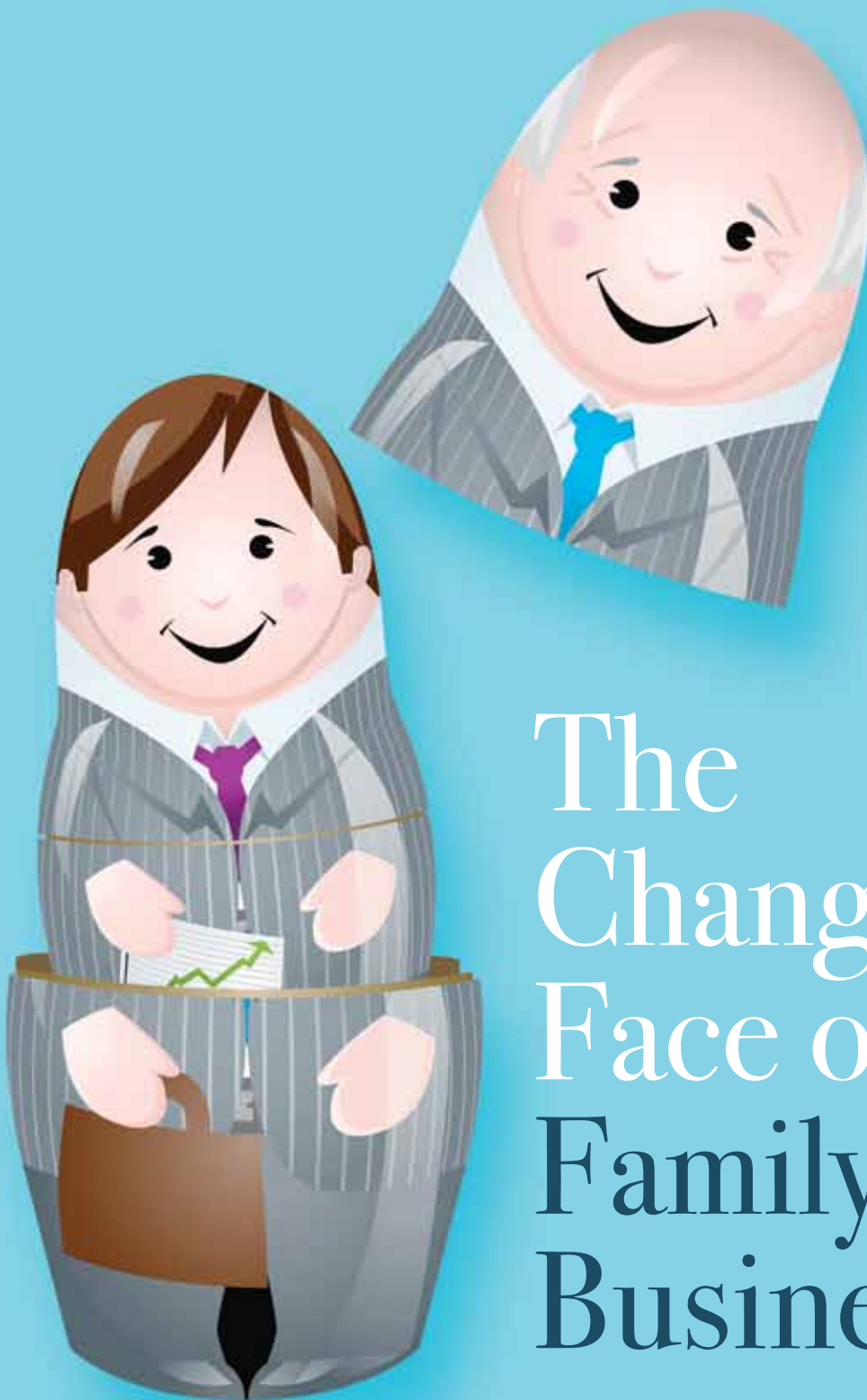


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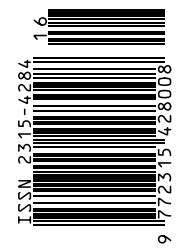
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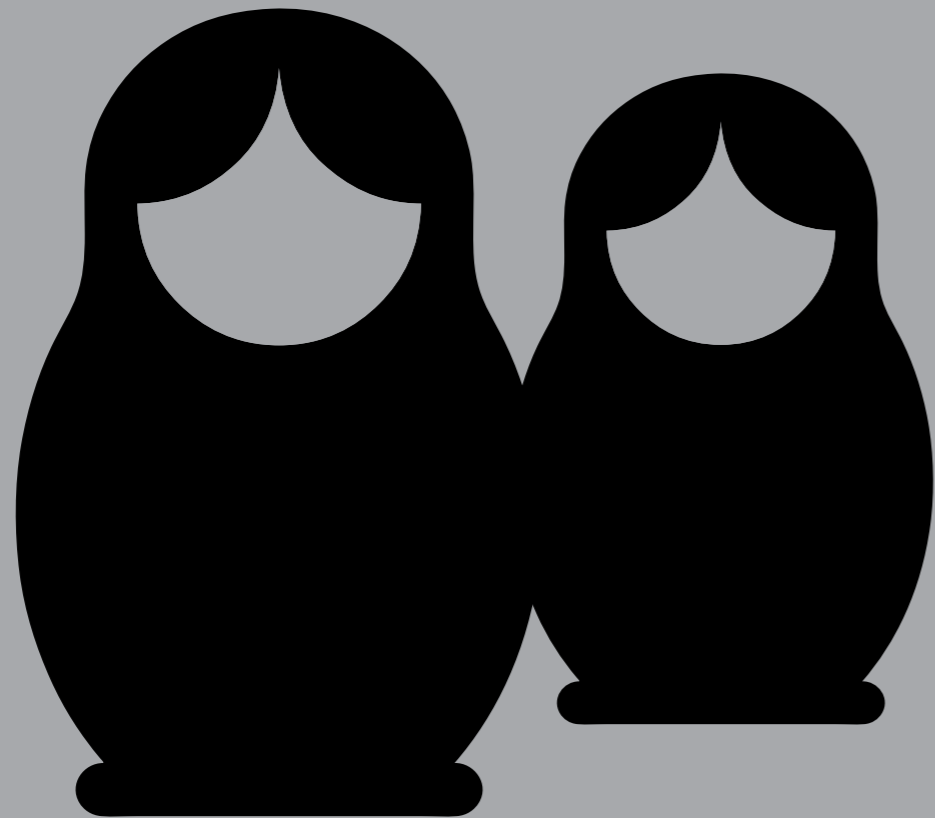
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Making the
most of current
tailwinds

The Changing Face of Family Business

VOL.5 S\$16.00



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FROM THE EDITOR

Of tailwinds and headwinds

Long-time readers of these pages are more than familiar with disruption, and the current shift in the world's economic and political tectonic plates is assuming even greater interest for many of us. This, of course, is not just restricted to Brexit and China's Belt and Road policy, or the Trumpian perspective on tariffs, or even immigration, where in 2015, Asia surpassed Europe as the largest hub of international migrants. According to the Asian Development Bank report, 'Asia 2050: Realizing the 20th Century', if China's stable economic growth continues, Asia will produce 50 percent of the world's gross domestic product by 2050, a level not seen since the 1700s before the Industrial Revolution. As Confucius once said: "The grass must bend when the wind blows across it." And so must we.

In this edition of *Asian Management Insights*, we explore this further. The pace of change is staggering, says Amit Gupta. Although this makes it increasingly difficult to predict the future, he stresses that the farsighted policies and progressive ideas now being promoted in Asia will stand the region in good stead as it embraces disruption with confidence. Also optimistic is the global chief economist of The Economist Intelligence Unit, Simon Baptist, who discusses the trends that are likely to shape the future global economic outlook in our feature interview.

Although Japan is making the most of current tailwinds to revive its sluggish economy based on three elements of aggressive monetary easing, flexible fiscal policy, and structural reforms, Odd Per Brekk considers the success of Abenomics to be resting precariously on expectations. Meanwhile in the case of Vietnam, the former advisor to the prime minister, Pham Chi Lan, notes that although the agricultural reforms introduced post *Doi Moi* (1986) have helped lift the nation out of extreme poverty, agriculture in Vietnam is still in need of flexibility, efficiency, modernisation and innovation, including the adoption of biotech, in order to take economic growth to the next level.

Policy disagreements are nothing new to economists, says Joergen Oerstroem Moeller, who questions whether or not the time has come to redesign productivity, away from minimising the cost of production for plants to minimising the cost for society as a whole in order to deliver a higher national income. In a similar vein, Miguel Soriano explores one of the greatest paradoxes in today's world: The people with the most limited resources are the ones paying the highest fees for financial products and services. Poverty mitigation was also top of mind for Tung Nhu Nguyen, who says public-private partnership initiatives, which increased six-fold in developing countries, need to be aligned with this strategic social goal, keeping in mind pro-poor evaluation benchmarks.

Even family businesses, which represent 85 percent of Asia-Pacific businesses, are experiencing a transformation, notes Annie Koh. The new ventures, she says, feel like start-ups but are supported and funded by the family business. Meanwhile, Chandrasekhar Sripada zeroes in on what makes for an outstanding workplace that draws in the best talent in the era where robots and people will begin to work together, regardless of the industry sector, size or life stage of a firm. Still on change and transformation, Low Kee Yang and I explore ASEAN's various legal systems and their impact on doing business in the region: What may work for a local can prove to be a handicap for the foreign investor and we invite you to share your ideas and experiences through editorami@smu.edu.sg.

And finally, Eric Sandosham provides a much-needed fresh perspective on organising business intelligence and analytics, one of the most talked about practices in the last decade, in which data-driven approaches are applied to improve business performance and reduce uncertainty and equivocality, all part of change. Our Special Supplement, which is exclusively available online at <https://cmp.smu.edu.sg/ami>, takes this practice a leap further to show managers how firms can effectively deploy human minds and intelligent machines in the workplace.

On this note, I am reminded of what Amazon's Jeff Bezos had to say on change, "What we need to do is always lean into the future; when the world changes around you and when it changes against you—what used to be a tailwind is now a headwind—you have to lean into that and figure out what to do because complaining isn't a strategy." Even for policy wonks.



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IMAGINE

research creating
meaningful
impact to make
our society
BETTER



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I'm expecting a mild slowdown in China triggered from the investment sector. And over the next five years, I am most optimistic about India.

OF CHINA, INDIA, AND A TEMPERED GLOBAL ECONOMIC OUTLOOK

Global Chief Economist of The Economist Intelligence Unit, Simon Baptist, discusses trends that are likely to shape the future global economic outlook, in this interview with Alvin Lee.

2018 is shaping up to be an interesting year for global economics. How do the coming months look for China and India, the world's most populous countries?

2017 was a pretty good year, a lot of countries did reasonably well, marked by a turnaround in Europe and Japan, and China's gentler-than-feared slowdown. Moving into 2018 it's looking just as good, but there are some clouds gathering.

I'm expecting a mild slowdown in China triggered from the investment sector. Unpaid corporate debt will lead to a slight cutback in bank lending, and I expect to see investment growth in China slow as a result. There will also be tighter controls over household loans.

While this is a challenge, chances are the Chinese government will be able to control what happens. China has a good track record of dealing with transitions, and it's likely they will do so again this time. China's banking system is not the same as that in, say, the U.S. and Europe where things can be market-led; everything in China is state-led. The government has all the levers to engineer a controlled slowdown instead of being at the mercy of changing sentiment or market forces.

Over the next five years, I am most optimistic about India. Although India has always had that potential, what makes things different now? The answer is politics. The political scene is less fragmented than before. The BJP now controls both the presidency and parliament. It's the first time in 35 years that one party has the majority in the Lower House, and they are on track to secure a majority in the Upper House as well. This has allowed the government to take some important steps. Financial regulations have made the banking system more robust. The central bank is run more effectively. And the Goods and Services Tax has harmonised taxes across Indian states, making India more of a national market.

India's growth will be services-driven rather than manufacturing-driven. I don't think India will become a manufacturing powerhouse the same way that China did. It's going to be a services powerhouse. From the industrial revolution in Europe, to Japan in the 50s, then South Korea, Hong Kong, Singapore and Malaysia to date, every country has achieved economic development through the manufacturing route. Yet India—and we'd put the Philippines into the same basket—is trying to go from lower- to middle-income status, and to higher-income thereafter, through the services sector.

So there is the open question: Can services deliver the same level of productivity growth? Can services deliver the same level of job creation needed to draw all those migrants from rural areas? How vulnerable is the services sector to things like automation and robotics? The answers will unfold with time.

The price of oil seems to be an area of concern in 2018. With oil prices now at their highest point in three years, are fundamentals pointing to a repeat of the days of US\$120 per barrel? And what does that mean for the global economy?

I think there's very little chance of oil going back to US\$120 a barrel. In fact, I think the current price of around US\$70 is a little high. My feeling is that the long-term price of oil in the next 12 to 18 months will be between US\$50 and US\$65 per barrel, but it does depend on how well the OPEC countries can stick to their promises to cut production.

The big reason why we see the sudden rise in oil prices is that the U.S. has become a big oil producer. U.S. oil production is quite responsive to price. When prices go up, you see U.S. producers increase output, and when the prices decrease you see U.S. production decrease in response to market forces. It's a different dynamic to the past where price formation was more fully controlled by the OPEC countries—led by Saudi Arabia—which make decisions about output somewhat independently of the price. Governments make decisions on the basis of how they want to affect the global market; they're not responses to the market price. U.S. production, which is now significant and responds to the market price, will keep prices in a narrower band than before.

To what extent are oil prices affected by the shale producers? Are they back in the game now that prices are creeping up? Is oversupply likely as a result?

Absolutely. It's all about the shale producers. They are more easily able to respond to price changes and we are now seeing that. U.S. oil output has just reached its record level, surpassing any historical level of output. It is in direct response to the fact that prices over the last six to eight months have been going up, and oil producers have been increasing output.

It's a bit difficult to talk about over- or undersupply. Oil, like any product, is just a market. There's a demand and supply, and the price will just move and these things will find a balance. What I do think will happen is that the increased production from the U.S. is going to put a downward pressure on oil prices over the following six months as the increased production comes through. The shale producers in the U.S. must make sure they don't overinvest in new production, such that prices fall so much that they stop making money.

Is Jerome Powell, chairman of the U.S. Federal Reserve, likely to maintain the course of slow interest rate increases? What does that mean to the rest of the world and, specifically, Southeast Asia?

The new U.S. Fed is a bit more hawkish than the previous one. As such, they are going to be less worried about unemployment and more worried about inflation. The new Fed is more likely to prefer higher interest rates and lower levels of inflation than lower interest rates and higher levels of inflation. The bigger impact is the government spending increases and tax cuts announced in late 2017. These are going to create inflationary pressures and could cause interest rates to rise faster.

I wouldn't want to overstate that difference—it's just a shift in emphasis. We still expect three rate rises from the Fed in 2019. And next year, maybe instead of expecting two or three rate hikes like we had under Janet Yellen, we might now expect three or four. The long-term perspective on U.S. interest rates is that they are still pretty low but the normalisation process, which has already started as Yellen has signalled, is likely to continue. But low unemployment and rising government spending means that barriers to raising interest rates are lower than in 2017.

What does that all mean for Southeast Asia? There might potentially be some downward pressure of currencies as those high interest rates induce people to put money into the U.S. rather than elsewhere. Also, countries with big current account deficits, such as Indonesia, will have to be conscious about their domestic policy settings to make sure that they are attractive places for foreign direct investment, which is harder to move around compared to investment in the stock market or bond market that can more easily be shifted out and cause instability.

Stock markets have been on a bull run. Is a correction due? Do central banks and governments have the tools to control the fallout?

Asset bubbles are something the world has to be wary about at the moment. It's not just in the stock markets where there has been a big uptick in prices of assets. Many property markets have risen a lot in the last five years or so, so have stock and bond markets.

I do think the U.S. stock market is overvalued at the moment. The question you have to ask about the U.S. stock market is: Do you think U.S. tech companies are fundamentally changing the

way we do business? And do you think those U.S. tech stocks are the companies who are going to reap future profits from that? Is the world going to use Amazon the way U.S. consumers use Amazon today? If you do, then you think all sorts of supermarket and retail businesses are going to go bust, and Amazon is going to get all the profits, for example. In this region, perhaps it's Alibaba who's going to be that company, perhaps Baidu, or maybe Lazada or some other regional firm. If so, we might think U.S. stocks are a little bit stretched.

Is 2018 the year of the cryptocurrency crash?

Like most economists, I'm currently a little sceptical about cryptocurrencies. But it's our nature to be sceptical about something that challenges a fundamental unit of economy such as money, which has been running for such a long time. Money is only useful to the extent that other people accept it. Money has no value in and of itself. The paper or plastic of which it is made is worth nothing, but it's worth something because the next person you give it to is going to accept it.

Therein lies the big challenge for bitcoin. I can see bitcoin, or cryptocurrencies in general, having uses in illegal transactions. Or where there is a need for some kind of secrecy desired by those taking part in the transaction. Or perhaps as in the case of China where people want to get around capital controls—it's an unofficial way of moving money in and out of the country. So that provides a base for cryptocurrency usage.

But I don't think governments are going to sit back and allow cryptocurrencies to take over the role of normal money. Governments do have the power to regulate these sorts of things. The supporters of cryptocurrencies say they are beyond the influence of governments, but that's just because governments haven't regulated cryptocurrencies yet. When governments see cryptocurrencies eroding their ability to raise tax, for example, I think they will intervene fairly quickly.

I think the tipping point is close. A lot of regulators are talking about cryptocurrencies as a top priority. Another thing that could happen is national governments could launch their own cryptocurrencies (*ed: Venezuela launched the Petro on February 20, 2018, two weeks after this interview was conducted*). You might say there are some benefits from blockchain technology that underlie those cryptocurrencies that could also be used by central banks and national governments themselves. If those benefits are real, then we will see governments setting up cryptocurrencies.

How significantly will Brexit affect global growth prospects for 2018? Will the associated issues—trade, immigration and finance—cast a wider shadow on EU reforms?

Brexit is affecting the U.K. economy already, but by less than most economists expected after the vote happened. I also expected it to have a more negative impact immediately. One of the reasons the British economy did well was that the currency crashed. U.K. exports became a lot cheaper, which helped the manufacturing sector. Also, the rest of Europe ironically had a good couple of years—there was a notable turnaround in France—and the rest of Europe is the biggest market for U.K. exports. Those two factors have come together. Additionally, consumer and business sentiment have held up pretty strongly after Brexit.

I think the change for this year that we can anticipate is that businesses are now getting a bit more worried. We're only one year out from when the exit has to happen based on the current timetable, and there is still no deal, not even a proper proposal. Businesses are holding off on some investments and waiting until things become a little clearer. But that all mainly affects the U.K. I don't think it has global ramifications at this point.

So in a nutshell, economic fundamentals point to the following outlook for the remainder of 2018: Oil prices will not reach US\$120, more U.S. Fed rate hikes are expected, and Brexit's fallout will remain largely within Europe.

The World Bank, in its January 2018 edition of Global Economic Prospects, wrote that "growth in investment and in total factor productivity (TFP) has been declining over the past five years" and that demographic trends are likely to hold back future growth. What does that mean with regard to 2018?

The long-term productivity trend over the past 10 or 15 years has been downwards. Productivity growth in the OECD was running at three to four percent some 10, 15 years ago but now it's running at between zero and one percent, and in good years two percent.

Why is that? It's one of the biggest questions in economics at the moment. Over the last 12 months, the worries about the productivity slowdown being permanent have receded somewhat. There are two schools of thought. One is the technology optimists who think that new things are going to come along, such as automation and artificial intelligence, genetics,

Economic fundamentals point to the following outlook for the remainder of 2018: Oil prices will not reach US\$120, more U.S. Fed rate hikes are expected, and Brexit's fallout will remain largely within Europe.

biotechnology etc. that are going to, in the coming decades, mean we are going to be a lot more efficient than we are now.

However, there are other people who say, 'Well, all the big inventions have happened in the last century, or have been brought to scale in the last century.' These are things such as electricity, cars, running water, these sorts of things. Innovation today such as Facebook and Twitter—do these things add to productivity? Probably not. They make life more fun, which is worthwhile, but maybe Facebook is not going to have the same impact on the global economy as electrification did. So that's the pessimistic view.

Which one will win out? I guess we won't know. There have been many times in the past when people have been worried about innovation running out and that we've used up all the good inventions. Over the past couple of hundred years, societies have somehow managed to come up with new inventions. On balance, I'm probably an optimist.

This interview was conducted on February 5, 2018, following a talk by Simon Baptist at Singapore Management University.

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REAPING LONG-TERM GAINS FROM VIETNAM'S LAND REFORMS

Agriculture in Vietnam is in need of flexibility, efficiency, modernisation and innovation.

By Pham Chi Lan

The economic growth and development that has taken place in Vietnam over the last three decades has been quite remarkable and has helped lift the nation out of extreme poverty. The country's GDP has grown by 7.4 percent on average between 1990 and 2014, one of the highest in the region.¹ And these high rates of economic growth have been accompanied by greater growth stability (refer to Figure 1).

Much of Vietnam's development can be accredited to *Doi Moi*, the economic reforms that were started in 1986 with

the goal of creating a socialist-oriented market economy. The population has benefited from gains in labour productivity as the economy has gradually shifted from being centrally planned towards a market-oriented economy that focused on trade and economic freedom. Foreign trade, market-based exchange rates, new trading rights and the implementation of tariffs and taxation are just a few of the economic reforms that have liberalised the economy and helped the development of Vietnam.

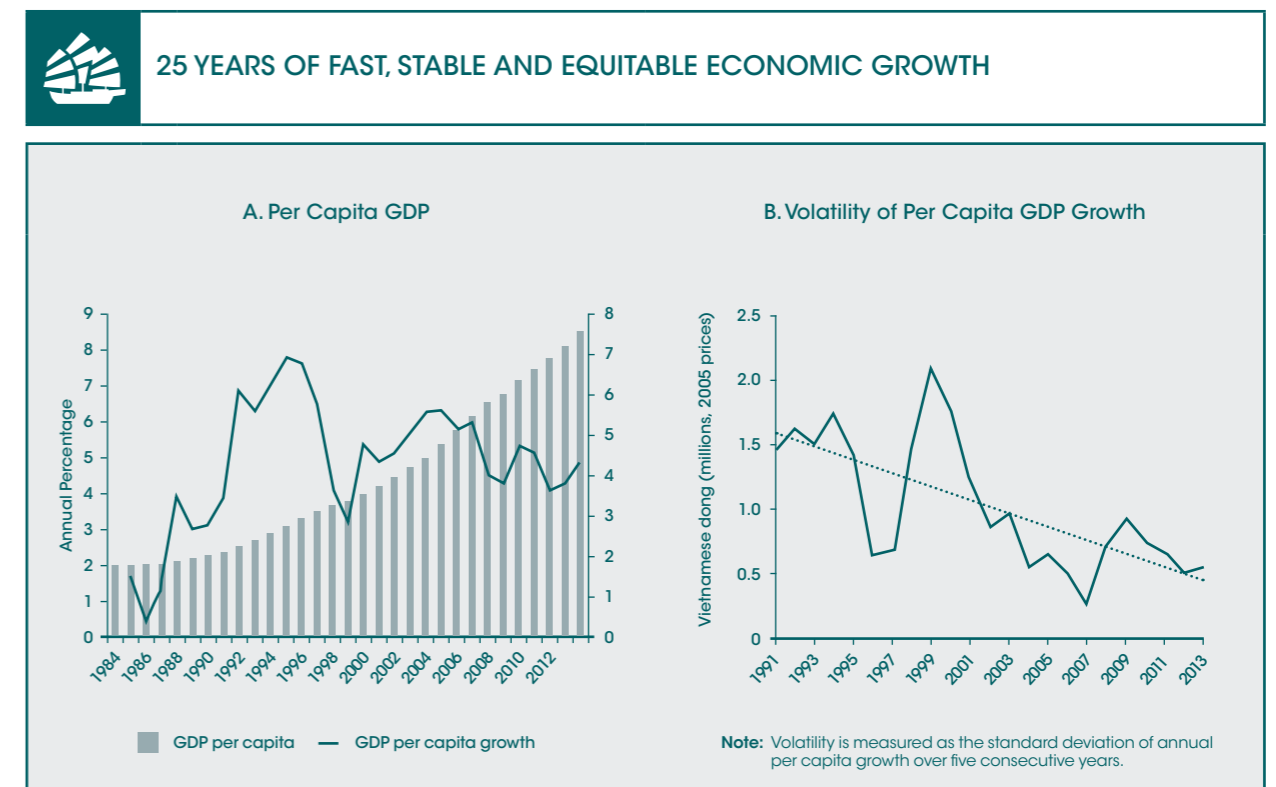


FIGURE 1

Source: The World Bank (2016)

Doi Moi

All reforms in Vietnam started with agriculture. At the start of *Doi Moi*, 90 percent of Vietnam's population lived in rural areas and depended on agriculture for a living. This segment has traditionally held a lot of importance for the economy. Prior to *Doi Moi*, the socialist government heavily controlled and regulated the agricultural sector as farmers used to work in cooperatives on pieces of government-owned land. Farmers did not have long-term job security and often had no incentive to work hard or perform well, as each member of the worker cooperative was paid the same daily wage that did not reflect their contribution to total output.

