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Plentiful gas is not enough

ONGC's latest find in the Krishna Godavari (KG) basin, though yet to be certified by the directorate-general of hydrocarbons, could be just the good news that the state-owned enterprise is looking for, given how it has been compared poorly with newer private sector rivals like Reliance. According to a recent report by broking house CLSA, ONGC (including its subsidiary ONGC Videsh) is on its way to becoming one of the world's top 10 upstream players. Further, as a report in this newspaper has pointed out, ONGC's latest KG find, coming on top of Reliance Industries' own large find, means that the country's east coast may hold gas reserves of 100-200 trillion cubic feet (tcf), a number that puts India among the top 10-12 players globally.

Before anyone celebrates, it is important to bear some factors in mind. Unlike gas off the country's west coast, east coast gas is primarily methane and has to be converted into methanol if it is to be used as feedstock for petrochemicals or fertilisers. It can, of course, be freely used to fire power plants. More importantly, developing these gas fields will be neither easy nor cheap. ONGC's gas, for instance, is at a depth of around 3 km from the sea surface, after which 6-7 km of rock have to be drilled through to get the gas. While that adds substantially to cost, the practical problem is that the specialised oil rigs and large compressors required for such activity are not available in the market, having been contracted out to other users for three to four years. While working out costs in advance is always a tricky business (rig hire charges rose three-fold between 2003 and 2005), experts reckon that east coast gas could cost twice as much as west coast gas, if not more. This may not matter if energy prices stay high—which should be considered a safe bet because of the global demand-supply balance and rising demand from countries like China and India.

What is noteworthy is that, despite the large gas discoveries, no company has tied up long-term buyers for the gas; without such contracts, it is unlikely that these firms will be able to achieve financial closure on their gas projects. The government needs to do its bit for things to start moving. For one, natural gas needs to be put on the "declared" goods list, to ensure that states do not charge different sales taxes on its use, and a standard 4 per cent rate applies across the country. Gas pricing is another area where there is little clarity—the ministry of petroleum and natural gas recently turned down the contract between the two Ambani brothers on the supply of gas from this region (from Mukesh's gas fields to Anil's Uttar Pradesh power plant), leaving the pricing issue wide open. The same holds for pricing of electricity and the freedom of producers to sell power to anyone they choose (the "open access" issue). Until power producers have choice of end-customers, it is difficult to see how they will give firm usage guarantees to companies supplying gas from the KG basin. Indeed, much like what the ministry of power did in the case of the ultra-mega power projects, the two ministries of power and petroleum will have to sit together and iron out all such issues, including those of pipelines to transport this gas, before the power sector is ready to use this gas.

The fine print

With one more TV news channel going public with an issue of shares, the question arises: what is it that is making TV companies trade at lofty valuations? New Delhi Television (NDTV) trades at a trailing 12-month price-earnings multiple of 326, and investors are willing to pay 208 times TV Today's 12-month earnings. Stocks like Zee (P/E multiple of 69), Sun TV (multiple of 67), and Television Eighteen (51) trade at relatively low discounting, but remain almost unreal when compared to the Sensex, which trades at 23 times. On the other hand, some (though not all) stocks in the print media sector are relatively cheap. Deccan Chronicle, the largest print media company in terms of market capitalisation, trades at a P/E multiple of 28. Dainik Jagran, the largest listed print media company based on 2005-06 sales, has a P/E multiple of 33. But it is also true that HT Media trades at 115 times its earnings, while Mid-Day is even more expensive, at 174 times.

In general, when compared to the print media, investors seem to be willing to pay a lot more for television companies. One reason for this stems from the growth potential that the TV industry has. There are 68 million cable and satellite households, a number that is expected to grow to 90 million by 2010. The television industry is likely to grow at about 24 per cent a year, according to a FICCI-PricewaterhouseCoopers study. It is not that the Indian print media is struggling like its counterparts in the West; but when compared to television, the growth rate projected is low at 12 per cent a year.

It is possible that, since much of investment wisdom is governed by current thinking in the US, investors are biased towards television stocks because of global perceptions of which way the media industry is moving. In the US, the print media is dying a slow death. Print subscription sales are on the decline, advertising is moving to other media, and major newspapers put on the block are not finding buyers. The Indian reality is very different, with a growing population, rising literacy and higher incomes all contributing to impressive growth in newspaper sales--and with that, advertising revenue. That explains why newspaper titles are still proliferating and why every major newspaper house has expansion plans. On television's side, the conditional access system and direct-to-home service will do away with under-reporting of the subscriber base for the channel companies, and thus earn them more money.

