THEIR VIEW

Manufacturing or services: Why place one sector over the other?

Let's pursue an even-handed policy between the two to maximize employment growth and minimize India's trade deficit

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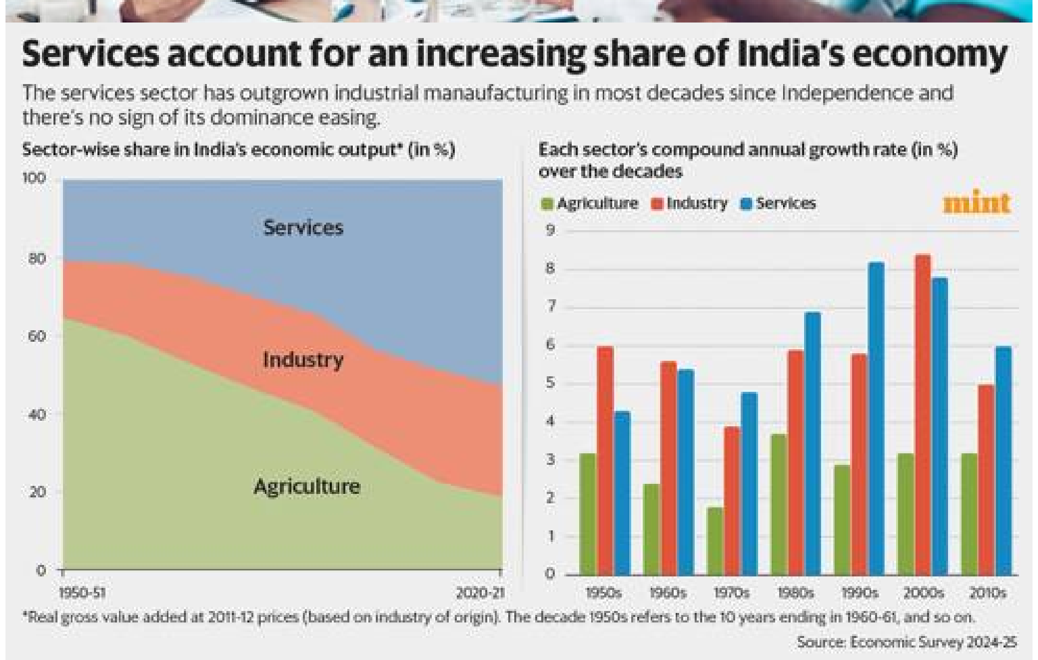

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This column looks at the relative importance of the manufacturing industry and services in India's growth story and discusses our required policy priorities in that context. The origin of modern development theory can be traced to the regularities that Simon Kuznets and others observed in the 1950s and 1960s on how the structure of an economy evolves with growth. A key feature he observed is that as per capita GDP (a concept he invented) rises, the dominant sector of the economy shifts from agriculture to industry and then services. This regularity, combined with Arthur Lewis's foundational theory about how the transfer of labour and surplus from a traditional agricultural sector to a modern industrial sector constitutes the fundamental process of development, became the core of development economics. These pillars were supplemented with seminal contributions by many others, but the main focus of enquiry was on the transfer of labour and savings from a traditional agricultural sector to a modern industrial sector, especially manufacturing, which was seen as representative of the entire capitalist non-agricultural sector. The key policy debate at this sectoral boundary between agriculture and the rest of the economy was about the desirability and appropriate scale of the surplus transfer out of agriculture. Theodore Shultz wrote about the importance of transforming traditional agriculture. Mellor and his school of economists at IFPRI developed models of agriculture-led growth. Ishikawa argued that growth in developing economies required a reverse transfer of resources into agriculture. My own doctoral thesis investigated the interaction between inter-sectoral resource transfers and patterns of long-term growth in India.

Since then, the sectoral boundary of interest in India and policy debate have shifted. The boundary in focus now is between industry, especially manufacturing industry, and services.

