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Rajive Kaul
President

President's Message

Warm greetings to readers and fellow members of the Asian Association of Management Organisations (AAMO).

It gives me immense pleasure to present the first issue of AAMO's newsletter for the year 2021– 'Leading the Way'. While 2020 presented us with unprecedented difficulties; we hope 2021 will herald new beginnings, with the first COVID-19 vaccines being rolled out in a some countries. After having a tough year, let us welcome a year that will hopefully unfold some good and happy times for all of us.

The social and economic disruption caused by the Covid pandemic has drastically changed management perspective and priorities. It has been a stress test for organisational resilience, and has revealed how necessary it is to be prepared for the unexpected. The previously imagined future is now here and transformation for business continuity is a clear and present necessity.

One way or another, 2021 is likely to be the year when the world transitions to the next normal. As some form of normality returns to the economy and to our everyday lives, the priority for the business leaders now is to reflect on the learnings of recent months and use them as a catalyst to make lasting change for their business. Organisations must further evolve in the way they face contingencies and future challenges - especially when considering the accelerated process of digital transformation and innovation in progress.

While the world adjusts to its new normal, business leaders need to rethink strategies to drive resilience and emerge from this crisis stronger. This is a time for organisations like AAMO, and the National Management Organisations to lead the way to help management embrace change and adopt new ways of working & learning; and foster management agility in these uncertain times.

This issue of 'Leading the Way' explores new and emerging trends in management and leadership from the Asia Pacific region. Contributions from India – 'Pattern for the future' – provides practical insights into the change in consumer behaviour during and after the pandemic; while 'Boundless opportunities' shares how a highly networked world eliminates barriers and drives positive outcomes for the various stakeholders. 'Why uncomfortable conversations are critical for success' sheds light on how having them is essential for effective leadership and a successful career, while 'Positive charge: injecting happiness into leadership' is an interview of Tal Ben-Shahar by David Pich uncovering the hidden strengths of a positive mind– both contributions from Australia. An article contribution from Sri Lanka explores the importance aspects of 'Corporate Sustainability, Climate Change & the Challenges of Resource Utilization'; while an article from Macau titled 'Three weapons to Combat the Uncertain Times' offer key concepts to stay resilient, embrace uncertainty, and thrive in a VUCA situation. 'COVID-19: How Asia-Pacific Can Lead the Way in Lending Transformation' – contributed by Malaysia – discusses how banks need to define their response to the crisis and also shape their performance for years to come. A contribution from the Philippines explores how companies can simultaneously focus on shareholder wealth while remaining committed to the economic interest of all other stakeholders.

I do hope you enjoy this issue of 'Leading the Way' and look forward to your feedback and suggestions.

Rajive Kaul
President,
Asian Association of Management Organisations

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Pattern for the future?

COVID-19 has effected a clear shift in consumer behaviour, but will it stay for long?

Ambi Parameswaran, brand-building.com

India

All India Management Association

A few days before Diwali, as we were driving past Mumbai's Dadar market, we were awestruck by the crowds. While many of them had a mask on, some were using it as a chin cover, or a throat cover. There was no question of social distancing. This was the same market that used to be empty right through July and August, after shops were permitted to open. Even during the Ganapati festival, this kind of a crowd was not present. We wondered what was happening.

When the pandemic and the related lockdowns were in place, Professor Sridhar Samu (Great Lakes Institute of Management) and I were discussing changes in consumer behaviour. We wondered how consumers would behave during the lockdown, immediately after it would be lifted, and may be a few months after the markets open. The research we conducted uncovered a few interesting consumer segments. We thought there will be a significant number of 'Revenge Shoppers' in India. This term was originally coined after China opened up and Chinese shoppers went on a shopping frenzy. Our research told us that there were some Revenge Shoppers in India too, mostly affluent and younger consumers, but their numbers were not too large. Then there were the 'Revelation Shoppers'; these were the consumers who realised, during the lockdown, that they needed a new iPad, or a new dish washer. This segment drove the Diwali consumer durables sales boom we saw in November. Then came the 'Reduced Shoppers' who were hurting and were keen on conserving their savings. These were the less affluent and older cohorts. The fourth group we uncovered was of those we called 'Research Shoppers'— those looking for the best deal. These cut across all income and age groups.

> **Winner of this year's 'AIMA-Dr Ram Tarneja Award for Best Article in Indian Management 2020**

In the last few weeks, I feel there is also a new set of shoppers emerging, and I would call them 'Relief Shoppers'—those who are relieved that they can shop now. As the pandemic and its fear spread, consumers came to adopt several new behaviour patterns. It has been a good time to be an e-com platform or merchant. Indian consumers who were addicted to COD (cash-on-delivery) have quickly moved to prepayment options like mobile wallets or credit cards. The last time we saw that kind of mass movement was when Indian consumers had no cash, during the demonetisation drive. But they quickly went back to COD once ATMs started spewing cash. Now the behaviour seems to have stuck. It is likely this will stay unless e-com merchants score a self-goal by encouraging COD once doorstep delivery is allowed in housing societies.

The other big movement, at least in cities like Mumbai, has been delivery at the gate. This is a big breakthrough for e-com brands and can reduce delivery costs by a huge margin. In advanced countries, this has been the practice for many years. It is always fascinating to see multiple packages lying outside suburban homes in the US. If housing societies stick to the policy of not allowing delivery boys inside their premises, then this could also be a big trend that may hold.

Many sectors are going to change. Let me start with the multiplex and mall visits. These have seen very slow uptick in November. Contrast this with the crowds in the Dadar market. What is happening here? I suspect the more affluent consumer, the mall regular, is a little more worried about the disease and is not wanting to take the additional risk. My interviews with leading brands revealed that while footfalls have dropped, almost all the consumers end up buying; conversion rates are almost near 100%. Luxury brands are showing tremendous enthusiasm to woo back consumers (check out the Rolex and Omega ads in the papers prior to Diwali). Their core consumers have not lost much during the lockdown, but if they get out of the habit of splurging on the latest luxury watch, they may not come back— this could be a fear driving the ad spends. In our survey, almost 14 per cent of the consumers wanted to go back to watching movies on big screens. If we were to draw a comparison between the Dadar market and the upmarket mall, then it is likely that single screens will see a quicker uptick than fivestar multiplexes.

Our research with 1000+ consumers revealed that the most dreaded thing today is international travel. Just a small percentage of consumers are keen on travelling overseas, which is now curtailed due to international agreements. But I suspect that even after it opens up, there is going to be a drastic drop in outbound international travel. What does the Revenge or Research Shopper do? They are already travelling within India. And this trend will gain momentum. A research study pointed out that 52 per cent of those interviewed preferred domestic travel over international destinations1. What was also interesting was that 68 per cent preferred to travel by their own transport and shun public transportation systems. There is, however, a huge sense of regret over having lost out one year in pandemic-related measures. A large 49 per cent said that they want to travel more to compensate for lost time. And 70 per cent of those interviewed were looking for good deals. In a sense, the Revenge and Research Shoppers are going to be driving domestic tourism bookings in the coming months.

Consumers have been locked in for months now. Schools and colleges have not opened as this article was being written. A family outing for a dinner and a movie is now a distant dream. While Swiggy and other food delivery services are seeing a big boom, the ready-to-cook market has never had it better.

