encouraging farmers to adopt modernised farming techniques went a long way towards increasing their efficiency and reducing the need for manual labour, thereby boosting profitability ultimately.

Charting its path in the post-Covid-19 era

At a World Bank webinar held in May 2020, Pinduoduo had shared three observations with the audience.[12] First, a change in shoppers' behaviour was apparent as more people turned to buying online to avoid making trips to crowded grocery stores. The company said that agricultural produce was one of the items most frequently bought online.

Second, the element of trust, particularly its role in influencing buying behaviour, had become more important during the pandemic. Pinduoduo observed that many buyers took their cue from their more conscientious and discerning family members and friends, and tended to buy products that the latter had chosen, as they trusted the latter's choices.

Third, price hikes had started surfacing as some popular merchandise like personal protective equipment went out of stock. Besides the introduction of monitoring features, Pinduoduo revealed that it had subsidised the affected products so that they were still affordable to buyers. People were also becoming more anxious over the possibility of food shortages due to lockdowns enforced in response to the pandemic. Pinduoduo reported that it had been working with the Chinese government and logistics providers in the country to ensure that agricultural produce could still be transported despite any lockdown being imposed, thus giving consumers confidence that their food supply would not be disrupted when they made purchases using the Pinduoduo platform.

It is no wonder that Huang has expressed confidence that innovative business models such as Pinduoduo's would triumph in a post-Covid-19 world. In a letter to investors dated April 25, 2020, he wrote: "The impact of this sweeping force will fundamentally and permanently change the world we are in now...new models are bound to emerge and grow in a whole new set-up. We (see) the phasing out of some as new ones emerge."[13]

During these turbulent and uncertain times, trust and security had become the currency of consumer experience for Pinduoduo. Nevertheless, a burning question remains. How can Pinduoduo successfully strike a balance between its efforts to revitalise China's agricultural sector and enable impoverished farmers to exit poverty and its pursuit of e-commerce as its core business?

Dr Hao Liang
is Associate Professor of Finance and DBS Sustainability Fellow at Singapore Management University

Dr Cheah Sin Mei
is Senior Case Writer at the Centre for Management Practice, Singapore Management University

References

1 Colin Huang is also known as Huang Zheng.
2 As of July 1, 2020, Colin Huang had stepped down as the CEO of Pinduoduo, but remains its Chairman.
3 Huang's entrepreneurial ventures included a consumer electronics website named Ouku, a marketing services company named Leqee, and a gaming studio named Xunmeng.
4 Emma Lee, "The Incredible Rise of Pinduoduo, China's Newest Force in E-Commerce", Tech Crunch, July 27, 2018.
5 Cyrus Lee, "Daily Active Users for WeChat Exceeds 1 Billion", ZD Net, January 9, 2019.
6 QQ is an instant messaging mobile app widely used in China.
7 Aldzs, "Ranking of Mini Programs", May 2020.
8 Merchandise that went viral were usually sold online, highly popular, trendy, or considered a good catch for consumers.
9 36KR, "Pinduoduo Announces Agriculture Report", April 21, 2020.
10 Farming entrepreneurs are new-generation farmers who are knowledgeable about modern farming techniques and have management capabilities to run agriculture-related businesses.
11 TikTok is a Chinese video-sharing social network service.
12 The World Bank, "Pinduoduo, A Digital e-Commerce Platform in China: Connecting Millions of Farmers to Markets in Times of Covid-19", May 6, 2020.
13 Colin Zheng Huang, "2020 Letter to Shareholders", Pinduoduo, April 25, 2020.

HEALTHCARE INNOVATION FROM THE INSIDE-OUT

Leveraging the human capital system at Tan Tock Seng Hospital.

By Kenneth T. Goh, Richard R. Smith, Cher Heng Tan, and David Dhevarajulu

The global pandemic has strained healthcare systems around the world, yet some providers have been able to adapt better and more swiftly than others. One such example is Singapore's Tan Tock Seng Hospital (TTSH). When Covid-19 broke out, TTSH had to strike a balance between reducing business-as-usual (BAU) services and increasing outbreak-coping capacity. The latter meant that the hospital needed to build isolation rooms, and effectively ramp up its intensive care unit (ICU) capacity and capabilities to adapt to a rapidly evolving global pandemic. Furthermore, hospital management had to make an active push towards ensuring adequate supplies of personal protective equipment (PPE), given the global shortage and uncertainties over the duration of the pandemic. So how could a healthcare organisation that typically prioritises reliability and safety manage to adapt so nimbly to the Covid-19 crisis?

If we look closely at TTSH, we will find that the answer lies in a very different healthcare management orientation: one that is focused on innovating with an agile mindset. This orientation was not implemented overnight, but cultivated over the years through a multitude of initiatives led by the Centre for Healthcare Innovation (CHI).

The centre for healthcare innovation

Like many other developed countries, Singapore's demographics indicated a looming challenge with an ageing population, hence the government and the management of TTSH set out to drive greater innovation in the healthcare system. One of their initiatives was launching CHI in 2016 to innovate system-level solutions, as they had recognised that initiating a piecemeal innovation programme to make improvements was not going to address the holistic changes needed.

Before the launch of CHI, quality, safety, and improvement had operated in silos with different departments independently overseeing domains of improvement. Thus, systemic changes could only be implemented through incremental improvements at that time. CHI was established to radically alter the way TTSH innovated. It aimed to address two imperatives: first, changing care models to mitigate the challenges of an ageing population, and second, preparing a workforce to be more agile and digitally dexterous with transdisciplinary skill sets.

Setting up a special centre that focused on innovation may seem like an easy way to drive change. However, it created several challenges that are associated with embedding change inside the organisation. While there was an initial focus on innovating through technology, it was soon recognised that technology alone would not help transform the entire system as desired. Rather, a systemic shift could only occur through fundamental changes in TTSH's human capital system, which would drive a culture that encouraged cross-departmental collaboration and experimentation, without neglecting its emphasis on reliability and safety.

> When Covid-19 broke out, TTSH had to strike a balance between reducing business-as-usual services and increasing outbreak-coping capacity.

A human capital system approach

Similar to many hospital systems, there are distinct departments, wards, and areas within TTSH, so large-scale innovation would naturally be limited by these demarcations. To enable a systemic approach, the leadership wanted to shift staff's mindset from focusing on piecemeal process improvements to embracing innovation that cuts across the entire organisation through cross-departmental collaboration. This shift from the traditional healthcare mindset of concentrating on safety and care to being more open to innovation and risk-taking was initially perceived as contradictory by the staff and medical personnel. The leadership team addressed this misperception by redesigning the hospital's human capital system to enable its staff to see that safety and innovation are interdependent, rather than contradictory, objectives. This redesign of TTSH's human capital system revolved around four pillars: leadership, structure, talent, and culture (refer to Figure 1).

LEADERSHIP SUPPORT

The leadership team across the hospital was asked to step up and participate in a number of innovation initiatives across various areas. Senior management were recognised for rolling up their sleeves and working alongside the ground staff in running projects. For example, senior hospital leaders were encouraged to perform regular quality and safety walkabouts around the hospital. As a result, they gained insights into the operational realities, which helped them to better empower staff to undertake innovation projects that improved patient and staff safety. CHI supported these projects by providing physical innovation spaces, methods, and tools, along with measurement systems.

TTSH CEO Dr Eugene Fidelis Soh promoted the collaborative innovation culture actively. Besides being part of the teaching faculty for improvement and innovation, he also commissions education in technology, automation, and robotics, and chairs the Robotics Committee at Singapore's Ministry of Health. In addition, he started the Voices 9000 platform to engage directly with staff. This platform allowed him to have direct 'skip level' conversations with staff, which would not have been possible otherwise, given typical bureaucratic constraints. It also provided him with an opportunity to engage them on hospital strategies and address their concerns. By August 2020, more than 7,200 staff had participated in these conversations, and issues that had been identified included working hours and conditions. Soh also received a number of ground-up suggestions for workflow improvements.

In another initiative, a key programme to take the hospital's leadership to the next level, called 'Engaging Leadership', was conducted for 120 senior leaders. This programme became a central catalyst for CHI as it helped align leaders across the board to the hospital's innovation focus, tools, and methods. It was more than just a training effort, as it also included follow-up sessions with assigned external coaches and mentors.

FRAMEWORK FOR REDESIGNING THE HUMAN CAPITAL SYSTEM

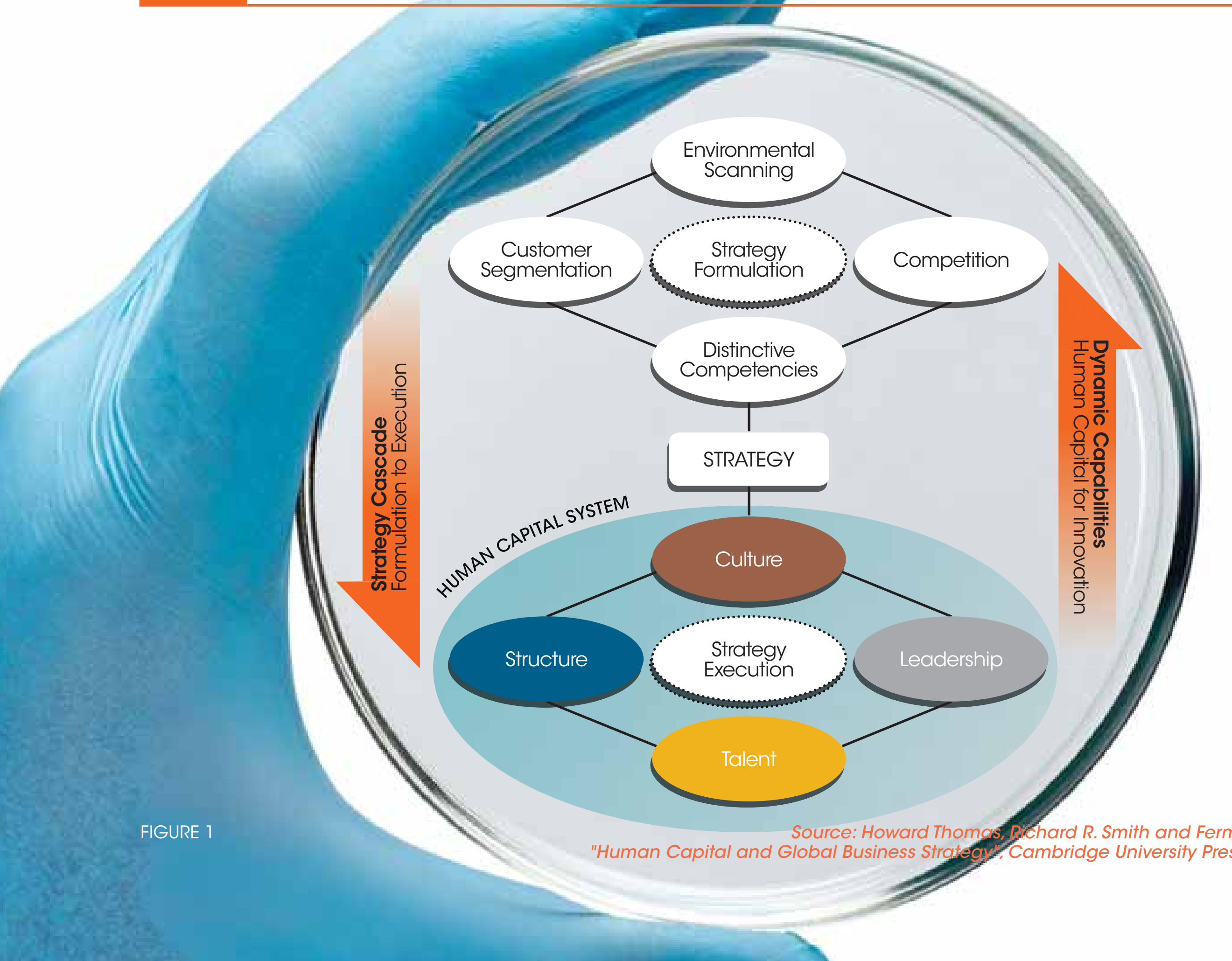


FIGURE 1

Source: Howard Thomas, Richard R. Smith and Fermin Diez, "Human Capital and Global Business Strategy", Cambridge University Press, 2013.