Despite being a primarily agrarian economy, agriculture was lagging behind in output and productivity, and had not created equitable wealth in the country. It was clear that the output and productivity that was required in agriculture could not be achieved under the central planning of the socialist government.

As early as the 1960s, Kim Ngoc, chief of party in Vinh Phuc province, initiated agrarian reforms in his province, which were the precursor to broader, nationwide agricultural reforms. From 1966, cooperative members in the province were allowed to work on their rice fields allotted to individual households and, after selling a fixed quantity to the government, these farmers could use the remainder for their own consumption or to sell in the market. Despite constraints such as the absence of a fully-functioning free market for commodities and farm-to-market infrastructure, the lives of the farmers in Vinh Phuc changed radically in just one year.

Other provinces like Hai Phong learnt from Vinh Phuc's experience and tried to apply these lessons in their own areas. Initially, the Party's leaders did not welcome the idea. But they slowly came to accept the benefits of the new system for the farmers, for the people and for the economy. The Sixth Congress Party accepted the ensuing reforms in agriculture in 1986. And with the introduction of *Doi Moi*, cooperatives were disbanded in practice and households were allowed to work on individual pieces of land.

Following decollectivisation, from 1993, land use rights were improved. The new Land Law enacted in 1993 gave households a 15-year lease and a limited opportunity to buy and sell land. This gave farmers some long-term security and an incentive to invest in their land. Official quotas on domestic trade of certain crops were lifted and steps were taken to introduce market-based pricing, which gave farmers freedom and opportunity that they did not have before.

As a result, productivity and output in agriculture soared to levels never attained before, which provided the much-

needed fillip to the whole economy and stimulated demand for other goods and services. From a net importer of food grain, Vietnam became an exporter of rice with the first one million tonnes of rice exported in 1989. Agriculture, forestry and fishery grew at a stable 3.7 percent from 1984 to 2014 and exports from these sectors jumped dramatically from US\$0.5 billion in 1986 to US\$30.9 billion in 2014.²

Reforms for the future

Despite the growth of urban centres and the natural focus towards industrialisation, agriculture is still the largest economic sector in Vietnam and continues to be an area of comparative advantage for the country. In 2014, 70 percent of the population was living in rural areas and 50 percent of the workforce was engaged in agriculture.³

Whilst the agrarian reforms played an important role in reviving the agricultural sector and bringing about economic growth, agriculture in Vietnam today is faced with a new set of challenges. Low-cost, labour-intensive agriculture has helped Vietnam progress in the past 30 years but with fierce international competition, a host of free trade agreements, fluctuating commodity prices, changing climate and weather patterns, rural-urban migration, and shifting domestic demand, the agricultural sector needs to adapt and evolve. Vietnam is at the cusp of change and another round of agrarian reforms is imminent and necessary.

Presently, agricultural value added per worker in Vietnam is growing at one of the slowest rates in the region and is signalling for a transition in the agricultural sector (refer to Figure 2). A mere 6 percent of total state investment went into agriculture between 2005 and 2010.⁴ This percentage is much lower than the contribution of agriculture to national GDP.

The government has a different role to play now: It needs to allow market forces to guide the development of the agricultural sector while also regulating and ensuring smooth and sustainable growth and employment for the population. The manner in which the government addresses the current issues will determine the success of the sector—and of the economy—in the future. With the support of government policy, Vietnam's agriculture must move towards flexibility, efficiency, modernisation and innovation.

Despite the growth of urban centres and the natural focus towards industrialisation, agriculture is still the largest economic sector in Vietnam.

The Vietnamese government today needs to allow market forces to guide the development of the agricultural sector while also regulating and ensuring smooth and sustainable growth and employment for the population.

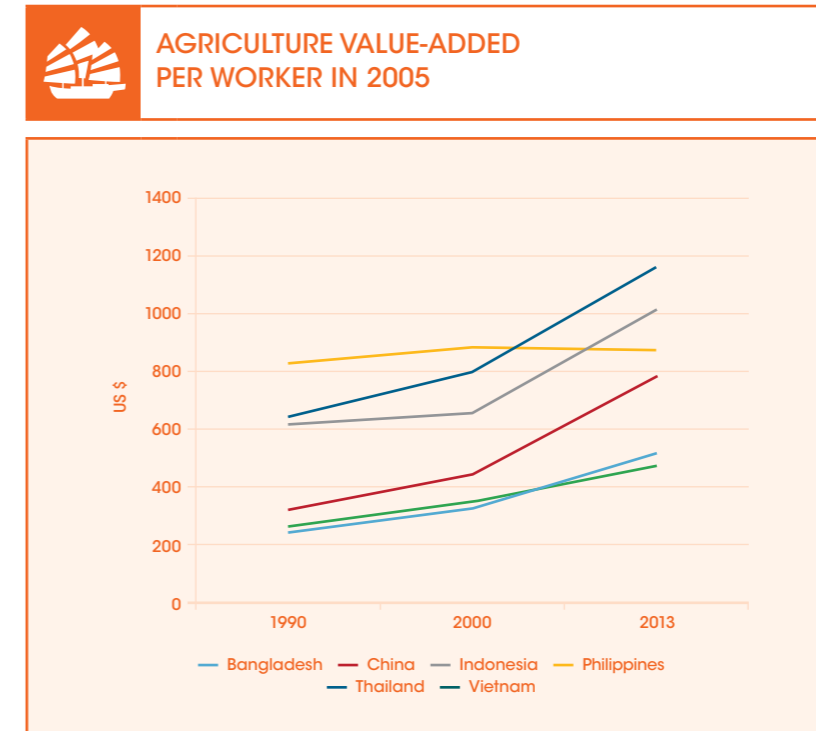


FIGURE 2

Source: *A Retrospective on Past 30 Years of Development in Vietnam (2015)*

LAND OWNERSHIP

Land continues to be under the sole ownership of the state. When I was a member of the Prime Minister's Research Commission, we made a proposal for a multi-ownership model for land in 2003 and then again in 2012 when Vietnam prepared to revise the Land Law and the Constitution. The move to complete private ownership was ambitious, so we suggested a system that included private ownership for land used by farmers and businesses, and community ownership of land for public uses such as churches, pagodas, schools and parks, etc., as well as state ownership for land used for infrastructure and the state sector. However, the proposal did not go through as the key top leaders preferred to reserve the right to land ownership for the state.

While farmers can now get land leases for up to 50 years, there is always a danger that the government can take back the land use rights at any time in the name of 'social economic development'. Left with very little recourse and a lot of uncertainty, this reinforces the farmers' lack of motivation to make investments and improvements on the land.

The absence of formal or free land markets makes it difficult to correctly value the price of land. Also, at any time, the government can take land from the farmers, pay them a paltry sum as compensation, consolidate the small plots into a single piece of land, and sell it to a new investor, industrialist or even a sought-after foreign direct investor. Overnight, the new owners of the large piece of land can sell the land at great multiples of the price paid to the farmers. Over the years, land ownership has come to be concentrated in the hands of a few rich persons. If we look at the rich list in Vietnam today, most have gained their wealth largely through real estate as compared to any other industry. In essence, they have become rich at the cost of the poor, because when farmers lose their land, current and future generations lose their means of survival.

FARM SIZE

Decollectivisation has also led to fragmentation of farmland that is, more often than not, unproductive. The small, individual plots of land made it difficult to justify investing in modern techniques as it substantially raises the average cost of cultivation. The current limit by the Land Law is set at 3 hectares per farmer. The average farm size in Vietnam is 2.4 hectares (as opposed to say, 540 hectares in the United States), making it inefficient to mechanise, invest in irrigation and other technologies, or even to develop farm-to-market infrastructure such as warehouses and transportation. As a result, agriculture remains backward and productivity remains low.

The inefficient and ambiguous land policies have meant that there has been just 1.8 percent growth in output per hectare between 1997 and 2012, one of the lowest in the region.⁵ This has

forced many farmers to move out of the rural areas in search of alternate means of livelihood. The land allocated to these migrating households is often left uncultivated. The inability to repurpose/consolidate unutilised pieces of land due to strict monitoring by the government results in a poor allocation of resources. Investment is lacking due to inefficient scale and thus, output and productivity is sub-optimal.

As Vietnam develops further, a large proportion of the rural population will move to urban areas, which makes it all the more important that the farmers who stay have access to larger plots of land with more long-term security and flexibility of use. This will serve to keep them on the farm as the increased scale would potentially offer them a decent, sustainable income. In addition, the nation's supply of primary exports can be stabilised rather than being allowed to fluctuate too low due to inefficient allocation processes.

LAND USE PATTERN

To date, Vietnam has relied heavily on rice production to feed its population. It is therefore understandable that government policies needed to focus on rice production, and investments, howsoever meagre, were centred on this crop. Although rice was the staple diet and the crop was in high demand when the country was poorer, things have now changed. Currently Vietnam's rice production is more than adequate to feed its population, with almost a quarter being sold for exports.⁶

With economic growth, the population is wealthier now, and with the opening up of the economy, they are more exposed to international culture. Thus, the Vietnamese are reducing their rice consumption and moving towards a more diversified diet including vegetables and seafood. Hence rice

no longer provides food security for the population in Vietnam.

Furthermore, with irregular and unpredictable weather patterns and prospective climate changes, Vietnam may have to look for other crops that can grow in varied conditions and do not require large amounts of water and land. Rising temperatures and sea levels pose challenges to the agricultural sector and hence having a flexible land use policy and supporting a range of crops will be of utmost importance. During the monsoon season, when the water supply is stable, rice is the most appropriate crop to grow. However, at other times of the year, it is worth exploring the cultivation of other crops that command a higher value and require less water.

With water supplies declining in the Mekong Delta and other regions, and the heightening risk of climate change, Vietnamese farmers must look to other crops that will need less water and command a good price in international markets. Vietnam's expanding aquaculture, coffee, rubber and cashew industries have more economic potential than rice and hence farmers would be better off switching to these crops where possible. Multinationals like Cargill are now showing interest in Vietnam to source cocoa for companies such as Mondelez and Nestlé. Not only can Vietnam seize the opportunity to be a key supplier to these fast moving consumer goods companies, it can also benefit from the modern technology they will bring to farming and food processing.

In summary, with changing consumption patterns, the need to optimise water usage, likely climate change, and the opportunity to produce and export cash crops, it is time for farmers to look to other crops. To do this, they need the backing of the government. Vietnam continues to

With water supplies declining in the Mekong Delta and other regions, and the heightening risk of climate change, Vietnamese farmers must look to other crops that will need less water and command a good price in international markets.

devote about 80 percent of total crop area to rice production whereas in China, a more developed nation with similar geography, only around 25 percent of crop area is used for rice production (refer to Figure 3). The Vietnamese government controls which crops can be grown on certain pieces of land with little heed to appropriateness or profitability.

Modernising and investing in agriculture

According to the United Nation's Food and Agriculture Organization, Vietnam is among the 20 countries in the world that has the potential to develop agriculture as one of the key sectors in the economy.⁷ Vietnam should leverage this advantage as competition from other developing countries in other industries becomes equally, if not more intense.

First, an efficient land market will have to be introduced so that pieces of land can be priced according to market forces and local demand. With land markets working efficiently, land consolidation will be able to take place more easily, which will result in larger plots of land under common ownership. In conjunction with longer and more stable land leases, this should provide farmers with long-term security and hence they will be more likely to invest in their land.



POLICY FOCUS AND INVESTMENT IN RICE PRODUCTION: VIETNAM AND CHINA

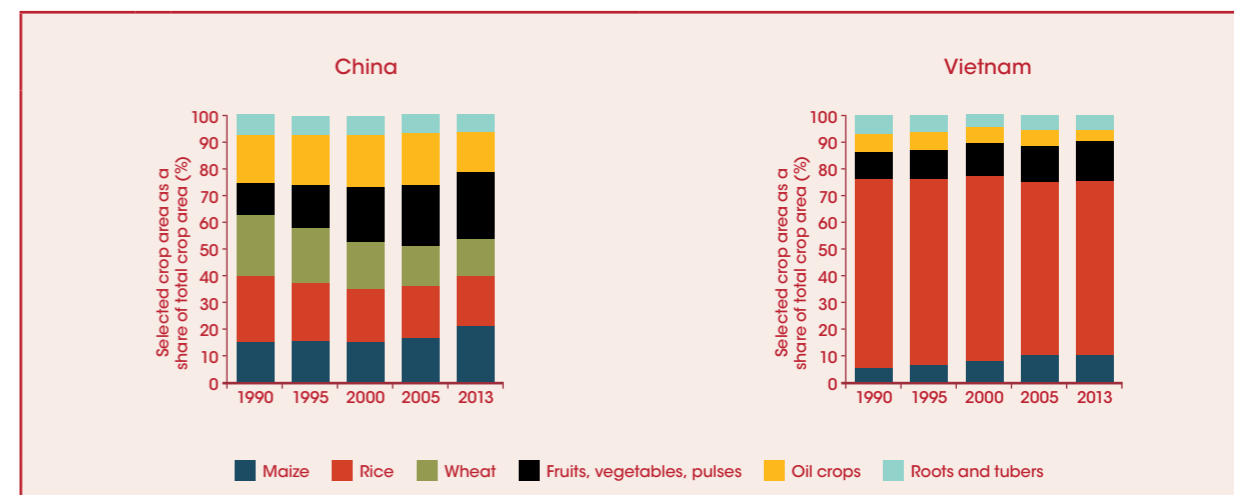


FIGURE 3

Source: The World Bank (2016)

Second, land ownership limits at 3 hectares per farmer need to be removed to improve productivity and ensure that limited agricultural land is not wasted. In this way, productive farmers will have access to more land and inefficient farmers can sell their land for a reasonable price and find other means of income.

Third, the government has a major role to play in facilitating the modernisation of the sector and can start by investing in research and development, infrastructure, and irrigation systems that would all help improve productivity. New production methods and research on profitable crops would help farmers survive in the face of growing competition and changing climate patterns.

Fourth, while direct investment has its place, the government also needs to promote private investment. Public-private partnerships would help bring the much-needed resources into agriculture and could provide much larger amounts of investment than the government alone.

Fifth, Vietnamese farmers often find their opportunities in global markets constrained due to the growing safety and quality standards of food, which are often not met in the Vietnamese market. Managing food quality standards through regulations and public policy would allow for more trade with foreign markets, something that hasn't been too successful in the past.

Finally, while the government is pushing to implement computerised systems to closely monitor agricultural investments and land transactions, much more will have to be done to adapt the agricultural sector in the 21st century.

Market reforms produced short-term gains in agriculture, but it is really the land reforms that will help Vietnam truly leverage its agricultural power. By combining improved infrastructure and better connectivity with urban areas, the rural areas of Vietnam could develop and prosper without the need for farmers to move to urban areas in search of employment. We need the involvement of the private

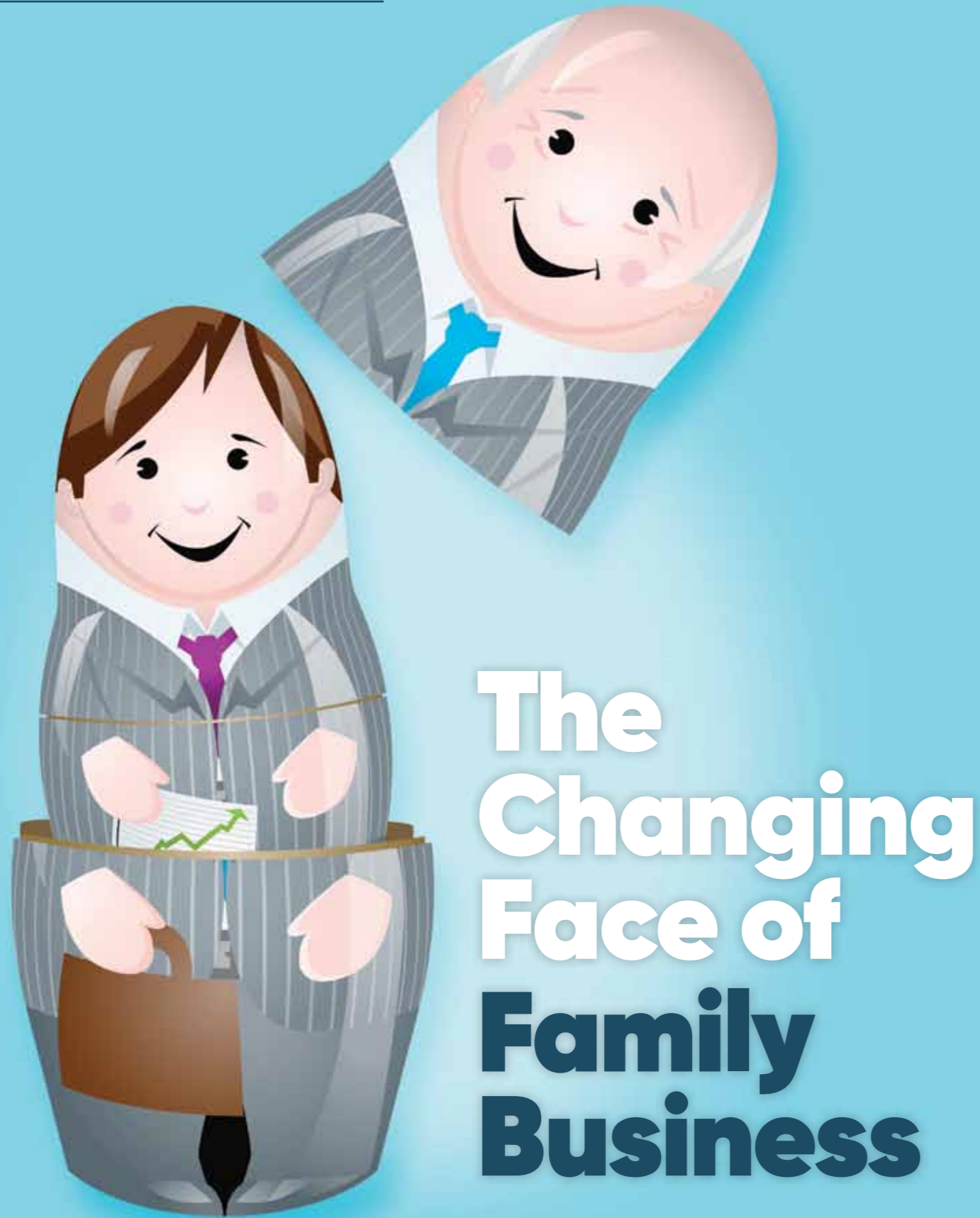
sector and new investors. We also need better technology and new science to be applied to agriculture—all towards welcoming a new era of Vietnamese development in the long-run.

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Transformation is the new normal for next-gen family businesses.

By Annie Koh

Times are changing for family businesses around the world. It is no longer business as usual—at least not as far as the next generation is concerned. Increasingly, next-generation leaders are leading their family businesses into new sectors, new products, new services, and new territories. They are testing out new business models, going global, and embracing digitalisation. In doing so, they are taking the family business out of its comfort zone and adopting sustainable practices.

Surveys signal this new reality. In 2017, PwC polled 100 next-generation family businesses online and conducted 35 in-depth interviews with next-generation firms located across 21 countries.¹ The survey titled, ‘Same Passion, Different Paths’, revealed that about 35 percent of the firms are now led by transformers. And what is significant about this group of next-generation leaders is that they are metamorphosing their firms with the blessings of the family.

Another 20 percent of the firms are taking the intrapreneurial path, where the next-generation leader creates an entirely new, unrelated venture within the family firm. These new ventures feel like start-ups but are supported and funded by the family business. Remarkably, only 20 percent of next-generation leaders are sticking to their guns, according to the survey. This small segment is concentrating on strengthening the foundations of their existing business. The remaining 25 percent chose to leave the family business entirely.

With the bulk of next-generation leaders leading the charge for change, there is one burning question: Why and how are family businesses changing in these times of disruption? It is important that we understand this. Particularly in Asia, family firms represent 85 percent of Asia-Pacific businesses and

With the bulk of next-generation leaders leading the charge for change, there is one burning question: Why and how are family businesses changing in these times of disruption?

contribute to 32 percent of the world's total market capitalisation, playing a major role in the development of their economies.²

Leading family-owned powerhouses in Asia now account for 17 percent of the world's 500 largest family firms, including Reliance Industries from India (oil and gas), Sun Hung Kai Properties from Hong Kong (real estate), and Kuala Lumpur Kepong Berhad from Malaysia (consumer products). Furthermore, in Asia, many family firms are transitioning from the second to third generation, and some like the Ayala Corporation have been around for almost two centuries (established 1834) presently being run by the eighth generation. So we ask: What is making family businesses take the bit of change between their teeth and run like the wind?

Family firms represent 85 percent of Asia-Pacific businesses and contribute to 32 percent of the world's total market capitalisation, playing a major role in the development of their economies.

Three megatrends

No firm is immune to the impact of three megatrends: Globalisation, digitalisation and sustainability. These three vectors are dramatically reshaping businesses across the globe.

- The internationalisation of markets affects every business, big and small, across the globe. With globalisation, family businesses find, for example, new competitors challenging their formerly-protected domestic markets, or formerly loyal customers now choosing price over service. In addition, the dynamic drive for growth and internationalising is hauling many family firms out of their traditional domestic stomping ground and, along the way, exposing them to a whole new set of competitors.
- The evolving digital economy and technological changes have far-reaching consequences on the business models of the typical family business. They bring along new technologies that are highly disruptive, transforming existing business practices, business models, and mindsets.
- Sustainability is fast becoming a major marketing force. Several research surveys reveal that for more and more consumers, sustainability is not just a nice-to-have; for one-third of consumers, it has become an imperative that the firms that sell them products and services are doing social or environmental good.³

Let's take a close look at how family businesses are coping and adapting to these forces and why they are excelling in this.

Global citizens steering global businesses

Family businesses have traditionally started and grown in domestic markets. But in a world that is becoming globally competitive, they are realising the

need to internationalise in order to survive. Globalisation has changed the landscape of how consumers think, behave and spend. Customers have more options, are better informed and are more connected digitally. They are able to compare prices globally to find the best offer, as well as evaluate supporting services worldwide to find the best customer support, in both the business-to-business and business-to-consumer space.

In the new global world, all is up for grabs. Your competitors come from all corners of the earth. Every firm can gain access to a much wider market, both physically and digitally. Family businesses know that in this hyperconnected world, a global mindset goes beyond geographical expansion to a more holistic view of global networks and conduits as gateways to collaborations and market-making opportunities.

What is helping today's family businesses harness these opportunities is a new global mindset among their younger leaders. Growing up in the family business can result in their leaders becoming very self-focused. But family firms are adjusting well to this new global world because their next-generation talents have spent a lifetime thinking about how their firm is related to the world.

Typically, next-generation leaders are highly qualified and have studied in top universities outside of their countries. They have grown up in several different countries and are exposed to many cultures. They have a network of friends and associates that spans the globe. These global citizens are open to change, willing to learn and take risks, receptive to collaboration across borders, and game to remodel the business' organisational culture. They are not afraid of uncertainty



HOW WILL THE NEXT GENERATION LEAD?



Source: "Next-Generation Family Businesses: Evolution Keeping Family Values Alive", Deloitte, May 2017

and see opportunity in a world in flux. These next-generation leaders are also more comfortable working with non-family professionals to help them implement their globalisation strategies.

An agile and quick structure

Digitalisation and globalisation are two phenomena that feed off each other. Technological advances in logistics and distribution enable many firms to transact business and cooperate on a global scale. Meanwhile, in order to benefit from global commerce, firms need to digitalise.

Digitalisation spares no firm and can seem quite threatening to family-owned businesses. The best-in-class family firms understand that disruptive technologies can render their core competencies utterly irrelevant, forcing them to chart a new trajectory. They know that they are in a perpetual global race for everything, from talent and partners to raw materials and customers. This anxiety is captured in PwC's "Next Gen Study 2017, Same Passion, Different Paths", which revealed that innovation (where innovation is not limited to digitalisation) is a big priority for many next-generation leaders. A whopping 82 percent of the next-generation leaders polled believed that innovation is not just important, it is critical. However only 15 percent mentioned that their own firm is doing very well in this area.