Where print scores is in cash flows. HT Media had a consolidated cash profit (profit after tax plus depreciation) of Rs 79 crore in 2005-06 (and much more in 2006-07, judging by the first half's numbers), while Deccan Chronicle had a consolidated cash profit of nearly Rs 92 crore. On a consolidated basis, NDTV had a cash profit of only Rs 13.4 crore, while TV 18 had cash profit of Rs 50.8 crore. But stock market valuations are about the future, and analysts expect the TV companies to do better. Based on FY08 assessments, Deccan Chronicle trades at 17.2 times estimated earnings. Others like HT Media, Jagran Prakashan and even TV 18 trade at 20-23 times expected earnings. Zee and NDTV are more expensive, commanding P/E multiples of 30 and 44, based on FY08 estimates. If the stock market is right, the future belongs more to television than to print.

Illustration: BINAY SINHA

The lucky country

With the economic downslide having been arrested, one notices a certain emptiness in Australia's intellectual life, says DEEPAK LAL

I first went to Australia in the late 1970s. I remember noting that as we flew from Singapore to Sydney, we entered Austalian air space soon after our departure, and then flew over endless expanses of desert and wilderness for hours on end. I remember being amazed on arriving in Sydney that, the news was all about strikes and the shenanigans of a Trade Union movement even more truculent than its British counterparts. This seemed strange in a country which was not a small densely packed island, but a wide open, thinly populated country, with vast natural resources. Whereas the slow growth in post-war Britain ensured that the central political economy conflict was about relative shares, its duplication in the vast and potentially immensely rich Australian continent seemed to make no sense. It was also a country whose lack of class consciousness and open bonhomie were more reminiscent of its American cousins than its British forefathers. It was also a predominantly white country. Yet it seemed to be a country which had lost its way.

Its growth, despite its mineral and agricultural resources, was anemic. It was suffering from stagflation. It had one of the most protectionist regimes in the world, and still paid obeisance to Keynesian macro-economics. The British entry into the EU had deprived it of its traditional markets for its agricultural exports, and the high cost and heavily protected industrial sector were incapable of providing an alternative source of growth.

Over the years, I have periodically been back to Australia, and noticed slow improvements in both the economy and the public mood. But on a recent visit, after a gap of about seven years, I found the country transformed. The mighty trade unions have been tamed. The country's mineral exports are booming, as is a vibrant domestic services sector. An independent Central Bank has ensured that there is little inflation and official unemployment rates are low—though it seems, as in many developed countries, there are growing numbers of the "disabled" on the public welfare rolls. The country is now no longer predominantly white. In fact Perth looks more like an extension of Singapore. The cities strung along the coast have fabulous restaurants serving every cuisine from around the world. The young have an élan and joie de vivre which is almost Californian.

So how did this transformation take place? It is remarkably the result of an intellectual conversion amongst the political classes because of the preaching of a number of economists and the skilful implementation of their advice by politicians—of whom the current Prime Minister John Howard has been the most skilful. I was fortunate in being a visiting fellow at the Australian National University on that first visit to Australia when this conversion was taking place. At its centre were ANU economists. Australian economists had already made important theoretical breakthroughs in developing the ideas of James Meade's *Theory of International Economic Policy*, about appropriate balance of payments adjustment policies (the so-called Australian model of the balance of payments due to Salter and Swan), and the theory of protection—including the extremely important concept of "effective protection" (which Max Corden had made his own). They, along with Heinz Arndt and Fred Gruen (all at the ANU), were instrumental in generating an important public debate on both Australian protection and macroeconomic policy, and the damage past policies in these areas had done to Australia's prosperity. This debate was influential in converting both the Australian Treasury and increasingly many politicians to the virtues of economic liberalism.

But, equally important was the role played by two unique public institutions: the Industry Commission and the Productivity Commission. These are technocratic institutions staffed by economists entrusted with doing cost-benefit analyses of various public polices. As they came to be staffed increasingly by the "new economists" and their students, they provided the empirical validation for the case for economic liberalism. My friend, the late Richard Snape who at Monash trained many of these young technocrats, was also at these institutions as the Deputy Chairman at the end of his life. I was in Australia to deliver the 2006 annual memorial lecture in his name set up by the Productivity Commission (available at www.pc.gov.au). Many of the Australian economists who have successfully fought the rampant *dirigiste* impulses I saw on my first visit to their country were there. They have reason to be proud of their splendid achievement.

