COLLOQUIUM

includes debate by practitioners and academicians on a contemporary topic

Corporation and its Shareholders: What Should B-Schools Teach?

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KEY WORDS

Shareholder Value Maximization

Agency Theory

Corporate Social Responsibility

Multiple Stakeholders

B-School Education

INTRODUCTION

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A corporation, in theory, is owned by its shareholders. That is to say, the shareholders contribute some of their money — often a paltry amount — to the equity capital of the corporation. They are *presumed* to bear a greater portion of the risks of running a firm (as compared to lenders, bondholders, etc.) and hence expect to be rewarded for this risk. They are supposed to *own* the corporation.

One view — pioneered and kept alive by the Chicago School — holds that by virtue of the above participation, the shareholders are the *sole* group a corporation is responsible for, a thesis made famous by Milton Friedman's oft quoted article.[1] A broadly similar view was expressed very recently by Dr Raghuram Rajan, Chief Economist, IMF,[2] where he argued that the shareholder value maximization principle is broadly sound though inadequate in some respects. He went on to argue that these inadequacies are not in the principle itself but in their application and safeguards can be provided to prevent their misuse. The proponents of this position argue that the shareholders are fundamentally different from all the other stakeholders for, while the obligations to the other stakeholders are essentially legal and contractual — the debtors need to be paid the agreed upon rate of interest; the environment laws need to be complied with; the suppliers need to be paid as per the contract, and so on — only the *left-over* earnings belong to the shareholders. In this sense, they bear the largest risk with their wealth and it is the *duty* and *obligation* of the managers, who are the agents of the shareholders, to maximize this wealth. This is the shareholder wealth maximization credo and is linked to the agency theory. In B-Schools, many courses such as economics, finance, and strategy have, as their (stated or unstated) assumption, the maxim of shareholder value maximization (or profit maximization).

Not that the B-Schools are unaware of the numerous criticisms of Friedman's

position as, for example, the most recent one from Sumantra Ghoshal.[3] He argues that this principle, along with the agency theory, has led to a gross over-emphasis on shareholders' value. Shareholders, unlike most other stakeholders, have the *easiest* exit option (they can simply sell off their shareholdings) and hence carry the *least* risk with a firm. Much of the corporate governance theories still use the agency theory as their kingpin and have failed to gather any evidence on their effectiveness even in improving the shareholder value. In some sense, agency theory is hardly a theory, but rather a hypothesis, if not just an assumption. Many of the recommendations in the field of corporate governance are essentially aimed at bringing the goals and interests of the 'principals' (i.e., the shareholders) and the 'agents' (i.e., the managers) into congruence. Ghoshal cites the cases of scandal from Enron and other such firms in the rogues' gallery that more than complied with the form of corporate governance mechanisms. He argues that essentially what B-Schools teach are bad theories and, they, by widespread and common adoption, assume the status of unquestionable truth. This has led to serious distortions in the way MBAs, as well as managers trained in these schools, approach their job.

The questions that the B-Schools need to address are: What should they teach? Should they teach that shareholder value maximization is all that a firm and its managers should focus on doing? Should they get into the numerous qualifications and dilemmas associated with this maxim? For example, should they discuss to what extent the firm should go in for maximizing shareholder value? Should this value maximization be short- term or long-term, and given that the preferences of shareholders regarding the time-frame of their return will vary, *whose* time-frame should the management adopt and why?

Much has been made of Friedman's qualifications, as for example, that firms must stay within the legal limits and the rules of the game as he calls it. There are, however, some major problems with this position too. Legality is something that is ultimately to be decided in the courts of law. Can we argue that since nothing illegal was established in courts, what Union Carbide did in Bhopal, such as non-installation of certain safety features (to boost up the profits), was fine? Vexing issues also arise when we say, "maximize shareholder values at all costs:" Should companies do whatever is required (in the interests of the shareholders, of course) to get a favourable judgment if any issue goes to the court (including tampering with evidence as Anderson Consulting seems to have done with its documents on Enron)?

When we get into the issues of ethics, we get into murkier waters. One could even argue: Should B-Schools teach ethics at all or stick to the 'teachable' legalities? Ethics is different from legality and inherently involves personal value judgments. The difference between ethical and legal behaviour is that in ethics, one does certain things because they are the right things to do and not to satisfy the legal requirements. But, such actions may go against the notion of shareholder value maximization. Should a company, for example, make declarations that are designed to mislead but cannot be challenged in a court of law (for example, advertisements, statements in public prospectus for raising of capital expenditure, etc.)? Should it enter into 'fair' dealings with its suppliers, customers, and other stakeholders or should it enter into 'maximizing profit' relationships? Again, what is the time-frame? Should companies indulge in over-exploitation of natural resources (for example, ground water), depriving the community of its share of water, even though this may be legal? In a strict interpretation of shareholder value maximization, not only these *could* be done, but actually *should* be done; not to do so is a violation of the trust shareholders have reposed on the managers.

At the heart of this debate is the view of the corporation itself. What view should the B-Schools advocate? Some scholars see it is as a purely economic entity serving only a particular function in the society. Hence, discharge of its economic functions is what it should do and this is *all* that it should do. It is not an immoral entity but definitely an *amoral* one.

At the heart of this debate is the view of the corporation itself. What view should the B-Schools advocate? Some scholars see it as a purely economic entity serving only a particular function in the society. Hence, discharge of its economic functions is what it should do and this is *all* that it should do. It is not an immoral entity

but definitely an *amoral* one. It is a fictitious person called a legal person and this person is characterized by a total lack of any other orientation other than economic. In this view, straying outside this arena may be immoral or even illegal since it may not serve the principle of shareholder value maximization; thus, it may be immoral to be moral!

Should there be a concept of corporate social responsibility (CSR) at all beyond complying with the legal requirements? One view could be that, following Friedman, the managers have no business at all doing anything with the shareholders' money other than enhancing shareholder value. They can do such things that, in the *long run*, *may* pay to build good relationships with the community in which the corporation functions and this *may be* in the interests of the shareholders themselves, as pointed out by Rajan.[4] This is some sort of a theory of enlightened self-interest but it is self-interest all the same. But, this itself is really nothing more than an assertion with no systematic evidence to prove or disprove that being environmentally sensitive or being transparent actually leads to improvements in the earnings of the companies. One could easily argue that given the vast uncertainties in the present day world, there is no need to sacrifice what makes sense here and now, and things such as relationships with communities, fair treatment of employees, customers, and vendors, and observing ethical codes are wholly irrelevant, even irresponsible, unless they can be demonstrated to lead to enhanced shareholder value. Also, once we agree on the numerous CSR activities of a firm, when do they become little more than a license to squander away others' money?

Should the B-Schools then deal with such issues at all or leave them to the students to decide? Should they concentrate on teaching what is 'teachable' and leave the rest to the future employers? It must be kept in mind that many of the issues, while having some truth in them, may not be easily apparent to a set of students most of whom, at least in India, are fresh from colleges. Even if they are experienced, the messages that emanate from classrooms still could have a major impact on shaping their perceptions. True, most of the teachers do try to bring out the nuances of the proposition. But, will the students be able to appreciate such nuances or simply take the core statement: "Maximize shareholder value" as some sort of a dictum?

These are the issues we propose to discuss in this colloquium. Such issues are important in all countries but, in the context of a country such as India, where there exists a weak, inefficient, and sometimes corrupt legal system, a code of poor moral values, and a growing economy seeking to integrate globally, it assumes special importance. What should the B-Schools teach regarding the kind of objectives the top managers should pursue? Should it be solely (short-or long-term) shareholder wealth maximization? Or is it to be a 'multiple stakeholder' model with unclear trade-offs? Should the objective set be different for purely domestic players as compared to firms integrating globally?

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With these broad objectives in view, we framed the following questions for this colloquium:

- What should be the stance of B-Schools regarding teaching of shareholder value maximization? Should it be taught as the sole (or by far the most dominant) objective of management?
- What should be the position of B-Schools regarding teaching (i) legal requirements, (ii) ethical imperatives (if they conflict with the shareholder maximization principle?), and (iii) concepts such as CSR? In short, should they take a totally amoral (morally neutral) position?
- Are the above concepts really in contradiction with the principle of shareholder value maximization? If not, how do we teach reconciliation?
- Do you agree with Ghoshal's contention that 'bad' theories (such as agency theory) are destroying good management practices?

This colloquium is *not* on what stance corporations should or should not take with regard to shareholder

value, ethics, and CSR. It is about 'What B-Schools should teach.' It is also not about an individual teacher's point of view alone and is aimed to reflect the institutional point of view the B-Schools should take.