Indians have been very slow in accepting new food products. Most homes prefer cooking each meal, that too 'scratch cooking' from the basic raw materials. Marketers have always lamented the lack of demand for ready-to eat (RTE) and ready-to-cook (RTC) offerings. To clarify, 'ready to eat' are products that can be put in a microwave for a few minutes, taken out, and eaten. 'Ready to cook' are products that can help in cooking but will still need a fair bit of human ingenuity. Maggi 2-Minute noodles is a good example of an RTE that managed to capture the imagination of Indian mothers by straddling both the RTE and RTC markets—make it straight off the pack or add your creativity, with cheese, butter, vegetables, or egg. The extended homestay has also created a demand boom for products that will add variety to the daily diet. As The Economic Times2 reported, 'as consumers crave a break from home food and are still skeptical of eating out or ordering in, the packaged ready-to-eat segment is witnessing a sales boom'. The article quotes Sachid Madan (Chief Executive, Fresh F&V and Frozen Food, ITC Limited) as saying, "People who were averse to eating frozen foods are now drawn to it. There is a surge in demand". While we used to have two market definitions, RTE and RTC, we now also have RTH, or ready-to-heat products. These are products like rotis, parathas, and wraps. The desire to try new products, different tastes, and different cuisines is a welcome change for branded food marketers. If this trend holds, then we will see a major transformation in the branded foods market in the country.

There has been a dramatic change in the way consumers have adopted digital technologies too—for education, for work, and for entertainment. These effects will last long.

Let us now cut to June 2021. And let us assume that vaccine is available to all; for some free and for others for a fee. Will we see consumers going back to what they were doing in June 2019? Or, will some vestiges of June 2020 remain?

I would like to submit that some of the changes may stay a lot longer. It is possible that domestic travel will continue to boom as international travel slowly picks up. In a similar vein, malls will start seeing crowds and multiplexes will see sell-out crowds. The food marketing window will continue to widen. Concern for health and hygiene will continue in a little bit muted way. The use of digital technologies for education, work, and entertainment will continue to grow.

All said, some trends we have seen in November 2020 will stay for a lot longer than November 2021. The pre-Diwali crowds in Dadar will continue as always.

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Boundless opportunities

A highly networked world eliminates barriers and drives positive outcomes for the various stakeholders—it is like a close weave wherein every thread draws its strength from the others.

K Shankar, Feedback Business Consulting

India

All India Management Association

Globalization is an opportunity while a networked world is a compulsive ecosystem. Globalization is an ambition while a networked world is a phenomenon that is brutally compelling on nations, organizations, corporates, and businesses alike. It is an undeniable truth that allows for greater control on vision and deliverables for every stakeholder.

In recent years, the only constant across the board has been upheavals or disruption. Changes have occurred at every level, from the way supply is organized to the last point—consumption of a product or service. New paradigms of customer service, satisfaction, and its measurements have been established. There have been changes of gargantuan proportions in the way basic tasks are carried out by individuals and organizations. In an era of radical uncertainty and changing business rules, a networked world has pushed managers and management thinkers to constantly innovate and shift their core thinking from how business is conducted to how business is conducted within an efficient networked framework. This has made businesses complex and the competitive edge even sharper. Scripting a strategy is not done in isolation anymore. Networked world opportunities are at the heart of the thinking. Simply put, the digitization of information, embellished with consistent progress in computing, automation, and communications, has fundamentally changed how all networks—people as well as technological—operate. This change is having profound consequences for the way work is done and value is created throughout the economy.

In a networked world, everyone and everything is expected to be connected. This accentuates speed, precision, and perfection in service quality, which allows for economic value in the loop to behave very differently than it does in the traditional world situation. Value is created and benefits are directly passed on to the entire value chain, across supply chain, and customers. The five value pockets in the system are those that make a difference to business results. Revisiting the gospel truths of business is most critical for corporations in a networked world:

❖ Money is made in sourcing and from customers

It all begins with the corporation's ability to get the best product and service at the very best price. After processing the raw products, the next big value pot resides at the customer end. Most economic value will be created at the ends of networks. At the core—the end most distant from users—generic, scale intensive functions will consolidate. In a networked world, it is possible to simultaneously achieve very high economic efficiency at both ends of the network through efficient sourcing and creating highly customized connections with customers spread across. Conventional sales models that allowed for exclusive B2B have moved to a B2B2C. Large, generic retail platforms available across the globe have made it possible. Alibaba is a great case in point for sourcing and helping in efficient customer reach. This trend pertains not only to technological networks but to networks of companies engaged in shared tasks and even to the human networks that exist within companies.

❖ Infrastructure optimization eases pressure on capital

In a classical world or in polarized manufacturing and service, infrastructure was generously distributed among different machines, business units, and facilities. Organizational strengths and synergies were overlooked in favor of customer reach. In a networked world, this paradigm has been vanquished. A networked world allows for shared infrastructure. This not only helps in addressing low-cost, high-opportunity adjacencies but also creates centers for excellence in various activities. A networked world allows for an organization to seamlessly identify common activities and leverage them from any part of the world. We Work is a case in point. Sales organizations of global corporates plug in and out of We Work facilities easily and focus on core activities of sales instead of office administration. Similar examples exist in manufacturing and other aspects of a business that have decisively determined how common infrastructure allows for managing costs efficiently. Shared infrastructure is not only prevalent across computing data storage functions but also in common business functions, such as order processing, warehousing and distribution, finance, compliance, and customer service.

❖ Business models will increasingly become modular to be effective

Interventions led by technology, software, convergence devices, and shared platforms are influencing organizational capabilities and business processes in an interconnected world. These will become increasingly modular and lean in operations. Vagaries of businesses and the disruptions thereof can be better addressed through a modular approach. Aggregation business was conceived primarily because it could be delivered in a networked world through a modular approach. It allowed for asset-light businesses.

Businesses began to focus on the core at both ends through a modular approach and delivered the best and most uncompromising experience to customers. Large government organizations have begun adopting the modular approach to become efficient. Governments have been able to track Covid-19 cases and its traceability across the world to improve their speed of response because of a modular approach in a networked situation. Organizations are increasingly opting for a modular approach to be primarily well defined and self-contained. Modules can be quickly and seamlessly connected with other modules. Value will lie in creating modules that can be plugged into as many different value chains as possible. Companies and individuals will want to distribute their capabilities as broadly as possible rather than retain them as proprietary assets.

❖ Focus on process and handshake points is paramount

The ability to coordinate amongst modules and maintaining their efficiency and uptime will become the most valuable business skill. Streamlining activities will define business excellence. In a modular model, a rich process and, most importantly, a process adherence mindset is critical for business to succeed.

Process articulations, along with appropriate plugins and delivery definitions, will become the bedrock of an organization that deals with disruptions very well. This also becomes the most important attribute to function in a networked world. The entire Industry 4.0 or digital manufacturing is based on this. Without process thinking, IoT will never succeed as a practice. IT services companies around the world are helping their clients go digital, end to end. Well-architected and orchestrated process is the backbone of that strategy in the networked world. Much of the competition in the business world will centre on gaining and maintaining an edge over process and process efficiency in this world.

❖ Reduce barriers through dynamic access of information

In a networked ecosystem, it is possible to prepare strategies that can mitigate barriers. Information flow is continuous and updated. This will help eliminate the risk of physical and visual isolation in the network. Once that is addressed, it sets up for a common playing field for corporations across the globe. Barriers due to government regulation, business rules prevailing in various geographies, customer pain points, etc, are easier to address in a networked world.

The networked world creates new opportunities for organizations and professionals in the developing world. It eliminates barriers that have traditionally stifled flows of information and goods to and from developing nations. In doing so, it promotes improved efficiency in almost all business functions. Businesses can find new market opportunities and more efficient ways to run their operations. Governments can more effectively provide public services. Individuals can communicate with friends and family and become more informed about virtually anything that is on the network. Participation in the networked world can provide new ways for developing countries to improve their economic, social, and political well-being. These opportunities for positive change are increasingly relevant and achievable as information and communication technologies become more powerful and less expensive.

Leaders shape organizations, imbibe it, and then slide into networked ecosystems. The big starting point is about imagining the possibilities and then putting together a strategic plan and operating framework that connect ideas with people and resources. Good leaders decipher the labyrinths of business complexities to bring the networked world into the organisation as they make their organization part of it. It is about breaking conventional practice and adopting next practices.