The risks of digitisation are high. But so are the rewards. In ASEAN alone, the digital economy has the potential of growing to US\$200 billion by 2025.⁴ Furthermore, research by MIT Sloan shows that companies that adapt to a digital world are 26 percent more profitable than their industry peers. Fortunately, family firms have some unique strengths that they can leverage to capitalise on the boons of globalisation and to tackle the shockwaves that digitalisation brings.

First, family firms have traditionally taken a long-term perspective and are less constrained by short-term pressures to succeed. This allows them to

Family firms have some unique strengths that they can leverage to capitalise on the boons of globalisation and to tackle the shockwaves that digitalisation brings.

invest over the long-term for continuing gains—a necessity for globalisation and digitalisation. This is because it takes time, money and qualified people to set up the infrastructure needed for a global operation or to make the most of new game-changing technology. Whether it is going into a new international market or investing in new technology, family firms are not slowed down by having to answer to multiple stakeholders.

Secondly, one of the hallmarks of family-owned enterprises is their agility. The flat structure of family firms allows them to make strategic decisions swiftly—faster than their non-family counterparts. Their short chain of command allows for quick communication and decision-making, making them highly flexible and adaptable to changes. This enables family-owned businesses to respond better to rapid technological change.

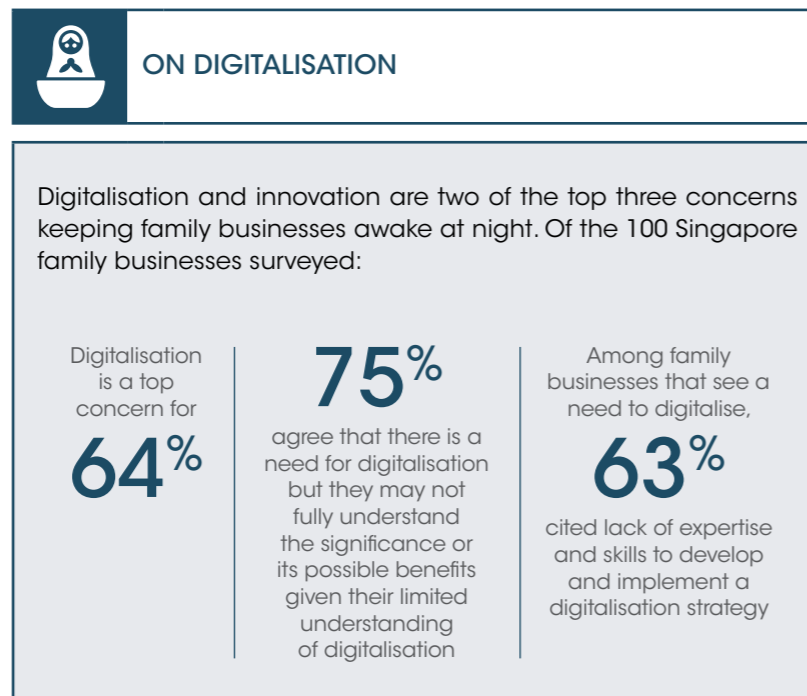
One family firm that is firmly seizing the opportunities presented by globalisation is KBZ Bank. Started as a one-branch operation in 1994 in Myanmar, the bank opened its first international office in Bangkok in 2016, closely followed by Singapore and Kuala Lumpur. Today this bank is busy establishing global representative offices that offer advisory services to foreign investors and helping them find the right local partner in Myanmar.

In 2016, SMU's Business Families Institute launched a case study on the KBZ Group in Myanmar, highlighting key success factors for the Group since its founding in 1994. A dominant force in a previously isolated country, KBZ has embraced both the opportunities (growth) and the challenges (competition) that come with globalisation. As KBZ Bank embarked on an international journey, it identified and focused on developing three key areas that laid the foundation for global success—

adopting the International Financial Reporting Standards in 2013, investing considerably in building employee capabilities, and upgrading infrastructure to match global standards.

Another example is the Ayala Corporation, one of the Philippines' oldest and most successful conglomerates. The group holds majority stakes in a range of businesses, including real estate development (Ayala Land), banking and financial services (Bank of the Philippine Islands, or BPI), telecommunications (Globe Telecom), water utilities, and power generation. With its rich multi-industry experience, it recently embarked on a series of strategic investments to accelerate the development of the Philippine's digital economy and contribute to nation-building. Ayala's pioneering entry into e-commerce focuses on an online pharmacy (ePharmacy), inclusive financial technology, and online retail spaces—sectors that are critical to the social and economic transformation of the country.

That said, this same flat structure can limit family firms too, as the simplicity of their structure is often not suitable for the complex planning required in internationalising. In addition, in globalising, many family firms still feel limited by the experiences and knowledge of the business owners.



Source: "Family Business In The Digital Economy", KPMG, 2017

Locally committed, locally trusted

Another unique strength that family firms have is the trust they enjoy among the communities they serve. This trust is invaluable when it comes to providing products and services centred around sustainability.

Around the globe, a growing number of consumers are saying they care about social and environmental sustainability. A 2017 international study conducted by Unilever in the U.K. reports that a third of consumers are now choosing to buy from brands they believe are doing social or environmental good.⁵ In business, sustainability refers to companies incorporating social and environmental considerations in their business operations. Keith Weed, Unilever's Chief Marketing and Communications Officer, said in the Unilever report, "To succeed globally, and especially in emerging economies across Asia, Africa and Latin America, brands should go beyond traditional focus areas like product performance and affordability. Instead, they must act quickly to prove their social and environmental credentials and show consumers they can be trusted with the future of the planet and communities, as well as their own bottom lines."⁶

Most family firms do not have to prove their social and environmental credentials. Enduring family businesses are good stewards of the communities they operate in. They want to generate goodness alongside wealth. They believe in improving the lives of the less privileged in the community. They want to invest in, support and build their communities.

Consequently, a hallmark of a family firm is their commitment to the local community. Unlike firms driven solely by the bottom line, many family firms want to solve local issues and do good by the local community. And the local community trusts their intentions and integrity. As a result, family firms are readily aided by the local community in their endeavours.

Because of this level of trust built up through generations, family firms can reach out quickly to the local community and get them behind their sustainability undertakings. Health Management International (HMI), an SGX mainboard listed company founded in 1991 is one such example. With a presence in five Asian countries, HMI aims to develop and build a network of comprehensive tertiary hospitals offering specialty and sub-specialty services in the markets it serves. To address manpower challenges in the sector and improve the healthcare standards in the region, HMI has developed a dedicated training institute to provide continuing healthcare education. To date, the HMI Institute of Health Sciences has trained more than 3,500 healthcare graduates in various aspects of holistic care.

In addition, family firms can make hard choices to achieve a long-term vision and run with new ideas longer than their non-family counterparts. And family firms are capitalising on this strength. We are now seeing trendsetters

in Asian family businesses harnessing business value creation with social value creation by integrating sustainability into their purpose and products. For these firms, it has become a strategic imperative to create products and services that are founded on fair trade, that are against fast retailing, that are kind to the environment, or that support communities.

A good example is FoodXervices, which started as a humble household provision shop in the 1930s and has since then evolved into a food trading and distribution business under the stewardship of siblings Nichol and Nicholas Ng. Through her experience with the family's food business, Nichol realised that while Singapore imports 90 percent of its food, it discards a massive 30 percent of it each year. Determined to find a solution to the country's food wastage problem, The Food Bank Singapore Ltd. was started as a charitable organisation in 2012 and later adopted by the family business. This company today receives about 720 tonnes of unused food a year mostly from corporations, which it then redistributes to the needy through its 250 partner organisations.

Family firms believe in their ability to change

Another strength that family firms bring to the table is their strong self-belief. In PwC's "Global Family Business Survey 2016", 57 percent of family firms said they believe they are able to reinvent themselves with each new generation. Many family businesses in Asia are aggressively harnessing technology not only to improve business processes, but to reinvent their products and customers' experience to keep ahead of their global competitors.

The Singapore family-owned group YCH is a great example. Started in 1955 as a passenger transportation company, YCH today focuses on integrated supply chain management solutions and operates in 14 countries with a throughput of US\$38 billion a year. It is currently the region's leading supply chain partner that counts some of the world's largest MNCs and aspiring growth companies amongst its valued clientele.

The firm's success, to a large extent, is attributed to the foresight and vision of its Executive Chairman, Dr Robert Yap, who continually transformed YCH beyond its original transportation business into one that encompassed multiple sectors within the logistics industry covering the entire supply chain ecosystem. One of his main contributions was investing heavily in information technology in the 1980s and 1990s, ahead of other players in the sector, and embracing digitalisation and automation to increase productivity. As an

example, the company developed a proprietary software solution that reduced its reliance on external vendors and gave managers the flexibility to provide tailored solutions to clients.

Says Yap, “The logistics business is not easy because we are entrusted with millions of dollars’ worth of inventory. We want to be as safe as a bank and not lose a single inventory item. Our systems have to be the best and our processes have to be robust. I will be unable to monitor this closely if I take the business global. Good IT infrastructure will enable me to do that.”⁷ In 2017, YCH launched Supply Chain City, a S\$200 million (US\$152.3 million) logistics hub in Singapore that houses state-of-the-art warehousing facilities equipped with the latest supply chain technologies. It aims to create an ecosystem to develop new technologies, support industry best practices and promote Singapore as Asia’s leading global logistics hub.

Another Singapore family business that is a role model of reinvention through technology is Sing Lun. The company first began as a textile trader, then into apparel manufacturing, and is now a diversified holding company in areas of manufacturing, real estate and investments. In order to cope with industry changes, Sing Lun’s apparel manufacturing business embarked on ‘innofacturing’—innovating in manufacturing to create high-value technical sportswear products, including collaborating with a U.K. company to create a shirt with washable sensors that measure heart rate and muscle fatigue. Beyond the obvious application in high performance sportswear, Mark Lee, the third-generation Chief Executive, has grander visions of diversification into healthcare. Sing Lun has since spun off its apparel manufacturing arm into SL Global, so as to take the business even more global, and the entity operates manufacturing and sourcing facilities across Asia, and serves global brands such as Under Armour, The North Face and Puma. Its last reported annual revenue is around US\$230 million.

Think global, think digital, think giving, and think generations

In an era of rapid change offering boundless opportunities, family businesses need to transform themselves from wealth creators to value creators to stay ahead. To thrive in this world of flux, family businesses must embrace a new ethos of think global, think growth (which includes digital), think giving, and think generations.

I believe that family businesses have the upper hand compared to their non-family counterparts in dealing with the challenges posed by disruption and change. That is because speed, agility, vision, and organisational will and support are needed to perform the massive transformation required to succeed in uncertain markets. And these are qualities that family firms possess in spades.

For example in family firms, information flows faster, allowing owners to make decisions quickly in response to changing internal and external market conditions. This makes family firms a high-performance engine for change.

Nevertheless, to survive in an economy characterised by a blazing pace of change, emerging technologies and disruptive business models, family businesses must have a clear and informed picture of what the near future will look like for their firms. This means understanding global trends that are affecting the marketplace and assessing the viability of their product or service in light of emerging technologies. The research shown so far has indicated that if family businesses are willing to adapt, they are poised to thrive, and the 21st century will belong to family businesses.

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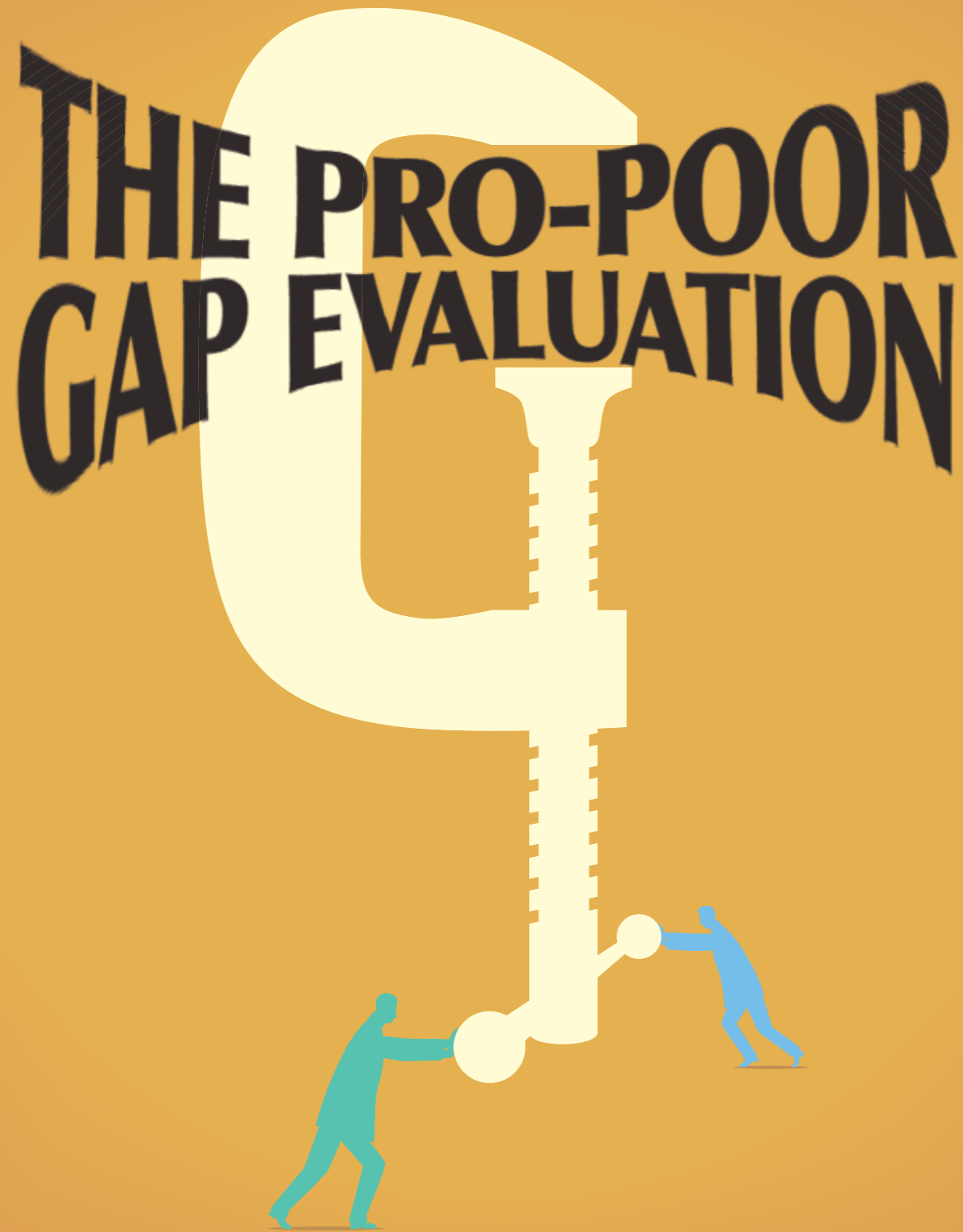
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Improving the future design and implementation of public-private partnerships.

By Tung Nhu Nguyen

Between 2004 and 2012, investment in public-private partnerships (PPPs) in developing countries increased nearly six-fold, from US\$24.4 billion to US\$144 billion, after which, there was a dip for two years before it bounced back to US\$120.2 billion in 2015 (Romero and Vervynckt, 2017). Such significant increases call for the need to measure the performance and contributions of these investments. In doing so, identifying the factors behind their successes and failures can provide essential lessons for improving the future design and implementation of these partnerships. PPPs are often thought of as projects with social goals and private expertise, such as investments in infrastructure facilities for public goods with universal entitlement, irrespective of the ability to pay. Thus, even more so, social goals need to be kept in mind when defining and measuring their performance.

Pro-poor objective of PPPs

One of the central goals of the World Bank Group is to fight poverty and the PPP initiatives it supports need to be aligned with this strategic social goal. However, PPP projects, in general, tend

to focus more on economic development through infrastructure growth rather than on poverty reduction. When an economy grows in parallel with falling poverty rates, economists call it 'pro-poor growth'. Development experts hold that PPP initiatives must have benefits, outcomes and welfare distribution channels that are pro-poor. For example, PPP performance indicators state that pro-poor PPP projects should display an increase in connectivity or access for poorer areas, include piped water or electricity projects, improve access to health services such as medical clinics, enhance public transport facilities, or contribute to the development of economic zones.

The Independent Evaluation Group (IEG) to the World Bank Group issues an important evaluation report that underpins support for PPPs. Its reports for the 10 years leading up to 2012 provide reviews for PPP interventions around the world, after which they seek to provide recommendations to the World Bank Group, including the International Financial Corporation (IFC) and the Multi-lateral Investment Guarantee Agency (MIGA). Among

other tasks, the evaluation teams provide project-level assessments of individual PPP projects.

In its 2015 report, the IEG stated that, under its new strategy, the World Bank Group intends to work with the public and private sectors to end extreme poverty and promote shared prosperity. PPPs financed by the World Bank Group must thus include pro-poor objectives of providing infrastructure or services. Project-level monitoring and evaluation systems must be properly designed to include this target as a measurement for a project's success.

Pro-poor data scarcity

Different evaluation systems are used around the world to measure the performance of PPP investments. Their focal point is whether or not individual investments are able to record their achievements in addressing the concerns of stakeholders, including poor beneficiaries.

Meanwhile, in its 2014 report titled, 'World Bank Group Support to Public-Private Partnerships', the IEG acknowledged that there was a big gap in monitoring and evaluating pro-poor

data. The available numbers are mainly financial performance indicators, including those used for cash flow estimation, while there is a paucity of data for other PPP success dimensions such as pro-poor aspects and fiscal effects. Although the central goals of the World Bank are to fight poverty and promote prosperity, PPP internal audit teams have emphasised financial performance as a PPP project success indicator and have seemingly forgotten that PPP projects in developing countries should be for the poor.

Figure 1 shows PPP projects supported by the World Bank, IFC and MIGA, together with data on the available results. Disappointingly, out of a total of 442 PPPs supported across the three organisations, none offer data for all (financial and social) dimensions. Meanwhile, there are less than 10 PPPs, or 8 percent of the total, with available data on pro-poor dimensions. This ratio is too small to determine whether the Bank is meeting its strategic goal of assisting the poor.

Furthermore, in the IEG Report, 22 PPP cases were selected for an in-depth assessment to measure their social performance indicators. These PPPs are located in three regional clusters: Latin America (Brazil, Colombia, Guatemala), East Asia Pacific (China, the Philippines, Vietnam) and Sub-Saharan Africa (Ghana, Senegal, Uganda). This assessment showed that the measures for pro-poor performance indicators for water and transport PPPs (i.e. access for the poor or high coverage in poor areas) are significantly high.

A rare pro-poor case study: The Philippines

Among the rare cases of addressing pro-poor objectives, the IEG report noted several initiatives in the Philippines that had benefited the poor. The field of development interventions in the country included improved water connections,

There is a paucity of data for public-private partnership success dimensions such as pro-poor aspects and fiscal effects.

electricity connections and transport participation, which required some funds contributed by users. The interesting features of the PPP cases in the Philippines include the fact that the poor not only received subsidised access to PPP infrastructure, but were also presented with other affordable options. For example, minibuses, which are convenient for picking up and dropping off passengers, enjoy a cheaper daily flat rate for using the PPP highway compared to bigger vehicles, which made it more affordable for poor commuters. As a result, the share of minibuses traffic steadily increased from 0.9 percent in 2004 to 7 percent in 2010. For electricity PPP projects, poorer households were given the choice of geothermal, thermal and hydro-power generation, all subsidised by the government, for water supply, a pilot PPP project subsidised the connection fees, which helped to raise connection rates in poorer areas, and this model has been planned for replication (refer to Figure 2).

Challenges with pro-poor projects in Ghana

Implementing a pro-poor PPP project in Ghana revealed a conundrum for the private sector. On the one hand, the private investor was attracted to developing public infrastructure with purely profit incentives and focused on formulating a pricing structure where tariffs were set at a price high enough to recover the initial investment and bring in subsequent positive income. On the other hand, it was under pressure not to increase the financial burden for the poor. In fact, social movements in Ghana such as the NGO Integrated Social Development Centre worked with the Coalition Against the Privatization of Water in Ghana to carry out anti-PPP campaigns. As a consequence, private investor Ghana Company Water Limited had to set a low tariff of 31 cents per cubic metre, much less than its

	IFC investments	IFC advisory services	MIGA guarantees	World Bank loans/ *PRGs
Total number of PPP projects	147	105	62	128
Of these, number of operationally matured/ closed PPPs (and for World Bank loans classified as 'major')	99	n.a.	47	27
PPPs with results data—at least one dimension	60	6	12	20
PPPs with results data—all dimensions	0	0	0	0
Access	50	5	6	14
Pro-poor	5	0	1	3
Quality	14	2	3	10
Efficiency	17	3	3	8
Financial	43	1	4	6
Fiscal	6	3	2	1

Note: For IFC advisory services, data is based on the six available post-completion reports on PPPs.
*PRGs = Partial risk guarantees.

FIGURE 1

Source: IEG Report (2015)

PPP Project	Pro-poor indicator	How to support the poor
Water	Increase in connections in poor areas	The World Bank Group's Global Partnership for Output-based Aid undertook a pilot with Manila Water Company to provide water connections for 28,000 households. The grant of US\$2.8 million provided connections at an individual cost of about Php 2,476 (US\$47.53), of which the householder was responsible for about Php 600 (US\$11.52), which could be paid in instalments.
Transport	Bus share of traffic	To stimulate access by the poor to the highway, the expressway company designed a toll for mini passenger buses (jeepneys) at a flat daily rate.
Electricity	Increase connections in poor areas	The government subsidises electricity rates, as a result of IFC advice in the context of privatisation, by keeping them at a fixed level and paying the difference to the generator.

Exchange rate of US\$1 = Php 52.09 as of February 2018.

FIGURE 2

Source: IEG Report (2015)

initially proposed 70 cents per cubic metre to financially recover the investment as projected. The income from tariffs collected was so inadequate that it was financially unhealthy and, noted Fuesta and Haffnerb (2007), “it survived only by means of considerable government subsidies.” Meanwhile Lobina and Hall (2003) observed that a private company with a thoroughly profit motive finds it, “...very difficult to reconcile with service delivery to the poor without substantial public subsidy.”

Why is pro-poor data scarce?

Evaluation experts at individual PPPs must have known of the social objective to include the poor. It is not difficult for PPP teams to record data on how many poor households are included in the pool of beneficiary households, and are connected with piped water systems or electricity grids funded by the project, and then to include this ratio in evaluation reports. But most of them, as compiled in the IEG report, did not do so. There are several justifications for why this is so.

First is the ‘disconnect’ between objectives and practice. While these objectives have been set by the World Bank, in practice, teams struggle with such objectives. For example, rural PPP piped water use entails connection costs and periodic tariffs. Due to the limited budget, local grants may pilot funding for just a small number of connections with a discount in the project’s first year, but not for total costs and monthly tariffs (e.g. the Philippines water PPP case). Poverty coverage is therefore low, and may become lower as connected households abandon piped water to avoid monthly tariffs. But evaluators do not want to see a decrease in the number of poor

beneficiaries in their reports. One possible solution is to plan tariffs differently for different income groups. For example, the very poor should be exempted from or charged a very low tariff to stimulate water usage.

Second is the issue of being ‘solution-based’ and not ‘problem-based’. Development designers stick to a solution, which is possibly successful in one context and want to replicate it in all contexts. In fact, each context is characterised by individual complexities that require a matching solution. Teams may come to a locality with the idea of addressing the ‘lack of tap (piped) water’, for example. The truth is that ‘tap water’ is not a problem, but is just one of several options used to resolve the problem of health or more specifically, water-borne diseases. Practitioners can select the best option to address this problem in a way that is affordable, feasible and the most impactful for local people.

For example, sparsely populated areas are normally not financially and technologically suitable for building a water pipeline. If the policy or water use master plan is to popularise tap water everywhere, including sparsely populated areas, on the pretext of modernising rural locations, connection rates may not be high as expected, as financially struggling households may use their limited resources for other priorities, such as their children’s education or healthcare services. More evidence is needed to support the

Development designers stick to a solution, which may be replicated in all contexts. However, each context has individual complexities that require a matching solution.

relationship between the use of tap water and reduction in occurrence of water-borne diseases, such as diarrhoea. It is generally claimed that diarrhoea is also due to unhygienic eating and drinking behaviour.

Third, in the PPP implementation process, there may be stakeholders that are considered more important than the poor beneficiaries. For instance, private investors are very interested in the profitability of a PPP project. Specifically, they would like to know how many households are willing to pay for connections and tariffs so that they know when a project would pay back their initial investment capital. They may be concerned if there are many households without the capacity to pay. Freeman and McVea (1984) suggest a two-variable framework consisting of stakeholders’ interests and power, which holds that a stakeholder with strong authority or power and a high level of interest in the project outcomes requires them “to [be] manage[d] closely”.