ORGANISATION STRUCTURES

CHI was designed to encourage collaborative innovation by creating physical space and breaking down traditional structural limitations. The CHI Living Laboratory (CHILL) provides a makerspace for medical practitioners to learn about new technologies in the digital and 3D printing domain, and conduct lessons in design thinking and prototyping. This complements the Innospace facility that supports project teams that apply lean innovation in their projects. Meanwhile, Marketplace and Kampung Square are open spaces for staff and students, and TTSH partners, respectively, to interact and discuss ideas. The centre also houses the Command and Control Centre (C3), which acts as the 'brain' of the hospital, managing the flow of people and inventory across the entire campus.

Another way of structuring collaborative exchanges of ideas to foster innovation came about through CHI Innovate—the centre's flagship annual conference for co-learning, an event that brings together thought leaders from various industries across the globe. Other initiatives include CHI Learning and Development, an online platform for sharing best practices with partners. The centre has also initiated plans for a CHI Start-up Enterprise Link to facilitate engagement with health tech start-ups and suppliers for the procurement and use of commercially ready products in a real-world clinical setting.

TALENT MANAGEMENT

In 2011, TTSH launched the "Better People, Better Care" slogan to address the people-side of healthcare support. It emphasised the importance of staff as a critical driver of TTSH's innovation journey, and Soh took personal responsibility for managing the talent pipeline within the hospital.

The centre also played a key role in developing talent by organising opportunities for learning about innovation tools and processes through informal brownbag sessions, and formal masterclasses led by agencies such as Design Centre Singapore. Over 80 percent of the staff have been trained in innovation and improvement tools, and over 70 percent have participated in at least one improvement activity. Furthermore, staff are regularly sent to different parts of the world to participate in conferences and seminars to gain first-hand insights into innovation in other healthcare systems. CHI also funds the training and development of clinician-innovators through the CHI Fellowship, a 16-week programme taught by a panel of local and international faculty to better equip young aspiring leaders from clinical, administration, and operational units that undertake system-level innovation and improvement projects.

ORGANISATION CULTURE

While there had been a focus on continuous improvement through standardised processes and protocols for evidence-based care delivery prior to 2011, these improvements tended to be confined to silos with few instances of innovation that cut across departments, functions, and roles. To facilitate the transition in culture towards adopting broader collaborative innovation thinking, the management shifted the focus on quality improvement towards achieving broader organisational outcomes, such as making TTSH a great place for healing (patients) and work (staff). After establishing a common vision, it then actively sought to encourage collaboration, and CHI became a central part of this shift by allowing collaboration through innovation projects and learning.

These efforts included attempts at providing physical and virtual spaces, and scheduling time for collaborative exchanges of ideas. Additionally, numerous initiatives were put in place to cultivate a sense of collegiality. For example, TTSH embarked on an onboarding programme, which is owned and conducted by the senior leadership team, with the sole objective of building a kampung (Malay for 'village') culture, on the basis that 'it takes a village' to accomplish broad common goals. Staff were trained in techniques to increase engagement and conversations across ranks by building psychological safety into in-group interactions. A social integration fund was set aside to encourage staff to get together and build stronger interpersonal bonds.

This spirit of collegiality was reinforced by the management's adoption of a 'listening ear' to move away from the traditional top-down, centralised approach to address staff's concerns, to a bottom-up approach that blurred the vertical boundaries between management and staff. This collaboration was fostered in part by CHI, as innovation efforts required a more holistic approach across boundaries.

Together, this four-pronged approach of working on the leadership, structures, talent, and culture pillars created an internal system of human capital that reinforces innovation. Every two years, TTSH measures staff engagement and takes remedial actions to address workforce concerns, identify ongoing improvement areas, and groom engaging leaders who can lead the transformative work. In addition, efforts to align the internal human capital system are ongoing and constantly reviewed.

An external partnership network approach

In the early days of innovation and improvement work, teams were formed to address a problem statement without including the upstream and downstream process owners—not to mention the consideration of external stakeholders. This posed a huge obstacle to the efficacy and sustainability of its improvement work on the hospital.

To address healthcare more holistically, TTSH recognised the need to tackle many of the challenges together with society at large. Over the last few years, CHI has established 39 co-learning partnerships at multiple levels: local and international partners from the healthcare and healthcare innovation domains, academia, the health technology industry, as well as agencies for design, workforce, and leadership. By bringing together other stakeholders and thought leaders, it has been able to conduct innovation clinics, masterclasses, and programmes to develop improvement and innovation practitioners and faculty. This external network is continually working together with TTSH/CHI to think differently about healthcare and the needs of society, both now and for the future.

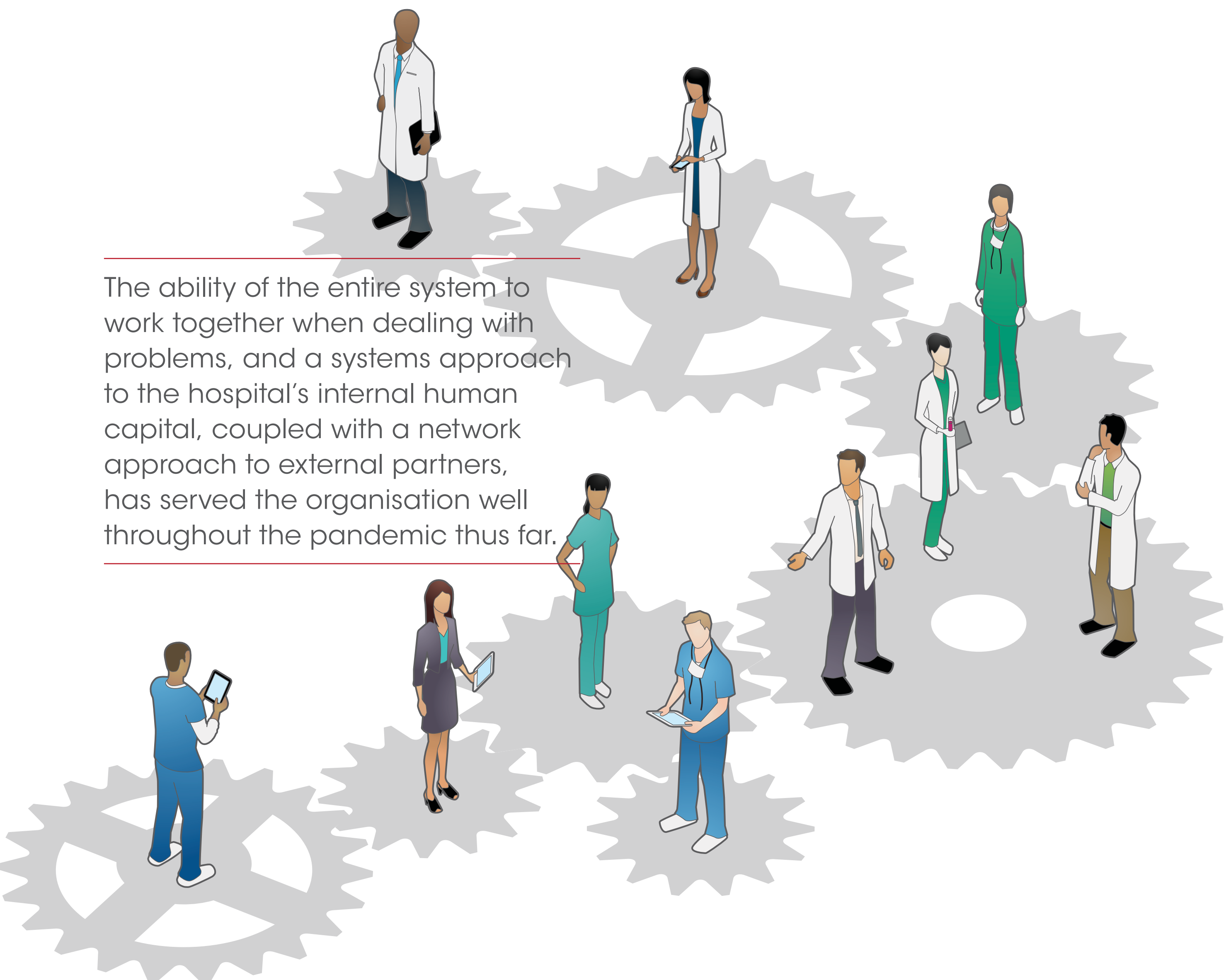
The Covid-19 test

TTSH, together with the 330-bed purpose-built National Centre for Infectious Diseases (NCID), accounted for the majority of hospitalisations during the Covid-19 pandemic and was the first site to respond to a surge in demand for capacity to treat patients. Thereafter, another 100-plus beds in the main building were allocated to meet the high national demand.

While the pandemic was still unfolding, the hospital developed a response plan to address the uncertainties surrounding the pandemic and refocused and shifted its BAU services. For example, clinics cut BAU services by 40 to 60 percent to free up resources for supporting Covid-19-related work. Clinical staff were put on roster to undertake virus-screening duties. The now-decommissioned Communicable Disease Centre (CDC) 1 was re-equipped and activated as an isolation facility. As one of the immediate risks was that numerous healthcare workers could get infected, the need for separation, containment, and scheduling was prioritised. The hospital activated staff to be part of the community Covid-19 screening effort, while others helped to plan for various scenarios, based on the latest developments.

One of the potential scenarios unfortunately turned into reality when the virus spread to the foreign worker dormitories in Singapore. The exponential rise in the number of cases, from double-digits to over a thousand a day when the outbreak was at its peak, required further conversion of wards and allocation of ICU beds to manage the growing number of Covid-19 patients. The most significant challenge was ensuring sufficient resources for patients needing oxygen.