Leaders who believe in collaborative and collective growth succeed in a networked world. Collaboration and structured modular approach to business become the cornerstone of strategy. This can create far greater impact and scale than individual leaders or organizations can manage on their own. Finally, networked leaders accept that being connected and collaborative exposes the organisation to vulnerability and complexities of a different kind. Control will be hard to retain due to many moving parts in the business process. Living with uncertainty becomes the new, yet acceptable norm. What it allows for is the creation of more alpha leaders in the organisation. Managing them will be a task, but nothing comes easy.

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Why uncomfortable conversations are critical for success

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Uncomfortable conversations aren't fun. They're the conversations you put off until the last minute, anticipate with dread, and worry about. However, stepping into them is an essential ingredient for effective leadership and a hallmark of a successful career.

Uncomfortable conversations come in all shapes and sizes and for a variety of reasons. Getting comfortable with uncomfortable is essential for a fulfilled life. Uncomfortable conversations aren't fun. They're the conversation you put off until the last minute, anticipate with dread, and worry about. However, stepping into them is an essential ingredient for effective leadership and a hallmark of a successful career.

Why do we avoid uncomfortable conversations?

There are two main reasons for avoiding conversations, you:

1. Worry about the outcome
2. Don't know what to say

In the first category, shying away from such conversations may appear on the surface to be the easy option, but experience shows that avoidance doesn't work. It merely sends the problem underground to fester and then blow up, more significant and more troublesome than if you'd stepped in earlier.

There are also times when you don't say what needs to be said because you're putting your feelings first. When someone around us – be it a work colleague or friend – experiences something unexpectedly sad, we often don't know how to react. They may have been made redundant, lost a loved one or experienced a troublesome circumstance.

For example, recently, a former work colleague was made redundant. What surprised them and made the situation harder was the reaction of their work colleagues. They simply stopped speaking with them, making the person feel like they didn't matter.

It's unlikely that this was their colleagues' intent. Instead, because the work colleagues felt awkward and unsure about the person's emotional state and likely response, they walked away from reaching out. Their uncomfortableness and concern about saying the wrong thing meant they did nothing – leaving the person feeling hurt, confused and isolated.

Connection matters

In these situations, by avoiding the conversation, you miss the opportunity to deepen and strengthen relationships.

Conversations are at the root of human connection.

Research by Jian Guowei (Cleveland State University) and Dalisay Francis (University of Hawaii) – Conversation at Work: The effects of leader-member conversational quality – found that the quality of the conversation between leaders and team members had a significant impact on employee's organisational commitment.

How we talk, when we talk and how much we talk to each other matters.

By having an open conversation, being transparent with the other person about the value you place on the relationship and understanding their intent and background, you open the path to building a more stable and healthier relationship.

Having a healthy working relationship with a work colleague doesn't mean you always have to agree with them. It does, however, require you to take the time to see things from their perspective.

It's easy to make assumptions about a person's intent, particularly in an organisational context and if your relationship with the person is challenging. We can wrongly infer a harmful intent, which impacts how we react to their opinions and ideas. Consequently, each time we have a challenging conversation, we learn and grow from the experience. It broadens our perspective and reminds us not to be closed to other people's opinions.

When you make the first move, reach out and initiate the conversation it puts you in a far better position to navigate how it will proceed.

Dr Brenè Brown in her book Dare to Lead refers to these conversations and actions as your arena moments. These are the moments when you are called to show up, be brave and walk into the arena despite your fears.

Before stepping into the arena, it can help to consider your approach.

Getting ready

In getting ready for the conversation, keep true to your principles.

For example:

1. Acknowledge yourself and that feeling uncomfortable is ok
2. Enter the conversation with good intent, a genuine interest in the other person and a desire to achieve a mutually beneficial outcome
3. Strive to ensure the person knows you value them
4. Put yourself in the other person's position and consider how you want to be treated
5. Abandon any assumptions you hold about the other person's intent. Instead, be curious and, where relevant, inquire and clarify so you can be clear on what's been said
6. Where possible, have the conversation face to face recognising the importance of body language in communication, and a time when neither you (nor your colleague) are rushing or anxious. It's essential to be centred, present and calm.
7. Create space for the other person to feel fully heard; listen, get comfortable with silence and don't talk over the other person
8. Consider in advance your core message. People hear words differently. To have your message heard, you need content that connects with them on a cognitive and emotional level.

Remember, there is no perfect time. There's 'now' or 'later', and the problem with later is it often never arrives.

As author Tim Ferris remarked, "A person's success in life can usually be measured by the number of uncomfortable conversations he or she is willing to have."

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Positive charge: injecting happiness into leadership

David Pich CMgr FIML

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Happiness. People either view it as something elusive or something trivial. What if you dedicated decades of careful study into this one abstract concept? That's exactly what Tal Ben-Shahar has done. He's an educator who once taught two of the most popular classes in Harvard University's history: 'Positive Psychology' and 'The Psychology of Leadership'. Attending the Ivy League institution himself, he studied Philosophy, Psychology and obtained his PhD in Organizational Behaviour. All that knowledge about positivity and leadership was not something he kept to himself having authored six books on happiness, including the New York Times bestseller *Happier: Learn the Secrets to Daily Joy and Lasting Fulfilment (McGraw-Hill).*

This internationally renowned speaker on the science of happiness and positive psychology caught up with IML ANZ Chief Executive David Pich CMgr FIML. They uncover the hidden strength that a positive mind can enable and why happiness isn't as elusive as some believe it to be.

Tal Ben-Shahar:

David Pich: You've worked with many organisations, and from what you've seen, what do you think the business case is for leaders to focus on happiness?

Tal Ben-Shahar: If I'd said to an organisation, "Look, I can come in and speak and introduce you and your staff to some material and, as a result, they'll be happier." They would say, "Great" and invite me to their Christmas party as an entertainer! But fortunately, there is much research showing that happiness is actually a good investment. It's a good business investment because if you increase levels of wellbeing, even by a little bit, what you're doing is increasing creativity levels. Innovation goes up, and productivity levels and engagement increase significantly with the rise in wellbeing. Teamwork and relationships, in general, improve when you increase positivity. And by the way, physical health and immune systems also strengthen. Where there is reduced absenteeism, turnover goes down. So there is a real business case.

DP: I sometimes think that we've got a terminology problem when we talk about 'soft skills' and 'happiness' in the business context. Did you find that the terminology makes it hard to get people across the line?

TBS: There's a good reason for it, you know. Because for so many years, and the dominant paradigm within the field of wellbeing and happiness has really been the 'self-help' and 'new age'. It's only fairly recently that the science (of happiness) has entered the playing field. Our goal as psychologists, as thinkers and as writers in this area is to make a very strong case and ongoing connection to science – to evidence. And part of that is by under-promising and over-delivering. Because there has been a real issue with over-promising and under-delivering, so we need to counter that. If you look at it on the individual level, the bar is set as: if you read this book, you'll be happy always for the rest of your life. Unrealistic. Over-promising.

DP: IML ANZ does a lot in the field of leadership development. And I think that's the whole issue with leadership development. The organisation thinks you can put someone through a two-week course, and they come out and then suddenly they're fantastic leaders. The reality is that it's a lifelong journey, and it takes incremental steps.

TBS: Exactly. I think you hit the nail on the head with the two elements. First of all, it's lifelong. It's not a one-shot deal, and it's over – it's ongoing. And second, it's incremental. It's small changes over time, if you apply them consistently, persistently, they will make a big difference. I often use the example of recovery. Probably half of the organisations that invite me cite burnout as their number one problem – an over-stressed organisation.

Surprisingly, stress in and of itself is not a problem. Stress is potentially good for us. Let's use the example of lifting weights. When you go to the gym, and you lift weights, you're stressing your muscles – not a bad thing because you become stronger. The problem begins when you lift weights and a minute later, more weights and more. That's when you get injured, and you get weaker rather than stronger. So the problem is not the stress; rather, it's the lack of recovery. We see the same thing in on the psychological level, as we see on the physiological level. We can deal with stress. We had to deal with the 'lion chasing us' kind of stress in the past, and today we have the 'deadline' kind of stress. We can handle it. We're good at it.