Private investors have a strong voice because their decision determines whether or not the project is funded. Therefore, PPP projects may struggle or may not want to report the number of households without the capacity to pay, unless there are guaranteed sources of grants for them (as in the case of the piped water PPP in the Philippines). This hesitation may lead to the exclusion of pro-poor indicators, which means evaluation reports will miss this data.

The World Bank Group strategy states that public-private partnership beneficiaries should include the poor who have difficulty paying for services. This presents a potential conflict of interest with private investors who seek financial returns from users.

In summary, it is conventionally believed that public infrastructure facilities are public goods rather than commercial goods and everyone is entitled to use them. The World Bank Group strategy states that PPP beneficiaries should include the poor who have difficulty paying for those services. This presents a potential conflict of interest with private investors who seek financial returns from users. Even so, several options are available to tackle this challenge. Private companies may follow corporate social responsibility (CSR) practices including subsidising and providing grants to the poor. The design of monitoring and evaluation systems can also allow for some flexibility in recording pro-poor data, depending on local conditions. Sources of pro-poor data may also come from private sector CSR reports, not necessarily from project records. Nevertheless, any PPP will need to set up a monitoring and evaluation system to make a comprehensive assessment of PPP project success, including the pro-poor aspects. Without them, PPP results will not be completely aligned with the World Bank Group’s strategy for the poor, nor with the many NGOs that keep asking the Bank to meet this social objective.

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PRODUCTIVITY REDESIGNED



Looking at productivity,
not just of the plant,
but of society as a whole.

By Joergen Oerstroem Moeller

Economists disagree about almost everything. The exception to this rule is when they extol the virtues of productivity...as long as one does not dig deeper to find out what it is and how it works. Otherwise, disagreements start. For a start, there is no consensus on how productivity is defined, what production factors it includes, how it is measured and, most importantly, how it is achieved.

East Asia, especially Southeast Asia, was the focus of such a debate in the 1990s when economists quarrelled about whether high economic growth can be explained by adding more production factors (higher labour force and capital stock) or with an unchanged stock of production factors (higher productivity). These opposing theories still reverberate and are brought to the fore when discussing growth in Asia and/or other parts of the world. If higher growth is primarily a consequence of more production factors, economic development becomes endogenous and outside the control of policymakers.

Yet history tells a different story. China before 1979 and India before 1990 had very large labour forces, but low growth. Therefore, we can conclude that production factors *per se* are not enough for growth. A discussion on productivity needs to be brought in despite difficulties embedded in the concept. Similarly, new capital investment alone may not lead to increased output, while existing capital stock can continue to generate higher output if combined with a workforce having the right skills.

Talent development

The skills factor is attracting more and more attention from business leaders. New technology is wonderful, but its virtue as a booster for productivity depends largely on the skills of the people using it. Here, the education system comes into play, determining whether people joining the labour market and those already employed possess the skills that complement technology, allowing them to get the most out of new technology. If not, much investment in new technology will be wasted and social problems may arise among frustrated workers. The German concept of

Fachhochschulen is a form of tertiary education mainly found in the engineering field, with greater focus on practical skills. Businesses are involved in defining what is taught, ensuring that the graduates learn skills that are in demand.

We can go one step further. It is not only about skills; if so a ponderous education system turning out a large number of graduates would be sufficient. The crux of the matter is to match supply with the demand for skills. Yesterday's skilled worker in a manufacturing plant would not be employable today. One of the reasons the global economy is mired in lacklustre growth is that skills in demand today must be met by people educated 10, 20 or 30 years ago. How can you expect a university in 1990 to foresee skills currently demanded by IT, biology, environmental science, and robotics? They couldn't and didn't. This gives rise to the importance of Life Long Learning (LLL), or continual enhancement and upgrade of worker skills, for them to stay relevant in the workforce.

Many well-educated people cannot find a job. They have skills, yes, but the wrong skills. Businesses are unable to fill positions, as illustrated by a survey carried out over five years (2006–2011), disclosing that between 30 and 40 percent of 39,641 employers in 39 countries ran into difficulties searching for staff with the right skills. We encounter the skills gap throwing spanners into the workings of the economy.

Maybe we should invent some kind of productivity yardstick for education by comparing the skills currently embedded in a cohort and what skills businesses expect to be in demand ten years down the road. Statistics disclose—not with 100 per cent certainty, but good enough—that countries getting this

One of the reasons the global economy is mired in lacklustre growth is that skills in demand today must be met by people educated 10, 20 or 30 years ago.

right experience the highest growth rate per capita. From 2006 to 2016, Germany's Gross Domestic Product (GDP) per capita grew 1.51 percent per annum, compared to Switzerland at 0.79 percent, the U.S. at 0.65 percent and Britain at 0.52 percent.

A mismatch between supply and demand of skills opens up an opportunity for high remuneration for those having the right skills, explaining the growing inequality and the rise in student debt. In the U.S., over the last ten years, the Gini coefficient, a measure of income inequality, has risen slightly to 0.45. China, during the same period, has managed to bring it down from 0.487 to 0.465. Since 1980, Singapore's Gini coefficient has gone through three main phases. First, it declined from around 0.44 in 1980 to about 0.41 in 1990. Subsequently, the Gini increased in the 1990s and early 2000s to a peak of about 0.48 in 2007, thereafter it declined and is currently 0.433. Germany reaps the benefit of alternative policies with a Gini coefficient of 0.27, Switzerland at 0.287 and Denmark investing heavily in LLL at 0.248; Britain is at 0.324.

The reaction is almost venomous as students queue to enter the right universities offering the right skills and which are able to hike tuition fees. Students do not have the money so they borrow and start their careers mired in debt. Over the past 10 years the amount of student loan debt in the U.S. has grown by 170 percent, to US\$1.4 trillion, driving the economy into a debt trap.¹

Quality infrastructure

In a stringent economic analysis, the quality of infrastructure will not be incorporated into a calculation of productivity, at least not fully. This is true despite the rather obvious fact that the more goods and services can be moved during a time interval, the higher the productivity—not for every manufacturing plant, but for society. A good infrastructure built through investments made in the past boosts efficiency by allowing factors of production to be used to their full capacity. Low quality infrastructure is a barrier. What is the virtue of producing a component designed for a finished product if it cannot be transported or if transport costs are prohibitively high? During World War II, the Allies discovered that Nazi Germany was producing highly efficient engines for U-boats that could turn the tide of the battle of the Atlantic. It was not possible to bomb the factories. But, it was possible to bomb the railroads leading to the shipyards in Baltic ports where the U-boats were being built!

The Asian Development Bank predicts that Asia needs to spend US\$26.2 trillion on infrastructure between now and 2030 to maintain its growth trajectory. The World Bank estimates that Indonesia loses one percent of GDP every year because it lacks adequate infrastructure to support development and connect its 17,000 islands. Meanwhile, high logistics costs raise the price of goods, stunting trade and manufacturing potential.

Waste as a resource

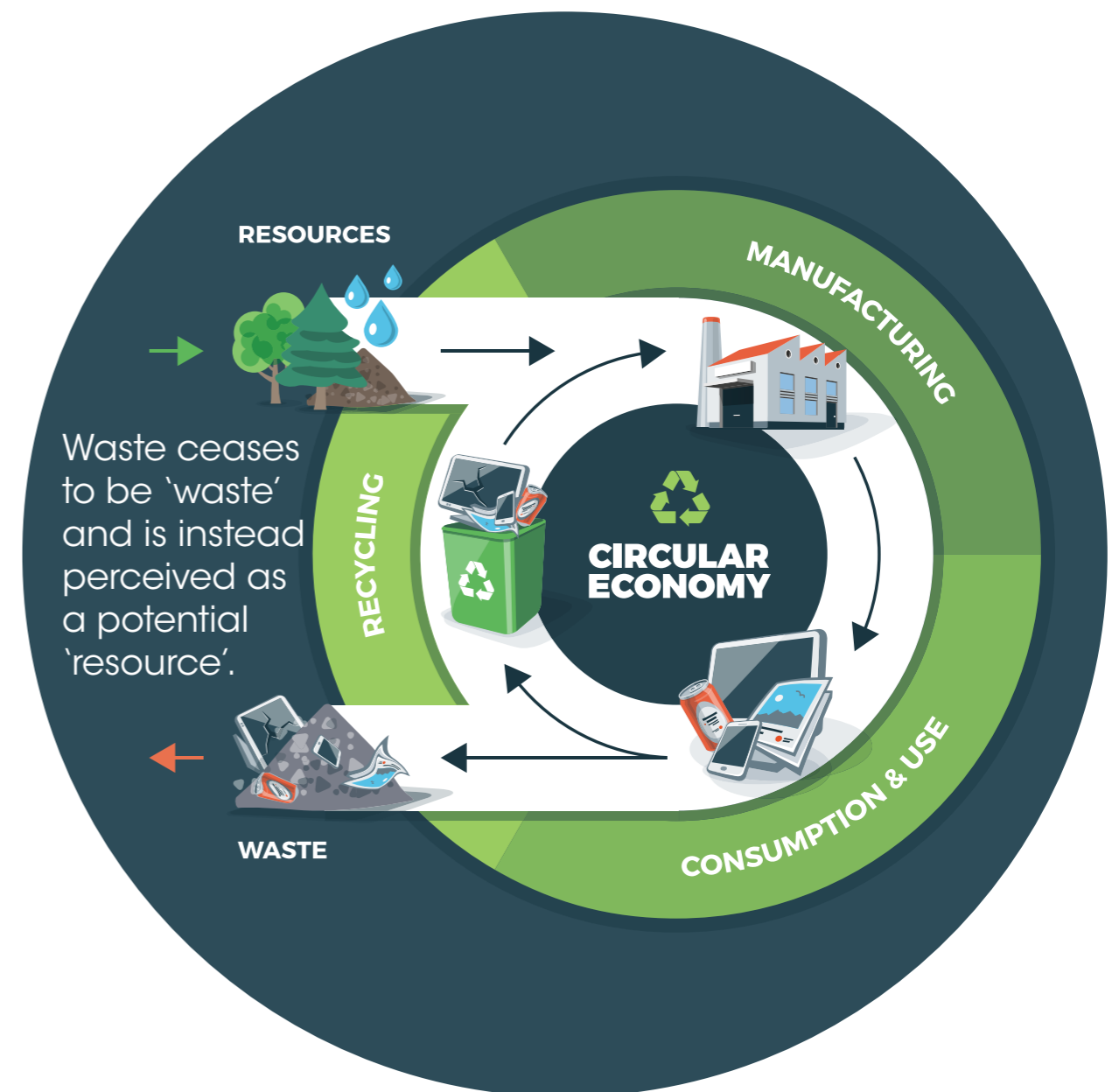
Higher productivity for each plant and society should also include how much total output can be squeezed out of one unit of resource input. Commodity prices are not cheap anymore as the scarcity factor is being felt. Efforts to combat environmental damage reinforce endeavours to reduce waste. Waste then ceases to be 'waste' and is instead

perceived as a potential 'resource'. To turn waste into resources, infrastructure (for collecting waste and recycling) must be built. Fortunately, many countries have grasped this and are moving fast towards a policy whose ultimate goal is to be 'waste neutral'. Since the age of industrialisation, technology and innovation has been focused on labour savings because labour was

comparatively expensive compared to other resources. Now, the pendulum is gradually swinging the other way, making it more profitable to save or recycle resources.

Diversified economic structure

An economy's performance level—not necessarily productivity—can be measured



by its ability to produce complex products—the number of components needed for a final product and its ability to put them together. Complex products are not necessarily in the high value-added bracket as special skills may be required to make components fit together even for simple products e.g. some chocolate specialities. Such products are sophisticated and command a high price, with or without high value-added (such as organic chemicals and ultrasonic machine-tools). Statistics show that for the top 10 most complex products, the U.S. is among the top five exporters in all 10, followed by Japan in nine, Germany in eight and the U.K. in seven of the 10.²

To produce complex products, a highly diversified economic structure supported by efficient sectors outside the economy such as education, labour market policies and infrastructure is indispensable. Except for Japan tuning its manufacturing onto high-quality, high-cost investment goods, only one other Asian country, Malaysia, appears on the list. For Asia, the message is that a long-term effort is called for involving almost all societal sectors, not least higher education and the training of the labour force. On top of that business must realise that this is not a low-hanging fruit, but requires a long-term outlook and, in the short-term, possibly a non-profitable effort.

Regional supply chains

Small- or medium-sized countries face the challenge that a large market is indispensable for growth. For them the solution is to jump out of the national box and plug into the international supply chain. Over the last decade, the global supply chain is yielding ground to regional supply chains. The Eurozone and the Southeast

Asian, or rather the East Asian economies, have gradually turned towards creating self-sustaining economic areas. This provides a large market, but only if barriers for economic transactions are removed. The Eurozone has reaped big economic benefits from greater connectivity, among other things, making it possible for small- and medium-sized countries to move into complex products. The list of top five exporters for the 10 most complex products shows eight EU member states out of 13 countries. Taking the EU as a whole, it is present for all 10 products. The same can be done in East Asia as indeed the ASEAN Economic Community has started to do. The crucial element is connectivity in a broad sense as stimulating not only the economy, but productivity redefined as how can the production level or national income targeted be achieved with the lowest total cost for society as a whole.³

Growth and productivity

With luck (and that is normally required however competent policymakers are) growth will rise. The window opens for another issue fuelling discord among economists: Does high growth lead to higher or lower productivity? One theory says that productivity largely depends on new technology, research, and innovation, which are not related to economic growth. The IT revolution would have come and affected productivity—irrespective of the growth rate. Another theory claims that high economic growth automatically leads to a tight labour market with a subsequent hike in hourly wage rates. Business technology and innovation offer two opportunities—bringing new products to market with higher performance and a reduction in labour costs. It is of crucial importance

For Asia, a long-term effort is called for involving almost all societal sectors, not least higher education and the training of the labour force.



that technology and innovation go beyond cost saving measures, thus putting the onus of engaging the stakeholder on business: it cannot thrive without support from the rest of society and it contributes to the development of the societies in which it operates—it goes both ways!

Preparing for the future

The disagreement among economists and policymakers on how to define and measure productivity can, to a large extent, be resolved if the hitherto yardstick of productivity is replaced with several indicators that, when taken together, can effectively reveal the extent to which an economy or business is efficient. Total factor productivity (as traditionally defined) is still relevant but less so, especially if allowed to stand alone.

First, skills, investments and technology must match one another at all levels of production, logistics, marketing, and after-sales service. Second, the ability of the education system to groom students with skills that will be in demand 10 or 20 years down the road will be instrumental in avoiding a mismatch between supply and demand. Third, skills upgrading is not always about being high tech, but includes talent development at all parts of the production cycle. Fourth, efficient infrastructure saves time and costs, but can only

be brought about by combining social and business goals, particularly keeping in mind sustainable business processes.

The winning formula for the future will be a combination of creativity, individualism and teamwork—not easy to bring about, but worth its weight in gold if done well—and achieving greater productivity through highlighting the human factor and not solely through economic policies. Is it time to turn our attention from minimising the cost of production for plants to minimising the cost for society as a whole in order to deliver a higher national income?

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A social enterprise project that has brought income and dignity to a remote community in Indonesia.

*By Jonathan Chang,
Christopher Dula and
Lakshmi Appasamy*

The inability of an impoverished community in Muntigunung to earn a livelihood in the arid lands of northern Bali, Indonesia, has reduced residents to begging in the crowded tourist hubs of the resort island. Generations of beggary have instilled an opportunistic, short term, ‘earning a fast buck’ mindset among the people, notwithstanding the sight of women and children begging is distressing to the predominantly Hindu population. But finding a path out of poverty requires more than charity and alms giving: community mindsets need to be changed and old habits must be replaced by a sustainable and quality livelihood.

Founded by banker Daniel Elber in Switzerland in 2004, Future for Children (FFC) is a non-profit organisation operating in Muntigunung that seeks to improve the living conditions of the poor in Southeast Asia. Its programmes develop the capabilities of people and subsidise capacity-building projects for two to three years until the projects become profitable, after which it transfers the resulting profitable social enterprises to local community ownership.

The capacity building projects are, as a rule, subsidised with donations for up to three years until product design,

quality, production efficiency and marketability have been developed and reached, so that the activity can be transferred to a social enterprise. The social enterprise has to be in local (Indonesian) ownership. Ideally, ownership should transfer to the community but it takes time to develop the younger people from Muntigunung into leaders, managers and business owners. This means that FFC has to recruit business owners from outside the community, mainly from Bali, many of whom have been project managers with FFC.

FFC partners with local professional NGOs, volunteers, government agencies and people in the community. These include the Yayasan Dian Desa Foundation (the Foundation), a reputable non-profit organisation in Indonesia with more than 35 years of experience in community development projects. The Foundation had previously partnered with several governments around the world and is in charge of executing operations in Muntigunung. Other significant local partners include Udayana University and the Mitra Samya Foundation (Yayasan Mitra Samya), a Lombok-based democratic village development organisation.

Switzerland's Honorary Consul in Bali also came on board and nurtured a positive relationship with government agencies in Bali and FFC stakeholders. Meanwhile, the Swiss arm of FFC, Verein Zukunft fuer Kinder Zuerich, and its volunteers raised funds, allocated resources and upheld governance and transparency. By working together with Indonesian non-profits, contracts for project execution were established and the non-profit organisations were then paid directly through FFC Switzerland.

With its mandate of achieving profit-making status for the projects, FFC's programme developers faced several challenges:

- 1 To decide on a product that is adapted to the skills of the population;
- 2 To find a product that seems to have a market;
- 3 To design a product that finds customers;
- 4 To achieve a product quality that enables the sales of the product;
- 5 To cope with the fact that there is no management and leadership capacity in Muntigunung and that developing these qualities needs another generation;
- 6 To find people who are capable of managing production and sales; and
- 7 To find ways of assuring the transfer of a capacity building project to an independent social enterprise.

Two of these challenges stood out. One was that many within the community lacked leadership capacity and/or were not willing or ready to accept ownership and empowerment. Muntigunung villagers needed to become independent administrators of projects and community leaders capable of planning, executing and managing matters on their own. Another was the lessening of financial

dependence on FFC, which had increased due to the inability of the local enterprise to come up with the working capital required to run the enterprise.



THE OTHER SIDE OF PARADISE

Visitors to Bali are familiar with the crowded tourist hubs of Kuta, Nusa Dua and Seminyak located at the island's southernmost region. However few tourists venture northwards to the hilly terrain of Karangasem regency, let alone to Muntigunung. Both are considered to be Bali's poorest regions, with Muntigunung being its most remote as well as poorest settlement.¹

Part of the Tianyar Barat village in Karangasem regency, Muntigunung has a population of 5,550 (1,058 families/households), with a gender ratio of 45 percent male to 55 percent female. Family income in Muntigunung varies widely from less than US\$74.80² per month to more than US\$374, with more than 75 percent of families having a monthly income of less than US\$74.80.³

The terrain and duration of the wet season makes irrigation and access to fresh water extremely difficult, while its distance from the tourist centres negates any probability of alternative means of livelihood. The topography and climate are favourable to only certain types of crops and vegetables.

Similar to other impoverished regencies in Indonesia, sourcing water for daily living needs remains a tremendous challenge. This impacts all aspects of life in the village and causes poor health, unsanitary conditions to malnutrition. Most villagers are illiterate, with very limited skills due to poverty-related arrested childhood development. Many are not even registered as citizens of Indonesia and are thus off the radar of the country's administrative and welfare programmes.



Phased progression

Ultimately, FFC secured a sustainable livelihood for the community through three programmes that would later transition into profit-making enterprises, that is, independent, commercially viable and self-financed enterprises. They were administered and operated by Balinese and Indonesian managers, with FFC remaining a non-profit entity. This was done in stages.

FFC and the Dian Desa Foundation then crafted an implementation plan to achieve four key milestones: securing water through communal water catchments, having a livelihood, health and sanitation, and education.

The Dian Desa Foundation team organised meetings in Muntigunung with representatives from all its 36 villages and hamlets. The final report revealed that a lack of access to a convenient source of fresh water was a major contributing factor to persistent poverty. It detailed how a viable livelihood could be secured for Muntigunung.

The idea was to develop a more self-responsible, development-oriented mindset, which would enable the population to emerge from the dependency on non-profit organisations and start taking responsibility for their own lives. For this, FFC chose Mitra Samya Foundation as its special focus on democratic village development, which seemed like the right partner for this completely different approach. The foundation aimed at securing the involvement of every single village and family in the process of evaluating their assets.

With a census and workshops in 36 villages, Mitra Samya Foundation laid the groundwork for the villagers to define their vision and action plans. The remaining job was to coach all the villagers in implementing actions and to monitor the results. In the meantime, 80 percent of the Muntigunung population was registered, as having an ID card was a prerequisite to participating in the health insurance programme and gaining access to doctors and hospitals. At the same time, this programme was aimed at motivating parents to send their children to school and to learn how to register their children for schooling.

WATER SECURITY

A communal rainwater-harvesting project was completed and then scaled up to other villages. Alongside, families were taught effective methods for water purification, safe storage and tank maintenance, resulting in a sustainable supply of water for 19 villages, benefiting 3,200 inhabitants.

SECURING A LIVELIHOOD

With water security in place, villagers had more time to focus on productive activities, which meant the second phase could focus wholly on skills development and capacity-building initiatives. The Dian Desa Foundation's 2006 study provided a clearer picture on the households, their composition, income, sources of income, residents' aspirations, attitudes and willingness to change, as well as their ideas on generating more income for their families. Entrepreneurs from various fields in Bali were then invited to lead workshops and brainstorm ideas for products and services that could be produced in Muntigunung and sold in Bali and elsewhere.

The trekking service proved to be the most successful of the livelihood projects. Established in 2008, it took advantage of the village's spectacular views: located 200 to 800 feet above sea level and overlooking the vast seashore along steep slopes. Supported and endorsed by the 120-member strong Bali Hotel Association, it attracted wide media attention and won multiple awards, including the Skål International Ecotourism Award (2011). In September 2014, a group of international journalists voted the Muntigunung Programme as one of the top 100 social impact projects in the world that could be replicated and measured.

Paid training (at US\$1.47 per day) was used to improve or add value to existing products and activities. Training took an average of two years to complete, after which a trainee's skills and social enterprise activities were sufficiently developed to provide a livelihood. More importantly, without the paid training, participants would have reverted to begging as a default means of livelihood.

Future for Children and its partners recognised the need to create a sense of security among the villagers through a stable water supply, better health and nutrition and job creation, in order to establish a firm foundation for the next steps in development.

Special attention was given to improving land utilisation. In response to the dry arid conditions, a drip irrigation system was installed. This enabled the cultivation of vegetables and herbs for commercial purposes. In addition to income generation, the presence and output of the gardens also ensured that the community had access to nutritious food. This programme was later replaced by several reforestation programmes through the distribution of seedlings for over 560,000 trees (including cashew, lontar palms, moringa, teak, and bamboo), which strategically laid the groundwork for additional future economic development.

By 2014, FFC's Muntigunung Community Social Enterprise was overseeing three independent, profitable social enterprises: trekking, food processing and a packaging company. Together they generated annual sales of US\$260,000 and created 220 jobs.

HEALTH AND SANITATION

In 2011, the third phase of development was initiated. The Community-Led Total Sanitation (CLTS) programme was launched as a partnership with Udayana University's School of Public Health and School of Medicine and the Mitra Samya Foundation, aimed at encouraging behavioural changes. These included stopping open defecation and the construction of toilets, as well as raising awareness about nutrition, safer birth practices, breastfeeding, and vaccination. The population was also encouraged to register for free access to public healthcare facilities.

The third phase was completed in 2014 and, as of 2015, more than 60 percent of the total population had access to toilets and handwashing facilities, while the mother-and-child health project that was piloted in

partnership with the university's faculty was in operation in 21 village communities.

EDUCATION

The education initiative was the strategic fourth phase of the development programme and designed to build the capability of future generations, as well as see the Muntigunung community gravitate to the next phase of mainstream development.

Moving forward: The challenges

Before FFC could move forward and secure success with its programmes, it needed to resolve several challenges, which included:

- The mechanics of its transfer to the community,
- The need for more funds to replicate and scale up operations, and
- A review of the business model to ensure its continuing efficacy.

Transfer of ownership was important because it enabled the interests of the community to remain intact and ensured that beneficiaries are intensely engaged in the transition to a profitable enterprise. A sense of ownership and accountability also helps to preserve the assets and facilities created in the process. However, it requires financial commitment to provide training and mentoring to the new owners, as well as the allocation of sufficient funds.