With the above questions, we invited seven distinguished academicians from three countries to take part in the debate and they readily consented. Four are from India, two are from the US, and one is from New Zealand. Naturally, there is a sharp divergence in views. There were two rounds. In the first round, we merely posed the issues and questions and received the responses. Next, these were sent to the contributors to read and revise, respond or react. Many did. Out of the contributions, two have basically subscribed to the Chicago position; the rest have disagreed with it but in different ways and in different degrees. We invite the readers to take part in this hot intellectual debate by sending their comments, a selection of which we shall publish in the next issue.

The participants in the colloquium (in alphabetical order) are as follows:

- Prof. N Balasubramanian, Indian Institute of Management, Bangalore
- Prof. Sendil K Ethiraj, Stephen M Ross School of Business, University of Michigan, Ann Arbor
- Prof. Romie Littrell, Auckland University of Technology, Auckland
- Prof. Sebastian Morris, Indian Institute of Management, Ahmedabad
- Prof. DVR Seshadri, Indian Institute of Management, Bangalore
- Prof. Jayanth R Varma, Indian Institute of Management, Ahmedabad
- Prof. Srilata Zaheer, University of Minnesota

Some of the contributions were in the form of specific answers to each of the questions posed above. We have arranged these against the respective questions with the first round answers and second round answers shown separately when they were in the form of additional points or responses in the first round. Some of the other responses were in the form of an integrated answer which could not be segregated against the different questions. Hence, these have been published as a single piece. Some of the responses were revisions of their own first round responses in which case we have gone by the revision.

Q. 1. What should be the stance of B-Schools regarding the teaching of shareholder value maximization? Should it be taught as the sole (or by far the most dominant) objective of management?

N Balasubramanian

The purpose of B-School instruction is to prepare the students to address management and business problems and challenges that they may be called upon to tackle in real life. It is possible to be pedagogically dogmatic when dealing with 'precise' subjects but certainly not when discussing others where there may be more than one way to approach an issue. The prime objective of B-School education should be to equip the students with an understanding of alternative approaches to problems without necessarily advocating one or the other of the options.

The issue raised is of generic importance not only with regard to the shareholder wealth maximization principle but more generally concerning many other subjects and topics that we teach at B-Schools. We need to distinguish between 'precise' knowledge and other kind of inputs in education. The purpose of B-School instruction, to my mind, is to prepare the students to address management and business problems and challenges that they may be called upon to tackle in real life. It is possible to be pedagogically dogmatic when dealing with 'precise' subjects but certainly not when discussing others where there may be more than one way to approach an issue. The prime objective of B-School education should be to equip the students with an understanding of alternative approaches to problems without necessarily advocating one or the other of the options. For example, in case of shareholder wealth maximization, it would be appropriate to deal with agency theory and shareholder primacy as residual claimants because these are important approaches to running a business for profit; at the same time, one should also discuss the foundations of stakeholder and stewardship theories and other alternatives so that students have the oppor-

tunity to be aware of the range of issues that they need to address for themselves and their organizations. Whether one should tilt more strongly towards one or the other end of the spectrum is probably a matter of personal preference, but, so long as all major options are discussed, the teacher would have done his or her job. And the 'job' is to provide a holistic overview of the subject leaving the students to reflect on the 'why' of these approaches as much as their 'how,' debate internally and externally their rights and wrongs, and reach their own conclusions for adoption in practice. As 'argumentative Indians,' our students should be quite at home with this approach!

DVR Seshadri

In today's extremely complex world, the current overemphasis in B-Schools on shareholder value maximization is totally misplaced. The internalization of shareholder value maximization as the sole purpose of an organization by the MBA students is perhaps not done consciously by B-Schools but could be happening subtly. The problems faced by the companies and hence the managers are much more multi-dimensional now than two decades ago when the world in general was more placid. We are now in extremely turbulent times with heightened levels of uncertainty on all fronts and this process will only accelerate in the years to come. Globalization; relentless technological upheavals, best experienced by the common man in the form of 'information democratization' and 'information on tap; ' the increasing power of the media, non-governmental organizations, etc.; rapid ecological deterioration; heightened levels of activism of various types; the rise of the knowledge worker; the widening disparities in the standards of living between the haves and the have-nots; increased levels of anxiety and stress in the workforce; increasing scrambling for depleting natural resources of various types; and many more related phenomena that have become very pronounced over the last several years have resulted in a sea change in the business context the world over. All this points out to a crying need for a totally new paradigm for business education. Thus, the *de-facto* myopic focus of the B-schools solely on the shareholder value maximization is inappropriate at best and disastrous at worst from a society's or a nation's viewpoint. I believe that, as a world, we are yet to fully face the consequences of such a narrow focus regarding the purpose of an organization and the manager's role in delivering maximum shareholder value.

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It is also inaccurate to assume that teaching broader issues like stakeholder value and the role of managers in making sure they deliver it will not have much impact. My own experience as a teacher suggests that the students in the B-Schools, like other students, are very impressionable and malleable and will respond based on the inputs they receive. If the only thing they are taught is that the purpose of an organization is to maximize shareholder value and that they must ensure that this happens, they would leave the MBA programme with this 'programming' in their minds. If, on the other hand, the B-Schools are able to inculcate, through a well-thought out curriculum, that managers in corporations have a much larger role to play, they would internalize such learning and, over the years, during the course of their practice as managers, manifest such behaviour. Hence, I would like to suggest that what they learn is very important in influencing their behaviours during their future careers and we must never underestimate the power of the B-Schools to make a difference in the subsequent behaviours of the students. In fact, I would like to go a bit further and seek to inculcate these ideas earlier in the life of the students, such as during their school years and under-graduate education as well, and further reinforce them in the MBA education.

Romie Littrell

Shareholder value is only one of the many components of value-based management. One might suspect the competence of the teachers to comprehend the complexities of business and society if they are teaching this as the sole objective of management.

Srilata Zaheer

Shareholder value maximization cannot be taught as the sole objective of management. Shareholders are not the only stakeholders in the firm. Can anyone argue that having the goodwill of one's customers, suppliers or local community is going to hurt one's ability to do well? At the very least, shareholder value maximization has to be subject to the constraint that the other stakeholders are not unduly harmed. At its best, balancing the interests of all stakeholders is likely to yield better results for the shareholders as well, particularly in the long run. The difficulty lies in truly defining who 'all the stakeholders' are — e.g., Do we consider the interests of only current employees or of future employees as well? How do we weigh competing interests? How do we trade-off the short-and the long-term? These are the judgment calls managers are paid to make.

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Q. 2. What should be the position of B-Schools regarding teaching (i) legal requirements, (ii) ethical imperatives (if they conflict with shareholder (wealth) maximization principle, and (iii) concepts such as CSR? In short, should they take a totally amoral (morally neutral) position?

N Balasubramanian

Legal requirements are necessary compliance mandates that a corporation (and individuals for that matter) have to be aware of and hence they should be taught as a 'precise' subject, in a large measure, anyway. There may be areas of law that may be open to alternative interpretations in which case the teaching approach could be one of describing those options for debate and personal choice. One recalls in this context the fine distinction between tax avoidance and tax evasion so well articulated by the late Nani Palkhivala that the former was lawful while the latter was not. Some corporations may still take the view that tax avoidance was an aggressive approach, ethically not acceptable, but that is the fine line the concerned party has to draw and no amount of B-School dogma one way or another would help in practice. It is certainly necessary for the B-Schools to offer instructions in ethics in general and business in particular; regrettably, most B-School curricula do not weave this into their domain. As Professor Manohar Reddy opines, "most business school faculty see their role as one of imparting knowledge and developing skills and not as one of value-inculcation."[5] This is unforgivable particularly in case of countries like India which have a rich tradition of values handed down from time immemorial. We seem to have forgotten the simple Gandhian dictum that means are as important as, if not even more important than, the ends of one's actions. Ethics is about the means, the 'how,' of doing business, a field that our B-School education seems to be giving a convenient go by. CSR is a subject that arouses passionate arguments for and against. Precisely for this reason, our B-School education should cover this subject in its curriculum. CSR, of course, is more than just philanthropy; it covers every aspect of managerial decision-making and needs to be internalized in such processes, not just tagged on as a stand-alone cell attached, as it usually is, to the human resources function in the organization.[6] Upcoming managers need to know about the strong conviction of a major and influential segment of the world citizens who believe that the businesses they manage are there to serve the requirements of society and exist and survive with the sanction and support of such societies. We need to alert the students to the growing trend including the one that postulates that "Those (corporations) that cannot show their ability to be responsible with their operations should, arguably, lose their 'licence' (to operate) and the 'privilege' of limited liability;"[7] their corporation

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may well be the one that suffers injury in the foreseeable future and they should be aware of such possibilities. On a more persuasive strain, the students need to also be told that "No success or achievement in material terms is worthwhile unless it serves the needs or interests of the country and its people and is achieved by fair and honest means."[8] Teaching such concepts and developments is not necessarily being moral or amoral; it is just helping the students to be aware of what they are likely to be up against in the real world of business and management; in a manner of speaking, *leading* (them) *from darkness to light*!