The difference between past and present is that in the past, we had a lot more time for recovery. Today we can be on 24/7. And that's not healthy. And this is what's leading to the burnout. So when I talk about recovery, I often speak about taking a 30-second recovery for three deep breaths. But you do it three times a day. That actually can make a huge difference if you do it consistently. Small changes can make a big difference over time.

DP: You've written about the joy of leadership. How do you encourage leaders to be more joyful in their leadership?

TBS: First, it would be about finding a sense of meaning and purpose. Because individuals that experience a sense of meaning and purpose in whatever they do – it could be at work, it could be in their personal life – tend to experience that domain as joyful. Joy in that respect is a much deeper sense than what people colloquially mean. When they talk about happiness, they think of 'happy go lucky' or smiling all the time. That's not the kind of joy that we're talking about in leadership because leadership is challenging. There are inevitable difficulties along the way, whether you're successful or going through a hard time. So the sense of meaning and purpose is critical.

One other element is focusing on strengths. If I regularly exercise my weaknesses – think swimming upstream – then there'll be very little joy in what I do. Whereas when I adhere to my nature, to my natural inclination, to my passions, then there'll be a great deal of joy. Again, not joy in the superficial sense – but a deep sense of happiness. Another thing that's related to a sense of joy is time to recover. Because when I'm energised, that's when I'm more likely to be joyous versus when I'm fatigued, tired, burnt out – which are the antithesis of joy. So joy comes from a sense of meaning, from pursuing our strength and from managing our energy.

DP: You've written and talked about resilience in difficult times. And here we are, in probably from a social and leadership perspective, the most difficult time that many of us can remember. What is your direct advice to leaders who are looking to lead through these troubled times?

TBS: Back in the 1970s, Robert Greenleaf came out with the idea of servant leadership when he realised that the greatest leaders throughout history saw themselves as servants. Servant leaders essentially take the organisational hierarchy, and they flip it, so they are there at the bottom. And what Robert Greenleaf identified was those servant leaders are the extraordinary leaders. These are extraordinary times. When I address an audience these days, I remind them that unless they're 102 years old, they've never been through anything like this. So these are extraordinary times, and we need extraordinary leadership, and I think more than anything we need servant leadership.

Now, Robert Greenleaf identified the characteristics of servant leaders. Number one characteristic: listening. This ought to be our battle cry; during this period we need to be there to listen because we can't necessarily solve the problem. The best we can do is just be there, listening. Whether it's to our colleagues, employees, partner, children or friends. And just as we listen to them, we also as leaders, as managers, need to be listened to. So, we need to really draw on our support system. Be there for others and have others be there for us. There is a real onslaught right now of emotions, anxiety for example and frustration. What do we do with this flood of painful emotions? Based on all the research that I know in the field of positive psychology; we need to permit ourselves to be human. In other words, we need to fully embrace these emotions because there is a paradox at play. When we reject painful emotions, they intensify. Whereas when we accept and embrace them, they actually weaken, and they don't overstay their welcome. And this is why listening and being heard is so important because one of the ways to express emotions to give ourselves that permission to be human, is to talk about them. And we need a psychologically safe environment to do that.

Corporate Sustainability, Climate Change & the Challenges of Resource Utilization

Namiz Musafer, Partnerships Advisor - United Nations Office for Project Services
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Ever since the agricultural revolution in the human history, human has been a consumer rather than a replenisher of natural resources. Industrial revolution has accelerated use of natural resources threatening them to be completely consumed without letting anything left for the future generations. Today, we live a consumerist life that results in rapid utilization of natural resources. The world community identified the gravity of this threat, and, as a result, the concept of sustainability emerged, defining it as the development that "meets the needs of the present generation without compromising the ability of future generations to meet their own needs". This emphasizes that we must seriously and consciously consider the future in making our present decisions while balancing our competing needs.

Corporate Sustainability has earlier been a political rhetoric, but has now transcended into many disciplines and business practices. In the year 2015, world leaders agreed to achieve 17 goals worldwide by 2030, named Sustainable Development Goals (SDGs), and on combating Climate Change by signing the Paris accord bringing all countries to work together on a common agenda for the betterment of the humankind. The specialty of these goals is also to reduce poverty and bring equity among all the people leaving none behind.

'Sustainability' can mean differently to different audiences depending on the context. From an environmental perspective, sustainability is ensuring that natural resources are replenished or conserved for the long term while not harming the ecosystems. When it comes to jobs, sustainability is ensuring that employees are compensated adequately and given sufficient benefits to live a reasonable life. When it comes to the companies, sustainability is simply managing 3Ps (profits, people, and planet) that are not self-defeating or harmful to its long term well-being.

The sustainability business practices help with recruiting potential job seekers and in motivating employees who develop greater skills, feel they can make an impact on social and environmental issues while on the job which lead to fulfilling jobs. Happy employees are productive, increasing the companies' ability to retain them longer. This builds loyalty within the organisation, benefiting the company through increased creativity, improved accountability, conducive work culture and ethics, and reduce fraud and mismanagement.

In the competitive business environment, the consumers don't shop merely for products, but for brands and companies. Businesses who have proactively adopted sustainability practices can build a reputation with consumers and are most likely to find themselves succeeding by reaping significant benefits from their forward looking practices. That good reputation can spread to the consumers while gaining a positive media exposure.

Many companies have engaged in environmental friendly and social welfare and activities over the years channeling part of their earnings on sustainability related initiatives without them being forced to do so. Some of the companies are keen to demonstrate their sustainability initiatives and practices and communicate about such activities through various communication media, including their annual reports or specific sustainability reports, while some companies do not publicize their sustainability initiatives. However, contrary to this, there are companies who engage in green washing too.

Sustainability reports are a potential vehicle to portray the image of a company and its values. In them, companies present on their social, environmental and economic performance. Therefore, these reports are the communication between the company and its stakeholders which disclose strategically important information on organizational non-financial performance.

There are many formats introduced and used in sustainability reporting. One of a latest sustainability reporting tool being used extensively by the corporate world is the 'Integrated reporting'. This includes financial and non-financial information in a single document. These reports are intended to communicate concisely about how the strategy, governance, performance and prospects of a company lead to sustainable value creation.

The International Integrated Reporting Council issued the International Integrated Reporting Framework in 2013. This provides an overarching framework that facilitate integrated thinking and reporting, that leads to the creation of value over the short, medium and long term. This framework applies principles and concepts focused on bringing greater cohesion and efficiency to the reporting process, adopting an integrated thinking as a way of breaking down internal silos and reducing the duplication. This is a shift from a financial capital market system to an inclusive capital market system through recognition of multiple capitals (resources). Integrated reporting is based on a long-term focus, a better articulation of organizations' strategy and business models with a broader view on value creation further integrating sustainability into business.

International Integrated Reporting Framework recognizes 6 capitals to be maintained and developed by companies for corporate sustainability. These guidelines help companies to disclose a true and fair view of their holistic activities as it takes into account material information on the 6 capitals, viz financial, manufactured, natural, human, intellectual, and social and relationships capitals while providing a road map for the companies to pursue a sustainability path. In the simplest form, the role of managers of the companies is to appropriately set and achieve organisational goals by the effective and efficient utilization of the resources such as human, physical, financial, technological, and information by the planning, organizing, directing, and controlling, process. Therefore, deployment of the 6 capitals, or in other words the different type resources, should be aimed at achieving the corporate goals. However, inappropriate use of resources can lead to Climate Change and Global Warming that could threaten the mere existence of humankind in the future, while overuse of resources can challenge the global sustainability, where the future generations shall not be left with adequate resources to meet their needs.