Funding remains a perennial and universal challenge for all non-profits. Sources of funding need to be considered carefully as each will bring their respective benefits and obligations. Common means include gifts and donations and crowdfunding, all of which are particularly effective for financing small projects.⁴

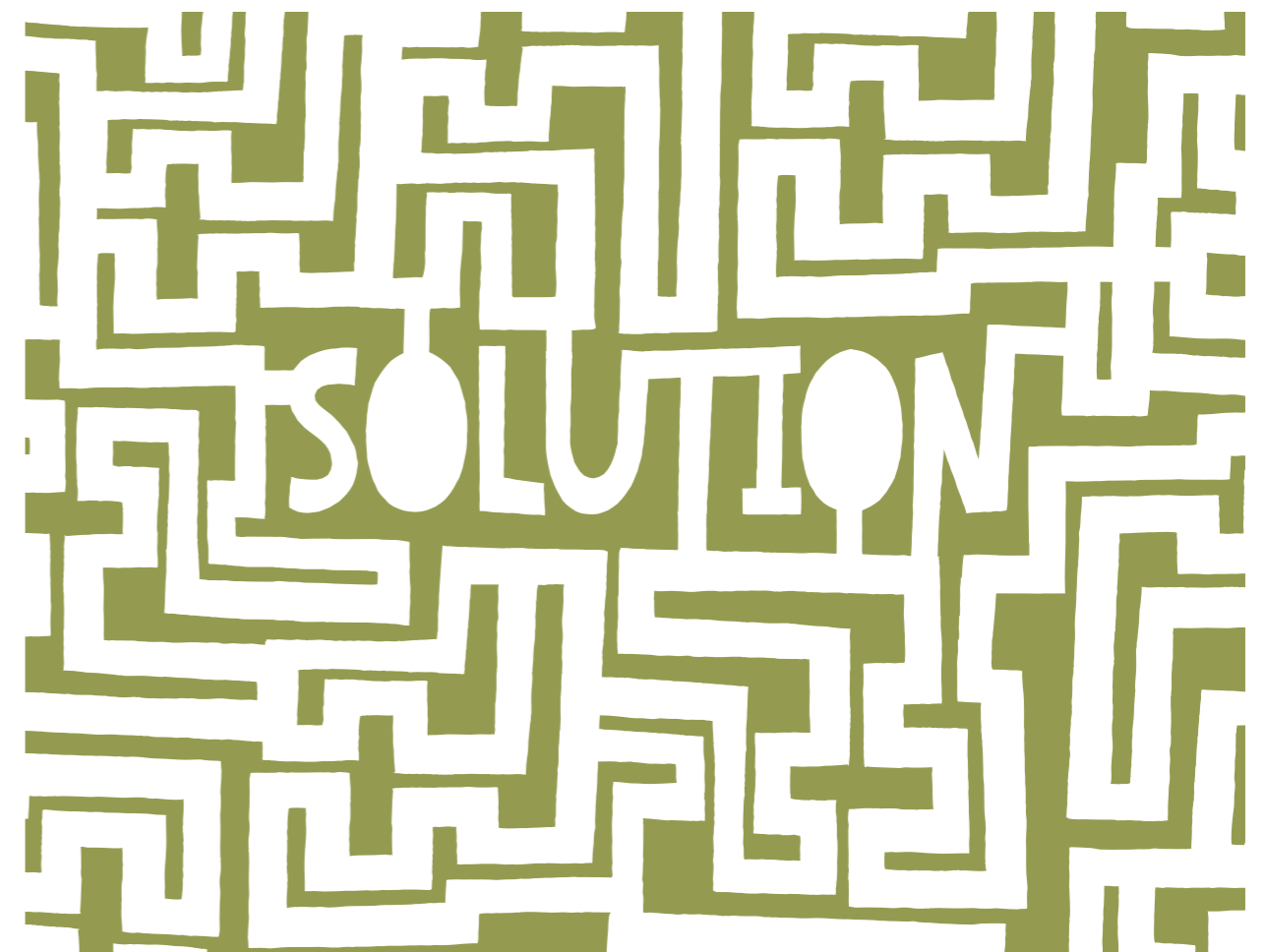
Without the paid training, villagers would have reverted to begging as a default means of livelihood.

In the case of FFC, traditional sources of finance such as banks and private investors were not viable options for the social enterprises because the operations had not scaled up to a commercial level to meet an attractive return on investment. So FFC had to step in and provide a loan for seed capital. It did so by establishing a Dedicated Trust Fund (DTF) in order to provide start-up, working capital and liquidity to the different social enterprises.

The owners of the social enterprises were bound by a form of charter agreement to return part of their profits into the DTF, build up equity in their own social enterprise, and to distribute part of the profits to the population.

While FFC's fundraising efforts are exclusively focused in Switzerland, it garnered support from business leaders in neighbouring countries of Singapore and Malaysia to purchase the products instead of giving donations.

Interestingly, favourable media coverage of its products and activities also helped establish the credibility of the development programme, enabling it to tap into an extensive network of contacts and references. The network includes businesses, such as those based in Singapore, which earmark significant sums for overseas corporate social responsibility programmes, as well as the Rotary and other organisations with outreach programmes.



Other common financing options for non-profits include grant funding from public sector organisations, charitable trusts and foundations for charitable causes. The drawback is that many grant makers do not disburse grants for charity organisations with substantial reserves or revenue surplus⁵ and grantees are often required to fulfil conditions such as results, progress reporting, and returning unspent money.

Evolution of non-profits

Business models change. When non-profit organisations have grown to a considerable size and reached a stage where the stakeholders have multiplied to include not just the beneficiaries, but also the customers, donors, government and channel partners, they need to become more professional in

their operations and practice. They may have to uncouple from the social enterprises that they have established when the activities achieve a significant size and scale.

It is not just the legal and tax environment that call for such a decision. The operating model of the non-profit may not be appropriate or adequate to support the vision. The roles and tasks of the board, management and the founder will also evolve. Boards, too, need to review their structure and relevance as this evolution takes place. Above all, a non-profit business needs a participatory approach if it is to remain true to its vision and mission, yet be flexible enough to explore further opportunities to grow and expand, while keeping an eye on achieving results.⁸

Why non-profits uncouple from for-profit activities: Some key considerations

In general, non-profit organisations prefer to incorporate social enterprises as separate entities. Integrating a profit-oriented enterprise into a non-profit organisation tests the culture and integrity of the organisation, eventually endangering the support of the donors. This may shake the very purpose of the non-profit and may lead to mission failure.

Tax issues are another key concern. A non-profit that is generally exempt from tax may lose its tax exemption privilege when the revenue-generating arm of the organisation grows and gains significant size. Meanwhile, access to a wider pool of capital is enabled when for-profit activities are consolidated under a separate legal entity.

Adopting a phased and progressive problem-solving approach had contributed to the successful rollout of the Future for Children development programme.

Finally, when for-profit activities emerge from a non-profit parent, a third entity also evolves, namely consumers/customers of its products and services. The non-profit, which had been focusing on just the beneficiaries until that point, may find its resources inadequate to service the customers/consumers. As it evolves from a project undertaking to a business undertaking, it feels the constraints of the lack of qualified resources and talent in product design and marketing and sales. Voluntary support used by many early stage non-profits may not be sufficient to run a commercial and revenue-oriented enterprise. This may call for specialised talent to be hired at a competitive pay scale, which may create conflict with the staff of the non-profit parent.

Sound decision-making

Adopting a phased and progressive problem-solving approach contributed to the successful rollout of the FFC development programme. This aided the organisation as well as its clients, the villagers. For the former, it facilitated focus and efficient resource allocation, and for the latter, it was not too overwhelming for them to adapt to the changes. Setting realistic milestones with short timelines, full engagement with its stakeholders, and the use of locally available resources also helped in the success of FFC's programmes.

Jonathan Chang

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EVOLVING FUNDING LANDSCAPE

Social investors and foundations have realised the limitation of conventional sources and methods of funding. Conventional sources include loan financing, which is relatively quicker and easier, and more flexible than grants, but will also attract repayments and interest, require collateral and a credible track record, as well as a viable income source.⁶

Private investors can also provide equity capital in exchange for a stake in the organisation. Typically, social enterprises in their early stage resort to equity capital.⁷ But to raise funds through share capital, the organisation must be properly structured. It has to be registered as a company limited by shares, a community interest company, or an industrial and provident society. Charities and companies limited by guarantee cannot raise equity capital.

Newer forms of funding include loan guarantees (guarantee to repay), quasi-equity debt security and pooling. Under pooling, the micro loans of financing institutions or the issuer are pooled into a single entity that issues securities, typically in tranches of varied risk/return profiles.

Where greater amounts of capital are required, social impact bonds help to tap into private investment capital through which the community gets a socially beneficial infrastructure or facilities, the investors get financial returns, and the government gets an efficient and cost-effective solution for the social challenge.





JAPAN:

MAKING THE MOST OF CURRENT TAILWINDS

How Abenomics is impacting business.

By Odd Per Brekk

Since the bursting of the asset-price bubble in the early 1990s, Japan has faced the formidable challenge of boosting growth, ending deflation, maintaining financial and exchange rate stability, and securing fiscal sustainability. Japan's rapidly ageing society, entrenched deflationary expectations and domestically-oriented economy, combined with sluggish global growth post the 2008 global financial crisis, hampered policy transmission. Against this backdrop, in late 2012, Prime Minister Shinzo Abe's newly-formed government embarked on a comprehensive strategy to revive the economy, basing it on three elements: aggressive monetary easing, flexible fiscal policy, and structural reforms to raise potential growth.

Although Abenomics, as the policies came to be called, has improved economic conditions and engendered some reform

in labour markets, financial markets, and small and medium enterprises (SMEs), it has not yet achieved a durable exit from deflation (refer to Figure 1). What do these trends mean for businesses in Japan? Let's take a closer look at some structural aspects of the Japanese economy that directly impact businesses—specifically, labour market rigidities, shortage of labour and the low productivity of SMEs.

Easing rigidities in labour markets

Labour market rigidities are a central part of the challenges faced by Japanese businesses. Unemployment has fallen to a 25-year low and the job-to-applicant ratio is at an all-time high. While labour shortages are evident in sectors like construction, accommodation, and food and beverage, wage growth remains



ABENOMICS AT WORK

Japan's economy is in a relatively good place today compared to two years ago, driven by a supportive external environment. Fiscal policy has been supportive of growth and monetary policy is now on a more sustainable footing. Despite this, wage growth has remained stubbornly low and public debt continues to be unsustainably high.

	2012	2013	2014	2015	2016	2017 (proj)	2018 (proj)
Real GDP growth (percent change)	1.5	2.0	0.3	1.1	1.0	1.3	0.6
Inflation (annual average)	-0.1	0.3	2.8	0.8	-0.1	0.7	0.6
Unemployment rate (annual average)	4.3	4.0	3.6	3.4	3.1	3.1	3.1
Population growth	-0.2	-0.2	-0.2	-0.1	-0.1	-0.3	-0.4
Old-age dependency	37.8	39.8	41.8	43.5	44.9	46.2	47.2

FIGURE 1

Source: IMF

stubbornly weak. That overall wage growth is lacklustre was underscored by the outcome of the 2017 spring wage negotiations, which showed the lowest hike in base pay in four years. A case in point is Toyota's base wage, a benchmark other Japanese companies use to gauge their pay hikes, which increased by ¥1,300 (US\$11.34) a month, below last year's ¥1,500 (US\$13.08). As a Reuter's article pointed out at the time, "For a Toyota mid-level technician earning ¥360,000 a month, the pay increase works out to 0.36 percent. It can buy one bowl of rice with pork cutlet with miso sauce on top, a specialty of Nagoya, near the Toyota headquarters."¹

Certain unique characteristics of the Japanese labour market tend to dampen wage growth even in the face of a tight labour market. One of these is the low horizontal mobility of regular workers. Under Japan's lifetime employment system, a wage increase in competitor firms may not create a wage pressure because workers are unlikely to switch jobs. By the same token, firms do not have incentives to offer higher salaries to attract workers. Furthermore, Japanese regular workers are typically hired as generalists and are expected to work in several positions and duty stations within the company. This employment model reduces incentives and the need for firms to increase wages to attract workers from outside to fill specific positions, because existing workers can be reassigned to perform other tasks.

Second, Japan's industrial relations system tends to emphasise employment stability over wage increases. Unions and workers are willing to accept wage moderation in exchange for employment stability, notably for regular workers.

Third, Japan's labour market is characterised by extreme duality when it comes to wage bargaining power. In

the past, most workers were hired under lifetime contracts. Even now, wage bargaining takes place at the firm level in coordinated industry-wide bargaining rounds, the so-called *Shunto*. However, with the rapid rise in the share of non-regular workers, the importance of the *Shunto* has waned. Unionisation rates have declined and labour conflicts have all but disappeared, suggesting a fall in the wage bargaining power of labour. As a further indication, real wages have not kept up with productivity over the past two decades, more so than in most comparable economies.

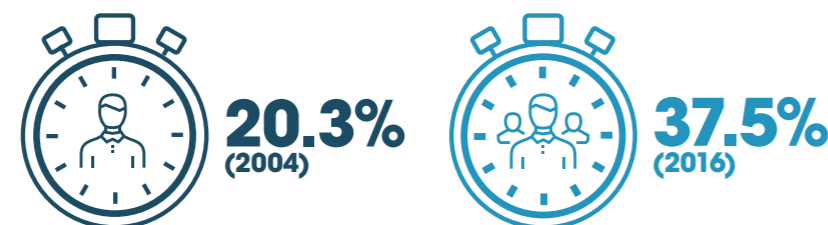
Fourth, the increasing share of part-time employment has been a structural determinant of declining average wage growth. Factors responsible for the growth in part-time employment include increased participation of women and the elderly. As life expectancy rises, many people are looking to extend their earnings period. The proportion of non-regular workers rose from 20.3 percent in 2004 to 37.5 percent in

2016. Meanwhile, part-time non-regular workers' wage (per hour) is about half that of full-time regular workers. This has suppressed the overall wage bill despite a labour shortage, putting downward pressure on wage-price dynamics.

Finally, low actual and expected inflation have contributed to stagnant nominal wages, the result of an entrenched deflationary mindset and backward-looking inflation expectations. Unions and employees look at past headline inflation in their negotiations, rather than setting wages in anticipation of higher future prices. Public wage setting takes the same approach, following developments in the private sector rather than leading in line with the authorities' inflation targets.

Despite being cash rich, Japanese companies remain cautious, given the economy's growth outlook and expectations. The sluggish wage growth, in turn, is inadequate to accelerate growth and inflation, further entrenching deflationary pressures.

The proportion of non-regular workers



In March 2017, the government unveiled the Work Style Reform (WSR), which seeks to address wage gaps between regular and non-regular workers. Among several measures, WSR envisages a cap on overtime that is expected to boost productivity and labour force participation, and provides an expansion in childcare facilities to support further integration of women in the labour market. Moreover, the minimum wage has been raised by 3 percent and tax incentives for wage increases have been enhanced. Many analysts are watching this space: How quickly will these changes reveal results? Will the tax cuts provide adequate incentive, or will they fall short?

Corporate tax rate cuts and governance reforms have yet to mobilise the large cash reserves of corporates (at almost 50 percent of GDP) for private investment and wage increases. Together with corporate governance reforms, new trade agreements, including with the remaining ten Trans-Pacific Partnership (TPP11) countries and with the EU, could encourage restructuring in the service and agriculture sectors. The IMF estimates the economic effect of TPP11 and the EU-Japan Economic Partnership Agreement would be ¥7.8 trillion (1.5 percent of GDP) and ¥5.2 trillion (1 percent of GDP), respectively and employment would increase by 460,000 and

290,000. It is also estimated that TPP11 and the EU-Japan EPA will increase farmers' income by ¥150 billion and ¥110 billion, respectively.

Diversification and enhancement of labour supply

Ongoing ageing and the decline in population size underscore the need to further raise participation rates of females and older workers, make more use of foreign labour, and raise productivity through deregulation and support for innovation.

Due to Japan's lifetime employment system, nearly 30 percent of men still work at the same firm where they started, a figure that has been virtually unchanged since 1990 (in contrast, a 2012 survey data from the U.S. Bureau of Labor Statistics indicated the share of workers in the same firm for more than 20 years was 10.6 percent). However, only 19 percent of Japanese women stay in the same firm, and this number has been declining. More than 50 percent of women in the labour force are non-regular workers, compared to 20 percent of men. Women choose non-regular work to balance the demands of childcare, elder care, and housework, given the limited availability of childcare and nursing facilities as also the frequent demands for overtime in the lifetime employment system. Though this is not a surprising trend, the disparity in

lifetime employment between men and women in Japan is much greater than that in other developed nations.

Women entering the workforce under regular contracts are often relegated to lower-paid jobs under the dual-track system—a fast track for management stream employees (career track) and a slow path for routine, clerical work (non-career track). Although both tracks are open to women, men dominate the former, a trend that could reflect both a lack of opportunity and a conscious choice made by women between career and childcare/elder care. While the tracks seem to be open, most employers make it technically difficult to switch from non-career track to career track by imposing high hurdles such as long tenure in the company. Companies require workers to commit to their track before hiring, and limit track switching. Some companies mandate relocation as a condition for applying for the career track, discouraging those who share family responsibilities (mostly women). Women in the non-career track are deprived of training opportunities and thus have a limited chance for promotion, further leading to lower wages compared to their male peers.

The tax system deters female labour from taking on regular positions. Many non-regular workers intentionally choose fewer hours or lower wages, as they are

exempted from income and residential tax if they earn less than ¥1.03 million (US\$9,217) per year, and from social security premiums if they earn less than ¥1.3 million (US\$11,633) per year. Household heads can also receive spousal allowance if the second-earner (typically the woman) earns less than a threshold, which is usually set below the tax or social security premium threshold. The government raised the threshold for spousal deduction from ¥1.03 million (US\$9,217 million) to ¥1.5 million (US\$13,422), effective January 2018.

Given the acute labour shortage and rapid ageing, the elderly have become increasingly important in Japan's workforce. The share of workers above 65 years old has increased to 12 percent of the total working population in 2017, compared with 9 percent in 2010. Most employers set employees' retirement age at 60 years, and rehire them under shorter working hours and lower salary (usually 50-70 percent of their pre-retirement wage level) until they reach the fully-pensionable age of 65 years. Given a more generous tax deduction for pensions compared to wage income, most older workers would accept working under the same employer with lower wages.

Due to strict immigration policies, the share of foreign workers is lower than in other advanced economies (less than 2 percent in 2016 compared with about 17 percent in the U.S.), although this number has been increasing. Employers are required to provide pay and benefits to foreign workers equal to that of Japanese citizens. Foreign workers are mostly Chinese (32 percent), Vietnamese (16 percent) and Filipinos (12 percent), and are concentrated in manufacturing and wholesale and retail activities. While the government relaxed the admission requirements for high-skilled workers

Given the acute labour shortage and rapid ageing, the elderly have become increasingly important in Japan's workforce.

and allowed foreign housekeeping workers in special economic zones, these policies have had limited impact in reducing labour shortages.

Boosting productivity of SMEs

Japanese conglomerates are well known globally. A lesser-known fact is the size of the SME sector, which accounts for 70 percent of total employment and 50 percent of value added in the economy. Despite their formidable size and impact, Japanese SMEs, particularly those in the retail segment, suffer from low productivity (refer to Figure 2). Retailers are highly regulated with respect to operating hours, store size, parking lot spaces to be provided for customers if the retailer exceeds a certain store size, and the inability of manufacturers and retailers to transact directly (instead having to use wholesalers, sub-wholesalers and even sub-sub-wholesalers in some cases). These regulations limit efficiency, while driving up domestic employment. Additionally, the government has a strict and explicit code that keeps international players out of these markets.

Meanwhile, export-oriented companies have been beneficiaries of cheap funds for decades. This has led to high levels of capital investment and hence limited

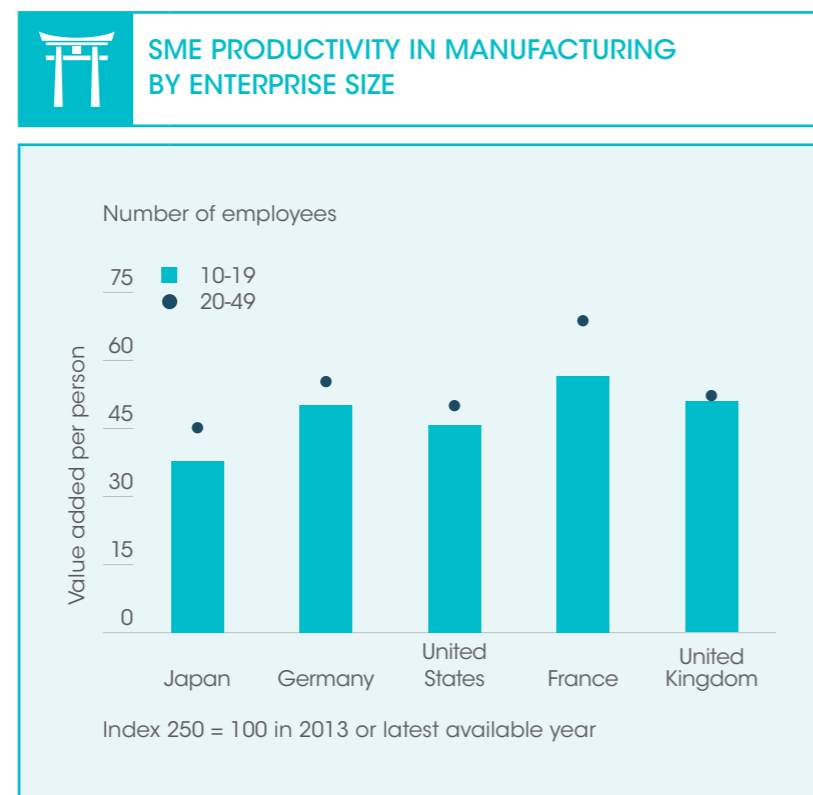


FIGURE 2

Source: OECD SDBS database

employment in this sector. On the other hand, Japanese SMEs are, by and large, not export-oriented. With SME lending based largely on fixed-asset collateral or personal guarantees, credit is not always channelled to the most productive firms.

Financial sector policies aimed at efficient credit allocation to SMEs would help to promote innovation, productivity, and investment. Bank loans are the primary source of external financing for SMEs. Although lending to SMEs has increased to pre-financial crisis levels, it is mainly concentrated in construction and real estate. Financing conditions in other key sectors such as manufacturing, IT and services remains subdued. An OECD survey also suggests that access to finance for female entrepreneurs is particularly difficult in Japan.

Policies should facilitate the move towards more risk-based lending—by upgrading banks' credit risk assessment capacity, lowering the coverage of public credit guarantees, and improving reporting standards of the SMEs. Policies could also encourage internationalisation of SMEs as part of the global supply chain, and facilitate provision of financial services towards the demands of an ageing society. Alternative forms of finance to SMEs and start-ups, such as asset-based lending and venture capital, could also be considered as long-term goals. Currently, asset-based lending based on movable assets and account receivables is less than 0.5 percent of total bank loans. Venture capital can play an important role but this requires improving the environment for angel investors who not only supply finance, but provide mentoring and networking resources (refer to Figure 3).

Structural reform priorities

What Japan needs today is a comprehensive policy overhaul that

Today, Japan needs a comprehensive policy overhaul that exploits complementarities between macro-critical structural reforms and coordinated income and demand policies that would help lift potential growth and spur inflation.