DVR Seshadri

Much as the majority of faculty in business schools would like to take an amoral (value-neutral) position on these very important issues, I believe we are really on a short fuse. There are many eminent thinkers (Charles Handy, Stephen Covey, Peter Senge, to name only a few) who have cautioned that the way we do business today — of continually passing around costs to others in the system or to future generations in the quest for shareholder value maximization — is not sustainable. Unfortunately, much of this thinking has not come into the mainstream of management education so far. Each of the issues mentioned above, viz., legal requirements, ethical imperatives, and concepts such as CSR, will be very central to managers in the years to come especially in the globalized world. Many of these may become mandated by legislation in the Western world in the coming years. Business schools in India that wake up to these requirements will emerge as the leaders in management education and those schools that ignore these very important issues in their curriculum will be unable to produce high calibre corporate leaders of the future.

Romie Littrell

It is the responsibility of the business schools to teach legal requirements of operating business across the national environments. By the time the students reach tertiary business schools, their ethical values are already firmly entrenched in their personalities and belief systems.

Srilata Zaheer

We do not teach MBAs engineering, I do not see why we should teach them law. Like engineering, law is a highly technical and specialized field and legal requirements tend to vary immensely by industry and country and also change a great deal over time. While courses on 'Business Law' still exist on the books of some business schools, I do not think B-Schools are the right place for budding managers to get a detailed understanding of the law as it is likely to be applicable only to specific situations. What we do need to instil in our MBAs is that they are neither omniscient nor omnipotent. They need to have the humility to acknowledge what they do not know, the courage to question, and the confidence to seek and acknowledge expertise. These characteristics distinguish true leaders.

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Regarding ethical imperatives and CSR, there are three issues involved — doing right, doing good, and doing well. I do not think there is any question that corporations have a basic fiduciary duty towards their shareholders and not doing well by your owners is not going to do much for your other stakeholders either. If you are not competitive in what you do, you are not going to be around for any of your other stakeholders.

Doing the right thing is not antithetical to doing well — it is the foundation for doing well in the long run. My own research on multinationals shows that a firm's past stock of moral capital can help it when its legitimacy is questioned. An example more closely tied to the market domain is Toyota which is now a leader in hybrid technology and can charge a premium for its hybrid cars.

Doing good (corporate philanthropy) is 'however' a different story. Corporations are not particularly capable philanthropists. And, too often, corporate philan-

thropy smells too much like public relations. They would do better to return the money to the shareholders and let them 'do good.' At the very least, they need to listen to their stakeholders, for instance, their employees, in any attempt to do good.

Q. 3. Are the above concepts really in contradiction with the principle of shareholder value maximization? If [not] yes, how do we teach reconciliation?

N Balasubramanian

Shareholder wealth maximization need not be inconsistent with high standards of stakeholder concern and reasonable enrichment. The operative question is: What is reasonable? Very often, in well-developed markets (and Indian markets in certain pockets are quite well-developed, for example, the market for skilled knowledge workers in the software industry or markets for quality vendors in engineering industries, and so on), market forces do determine what the stakeholder shares of value-additions ought to be. Similarly, unionized employees can and do take care of their interests as do customers in a competitive marketplace. In a manner of speaking, shareholder wealth maximization has to be achieved by executive management after duly managing and reckoning the costs of stakeholder interests. What distinguishes a good company from the also-rans is its ability to anticipate such needs in time and in line with international best practice levels as applicable to their operating environment and ensure that the financial bottom-lines are kept healthy and attractive to the shareholders after meeting such obligations. Corporations must decide whether they are in the business for the long haul or for a short run (the unfortunate fall-out of the quarter-on-quarter pressures for bottom-line growth); creating and maximizing shareholder wealth on a sustainable basis over the long term is possible only when the corporation is also seen as a contributing corporate citizen. That is the platform that should be offered to the B-School students for their consideration and reflection both in the classroom and later in their corporate environments.

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DVR Seshadri

In a society where there is perfect transparency and lack of nexus between politicians, bureaucrats, judiciary, business, etc., one could safely assume that since the task of the managers is to manage risk both in the short and long term, if they did this well, they would, by definition, end up taking care of stakeholder value (and not just shareholder value). The situation in some of the developed countries (particularly some of the European nations) may approximate this ideal where there could be significant congruence between stakeholder and shareholder value maximization efforts. However, we must be honest in admitting that, in India, we are far from this situation. The unholy nexus that, by and large, exists among politicians, bureaucrats, judiciary, business, law enforcement authorities (such as police) and, in some cases, even musclemen and mafia, effectively makes the voice of the other stakeholders of a corporation nearly impossible to hear.

The legislation and compliance in the developed countries on some of these important issues such as protecting the rights of various stakeholders (in addition to shareholders) is becoming one of 'zero tolerance.' In these countries, many of these policies have been put in place in the last several years in response to the reaction by the public against corporate greed that is an inevitable consequence of obsessive focus on shareholder value maximization. One can expect that this trend can only continue to accelerate in these countries. Given that India is increasingly part of the globalized world, the pressure on the Indian companies to fulfil their obligations to stakeholders and not just shareholders can be expected to mount, especially if they have any business dealings in any manner with the companies in those

countries. This is a silver lining in an otherwise dark horizon. Unless the B-Schools start inculcating in the students the new realities of their roles, they may lose the chance of taking a proactive lead in these matters and, instead, may have to belatedly incorporate these issues into their curricula in a reactive manner, when mandated by legislation, perhaps stemming from international pressures, in the years to come.

Many management gurus argue that through shareholder value maximization, the above concepts (such as legal requirements, ethical imperatives, and CSR) are automatically taken care of. There are many others who suggest that shareholder value maximization is the only sanctimonious responsibility of the managers. This latter line of reasoning might have been true many decades ago when the source of power was capital. This is no longer true as the world has moved on since then. Besides, I feel that both these ways of approaching the issue are tantamount to ducking the central problem altogether.

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There are surely going to be contradictions of the above concepts with the principle of shareholder value maximization. But then, why is shareholder value maximization such a holy cow that cannot be questioned, especially when knowledge has come into the centre stage of what it takes to run a corporation and when many other sweeping changes are occurring in the society today? Do all shareholders actually have a true voice in crafting the direction of the company in real terms and in affecting in a meaningful way the course of decisions made by corporations? We all know the 'farce' that goes on in the shareholder meetings of the companies. It is just a few shareholders (often with minor shareholding) who manage to wrest 'control' of the company orchestrate all that goes on in these meetings to ensure that decisions made maximize the benefits to them. In no way does this process of decision-making represent the view of all the shareholders. And, by the way, what gives corporations the right to take anything that comes outside the narrow confines of shareholder value maximization for granted? Is it because such 'external forces' have as yet no voice that can be heard in a meaningful way? Is it because there is a very weak or little legislation in the country to force corporations to listen to those other voices and pay heed to them? Why should we be afraid of facing these contradictions? Should not future managers be sensitized to these contradictions and be taught how to reconcile them?

Leading B-Schools of the future cannot run away from these sort of contradictions. To say that the MBA students are mature enough to decide for themselves what is right and what is wrong is to question the utility of the MBA programme itself. The B-Schools play a vital role in moulding the attitudes of the MBA students.

All this points to the need for a major overhaul. There is enough slack in the curriculum, especially in the second year, to accommodate innovative inclusions in the learning that could address issues for sensitizing the students to the emerging realities that will necessitate the managers of the future to focus on broader range of issues than just shareholder value. On a more operational note, there is a need to ensure that the seriousness of learning that one witnesses in the first year of the MBA programme is sustained until the very end of the two-year programme. Such a broadening of perspectives will make them better human beings to take up the challenges that they will be facing in the increasingly complex world of tomorrow. Poignantly, the relationship between the faculty and the students, which had significant elements of informal learning in the past, has, over the last several years, largely become very 'transactional,' leaving little or no scope for any learning other than through the lectures of the faculty in the classroom. Creative ways to correct some of these aberrations have to be thought of and implemented in the B-Schools to bring back the magic of an 'MBA.'