The Resource or Capitals in the world are scarce and expensive. Therefore, their utilization in businesses have to consider the 'Lifecycle Thinking' concept too. This thinking give regard to the environmental and socio-economic impacts of a product or a service during its entire lifetime. The lifecycle of a product or service, 'from cradle to grave' can briefly and roughly be viewed to have 5 stages viz raw material extraction, design and production, packaging and distribution, use (consumption), and ultimately the end-of-life. Therefore, Lifecycle Thinking not only considers the phase of a product being used or service being received, but also the resource use and pollution associated with all stages of production and end-of-life management. Accordingly, the companies engaged in sustainability, also tend to practice the principles of 'Circular Economy' and adopt the 5R principles of waste management (Rethink, refuse or reject; Reduce; Reuse; Recycle; and Resource recovery) to minimize using resources.

Sustainable businesses are good for the environment. They are able to cut down costs on energy and waste, resulting in a positive impact on the bottom line while helping in corporate risk management. There has been overwhelming evidence proving that people and businesses derive value as a result of companies following a sustainable business model that delivers value for various stakeholders, on the core pillars of triple bottom lines of sustainability being economic, social and environmental, no matter the size of the organisation. Increasingly, businesses are finding that embracing sustainable practices leads to better corporate culture, more reliable products and greater long term profitability, proving that there is a business case for sustainability. That is why industry CEOs believe that sustainability issues will be crucial for the future success of their businesses as sustainable businesses are becoming the new reality.

Namiz Musafer

Three weapons to Combat the Uncertain Times

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2020 is a year of turbulence and uncertainty. Who would have thought that COVID-19 has impacted the world for such an extended period of time? Who would have thought that the pandemic would disrupt and turn many countries and industries upside down, literally? If that's not enough, the presidential campaign in US has added another layer of political instability to the world. The world has never been more VUCA – Volatile, Uncertain, Complex, and Ambiguous, a term first used by US military in 1987 to describe the instable conditions and situations of the world. To say that "2020 is a write-off" is not an understatement for many industries, corporations, and individuals.

Is there any way we could, despite the VUCA situation, stay resilient, embrace uncertainty, and possibly thrive? This article aims to offer three concepts that could help you navigate the foggy path to success – Growth Mindset, Humility, and Design Thinking.

Growth Mindset

Based on years of research in education and neuroscience, Dr. Carol Dweck, an American psychologist and educator, proposed that one's success is not determined by her talents or family background, but largely by her own mindset. People who have a Growth Mindset believe that talents are not innate but developed. We can learn and get better in any skills if we put in the right level of effort and practice. Intelligence can be cultivated through efforts, strategies and help from others. Hence, people with Growth Mindset are willing to take on new and challenging tasks, allowing themselves to try and grow. Failure may be inevitable in the process, but it doesn't represent fundamental deficiency of one's potential. Hence, people with growth mindset are more likely to pick themselves up in case of failure.

On the other hand, people with a Fixed Mindset believe that their intelligence and success are largely determined by inborn talents. "It is what it is", so they think. As a result, they are less willing to take on challenges and get out of their comfort zone, and they would do whatever it takes to preserve their success. "If I need to work hard for this, that means (subject) is not for me."

COVID-19 has pushed many of us out of the comfort zones and we need to do things in a new way, whether we like it or not. Employees are working from home, retails and airlines are suffering big time, learning and training has largely moved to the virtual world, to name a few. Those have a Growth Mindset believe that one's true potential is unknowable and they are not afraid of failure, so they are more likely to pivot compared to their counterparts with a fixed mindset.

Consider a corporate trainer who needs to move a classroom training to the virtual world. A fixed mindset may read:

"I have never done it before, and I am not good at IT stuff. It's not for me. Can I wait until we can do face-to-face training again?"

Of course you can, but the world will never be the same.

On the other hand, people with a growth mindset may think:

"I haven't run a virtual training before, but it doesn't mean I can't do it. I just need to learn how to do it. Let me find out whom I can learn from."

Biologically, human brains are elastic – how we think can literally change how our brains are wired. When we learn and do new things, our brains will create more connections across the synapses. The more we learn and the more "uncomfortable" things we do, the more connections are built – our brains, just as any muscles, get strengthened when used. The world is undoubtedly VUCA, but self-limiting beliefs and mindsets won't help either. Adopting a Growth Mindset is the fundamental step to combat the uncertain times.

Humility

Here's a true story. Not long ago, a friend of mine, whom volunteers at a local NGO with me, asked if I could take over his job as the moderator of a panel discussion event for the NGO. He is a seasoned community contributor with an easy-going personality, and he is a busy man. Due to unexpected situation at work, he was not able to host the event as scheduled. He told me that he has the script written up, and all I need to do is to follow his script, thus saving me the time to write the script myself. He said to me, "Don't worry Brian, the script is ready to go. It's a professional script which I think will go well with a professional like you. It's just me who is not professional…"

I have known this man for decades. While I appreciated him thinking of me and offering his professional prep work, I am not sure if his "humble" approach of describing himself serves him or the NGO any good. Perhaps we are all tired of people bragging about themselves and taking credits that they don't duly deserve. However, being humble is not about speaking down on oneself. Rather, it means having a self-awareness that:

1. I don't know everything;
2. I could be wrong.

Regardless the industry or position, it is reasonable to say that no one knows "everything" related to the industry he/she is in. In the VUCA world, the pace and direction of change is highly unpredictable. Take COVID-19 as an example. In the pre-COVID era, it is almost impossible to imagine borders being closed across countries, cities being locked down, and people stranded at home for weeks. In COVID-19, the impossible becomes possible. White collar professionals, including doctors and the medical field, found themselves battling in a familiar yet unknown playground. How could one know everything under such situation? Impossible.

Accepting that we don't know everything is the first step. Our judgement might be wrong. Our prediction might be off. Our decision-making might be suboptimal. Humility then, is the self-awareness and ability to bravely announce: "I could be wrong." Ego and perfectionism may get in the way. But when we accept that we don't know everything, it is just reasonable that we might be wrong. Think about this: we could be, and certainly we have been, wrong before. How can we be less wrong in VUCA?

Growth Mindset sets the foundations for learning and accepting challenges. Humility puts your ego down and open up possibilities. Finally, Design Thinking will pave the way to progression.

Design Thinking

Design Thinking is not about "design" in the traditional sense of fashion or interior design. It is a human-centric problem-solving approach. It's hardly a new concept – for it has been adopted in the field of industrial design for a long time. It has been popularized in recent years by the renowned industrial design firm IDEO and Design School of Stanford University, and it has quickly spread to the general business realm. As a human-centric problem-solving approach, it starts with empathizing with users. It's not about how good your product/service is, it's about how your users use and benefit from it. In addition, Design Thinking stresses the importance of prototyping, which means creating a dummy version of your product/service and testing it with users. The feedback gathered from the tests will be used to "iterate" – circle back to the ideation and prototyping phases and further refine the product/service.

Take the bestseller Dyson vacuum as an example, it took Dyson 15 years and 5,127 prototypes to create the bag-free, "cyclone technology" vacuum before launching the first model in the market. In this shortsighted climate where companies and shareholders demanding fast and short-term success, it's hard to imagine companies spending 15 years on a product. However, it might be what is needed to make a product great. With each prototype, you either move closer to meet your users' needs, or you take a step back and realize what you understand about your users to begin with was not accurate. Hence you may need to change your original design altogether. Failures in Design Thinking is common and in fact appreciated. Failure is not the problem, what matters is you learn from it so that you can move forward, hence the name "Fail Forward". If you need to fail, you better fail fast and fail forward.

The second key in Design Thinking is "Bias for Action". Empathizing, prototyping, and testing all require actions. "Talk is cheap". Action beats inaction, always. Design is worthless if no action is taken.