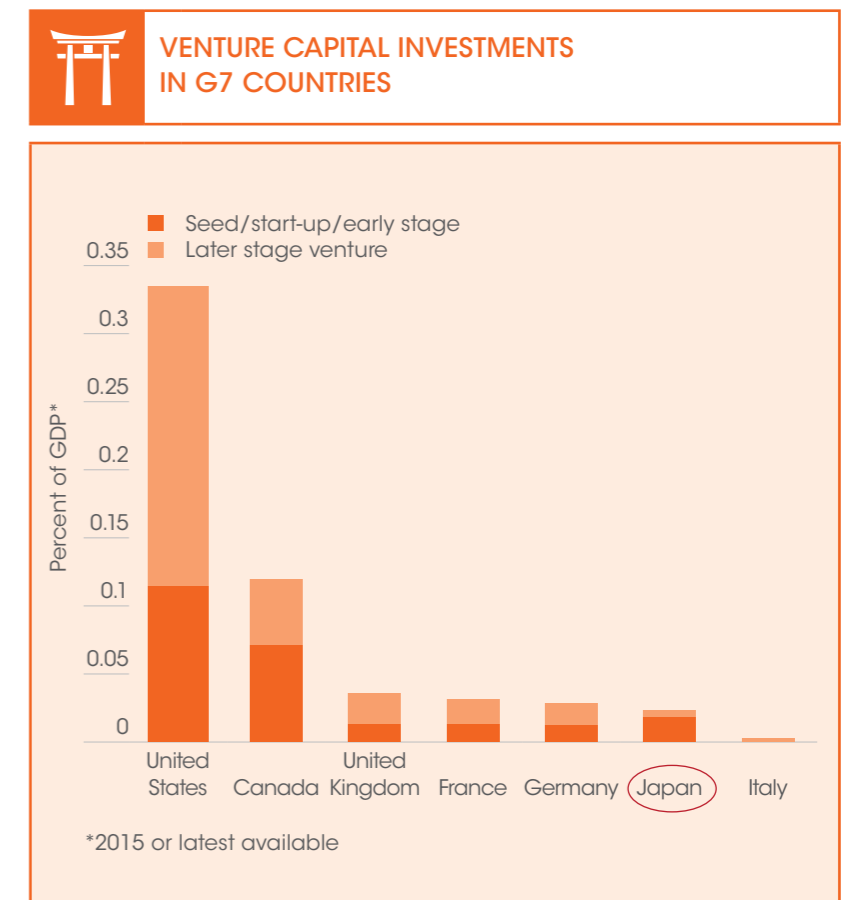


FIGURE 3

Source: Entrepreneurship at a Glance 2016, OECD 2016

exploits complementarities between macro-critical structural reforms and coordinated income and demand policies that would help lift potential growth and spur inflation. Policy frameworks should aim to boost labour market flexibility and labour supply, encourage private domestic and foreign investment, and tap into the growth and export potential of SMEs. The complex challenges facing Japan call for a multifaceted economic policy approach. Besides continued monetary accommodation and a flexible and well-anchored fiscal policy, Japan would be well advised to accelerate structural reforms along several dimensions:

FIRST PRIORITY

Labour market reforms to boost wages and increase productivity. The government's new WSR appropriately recognises the need for broad labour market reform.

Employment protection for regular workers is relatively high in Japan. Clarifying the legal framework for intermediate contracts could help promote their use, facilitate a better balance between job security and wage increases, and reduce labour market duality. Support for worker mobility across firms—including via contract reform, portability of pensions and government programmes—would improve resource allocation while increasing wages. Accelerating the ‘equal pay for equal work’ initiative, together with the introduction of job descriptions, should also help close the wage gap between regular and non-regular workers.

SECOND PRIORITY

Reforms to increase private investment and productivity. Boosting private investment is also critical to increasing potential growth and raising employment, but it has remained subdued in recent years despite favourable financing conditions, an aged capital stock, and improved profitability in the corporate sector. The restrictiveness of product and service sectors in

The success of Abenomics rests precariously on expectations.

Japan is high in some areas relative to its G7 peers. Deregulation, including reduced barriers to entry and removal of protections to incumbents in some industries (i.e., telecoms and gas sectors) and that of professional services, would increase productivity.

THIRD PRIORITY

There is also scope for further corporate governance reform; more ambitious requirements for outside directors, enhanced transparency of beneficial ownership, and explicit limits on cross shareholdings, which should improve monitoring of firm performance and encourage firms to invest. Providing greater clarity on macroeconomic policy frameworks to reduce policy uncertainty, promoting trade and FDI, as well as expediting deregulation in Special Economic Zones should also help boost productivity, investment, and long-term growth.

FOURTH PRIORITY

Diversification and enhancement of labour supply. Measures to boost female and older-worker labour force participation, as well as hiring more foreign workers and facilitating their integration into the economy, are crucial to compensate for a shrinking working-age population. Eliminating disincentives to full-time and regular

work stemming from the tax and social security system, and increasing the availability of childcare and nursing facilities, could help boost labour supply. Flexible employment and a wage system based on ability rather than seniority should be encouraged, and firms’ right to set a mandatory retirement age should be abolished.

All told, the success of Abenomics rests precariously on expectations. What Japan needs today is a set of mutually reinforcing policies and strategies that will stimulate growth and employment. Many of the policy measures geared to spur wages and bolster growth have already been identified in the government’s strategy. However, some gaps remain—implementation horizons could be more ambitious and clearer prioritisation is needed.

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The material in this article is derived from the International Monetary Fund’s report, “Article IV Consultation—Press Release, Staff Report and Statement by the Executive Director for Japan” published in July 2017.

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A managerial perspective on how firms can effectively deploy human minds and intelligent machines in the workplace.

By Steven Miller

Integrating AI-enabled automation with people into workplace processes and societal systems is a complex and evolving challenge. This special supplement, exclusively available online, provides an overview of how AI is being deployed in companies, based on findings from very recent research and examples from Singaporean companies. It also offers insights relevant to integrating people with smart machines to do other cognitive types of work and highlights adaptation in employee roles as companies increase the usage of AI-enabled systems.

This leads to a discussion on how we should fundamentally rethink the standard partnership of human minds and increasingly intelligent machines. The answer cannot be through automation that is mainly focused on displacement of human labour and minds. In this new age of AI-enabled smart machines, the

key is to find the right combination of using highly adaptable and versatile human employees with highly efficient and consistent machines that are increasingly intelligent, though in limited ways. Such a human-machine symbiosis will help organisations harness the forces associated with the acceleration of change in ways that can lead to growth as well as to productivity increases.

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AI:

AUGMENTATION,
MORE SO THAN
AUTOMATION



This special supplement is exclusively available online at <https://cmp.smu.edu.sg/ami>



THE TALENT MAGNETS

Three dimensions of a great place to work.

By Chandrasekhar Sripada



Inside any successful business, you'll find talented people front and centre, and India is no exception. Anyone in India on the hiring side of business can see the critical difference that talent can make and regardless of where your company is operating, the importance of talent cannot be overstated.

Right now in India, talent is king. The irony is that while the country has over 1.3 billion people, it is very short on skilled talent. Given the rapid pace and scale at which Indian enterprises are growing, they are always falling short of finding the right talent. As a result, there is a lively talent war waging across India's business landscape.

Each talented person in India has many choices with the top companies, so organisations have to work hard to become a magnet for the crème de la crème. If attracting talent is key, how can all organisations do this well—in India as well as elsewhere in the world? Becoming a talent magnet requires a lot of homework, some soul searching, and a whole lot of perseverance. What's more, once it becomes a talent magnet, the organisation has to work even harder to maintain that position.

The three pillars of a talent magnet

The equation is straightforward: If your company is seen as a great place to work, you will draw bright, skilled people. Apart from drawing talent, a great workplace creates a work culture and an organisational culture that brings the best out of people. When you are able to create such a workplace, the average output and the value add of your workforce is far higher. Data shows that great places to work are also great growth companies and top market performers. So there is a strong correlation between being a great place to work and being a great business. In short, great workplaces deliver higher productivity and value add through their enabling business culture.

It follows that companies should invest in becoming great places to work. But what makes an organisation an outstanding workplace? The answer is a universal one, regardless of the industry sector, size or life stage of a firm. It comes down to three core elements: trust, pride and camaraderie.¹

A great workplace is where employees feel trusted, where they trust their managers, and where employees trust their organisation's policies to be fair and equitable. A great workplace is also where employees feel proud about what they do. Finally, a great workplace is where employees enjoy whom they work with and thus experience camaraderie at the

workplace. The question then is: How does one create this environment of trust, pride and camaraderie?

The easy part: The mechanisms

To start with, the organisation must put in place the mechanisms that will allow it to foster trust, to deliver employee empowerment and pride and to engender a sense of camaraderie. These mechanisms include policies, processes, programmes and systems.



Trust: Great workplaces ensure high governance within the organisation by setting clear transparent policies like non-retaliation policies, anti-harassment policies and non-discrimination policies. These mechanisms, when executed sincerely, reinforce trust. Some other specific organisational mechanisms include the institution of ombudsman, hotlines for grievances, anonymous surveys, employees' access to all management including the CEO, upward feedback surveys and engagement surveys where employees are able to openly share concerns and feedback with their managers.



Pride and empowerment: Pride comes from the deep significance and purpose employees see in their work and that of their organisation. Interestingly, while pride creates success, success in turn engenders pride. Therefore, business success is foundational. Employees also feel a sense of pride when they see their organisation and its leaders on the forefront of innovation and community work. Empowerment, freedom and autonomy are the hallmarks of a great

place to work. In particular, empowerment is the winning ticket when it comes to courting the millennials. The command and control style does not sit well with these young people who are now just entering the workforce. For this generation, you need to empower, not micromanage.

In a leading pharmaceutical company in India, I led the execution of an experiment with a concept called 'self-managed teams'. The result was fascinating. In factories, blue-collar workers carry out low-level jobs and are usually very supervisor-led. In our experiment, we hired young people fresh from rural society, trained them and gave them the freedom to make a lot of decisions in a range of work areas in the workplace. The youngsters often took a lot of responsibility. They reported quality violations and flagged a lot of breakdowns in the factory because they had a greater sense of ownership and were fully committed to their roles. In the end, the management was able to see that productivity goes up with self-managed teams.

These empowered youth, whose lives were transformed by the opportunity to work and learn at this leading pharmaceutical company, experienced great pride. They saw their work contributing to health promotion and cure of critical diseases and this big picture behind the mundane task of producing pills in a factory made them very proud.



Camaraderie: In great places to work, employees make friends, share common interests and work collaboratively. Effective measures that foster a sense of togetherness include the formation of cross-functional teams, assignment to special projects

so that employees anchored in one department have the opportunity to do projects in other departments, robust intranet, and access to the organisation's cross-vertical knowledge depository.

Other effective programmes include the provision of good internal job mobility so that employees can readily move between verticals, and the upskilling and cross-skilling of employees so that they can grow to understand other jobs in their organisations, and a transparent system of internal job posting. It is also key that the company circulates communication about the whole organisation to their employees and not just distribute departmental information to each department.

An examination of Intuit, a leading global financial software company, reveals why it emerged to be 2017's Number One great place to work in India, beating Google.² A key finding is their ability to build and foster several 'employee networks', all promoting great friendship and camaraderie among their diverse employees.

The hard part: Walking the talk

In my view, personal role modelling by an organisation's leaders always triumphs and takes precedence over formal organisational mechanisms. Ensuring that, however, is far more difficult than establishing organisational mechanisms. It is not possible for HR departments to compel managers, for example, to behave in trustworthy ways. And when managers act in ways that undermine trust, all the best policies that an organisation sets will not help.

Leaders of a great workplace have to win the hearts and minds of their workforce by living up to the organisation's pledges. Day in, day out. Without fail.

At the end of the day, the chief executive and other senior leaders make the biggest difference in creating a magnetic organisation. To become a great workplace, an organisation needs its chief executive and all its managers to be fully committed to the vision and to dedicate themselves to deepening trust in the workplace. Senior and middle managers must work purposefully towards creating and sustaining a great work environment. Above all, the management should embody the values and workplace culture of the organisation in all they say and do. Because everything managers say or do sends a message about how genuine the company is about valuing and respecting its employees.

Management teams that walk the talk have the following traits:

THEY BUILD TRUST BY:

Communicating consistently and often, and they are transparent in their communication

Trust is built on moments of truth between a manager and an employee. This refers to the daily interactions between them. Through his or her ordinary everyday honest and open interaction, a manager conveys respect for staff, and in this way builds trust. In great workplaces, the chief executive will stick their necks out and say things that leave them vulnerable. If the company is not doing well, they will talk about it transparently. If there is an accident, they will not brush it under the carpet. In short, they will own what needs to be owned. That is how trust grows.

Hiring and promoting people who build trust

Building a climate of trust starts from selecting authentic and trustworthy people during the hiring process to promoting people who stand by the values of the company. Good companies always make their managers accountable for building trust and reward those who build trust.

Acting firmly against behaviours that violate trust

Whether the violation is cheating, favouritism or an act that makes people question whether this company truly operates out of the principle of transparency, an organisation has to be seen to take strict action against transgressors. By taking action against managers that violate trust, you build trust.

Knowing that action speaks louder than words

A CEO in a great workplace will stand up for his or her employees in moments of crisis and will require their managers to do the same. During a natural calamity, the employees

of a pharmaceutical company witnessed the sincerity with which the top management sprang into action. They saw how the leaders of their firm supplied employees and their families with safe drinking water, food and medicine, and they saw them ferrying children. When a company does things for employees in need, the employees understand that the company does not only engage in shouting from the rooftops but is genuine in caring for its employees. In one go, the trust level for the management of that pharmaceutical firm just doubled because its people saw the management in action.

THEY EMPOWER THEIR WORKFORCE BY:

Ensuring that managers let go

At any hotel in the Taj Group, the waiter is as empowered as the general manager. This is because the waiter is given the authority to make many decisions, including financial decisions. For example, a waiter can arrange for a car to ferry an unwell customer home from the hotel. Empowerment is not



about ‘delegation of powers’ to employees; it is about letting employees find autonomy and meaning in their work and to be inspired and uplifted at work every day.

Letting their employees take charge of their own careers

Employers of choice are transparent when it comes to career development. Managers at great workplaces take active interest in the careers of their people and periodically engage their employees in discussions about their career development. However, this is not about handing out promotions or the next job title. Great places to work tend to their people’s career development by shaping the ability and capability of their people. These organisations build a climate of career self-reliance. They tell their employees: You take charge of your career. It is about helping employees understand what their career trajectory is, how careers grow and what competencies are required to hold certain positions. The organisation’s role is to empower their employees to take charge of their careers by providing the resources, the coaching and the guidance.

Building camaraderie

Of the three pillars of a great workplace, building camaraderie and collaboration is the toughest to crack. Competition is something that is innately human; we all naturally tend to work in silos and we all love our turfs. Given a chance,

every three or five people will gravitate to one team and they won’t like to work in any other team. For most organisations, building up camaraderie will require the most intervention from the top leaders.

It requires leaders who don’t let boundaries get in their way and who don’t create turfs. Often, the top teams set the collaborative climate at a workplace based on how they behave when interacting with other teams. When you have internal power struggles among the top teams, the discord travels all the way down. People will begin to follow their leaders and will not cooperate. But if the top teams discourage that, the subordinates will cooperate.

When I first joined a leading IT services giant in India, the finance function and the HR function always fought because the two heads did not get along. As the new HR head, I felt that there was no need for me to be at loggerheads with the finance head. So I took the lead to go often to his cabin to request for appointments and to chat. I also called him to address the HR team. As soon as I did this, he reciprocated. He started coming to my cabin and inviting me to his staff meetings. Initially my team thought that I was ‘surrendering’ to the might of finance. But when they saw that the finance head was starting to show empathy for HR matters—he arranged for extra budget for training—they realised that collaboration works better than fighting. And this

was achieved not through any organisational process; all it took was two leaders coming together for things to change.

The hardest part: Retaining the best talent

As the well known business coach Marshall Goldsmith says: What got you here may not take you there. Becoming a great place to work is not easy but staying there for long is even harder. Initially, a great workplace displays great consistency between the announced policies and real actions by its managers. But as companies grow, that consistency is not sustained. New people join and managers move on to other matters. Staff relax. With no checks and balances, the company drifts backwards. By this point in time, the organisation’s value proposition is making promises that it is no longer keeping. Meanwhile the organisation’s reputation as a great place to work has created such huge expectations among new recruits that even a slight difference between what was expected and what exists in reality causes disappointment.

Great talent in the best places to work expect more. They expect complete congruence between the promise and the fulfilment of that promise. For example, if an organisation says it is an empowered workplace but in reality, its managers micromanage their staff, its so-called value proposition is more a statement of intent, not actually how people are experiencing the company.

When I was with Dr Reddy’s Laboratories, there was a big discussion on whether our value proposition should be what we intend to be, or what we already are. We eventually decided that we would not write up a value proposition as decided by the top management or HR department. Instead we asked hundreds of employees about what they are experiencing as the company’s real value proposition. We asked our employees: What do you see as the value of working in this company? We formed focus groups, collected all the data, and eventually created a statement that the employees really resonated with. This is the way a company should convey its brand and value proposition because only then are they authentic and sustainable.

Reimagining the New Age organisation

We have now entered the new world of massive digital disruption. In the new workplace, we will see many changes. Machines and people will work together. More and more people will choose to be free agents. Lots of routine and even some intelligent work will be taken over by machines

We have now entered the new world of massive digital disruption. In the new workplace, we will see many changes. Machines and people will work together.

through the new capacities now available due to artificial intelligence and machine learning. Organisations may not be built to last—in fact some of them are already being built to be sold! Employees will not look for a long-term career in one company. They will be happy with several short-term stints as long as each boosts their employability and skills. Much of what we have discussed may require reimagination in New Age companies. Yet, in all such situations, the fundamentals of trust, pride and camaraderie will prevail. Machines can be reliable but trust is different. Technology cannot replace the need for purpose, meaning and pride. Lonelier in an increasingly virtual world, the future workforce will crave even greater camaraderie and emotional bonding. Great workplaces will continue to count on these three pillars of trust and pride and camaraderie to attract the best people.

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How Fintech Startups Succeed in Financial Inclusion



In the drive to bank the unbanked, digital technology may succeed where others could only dream.

By Miguel Soriano

Financial inclusion, or providing access to and enabling active usage of affordable financial products and services, is a global and pressing issue that, over the last 30 years, has received a lot of attention from multilateral development banks, government bodies and NGOs. According to the World Bank, there are two billion people, or about half of the global adult population, and 200 million micro, small and medium enterprises (MSMEs) that do not have access to formal financial products and services. With small transaction sizes and limited credit history, financial institutions view these individuals and businesses as too expensive and risky to serve. An additional challenge is that many of these potential clients are located in remote rural areas with limited infrastructure. The majority of them are at the 'Base of the Pyramid' (BoP) earning less than US\$2 per day, and rely on informal means to borrow money such as pawnbrokers, payday lenders and loan sharks that are often extremely expensive and unreliable.

This situation gives rise to one of the greatest paradoxes in today's world: the people with the most limited resources are the ones paying the highest fees for financial products and services. Therefore, providing access to affordable financial products to the unbanked has tremendous potential to help them improve their social and economic status. In fact, it has been widely studied and documented that financial inclusion allows households to expand consumption, manage risks and invest in durable goods, health and education, thereby reducing poverty and increasing economic development.

People who are at the 'Base of the Pyramid' and earning less than US\$2 per day give rise to one of the greatest paradoxes in today's world: the people with the most limited resources are the ones paying the highest fees for financial products and services.

Digital financial services as a key enabler to financial inclusion

How to best solve the financial inclusion problem? The answer may lie in advances in digital technologies. Mobile phones, cloud computing, big data analytics, artificial intelligence and blockchain are making it possible for anyone to access financial products and services for the first time, wherever they are and whenever they need them, in a faster, cheaper, more transparent and efficient way than traditional banking. According to a McKinsey report published in September 2016, mobile technology can lower the cost of providing financial services by 80 to 90 percent, enabling banks and financial institutions to potentially serve the BoP in an economical way.

Another interesting statistic comes from GSMA, a global organisation that represents the interests of more than 800 mobile operators worldwide. Its website states that mobile phone penetration rate in most emerging market countries averages around 80 to 85 percent as of 2016, even though the average banked adult population in these countries may be well below 40 percent. Therefore, the mobile phone has become a key tool to access financial products for the unbanked and MSMEs.

How do you implement these new technologies to drive financial inclusion? Fintech startups hold the key to driving higher financial inclusion in emerging markets. A small subset of these startups is taking the lead in doing it through innovative products and business models. A good example, which is often quoted, is M-Pesa, a Kenya-based startup founded in 2006 that uses the mobile phone to transfer money domestically as well as make payments. The startup has been highly successful, with more than 84 percent of Kenyans who are living in poverty using its services, and 40 percent of Kenya's GDP going through the company. M-Pesa was able to grow very quickly, achieving one million customers in just eight months, and is now serving 16.6 million active customers, or 36 percent of the country's population. These figures are impressive and beg the question: What are the key factors that make M-Pesa so successful?

Understanding the factors that make Fintech startups like M-Pesa successful is essential to it being replicated

and used by others. Researchers and academics have identified many factors. For instance, Lee and Teo (2015) developed the LASIC Principles representing five factors—Low Margins, Asset Light, Scalable, Innovative, and Compliance Easy—that Fintech companies need to have in order to drive higher financial inclusion. They supported these factors through case studies; M-Pesa was one of them. While my research focuses on key success factors that Fintech startups need to have to drive higher financial inclusion, it is one of the first studies that *quantifies the effects of these factors*. Quantifying the effects allows for a better appreciation of which factors are more important for financial inclusion and financial performance.

Identifying and quantifying success factors for Fintechs in financial inclusion

To determine which factors are most essential for Fintech startups in order for financial inclusion to be successful, I developed a multi-level framework of factors through the perspective of strategic management theories. In particular, I examined how factors related to different aspects of a company's business model, internal resources/capabilities, strategic partnerships, and the market/environment affect the success of new ventures, as measured by financial performance and financial inclusion.



I identified and evaluated five key success factors from the multi-level framework presented in Figure 1.

- Prior financial services experience of the founding team;
- Degree of customer-centricity in the startup's business model;
- Whether the startup has an interoperable business model;
- Strategic partnerships (with three types of institutions); and
- Openness of the regulatory environment to financial inclusion.

An important consideration of the multi-level framework and the analysis performed is the definition of success. In this case, success is defined as achieving a dual goal of delivering social impact through higher financial inclusion and being a sustainable business through higher financial performance. Therefore, for a Fintech startup to be considered successful, it would have to meet these two criteria.

Based on empirical analysis of objective, measurable data collected through extensive interviews from 63 Fintech startups that are serving the unbanked across Southeast Asia, India and Africa, I find that three out of the five factors evaluated have a significant and positive correlation with financial performance and financial inclusion in these startups: founders/founding teams with prior financial services experience; the degree of customer centricity in the company's business model; and strategic partnerships with financial institutions and

e-commerce firms all seem to be highly correlated and present with successful firms.

INDUSTRY EXPERIENCE OF FOUNDING TEAMS

Having a founder/founding team with prior financial services industry experience seems to provide the company with a better understanding of the key issues and problems that need to be solved and thus the ability to develop products that customers really need. This experience is essential in the financial services sector, which is highly complex and highly regulated. The empirical model showed that this factor leads to higher financial performance, but it may not contribute to higher financial inclusion. An example from my research study is JUMO, a South African-based Fintech startup that uses behavioural data from mobile usage to create financial identities for, as well as offer financial products to MSMEs that did not have prior access to formal financial services. The company's founding team has more than 35 years of combined experience in the financial services sector. For a founding team of four people, this represents an average of approximately 8.5 years per member, which is significantly higher than the average industry experience from other Fintech startups in my data sample.

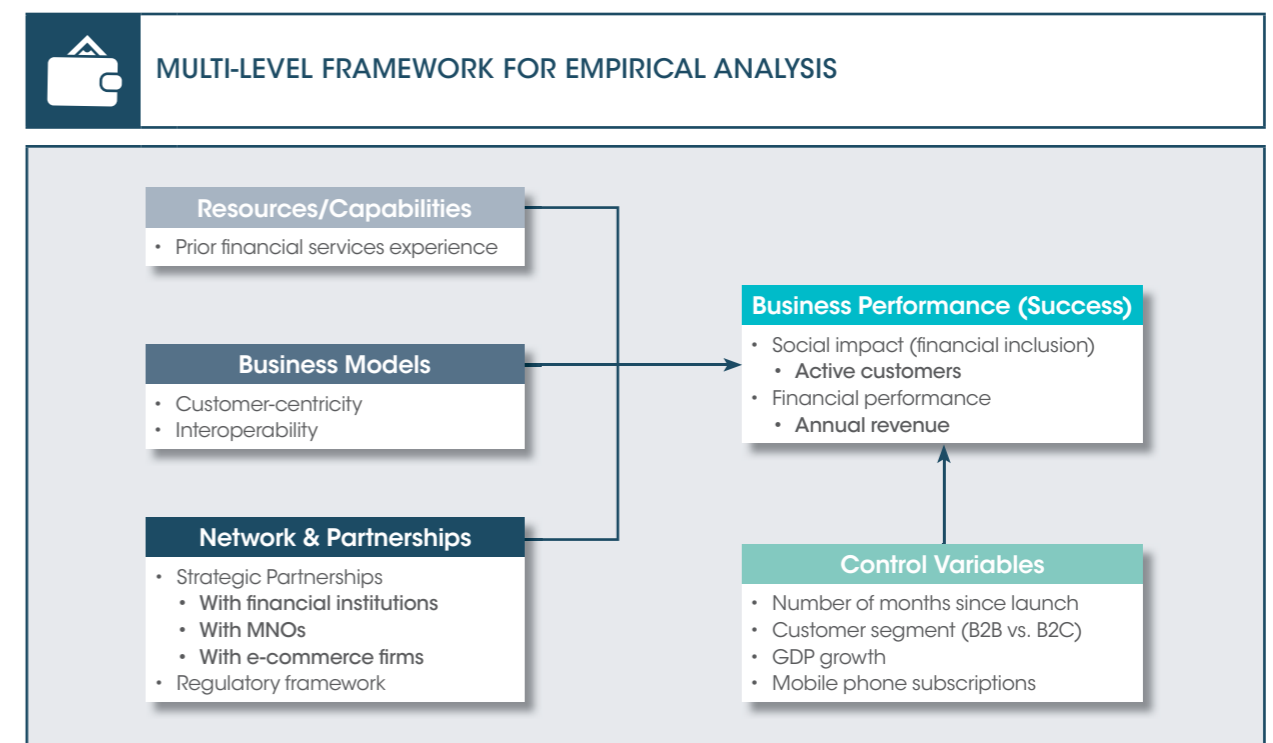


FIGURE 1

Source: Author's own

DEGREE OF CUSTOMER-CENTRICITY

Customer centricity refers to having a business model that is solely focused on solving the customer's needs. The positive effects of having a customer-centric business model have been studied extensively in the marketing field, but mainly in the context of large corporations. My research shows that customer centricity is equally important in Fintech startups for financial inclusion. Furthermore, multilateral development organisations such as the Consultative Group for the Advancement of the Poor (CGAP), the International Finance Corporation (IFC, the private arm of the World Bank), and Accion have established that adopting a customer-centric business model is important in driving higher financial inclusion, since there is a large disconnect between poor people who have registered for formal bank accounts and digital financial services accounts on mobile phones and those who actively use them. Active usage is defined performing at least one transaction using the startup's product/service within a 90-day period. According to GSMA, as of 2015, more than two-thirds of digital financial services accounts on mobile phones that have been registered worldwide are inactive, representing an active ratio of 32.6 percent.