> A four-pronged approach of working on the leadership, structures, talent, and culture pillars created an internal system of human capital that reinforces innovation in TTSH.



> The ability of the entire system to work together when dealing with problems, and a systems approach to the hospital's internal human capital, coupled with a network approach to external partners, has served the organisation well throughout the pandemic thus far.

Given the trends observed in other parts of the world, it was expected that the ICU resources would be significantly stressed by May 2020, so TTSH more than doubled its ICU capacity, and trained nurses and doctors to do intubation procedures. More importantly, the flexibility and adaptability of the staff, particularly nurses, enabled NCID to double its capacity in the space of a few weeks, to meet the surge in demand during the initial phases of the outbreak.

While the pandemic is far from over, it is clear that CHI played a crucial role in enabling TTSH to respond nimbly to the Covid-19 challenges. The ability of the entire system to work together when dealing with problems, and a systems approach to the hospital's internal human capital, coupled with a network approach to external partners, has served the organisation well throughout the pandemic thus far.

Lessons for healthcare providers and others

The focus on creating an agile organisation with a strong focus on innovation is not new in tech-oriented businesses, but is rather rare in the heavily regulated healthcare industry. Reflecting on TTSH's journey, there are five notable takeaways.

1. **Commit to the Innovation Journey**
Embarking on an organisation-wide innovation journey is an expensive proposition. The hospital's initiative was made possible through a generous donation from the family of the late Ng Teng Fong to establish CHI. Over time, financial and cross-sector support from other stakeholders further bolstered the process. Hence, before an organisation starts such a journey, it is critical to have the resources, stakeholder support (particularly that of the regulator), and the entire ecosystem prepared, aligned, and committed to the cause.

2. **Reconcile Innovating with BAU**
When management tried to promote an innovation mindset, staff often questioned why they should invest their time and resources in changing how they operate when they are already stretched. TTSH's management reconciled this apparent contradiction by emphasising on the interdependence, rather than on the trade-off, between these priorities. Innovating radical solutions is critical to maintaining BAU—this point was reinforced when the entire organisation had to develop new solutions and procedures to cope with the demands of the Covid-19 crisis. In areas where they could not be compromised, such as patient safety, management ensured that innovation was ring-fenced from clinical settings until safety and reliability could be demonstrated.

3. **Take a Systems Approach to Human Capital**
While many traditional organisations attempt to introduce innovation, few could build the drive for innovation into their culture. This requires a systems view of the behaviours expected, which is shaped by leadership, organisational structures, talent management systems, and culture.

4. **Embrace External Networks through Partnerships**
Healthcare organisations do not sit in isolation, as they depend on the ecosystem of the local government, social services, education providers, and other sectors for success. To bring about innovation, it is necessary to bring these stakeholders together, and foster collaboration toward common goals and objectives. This not only sparks innovation, but also enhances the overall view of system-related issues and challenges.

5. **Be Ready for a Test**
Too often, leaders and stakeholders will revert to their old ways when confronted with a crisis. Putting confidence in the system and being able to put it to the test might help move things in the right direction, and find new opportunities for learning.

TTSH has been successful in spurring innovation through CHI. Covid-19 has, however, led it to put numerous key initiatives on hold. This test serves as a reminder of the importance of its mission that is grounded in quality healthcare today, with an eye towards better healthcare for society in the future.

Kenneth T. Goh
is Assistant Professor of Strategic Management (Education) at Singapore Management University

Richard R. Smith
is Professor of Strategic Management (Practice) at Singapore Management University

Cher Heng Tan
is Deputy Clinical Director of the Centre for Healthcare Innovation and Assistant Chairman, Medical Board (Clinical Research and Innovation) at Tan Tock Seng Hospital

David Dhevarajulu
is Executive Director of the Centre for Healthcare Innovation

TWO-WAY MENTORING

How employees across generations can learn from one another in a firm.

By Peeyush Gupta, Michelle D. Steward, James A. Narus and D.V.R. Seshadri

Historically, young executives looked to their senior executives to fast-track their learning, a process known as 'mentoring'. Jack Welch, the former CEO of General Electric, is credited with proposing the idea of pairing older executives with younger employees, to enable the former to learn new technologies from the latter. This process, which has come to be known as 'reverse mentoring', has gained popularity over the years, propelled by the ever-increasing pace of technological change. Topics discussed during reverse mentoring could cover a wide spectrum, from big technology trends to more basic topics, such as how to use enterprise resource planning systems or learn what is trending on the Internet. Some early adopters of this process include telecommunications firms Nokia and Bharti Airtel. Successful reverse mentoring, which is essentially a form of one-way mentoring, requires an open attitude and the ability to dissolve barriers of status, power, and position.

This article, though, is about Tata Steel Ltd., a large multinational company headquartered in India, which has successfully implemented two-way mentoring. This concept is also called 'mutual' or 'bilateral' mentoring in some quarters. While the term 'mutual mentoring' turns up in some articles, the examples are typically ad hoc, casual, informal, and not formally sponsored at the corporate level. Tata Steel's programme, however, is structured, large-scale, rigorous, and has achieved sound results. It has the support of the top management of the company, and been carefully designed and implemented. The following is an account of its journey in conducting this programme, which should provide valuable lessons for other organisations seeking to learn from its experience.

Intergenerational conflict in organisations

For years, the media has been rife with stories of intergenerational warfare, frequently citing snarky gripes made by one generation against another, thereby implying that the prospect of different generations working together to achieve common goals is highly unlikely. Here are a few stereotypical aspersions that pundits often advance: baby boomers are profiteers responsible for climate change and ruining the economy at the expense of future generations, Gen Xers are privileged and ungrateful slackers, millenials (the Gen Yers) are snowflakes that are permanently attached to their smartphones, and Gen Zers are technology addicts who fare poorly at face-to-face interactions and generally do not plan to stay in a given job for more than three years.

Whether you are a baby boomer, an X, a Y, or a Z, or some other designation, it is important to realise that each generation comes to work with different skill sets and conceptions of how work should be done. Capturing and employing these skills has thus been a challenging undertaking. This is especially so for large companies in Asia, where hierarchy exacerbates these intergenerational challenges. Senior positions in these large companies are held primarily by those from the older generations, and senior management views and actions are supported by formal authority, rather than by consensus and collaboration–traits that younger workers expect from their employers.

Can the different generations learn to support and cultivate each other's strengths and capabilities for the benefit of the organisation and all concerned? With markets becoming increasingly complex, has the intergenerational performance gap been widening? And if so, what can be done?

We believe that formal programmes acknowledging the benefits of intergenerational cooperation and two-way mentoring are needed to break through the traditional walls of conflict. This is particularly important in Asia, given the cultural norm of deference to authority. If the different generations can cooperate in such a setting, those from other continents can take heart that intergenerational workplace harmony is achievable.

Facing the challenge head-on

Many large established companies today are not only grappling with a high turnover rate among new employees, especially millennials, but are also facing acute difficulties in recruiting replacements. When asked in exit interviews why they were leaving, employees consistently claim that the organisation is too bureaucratic, top-heavy, and lacking in agility. Hence, they also see very limited opportunities for career advancement.

Furthermore, these technology-savvy staff find that their employers are lagging behind other leading-edge businesses in their digitalisation efforts. In fact, this sentiment is echoed by a range of stakeholders, including suppliers, channel partners, customers, investors, and analysts. Attitudes towards digitalisation also vary across generations. While senior management may prefer to spend long hours in the office doing business through face-to-face meetings, new employees may feel more comfortable leveraging technology from remote locations and working online. To better cater to these changing preferences through a route of curation, curiosity, and collaboration, companies may seek to digitalise as many of its processes as possible. Most notably, these would include transactions, internal and external communications, and partnership programmes. These digitalised processes, especially in mature companies, may be a welcome addition for new employees, and they usually receive a warm reception from millennials at customer, supplier, and channel partner firms.

A TWO-WAY MENTORING PROGRAMME

For companies in mature markets, an intergenerational mentoring programme could be used to excite and engage new employees and spur the development of digital offerings to complement mature products. Efforts can draw upon creative and innovative inputs from new employees, thus encouraging them to build enduring careers with the company. This attempt to help cultivate a digital mindset across generations is in sync with companies' efforts to seek growth and competitive advantage through continuous improvements in the value delivered to customers.

Called by different names—sponsor/'sponsee', advisor/advisee, or even master/apprentice—the mentor/mentee concept has had a long history in management literature. The thinking has always been that a senior with rich skills and extensive experience, while also possessing both strategic and tacit knowledge, would be in a position to tutor high-potential subordinates. Today, as the pace of change increases and the foundations upon which basic processes are based shift from paper and pencil to digital records and ledgers, the skill sets required to perform even the simplest of tasks require new techniques, and consequently mentorship.

For a two-way mentoring programme to be successful, new employees who are seen as rising stars and technology experts can be paired with the most senior managers. The new employees can acquaint senior managers with the possibilities of digital technologies and data analytics, and inspire them to champion new ways of doing business. In return, senior managers can counsel new employees about business practices, leadership, and organisational skills, with the intention of grooming them for senior management positions in the future. This therefore offers accelerated learning opportunities for both mentors and mentees.

The above thinking was put into practice at Tata Steel, a geographically diversified steel producer that has a commercial presence in over 50 countries.

> Formal programmes acknowledging the benefits of intergenerational cooperation and two-way mentoring are needed to break through the traditional walls of conflict.

Application of the two-way mentoring programme

THE PROBLEM

Over the last decade, the global steel industry, and Tata Steel in particular, has had to reckon with a multitude of challenges including excess steel-making capacity worldwide, increasingly commoditised products, and highly volatile demand. If there were ever a time for the different generations of Tata employees to pull together to meet these challenges, this was it. And yet, the firm was faced with issues of high attrition and dissatisfaction among the new, younger employees.

UNDERSTANDING THE CHALLENGE

Recognising that collaboration across the generations of employees would be necessary to successfully resolve these issues, a newly-created taskforce comprising leading executives began identifying generational differences in worldviews, with the hope of successfully bridging these gaps. It quickly learned that the senior management typically comprised baby boomers and, increasingly, Gen Xers, with an average age of 50 years. On the positive side, these senior managers possessed significant wisdom and experience, understood organisational dynamics, and were well-versed in the company's processes and operations. However, they tended to be 'digital laggards' with limited awareness of the potential of digital technologies and data analytics. In addition, they often suffered from inertia and had an overriding preference for doing things the old way.

New employees tended to be millennials with an average age of 27 years. They were digital natives who possessed considerable technology skills and preferred using digital tools with which they had become familiar. They tended to be well-trained in data analytics, and comfortable with its use. They were also ambitious and willing to innovate. However, they lacked business context and organisational skills, especially those related to high-level corporate strategy. They felt more at home using technology than interacting in person with other employees, senior management, suppliers, and customers.