The Design Thinking methodology is critical in uncertain times because it iterates forward. No one knows what the world will become – it is dynamic and ever changing. The agility and ability to adapt is determined by our abilities to iterate forward. By taking actions, prototyping, testing and adjusting our approach, we make small and positive progress. Acknowledging that there is and will be no perfect solution will make us mentally prepared for incremental progress. Stop shooting for the perfection. Progress is more important than perfection. The biggest room in the world is the room for improvement.

Putting it all together

We have examined three elements that can help us navigate the VUCA world – Growth Mindset, Humility, and Design Thinking. How do they go together?

Growth Mindset tells us that no one is born a genius. Success is not a product of innate talents but a journey of hard work and perseverance. With the right mindset, we can grow and develop any skill we want.

Humility recognizes that although we can grow and learn, we are not perfect and we might be wrong. In the VUCA world, we acknowledge that there's always something we don't know. We don't know what we don't know. Once we acknowledge that, we can prepare ourselves to learn and grow, which reinforces the Growth Mindset.

Finally, Design Thinking gives us a bias for action. "Everything is a prototype" – there is no best idea/product. By definition, prototype is not a finished product. It's not perfect and will never be. In the VUCA world, perfection is not needed. We need constant improvements, and that's what Design Thinking is all about. When we "fail" with our prototype, it drives our humility. "Bias for action" and growth mindset will fuel us to move on.

The three elements are interrelated and form a feedback loop.

How do we apply these at work? Here are three actionable advices you may implement to plant the seeds of Growth Mindset, Humility, and Design thinking.

1. Say "I Don't Know"

Most of us are not comfortable saying "I don't know" at work, worrying that such statement will undermine our image being a competent professional. Saying "I don't know" in front of subordinates is even more scary. When your team looks up to you, the leader, for advice, it's hard to admit that you don't have the answer. However, saying "I don't know" is not a sign a weakness but a strength. It takes mental strength to admit that we don't know the answer, yet. And we can find the answer, together.

Next, invite the team for input. It is much better to work with the team with a collaborative effort than making up an "answer" simply because you are expected to know everything. It is absolutely okay to say "I don't know". When you admit you don't know everything and seek input from the crowd, you are creating a culture where it is acceptable to say things as it is – we don't know what we don't know. You will find team members more willing to share their thoughts and opinion. In the VUCA world, we need collective wisdom, not a knows-it-all leader.

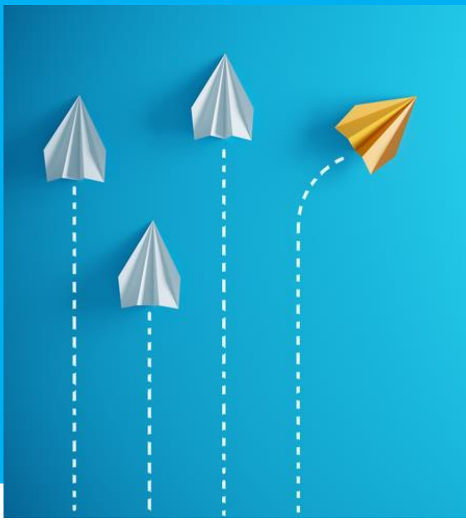
2. Seek out opposing views

We long for compliment and praise, and avoid criticism – that's human nature. However, similar voices may not make us thrive in the VUCA world. Instead, seeking out opposing views and constructive criticism is what a leader should do. When we acknowledge that we don't know everything and we might be wrong, we open our mind for constructive advice. Managers and leaders should proactively seek out opposing views from the team. One way to do that is to play the "Devil's advocate". In each meeting, designate one member to play the "Devil's advocate". His/her's job is to criticize the ideas on the table and invite the team for constructive discussion. Alternatively, when the leader throws an idea on the floor, ask each member to give a constructive advice, starting from the lowest rank of the team

.This ensures that everyone has a chance to voice, and staffs from the lower ranks will not be intimidated because their upper rank counterparts have said something otherwise.

3. Take actions and celebrate mistakes

If there is any antidote in the VUCA world, it will be actions. Actions give us feedback. Actions give us momentum. Actions give us a sense of progress. Most importantly, actions give us hope. However, in the process of taking actions, we will inevitably fail. Dyson has failed over 5,000 times before succeeding. The attitude we have towards failure will either paralyze us or drive us forward. As a leader, we should "celebrate" failure as it tells us what is not working. Thomas Edison has failed 1000 times before inventing the lightbulb. He said, "I have just found 1000 ways that won't work." Leaders could install regular "Failure Sharing" session in team meetings in which team members take turn to share their "biggest failure or mistake" that happened in the past month. By openly sharing and discussing failures, it fortifies the notion that failure is not scary but something we can openly discuss and learn from. Note that the leaders should model the way by first sharing his/her failure before asking team members to do so.



COVID-19: How Asia-Pacific Can Lead The Way In Lending Transformation

By EY and EY Asia-Pacific Banking and Capital Markets Leader, Andrew Gilder

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The COVID-19 pandemic has overturned credit markets across the world. How banks act in 2020 could shape their performance for years to come.

Three questions to ask

- Is the global pandemic a catalyst or a barrier to smarter lending?
- How will the banks' business models be revolutionised by the current crisis?
- How will strategic collaboration change the future of Asia Pacific's credit markets?

For banks, the sudden downturn and economic strains are reminiscent of 2008. But this time, the industry, its solvency and liquidity boosted by post-crisis reforms, is not the source of the problem. Instead, it's a critical element of the solution.

This is creating the most important moment for Asia-Pacific's banks in decades. Governments, regulators, investors and borrowers are looking to the industry for resilience and leadership. Risks are heightened, and so are opportunities. How banks act in 2020 and 2021 will not only define their response to the crisis, but also shape their performance for years to come.

COVID-19 Pandemic Is A Financial Super Disruptor

The COVID-19 pandemic may be a health crisis, but it has also shredded economic assumptions. It's pushing major markets such as Australia, Japan and Singapore into recession and reducing growth in others to a near standstill. Governments, central banks and supervisors have leaped into counter-cyclical mode.

Authorities across Asia-Pacific have cut interest rates, boosted money supplies, guaranteed loans, issued grants, deferred taxes, eased capital requirements and encouraged forbearance.

The region's commercial banks have become the emergency workers of these economic relief programs, delivering financial aid to those most in need: small and medium enterprises (SMEs), individuals, and under-pressure corporates in sectors like travel, hospitality, retail and commodities. They have moved fast to transmit stimuli and support customers: handling a surge in enquiries, waiving fees, arranging payment holidays and processing unprecedented volumes of credit applications, often using rapidly installed technology. Achievements are made more impressive by the practical hurdles banks have had to overcome: closing branches, switching to home working, relocating trading floors and maintaining continuity.

Even so, the crisis continues to pose huge operational challenges for banks. Mobile and online capabilities are often insufficient to meet demand. Staff can struggle to access core systems remotely. Many key workflows are antiquated, with over-reliance on paper and manual processes. Failures by offshore and outsourced support centers point to a need for closer control of customer experiences. Remote working is exposing banks to cyber-attacks, and there are signs of increasing customer fraud as financial pressures bite.