The empirical analysis expands on the work that CGAP has done by developing a customer centricity score that Fintech startups can use, and empirically demonstrating its impact on financial inclusion and financial performance. The analysis highlights that financial inclusion (as measured by active customers) is highly sensitive to customer centricity, but this is not so much the case for financial performance. Customer centricity may

provide a signal to the strategy of these Fintech startups—by focusing on living their customers' problems and needs, these startups acquire a larger customer base and achieve financial sustainability in the future. A Fintech startup in my research study, which has a highly customer-centric business model, is Wave Money, a Myanmar-based company that offers money transfers and payments through the mobile phone. From its inception, Wave Money recognised that serving the unbanked requires a real understanding of their behaviour and needs, and thus leveraged the principles of human-centred design to build their mobile application for their customers.

LEVERAGING STRATEGIC PARTNERSHIPS

The importance of strategic partnerships on financial performance and financial inclusion for Fintech startups serving the unbanked is also emphasised in my research results. Both financial inclusion and financial performance were highly sensitive to partnerships with financial institutions and e-commerce firms, while partnerships with mobile network operators (MNOs) did not appear to impact the success of these startups. Since mobile phones are the main tool to help drive financial inclusion for the poor, one can expect to see that alliances with MNOs would significantly impact the startup's financial performance and drive higher financial inclusion. However, this was not the case. One way to explain this result is based on the size of the MNO. If the MNO has a significant, controlling market share (more than 60 percent) in a country, then partnerships with multiple MNOs may not be necessary.

A good example of partnering with financial institutions is MicroEnsure, a U.K.-based provider of microinsurance products serving more than 28 million active customers in 15 countries across Africa, India and Southeast Asia. MicroEnsure currently partners with 90 insurance providers and microfinance institutions globally, and this has been a critical ingredient for its success. The partnerships between Fintech startups and financial institutions is a topic that has received a lot of attention recently, with the announcement that the Monetary Authority of Singapore and the IFC have set up the ASEAN Financial Innovation Network to help build collaboration between Fintech startups and financial institutions that are focused on driving higher financial inclusion in the region. An interesting outcome of the research study is that strategic partnerships with e-commerce firms are important, highlighting how the Internet is becoming an important distribution channel that Fintech startups should exploit to access more customers and drive higher financial performance.

Beyond empirical analysis

Illustrative case studies of four Fintech startups in my data sample that were considered successful complemented the empirical analysis performed in my research study. These case studies showed that additional factors such as scalability, funding from well-known investment firms and development organisations and prior startup experience could also contribute to driving higher financial inclusion and higher financial performance for Fintech startups serving the unbanked. 'Pull' vs. 'push' products can also influence the customer adoption rate and ultimately impact the company's financial performance.

To achieve greater financial inclusion and financial performance, the case studies demonstrated that it was important for these Fintech startups to have a business model that can quickly scale up and reach as many customers as

possible within a short time frame. For instance, by serving five million active customers in eight countries within a span of less than two years, JUMO has shown that it has a highly scalable business model.

Funding from well-known investment firms and development organisations such as the IFC has proved to be an important factor in the success of Mobisol, a German-based off-grid solar panel leasing company that operates in three African countries. Customers can get a low interest rate from Mobisol to finance the solar panel, and pay digitally through their mobile phones. By building a credit profile from customers through the leasing of solar panels, Mobisol will eventually offer other financial products and services such as insurance and savings accounts. In 2016, the IFC invested €5.4 million (US\$6.75 million) in Mobisol. While the amount of funding is helpful, the brand name and recognition from the IFC increased Mobisol's credibility and boosted its brand, resulting in higher customer trust and more customers. Moreover, the development organisations also helped open doors to more resources that the firm may need, ultimately improving its financial performance.

Finally, the type of product sold can impact the financial performance and financial inclusion of new technology ventures serving the unbanked and underbanked. 'Pull' products refer to items that are necessities people use on a daily basis, such as transportation, electricity and food. 'Push' products, on the other hand, are goods and services that have less obvious value or that provide uncertain benefits in the future, such as loans, savings, insurance, etc. Organisations that sell pull products do not have to spend a lot on marketing to convince customers to adopt their products, resulting in a less customer-centric business model. In Mobisol's case, providing electricity to customers via solar panel systems is effectively a pull product, and thus a key reason why the company has been successful.

Recommendations

My research study offers quantitative support to new factors such as customer centricity, as well as other factors like strategic partnerships and prior financial services industry experience, which play a key role in financial inclusion and financial performance. The empirical models have immediate practical applications for venture capital firms and investors, which evaluate new technology ventures in financial inclusion by providing a quantitative, data-driven methodology that complements their internal methods. For

Fintech founders, the empirical models give them clear guidelines on what factors they should be focusing on to increase their chances of success. Moreover, the models also show which factors have a greater impact on financial inclusion and financial performance.

The results highlight that a mix of quantitative and qualitative insights is important to move research forward on the vital role that Fintech startups play in driving financial inclusion in emerging markets. More work is needed to help these Fintech startups continue their dual mission of driving higher financial inclusion and achieving higher financial performance. While the challenge of financial inclusion faced in developing markets will not be solved overnight, the solutions being created by Fintech startups are definitely a step in the right direction, and they shed light on the potential of digital technologies in addressing these challenges.

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On designing a successful business intelligence and analytics function.

By Eric Sandosham

Why do organisations engage in business intelligence and analytics (BI&A) activities? This seems such a mundane question when BI&A is one of the most talked about practices in the last decade. Given the numerous examples in academic and practice literature, organisations now understand the value of applying data-driven approaches to improve their business performance. And those that engage in this discipline are even more sought-after. In fact, Classdoor’s annual ‘50 Best Jobs in America for 2017’ lists ‘data scientist’ in the top spot for the second year in a row!

Despite all this excitement, most organisations have failed to achieve widespread success in building their BI&A capability. While talent shortages may partly contribute to this, it is the organisational design aspect of the BI&A function that is the fundamental issue. Building a successful BI&A function is much more than just assembling a team of data scientists. It involves a three-step approach: First, aligning the perspectives of BI&A; then, fostering the right organisational climate; and finally, designing the function to enhance the capability to reduce equivocality and uncertainty in problem-solving.

Perspectives of BI&A

Perspectives matter. The way a BI&A function is designed and how it interacts with other functions within the organisation are determined, in part, by the way the business seniors and BI&A leaders perceive the practice of BI&A. BI&A can be perceived either as a data-oriented or as a decision-oriented practice. A data-oriented perspective of BI&A is one where the focus is on the transformation process from ‘data to information to insights to action’, leveraging both technology and techniques such as reporting, data mining, and predictive analytics to achieve it. On the other hand, a decision-

oriented perspective of BI&A is one where the focus is on influencing the decision-making process and achieving business impact through the generation and execution of data-driven insights. This classification finds support in practice literature where the discipline of BI&A can be viewed through the lens of data science versus decision science.

To illustrate this, consider a situation where a BI&A practitioner has been asked to reduce the occurrence of customer fraud in a bank. The practitioner with a data-oriented perspective would focus on account usage data that would indicate a fraud activity has taken place and attempt to develop a predictive model for future instances. The practitioner with a decision-oriented perspective would focus on the current process of fraud identification and resolution. How does it get detected (what information triggers it), when does it get detected, who detects it, what information is utilised to confirm it, what decisions are eventually taken to resolve it, what is the financial value of detecting it in advance, and when is the peak financial impact of the fraud activity. There are clearly a lot of different types of data that needs to be assembled that are contextual to each nexus of fraud detection and decision-making in the latter perspective, and the BI&A practitioner may eventually land on a solution that is multi-staged and layered, and perhaps predicting an upstream precursor of the fraud event rather than predicting the fraud event itself.

Having both business seniors and BI&A leaders synchronise on a decision-oriented perspective is a necessary starting foundation towards developing a successful BI&A function. Mismatched perspectives between BI&A leaders and their respective business stakeholders can give rise to potential conflicts of expectations, and result in the sub-optimal performance of the BI&A function due to misaligned engagements.

Organisational climate

Achieving an aligned decision-centric perspective between BI&A practitioners and their business stakeholders starts with having the right organisational 'climate' that is shaped by senior management influences. In his 2006 *Harvard Business Review* article, 'Competing on Analytics', Thomas H. Davenport, a senior adviser at Deloitte Analytics, suggests that senior management advocates are an important factor to achieving success in implementing an analytically-oriented culture across an organisation. Many successful companies have CEOs who are *chief analytics* advocates. This 'tone from the top' can be expressed as three climate requirements:

1. Senior management asking for facts and evidence to justify any proposed or implemented decisions,
2. Ensuring that those facts and evidence are independently corroborated by the BI&A function, and
3. Raising the visibility and profile of the BI&A function by having the leadership team of the BI&A function actively participate in decision-making meetings.

Working in concert, these three requirements drive a decision-oriented culture within the organisation. The BI&A function becomes cognizant of the

decisions looming on the horizon and is able to partner with business stakeholders to focus attention on utilising data to help make better decisions rather than focusing on data capture and accumulation.

Functional design

So how should one go about designing the BI&A function? Core to the design considerations is the BI&A function's capability and capacity to reduce uncertainty and equivocality in decision-making. The notion of ambiguity, equivocality and uncertainty are central themes in problem-framing and problem-solving. But what do these terms mean? Stated simply, ambiguity is the inability to make sense of something, while equivocality is the ability to make sense of something where different interpretations exist, and uncertainty is a lack of sufficient information to describe the current state or predict a future state of something. There is a natural hierarchy at play here. Ambiguity resolves to equivocality as the interpretative void gets filled with multiple interpretations. Narrowing these multiple interpretations and hypotheses leads to a convergence of the problem statement, with only uncertainty remaining. And, when only uncertainty remains, then the task of closing that gap with data becomes obvious. Figure 1 summarises the relationship of convergence from ambiguity to uncertainty.

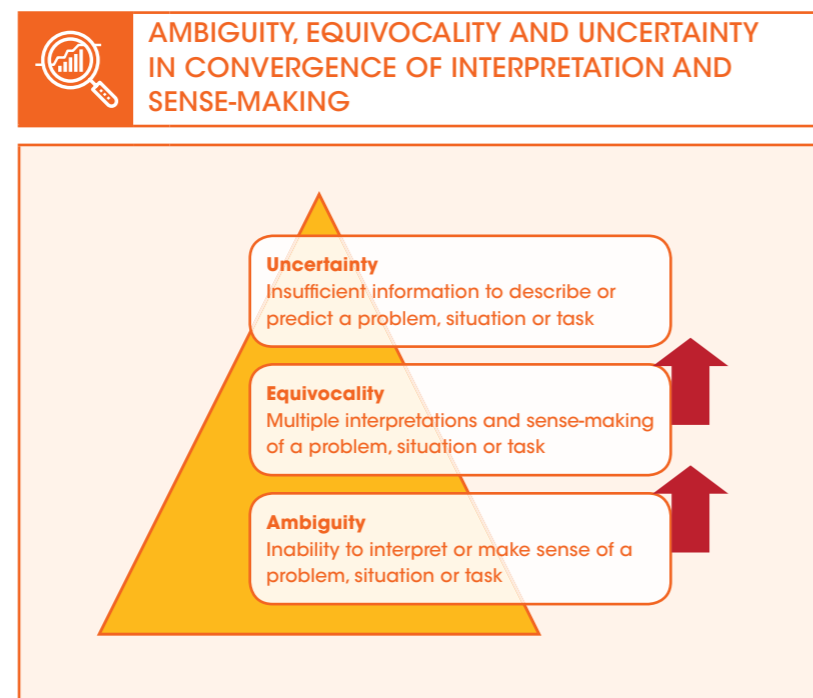


FIGURE 1

Source: Author's own

To better illustrate the differences among ambiguity, equivocality and uncertainty, consider a typical situation where a company is seeking to expand regionally in step with the competition. At the start, things are pretty *ambiguous* as the company seeks to articulate clear objectives for its expansionary goals beyond just 'keeping up with the Joneses'. Management soon converges on the objective to expand into markets with significant growth opportunities and acceptable risks. However, it is still unclear as to the explicit definition of growth and risk. Does the company define growth as compound

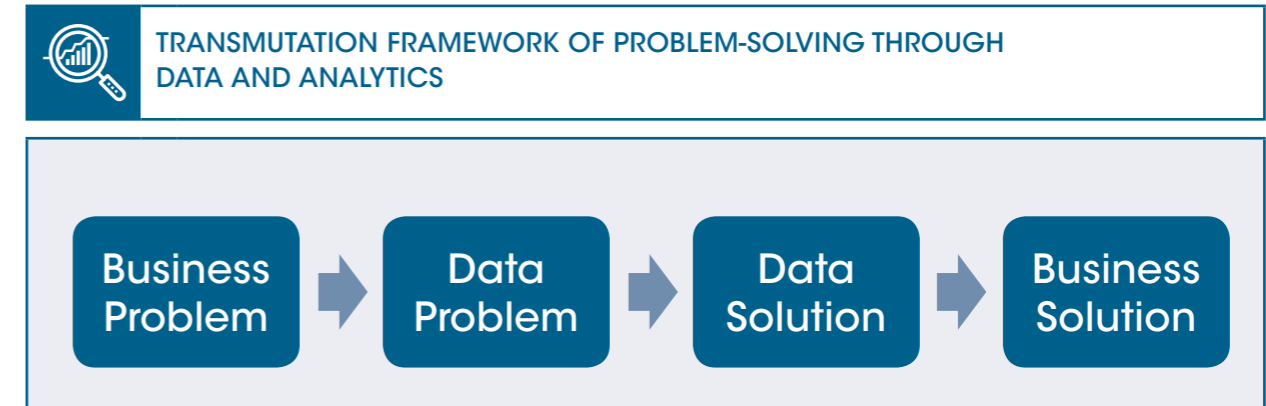


FIGURE 2

Source: Sandosham, E. (2017) *Towards an Effective Design of the Business Intelligence & Analytics Function within an Organisation*

annual growth rate of profits over the next five years, or perhaps market sales potential over the next three years? And similarly, should they define risk as the forecasted number of competitors over the next 10 years in those regional markets, or perhaps the expected tightening of industry regulations and its impact over the next two years? The situation is clearly *equivocal*. At some point, the company converges on the agreed definitions for growth and risk, and the task now focuses on how best to go about collecting or 'proxy-ing' the data for the agreed definitions. The problem now reduces to a state of *uncertainty*.

Many organisations, and even BI&A practitioners, believe that their work involves solving uncertain problems—finding and mining data to validate hypotheses and generate insights. They fail to see that the problems they confront are many a time highly equivocal because data can take on different meanings when placed in different contexts and when viewed through different experiential lens. The failure to recognise these differences in problem-framing and problem-solving has led to organisations achieving limited success in their BI&A efforts.

Figure 2 depicts a deconstructive framework for BI&A-driven problem-

solving. For BI&A activities to commence, a business problem needs to be translated into a data problem. For example, if the business problem is acute customer attrition, translating it into a data problem implies finding the appropriate collection of data that is associated with the attrition phenomenon such as customer demographics, product pricing, offers from competition and product usage. Once the data has been assembled, the BI&A function then performs a variety of data mining techniques to prove or disprove hypotheses and generate incremental insights and translate that into a data-driven output such as a prediction or forecast model or a classification (i.e. segmentation) model. This represents the data solution stage. The data solution then needs to be further integrated into the day-to-day operating process of the organisation for final implementation and execution. For example, a customer attrition prediction model would need to be translated into a customer retention campaign with the appropriate resources and marketing offers to support it. This represents the translation of a data solution into a business solution.

Translating a business problem into a data problem can be subjective, akin to problem-framing. This subjectivity is a

source of equivocality and ambiguity in BI&A work. Equivocality occurs because of the different lens that are applied in the initial interpretation of a business problem or business phenomenon (consider the earlier example of a company expanding regionally). Translating a data problem into a data solution is primarily about reducing uncertainty. And finally, translating a data solution into a business solution, too, is high in equivocality as it requires familiarity with both the business domain and the business operating processes to achieve success.

The role of the integrator

Typically, the activities within a BI&A function can be demarcated into two major categories—Data & Information Sense-Making, and Data & Information Management. Data & Information Sense-Making is akin to the collective BI&A activity of translating a business problem into a data problem, and translating a data problem into a data solution. Data & Information Management is akin to translating a data solution into a business solution.

Data & Information Sense-Making includes data mining, campaign design, experimental design, segmentation modelling, predictive modelling and optimisation modelling. These activities

are less routine and less repeatable, and are obviously more equivocal in nature. Data & Information Management includes activities such as data preparation, data quality assurance, information reporting, campaign execution and fulfilment, model validation and maintenance. These activities are characterised by their routine and repeatable nature; they are highly procedure- or rule-oriented. Now, conversations with BI&A practitioners and business stakeholders confirm that higher business value is generated through Data & Information Sense-Making activities.

Organisations where the BI&A resources handle Data & Information Management contiguously with Data & Information Sense-Making are defined as Generalist models. On the opposite end of the spectrum, organisations that have a clear separation of BI&A resources handling Data & Information Sense-Making versus Data & Information Management are defined as Specialist models.

The choice of Generalist or Specialist organisational model is intimately related to the overall level of BI&A maturity within the organisation, and more specifically, to the level of maturity and sophistication of the BI&A function. Most BI&A functions adopt a Generalist model when they first begin. However, they soon realise two things. First, that the Data & Information Management activities consume a disproportionately larger percentage of the BI&A resources, leaving little room for the BI&A function to develop their Data & Information Sense-Making capabilities. Second, the skillsets and competencies needed for Data & Information Management and Data & Information Sense-Making activities are quite different and not altogether interchangeable.

A significant percentage of Data & Information Sense-Making activities

is about reducing equivocality. To achieve this, the BI&A function needs to increase its context-specific business domain expertise. This can be achieved with the introduction of the Integrator role. The Integrator is the primary person within the BI&A function to translate a business problem into a data problem. The Integrator seeks convergence of the various perspectives of the problem statement through iterative discussions with the business stakeholders. The Integrator could be the head of the BI&A function (for smaller functions) or a senior member of the BI&A team. Seniority is clearly a requirement as the person must be able to interact with senior stakeholders/decision-makers and possess sufficient business domain knowledge and business experience to recognise the equivocality of a business challenge, and to translate it effectively into a data problem.

The introduction of the Integrator role usually goes hand-in-hand with a move towards the Specialist model where the Data & Information Sense-Making activities are explicitly separated out with dedicated full-time BI&A resources. This move increases the discussions and interactions between the business stakeholders and the BI&A function around current and pertinent business challenges and thus increases the BI&A function's capability to deal with problems of an equivocal nature.

For larger organisations, the BI&A resources within Data & Information Sense-Making are composed of one or more 'talent pods'. Each talent pod is a grouping of BI&A resources to support one or more lines of business. Heading up each of these talent pods is an Integrator. Talent pods often attend meetings together thereby reducing fidelity loss in information transmission. A talent pod allows context-specific domain knowledge to be retained and 'institutionalised' within the team,

speeding up the process of problem recognition within the pod. As the BI&A function continues to mature, the use of advanced modelling techniques becomes increasingly important. Predictive modelling is a common and valuable pursuit in solving uncertain problems, and some BI&A functions create dedicated resources to support such activities.

Proximity

Organisational proximity, as well as physical proximity, is an important consideration in addressing equivocality. Organisational proximity is about how 'near to the top' the BI&A leader is in a reporting structure. Physical proximity is about how 'near to the business stakeholders' the BI&A function is. The more proximal the BI&A function is to these two aspects, the higher the capability the function has in addressing equivocal problems. The reason being that equivocality can be reduced through having access to business context, the richness (face-to-face) and greater frequency of interactions with stakeholders, the higher fidelity of information transmission, and the ability to build trust and relationships.

In a rush to create the BI&A function, many organisations take the route of consolidating and aggregating their BI&A-related resources into a single location, citing the 'centre of excellence' or 'centre of competency' strategies. Such approaches would typically reduce the capability of the BI&A function to address equivocality problems as the function becomes isolated from the lines of business that it supports.

Collaboration

Although translating a data problem into a data solution can be fraught with equivocality, it is primarily an uncertainty-reduction activity. It would seem intuitive that by pooling BI&A resources together,

i.e., through centralisation, the amount of data and information available to the BI&A function would increase, and the capability to reduce uncertainty will also correspondingly increase. However, this may not always be true. One key insight is that the acquisition of more information (i.e., data that has been interpreted or placed into context) is driven by the types of internal partnerships to gain access to data. Internal data resides within the organisation's operating systems and requires IT support to extract and curate it for use by the BI&A function. The BI&A function's perspective of data is different from that of IT. As such, many BI&A functions create their own intermediate or surrogate IT team, both to support their internal BI&A requirements, as well as to interface and work closely with the main IT function. Therefore, to expand and enhance a BI&A function's ability to deal with uncertain problems, one should cultivate a strong partnership and collaboration with one's internal IT function.

Appetite for experimentation

Another key insight is the ability of the BI&A function to create new information, i.e., contextualised data through experimentation. An experiment is simply the execution of a well-designed test to collect contextualised data to either validate a set of hypotheses, or to shed incremental insights into a phenomenon that is not well understood, or which has insufficient data with which to construct an understanding. The BI&A function needs to have the technical skills to design experiments to collect unbiased data and the infrastructural ability to execute it. Running experiments consumes time and effort and engenders the possibility of

losing profit opportunities due to delays. Not all business stakeholders have the proclivity or appetite for experiments in the face of profit pressures.

Offshoring

The insights on proximity and collaboration lead us to another key insight—offshoring. While cost arbitrage is cited as a key driver for offshoring, the choice of geographic location is also based on availability of talent. However, the bulk of BI&A activities that are being offshored relate to data preparation and reporting. The common thread of these offshored activities is that they are unambiguous and repeatable; the term 'low value' is often used to describe these activities. But the offshore talent hired to perform these activities usually seem disproportionately highly-skilled, with many having postgraduate degrees in STEM (science, technology, engineering and mathematics) subjects. The lack of proximity to the business stakeholders and the decision-making process is cited as a key obstacle to offshoring higher value (and more equivocal) work—the offshore talent rarely has direct interaction with the onshore business stakeholders. This mismatch of expectations for hired offshore talent seems obvious and may be a contributing factor to the higher talent attrition rate commonly cited for these locations.

Data, data, and more data

And so we ultimately circle back to the fundamental question, "Why do organisations engage in BI&A activities?" The answer is simple. They do so to improve the speed and quality of decisions by reducing uncertainty and equivocality through the use of data-driven solutions and insights.

Organisations engage in BI&A activities to improve the speed and quality of decisions by reducing uncertainty and equivocality through the use of data-driven solutions and insights.

This expanded answer provides a much-needed fresh perspective to organising BI&A activities by understanding the purpose of BI&A activities—improving decision-making—and the pathway to achieving that purpose—reducing uncertainty and equivocality.

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Negotiating the legal systems in ASEAN

By Low Kee Yang and Philip Zerrillo

One may ask: What is a thought piece on legal systems doing in a business magazine? The fact is, as one begins to look at the legal and regulatory systems across the world, one quickly finds that these systems are an essential part of a firm's business environment. Legal and regulatory structures, unique to each country, can facilitate or hinder, enable or limit how a firm operates locally. Laws can often impact business performance more than any other factor, internal or external to the business. You may have control over your finances, human resources, products, processes, supply chains, and even your customers; but legal systems dictate what products you can produce, where and how much you can produce, and where and to whom you can sell them. While the 'sin' industries like alcohol and tobacco are polarised examples of this, it is easy to see how the laws and regulations of a country can impact any business.