After reviewing the skillsets of senior managers and new employees, the taskforce saw complementarity, rather than a basis for contention. They concluded that the way forward was to get the different generations to share their distinctive capabilities through a two-way mentoring programme.

THE MENTORING PROGRAMME

Participation in the two-way mentoring programme was voluntary for both the new employees and senior executives. Applications from aspiring mentors were invited from the new employees. All of them had to take an online examination on digital competencies. Over 500 aspirants applied. Following an initial evaluation, interviews were conducted. The first round of eliminations narrowed down the number of prospects to 300. This number was further reduced to 50 and then to 16. In the first round, these 16 new employees were paired with 16 senior executives. Over the course of a year, the pairs met at least once a month and as often as once a fortnight. Meetings lasted anywhere from 30 minutes to several hours and covered a wide variety of digital technology and business management topics. After nine months, assignments were redistributed and new mentoring pairs were created. At the end of the first year, another 25 new employees and 48 senior executives took part in the programme. The company is now planning for the third round.

THE PAYOFF

Senior executives reported that they had become far more familiar and comfortable with emerging digital technologies after participating in the programme. Some of the comments they made about the programme were:

- "My new employee mentor has shown me that digital is more than just an enabler."
- "Knowledge begets knowledge. Two individuals can learn from each other through appropriate process facilitation, which is what the programme sought to provide."
- "After this experience, I've realised that digital is vital no matter what role or function I take on. So from now on, I'll be looking for opportunities to move ahead digitally."

New employees, on the other hand, said that they had gained confidence in their ability to handle uncertainty. In terms of personal skills, they had learned how to manage a work calendar and their time, present to high-level executives, sell an idea to the organisation, view situations from a strategic angle, understand senior executive thinking behind crucial decisions, establish organisational governance mechanisms, and acquire a sense of business rationality. Below are some of their comments about the programme.

- "Mentoring the managing director helped me get a peek into the professional work style of a top manager... I could correlate all that I saw about how he worked with the discussions we had during the mentoring process. I found him to be very proactive, and very keen to chart the company's digital transformation journey. He also put in a lot of effort to ensure that I was comfortable talking to him."
- "I learned time management–how to prioritise my work, handle pressure, and not to get bogged down by my short-term ambitions and instead think long-term. I also learned to look at things holistically from a strategic angle, so that I could see how the organisation was positioning itself for the long haul."

Although it is difficult to attribute all the positive changes that have occurred to a single programme, it was found that the attrition rate among new employees who participated in the two-way mentoring programme was five percent through fiscal year 2020 versus over nine percent for comparable, non-participating new employees.

Lessons learnt

Conducting the two-way mentoring programmes is not without challenges. Some mentor-mentee pairs will fare better than others. Sometimes pairs will fail to gel, the reasons for which may be a mismatch in chemistry, or the mentor was not pushing the mentee hard enough, which resulted in the perception that the mentee was not gaining much from the process.

Success and continuity of the programme is hugely dependent on the quality of mentor-mentee pairing. Tata Steel's experience reveals that the best pairing happens when the mentor and mentee are from completely different functional areas; in fact, they could be total strangers in a large company! Moreover, in a two-way mentoring process, the roles of mentor and mentee can be flexibly and seamlessly reversed within the same session. This enables an inhibition-free relationship to be cultivated, such that the young mentor does not feel overwhelmed by the senior-level mentee. It also helps if the pair is located in the same city so that monthly interactions can be carried out in person (although this is admittedly difficult during the Covid-19 situation). In contrast, a phone or video call can sometimes be awkward or make the relationship more formal. However, whether it is conducted through a call or face-to-face, reducing the formality in the relationship is extremely important in creating an atmosphere of mutual humility and joint learning.

> In a two-way mentoring process, the roles of mentor and mentee can be flexibly and seamlessly reversed within the same session.

Each company needs to find its ideal number of mentor-mentee pairs. Too many pairs becomes a challenge to manage, and too few pairs could result in limited energy and interest.

Another challenge posed by the programme is that the mentees may end up being sought after by other teams in the company due to their expertise and higher profile after taking part in the programme. They may be invited to mentor others in the organisation who are trying to progress on the digital transformation front. This can take away time from their day jobs, resulting in longer working hours. Thus, companies should help mentees manage such demands.

Additionally, caution should be taken not to excessively formalise the mentoring process, nor to attempt to shift the monitoring of the process to the HR function. Instead, companies may consider anchoring the bi-directional mentoring initiative to the strategy function, so that senior management support is offered and flexibility is maintained. Additionally, companies should be careful not to create a rigid set of dos and don'ts for the mentor-mentee pairs. Instead, they may opt for a simple, but formal tracking of the progress made.

For companies embracing the two-way mentoring programmes, they must recognise that there is a danger that the mentor-mentee relationship could reach a limit at some point, in the digital sense. An important part of retaining this relationship is for the mentee to be confident that the mentor continues to be the right 'go-to' person for anything digital. This puts positive pressure on the mentors to upgrade their skills and keep up with the developments in the digital world. Ultimately, it is a dynamic relationship. The programme needs to have an exit point or alternatively, the mentors need to be reassigned to new mentees to refresh the relationship.

Once a mentor, always a mentor. The network of relationships can continue as a valuable resource, while mentoring is conducted on an informal basis. These rich relationships can help the company attract and retain talent, as well as effectively create new offerings from vibrant cross-generational interactions.

Peeyush Gupta
is Vice President of Steel Marketing & Sales at Tata Steel Ltd

Michelle D. Steward
is Associate Professor of Marketing at Wake Forest University

James A. Narus
is Professor of Business Marketing at Wake Forest University

D.V.R. Seshadri
is Clinical Full Professor of Business (Marketing) at Indian School of Business

The authors would like to acknowledge the contributions of Gangesh Chaturvedi, Head (KVHS & Digital Projects), Tata Steel Ltd, Kolkata, India, and ISB-Centre for Business Markets (ISB-CBM), in developing this article.

SOLVING THE WORK-FROM-HOME CONUNDRUM

A personae-based framework for HR policymaking.

By Snehal Shah and Vineeta Dwivedi

The prolonged lockdown across countries due to the Covid-19 pandemic has led to a very real shift towards a new Work-from-Home (WFH) culture for the global workforce. Homes have become the new conference rooms, virtual backgrounds are the new office artefacts, and workplace chatter is now peppered with new lingo like 'digital hand', 'breakout rooms', and 'virtual happy hours'.

The number of people who now WFH is staggering. According to Gallup Panel data, the percentage of employed adults in the U.S. working from home rose from 31 percent in mid-March 2020 to 49 percent a few days later, and to 59 percent the week after that.[1] The extent of remote work levelled off at 62 percent in mid-April 2020.[2]

'The 2020 State of Remote Work', a survey conducted by Buffer involving 3,500 remote workers from around the world, concluded that respondents almost unanimously wanted to continue working remotely (at least for some of the time) for the rest of their working life.[3] In our data-gathering exercise, we found that a C-suite executive, who would usually be on a plane 10 days a month and often keep 15-hour workday schedules, suddenly found himself and his leadership team more productive, less distracted by other commitments, and more focused on strategic priorities. In another instance, an academic reported that she found more quality time to work on research and prepare for online classes while working from home. An Information Technology (IT) helpdesk employee providing technology support to a global team echoed similar sentiments.

At the same time, an increasing number of news reports are suggesting that WFH would now be in effect until the summer of 2021 at least.[4]

Seen in this light, how can working from home become a win-win situation for both employers and employees? What are the long-term policies that organisations can implement to make WFH an enduring work practice that benefits both parties?

Developing WFH policies

Physical support ecosystems and the search for meaning and purpose in work are important and complementary constituents of employee well-being. Ensuring this will require long-term policies that are inclusive and take care of employee well-being while generating productivity gains. Hence, when making policy decisions about WFH, organisations will have to strike a balance between looking after employee well-being and achieving productivity and growth goals.

While organisations often want to support WFH initiatives, they may be unsure of how to go about it. In most cases, they end up creating a standard policy that applies to all employees

News reports are suggesting that WFH would now be in effect until the summer of 2021 at least.

without taking into account their specific needs (refer to Box 1 in Figure 1). Some large firms have a huge amount of data on their employees, but struggle to organise their WFH arrangements in a coherent manner so as to develop a fair and transparent policy.

There are some instances–such as Indian IT services companies Infosys and Tech Mahindra–which are already using data to decide which staff will WFH or return to office.[5] In making their decision, these companies considered various criteria, such as project-specific resource allocation, employees' health assessment, and productivity parameters. In our view, this approach is overly organisation-centric.

In contrast, we propose a comprehensive framework below that can help organisations develop an actionable WFH policy, which ensures employee well-being while maximising productivity (refer to Box 3 in Figure 1).

Developing WFH personae

We propose that organisations adopt a customised approach by developing a set of 'WFH Personae'. A 'persona' refers to a collation of information on a group of customers that includes their aspirations, dreams, problems and challenges, background information, and environmental characteristics.[6] This is a concept popularised in the marketing domain, whereby market research insights help the marketer to create an imaginary archetype of a typical user profile.

In our case, the customer is the employee and the marketer is the employer. Employers can categorise their employees under different personae based on how well they fit the characteristics of a persona.

WFH PERSONAE DIMENSIONS

Below are some criteria that can be used by organisations, large or small, to develop their own WFH personae. The criteria cover nine dimensions specific to the needs and preferences of individuals and their employers.

1. Nature of role/project in WFH terms: Customer facing, operational, administrative, strategic. In other words, WFH-friendly, moderately WFH-friendly, and non-WFH-friendly.
2. Distance from work: Divided into bands, e.g., shorter than 5 km, from 5 to 10 km, from 10 to 15 km, and so on.
3. Mode of travel: Private car (self-driven/chauffeured), public transport (such as train, tram, metro, and bus), walking, etc.