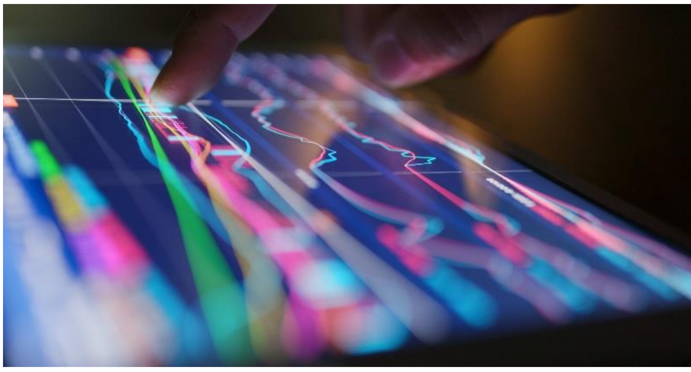
Furthermore, Asia-Pacific banks face exceptional financial challenges. Big banks' balance sheets have built significant capital strength in recent years, and deposit inflows during the crisis have helped to offset the liquidity impact of loan drawdowns. Even so, the sudden shift from a long period of lending growth to an economic contraction will create significant strain. Asset quality is already falling. In Australia, first half impairment charges for the four majors totaled AUD5.7b (US$3.9b). But the full picture will only emerge when fiscal support is unwound and repayment moratoria come to an end. Loan losses are expected to extend over several years, with one recent study forecasting that Asia-Pacific banks will account for about 60% of credit losses globally during 2020 and 2021.1

In response, banks are working flat out to monitor portfolios and calibrate their provisions under IFRS 9 – although in some markets such as South Korea, regulators have issued temporary guidance on how this should be applied. The coming months and years will require banks to manage growing distressed debts and conserve their capital. Many will need to trim financial investments, begin or accelerate the divestiture of non-core assets, and limit distributions. The downturn may also trigger an acceleration in business failures especially, but not only, in the SME sphere. On top of these challenges, the underlying pressures on profitability that predate the crisis – such as low interest rates and compliance costs – have not gone away.

The effects of this crisis are only beginning. It promises to be a marathon, not a sprint.

2020: A Pivotal Moment For Banking Models?

The pandemic is forcing Asia-Pacific banks to confront the weaknesses of their current operating models. The economic downturn also makes it even more important for banks to address the pre-crisis imperatives of resilience, efficiency and customer-centricity.



The good news is that the first half of 2020 has seen customer behavior change faster than any point in living memory. Cash usage and face-to-face contact has fallen; contactless payments and digital adoption have leaped. In Hong Kong for example, the use of digital tools in retail banking jumped from 40% to 80% in the space of a few weeks.2 The more advanced banks will be hoping that many of these changes can be made permanent, given the potential for automated, digitised processes to reduce manual interventions and lower ongoing operating costs. In contrast, less sophisticated banks will find themselves playing digital catch up.

Many institutions in the banking industry have also found they can implement change far faster than they thought. For instance, MUFG has acted fast to streamline SME loan applications, while DBS has launched a new contactless payment card for logistics companies.3 Set against that, banks that have barely begun digitisation look increasingly disadvantaged.

The upshot is that many Asia-Pacific banks are eager to use the changes in recent months as a springboard for further improvements in efficiency, responsiveness and accessibility. It looks increasingly likely that 2020 will be a catalytic moment in the transformation of banks' business models. The scope of change is greatest in the retail and SME space, but there is clear potential to adapt traditional relationship management and enhance remote delivery in corporate banking too.

The Crisis Will Accelerate The Shift To "Smarter Lending"

So how do banking models need to evolve if they're to rise to the challenges of this unique moment?

1. Accelerate technology transformation

Most obviously, technology transformation will need to accelerate. To date, banks' progress in embracing the fourth industrial revolution has varied widely across Asia-Pacific. A large Chinese bank, for example, is more likely to be at the cutting edge of digitisation than a regional Japanese lender. Now, however, transformation has become an urgent priority for every bank. Key priorities include:

- Using robotics to automate high volume processes such as retail lending applications, helping to reduce reliance on manual work and conventional outsourcing.
- Increasing the use of cloud computing and remote access to core banking systems
- Accelerating the digitisation of interactions, products and services. This includes reducing face-to-face contact in branches, and corporate relationship management.
- Applying AI and machine learning to data analytics and information processing across a range of lending functions.

Whether banks develop new tools in-house, in partnership with vendors or on a managed service basis, experience suggests that alignment with existing systems, local customs and banking regulation will be crucial to realising the full potential of transformation.

2. Increase the use and value of data

Increasing digitisation and automation will drive a fresh explosion in the use and value of data. Within the privacy laws of different markets, banks will need to work to match their own customer insights with BigTech levels of data analysis. Establishing a single, authoritative "source of truth" for product, financial and customer data will be a priority for many.

Data analysis will support a growing range of banking activities, ranging from talent management to cyber defense to strategic thinking. But lending will be the most important area of focus, with algorithms and AI analysing huge data volumes and triaging credit decisions.

Banks will also use new, different data types suited to a post COVID-19 pandemic world. Customer data will become richer and more forward looking, covering financial status, collateral values, risk weightings and sector-specific indicators. In the retail and SME space this will be complemented by behavioral data. In the corporate arena, application programming interfaces could provide real-time access to clients' financial systems, allowing banks to offer intelligently priced credit.

3. Forge a new approach of talent management

These changes will be matched by an evolution in talent management. Most obviously, the skills that banks need will change. First, the credit downturn will force banks to reprioritise credit underwriting and bad debt work-out skills. Second, technology transformation will accelerate demand for engineers, designers as well as cloud and cyber specialists. Changing business models will also require enhanced capabilities in areas as diverse as data interpretation, critical thinking, geo-politics, strategy and stakeholder communication.

But skills requirements are only half the story. The way that banks manage talent will need to change too. The pressures of the crisis have highlighted the importance of well-being and the value of emotional intelligence. The need to broaden skills sets without increasing headcount will also encourage more nimble and adaptable approaches to recruitment, retention, training and reward.

4. Transform business models

Taken together, these incremental changes will have a transformative effect. This is about much more than responding to a downturn or avoiding a return to the costly, labor-intensive processes of old. The coming years will see the entire lending lifecycle become far more efficient, intelligent and flexible. New business models are likely to include:

- Developing new risk management and stress testing techniques, using real time information to monitor and reprice risk throughout the credit lifecycle, and allowing banks to pro-actively manage their exposures to different sectors. Making smarter use of balance sheets, and reviewing risk weightings and capital allocation more dynamically than in the past. This includes reacting to evolving government policies, and making selective use of "originate to distribute" models by selling off loans to third parties while retaining control over key customer relationships.
- Increasing distribution of infrastructure and governance – although the experience of recent months suggests that banks in markets such as Japan and Korea may opt to retain a higher degree of centralisation than in others like Hong Kong or Singapore.

Innovation Must Go Hand-In-Hand With Strategy And Sensitivity

It's not only banks' business models that will be revolutionised by the current crisis. The industry's strategic dynamics are shifting dramatically too.

Most obviously, the vital economic role that the sector is playing provides a unique opportunity for banks to prove their social value. Amid a global pandemic, banks are providing essential banking and payments services, channeling government support to businesses and households, and using their own balance sheets to provide much-needed credit. These actions are helping the industry to build customer trust and public esteem.

Equally importantly, the downturn is forcing banks to review their sector exposures. Capital allocations always shift during a crisis, and many lenders see this as an obvious moment to pivot away from less attractive markets and customer segments.

However, the decisions banks take now will be scrutinised as never before. Investors and regulators are watching their conduct closely. Banks need to avoid making hasty reactions to volatile markets, and ensure that lending, provisioning and strategic decisions are made based on sound fundamentals. The withdrawal of government support programs is likely to represent a particularly sensitive moment. Banks also need to re-examine traditional credit workout processes and outsourced collections, ensuring that distressed borrowers are treated in line with today's societal norms.

In other words, the success of banks' responses to the crisis will depend on their ability to navigate conflicting expectations. At a minimum, they need to defend their capital and shareholders while providing appropriate support to borrowers. But lenders also face ill-defined social expectations from governments and citizens, at a time when falling credit quality is encouraging more selective lending. Banks have a tricky balance to strike between credit risk and conduct risk, and between the competing demands of different customer groups

The View From 2030

There are already signs that competitive dynamics are shifting. Large-cap banks are enjoying a "flight to quality" by consumers, leveraging their scale, brands, capital strength and through-the-cycle experience. In contrast, their digital-only rivals face increasing headwinds, illustrated by the May 2020 cancellation of one Australian IPO.4

But this does not mean that the coming decade will simply see Asia-Pacific's leading banks reassert their traditional dominance. Online-only rivals such as KakaoBank of Korea, and the regional expansion of some of China's BigTechs like Ant Group – currently awaiting a license in Singapore – are not going away.