But now that Australia has fulfilled its destiny of becoming the lucky country, with unparalleled growth for over a decade and its vast mineral resources promising a continuing bright future, I also felt a sense of *ennui* engulfing the intellectual classes. With no serious domestic problems to exercise them, most of the debates are about various politically correct themes—aboriginal rights, global warming, foreign aid, etc.

In these areas John Howard continues to exhibit a deftness which prevents them from becoming a threat to Australian prosperity. Thus, having refused to sign the Kyoto Accord, he has cleverly split the opposition clamouring for carbon emission limitations to overcome the severe multi-year drought that has devastated Queensland. Without debating the causes of the drought, Howard has suggested that Australia may need to switch to carbon-free nuclear energy—which the opposition opposes—particularly as Australia has large uranium reserves!

I found these public debates to be pale imitations of those taking place in Europe and the US. Despite the tremendous strides in the local provision of art and culture, Australia still feels rather provincial. For the mass of Australians, a prosperous life in the sun and the sand seems like paradise. But for the intellectuals, artists and entrepreneurs, as the local canvas is limited by the thinness of the population, success in the metropoles (the US and UK) still marks the sign of having arrived. I would thus expect future Australian entertainers, journalists, businessmen and academics to still seek their fame and fortune by moving on from the lucky country.

Make the Holy Cows moo!

BROADSWORD

AJAI SHUKLA

The other day, listening to a dinner conversation between an Indian official and a foreign diplomat, I was struck by how differently each perceived the acrimonious public debate over the Indo-US nuclear deal. While the official saw it as an embarrassing case of laundering dirty linen in public, the diplomat was all praise for the way an esoteric and complicated subject was knowledgably dissected in full public view. If India pulls off a really good deal, concluded the diplomat, it will be because public awareness forced the government to lay down its red lines transparently.

Contrast the raucous N-deal debate with the eerie silence surrounding the finalisation of the government's single-biggest expenditure item in the forthcoming budget: defence. Astonishingly, for a mature democracy, close to Rs 100,000 crore will be disbursed without any public discussion of even the broad direction of Indian defence policy. The Chief of Air Staff admitted, in a press conference last month, that while the MoD has issued him a secret directive on the Air Force's long-term direction, it was not for public discussion. The Army and Navy chiefs too have, in their office safes, copies of the top secret Raksha Mantri's Operational Directive.

Neither the people of India, nor their elected representatives, nor even parliament's Standing Committee on Defence, is trusted with any of this. The public's role in defence, apparently, is only to pay for it. In his last Budget speech, the Finance Minister took 87 words to allocate Rs 89,000 crore to defence; in 2005, a Rs 83,000 crore allocation merited 72 words. As holy cows go, this is hard to beat.

Everyone understands that operational matters must remain secret. But shouldn't the broad direction of a country's strategy spring from general public consensus? Take, for example, the vital debate on who should man India's defence forces: long-service professionals, short-service volunteers who serve 5-7 years, or all citizens of military age serving two years of compulsory national service? Manpower policy is fraught with issues: pensions and salaries, almost 40 per cent of the defence budget, and set to rise further with the Sixth Pay Commission, must be cut down; high-quality individuals must be inducted into defence; and the military's potential as a nation-building institution must be exploited.

But instead of publicly examining these vital questions, strategic decision-makers simply brush them aside. As most governments demand, military production functions should show the standard economic input-output relationship. Inputs of capital and labour (soldiers, weaponry and technology) should combine effectively to produce defence output.

This relationship can never be examined in India. By simply declining to define defence output, except in unquantifiable platitudes like "safety of our citizens" or "protection of our territorial integrity", the government avoids having to justify the tens of thousands of crores that are pumped into defence.

To make defence spenders more accountable then, defence output must be quantified, which is something that every advanced democracy does. The United Kingdom, for example, has laid down in a 2004 White Paper that the British military must be capable of sustaining two small- to medium-scale conflicts, in addition to its commitment in Kosovo. The United States is even more transparent. Every four years the Pentagon publishes a Quadrennial Defense Review, which specifies a strategic aim and the forces required to sustain it. The latest, QDR 2006, reorienting towards the war on terror, specifies that the US military must be capable of waging a full-scale conventional campaign (such as an attack on Iran) in addition to sustaining a long-duration Iraq-like conflict.

India's Raksha Mantri must drop nebulous terms like "safety" and "protection" and must clearly lay down quantified outputs, such as "the ability to sustain a war on the western as well as eastern fronts for a period of four weeks", or "the ability to fight and win a war against Pakistan in three weeks, while defending against a Chinese attack". This exercise must flow from a realistic assessment of India's neighbourly relations, its internal security needs, and its leverage with allies and global powers. These quantified aims will then dictate our requirement for forces, technology, equipment and weapons systems.

