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Businesses cannot ignore sustainability

Sustainability is no longer an option for businesses. As per the IPCC report released by UN we have only 12 years for global warming to be kept to a maximum of 1.5C, beyond which even half a degree will significantly worsen the risks of drought, floods, extreme heat and poverty for millions of people across the world.

But maintaining this level of temperature would require unprecedented climate action. Climate change will damage economies, devastate populations, increase resource scarcity and dramatically impact the cost of doing business. So for both humanitarian and business reasons, it is imperative that companies of all sizes take action.

Climate action policies will soon be enforced by various governmental bodies so from a business standpoint addressing climate change now will serve as good business in the long run. Businesses can simply no longer rely on profits as a sole yardstick of performance.

According to a report released by PricewaterhouseCoopers in 2016, more than 60 percent of investors believe that firms in 21st century will be redefined by more than just financial profit. It goes without saying that such drastic changes will not come easily. To achieve the targeted levels of sustainability a lot of investment would have to be made in technology especially to harness new sources of clean energy and the infrastructure to support the same. Mitigating risk related to climate change would involve a significant shift in the way firms do businesses which in turn would involve a change in the organizational strategy in order for the firms to be able to transform themselves to be sustainable in the long run.

Measures are being taken in this direction with some of the well-established firms like Adobe, IKEA, Bloomberg etc. committing to 100% renewable energy through global initiatives like the RE100.

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INDIA AFRICA RELATIONS: ON A NEW TURN

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When India attained independence in 1947, it chose "Non-Alignment Policy" as its outlook towards the ongoing world politics. Africa followed India's footsteps, but that's about it. In the decades after that, India and Africa have maintained a very stoic relationship with no real interactions from either sides. To put in short, India and Africa despite being from the same school of thought, were quite indifferent to each other. When Modi government came into power in 2014, Africa started getting considered as a possible and beneficial ally. There were certain reasons for this sudden extension of friendship. Primarily, several African nations like Ethiopia, Ghana, Djibouti, Senegal etc were predicted to be few of the fastest growing economies of the world. Also, China's growing influence in Africa nudged Delhi to rethink its relationship with Africa.

The presence of an already influential Indian community in Africa is also helping India in taking baby steps towards a stronger synergy.

What followed was a foreign policy extravaganza of sorts — the third India-Africa Forum Summit in 2015, where New Delhi hosted delegates from most African nations. The tempo set with the summit has been carried forward and sustained to a large degree. Years of diplomatic neglect of the continent is being addressed with the top echelons of Indian leadership regularly visiting the continent. Most notably, President Kovind's first overseas visit since taking office was to Djibouti and Ethiopia in October 2017. Similarly, when PM Modi stopped by Mozambique during his four-nation tour of Africa, he was the first Indian PM in 34 years to visit the country. When Vice-President Hamid Ansari visited Rwanda in February 2017, he became the first Indian leader to visit the country. Currently, India's forte in the continent has been developmental initiatives — such as Indian Technical and Economic Cooperation, Team 9, and Pan Africa e-network, among others — aimed at building institutional and human capacity as well as enabling skills and knowledge transfer. In all these decades, when the government of India lagged in realizing the potential of Africa, Indian businessmen did. Most of the on-paper relationship that India shares with Africa is through private business' partnerships, privately owned Indian origin businesses in Africa and through investments by individuals in sectors like agri-business, engineering, construction, film distribution, cement, plastics, ceramics manufacturing, advertising, marketing, pharmaceuticals and telecommunication.

Private partnerships can fuel an engine for a short period of time. But for the train to run longer, it would need productive government policies and fruitful trade treaties. India and Africa, the lands of Gandhi and Mandela, having broken the initial barriers, still have a long way to go to form comprehensive and mutually beneficial engagements.

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ANCHORING BIAS: CHANGING THE WAY WE THINK

Anchoring or focalism is a cognitive bias for an individual to rely with predisposition on an initial piece of information known as the "anchor" when making decisions and interpretations. During normal decision making, individuals anchor on specific information or a specific value and then adjust to that value to account for other elements of the circumstance. This particular cognitive heuristic pervasively influences all aspects of modern life through presence in behavioral finance, global consumerism, organizational strategisation, marketing practices. The discernible point of distinction of anchoring bias is imbibed in its inherence in human psychology.

Over the years, it has gained prominence especially with the evolution of big data synthesis. This was highlighted during Chicago Police Department's initiative of 'Predictive Policing' wherein probabilistic occurrences of crime acted as directives for resource deployment. Upon closer scrutiny, it was observed that the system was reflective of opinions held by those who actually designed the algorithm and this was carried on over by those in executive capacity.