There is a broadly held view among economists that manufacturing has to lead development. However, on close questioning of why they think so, the response is usually a cursory reference to historical experience. Manufacturing industry indeed led the high growth phase of many countries in Europe after the Industrial Revolution. This is also true of East Asian countries in their high-growth phase. But how much of that growth in Europe is attributable to surplus transfers from colonies—and in East Asia to their strategic and economic alliance with America—remains an open question. Of the 30 most advanced countries in the world today (in per capita GDP terms, excluding some small island economies), manufacturing accounts for 10% or less of GDP in a third of these and 15% or less in another third. Ireland is the only outlier where manufacturing accounts for over 29% of GDP.

So, what is the evidence pointing to the special importance of manufacturing? The only evidence-based answers I have seen are those by Professors Veeramani and Nagesh Kumar. Both of them argue that strong backward and forward linkages unique to manufacturing industry make it an ideal sector to lead developing economies. Surprisingly, few remember the robust theory of manufacturing-led growth developed by Nicholas Kaldor 50 years ago. Building on the even earlier work of Allyn Young, Kaldor argued that manufacturing typically has the characteristic of increasing returns to scale, driving down costs but correspondingly increasing demand as multiple industries reinforce one another in an expanding process of cumulative causation. Keynesian demand management can greatly strengthen this process.

Thus, there are compelling reasons for expecting manufacturing to play a leading role in an economy like India's. If so, why has the long-term record of industrial growth been relatively unimpressive? Industry has typically grown at around 5-6% annually during the past 70 years and its GDP share has risen from around 15% to 29% over this period (see data chart). Actually, much of our high industrial growth in recent decades is attributable to mining, utilities and especially construction. The share of manufacturing industry is only around 17%. In contrast, the share of services in GDP has grown from 20.6% at the outset to 53% today, its average decadal growth during the last 40 years being in the range of 7-8% annually. The more dynamic performance of services is also reflected in its rising share of employment and, significantly, in our growing trade surplus in services. This is in sharp contrast with our trade deficit in goods. It is sometimes argued that manufacturing has been hamstrung by dysfunctional regulations and undue interference by an overbearing state. But it is the same regulatory ecosystem in which the services sector has performed so much better.

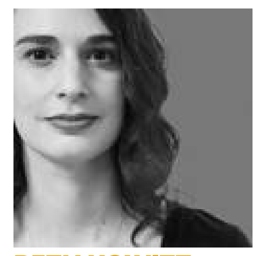
Thus, from a policy perspective, we must ask: Why is the slogan of 'Make in India' and related policy incentives limited only to manufacturing industry, when, say, transport and trade services, financial services, hospitality, education, health and other services are just as important as tangible goods like textiles, steel, cars or pharmaceuticals? We should carefully study the only two decades when industry grew significantly faster than services, 1950-51 to 1960-61 and 2000-01 to 2010-11. What made the difference? Meanwhile, the government would do well to pursue at least an even-handed policy between industry and services, especially if it wishes to maximize employment growth and minimize or eliminate India's trade deficit.

These are the author's personal views

MINT CURATOR

Afloat: The anti-DEI wave has not swept women CEOs aside

Women business leaders have grown despite political resistance



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More diverse boards are more likely to appoint a woman as CEO. ISTOCKPHOTO

Progress for female executives has always been so slow and plodding that every milestone, no matter how seemingly small or insignificant, gets celebrated. But recently, sounding the alarm for women in corporate America has supplanted cheering the wins. And no wonder—a growing list of data points signal that the right's attack on diversity, equity and inclusion (DEI) is chipping away at women's progress toward the boardroom and corner office:

The proportion of women being appointed to boards has declined for the last two years. It will now take even longer for women to reach parity in the C-suite than was previously estimated.