Unfortunately, a lot of what is taught in today's B-Schools is largely in the form of courses from the confines of silos of functional specialization. This is exacerbated by the fact that the B-School graduates, especially from several top B-schools in the country, have been idolized to such an extent that it may not be inappropriate to

suggest that an increasing proportion of the prospective entrants to the B-Schools now, more than ever before, are motivated towards management education not to excel as managers, but rather because of the financial benefits it brings at a personal level. It is seen as a sure ticket which provides the shortest and the fastest route to personal wealth maximization. Given that there is a thriving industry to prepare such prospective students to get into good business schools, the results in terms of attitudes of the students are not difficult to imagine. It is akin to the typical Indian politician who has left society's welfare and idealism far behind with only one objective in his/her mind: "maximize personal wealth and tenure at all cost." In all these cases, the over-riding objective is increasingly becoming 'return on investment' and personal wealth maximization. The fact that, increasingly, in business schools across the country, the common refrain of faculty (albeit in coffee lounges, in private, and in hushed tones) is that students are no longer interested to learn since they feel they have already 'made it' is a mute testimony to this unsavoury trend. If this trend continues unchecked, I am afraid that the B-Schools will increasingly be distanced in terms of relevance from the society at large. It is time we bring the idealism squarely back into management education and find ways of ensuring that the entire two years spent in the B-School are spent in learning skills that would be useful to the student to create value for the nation at large and more specifically to all stakeholders of the organization that he/she would be associated with in the future.

It is time we bring the idealism squarely back into management education and find ways of ensuring that the entire two years spent in the B-School are spent in learning skills that would be useful to the student to create value for the nation at large and more specifically to all stakeholders of the organization that he/she would be associated with in the future.

If personal wealth maximization is the primary objective of an increasing proportion of aspirants to management education, as I have explained above, it is small wonder that this objective fits very cozily with the objective of shareholder value maximization since these two make for tightly coupled, mutually-reinforcing objectives. After all, ultimately, it is the shareholder who authorizes the salaries to the managers of a firm, especially to those at the top! Many managers are themselves shareholders and this makes the coupling even tighter. Thus, in the current paradigm, it is in the manager's interest to be subservient to the shareholder and deliver maximum value to the latter, at the expense of all else, without looking either to the left or right, much like a blinkered horse running a race.

Rather than reconciliation, I would suggest that we explicitly recognize the contradictory nature of the objectives of shareholder value maximization, legal requirements, ethical imperatives, CSR, and many more, and put in place mechanisms to inculcate appropriate skills in the students to help them navigate successfully through these seemingly conflicting issues. This requires bringing the problem to the centrestage without being apologetic about it. This requires the faculty to jointly offer inter-disciplinary courses that have strong application orientation to the real world problems. This involves change in pedagogy, wherein students learn through action learning on the field, engaging with various stakeholders of corporations such as shareholders, employees, customers, proximate society, suppliers, collaborators, joint venture partners, the legal framework (company law, stock exchanges, governmental bodies, etc.), political systems, the bureaucracy, NGOs, society at large, etc. The students could then learn through well-structured projects (very different from projects that are put together after a few hours of search on the Internet that is not uncommon at present). These must be genuine group projects by teams of collaborating students (as opposed to the free-rider phenomenon that is not so uncommon at present).

The change of focus and pedagogy needed to enhance the sensitivity of business school graduates to all stakeholders requires a lot more of collaboration with the industry and the society at large. Guest lectures by people of eminence who represent various other stakeholders that are germane to robust functioning of organizations can also help broaden the horizons of the students. Field visits and genuine projects to capture some of these diverse perspectives and working on how to address the challenge of conflicting multiple interests that emanate from the various stakeholders will provide

a very enriching learning experience for the students. It requires B-school faculty to engage the students on important issues and defocusing on grades. It requires much less cynicism on the part of the system as a whole. Most importantly, it requires expansion of the sense of 'I' to a more wholesome concept that encompasses ever-widening circles. This, in turn, will necessitate sensitizing the student to his/her broader role in the scheme of things and to his/her connectedness to the whole, in addition to his/her physical, mental, and intellectual dimensions. This sense of being connected to the whole will ensure that stakeholder value is automatically addressed by the manager. This, *per se*, necessitates sensitization to the spiritual side of man, which unfortunately is generally a taboo subject in most business schools in the world today.

The spiritual dimension of managers and leaders is being increasingly recognized in leading business schools of the West and, perhaps, it will be a while before we in India recognize the primacy of this dimension of a manager and help the students to understand this aspect better. All this looks like a far cry from today's reality in business schools across the country, but, I believe that leading business schools will have no easy options but to take these issues head-on. Most definitely, to pretend that the problem does not exist is not a solution to the problem.

Whether or not one agrees with the theories, the teachers owe it to the students to table all available propositions, encourage reflection and debate, and build capacity in the students to discern the right, the best, and the acceptable. It would be equally valid for the teachers themselves to go through this process of introspection before offering their personal views to the students.

Romie Littrell

Reconciliation is not the issue; comprehension of the complexity of the real world is.

Srilata Zaheer

Not the way I have articulated it.

Q. 4. Do you agree with Ghoshal's contention that 'bad' theories (such as agency theory) are destroying management practices?

N Balasubramanian

Limiting my comment to the shareholder wealth creation and agency theory issues discussed in Ghoshal's article,[9] it is difficult to discern any fresh insights in the discussion. There have been strong advocacy over the last several decades for the agency theory, residual claimant theory, contracts-clusters theory of corporate form of organization, shareholder wealth maximization at any cost, and so on; equally, one has been witness to powerful support for the stakeholder theories, stewardship theory, justification for legislative and regulatory oversight on corporate accounting, reporting, and business behaviour, and so on. It is also important to recognize that 'shareholders' in any corporation are not homogenous with exactly similar interests; the reality, in fact, is that their interests are rarely congruent often leading to situations of dominant shareholders having to be contained in any effort to expropriate a more than due share to themselves.[10] In any case, how does one classify a theory as 'good' or 'bad' and on what criteria do we evaluate them? Not all theories using the 'scientific' method (including some in case of social sciences) need to be broad-brushed as 'bad.' There is merit, though, in the argument that prescriptions that masquerade under the cloak of 'scientific' methods of research need to be generally guarded against by intelligent and informed audience, that they should not be taught or accepted without debate. That admonition would, of course, apply to all seekers of knowledge: "Repeated questioning is ... essential, for, without a keen spirit of inquiry, there is no knowledge."[11] Whether or not one agrees with the theories, the teachers owe it to the students to table all available propositions, encourage reflection and debate, and build capacity in the students to discern the right, the best, and the acceptable. It would be equally valid for the teachers themselves to go through this process of introspection before offering their personal views to the students.

I now turn to some of the sweeping observations Ghoshal makes with regard to trust, corporate boards, and governance. Surveillance, Ghoshal writes, "threatens peoples' personal sense of autonomy and decreases their intrinsic motivation," and eventually leads to a "shift from consummate and voluntary cooperation to perfunctory compliance." In running organizations, as

indeed governments where operating responsibilities and almost unfettered access to monetary and other resources are delegated to a chosen groups of managers (or politicians and bureaucrats), it is difficult to visualize a system that can be totally devoid of some measure of control, countervailing checks, transparency, reporting, and so on. Long before the advent of the likes of Friedman, Adam Smith doubted the feasibility of directors "being managers of other people's money than their own," watching over it, "with the same anxious vigilance with which partners in a copartnery frequently watch over their own."[12] More than a century later, the English philosopher, John Stuart Mill, writing in the context of instituting restraints over the unbridled use of power by kings and chieftains against their subjects, noted that, "as the king of vultures would be no less bent upon preying on the flock than any of the minor harpies, it was indispensable to be in a perpetual attitude of defence against his beak and claws."[13] Injunctions contained in various scripture and treatises dating back several centuries could also be cited in support of independent counsellors and ministers being a necessary part of the governance systems of kingdoms and empires. James Madison, one of the founding fathers of the United States, who is also quoted by Ghoshal, had this to say on governance: "If men were angels, no government would be necessary. If angels were to govern men, neither external nor internal controls would be necessary. In framing a government which is to be administered by men over men, the great difficulty lies in this: you must first enable the government to control the governed; and in the next place oblige it to control itself." The short point is that in any form of government or corporate organization, there is a rightful place for enlightened distrust that translates, in an operational sense, into a surveillance mechanism to contain potential ill-effects. Enrons, WorldComs, and Parmalats of this century have been the favourites for decrying regulatory failures to arrest corporate misdemeanours and one is not surprised to find their mention in the article. One could arguably speculate whether in such instances it was the institution of independent directors that failed to deliver the goods or whether it was the failure of the concerned independent directors not living up to their undoubted independent status and professional skills that was the issue. Survey results have been quoted to suggest that independent boards and non-duality of board chair - CEO have had little favourable impact on corporate performance. It would be interesting to explore whether the same corporations had performed better before the introduction of these reforms or even after they went back on the reform measures. It is well known that corporate performance is the culmination of the impact of several factors, both internal and external to the corporations; it is difficult to pick up one or two among them, such as independent directors on the board, to conclude one way or another. In any case, how does one reconcile this with the results of several other surveys that seem to indicate investors' willingness to pay sizeable premia in case of companies with better governance practices including board independence and duality at the top? In summary,

It would be interesting to explore whether the same corporations had performed better before the introduction of the reforms or even after they went back on the reform measures. It is well known that corporate performance is the culmination of the impact of several factors, both internal and external to the corporations; it is difficult to pick up one or two among them, such as independent directors on the board, to conclude one way or another.