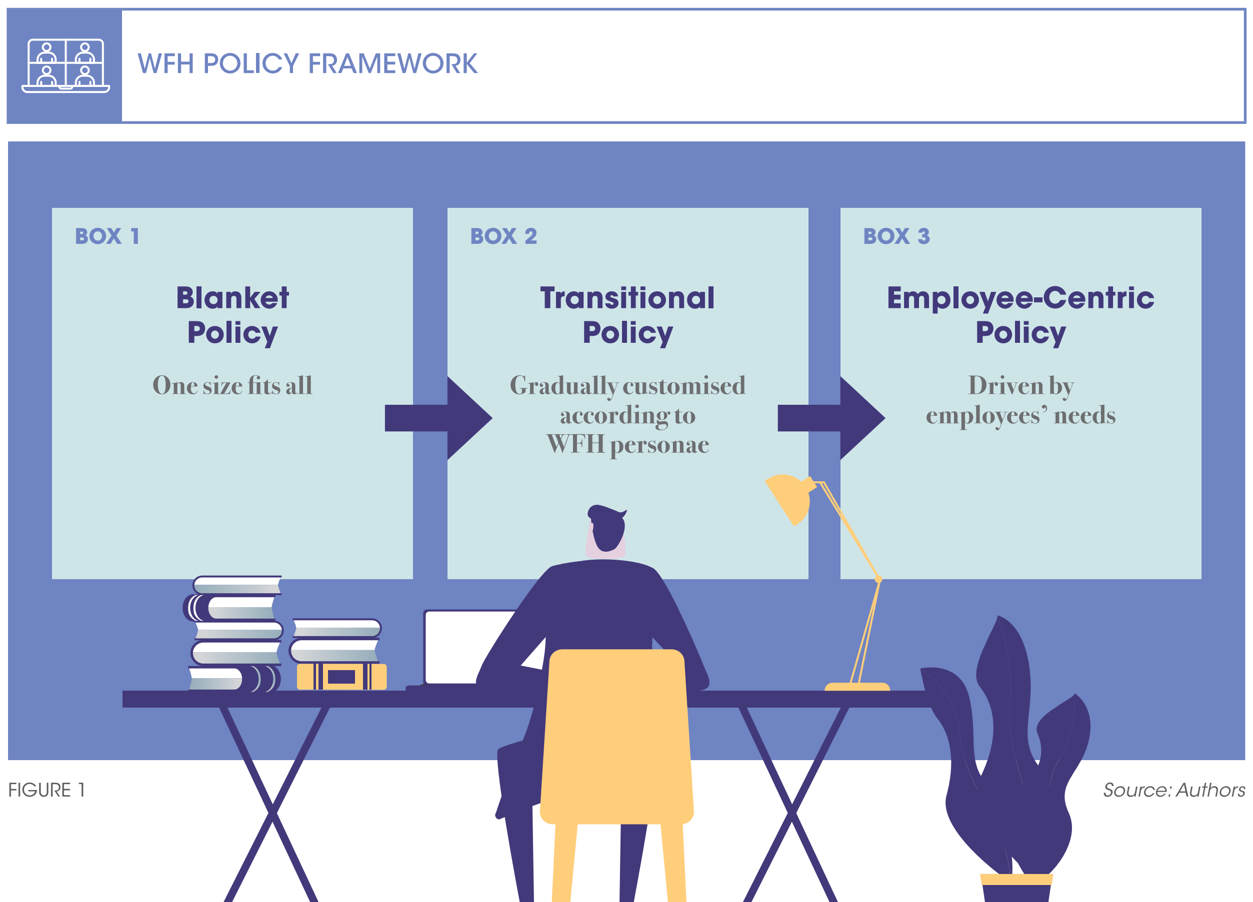


FIGURE 1

Source: Authors

4. Technology infrastructure: Internet connection bandwidth, number of Internet providers in the area, city status with respect to broadband connectivity, stability of power supply, etc.
5. Health considerations: Risk of falling ill from Covid-19.
6. Home environment: Nuclear or extended family, presence of elderly and children, option for staff to have an office space at home, etc.
7. Support environment: Availability of a caregiver, domestic help, day-care facility, etc.
8. Employee preference: Employees' preference on whether to work from office or home, and psychological indicators that capture their emotions, hope, and state of mind.[7]
9. Organisational preference: Overall assessment by the organisation, including performance criteria.

The criteria mentioned above can be collated to create an index, which in turn can define three unique personae classified as high, medium, or low WFH potential personae.

HIGH WFH POTENTIAL PERSONA

Its features may include WFH-friendly roles, employees' preference for WFH, high presence of supportive technology infrastructure ('hard' factors) and supportive home environment ('soft' aspects), as well as employers' preference for WFH.

Steven Chong is a Singapore-based computer engineer who works for a US-based software company under the WFH arrangement. Being a night owl, he now has the flexibility to align his working hours closer to those of his colleagues in the New York HQ, as Singapore is 12 hours ahead of New York. The applications and tools Steven needs for his job are already installed on his computer. He can attend most of his meetings before his daughter Alice is awake and ready to go to school. With the WFH routine, he is able to drop her off at school, relieving the morning stress for his wife who is a paediatric nurse at a local hospital. Steven usually wakes up in the afternoon, just in time to receive Alice when she comes back from school. He typically spends some time with her before putting her to bed for an afternoon nap. After finishing some household chores and having an early dinner with his family, he eases back to another workday synced with U.S. timing.

MEDIUM WFH POTENTIAL PERSONA

Its features may include roles that are moderately WFH-friendly, employees' neutrality towards WFH, moderate presence of supportive technology infrastructure ('hard' factors), and moderately supportive home environment ('soft' aspects), as well as employers' neutrality towards WFH.

Sakina is an interior designer working for a top Dubai-based infrastructure development firm. She is often assigned to work on high-end residential and office designs that the firm sells to high net worth individuals from around the world. The mother of a two-year old, she typically has a long commute to work. While she is adept at her job, she would prefer not to spend long hours away from home, which had prompted her to once express a desire to quit her job. With WFH becoming an acceptable way of life, she requested for a flexible option where all her client meetings and site visits are to be held only on Mondays and Wednesdays. These are the two days when her mother comes over to babysit her child. Sakina's firm values her creativity and is happy that it is able to retain her. In return, Sakina ensures that she makes herself available to attend all video calls that have been scheduled over these two days, and also adheres to project deadlines.

LOW WFH POTENTIAL PERSONA

Its features may include non-WFH-friendly roles, employees' low preference levels for WFH, low presence of supportive technology infrastructure ('hard' factors), and unsupportive home environment ('soft' aspects), as well as employers' low preference levels for WFH.

Kumar is the duty manager at one of the top luxury hotel groups in India. His job requires him to be present on the hotel premises during duty hours to look after the needs of the guests and ensure the smooth functioning of the hotel operations. He is trained to solve problems quickly and efficiently, ensuring a superlative guest experience as promised in the hotel's brochures. Kumar lives with his extended family, which includes an ailing father. He is the sole breadwinner of the family and cannot afford to lose his job during this difficult economic period. Due to the Covid-19 lockdown, the inflow of guests has become a trickle. However, Kumar diligently goes to work every day, proud to serve doctors, nurses, and other healthcare workers from the nearby speciality hospital who have made the hotel their temporary home during this period.

The above personae framework offers an objective way of making sense of the WFH phenomenon, allowing management to avoid relying on the arbitrariness of a blanket policy, or resorting to knee-jerk reactions to develop a policy that may be limited in its approach. It helps the organisation to design a customised HR policy that offers a better person-job-organisation fit to ensure better productivity.

Our framework includes multiple criteria for decision-making that incorporates 'softer' aspects of employees' context, such as a supportive environment, preferences, and well-being considerations. Such data are typically not found in corporate databases. Organisations thus have to go the extra mile to ascertain these critical intangibles that determine employee well-being. Moreover, by tapping on the physical and psychographic information of employees, the personae framework facilitates the collation and categorisation of data to provide a systematic actionable structure for HR policymaking, rather than limiting itself to strictly data analysis. This way, the policy is more holistic in its approach.

Challenges in implementation: Three-dimensional interdependent context

While decision-makers can use the personae to draw up a customised WFH policy, a broader perspective needs to be considered. This is because these personae are embedded in an interdependent contextual web that includes job characteristics, industry type, and geographical/cultural differences.

JOB CHARACTERISTICS

A 2018 study found that WFH improved performance for three types of employees: those with complex jobs, those who did not need others to do their job, and those who had low levels of interaction when in the office.[8] The researchers did not find any types of jobs where working remotely led to a decline in employees' performance. But the WFH option is not for everyone. Blue-collar jobs, as well as customer-facing, project-based, and client relationship-focused jobs, are less suited to the WFH format.

INDUSTRY TYPE

Not all industries can adopt the above WFH model with the same degree of success. While it fits well with, say, some services industries, it is harder to implement in industries that need a physical location or a presence. The LinkedIn Workforce Confidence Index in May 2020 showed that 55 percent of respondents thought that their industry could be effective when people were working remotely. Fields conducive for digital work, such as software, finance, and media, saw more than 75 percent of people endorse the idea that remote work and effective operations go hand in hand. However, in sectors like healthcare (48 percent), manufacturing (41 percent), and retail (29 percent), there was more resistance.[9]

GEOGRAPHICAL/CULTURAL DIFFERENCES

Similarly, not all cultures approach work in the same way, so variations in preferences from country to country are inevitable. According to Polycom's 2017 study involving 24,000 respondents across 12 countries, 80 percent of Brazilian employees were comfortable working anywhere. However, in Japan, only 35 percent of companies offered any form of flexible working. The same study also discovered that more than two-thirds of Russian and Indian respondents said their biggest concern was being perceived as less hardworking if they adopted the WFH practice.[10]

> The personae framework includes multiple criteria for decision-making that incorporates 'softer' aspects of employees' context, such as a supportive environment, preferences, and well-being considerations.

Implications for decision-makers

Decision-makers need to appreciate that WFH is not for everyone, and a one-size-fits-all policy attempted by some organisations may not work. On the other hand, personae-based understanding of employee clusters can generate a customised approach to WFH policies that is likely to yield a better employee-job-organisation fit, leading to positive outcomes.

The criteria for personae-based decision-making include 'hard' employee data, such as job characteristics, distance from work, and performance yardsticks, as well as 'softer' aspects of employee psychographics. This combination is likely to yield effective outcomes for both the organisation and the employee. These personae frameworks need to be embedded in a macro context, which takes into account the nature of the industry and region-specific nuances. Such a holistic approach helps organisations devise a comprehensive WFH policy that brings long-term benefits.

The personae framework also gives organisations an important policy lever to demonstrate transparency and fairness, thereby showing that policymaking is an objective, well-reasoned exercise. However, it should be noted that personae-based policymaking is neither foolproof nor exhaustive. On the one hand, there might be employees whose profile may not fit the personae drawn up. On the other hand, some employees' characteristics could be too sophisticated, such that they fit more than one profile. When such situations arise, the organisation's culture and values can guide decision-makers to make a better, considered decision.

The current pandemic may not have many upsides, but the WFH debate has definitely received a fillip because of it. Organisations can take advantage of this crisis to develop an equitable, fair, and long-term WFH solution, based on the personae framework that keeps employee well-being in mind while optimising performance. With robust technology, where real-time connectedness is only a touch of a button away, working from home is no longer a special arrangement like it once was before the pandemic.

> Decision-makers need to appreciate that WFH is not for everyone, and a one-size-fits-all policy attempted by some organisations may not work.

