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FUTURE SHOCK

How corporates have been planning ahead for a multifarious range of possible post-election scenarios

by **Dibeyendu Ganguly & Priyanka Sangani**

Elections make for great conversations in India. Offices goers across the country are currently regaling their colleagues with their opinions on candidates, analysing party manifestoes, discussing possible outcomes. Some companies are taking this one step further by tapping into the election fever and bringing the water cooler chatter into their executive suites. Elections are, it turns out, a great time to think about the future.

At the RPG Group, chairman Harsh Goenka has inducted the subject of elections into his budgeting and planning meetings, obliging his CEOs to mull on the possibility of a weak coalition government under the NDA as well as the happier scenario of a high-confidence business environment under a strong NDA government. These two outcomes – and a few more that fall between – have very different implications for GDP growth, inflation, exchange rates, consumer confidence and what have you. "Scenario planning is very useful in a country like India where everything is so uncertain and unpredictable. The past year, we've been changing our rolling plan with every new development. We even have a foreign tie-up proposal that's on hold till the election results come in. We'll move ahead only if there is a strong government," says Goenka.

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As a management tool, scenario planning has been around since the 1960s, when Shell introduced as an essential part of its planning exercise. Shell still puts out what it calls 'lens scenarios' based on alternative forecasts of energy usage, which makes for very illuminating reading on its web-site. Political and regulatory issues on a global scale play a crucial part in Shell's scenario building exercise, since these are important to the energy industry. "Scenario planning forces you to stretch your thinking," says Ashish Iyer, partner & director, The Boston Consulting Group (BCG), an expert in this field. "You conjure up multiple futures and test whether your business will survive in each of them."

Hindustan Power Projects of the Moser Baer Group is in an industry that needs to plan for the long term. It has taken care to cover its bets by getting into thermal, hydro as well as solar power generation but Chairman Ratul Puri is still keeping tabs on the opportunities and risks that go with alternative post-election scenarios. "I estimate a 1.5% GDP growth difference between a strong and weak government," he says. "We have planned for the actions we should take under each scenario. For example, a weak government and all that it entails would mean going slow on projects and building cash reserves. If there's a strong government, it would be a good time to acquire distressed assets."

A mathematics graduate from Carnegie Mellon, Puri has been using decision tree analysis to plan for uncertainties, which is slightly different from scenario planning in that it assigns probabilities to various futures. The problem with this approach is that least likely scenarios are easily discounted and not much effort is made to plan around them. The scenario planning exercises conducted by BCG, on the other hand, encourage clients to imagine extreme scenarios. For example, an airline company might be called upon to imagine a future where air travel has fallen to 5% of current levels, possibly on account of a steep increase in jet fuels or the airborne ash brought on by volcanic eruptions. "Companies generally like to think the best will happen and imagine a future with the least amount of change," says Iyer. "Historically, Indian companies had just one plan. But now their investments are bigger and volatility has increased and they need a number of plans."

The FMCG sector is not dependent on government spending, but it is certainly dependent on consumer confidence, which is impacted by people's views on governance. Godrej Consumer Products conducts a scenario planning exercise every October, with a three year view point. Using these scenarios, it starts working on an annual plan in January, which is finalised by March, when targets and goals are set. This year, with elections around the corner, the company has kept its options open. "There is a level of uncertainty over our budget plans. Things should be in place by June-July once a new government comes to power. We will reopen the goal sheets and review the annual plan that we've just made," says managing director Vivek Gambhir.

One industry that's used to long term scenario planning is insurance, which uses statistical analysis to estimate life-spans and fix premiums. Compared to that, analyzing post-election scenarios might seem mundane, if it were not for the fact that the insurance industry is looking to several big policy decisions from the next government, including a decision on raising foreign direct investment limits from the present 26% to 49%. "When you do scenario planning, you can't pick one version of the future and disregard the rest," says John Holden, managing director, Canara HSBC Oriental Bank of Commerce Life Insurance Company, which does a scenario planning as part of its annual planning exercise. "The best thing about having a plan in your back pocket for every contingency is that you can stay calm and focused while everyone else panics. You've already thought things through."

5 PRINCIPLES OF SCENARIO BUILDING

5 DOUBT YOUR ASSUMPTIONS, THINK ANEW

4 PROBE THE POSSIBLE, THINK FAR-FETCHED WILD CARDS

3 DEVELOP A SET OF QUANTITATIVE AND QUALITATIVE VARIABLES

2 BRAINSTORM AND DRAFT A SET OF SCENARIOS

1 REVISIT SCENARIOS AS EVENTS OVERTAKE THEM

The automobile industry is one that correlates closely to economic growth and after two consecutive years of contraction, car makers are looking to whoever forms the new government to ease their situation. Maruti Suzuki has used scenario planning tools in the past to forecast demand and take long term decisions on setting up capacities, launching new models and its expanding network. The company uses data from the emerging markets of Brazil and China, with as many as 200 parameters which impact the sales of cars in the country. Now it has prominently factored in the political scenario. "We have created scenarios from the perspective of stability versus non stability, coalition versus single party majority, but beyond that we would like to work together with whoever comes in government. Anyone who offers a stable Government, ushers in a wave of reforms, boosts investments and basically takes efforts to improve customer sentiments will help turn the industry around," says Maruti Suzuki CFO Ajay Seth.

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British BPO major Serco Global Services used scenario planning while taking the decision to enter the Indian market through the acquisition of Intelenet three years ago. Since then, it has factored in political uncertainties that could arise from policy changes into its annual planning. "It's part of our risk management process," says CEO Susir Kumar. "Political risks can be measured, qualitatively and quantitatively. Qualitative analysis relies on the knowledge of experts, while quantitative analysis is based on social, economic and political data. Taking a cue from these insights, we try to integrate these with long-term growth strategies and mitigate risk."

Along with regulatory policy, scenario planning is meant to factor in microeconomic trends, technological developments, change in consumer behaviour, environmental resources and the competitive landscape. These factors carry different weights for different industries and it's a rare case where a company's business strategy is entirely based on government policy. Says Santrupt Misra, HR Director and CEO of the Carbon Black business at Aditya Birla Group: "Who is in power may alter your approach to how you are going to deal with the government but one does not go to the extent of thinking "if this is the government, then that will be my strategy." The nice thing about being a conglomerate is that the negative impact and the positive impact of these things balance out."

Truth be told, Misra is more concerned with the scenario in Ukraine rather than Delhi these days, but like everyone else, he enjoys discussing the upcoming elections -- at the water cooler. Will the candidates who lose remain politically active through trade unionism? How long will the ministers in the new government take to get up to speed on issues? Will there be a loss of business opportunity in the interim period? What will be the final policy on investment in retail? And what if a regional party gets to be king-maker and holds the reins of power in the government? "We all do a bit of idle speculation for the fun of it. These excited conversations are a loss of productivity but they are fun," he says. CD

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