But the Raksha Mantri's Operational Directive contains no such specifics, because it is a political document, and not a military one. Instead of specifying whether India should structure to fight a one-front or a two-front war, for how long, and to what end, the government takes the easy approach: we'll try to fight a one-front war, but also be prepared for two fronts. For the military, institutionally bound to prepare for the worst, that translates into: prepare to fight Pakistan and China simultaneously, on an open-ended basis, alongside continuing counter-insurgency operations in J&K and the north-east.

Is it any wonder that 14% of government expenditure goes towards defence? In the absence of public debate and legislative oversight, the armed forces have raised several proposals that, in effect, seek to build force levels even higher than what we already have today. India is malnourished, impoverished, under-developed, under-educated and lacking in basic health facilities. But it is secure against every possible threat.

The holy cow of the nuclear establishment suffered no damage from being brought into the open. The holy cow of defence spending must graze in the public gaze too.

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An inside story of corporate leadership

PATHS TO POWER
HOW INSIDERS AND OUTSIDERS SHAPED AMERICAN BUSINESS LEADERSHIP

Anthony Mayo, Nitin Nohria and Laura Singleton
Harvard Business School Press; Price: $35; Pages: 292

MORGEN WITZEL

Where do leaders come from? How are they formed and trained, how do they rise to positions of power? These are significant questions, as business leadership becomes an increasingly scarce resource. With some observers suggesting that business is facing a "deficit" of leadership, any book that sheds light on the processes of leadership development is welcome.

In *Paths to Power*, three Harvard Business School academics describe how American business leaders have risen to prominence. They studied a thousand leaders, ranging from figures such as James Stillman, president of National City Bank (now Citigroup) in the 19th century, to contemporaries such as Michael Dell, chairman and founder of the personal computer maker. This book describes the backgrounds of such leaders—refreshingly, many are less well known figures—and how factors such as birthplace, gender, race, class, religion and education helped them to positions of power.

It also opts for a thematic approach: the various factors are treated in separate chapters, which show how the comparative importance of each factor has changed.

In the mid-19th century, birthplace was extremely important; the majority of US business leaders came from within the small, tightly enclosed business community of the north-east. Most also shared religious affiliations. The authors suggest that early American tycoons such as JP Morgan, Henry Heinz and department store owner John Wanamaker owed some of their success to their Protestant religious connections. "For as much as three-quarters of the 20th century, factors such as where you were born, who your parents were, and where you went to church were distinctions that mattered, and mattered very much, in the selection of business leadership," the authors say.

But by the middle of the century, birth and religion were being displaced by professional qualifications. The first American business schools were founded with the aim of "professionalising" management and making talent rather than background and connections the key to success. But, the authors say, business schools became another path to power. They became the new tabernacles. Their alumni networks turned into ladders, along which members helped each other to the top. The MBA degree was the key to membership of such networks, and men such as Richard Rosenberg of BankAmerica or John Chambers of Cisco used the networks to great effect as they rose to the top of some of America's biggest corporations.

The chapter on gender and race is perhaps the most interesting. While "the vast majority of individuals in top leadership of US businesses over the course of the past century were white men", it is intriguing to see how the rare exceptions did infiltrate the networks of power.

The stories of John Johnson, the African-American publisher of Negro Digest, and Dorothy Shaver, president of retail group Lord & Taylor, are instructive. Denied access to traditional paths of power, they used their own networks of friends, family and community. These alternative paths to power were usually highly personal, and it took individuals of rare skill and determination to find and exploit them.

Enabling networks that help the leader along the way might be welcome, but not when those networks are closed. By excluding outsiders, they are also keeping potential talent out. There is a double meaning in the title of this book: individual leaders advance along "paths to power", but at the same time business leadership itself is shown to be path-dependent. Leaders are chosen from a particular group because that is how it has always been done. Tradition dictates that incumbent leaders choose as their successors people who "look like them."

Rare are men such as Samuel Reyburn of Lord & Taylor, who spotted the talent of the young Dorothy Shaver and brought her into the company's inner circle.

The paths to power are different today from those of 100 years ago, but the new paths are as exclusive as the old. "Such changes have affected only the rules for entry, not the game itself," the authors say. "A new and different kind of insider may emerge, but the advantages one holds over an outsider remain." A new kind of inequality, it would seem, has replaced the old.

Financial Times