Snehal Shah
is Professor of Organisation Behaviour, Chairperson of the Fellow Programme in Management and Head of Research at S P Jain Institute of Management and Research, India

Vineeta Dwivedi
teaches Business Communication at S P Jain Institute of Management and Research, India

References

1 Adam Hickman and Lydia Saad, "Reviewing Remote Work in the U.S. under COVID-19", Gallup, May 22, 2020.
2 Megan Brenan, "U.S. Workers Discovering Affinity for Remote Work", Gallup, April 3, 2020.
3 Buffer, "The 2020 State of Remote Work", 2020.
4 Brian Fung, "Google Will Let Employees Work from Home until At Least Summer of 2021", CNN, July 28, 2020.
5 Ananya Bhattacharya, "Data Will Decide Which Indian IT Employees Will Come Back to Office amid Covid-19", Quartz India, July 23, 2020.
6 Aidan Danaher, "The Value of Personas in Content Marketing Strategy", Digital Agency Network, January 18, 2019.
7 David M. Stanek and Patricia L. Mokhtarian, "Developing Models of Preference for Home-based and Center-based Telecommuting: Findings and Forecasts", Technological Forecasting and Social Change, 57(1-2), 53-74, 1998.
8 Timothy D. Golden and Ravi S. Gajendran, "Unpacking the Role of a Telecommuter's Job in Their Performance: Examining Job Complexity, Problem Solving, Interdependence, and Social Support", Journal of Business and Psychology, 34(1), 55-69, 2019.
9 George Anders, "As Remote Work Sweeps the U.S., 55% say It Can Succeed in Their Industry", LinkedIn, May 14, 2020.
10 Polycom, "The Changing World of Work", 2017.

TO SUCCEED, MAKE HARD CHOICES

An interview with Jeff Tung.

Jeff Tung, Founder, Chairman and Executive Director at Sheng Ye Capital Limited, talks about his entrepreneurial journey in the world of supply chain financial services.

What made you want to become an entrepreneur?

I have always wanted to become an entrepreneur–to build something from scratch has been my passion. My father is a successful entrepreneur, and the environment I grew up in has helped me develop my business acumen. I am fortunate to have studied at Singapore Management University, where I learned a lot about value creation and 'being different'. The four years of my undergraduate life have had a lasting impact on me. I had the privilege of participating in several overseas internships and exchange programmes, which exposed me to international businesses and gave me the opportunity to learn from professors of different disciplines, and industry leaders. I wanted to see if I could build my own business. We cannot choose the starting point of our life, but we can choose the paths we walk on and our desired destinations.

How did you get into the business of providing supply chain financial services to clients using financial technology?

When I graduated in 2013 with a major in finance, I moved to Hong Kong. This was also the year when the commercial factoring industry in China took off. I saw huge business potential for supply chain financing in China, with adjacent Hong Kong as the right financial hub to support it. There were a vast number of small and medium enterprises (SMEs) in China serving high quality customers, and yet their financing needs were underserved. Moreover, at that time, Internet businesses like Alibaba and Tencent were revolutionising consumption behaviour in China. I felt technology could similarly transform enterprises and how they were financed. China's capital controls also meant that there were opportunities to meet the need for onshore borrowings with offshore financing.

I started learning about supply chain finance by setting up a trading company in Hong Kong to trade letters of credit. After eight months, I decided that I had to move to China to be closer to where the SMEs were, as well as to deepen my understanding of their needs and supply chains. I spent years travelling around China and meeting customers, friends and bankers to help me better understand the China market. I also considered setting up operations in Brunei. But my father said, "It's just China or you have to get out of the family." So I picked China!

Along the way, I received great support from my family and friends, especially my father who provided me the seed capital to launch the business, so that I could focus on expanding my network and exploring potential business opportunities in the early days. I met bankers in Shenzhen, who introduced me to their clients in Anhui, Beijing, and Shanghai, who in turn made more introductions. When you pass through the first door, it leads you to the next, and then you find that all the doors are connected at the end of the day.

My company was officially set up in 2014 after we received our licence on December 26, 2013. I remember that day clearly. I was travelling from Beijing to Tianjin on the high-speed rail and the train had to stop halfway due to the first snow of the year. The snowfall was so heavy that it had to be cleared before the train could move again. I was stuck in that train when I received the call from the local official to say that we had obtained the licence.

Sheng Ye Capital focuses on supply chain financing for SMEs and microenterprises in the energy, infrastructure and medical sectors. How did you decide on these segments?

We began with the energy sector. I understood the sector well and had a network I could expand from. However, if we wanted to scale the business and go public, we needed to diversify into other sectors. In deciding which sector to enter, we asked ourselves three questions. Was the market big enough? Was it resilient to economic cycles? Did it comprise a huge base of SME clients? The last consideration was important because our mission is to provide SME clients with efficient and affordable supply chain financial services. Infrastructure and medical sectors fit our criteria; together, they account for a large portion of China's gross domestic product. We then started to look for ways to enter these sectors.

Diversifying into other sectors took a lot of time and learning. I thought I knew the energy sector best, so why should I venture into a new sector? I had no prior knowledge, experience, or networks in other sectors. We were taught to focus on what we are good at and what we know best. However, diversification and scalability were the key yardsticks investors and bankers held us to. Looking back though, I do not regret our decision because people were then assured that we were not too concentrated in one sector. Today, Sheng Ye Capital is China's first commercial factoring company listed on the main board of Hong Kong Stock Exchange, serving over 4,000 SME customers.

It took you about three years to get Sheng Ye Capital listed, initially on the Growth Enterprise Market (GEM) board. That is impressive. Now that it's a mainboard-listed company, how different has it turned out from the start-up it was in the very beginning?

There is still a lot more room for us to grow. Indeed, I am proud that the company and my team have gone a long way in terms of our business model, client base, technology capability, and team composition. At the same time, we still maintain the same aspiration to provide inclusive finance to SMEs and help them receive fast and reliable finance when they are in need.

As I mentioned, we started with the energy sector, which turned out to be successful, then we replicated the model for infrastructure and healthcare. Our model has also evolved as we scaled up. In the beginning, we relied heavily on our own balance sheet capital to support loan disbursement. Now we are becoming asset-light. We have developed a new model to collaborate with onshore Chinese banks. Under this model, we still leverage the same data-driven approach to acquire customers and manage risk to help banks lend directly to the SMEs. This is also in sync with the Chinese government's call to strengthen collaboration among banks and fintech service providers to better serve SMEs during the Covid-19 pandemic. As we had transitioned to fully online processing some years back, the SMEs could apply for funding without having to visit the banks that were closed during the pandemic.

We have a cloud-based factoring platform, known as 'Easy Factoring', which incorporates technology such as electronic signatures, optical character recognition, big data analytics, video authentication, and facial recognition to ensure a seamless customer experience for the online application and approval process. Being a data-driven fintech company, we know data is king. We are now on the fast track to accumulate data. To become more integrated into the ecosystem of our focused sectors and optimise data acquisitions, we are offering procurement Software as a Service (SaaS) and Internet of Things (IOT) solutions to core enterprises to gain access to their real-time transaction data. It's a win-win situation: the core enterprises' supply chain ecosystem gets healthier with more efficient enterprise resource planning tools, while we gain insights into their transactional data which helps us provide more efficient financing services.

We are still in the fast growth phase. Our net profit compound annual growth rate in the past three years reached 83 percent, and in the first half of 2020, our loan facilitation business tripled when compared to the second half of 2019. Our IT service income increased 12 times year-on-year. With a robust risk management system, our non-performing loan rate has remained at zero percent since inception.

Now, we are seeking opportunities to expand to markets in Southeast Asia. We have formed a consortium with financial group PhillipCapital and fintech company ADVANCE.AI to apply for a Singapore digital wholesale banking licence. The consortium members have complementary capabilities that we believe are key to building a successful digital bank that can serve the SMEs in Singapore.

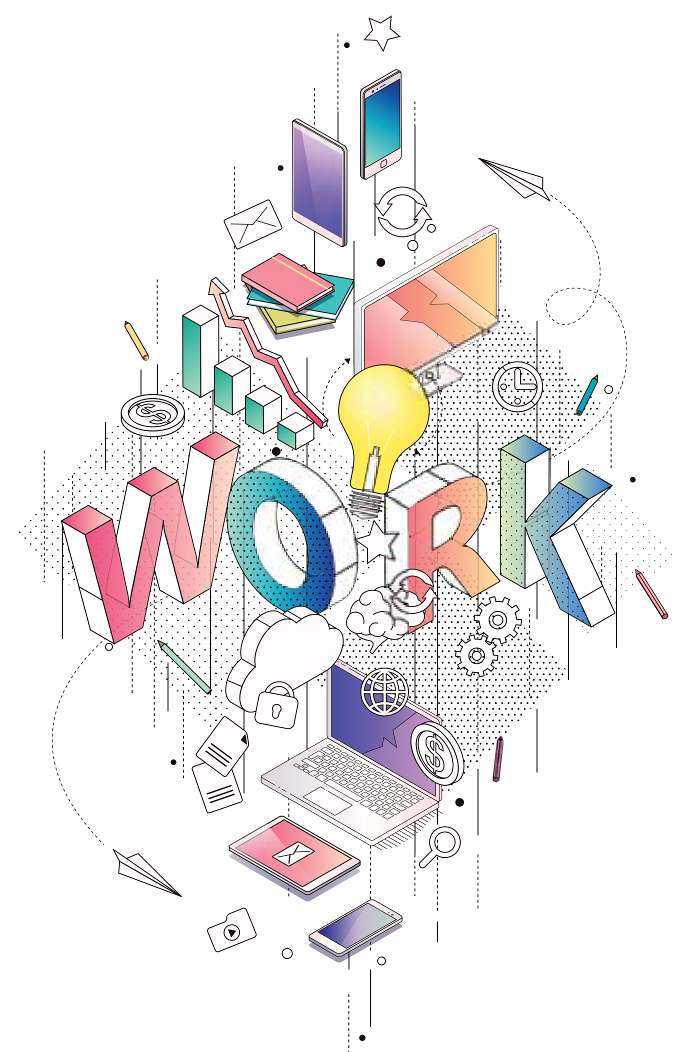
How did Sheng Ye Capital grow from a small team to get where it is today?

Over the past seven years, the lesson that I have learned is that before you start a company, you have to ask yourself what you want to achieve and how you are going to turn an idea into reality. You have to surround yourself with people who bring to the table different sets of skills and experience—only then can the company be better than the sum of its parts.

More importantly, you have to find right-minded partners. I am referring to people with a sense of ownership in the company. The founder can instil this sense of ownership by sharing the responsibilities and risks of the company with partners who will help him in the decision-making process, so that when the company grows, they can enjoy its success as well. Otherwise, they will never become partners in the true sense; they will just be workers. Partners with with a strong sense of ownership can become a formidable team that is able to overcome challenges and be open to adapting to change.

How has the Covid-19 pandemic shaped your thinking about future strategies in the supply chain financing space?