Boards increasingly want a female executive who has taken the extra step of serving as president on their way to becoming chief executive officer—something they're less likely to be required of male leaders. Or they're no longer interested in considering a diverse slate of candidates when filling the top job. As one headline warned, "The job market is brutal for women executives."

I've been one of those doom-and-gloom trackers myself. Last year, I wrote about how corporate women's gains were falling victim to an anti-woke backlash.

There is a direct line between the progress women have seen over the past half-decade and the ways in which DEI has moved into the business mainstream. I was worried about what was happening to women in the workplace as those efforts were dismantled.

I am still worried. But there are also some green shoots that have made me more hopeful that some of the gains are enduring.

For one, the percentage of women running Fortune 500 companies hit a new high earlier this year and now sits at 11%. It is a paltry record, but it comes after two back-to-back years of 10.4%. The numbers are generally pointing in the right direction, so I'll take it.

Driving the uptick were the eight women who were appointed CEO of a Fortune 500 company in the last year. They were all internal promotions. About a decade ago, the reverse was true, as most female CEOs at large companies were external hires. The about-face has some fretting that one pathway to the top job for women is closing.

But there is a flip-side. The outside-hire route to the corner office has not always been a boon for women's careers, even if it helped juice the overall numbers. A 2016 study by PriceWaterhouseCoopers found that outsider CEOs are more likely to be forced out—and because most big company female CEOs at that time were outsiders, they tended to be ousted at a higher rate than men.

It's not a terrible thing that women are now more often climbing the ranks from inside rather than being tapped to come fix a troubled company. Maybe it will leave fewer stranded on the glass cliff and set up for failure.

The most promising shift, however, is the composition of corporate boards. Last month, data complied by ISS-Corporate for *Bloomberg News* found that as of 2024, Caucasian men no longer held the majority of board seats at S&P 500 companies. Women and non-Caucasian men now comprise 50.2% of those seats.

This is a profound change. Just half a decade ago, Caucasian men held about 60%. The data also showed that Caucasian men are in the minority among chairs of crucial board committees that choose new directors and CEOs.

How could such a thing happen in the midst of the DEI backlash?

Changes inside the boardroom have made the shift toward more diverse directors stickier than the anti-woke crowd would like.

Boards often want to add members to the mix who have prior experience—requirements that once narrowed candidates to primarily Caucasian men. But the pool of women who now have that box checked is growing. And as companies grapple with developing technologies, their boards are increasingly willing to overlook a lack of board or C-suite experience for a director who has a deep background in areas such as AI. That's opening new avenues for executives who are less likely to look like the status quo.

The implications are real for the C-suite, too; research has shown that more diverse boards are more likely to appoint a woman as CEO.

There is no denying that momentum for women who aspire to reach the top has slowed in recent times.

But let's also look out for those signs that it's not so easily reversed. That's why we celebrated the wins to begin with—to show women that there's good reason to keep climbing.

THEIR VIEW

Face the M&A truth: Mergers are glitter but grit is gold

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The buzzwords 'synergy', 'market expansion' and 'cost savings' have long bewitched corporate boards, luring executives into the treacherous currents of mergers and acquisitions (M&As). From New York to Bangalore, leaders repeat the same tropes of talent acquisition, diversification, owning unique assets, entering high-growth sectors, etc, in the hope of achieving the magical alchemy that will transform two companies into a single powerful entity. But the empirical record is unforgiving: most mergers fail to meet their objectives.

Last year saw over $2.6 trillion deployed worldwide by companies chasing a mirage, but the hoped-for gains evaporated in many cases the moment the ink dried on these M&A deals. The fatal flaw lies in leadership teams taking untested assumptions as immutable facts. Boards rubber-stamp plans presented by the executive team and when headlines hinge on the deal's success, any hint of course correction is resisted. Sunk-cost thinking and a 'commitment escalation' bias tend to harden the resolve to press forth even in the face of hazard signals. As time passes, the window for latent risks—clashing IT architectures, cultural misalignments, fractured supply-chains, etc—balloon, revealing complexities no spreadsheet could have projected.