- board's and corporations' responsibility extends to all relevant stakeholders, not the least of them being the shareholders
- there is no alternative to maximizing the wealth of a corporation through fair and legitimate means
- an independent board is a useful mechanism (in the absence of anything better) to exercise its stewardship function
- controls and checks are a necessary part of running any multi-layered organization
- B-School education should equip students to discern from among the spectrum of theories available which is better or the best for their circumstances
- our curricula should allow for more reflection time to students to internalize their learning so that what they leave with is not just knowledge but also wisdom.

DVR Seshadri

I cannot agree more with Ghoshal's contention. A lot of what is taught today in B-Schools is theory based on exotic frameworks woven out of intellectualization, often from the limitations of a functional domain, and with little connection to practice and problems of the real world. Often, the real world is pooh-poohed by different stakeholders in the B-School learning process. Likewise, practising managers tend to suggest that a lot of the theories propounded by the B-Schools do not apply in the real world. The challenge is for this chasm to be effectively bridged.

We often leave it to the students to reconcile the inevitable conflicts among the various theories dished out in the two-year MBA programme. We take cover under the fact that the students are mature and can figure things out by themselves. I believe this is a very defensive approach. It is now time to take a much more proactive position and help young and impressionable students, most of whom are straight out of college, to make a fuller meaning of management education and their own lives. Leading management thinkers such as Charles Handy, Robert Rosen, Hazel Henderson, Peter Senge, Stephen Covey, and many others have pointed out, through incisive arguments, to the brewing chaos in contemporary management practice. Many of them clearly imply that the excessive focus on shareholder wealth maximization breeds vicious and unhealthy competition both inside and outside the organization while also passing many hidden costs around to the environment external to the organization and to future generations. Given this backdrop, and the reality of today's impending calamities caused by businesses over the last several decades, we cannot pretend that all is well and, in the process, underestimate the importance of inculcating a holistic orientation in these young minds through suitable and effective content and pedagogy. In short, there is a need for business schools to radically reinvent themselves.

Given the reality of today's impending calamities caused by businesses over the last several decades, we cannot pretend that all is well and, in the process, underestimate the importance of inculcating a holistic orientation in the young minds through suitable and effective content and pedagogy. In short, there is a need for business schools to radically reinvent themselves.

On a concluding note regarding what B-Schools should be doing to break the cocoon of insularity, a manifestation of which is excessive engrossment in theories that are considerably distanced from the world of practice, I now move on to present what could be done to achieve significant results in a reasonable period of time. A practical way to enlarge the learning experience of the MBA students in B-Schools is to get a quarter to a third of faculty from other streams outside business, such as sociology, anthropology, government, working senior managers who have experience and track record in the paradigm expansion explained above, NGOs, trade unions, consumer organizations, activist organizations, organizations representing interests of minority shareholders, citizens, forums, political parties, etc. They can spend about a year or two at business schools on 'deputation' and offer/co-offer various courses with business school faculty. They can also guide the students working on real-life projects. These initiatives will help all stakeholders of the business schools to understand that, at the end of the day, corporations are embedded in the society and have to fit harmoniously with the larger picture. This may sound like a radical idea and will need some careful thought to attract and motivate the right type of people who are accomplished in their respective domains, as alluded to above, to spend time at B-Schools to achieve mutually enriching goals. Stringent norms for inducting such 'deputationists' must be evolved which I believe should not be insurmountable. Such an initiative on the part of B-Schools should result in multi-dimensional rather than linear learning experience for the management graduates. Simultaneously, we must find ways to bring back the magic of learning into B-Schools so that we produce a cadre of management graduates with highest integrity, resilience, and a sense of connectedness with the world at large so that they are able to take on the tough problems that they are doubtless bound to encounter in the years to come.

In my view, the excerpts from a letter written by Fr Hathaway to the students of XLRI, Jamshedpur, many

years ago sums up the issue at hand very well: "No, you were not here to understand the corporate sector or the intricate theories of management. You came here to understand yourself and your strengths. To believe how easy it is to make a difference. That is the purpose of higher education.... There are no limits to which we can grow as human beings. Every morning we get up and make a choice about how much we will do to make a difference... Too many people give up the opportunity because they do not believe they can make a difference. I do hope this education has given you the belief within.... Never underestimate your ability to make a difference."

Romie Littrell

Taking the Social Darwinist approach, if business executives are not sufficiently intellectually competent to distinguish between good and bad theories coming out of academia, then they are not qualified to be managing an organization and hence affecting the lives of employees. Due to the relative isolation of most academic environments from the realities of the business world, we should expect 'good' theories and 'bad' theories to emerge apparently randomly and be treated as such — random guesses based upon insufficient data. Business practitioners should be reading Andy Grove and Bernard Guerrien rather than any widely used economics textbook.

All business school academics need to read the May 2005 issue of the *Harvard Business Review* where Warren Bennis and James O'Toole, Professors at the University of Southern California's Marshall School of Business, state that business schools are 'institutionalizing their own irrelevance' by focusing on scientific research rather than real-life business practices.

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Srilata Zaheer

Ghosal gave too much credit to business schools and to agency theory. Greed existed long before agency theory was invented. Did agency theory lead to compensation practices that fuelled human greed? I would argue that greedy executives and boards that were not paying attention led to poorly designed compensation systems which under the guise of aligning managers' and owners' interests had the effect of sometimes feeding managerial greed to a point where one could argue that it was no longer truly aligned with shareholders' interests. Is that the fault of business schools or of a particular theory? Or of implementation?

INTEGRATED CONTRIBUTIONS

Romie Littrell

Shareholder Value and Reality

RD Laing, author of *The Politics of Experience* (New York: BallantineBooks, 1972), noted 35 years ago that "We live in a moment of history where change is so speeded up that we begin to see the present only when it is already disappearing." Laing also pointed out that 'facts' become fiction when we fail to understand and appreciate the thought and experiences that lead to academic theories. Neither 'rational' processes— that we so often find in the work by academics and others of the chattering class who cannot comprehend the complexity of the experimental method —nor the experimental method itself are adequate tools of analysis of reality. Theories must be *sufficiently* grounded in reality.

The tendency of academic researchers attempting to employ the Scientific Method is to isolate a variable to study, carry out some observation of manipulation of that single variable, and then attempt to draw general conclusions. Hopefully, with enough isolated investigations of isolated variables, someone might see a relationship or two and progress to a theory. This theory, of course, will be based upon an agglomeration of isolated

events. This reductive solution leads to relegating higher-order entities as nothing but agglomerations of lower-order entities with the laws governing the higher order entities being expected to be deduced from the laws governing the lower. This general programme of inter-theoretic reduction has raised barriers that many philosophers find insurmountable such as the case of attempting to reduce biology to chemistry. Given that the experimental tools were available beginning with the Renaissance, isolation and experimentation might have been appropriate then. However, we still see this reductionist practice being carried on today. One might have hoped to see advances in the 1960s with the use of computers making multivariate statistical analyses more accessible to researchers but I still see reductionist practices largely being reported in the literature. Even the latest fad of structured equations is an analytical scheme based upon correlation and correlation, as drilled into our heads in our basic statistics class, does not demonstrate causality. Quite a number of the studies that I read using structured equations end up with charts where the arrows create ovals, but then, a circular relationship is not surprising when we study a small number of related variables. Validating a causal model through purely statistical means is impossible. We use statistics as a measurement of 'error' to see if rejecting our model can be justified; interestingly, prediction is not an end in itself.

Thoughtful managers and analysts focus on stakeholder value as the key to an organization's survival and sustainable growth. Using shareholder value as anything other than a component of stakeholder value is an indication of a failure to comprehend reality.