Anchoring forms one of the 8 key concepts in behavioral finance. This is construed from academic evidence obtained from a 1974 paper titled "Judgment Under Uncertainty: Heuristics And Biases" by Daniel Kahneman and Avos Tversky.The paper delineated results of a study in which a wheel containing the numbers 1 to 100 was spun. In subsequence, subjects were asked whether the percentage of U.N. membership accounted for by African countries was higher or lower than the number on the wheel. Following that, the subjects were asked to provide an actual estimate of this figure. Tversky and Kahneman discovered that the random anchoring value of the number on which the wheel stopped (which is completely unrelated to the question) nonetheless had an anchoring effect on the answer that the subjects gave. For instance, if the wheel stopped at 10, the average estimate given by the subjects was 25%, while if the wheel landed on 60, the average estimate was 45%. Aligning to the principles of behavioral finance in study conducted inclusive of 228 Swedish public companies listed on the Swedish Stock Exchange, NASDAQ OMX Stockholm, from year 2008 to 2015 it was concluded that anchoring to the past year annual EPS had a definitive negative impact on forecast errors.

Contemporary marketing practices exemplified by multiple unit pricing was studied by Brian Wansink, Robert Kent, and Stephen Hoch to analyse their impact on incrementing superstore sales, it was concluded that multiple unit pricing performed 40% better than single unit pricing. In another one of their studies on effect of anchoring on purchase quantity limits, it was observed that purchase limits can increase sales. As part of this study, a field experiment was designed using end-aisle displays to advertise Cambell's soups for $0.79 per can. A sign was then placed on the display stating "Limit of 12 per person. "The results showed that shoppers who bought soup from the display with no limit purchased an average of 3.3 cans of soup, whereas buyers with limits of 12 purchased an average of 7 cans of soup. Through pertinent dissemination regarding the prevalence of this cognitive heuristic it is now accepted that if senior leaders suffer from cognitive biases their decisions can severely undermine company performance. This can be perspicaciously explained by the example of JC Penney which hired and abruptly fired CEO Ron Johnson (ex Apple). Critics have explicitly attributed anchoring bias as being one of the most pronounced hindrance in his decision making. In context of business, anchors make business unit leaders believe their plans and investments are changing significantly over time when in fact they relatively remain fixed. Despite self-perceptions, executives are slow to shift resources between and among business units. This inertia reverberates through a wider spectrum of objective attainment. Various studies have shown that anchoring is very difficult to avoid. However constant reanchoring effectuated through meticulous critical thinking is an amenable alternative to circumvent the germination of anchoring bias.

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USAGE OF ARTIFICIAL INTELLIGENCE BY CONSULTING FIRMS

AI is the next keyword that will be used to death by people who know little about it. And consultants will be among those people and they will be justified to talk about it because AI indeed represents a big business opportunity. Different consulting companies have different estimates but companies like McKinsey, PwC all rightly claim that AI is a multi-trillion-dollar economic opportunity for the world which will be unlocked in the next decade. Automated ways in AI and innovative technologies are been used to find opportunities for clients in the consultant firms. The keen interest among Consulting firms to use this technology is drastically increasing. Here, both the million-dollar firms and start-up organizations are utilizing it.

The best factor of AI is its automated learning part and then using it for practical purpose. Secondly, it will save human capital cost, and companies will gain in-depth knowledge that would have been accessible within a short period of time. The data accessed can be analysed by AI technology in order for companies to discover its sense of importance or validity and leave out the rest. Just imagine the potential of the unstructured data within the Business Organization, which if gathered in the form of Emails, chats and call centre conversations will be really helpful. Even, professional law study says that its tool can determine the result of a consulting law firm with its unique artificial intelligence model.

