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CAG ON DEFENCE OFFSETS

A case of the bureaucracy failing to bite the bullet?

Repetition of the same mistakes as highlighted by the CAG twice is reflective not only of a general apathy to oversight, but also demonstrates to some extent our inability to grasp core policy principles that stakeholders—both internal and external—constantly draw our attention to, in order to inform proper policymaking in the first place

THE LATEST CAG report on the (non-) implementation of defence offsets has brought into sharp focus, once again, the broader subject of developing India's domestic industrial base—one of the foremost policy announcements of her present political leadership. It also raises concerns of some bureaucratic incapacity when contrasted with an unambiguous political vision of turning India into a strong and vibrant powerhouse via Atmanirbhar Bharat. The positioning of 'Make in India' has clearly not been lacking either in its clarity or its consistency. The Prime Minister's Office has repeatedly emphasised this grand vision on a number of occasions; for instance, while steering the department for promotion of industry and internal trade's well-crafted Public Procurement (Preference to Make In India) Orders right since 2017, and in nudging the ministry of electronics and information technology towards implementing cluster-oriented manufacturing of critical electronic components as part of the historic National Policy on Electronics in 2019.

The 2020 CAG report on defence offsets is not the first one—a privilege that vests with an earlier CAG report in 2011 that outlined a number of similar problems with defence offset management in India. One need only to compare, *inter se*, the two CAG reports, or with reported findings of the latest CBI chargesheets in the Agusta case, to assess the number and range of mistakes made during offset contract management. A serious situation such as this, twice repeated, drives one towards an obvious conclusion that the qualitative deterioration in defence offset guidelines around 2010-11—in contrast to the original guidelines that were issued in 2005-06 based on far-reaching recommendations of the committee on defence procurement and manufacturing chaired by the legendry Vijay Kelkar—is probably more a case of bureaucracies changing "the rules of the game" simply to hide their own inadequacies during defence offset contract lifecycles. After all, it has been a clichéd but a well-understood strategy amongst "Yes-Minister"-esque bureaucracies across the world that if one has made too many mistakes, the best way to justify those mistakes is by incorporating all such digressions into government policy through dilution of the policy itself. When mistakes can't thus be distinguished from policy, there are no mistakes left to justify to anyone anymore!

For perspective's sake, it is important to note that Kelkar Committee recommendations that formed the very basis of India's Defence Offset Guidelines issued almost a decade-and-a-half ago contained some core guiding principles that seem to have been diluted in 2011. The original offset guidelines of 2005-06 allowed direct offsets relating to manufacturing of defence products alone—a principle that the defence bureaucracy could not stick to very long in the face of well-coordinated push by foreign vendors. A second core "Kelkar" principle was grant of offset credit only for value-addition in India—one that was neglected for almost a decade in offset management before it was able to make some re-entry into the ministry of defence's procedures. A third principle was to keep offset contract duration short enough so as to be able to see their visible impacts, and to insist submission of properly crafted offset offers rather than signing of paper promises by foreign vendors: important issues that have all been highlighted by a number of researchers (including this author) forming part of the MoD's own policy think tank—the Manohar Parrikar Institute for Defence Studies and Analyses. Within this context, repetition of the same mistakes as highlighted by the CAG twice is reflective not only of a general apathy to oversight, but also demonstrates to some extent our inability to grasp core policy principles that stakeholders—both internal and external—constantly draw our attention to, in order to inform proper policymaking in the first place.

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Some of this civil and military bureaucracy is the same which, when faced with the DPIIT's strong (and happily irreversible) push against unbridled foreign imports finding their way into India's public procurement marketplaces, took a few months to even come up with an amazingly short list of 15 items where India's manufacturing has been assessed to be of sufficient capacity and to ensure adequate competition—all this when India's naval sector has been one of the most aggressive in pursuing indigenisation efforts for decades altogether! To be fair, the defence list is actually 24 items, but then 10 of these are rings of slightly different types; and such a "tiny" list makes one wonder if it has been issued only for demonstrating an "optical" compliance with the DPIIT's mandate. The list issued by the ministry of railways purportedly in compliance with DPIIT orders is similarly limited to just 28 items; and it is unambiguously clear that such "baby-step" approaches by some departments may not result in making a serious dent as clearly intended by the DPIIT and the PMO—namely, making Bharat *atmanirbhar*.

To conclude, what we as bureaucracies need to undertake is really a reorientation of our own attitudes and upskilling of technical policymaking skills, and to get out of our comfort levels in remaining conservative and risk-averse. We have comforted ourselves for far too long that the small set of general administrative skills we pick up as collectors and as secretaries working within limited landscapes in states is all that India needs; when the truth is quite the opposite. Navigating highly dynamic and unforgiving domestic and international developments, especially in the face of such clearly ambitious and aggressive policymaking that India's leadership wishes us to execute, requires us to start adopting much more collaborative and strategic approaches, and even much more domain specialisation, than what we have hitherto achieved so far.