Given the tools we are taught to use in academia and the all-too-prevalent attitude on the part of those who have completed a Ph.D. that it is an end in itself rather than an indication that, in the future, we may have the capability to do something useful to advance knowledge, I am not surprised to see the idea of 'shareholder value' being promulgated by us academics.

Shareholder value is a subset of the contributors to value-based management which is basically a philosophy enabling and supporting maximum value creation in organizations. Shareholder value is sometimes called 'Economic Value Add' to hide some of the connotations of greed.

If we understand the study of economics, a discipline that is still generally taught using textbooks based upon theories derived from the study of systems developed by Northern European white males, then we begin to understand some of the fallacies of 'shareholder value' as an economic concept. If we use Jeremy Bentham's 'Principle of Utility' as a single simple rule, "Act so as to produce the greatest good for the greatest number,"[14] then we can take the first step in understanding shareholder value as being a short-sighted, short-term-oriented principle upon which to base management decisions. Thoughtful managers and analysts focus on stakeholder value as the key to an organization's survival and sustainable growth. Using shareholder value as anything other than a component of stakeholder value is an indication of a failure to comprehend reality.

Stakeholder Value

Conventional wisdom in most countries with a market economy suggests that companies should pursue economic profitability. However, if one were to poll the general population, I am convinced that the majority would indicate that organizations also have certain social responsibilities. Profitability and responsibility can and should be combined. Some believe that these goals are at least partially contradictory but, actually, they are not. Businesses must be profitable to survive and corporations must earn a higher return on the shareholders' equity than would be realized if the money were deposited on a no-risk bank account. However, few investors are speculators; hence, profits that are made and distributed to the owners should create and sustain the investor trust and this is usually reflected in higher stock prices. Higher stock prices make it easier to finance growth. Profits are both a result and a source of corporate competitive health and wealth.

On the other hand, when companies use techniques such as 'strengths-weaknesses-opportunities-threats-action plan' analysis, a strength that always turns up is 'our employees.' Companies are networks of people working together towards a shared goal. Employees represent a major part of the value of any company realized in the development of the concept of 'intellec-

tual capital.' To motivate people to work hard for the interests of the company, a level of trust in the company must be inculcated in them; they must feel valued. Similarly, it is important for trust to develop between the organization and its external stakeholders, customers, suppliers, government, and special interest groups. Such trust can only grow from the perception that the interests of all individuals and stakeholders are being taken into account.

The 'shareholder value' perspective emphasizes profitability over responsibility and sees organizations primarily as instruments to increase wealth of its owners through various utilization of capital and other corporate resources. The 'shareholder value' proponents believe that an organization's success can be measured by such things as share price, dividends, and economic profit, and see stakeholder management as a means rather than as an end in itself. Social responsibility is not seen as an issue for the organizations and a society is best served by organizations pursuing self-interest and economic efficiency. The 'shareholder value' philosophy is aware of the necessity of meeting demands placed on corporations by other stakeholders than the shareholders. However, recognizing that it is expedient (instrumental) to pay attention to the stakeholders does not imply that it is the corporation's purpose to serve them. The view is that the purpose of a company, first and foremost, is to maximize shareholder value within what is legally permissible. Responsibility for employment, consideration of local communities, the environment, consumer welfare, and the development of society are not organizational matters but are the responsibility of individuals and governments. By pursuing self-interest and maintaining market-based relationships between the corporation and all the stakeholders, maximal value for the shareholders would result in societal wealth being maximized.

The 'stakeholder values' perspective attempts to balance social responsibility and profitability and sees this responsibility as serving all parties involved. The advocates of stakeholder value believe that an organization's success should be measured by considering the needs of the stakeholders and stakeholder consideration should be seen as end and means. They consider social responsibility as an organizational issue and claim that the society is best served by pursuing a symbiosis between the company and the society. A company is not an instrument of the shareholders but a coalition between the various resource suppliers with the intent to increase the wealth of each. The advocates of this perspective do not consider shareholders as having a greater claim on the organization than the providers of other resources. Recognizing the claims by the stakeholders other than the shareholders introduces values other than financial in the spectrum of goals to be pursued by the organization. Stakeholder management is not merely instrumental in creating shareholder value; it is, in fact, a social norm. By developing strongly motivated employees and nurturing high levels of trust with all parties concerning the organization, it is not only more just in pursuing the combined interests of all the stakeholders but would also maximize national economic and societal health.

Stakeholder management is not merely instrumental in creating shareholder value; it is, in fact, a social norm. By developing strongly motivated employees and nurturing high levels of trust with all parties concerning the organization, it is not only more just in pursuing the combined interests of all the stakeholders but would also maximize national economic and societal health.

The analysis of shareholder value is yet another attempt to study a variable in isolation and then attempt to generalize findings concerning the variable to an explanation beyond its ability to explain. Actually, the development of shareholder value 'analysis' as a goal for sustaining growth of an organization derives more from rationalization than experimental results.

Sebastian Morris

That managers of firms have a responsibility that goes beyond the owners and from thereon to the community and public in general is a position that has become fashionable today. When made more explicit, the argument takes the normative form that business/ firms have a corporate social responsibility. This is not only intellectually unsustainable and inconsistent but is also

dangerous to the society and the economy. The practice of CSR can hurt the workers and the employees of a firm. We list the speciousness of the position of CSR in what follows:

- The manager is an agent of the owner. The agency problem, viz., that the principal cannot completely control the agent if a complex primary task has to be performed, does not, therefore, give the agent the license to bring in an agenda other than that of the owner. The only way one can fundamentally argue against this position is to say that firms (legal persons) have an existence that is prior or equal to that of the individuals (real persons) so that the task of the firm now becomes one of existing and survival subject to the constraint of keeping shareholders happy as much as keeping the workers happy or compliance to laws. The financial aspect of this would be that retained earnings are the *raison d'etre* for firms rather than distributed profits or growth. In existential terms, this would mean giving 'life' to firms not at the will of individuals but on a new kind of 'natural right' of firms now that there are many large and complex firms. Clearly, when stated that way, the untenability of the position that managers are more than agents is revealed starkly.

- A counter point could be that if one introduces 'time,' the notion of profit maximization is problematic: Given the strategic nature of many (but not all businesses), the introduction of time (i.e., the recognition that principals may want their values to be maximized in the 'long' run) creates a leeway between actions and their consequences. This makes it 'difficult' to maintain a clear distinction between the agenda and the tasks that help to maximize the profits in the long run from others that are either not the objective nor an instrument to the objective of the principal. Therefore, it can be argued that the status of the manager as an agent is problematic. But, from there to take the position that managers are, therefore, not agents is akin to arguing that because nobody can draw perfect circles, we should not be drawing circles at all.

> That managers of firms have a responsibility that goes beyond the owners and from thereon to the community and public in general is a position that has become fashionable today. When made more explicit, the argument takes the normative form that business/firms have a corporate social responsibility. This is not only intellectually unsustainable and inconsistent but is also dangerous to the society and the economy. The practice of CSR can hurt the workers and the employees of a firm.

- In any case, a more studied view of the aspect of time is revealing. The complexity of the tasks of the top management given the possibility of strategy (this was not always the case; as when in early capitalism, competitive firms were small and without much market power) means that multiple paths are possible for the same goal and so the goal cannot be specified *fully* as a rule or a programme at any one point in time. Therefore, to get rid of the goal altogether or to change it to another on that count or even to reverse the goal now casting the original objective as a constraint of a satisficing profit would then amount to rejecting everything else other than what can be prescribed as clear rules and programme without ambiguity. In other words, that there is a play between the actions of the agent and the objective of the principal does not mean that on that count the objective of the principal be given up.

- Of course, principals can have various objectives including contribution to the society. Therefore, should not corporates which are closely held be doing things other than profit maximization? With firms that are entirely owned by a few who also agree to such an objective, there should not be a problem. But, most corporates are not so held. Indeed, today, a significant share of ownership lies with the people and close holding would be rare. The corporates are widely held and a substantial equity belongs to the people who could come from different strata of the society including the poor. After all, pension and mutual funds hold large parts of corporate wealth.

- Even in the case of closely held firms, it is better not to mix up the pursuit of profits with other agenda however laudable they are. After all, the

principals have the option of doing whatever they want out of their wealth. Why should they destroy, render inefficient or weaken the wealth and value creating prowess of the society? For, profit firms are, after all, specialized parts of the organism of the society to create wealth.