The recent union of US-based Dick's Sporting Goods with Foot Locker, valued at $2.4 billion, shone bright on paper: a suburban-leaning 'house of sports' popular with family shoppers had merged with an urban-centric sneaker specialist courting aspirational youth. It was meant to amplify negotiating leverage with Nike and gain a gateway to foreign markets. The stock market's verdict? Foot Locker's shares soared 85% while Dick's tumbled 14%, a signal that investors believed the acquirer had overpaid for a turnaround riddled with unseen costs.

This embodies the integration trap: superficial similarities mask profound differences. Foot Locker's 2,400-store empire spans 20 countries, but it has shuttered hundreds since 2023 amid a mall-retail slump. Dick's was not merely buying real estate, but inheriting a beleaguered retail network in need of format overhauls, a loyalty-programme rejig, talent redevelopment and digital-platform realignment. Not easy.

Boards frequently assume that category experience in one firm transfers seamlessly to another, wilfully ignoring divergent IT stacks, real-estate footprints and, critically, organizational DNA.

'Synergy' is the incantation that summons boards into action, but this is a speculative projection of behavioural change across two complex systems. Realizing even modest cost savings calls for consolidating procurement, merging software platforms and aligning vendor contracts; all these are subject to the push and pull of local allegiances, regulatory boundaries and political currents.

Academic research lays bare the truth: 83% of deals fail to boost shareholder returns, scuttled by mismanaged brands, mismatched strategies, cultural friction and overstretched managerial capacity. Flawless integration is rare. The corporate graveyard is strewn with M&A hubris. Microsoft's $7.2 billion dalliance with Nokia's phone business in 2014 resulted in massive write-downs and layoffs. The AOL–Time Warner marriage of 2000, once valued at $165 billion, unravelled under the weight of incompatible cultures and evaporating value. AT&T's acquisition of Time Warner in 2018, pitched as a defining moment for content synergy, faltered amid cord-cutting trends and the need to invest in fresh content. Google's $12.5 billion purchase of Motorola Mobility in 2011 yielded no enduring hardware foothold; three years later, Motorola was sold to Lenovo for $2.9 billion.

QUICK READ

Despite buzzwords like 'synergy', most M&A deals fail to boost shareholder returns. They're scuttled by mismanaged brands, mismatched strategies, cultural friction and managerial hubris.

That doesn't mean mergers are invariably doomed. Rather, the M&A failure record demands a radical reframe that treats uncertainty not as an obstacle but as a design constraint.

Why do boards persist in these strategic follies? Overconfidence bias looms large. Acquisitions offer hidden 'tenure insurance' for CEOs because a high-visibility coup can overshadow current performance. Under investor pressure, M&As are touted as revenue multipliers. Also, incentives are badly misaligned: executive compensation goes by market cap more than sustainable value creation.

The M&A failure record demands a radical reframe that treats uncertainty not as an obstacle but as a design constraint. Here's what should be done:

One, preserve optionality over integration by structuring acquisitions in staged commitments (such as pilot alliances) that allow incremental learning and course correction. *Two*, account for probable failure by calibrating purchase prices to downside scenarios rather than best-case projections. *Three*, acquire capabilities, not scale, focusing on distinctive platforms or talent (à la Google's acquisition of YouTube or Facebook's of Instagram) and granting them autonomy. *Four*, build integration muscle proactively through smaller bolt-on deals, training cross-functional teams, refining playbooks and mastering change-management before a merger. *Five*, realign incentives for long-term value creation, tying executive compensation to post-deal performance metrics.

Real resilience springs not from flashy deals, but from cultivating purposeful customer intimacy, operational excellence and a culture of iterative learning. True boldness lies in rejecting the merger mirage. The question isn't which megadeal will defy the odds, but when leaders will note that while 'mergers are glitter, grit is gold.'