The competency factor will increase between the start-ups and the established business brand names. Plus, in terms of technological advancement and its utilization in the start-up firms will be on par with the consulting firms. Companies like Accenture are using it in two formats, one within the workplace and one with its possible clients. For instance: they have tried to improvise there as per its financial records the company has invested the maximum in AI in 2015. Here, most of the AI is aimed to serve the purpose of R&D. Plus, they plan to integrate with tech-savvy start-ups to develop more intelligent tools and integrate Innovative AI technology for their consulting firms. Such is the strength of AI that it may even start replacing the most elite consultants. Let us talk in detail about Amazon's latest product Alexa which has become a hit in the market. Amazon's Alexa just got a new job. In addition to her other 15,000 skills like playing music and telling knock-knock jokes, she can now also answer economic questions for clients of the Swiss global financial services company, UBS Group AG. According to the Wall Street Journal (WSJ), a new partnership between UBS Wealth Management and Amazon allows some of UBS's European wealth-management clients to ask Alexa certain financial and economic questions. Alexa will then answer their queries with the information provided by UBS's chief investment office without even having to pick up the phone or visit a website. And this is likely just Alexa's first step into offering business services. Soon she will probably be booking appointments, analyzing markets, maybe even buying and selling stocks. If we try to compare a consultant and a machine offer consulting service, it is the machine that is going to win when it comes to data analysis which is a key aspect of this sector. One might argue that corporate clients prefer speaking to their strategy consultants to get high priced, custom-tailored advice that is based on small teams doing expensive and time-consuming work. And we agree that consultants provide insightful advice and guidance. However, a great deal of what is paid for with consulting services is data analysis and presentation. Consultants gather, clean, process, and interpret data from disparate parts of organizations. They are very good at this, but AI is even better. For example, the processing power of four smart consultants with excel spreadsheets is minuscule in comparison to a single smart computer using AI running for an hour, based on continuous, non-stop machine learning. The bottom line: corporate leaders, knowingly or not, are on the cusp of a major disruption in their sources of advice and information. “Quant Consultants” and “Robo Advisers” will offer faster, better, and more profound insights at a fraction of the cost and time of today’s consulting firms and other specialized workers. It is likely only a matter of time until all leaders and management teams can ask AI things like, “Who is the biggest risk to me in our key market?”, “How should we allocate our capital to compete with Amazon?” or “How should I restructure my board?”

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REIT: THE NEW REALITY FOR REAL ESTATE

After witnessing a slew of reforms in RERA and GST, Indian construction sector is preparing for another much-anticipated process, with the first REIT expected to be launched. REITs are the listed entities that invest in income-generating commercial properties and distribute their income proceeds through dividends. They essentially work similar to any mutual fund in the market by pooling funds from a number of investors and investing them in rent-generating properties, mostly commercial assets such as office spaces that can generate steady and lucrative rental income.

Retail malls, hotels, hospitals, schools and even PSU buildings can be included under REITs. Keeping in line with some of the advanced markets, SEBI had notified regulation over REITs and InvITs (infrastructure investment trusts) in 2014, allowing setting up and listing of such trusts. Under REITS, six institutional investors including Japan's NikkoAm StraitsTrading Asia and the US' North Carolina Fund have received SEBI approval to invest in India as developers and real estate investors. SEBI requires Indian REITs to be listed on the exchanges to make an initial public offer to raise money.

Embassy Group, Indian arm of Blackstone Group LP and a commercial real estate developer, is preparing for the nation's first REIT, which would open a market that's attracted billions overseas. The Bengaluru-based Embassy Group has already over 30 million square feet of leased office space and has a pipeline of about 22 million square feet across major cities. It is looking to invest 100 billion rupees ($1.57 billion) over the next three to five years to grow its portfolio of commercial office space. The realty firm is preparing to launch a Rs 5,250-crore REIT, which could perhaps be Asia's Asia's biggest office REIT listing. One of the key advantages of REITs is that they offer investors having an appetite as small as Rs 2 lakh an opportunity to invest in the commercial real estate market. Further, these investors can buy units of REITs from both primary and secondary markets. According to a CBRE- CII Report Challenges to Opportunities, REIT acquisitions touched USD 10 billion in the first half of 2018, nearly accounting for 17 percent share in the investment volume in Asia alone. In the preceding year alone, total acquisitions undertaken by REITs in APAC crossed a staggering USD 20 billion, with an approximate share of 15 percent in the overall commercial real estate acquisitions undertaken. Further, a successful REIT listing in India would only prompt other prominent asset holding companies such as Brookfield and CPPIB to issue their own offerings, thereby giving a much-needed fillip to the credit squeezed real estate sector.

Since there is no precedence for REITs, there is huge uncertainty regarding their acceptance, especially about the attractiveness of the annual yield distribution vis-à-vis rates compared to other fixed income instruments. A crucial factor for REITs to succeed would be to view it from total returns, i.e. sum of annual yield and capital appreciation, instead of annual yield only.

REITs can be expected to provide a ROI (return on investment) in the range of 7-8 percent annually, post adjustment of the fund management fee. India being one of the largest growing economies with favourable business environment (Recently India jumped 23 places to 77th rank in Ease of Doing business) has huge potential upside, given the fact that the average rental per month per sq ft of commercial space in India is less than a dollar, and hence has strong possibility that it will go up.

In a nutshell, the much-anticipated REITs are expected to be a game changer for the real estate sector as well as to the whole economy.

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