- And, that leads us to the economic dimension of the argument: Firms do not constitute the totality of organizations or institutions or entities that constitute the economy. The state and its institutions including the law and regulation, politics, social institutions (norms of behaviour) besides not-for-profit organizations are as crucial as firms-for-profit. Some of them such as the rules and the law have the task of circumscribing the activities of the firms as they seek to make profits. And, development of the society means as much the development of these rules and law as much as the technological and economic prowess of firms.

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- Societies have become organic as they have evolved and have created these specialized institutions. The goodness of societies lies in the totality of the design and the working of the body of society. And, an insistence on 'goodness in the same way' (even if feasible) in every specialized institution is to not recognize the organic nature of the society. Thus, to think that firms that pursue profits vigorously (while adhering to all legal and in some cases social constraints imposed upon them) are evil is not thinking at all. In modern societies, the design itself has evolved both consciously (as in revolutions or when great leaders or elites chose democratic constitutions and local representation) and unconsciously as has happened much of the time.

- A nuance to the above position can be conceded without taking away the argument. Since society itself is evolving and the roles and the institutions have an evolutionary (ascendant) character, should we at this juncture seal the purpose of firms to be that of maximization of profits (from their own stand point)? Especially, when we do not know what the future portends? The flaw in Plato's Utopia was precisely this: That we can attribute a purpose and derive the functional behaviour and desirables once and for all from the need of a society to survive. Surely, we are not saying that the purpose of a society is to make profits. Merely that, at this juncture, when its firms are designed for profits, it is efficient for the society to go ahead with the business of making profits. Who knows — the current small set of not-for-profit organizations could grow into a much larger set as the endowments and the surplus of the society go up. Similarly, since the roles of any institution are never permanent, since the society itself is evolving, the boundaries of the firms are elastic to some extent. Therefore, in the IT world, as the need for firms to have extra-market coordination has emerged (out of the vast consumer side scale and scope economies in the use of software and IT products that all fit well together), relations that go beyond the market have taken root. A good example would be the standard forming process or the mutual subcontracting.

Since society itself is evolving and the roles and the institutions have an evolutionary (ascendant) character, should we at this juncture seal the purpose of firms to be that of maximization of profits (from their own stand point)? Especially, when we do not know what the future portends?

- The managers of the firms, of course, have a role in pointing out and bringing to the notice of the citizens the pitfalls, loopholes or perversities in the current regulation that allow the firms to make rents. Even the abhorrent firms which take advantage of the perversities and the more efficient ones whose technological and managerial competencies allow them leeway to be not worried about rents or the firms led by confident leaders who recognize their social role in pointing out inadequacies in the current rules and institu-

tions, all serve the purpose of making feasible the evolution of the society and its rules.

- The fractured societies with great income inequality resulting in endowments failure that deny participation in markets to many would have firms that relative to such deprivation seem rich and so endowed to play developmental roles. But, such roles intrude into domains that are alien to the firm. Thus, successful FMCG companies and others with much market power are under pressure to do 'something' to overcome the problem and the idea of CSR internalizes this pressure. No good can really come out of this tendency. Actions such as vast donations, setting up action groups to bring about rural development, then, serve merely to cover up or at best to mitigate the problems caused by failure at the core —bad constitution and poorly designed laws, bad policies, and poor governance. On the other hand, a critical examination of the situation to suggest alternatives to the government and the regulator would be in the right direction since it would allow corporates to get on with their business. But, obviously, this requires more courage than the sponsoring of micro actions that attempt to substitute for poor governance. Since the latter approach can also feed the ego of managers and come at a very little cost to themselves, the perversities are large and the real solutions to the problem would be increasingly missed. Is it a wonder then that much CSR arises in firms that have access to rents that arise in government- sanctioned barriers to entry or in poor regulation? On the other hand, since individual fortunes and private trusts are not leveraged, a particular programme for social action has to compete to convince the controllers of these funds that their approach would do 'good.' One cannot expect shareholders who put their money in a firm to vote on the content of CSR.

Actions such as vast donations and setting up action groups to bring about rural development serve merely to cover up or at best to mitigate the problems caused by failure at the core — bad constitution and poorly designed laws, bad policies, and poor governance. On the other hand, a critical examination of the situation to suggest alternatives to the government and the regulator would be in the right direction since it would allow corporates to get on with their business.

The developments since the days of Milton Friedman, when the argument was made originally, are also illuminating. As competition from East Asia and more generally from the developing countries followed the earlier competition from a resurgent Europe in the post-world war period, the market power of the American firms has been waning. It was only the large market power of firms in the sixties and continuing into the mid-eighties that provided the economic wherewithal for indulgence in CSR. Often, such 'responsibility' had, as its necessary obverse, monopolistic pricing in international markets and gun-boat diplomacy especially by national resource-seeking related multinationals in oil and minerals. Similarly, the transfer price at which drugs were sold by American principals to their affiliates could have been as high as 2000 per cent. Clearly, the spending of a Pilkington in the immediate locality of its headquarters in the UK was based on higher levels of profitability in global markets that it operated in. Has not much of CSR really meant the retention of the national identity of firms which operate globally but spend locally? Isn't this reactionary when the world has the economic, organizational, and institutional potential to really become global with firms playing the leading role? (Since it is always technology and the economic factors that ultimately drive and change society.) In a raid on the London market c.1983, the Malaysian Government took over Sime Darby, an MNC headquartered in the UK but having much of its business in Asia especially Malaysia. The first thing that the new managers did was to fire a humongous board in London that did little else but play golf and go on luxurious holidays globally and also contributed to the city of London through various donations.

So, what do we teach in business schools? Clearly the theory and models including the principal agency and optimization perspectives have a role in furthering the understanding of managers. Just because a model works (helps in understanding or is useful) does not

mean that the behavioural assumptions of the model become norms. This is to make the mistake of supposing what it (or really what is assumed) should be. What managers should do cannot beyond a point be suggested in the classroom. The variations in the ethical position of people including managers would ultimately determine what they do — whether they would use the little discretion that they have in the play between the objective of the principal and the tasks that they need to perform, to do 'good' in the obvious sense or to exploit the same. Remember that 'goodness' at the level of firms is not necessarily goodness for the society as a whole. Even the bad manager who uses the play to feather his own nest as in the case of Enron provides the break for society to relook at its rules and institutions for the better. And, that function is best served by not insisting on bringing an agenda other than the pursuit of profits on to the firms. Firms are merely organs of societies charged with a particular purpose which in itself cannot be good or bad. Punishing managers who exploit the loopholes or violators is, of course, a part of what the society needs to do. But, even more importantly, the society needs to work towards better rules and institutions that are incentive-compatible and robust. Since specialization of institutions is inevitable, creative actions that further 'goodness' actually lie in the design of interfaces, developing new institutions, and improving the performance of specialist organs given their primary task and not in bringing multiple agenda on to specialized institutions like the profit-seeking firms that have been at the core of our development and an extension of humanism to all people. Was it not the acceptance of the idea of the stakeholder view of business that destroyed the potential of US Steel to adjust to the changed circumstances and thereby dashed the (false) hopes that the idea engendered in the minds of workers?

Clearly, one cannot teach erroneous beliefs just because they are popular. Therefore, we need to teach what are not erroneous (not necessarily true) while being open to critiques of these beliefs and perspectives. Accepting Ghoshal's agenda would be a recipe for disaster. The best that can be said about it is that it is akin to taking the position that knives should all be blunted because they can sometimes hurt.

Clearly, one cannot teach erroneous beliefs just because they are popular. Therefore, we need to teach what are not erroneous (not necessarily true) while being open to critiques of these beliefs and perspectives. Accepting Ghoshal's agenda would be a recipe for disaster. The best that can be said about it is that it is akin to taking the position that knives should all be blunted because they can sometimes hurt.

Sendil K Ethiraj

The modern public corporation is arguably the principal engine of economic growth across the spectrum of industrialized economies. To place its importance in perspective, in 2004, about 59 per cent (US$ 6 trillion) of the contribution to the national income (US$ 10 trillion) in the US came from domestic public corporations. If we believe that the survival and dominance of the corporate form is a historical consequence of competition among the alternative legal forms of organization, then, its superiority is hardly in dispute. The cornerstones of the corporate form are the separation of ownership and control and the shareholder as the residual claimant. The manager is viewed as the custodian of shareholders and is required to act at all times in the interests of the shareholders. In this respect, the fiduciary duty of managers to shareholders is something we take for granted and is not a principle I will argue against. That said, is the principle of shareholder value maximization a necessary and sufficient guide for managerial action in the corporate form of organization? I will argue in the rest of this note that it is more a statement of value than a practical guide to managerial action.