I think 2020 has been an extraordinary year. All of us, including firms, are going mobile and digital, and the pandemic has expedited the entire process. Even governments today are promoting digitalisation and leveraging digital channels. The digitalisation trend is being expedited in every aspect of the economy, and it will be the same for supply chain financing and Sheng Ye Capital. I believe tech companies



All of us, including firms, are going mobile and digital, and the pandemic has expedited the entire process.

like Apple and Huawei will remain competitive, and will continue to be profitable, not only because of their research and development and innovation activities, but also because they manage an efficient supply chain. We are seeing a lot of innovation in digitalisation, including pilot projects that have kicked off in supply chains belonging to different sectors.

All this will result in data innovation. In three to five years, I expect financial institutions and financial service providers will be able to capture data from the moment a customer places a purchase order. And that piece of information, that piece of data, will become the signal that kickstarts the entire supply chain process, from manufacturing to delivering the product. This augurs well for Sheng Ye Capital because right from the beginning, we set out to be a data-driven supply chain financial service provider. We understand the value of data. We use up a lot of resources and time acquiring and analysing data, and most importantly, applying data in our risk modelling and customer acquisition activities. Therefore, while the pandemic itself is catastrophic, I think the aftermath and its impact will result in a lot more value and efficiencies in the supply chain space.

Who or what have been the greatest influences in your life?

My family—my parents and grandparents—has been the greatest influence in my life. I also believe that one's childhood plays a very important part. As I mentioned, my father is an entrepreneur. He started his business from

> My family has been the greatest influence in my life.

scratch and I saw how difficult it was for him to balance family and career, especially when the business was in its early stages. Now that I have started my own company and become a father myself, I understand the dilemma one faces when a choice needs to be made between family and career. So I would say that along with my family, my greatest influence would be my childhood experiences, which have informed my decisions for my own family.

Do you have any advice for young and aspiring entrepreneurs?

Be bold and trust yourself. I started the company at the age of 27. When I reached out to potential clients or investors at the start, people would not take me seriously because they assumed that I was not mature or experienced enough for a serious business. But like I always say, age is just a number. Try your best and prove yourself. Don't let your age limit your talent and efforts.

It is not easy to become successful. It is also not easy to make something happen. Success requires a lot of determination and focus. At the end of the day, your real enemy is yourself. You are the only one who can decide where you land and that means having to make tough decisions. I believe that the road less travelled will take you further, but the road less travelled will also not be easy.

HOW SHALL WE 'HAMMER' AND 'DANCE'?

Pivoting towards domestic tourism during the Covid-19 pandemic.

By Lim Wee Kiat

As I grew increasingly stifled by Singapore's circuit breaker (or what I call 'lockdown with Singaporean characteristics'), my mind escaped to my first and only *onsen* (Japanese for 'hot spring') experience two years ago. Nestled in Toba City of Mie Prefecture, a two-hour train ride from Osaka, Japan, the *onsen*–and the *ryokan* (traditional inn) to which it was attached–was not a natural tourist magnet for international travellers, given its remote location. In fact, my wife and I were the only non-Japanese guests for those few days. That made us part of a meagre nine percent of foreign tourists who ventured to stay in a *ryokan* during their time in Japan.[1] Similar establishments and many other tourist spots in the country depend more on domestic than foreign spending for business. In 2019, tourism contributed about 10 percent to Japan's gross domestic product (GDP), of which eight percent came from domestic tourists and the remaining two percent from international travellers.[2]

I marvelled at the masses of domestic tourists whom I saw staying at the *ryokan* and roaming around the tourist attractions nearby. Coming from Singapore, where our unique profile collapses city, capital, and country into an island of close to six million people, the notion that domestic tourism could play an important part in the economy was one that took some getting used to. Whereas for countries like Japan with a sizeable landmass and population, coupled with a substantial middle class with spending power and a taste for novel experiences, domestic tourism is a formidable engine of economic growth. Its contribution has become more pronounced during the pandemic.

When governments are still learning how to perform the delicate routine of 'hammer' and 'dance'[3]–which is essentially striking a balance between keeping the ongoing Covid-19 pandemic at bay (i.e., 'hammer') and making sure that nationwide lockdowns do not choke the economy (i.e., 'dance')–promoting domestic tourism may provide temporary life support to the tourism sector, at least until vaccines are made available for the masses.

Asia's tourism sector takes a hit

Keeping tourism alive has become particularly critical for the Asia-Pacific region, where the sector accounted for almost 10 percent of GDP in 2019, registering a 5.5 percent growth over the year before.[4] The Covid-19 pandemic has, however, slammed on the brakes of that growth trajectory.

In East Asia, Japan was dealt with a heavy blow when the much-anticipated Tokyo Olympic and Paralympic Games were postponed due to the pandemic. The government was expecting 40 million visitors. Instead, hardly four million have visited the country up till June 2020. There were only 2,600 foreign visitors for June, a 99 percent drop compared to the same period last year.[5] South Korea suffered a similar fate. The country was riding high on the global popularity of K-pop and K-drama before the pandemic knocked off more than 70 percent of foreign tourist numbers compared to that for last year.[6] According to the Korea Hotel Association, foreigners accounted for 63 percent of hotel stays in 2018; currently, they account for about 10 percent.[7]

Tourism plays an even more critical role in Southeast Asian economies. The receipts from foreign tourists show that this revenue stream alone contributes an average of five percent to the economies of ASEAN member states. For Thailand, it makes up 14 percent of GDP; the figure is even higher for Cambodia at 18 percent.[8] In fact, the year 2020, which marks the 60th anniversary of the establishment of the Tourism Authority of Thailand (TAT), was supposed to be *annus mirabilis* for the kingdom, but it has turned into *annus horribilis* instead. TAT's target for 42 million foreign arrivals cannot possibly be realised by December in view of the travel restrictions caused by the pandemic. Its most optimistic projection now is eight million foreign tourists.[9]

Domestic tourism: Its promise and perils

It is no wonder then that in this dire period when the pipeline of inbound travellers has dried up, several Asian countries have turned inward, hoping to work up a demand for residents to spend their vacation dollars in their own backyard. For example, Malaysia, after having to cancel the Visit Malaysia 2020 campaign, has placed its bet on domestic green tourism. The country has an abundance of nature parks and scenic features, such as limestone caves and waterfalls. In fact, Tourism Malaysia, the national agency responsible for promoting tourism, believes that domestic tourism could grow as much as 30 percent over the next year.[10] Singapore too has set aside US$233 million to boost domestic tourism.[11] Dubbed SingapoRediscovers, the campaign hopes to encourage Singaporeans to explore the local culture and heritage.

Asian companies have also discovered that they need to become more innovative in promoting domestic tourism. Taking a leaf from the cruise liners' 'cruise to nowhere' package, Taiwanese airline Eva Air launched a special 'flight to nowhere' campaign on August 8, which is Father's Day in the Taiwanese calendar. Passengers could enjoy the full experience of being an outbound tourist–from checking in at the airline counter and undergoing security screening to clearing immigration and boarding the plane. The three-hour roundtrip on Eva Air's Hello Kitty Dreamliner included the much-missed inflight meals created by a three-star Michelin chef. The damage? US$180 for an economy class ticket, with an option to upgrade to business class for another US$34.[12]

However, it remains to be seen how the promotion of domestic tourism would work out, given the fast-evolving and complex nature of the pandemic. Take Vietnam, for example. The country had mounted a strong campaign that hammered the virus spread in the first half of the year. It saw only 355 confirmed cases as of June 30, 2020, registered zero deaths, and experienced no local transmission for several months. It was an exemplar of how resource-constrained societies could contain the virus effectively. But within weeks of switching from 'hammering' to 'dancing' (i.e., reopening the economy and easing restrictions), cases started to break out. Danang, a coastal city popular with both domestic and foreign travellers, turned into the new epicentre. The government rushed to evacuate 80,000 visitors from Danang, and the city descended into a full lockdown.[13] The routine had changed, with 'hammering' taking the lead again. As of end-August, Vietnam had over 1,000 cases and the number of deaths has spiked from zero to 34.[14] Other Asian economies, such as South Korea and Hong Kong, have also experienced a similar resurgence in infection.

Until there are effective vaccines and the much-debated herd immunity is in place, countries would likely have to 'rinse and repeat' the 'hammer-and-dance' routine as often as need be. In the meantime, the task of juggling between saving lives and keeping the economy humming will continue to be an onerous and taxing one.

So where to next?

The lifeblood of tourism for many Asian economies has always been international visitors. Governments thus need to establish reciprocal 'travel bubbles' with one another safely, reliably, and quickly. Such 'travel green lanes' have to be backed by standardised rigorous testing, transparent quarantine measures, and robust contract tracing procedures. That being said, with most countries still remaining in full or semi-lockdown, it is going to take a while before tourism in Asia would recover to its pre-Covid-19 vibrancy.

As for realising my dream of returning to the Toba *onsen*? That will have to wait.

Dr Lim Wee Kiat
is Associate Director at Centre for Management Practice, Singapore Management University

References

1 C. Diep, "Share Guest Nights in Ryokan by Foreign Travelers Japan 2011-2019", Statista, June 2020.
2 C. Diep, "Distribution of Domestic and Foreign Tourism's Contribution to the Gross Domestic Product in Japan in 2019", Statista, March 2020.
3 The phrase "hammer and dance" was first used by writer Tomas Pueyo to describe how Covid-19 could be effectively suppressed, and it has since gained increasing currency.
4 TTG Asia, "Travel and Tourism Sector Key to APAC's Economic Recovery: WTTC", April 13, 2020.
5 JTB Tourism Research & Consulting Co., "Tourism Statistics", August 12, 2020.
6 Troy Stangarone, "COVID-19 Pushes South Korea into Recession", The Diplomat, August 3, 2020.
7 Ibid.
8 Kazuya Manabe and Marimi Kishimoto, "Southeast Asia Faces Budget Deficits if Tourist Numbers Drop 50%", Nikkei Asian Review, March 18, 2020.
9 Raini Hamdi, "Thailand's 60th Tourism Anniversary Turns to Nightmare as Longstanding Travel Agencies Start Closing", Skift, August 6, 2020.
10 Corinne Wan, "Malaysia Puts Bet on Domestic Tourism, Nature Attractions Tipped to Do Well", Webintravel, August 4, 2020.
11 TTG Asia, "Singapore's Domestic Tourism Push Gets US$233m Boost", August 17, 2020.
12 Maggie Hiufu Wong, "EVA Air Introduces Special Flight to Nowhere on a Hello Kitty Plane", CNN, August 4, 2020.
13 Preeti Jha, "Coronavirus , Vietnam: The Mysterious Resurgence of Covid-19", BBC News, August 8, 2020.
14 Worldometer, "Vietnam", September 2020.

A MATTER OF LIFE IN DEBT

Can we move away from using debt as a way to tackle economic downturns?