NEOBANKS

How banking is getting redefined

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India must consider the introduction of digital-only bank licences

EVEN AS COVID-19 takes a toll on the economy, it is catalysing digital transformation of businesses. The financial sector is no exception, with policymakers emphasising on the digital delivery of financial services. This will have far-reaching implications for the future of the financial sector, including banking. It also provides a unique opportunity for reaching out to traditionally underserved segments such as MSMEs.

Prior to the pandemic, several countries had witnessed the rise of exclusively digital and branchless banking models, operating either as licensed digital banks or as partnerships between licensed banks and non-banks. The UK has witnessed relative success with digital banks, with their customer base tripling from 2018 to 2019. Popular UK digital banks such as Revolut, Monzo and Starling Bank together claim to have attracted more than 17 million retail customers. Nations like Hong Kong, South Korea and Singapore have introduced separate licences for digital banks. India doesn't permit digital-only banks. The digital banking model operates as partnerships between licensed banks and non-banks, popularly called 'neobanks'. In its report '*Deconstructing Digital-only Banking Models*', the Vidhi Centre for Legal Policy finds that there around 17 neobanking platforms in India, some of which are yet to launch their products, but have secured advanced funding. Popular platforms include Open, Niyo, Jupiter and Hylobiz. They rely on partner banks to provide access to regulated services such as opening bank accounts and providing access to loan offers.

Interestingly, MSMEs have emerged as a popular customer segment for such models. Almost half of neobanking platforms surveyed for Vidhi's report focus on MSMEs and start-ups. Traditional banks have long struggled to serve this segment due to the high cost to serve. While policy initiatives tend to focus on MSME financing, such businesses often struggle with other financial and business needs throughout their lifecycle for which they have to depend on different players. Recognising this as an opportunity, digital banking models provide an integrated platform, which couple banking services with value-added services such as invoice generation, accounting, GST compliance, payroll management and enterprise resource planning.

Despite its value propositions, existing practices of these consumer-facing platforms give rise to consumer protection risks. Many platforms use terms like 'bank' or 'banking' to describe their services. This risks the violation of the Banking Regulation Act, 1949, which permits only licensed banks to use these terms. This coupled with the failure of many platforms to disclose their partner banks may misled consumers into thinking that these 'neobanks' are authorised and are regulated as licensed banks, when, in fact, their operations are carried out only through partnership with licensed banks. To address these issues, without unduly slowing down the growth of an emerging sector, Vidhi's report suggests light-touch regulation in the short term. This may be structured as directions from RBI clarifying the application of outsourcing guidelines to such partnerships along with specific directions to banks to address the risks above.

While an outsourcing arrangement may be relevant for a nascent industry, as bank-fintech partnerships evolve it will be a challenge for regulators to strike a balance between prudential risk management and promotion of innovation. This calls for a framework that can account for the complexities of bank-fintech partnerships and facilitate the evolution of such models into full licensing framework for digital banks. As a long-term measure, India should consider leveraging the regulatory sandbox testing model for the launch of digital-only banks. Recognising that a well-functioning financial system requires a mix of institutions that can serve the diverse needs of the Indian population, RBI had introduced 'differentiated banks' in the form of small finance banks and payment banks that were envisaged to be technology-driven. Taking this to the next level, India must consider the introduction of digital-only bank licences.

BEING NETFLIX

The difficulty of being good

No Rules Rules is a compelling read and makes one wonder: Do they make people like Reed Hastings and organisations like Netflix anymore?

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"Satyam bruyat priyam bruyat,
Na bruyat satyam apriyam,
Priyam cha nanrutham bruyat."

"Speak the truth, speak that which is pleasant; Do not speak the truth that is unpleasant. And, do not speak untruth even if it is pleasant."

REED HASTINGS, THE iconic founder of Netflix, gives a new meaning to this ancient Sanskrit verse by creating the modern equivalent of the British Empire expanding across the globe by fostering a culture of brutal candour even if unpleasant but if in the larger interests of Netflix. Pretty much like he is taking Hollywood out of business, he could take out Daniel Goleman out too by starting an EQ consulting firm, for this landmark book (*No Rules Rules*) is a doctrine on emotional intelligence and organisational culture for a truly hyper-performance organisation.

It is an anti-Bell Curve book, for it defines the success of Netflix through the lens of its own performance curve, which negates everything that the force-fit of the Bell Curve taught us. It is an exceptionally well-written book—for the two authors, one is a practitioner of leadership and the other, Erin Meyer, a teacher of it, weave in and out of chapters with their own distinctive lenses to look at the identical issues. It's a fascinating read how the leader explains his logic and then the academic analyses it through the lens of rich theory. What many other Silicon Valley behemoths hang on posters in their officers, Netflix actually walks that talk.

