

## “Is Regulation an excuse for no Innovation.”



Weekly Learnings 14 / 2024

I find that when I chat with CEOs and boards of Financial sector, Media , Healthcare, etc they say 2 things:

- a. My industry is different (all CEOs say this)
- b. I am in a regulated industry.

Basically, they are offering an excuse not to be innovative. So, here are my thoughts on this:

1. Regulation exists in many industries, formally / informally. A regulated industry is one where the industry is controlled by government rules. Regulation exists in airlines, healthcare, media, social media, mining, education etc.
2. Regulation comes in when safety is at stake e.g. airlines. The NTSB is a great example of this, and recent Boeing blowouts are signals, then airlines should be happy that there is a strong regulator.
3. Regulation happens when there is opportunity to fleece the consumer, banking being a great example. The banking sector is governed by a clear set of rules of what can be done and cannot be done.
4. Regulation is important when the product can have side effects that drain the government resources like in case medicines, tobacco, junk food. In such cases the government invariably puts a sin tax on these categories and over time these industries stop attracting good talent. I believe these industries have to make concessions in order to survive. Tax is high on cigarettes, soft drinks, and crisps in many parts of the world.

5. Social media because of its abusive nature and misinformation is coming under the regulator ambit, I think we will see more regulation in this area.
6. Executives in these industries quote regulation excuse to be poor at innovation. One has to think of what parts of the industry are regulated and what are not and innovate in parts that are not.
7. Combined innovation to grow the pie is a great initiative by the regulated Mutual Funds Industry in India. Many more industries can copy this.
8. In Airlines, Emirates and Singapore are excellent examples of innovation, in healthcare Apollo is a good example, in education ISB is a great example, in tobacco ITC is good example.
9. Pricing and capping pricing / preferential access is another government mechanism to regulate an industry. Soaps and detergents were under price control in India in the 70 s and 80s, this forced Hindustan lever to innovate on raw materials and blends. When Xavier's Management school started in Bhuvaneshwar, they had to give 50% of the seats to Orissa graduates. Hospitals have to treat the locality patients at a differential price. This is what I would term market access visa price.
10. I always tell these execs to look at unregulated industries and count the winners - its Zudio and Azorte in apparel retail, its Fogg in deodorants, its Bisleri in water, its Zara and Uniqlo in global apparel, it's Amul in chocolates. An unregulated industry has clear winners because of the organization focus.

So, regulation is an excuse for not innovating.

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08 April 2024

### Regulated Industries