By Deepika Deshpande

Economics is not a natural science. Seldom can economic ideas be tested objectively and even when they can, seldom do they carry universal applicability. Notwithstanding this subjectivity, there are some immutable principles that hold true regardless of time and place. One such idea that comes close to being an 'immutable truth' is that the amount we borrow cannot exceed the amount we can repay, or, more generically, growth in the level of debt cannot indefinitely exceed growth in the level of income. This is common sense, so it requires no sophisticated financial knowledge on our part to understand it. Strangely, however, in the context of today's historic levels of global debt, this fundamental wisdom seems to have been forgotten. This article explores the drivers and implications of global debt, and debates possible solutions to the debt problem, particularly those that address the root causes.

Debt: A brief history

Our relationship with debt has a long and complex history. Anthropological evidence suggests that debt was a common feature of early human settlements, and it was in fact a precursor to money. In that sense, managing debt is not a new issue that our financially evolved societies have to contend with. In his 2018 book *...and forgive them their debts: Lending, Foreclosure and Redemption From Bronze Age Finance to the Jubilee Year*, Michael Hudson offers an interesting historical account of the management of debt in ancient societies. His research on Bronze Age Mesopotamia suggests that official debt annulments were a commonly used fiscal tool to restore financial stability. When the burden of debt on the citizenry became excessive and debts could not be repaid, the cancellation of debts became the only practical solution to prevent a social and economic collapse.

While the world has experienced multiple 'debt cycles' characterised by periodic ebbs and flows, the secular trend since the mid-20th century has been climbing. The global debt database compiled by the International Monetary Fund (IMF) aggregates public and non-financial private debt dating back to 1950, and reveals that total debt to gross domestic product (GDP) exceeded 225 percent in 2016, and has in fact more than doubled since 1950. Updated figures on the rising tide of debt are available from the Institute of International Finance (IIF) Global Debt Monitor, and they not only indicate that global debt reached US$255 trillion or 322 percent of global GDP in 2019, but also that it is set to exceed US$257 million by the end of Q1 2020.

There have been four significant debt peaks in the 20th century. Three of these peaks—the high levels of debt after WWI, the Great Depression, and WWII—primarily affected advanced economies, while the fourth, which occurred during the debt crisis of the 1980s, impacted emerging markets.[1] The retreat from the peak levels of debt in each of these episodes was achieved mostly through a combination of defaults or restructuring, inflation, and financial repression or some form of forced lending. Generally, high levels of leverage are accompanied by lower levels of economic growth, and this makes deleveraging a painful and prolonged process. In fact, the debt peak after WWII was the only one that was partially reduced by GDP growth in the form of the post-war boom.

Debt in the 21st century

The rise in debt in recent times is, to some extent, being driven by exogenous socio-economic and demographic trends. Longevity and ageing populations are forcing governments to spend more on welfare, and this is a trend that is not likely to reverse anytime soon. Rising inequality may also have a role to play, since the rich tend to save more while the poor depend on debt for consumption.

There is also a more specific reason contributing to the growth of debt. Keynesian thinking that emerged in the aftermath of the Great Depression advocated the use of increased government spending and reduced taxes to provide an important counter-cyclical demand boost during recessions. The trade-off for any inflationary pressure due to increased spending would be reduced unemployment. These ideas provided the theoretical basis for the use of fiscal policy interventions to smoothen out downturns. When Keynesian economics could not address the stagflation of the 70's, monetarism or the use of money supply and interest rate changes to influence economic activity began to gain in popularity. Today, both fiscal and monetary ideas feed into the policy toolkit available to governments to address recessions and downturns. Research by Hamilton Bolton and Tony Boeckh of Bank Credit Analyst indicates that prior to the ascendancy of these ideas, leverage would build up in times of economic expansion, but there would be a return to financial sobriety during recessions. This pattern resulted in particularly painful economic downturns, whose qualities of acute bleakness and deep despair were captured in the novels of John Steinbeck, and the photographs depicting breadlines during the Weimar Republic period in what is now Germany.

Today, thanks to the sophistication of theories, tools and institutions, economic crises are unlikely to hurt as much as they did in 1929 when the Great Depression started. Even though debates on the use of interventionist policies versus the reliance on market self-correction mechanisms surface from time to time, fiscal support and quantitative easing by central banks have now become widely adopted policy responses to crises. It is almost inconceivable that governments and policymakers would sit idle while economic cycles painfully re-adjust themselves.

The collapse of the sub-prime market, which triggered the Global Financial Crisis (GFC) of 2007-2009, is a good case in point. Economists Alan Blinder and Mark Zandi estimate that after the passing of the American Recovery and Reinvestment Act (ARRA) of early 2009 and the adoption of other smaller stimulus measures, fiscal initiatives aggregated to almost seven percent of GDP.[2] Simultaneously, the U.S. Federal Reserve Bank ('the Fed') undertook a significant programme of monetary expansion that included aggressive interest rate reductions, and the direct injection of money through quantitative easing programmes. Consequently, the Greenspan Put of the late 1980s re-materialised as the Bernanke Put during the GFC. More recently, it has re-emerged as the Powell Put after the Covid-19 crisis broke out. When the markets initially shrugged off the US$2-trillion stimulus announcement in early March 2020, the Fed doubled down on its offer. Former European Central Bank President and economist Mario Draghi's emphatic promise in a 2012 speech to do "whatever it takes" has since then not only become the default strategy of policymakers, but is also increasingly becoming what markets expect when a crisis arises.

John Mauldin in his book *Endgame* constructs an excellent analogy between economies and forest fires. The state of California in the U.S. and Baja California in Mexico have similar types of forests and vegetation, but very different fire control policies. Paradoxically, Baja California has many more small fires but almost no major fires, whereas California has limited small fires but has witnessed many devastating high-intensity fires. In California, small fires are put out regularly by firefighters. In Baja California, they are not. Small periodic fires clear up leaf litter, dry brush, and other flammable material, and thus provide an important defence against destructive wildfires. Mauldin indicates that a similar logic may be at work in an economic context: small periodic corrections keep leverage levels in check, but efforts to ameliorate them in the short term may in fact exacerbate their effects in the fullness of time.

While such measures help smooth out recessions, they rarely allow for a complete return to normality. Interventions provide vital shock absorption in the short run; however, they could set into motion a debt supercycle that we will find hard to extricate ourselves from.

The root problem of using this approach, however, is not the unprecedented growth of debt. It is not even the fact that each successive crisis becomes more difficult to manage, since we approach it with a higher burden of debt. The real issue is that repeated use of a tool that provides short-term relief erodes the motivation to identify and address systemic problems. The manifest takes precedence over the latent, the immediate over the looming. To quote French entrepreneur and diplomat Jean Monnet, "People only accept change in necessity and see necessity in crisis." Rescue operations in the form of quantitative easing have removed the sting of the crisis and hence the appetite for fundamental change. There is no debt purgatory anymore.

Finding other ways to pay debt

Regardless of the reasons for the increase in debt, it is very unlikely that economic growth will be able to continue contributing to debt servicing as it had during the post-WWII debt boom. An impressive commentary by Dietrich Vollrath in his 2020 book *Fully Grown: Why a Stagnant Economy is a Sign of Success* unpacks the 25 percent decline seen in U.S. GDP growth between the second half of the 20th century and the first 20 years of the 21st century. His analysis indicates that 80 percent of the deceleration has been driven by demographics (ageing, and declining fertility rates), and reductions in total

The real issue is that repeated use of a tool that provides short-term relief erodes the motivation to identify and address systemic problems.

TOTAL DEBT TO GROSS DOMESTIC PRODUCT (GDP)

factor productivity resulting from a shift to a service-focused economy. These trends are not likely to reverse.

Addressing the debt problem involves some obvious solutions such as ensuring productive use of debt, removing unnecessary subsidies, and curbing corruption, while improving tax policies and compliance are an obvious solution to better managing debt. However, it is unlikely that these alone will be adequate to resolve the issue.

While the discussion so far has pointed out the problems related to the current style of economic management with respect to debt, what are the possible solutions? A good starting point would be to recognise the fact that every incremental build-up of debt brings diminishing marginal returns in terms of economic growth. It may therefore be advisable to shift our focus from debt-fuelled growth to a more balanced set of indicators. This is not a new idea. Herman Daly proposed the theoretical reasoning behind the limit to growth concept in his book *From Uneconomic Growth to a Steady-State Economy* in the early 70's. Many of the ideas behind the concept of uneconomic growth originated from the thinking on ecological economics.

The global economy has grown too large to ignore the finitude of our world, and any incremental growth will extract more in terms of cost than what it will deliver in terms of benefits. Additional considerations are fuelling the calls for re-evaluating growth-centred policies, foremost amongst those being the rising level of inequality in income and wealth. Danny Dorling in his recent book *Slowdown–The End of the Great Acceleration–and Why It's Good for the Planet, the Economy, and Our Lives* argues that such a slowdown is not only inevitable but also desirable. He marshals compelling evidence to prove that human progress has been slowing since the 1970s, and propounds that it is a path to stability and happiness.

Unfortunately, we have no available precedent for navigating a deceleration, other than managing it as a downturn. The accepted logic underpinning our economic, social, and cultural ideologies puts an emphasis on growth, consumption and acceleration. We will therefore need a new theoretical framework to meet the requirements of a decelerating world. To some extent, the current Covid-19 crisis has provided a natural experiment for exploring new ideas. In a recent interview, Christina Romer, former Chair of former President Barack Obama's Council of Economic Advisors, was asked which of the previous crises–the Great Depression or the Great Recession–offered the appropriate model for tackling the Covid-19-induced recession.

> A good starting point to economic management with respect to debt would be to recognise the fact that every incremental build-up of debt brings diminishing marginal returns in terms of economic growth.

Her answer categorically emphasised that this recession is different. Under the current circumstances, it is unlikely that fiscal or monetary stimulus, regardless of quantum, can fully bring back consumer demand, and nor would we want it to, given that the underlying problem is one of public health and safety. As such, the traditional fiscal and monetary solutions have limitations.

Other than economic theory, we will also need cultural norms and values to evolve. What we consume, how much we consume, how we price social and environmental externalities, and how we distribute the rewards of labour, are greatly defined by cultural mores, and these have a profound impact on economic outcomes. The political commitment essential for resetting our course cannot run ahead of what is socially and culturally acceptable to the underlying constituency concerned.

How we should solve the problem of debt remains a matter of conjecture. What is not a conjecture is the tautological conclusion of Stein's Law–if something cannot go on forever, it will stop. And despite the many millennia that separate us from the ancient Assyrians, the solutions to a debt crisis remain remarkably unchanged–the debt must be repaid by the debtor or it must be forgiven, explicitly or implicitly, by the creditor. The former while ideal is not simple to carry out, while the latter while simple to execute is not ideal.

Deepika Deshpande

is a financial services industry professional with 26 years of experience at Citibank. This was followed by an assignment at a Singapore-based fintech where she served as Chief Operating Officer

References

1 Carmen Reinhart & Kenneth Rogoff, "This Time Is Different: Eight Centuries of Financial Folly", Princeton University Press, 2009.

2 Alan S. Blinder and Mark Zandi, "How the Great Recession Was Brought to an End", 2010.