The legal system also impacts the nation concerned, specifically in terms of the investments, business and skills that flow into it, and the business models that emerge. We often talk about making companies attractive places to work, but equally important is for policymakers to gauge whether their country is an attractive place to invest, operate and work. The legal and regulatory environment is a critical determinant of this.

Different type of systems

Looking at Southeast Asia, we find a spread of legal systems in operation. At one end, we have countries like Singapore and Malaysia that follow Common Law derived on the basis of judicial decisions of courts and tribunals. The defining characteristic of Common Law is that it is dictated by precedent. To resolve the conflict between two parties, a Common Law court looks to past decisions made by relevant courts, and applies the same principles to adjudicate the dispute. Then we have Civil Law—seen in Thailand, for example—which is based on statutes and notes about those statutes. Codified statutes (as opposed to adjudicated cases) predominate the Civil Law systems and are given seniority over a judge's ruling.

At the other end of the spectrum, we have Shariah law in Brunei, while countries like Vietnam and Cambodia follow Statutory Law promulgated by the legislature. Under Statutory Law, all cases and legal disputes are heard in private and the outcome is not reported publicly. Under Common Law, legal decisions of judges begin to establish precedence or a solid footing for the business person to know how to cross a few of the gaps or open areas not specifically addressed in the writing of the law. Under Statutory Law, the party in power or the government is the only body that creates a new law or statute. Thus, the unpublished outcomes of cases serve as information for future statutes, rather than determining a new precedent.

Managers need to recognise, acknowledge and respond to these disparate legal systems that operate in the region. An area of law that has become very important in recent decades, is conflict of laws (also known as private international law). As a business crosses borders, apart from having to be acquainted with the laws of a host country, there are issues where a country's law should apply. Take a simple example of a joint venture between a Singapore company and a French firm to set up a factory in Vietnam. Which law applies to their contract—Singapore law, French law, Vietnamese law, or all of them? In the event of a dispute, where should the suit be heard and what happens if concurrent proceedings are brought to different countries? And, if a judgment is given, can it be enforced in another country? In the absence of uniform or universal laws, transactions and disputes will invariably trigger complex questions of conflict of laws. A prior understanding of the laws and the implementation of certain legal measures can pre-empt many of the potentially costly and time-consuming disputes.

Different stages of development

Along with a lack of certainty, we see a lack of comprehensiveness and clarity in the laws of many Southeast Asian nations, as these legal systems are also very diverse in terms of their overall levels of development. Many of the newly emerging

nations are wrestling with private ownership and new forms of commerce and are not equipped or experienced to write such laws. When you don't have skilled bureaucrats and lawmakers, laws tend to be vague, limited in their areas of application, and often in conflict with other laws being enacted. For instance, Myanmar's Foreign Investment Law consists of a five-page document, while most such laws are articulated in several hundred pages. This 'brevity' makes the directive *ad hoc* and open to interpretation, dramatically reducing confidence, especially for foreign business people.

At one end of the spectrum we have Singapore, which has had a well-established legal system for over half a century. The laws are well documented and court cases are well transcribed. This facilitates lucidity and certainty, making it an attractive destination for doing business. In contrast, we have the emerging systems in Timor-Leste and Myanmar where the legal systems are rudimentary at best. Even Cambodia, Laos and Vietnam largely have commercial legal systems that are, for the most part, less than 30 years old.

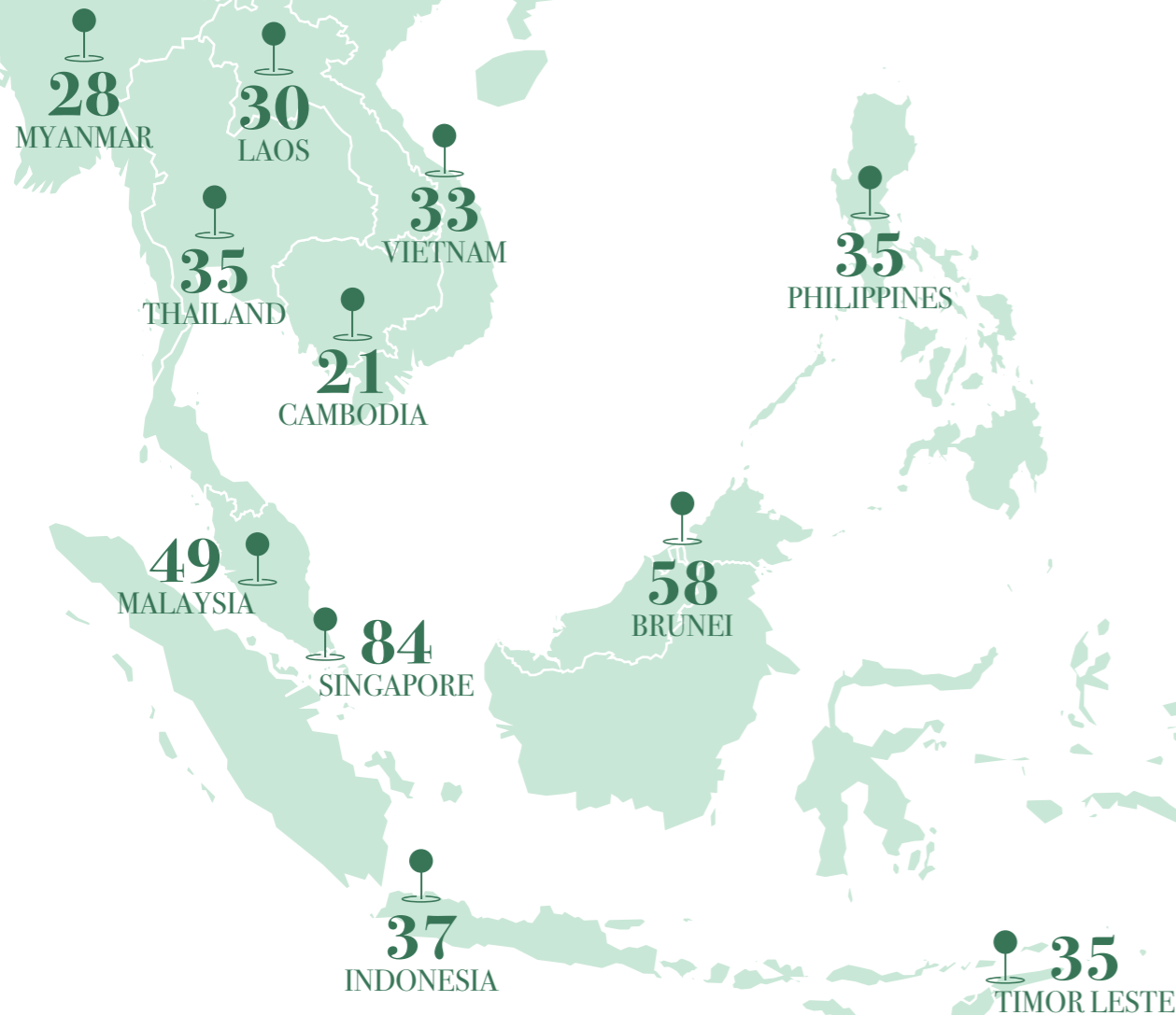
The ideological paradigm that the country truly (not just ostensibly) aspires towards is critical to the legal changes and

the implementation of such changes. For some, fundamental changes have to be made, such as to a country's Constitution, land ownership and tax structures, to name a few. To effect this change, conscious and sustained effort has to be made away from political favours and personal influence towards the rule of law. Even with the best of intentions, change takes time and the successes are, and probably will remain, uneven across the region.

Different views on contracts

Legal transactions in Asia and the West often spring from a difference in mindsets. The Western approach to business contracts tends towards a fiercely negotiated voluminous contract and, subsequently, a strict adherence to the terms that were (apparently) freely agreed upon by the parties involved. In contrast, the approach in some Asian countries is that the contract, after it has been signed, has to be worked out by the parties in a collaborative fashion. Such a policy or philosophy may even be reflected in the country's laws. The difference in thinking can have huge implications and applications as a foreign corporation seeks to operate successfully in the host country.



FIGURE 1: CORRUPTION INDEX

Source: Transparency International, "Corruption Perceptions Index 2016", 25 January 2017

Different degrees of execution

The level of transparency with which laws and regulations are implemented also differs significantly across the countries of Southeast Asia. According to the German-based NGO, Transparency International, on a scale of zero (highly corrupt) to 100 (very clean), the corruption index of most ASEAN countries falls below 50 (refer to Figure 1). While the fight against corruption is yielding results in Laos and Myanmar, we are possibly seeing a step backward on this dimension in Thailand and Cambodia.

Local businesses are able to negotiate through the ambiguity and opaqueness by knowing the 'right' people and having the advantage of homegrown relationships and cultural similarities. Yet transparency and confidence are vital for international investors who don't have access to social influence and have to depend on the legal system when they run into problems. In the absence of clear and evenly applied laws, the local investors with influence are the ones most likely to invest as they have a limited investment horizon/vision and are more confident that they can influence the application of

the law. MNCs, in contrast, are globally accountable, and can't run the risk of violating or even circumventing the laws, unlike locals.

The legal system is a signal to foreign investors, businesses and workers on how they are going to be treated. What may work for a local can prove to be a handicap for the foreign investor. A robust, transparent and fairly applied set of laws appears to be a precondition for attracting foreign economic interest. This change will undoubtedly take time in some of the most rapidly advancing systems. Our advice for investors today is: As MNCs and regional players start to look at ASEAN's investment potential, they need to be aware of the crocodiles lurking in the muddy waters.

It is our hope that this note will stimulate thought and encourage our readers to share their ideas and experiences on this topic. What are your thoughts? We would love to hear from you.

Please submit your comments to: editorami@smu.edu.sg

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Dear Editor,

The article, 'A Walk Through Asia: The Flow of Funds in ASEAN' (November 2017), about the access to lending and to financial markets in particular, makes a powerful point about the connection between individual entrepreneurship and an ecosystem that either supports or constrains it. I would agree that the ingenuity of individual entrepreneurs in accessing funds is to be admired because there is value creation in the ability to seize opportunities in otherwise constraining circumstances.

At the same time, however, one can take a more critical view, or at least one that doesn't focus exclusively on the opportunities created by the ingenious individual, but on the ability of the socio-political system to create fair access to finance. This would certainly be the view taken in the Nordic societies of Denmark, Norway, Sweden, and Finland.

In contrast to several, though not all, societies you described in this article, the Nordic societies are deemed to be high-trust ecosystems with widespread access to financing. In Denmark, for example, mortgage-financed house ownership is the norm (as opposed to renting), and bank-backed financing of new SMEs is widespread. Trust in one another, and in society's institutions is high. One can make an argument either way if societal trust is the prerequisite for equitable access to financing, or if the relationship is reversed.

Either way, it would seem to make sense to embed individual ingenuity in the broader context of societal trust.

Gregor Halff
Dean, Copenhagen Business School

Dear Editor,

I enjoyed reading the last edition of *Asian Management Insights* and I wanted to comment regarding the new column 'A Walk Through Asia.' It was a welcome treat to see the discussion regarding the financing challenges of the region. I don't believe that many folks from the West, or even here in Asia, can fully appreciate the complexity of the varied financial systems, their stresses and their inter-workings.

Having lived through a massive currency devaluation, several momentous political coups, and a financial crisis that saw non-performing loans cross 50 percent of all bank loans, Thai managers have had to deal with floods and droughts of capital availability. The scars of these events leave a lasting mark on the way in which business is done. It was great to see this come through in your article.

I have been directing a Masters in Marketing Programme for 20 years now and we have been bringing together student groups to compete in global business challenges. Preparing the students and watching the competitions, it is easy to see that the environment around the start-up community in the U.S. is a very different animal compared to what we have here. With liquid and well-oiled equity markets, the size of the prize is a tremendous motivator for capital to find a home. We are a region in need of a few equity unicorns if we are to finance our potential.

Thanks for taking on issues such as this. It was a welcome addition and I enjoyed the opportunity to read through it and ponder the "what if" questions.

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TIDES OF CHANGE

Farsighted policies and progressive ideas will stand Asia in good stead as it embraces disruption with confidence.

By Amit Gupta

In the last few years, the world has witnessed dramatic geopolitical activity, and ongoing technological progress is producing equally dramatic changes around the globe. While the pace of change is staggering, making it increasingly difficult to predict the future, one thing is clear—there are, and will be, winners and losers. Jobless growth, little or no inflation, and increasing technological disruption in several sectors will accentuate economic disparities between the rich and the poor, and among nations. The mood of the public is reflected in the recent election results in the U.S. and Europe, which seem to indicate that we have come full circle from rapid globalisation to the re-emergence of tight national boundaries.

These trends have the potential to cause intense social strife and therefore addressing income inequality needs to be the number one priority for governments and public policy, not just in developing and less developed countries, but also in developed nations.

Countries like Singapore thrive on these changes, viewing them as productivity gains. Meanwhile, wealth creation is flourishing in China, India and Indonesia, the three Asian nations that account for almost half of humanity. China's focus will be on technology-driven growth in coming decades; India's growth is likely to be services driven; while Indonesia continues to have the potential to reap productivity gains associated with industrialisation and urbanisation. What else do these nations—among others in Asia—need to do, or what are they already doing, that will help them to embrace the current tsunami of change and ride the wave to becoming potential global superpowers?

Corruption clean up

China and India have strong and stable political leadership currently in power. In recent times, both nations have taken some fairly decisive actions to weed out corruption from their systems. The two countries are aggressively using technology and the digital revolution to bring in transparency through foolproof identity recognition and by banning illegitimate financial transactions. In the short term, removing or reducing the parallel economy causes growth hiccups and large-scale unemployment. It may even give rise to political opposition, given how significant this grey economy has been. It is to be noted that there are long-standing and well-entrenched vested interests existing in the polity against this clean-up. This is why political stability and electoral confidence are critical to achieving sustainable success. The majority seems to be supporting these measures, which in the Indian context, is a pleasant surprise and a huge vindication of the democratic system.

In the medium term, success achieved effectively means bringing the large erstwhile cash economy into the mainstream, elevating the amount of capital available to the financial sector, and sharply lifting the number of taxpayers. This will provide significant fiscal stimulus and unburden the economies by eliminating leakage and creating more efficient resource utilisation, and improving governance by bringing in accountability and transparency in awarding projects and capital allocation.

China's visionaries

Beyond this clean-up, China seems to be rather successfully navigating a transition in its economic model, from simply being the world's factory to increasing domestic consumption. While there are clear risks and cracks in its financial/credit system, the country has the wherewithal and resources to manage this economic transition without experiencing a hard landing. Opinion is divided on this but Western observers and experts have famously and derisively predicted nearly half a dozen recessions or crises in the last decade in China, of which only two have actually occurred.

While the recent activity in the form of Initial Public Offerings (IPO) of mainland Chinese technology companies in Hong Kong may look like bubbles, only time will tell whether they will evolve into a paradigm shift for a transformational economy. The fact is that the level of entrepreneurship and digital transformation in several Chinese towns and cities is staggering and is much higher compared to Europe and even the United States.

Furthermore, the political leadership in China is astute and progressive; many of them are educated in hallowed Western universities. However, the Chinese do not just blindly adopt Western principles. Given the belief that a market-oriented system may have led to a sharp rise in economic inequality, China's President Xi during his marathon keynote speech at the 19th National Party Congress in October 2017 emphasised making state-owned enterprises bigger and stronger, yet more efficient. Accompanied by the fight against corruption, this works well for the economy because it allows for a faster transmission of stimulus from the government.

As we saw in the Global Financial Crisis, a misallocation of resources and build-up of risks is possible even in a market-driven economy. The bailout of U.S. financial institutions (and its automotive industry), and monetary intervention through quantitative easing are not dissimilar to state support. Furthermore, the West was unable to bounce back because of the political logjams and its inability to make quick decisions towards real infrastructure spending and fiscal stimulus for creating jobs or economic activity. It is evident that the sustained monetary stimulus over the last decade and injection of liquidity may have resulted in financial asset bubbles and wider income inequalities.

So, an honest and visionary leadership applied to China's undemocratic system has proven to be a very powerful way to deal with crises and lift the masses out of poverty. Interestingly, there is a lot of trust among the wider population on the Centre, and a belief that a strong Centre works well

The level of entrepreneurship and digital transformation in several Chinese towns and cities is staggering and is at a much higher level compared to Europe and even the United States.

for the benefit of the people. So there is outrage against corrupt or inefficient local governments, with loud complaints made to the Centre.

India's impetus for reforms

The developments in India are of a somewhat similar nature, although execution is not as orderly or speedy as in China. Ironically, there is a significantly bigger overhang of socialism in India, at least in the bureaucracy, although the level of entrepreneurship and innovation in the larger populace is evident and impressive. India started economic reform much later than China, has a much higher level of complexity, disparity, and it lacks infrastructure. The potholes on the roads can be an economic opportunity as the government has accelerated the execution of building physical infrastructure, including roads, railways, airports and waterways. Also, India has a much-touted demographic dividend—about two-thirds of the population is below the age of 35, which can be a real asset, provided job opportunities and appropriate skill development opportunities are being created. There is much baggage and some headwinds towards execution, with an active political opposition serving as a brake for economic progress.

Like China, the Indian banking sector is riddled with non-performing assets and potential capital shortage, along with the baggage of several decades of crony capitalism. There is meaningful clean-up in progress and a resolve to recapitalise the banking sector, but both of these initiatives risk falling short given the enormity of the problem. Success achieved here can provide a tailwind to realising potential economic growth.

Two other recent structural reforms implemented are a nationwide Goods and Services Tax (GST) and the Bankruptcy Code. Both serve to create uniform laws and develop a common market, and lead to reasonable upgrades in the ease of doing business in India. Both reforms have been long overdue and, along with the anti-corruption drive, will prove to be serious game changers to provide long-term impetus to the economy.

The political leadership in China is astute and progressive; many of them are educated in hallowed Western universities. However, the Chinese do not just blindly adopt Western principles.

The other economic transition that is taking place in both India and China is the increasing role of the small and medium enterprises and the private sector, as opposed to the earlier phase where state-owned enterprises were responsible for investments and creation of economic activity. There is also a plan for a stricter regulation of banks and other parts of the financial system, as a reaction to the surge of borrowing by both companies and local governments.

Global influence

Economic progress has allowed China to gradually increase its influence, not only among its immediate neighbours, but also in farther away places like Africa,

and Latin and South America. Several decades ago, with an eye to securing commodities, China started to use its growing prosperity to give developmental financial aid to countries rich in minerals and metals. It was some 15 years ago, when on a trip as a sports spectator, I came across a remarkable but amusing incidence of witnessing a 'Made in China' cricket stadium in the Caribbean! A US\$50 million stadium gift goes a long way strategically for a small nation with natural reserves, and that too under the very nose of the world's largest economy!

The Chinese role in developing roads, bridges and ports in several African countries with concessional (read 'free') finance is now more the norm than an exception. And the Chinese visitors never leave; giving true meaning to infrastructure being long-term projects! It is important to note that they are considered benevolent employers and benefactors, not as imperialists in these countries—almost like visitors who come with gifts. The Chinese government also sponsors scholarship programmes for aspiring African high school students to

attend summer courses in Oxford and Cambridge in the United Kingdom. While China does not seem to have a desire for hegemony, these actions help to establish its hold as a major global superpower.

Chinese policymakers are also looking to education as a key asset in gaining global influence. They have opened up a number of Spanish-speaking school districts (from kindergarten to grade 12) in Chinese cities to develop the next generation of Spanish-speaking global leaders. The teachers in these schools have been recruited from Spain to authenticate the accent.

Two other significant moves are the establishment of the Asian Infrastructure Bank and the state-led One Belt One Road initiative, which can substantially increase China's influence over Eurasia in the next decade. Additionally, the internationalisation of the Renminbi that started over 10 years ago, has gained pace with trade settlement, financing, borrowing (popularly referred to as 'dim sum bonds') and capital management. Using the leverage of its size in global trade, China has managed to influence over a quarter of global trade to shift



away from the U.S. dollar to the Renminbi. This is very significant and by the time China becomes the world's largest economy, it seeks to have a fully convertible currency, rivalling the U.S. dollar in terms of popularity and ubiquity.

Entrepreneurship and innovation

Over the last 10 years, Shenzhen, touted as the Silicon Valley of technological hardware, has transformed into a smart city. Entrepreneurship and innovation thrive in China, with technology playing a lead role. The state has actively promoted industry innovation and it is now spreading to many newer cities. The focus is that the 'Made in China' label should denote innovation, rather than a copycat industry comprising efficient large-scale components manufacturers. The Chinese thirst for learning has made this transformation from copying to innovation a flourishing start-up industry in the country.

Government policy, both from the Centre and the provinces, is focused on developing a service economy that is tech-oriented and brings in the

youth as an important part of the movement, incorporating them into the economy to inspire another generation of young people who want to become hardworking factory owners and innovators. So this may be the brewing of another economic revolution, one more powerful and faster than generally being predicted by analysts. I believe that with this growing culture of innovation and sustainability, there is a real possibility that China may repeat its economic success of the last four decades at an even faster pace. Even though it is the world's second largest economy, President Xi and the leadership wants it to grow like a developing economy. At its current size, if China can grow at over 7 percent for over a decade, it will become the world's largest economy at a GDP of US\$40 trillion before the year 2035, which is what is currently being predicted.

The final piece in this orchestra is the emigration of the Chinese populace to all corners of the developed world in fairly large numbers (relative to the host country's population), to acquire real estate and settle down as industrious and contributing residents/

citizens. There has been a tendency for these non-resident Chinese to remain connected with their motherland and to invest back into it. Chinese students make up a significant proportion of the STEM (science, technology, engineering, or mathematics) PhDs in the United States. Though many of these scholars return to work in newly built and expanded Chinese universities, those that stay on in the U.S. or in Europe form the bridges to the first tier academic institutions.

Over the last 50 years, India too has been a significant exporter of labour/talent to all parts of the globe. They have generally done well in various fields and the talent is well recognised globally. The Indian diaspora has flourished everywhere and, quite akin to the Chinese, remains closely tied to the motherland, in the form of remittances and financial investments of significant order.

The 'Red Dot'

The current economic environment is enabling Singapore to further its smart city status and capabilities. It is focused on digital transformation, which in fact,

further accentuates the jobless growth in the economy. It is also a viable and opportune solution supporting a change in its immigration policies, reducing dependence on foreign workers in construction and service industries like food and beverage and hospitality. Until a few years ago, this caution on immigration had received a pushback from the real estate and services sector as labour shortage was adversely affecting service standards and was becoming a constraint for growth. The substitution to online shopping and food delivery is alleviating the problem.

The challenge to finding a viable solution has been taken up well by industry. The Housing and Development Board, the statutory board of the Ministry of National Development responsible for public housing in Singapore, has set an internal target for a 25 percent improvement in productivity between 2010 and 2020. A transition to prefabricated homes will allow them to significantly reduce construction and delivery times, and raise productivity, while reducing dependence on imported labour. The recently opened Terminal 4 of Changi Airport is also fully automated, catering to an expanded capacity of travellers with no extra labour requirement. Similar trends are visible in the medical sector, where digitised records are shared across service providers. The efficiencies derived are plentiful and this initiative is rapidly helping Singapore cement its position as a regional and even international hub for medical tourism. The focus on privacy and data security is paramount and the government has instituted a Personal Data Protection plan that has been in place and under implementation for over five years.

A similar focus is seen across all industries, with start-ups and fintech solutions being promoted by the Monetary Authority of Singapore, and agencies like A*STAR playing a key role in scientific research, biomedical advancement and even education. It is not commonly known but one of the founders of the frugal online education offering, Coursera (popularised at Stanford and now the leading global higher education online hub), did his schooling in Singapore. As he was starting up the online portal, he attracted several young scholars at A*STAR to move to Silicon Valley, a move which was supported by A*STAR's management.

To further its impressive urban planning credentials, there is also a focus on creating clusters for the digital economy that will be 'enterprise districts' (emulating the ethos of Silicon Valley)—'vehicle-lite' areas to keep it environmentally sustainable, business support by providing government contracts for cybersecurity, potential venture capital funding by local quasi-government and university wealth funds, and other lifestyle benefits to provide work-life balance, including accommodation and education. Singapore has done this coordinated activity successfully over the decades on other initiatives, and will be successful at this too.

The transformation of the global economy and the shifting of sands from the West to East is fast becoming a reality as China and India maintain rapid growth rates. Even a small economy like Singapore is now taking aim at becoming an important technological hub of the future.

Amit Gupta

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