Netflix is perhaps the only one that beat the pandemic, with 190 million subscribers in 190 countries! To give you an idea of how successful Netflix has been in raw commercial terms, by following a 'No Rules Rules' culture, a $1 invested in it (in 2002) has become a $469 (2020) versus a $1 becoming less than $4 over the same period (on NASDAQ or S&P 500). So, it's not a namby-pamby touchy-feely thing. Not too many people know that much of the invention inside the first iPhone actually came from Nokia! They did the first touch-screen phone, the second camera phone, the first to do a browser, and they even had an app-store three years before the iPhone came along. But unlike Nokia, which was a superb product company, Apple was a platform ecosystem which leveraged the inventions of Nokia, and the rest is history. Likewise, Netflix has leveraged technology and people in a magic potion that has completely disrupted Silicon Valley's technology culture and Hollywood's business model. And over a period of less than two decades, it has moved from being a DVD mail-order company to a streaming giant (in a duel with Amazon Prime); from being a purveyor of old content to streaming new content of studios; from licensing external content to building their own in-house studio content which is now globally acclaimed (taking Hollywood studios head-on); and lastly from entertaining America to entertaining the world by going global (thus taking on many entertainment companies around the world).

So, what is this magic potion of Netflix's No Rules Rules (NNRR)? The book is peppered with extraordinary authentic anecdotes of employees solving for specific problems and how they did it (or did not do it) and how the NNRR culture is juxtaposed with it or evolved through it. It actually flips on its head many conventional wisdoms. For example, in most organisations—mine included, which is one of the complex ecosystems on the planet namely the Indian government—we always praise what is praiseworthy in public, but scold in private. NNRR does the opposite—it encourages, non-personal, but intensely personalised, 360-degree feedback on a continuous basis, every single day, in front of everyone. This can only work in a kind of cauldron of super-high performers, who are always self-starters, with good self-esteem, without requiring much (any?) external stimulus. On giving feedback NNRR espouses 'AAAA' principles ('Aim to Assist', 'Actionable', 'Appreciate' and 'Accept or Discard'). Netflix believes one star is better than two mediocre employees.

Likewise, through brutally honest examples from his own personal life, Hastings evocatively delineates how he lost sight of his own personal goals and then returned to face the truth, exhaust his karma and learn from it. Likewise, it pioneered a vacation policy which changed the game, by neither counting days or weeks or months, nor requiring approvals—leaving it to the maturity and judgement of individual employees to do whatever was in Netflix's best interests. Creativity cannot be born in the confines of a 9-to-5 workplace and this is now slowly being emulated by other companies. Some of the other pithy NNRR are as follows: *Spend Company Money as If It Were Your Own*, *Don't Seek to Please Your Boss*, *Seek To Do What Is Best For The Company*, *Farm for Dissent or Socialize the Idea*, and *If It Wins, Celebrate It; If It Fails, Sunshine It*. The more deeply one thinks about these, the more it becomes amply clear that these are the mantras for the super-performing individuals and organisations, who while they leave their egos at home while going to work, yet keep pride in '*Being Netflix*'. Those who abuse the freedom (from the Netflix's Freedom and Responsibility Act) are shown the door with a generous golden handshake. It's a single strike game over, never two strikes.

Whether these can be replicated in another organisation, in another industry, in another ecosystem, is stuff for future research—but prima facie that sounds tough without the benefit of having an exceptional leader like Hastings who seems to have created many mini-Hastings to make the magic unfold!

In a Bell Curve organisation, especially in Confucian societies, public criticism will almost always be taken as 'shaming' which can lead to more, not less, dysfunctionalities in behaviour. (Surprisingly, the book does not mention China even once, perhaps because it is not present there). It is in countries like China and India (which is like 30 European countries inside a common border, where language, culture, nay 'rules' change every couple of hundred miles) that NNRR will face its greatest challenges. India has bits of Japan and America, Brazil and the Netherlands, Singapore and Saudi Arabia in it (to quote examples from the book).

One of my mentors, the late Clayton Christensen, the guru of innovation and disruption, in his seminal '*Tools of Cooperation*', used to often talk of 'surrounding oneself with the best' so that the net vector of their forces could build high-performance companies by continually moving from power to management to leadership to culture tools. NNRR appear to the next evolution of the culture map of Meyer and the tools of Christensen.

No Rules Rules shows that where you stand depends on where you sit and what you walk has to be what you talk. The soul-stirring examples and stories in it sometimes do make one wonder if they have mixed up causation with co-relation or correlation with causation? But something about the book makes it authentic and unputdownable. It is a compelling read and makes one wonder do they really make people like Hastings (and his army of mini-Hastings) and organisations like Netflix anymore?