It's more likely that the shape of the region's credit industry will be determined by comparative advantages. The region's biggest banks have major strengths, but many are burdened with excessive costs and outdated infrastructures. FinTechs and neobanks boast agility and speed but need more capital to grow. Second tier banks have local knowledge, but limited scope to invest in digitisation. BigTechs have an edge in data analysis and user experiences, but limited lending experience.

These contrasting strengths and weaknesses suggest that relationships will be as important as rivalry in shaping the development of Asia-Pacific's credit markets. Some key developments could include:

- Consolidation among second tier lenders, leading to the emergence of fewer, stronger and more specialised competitors for the biggest banks.
- Deeper alliances between banks, software vendors and cloud providers. The biggest banks will continue to acquire smaller FinTechs, but smaller lenders will also increase their partnering with technology firms – something that Japanese authorities have said they would welcome.5
- Broadening the use of strategic partnerships to enhance distribution and offer seamless digital services. MUFG's recent investment in Singapore's super-app Grab6 provides an illustration.
- Start-ups and online only banks leveraging their agility (and the Open Banking reforms in markets such as Australia and Singapore) to expand their spectrum of retail and SME services.
- BigTech and e-commerce giants building on their existing payments capabilities to develop their lending services, especially to retail customers and SMEs in their supply chain, about whom they have rich behavioral data.
- A progressive insourcing and onshoring of the end-to-end credit lifecycle.

Whatever the future holds for individual institutions, Asia-Pacific's high levels of digital adoption and economic diversity could put it at the leading edge of the future evolution in global lending.

Summary

As an unprecedented source of disruption, COVID-19 presents banks unique possibilities for strategic change and business model transformation. The priority now is to address weaknesses, build on successes to date and accelerate transformation for the future.

Asia-Pacific has been at the leading edge throughout the pandemic, and the rest of the world will be watching closely to see how its banks respond, recover and reorganise. Banks that can strike the right balance between stability and growth, and between the competing interests of different stakeholders, could help to redefine the future of the industry.

The views reflected in this article are the views of the author and do not necessarily reflect the views of the global EY organisation or its member firms.

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Being Focused on Shareholder Wealth and Committed to The Economic Interest of all other Stakeholders How Companies Can Be Both

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In a recent article that appeared in the **MIT Sloan Management Review** (issue of December 17, 2020), authors Tom Hunsaker and Jonathan Knowles wrote:

"… companies (should) show that they are actively contributing to the broader society rather than simply serving as financial entities seeking to maximize their return on capital."

The notion that companies should contribute to the wellbeing of others instead of just pursuing the financial interest of corporate investors is in keeping with emerging thinking that " … *the fiduciary duties of executives to non-shareholder stakeholders (should cover*) **a plurality … of the purpose of the corporation"** (N. Craig Smith & David Rönnegard, **Journal of Business Ethics**, November 16, 2014; emphasis supplied).

Both statements convey the message that businesses should attempt to achieve multiple goals. They echo the currently evolving viewpoint that call to question the long-established tradition that the corporation has only one purpose, and that is to maximize shareholder wealth.

In August 19, 2019, the influential Business Roundtable (BRT), an association of close to 200 CEOs of major US corporations, formally abandoned its long-standing advocacy of shareholder wealth maximization as the main purpose of business corporations in favor of a new "Statement of Purpose of the Corporation" (SPC). With this formal proclamation, the BRT committed corporate America to creating value for ALL stakeholders by adopting a five-fold mission: to deliver value to customers, to invest in employees, to deal fairly and ethically with suppliers, to support communities, and to generate long-term value for shareholders. Among the over 150 signatories to the SPC are Amazon's Jeff Bezos, Apple's Tim Cook, Bank of America's Brian Moynihan, BGC's Joe Davis and IBM's Ginni Rometty, to mention but a few.

Over a year later, 26 of the largest business and professional organizations in the Philippines, collectively known as the Philippine Business Groups (which includes the Management Association of the Philippines or MAP, sponsor of this column) signed a "Covenant for Shared Prosperity" by which they upheld the universal issues of economic and social inequality and non-inclusivity by ensuring *"…ethical wealth creation and the sharing of prosperity with all stakeholders."*

Many prominent individual corporate CEOs and business leaders the world over have similarly expressed their faith in stakeholder capitalism. Among them are outgoing Mastercard CEO Ajay Banga, who declared that capitalism should be *"…repositioned for stakeholder capitalism,"* and recently installed Accenture CEO Julie Sweet who observed that *"Serving stakeholders is not separate from the business. **It's responsible business by design."***

By all indications, stakeholder capitalism appears to be the new mantra in the corporate world.

However, simultaneously aiming for several goals could be problematic. Creating value for all stakeholders in a company deprives its managers of an unequivocal criterion for making rational choices. Any strategic decision made is acceptable for as long as it creates value for everybody, and decision makers are unable to determine what is the best, or ***optimal*** solution. For this purpose, firms must pursue only one goal.

The Role of the Firm in Modern Society

By long standing managerial practice, businesses create value for themselves by ***extracting*** value from all the other entities with which they interact in the process of value creation – their customers, their workers, their suppliers and service providers, and the larger communities of which they are an integral part. To our minds, this is a self-seeking and short-sighted business solution by which businesses try to grab a bigger slice of a given economic pie at the expense of everybody else, and by degrading the ecosystem that sustains the entire community.

A better strategy for corporate managers to follow is to ***create a bigger pie, and to share out bigger slices to everybody – including the owners of the firm.***

If business is to implement socially beneficial initiatives and at the same time achieve its long-run strategic goal of maximizing shareholder wealth, it has to radically change the manner in which it does business. In particular, it needs to rethink the way it pursues its profit objective.

As an alternative to profit or shareholder wealth maximization as the ***raison d'être***, or sole purpose of the business enterprise, we propose to state the function of the firm in modern society as one of maximizing economic value, and allocating the economic wealth created among all the groups that contribute to the process of value creation.

By implementing appropriate strategies and putting in place governance mechanisms for creating value for its other stakeholders, we contend that the ***residual value*** that accrues to the owners of the firm (a.k.a. profits) over the long stretch will consequently be maximized.

Following this line of reasoning, we propose the following business strategies for efficiently appropriating economic value to the non-owner stakeholders of the firm:

1. Create value for customers through product and service development to better serve their needs, offering generous prices, and providing adequate customer care;
2. Create value for workers by offering comfortable wages and other performance-based financial benefits, creating an organizational culture that is conducive to information sharing and collaboration, and devoting ample resources to maintain a high level of productivity primarily through skills development;
3. Create value for business partners by engaging suppliers and distributors in a mutually beneficial and trusting collaborative relationship; and
4. Create economic value for the rest of society, primarily by developing the limitless productive resources that remain untapped at the bottom of the social pyramid, the poorest and least productive members of society. This objective is pursued mainly by partnering with government agencies, multilateral organizations, NGOs and other institutions in the community in implementing what are known ***as inclusive business models***, solutions that provide access to economic opportunities to low-income ***communities in a manner that will make businesses more viable and sustainable.***

The resources employed by firms in pursuing these stakeholder strategies are in the nature of ***investments*** intended to enhance long-term productivity and to insure sustained shareholder wealth creation over the life of the enterprise, and not short-run operational costs to be minimized in order to achieve immediate gains for the owners. One creates **value for all**, and the other creates value for business owners ***at the expense of all others.***

(The article reflects the personal opinion of the author and does not reflect the official stand of the Management Association of the Philippines or MAP. The author is a Retired Professor of Economics and Management, and currently Professorial Lecturer at the University of the Philippines - Diliman. Feedback at <map@map.org.ph> and <nspoblador@gmail.com>. For previous articles, please visit <map.org.ph>)

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