For shareholder value maximization to be a 'sufficient' guide to managerial decision-making, it should be true that the universe of managerial actions and decisions can be seamlessly arrayed against their marginal contribution to shareholder value. In such a case, the manager can choose actions from a matched vector of decisions and their consequent shareholder value payoffs. Unfortunately, empirical evidence on managerial decision-making suggests that this is far from true. As a case in point, Meyer (2002)[15] notes that there is an increasing proliferation of intermediate performance

measures in organizations. One organization reportedly evaluates its managers on 117 performance measures (Meyer, 2002). If shareholder value maximization provides a unitary and unambiguous guide to managerial decision-making, then we would not need 117 performance measures to channel managerial action. Further, multiple performance measures will be superfluous if the measures themselves are positively correlated. Only if the measures themselves are uncorrelated or even weakly negatively correlated would the multitude of performance measures provide any real value both in guiding effort and in evaluating it.

Consider, for instance, the role of the top management of a public corporation. On the one hand, it represents shareholder interest and, on the other hand, the same top management is often also the trustee of the pension fund of its employees. Thus, the same set of individuals has a fiduciary duty to both its shareholders and its employees. Consider a thought experiment. The management receives some information that has economic value. Should this information be used to benefit the shareholders? Should this information be used to benefit the pension plan? It is not difficult to visualize cases where the same information cannot be simultaneously used to benefit both the shareholders and the pension plan. While one might argue that such conflicts of interest can be easily solved by separating the role of pension fund trustee from that of managers, the fact of the matter is that the managerial life is full of numerous such conflicting roles. Not all such conflicting roles can be even easily identified let alone solved by design or legislation.

It is neither clear that managerial actions can be evaluated against global principles such as shareholder value nor is it evident that such actions map to a sanitized set of positively correlated intermediate goals. Business school curricula should recognize both the irreducibility of decision-making to global goals and the often conflicting goals that is the reality of managerial life.

Furthermore, research across a variety of disciplines has repeatedly demonstrated that individuals face significant difficulty in integrating outcomes across disparate goals such as that illustrated above. Indeed, individuals have been found to struggle with even relatively simple mental accounting tasks such as integrating over the most fungible of assets — money (Thaler, 1985;[16] Heath and Soll, 1996[17]). Individuals 'bracket' their financial outcomes both temporally (budgets for months, years, etc.) and across categories (entertainment, dining, clothing) and treat their budgets, expenditures, unexpected gains and losses across time and categories separately (Thaler, 1999[18]). Clearly, the task of integrating across qualitatively distinct outcome categories is a vastly more challenging task. The capacity of simple linear models to beat the judgment of experts is a testimony to this fact (Dawes, 1979[19]). The reasons for this are numerous ranging from the difficulty of reducing diverse goals to a common baseline that permits seamless aggregation, the difficulty that people have in distinguishing valid and invalid variables, and the development of false beliefs regarding the associations among variables (Dawes, Faust and Meehl, 1989[20]). If this research is taken seriously, it suggests that managers, even if they are capable of dealing with intermediate performance targets, are unlikely to be effective in aggregating across them to attain the idealized goal of shareholder value maximization. So, what does this mean for what we should teach in business schools?

While I do believe that it is important to continue to teach and emphasize the idealized principle of shareholder value maximization in business schools, we also have a responsibility to recognize the realities of managerial decision-making. Assuming that reconciling the often conflicting managerial trade-offs is trivially accomplished by managers on the job is negligent at best. As business schools at the forefront of designing, discovering, and disseminating effective managerial practice, it is our responsibility to recognize the power and limits of managerial decision-making. Teaching our students that shareholder value maximization is a sufficient statistic for decision- making is simplistic and ignores the large volume of research across the length and breadth of social science. It is neither clear that managerial actions can be evaluated against global principles such as shareholder value nor is it evident that such actions map to a sanitized set of positively correlated intermediate goals. Business school curricula should recognize both the irreducibility of decision-making to global goals and the

often conflicting goals that is the reality of managerial life. Our education system must expand to embrace both realities.

Jayanth R Varma

What should be the stance of B-Schools regarding teaching of shareholder value maximization, ethics, and social responsibility? Each individual faculty must perforce grapple with these dilemmas but I believe that the B-School itself cannot and should not have a stance on these issues at all. It is the very essence of a vibrant academic institution that it provides an environment for a healthy debate between opposing viewpoints. When it ceases to do that and imposes a particular orthodoxy on its faculty and its students, it becomes nothing more than an indoctrination camp bereft of any moral legitimacy. The struggle between shareholder and stakeholder views of governance is no different from similar struggles between classical statistics and Bayesian statistics, between Keynesian economics and monetary economics, between the efficient market theories and behavioural finance and so on. In all these struggles, the B-School cannot afford to impose a choice. It must instead allow individual faculty members to articulate their positions forcefully and unapologetically. Each student must then make his or her own choices knowing fully well the arguments that have been marshalled for and against each position.

Therefore, I believe that the relevant question is how an individual B-School faculty should deal with these dilemmas. In the rest of this piece, therefore, I shall answer that question forcefully and unapologetically. I believe, we must emphasize the shareholder perspective very strongly and remind the students that this is not a morally neutral position at all. On the contrary, it is simply a corollary of the near universal moral imperative that we find in almost all civilizations and cultures — "Thou shalt not steal." The resources that managers control are not their own; these are the resources entrusted to them by the shareholders. When managers devote these resources to their pet charities or their favourite social goals, they are being generous not with their own money but with other people's money. And this is, at bottom, no different from theft. In this sense, shareholder value maximization is the sole objective of any ethical management; anything else is simply unethical.

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Considering this view, it is clear that managers should not pursue shareholder value maximization through unethical means. "Thou shalt not steal" not only forbids managers from the stealing from shareholders, it also forbids managers from stealing on shareholders' behalf. There is no need to bring in a stakeholders' perspective to arrive at this conclusion that managers must be ethical.

On the contrary, it is important to explain to the students that for unethical managers, the stakeholders' perspective provides a convenient cover for their own unethical attempts to defraud their shareholders. Much of the alleged conflict between the shareholders and other stakeholders is a smokescreen behind which corrupt managers conceal the conflict between themselves and the shareholders whose fiduciaries they are. This is why agency theory provides such a realistic description of the real world where ethics is in short supply. The world of Enrons, Tycos, and Worldcoms is best described by the agency theory. When I read the late Sumantra Ghoshal's bitter critique of agency theory at a deeper level, I find that far from being a critique, it is actually the highest praise that one can bestow on any management theory — namely, that the theory is an accurate description of the real world. Ghoshal's critique amounts to saying that he does not like this real world; that he wishes that the real world were different; and that business schools may actually succeed in creating a different world which is more to Ghoshal's taste.

Yes, we can do that. We can teach our students to help build a better world. Not by denying reality but by understanding it well enough to change it. We train

not only corporate managers but also investment managers and would-be corporate raiders who can use the insights of the same theory to discipline corrupt and unethical managers. We can train our students to cut through the empty rhetoric of stakeholder theory to see fraud as fraud and fight the ills of capitalism with the weapons of capitalism itself. As B-School faculty, that is the best contribution that we can make.

SECOND ROUND RESPONSES

N Balasubramanian

On Individuals and Institutions

Jayanth Varma makes an important distinction between the individual teacher and his or her institution, an issue that needs to be highlighted in this discussion. Teaching institutions derive their authority and credibility on the basis of the level of academic independence that obtains in their portals; any 'party line' approach to an issue erodes such freedom of intellectual thought and expression and eventually leads to straight-jacketed regimentation that is far more appropriate to a hierarchical organization than an academic institution. It is not unlikely, though, that an educational institution gets identified with a body of views of its academics, especially if their thinking happens to be in concert, and even more importantly, if some of them also happen to be famous or high-profile! In such cases, the institution can become the beneficiary or victim (as the case may be) of such confluence of thinking. It must be emphasized that even in such instances, a divergent view, may be of a minority, is not precluded, although it might attract an uncharitable 'contrarian' label. The critical policy issue to focus upon from an institutional perspective, though, is to ascertain if the curriculum designing and approving authority within the institution, especially for the 'core' or mandatory subjects business schools teach, not only encourages but enjoins full coverage of alternative approaches to any theories included for instruction. It should be the prerogative of the individual teacher to decide whether, in addition to discussing all relevant approaches, he or she should also argue in favour of a preferred approach.

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On Teaching Business Law

Business is about contractual relationships between parties and transactions. Every country has certain basic legal systems relating to various types of contracts and business organizations like the modern day corporation. An appreciation of business law is essential to do business within the acceptable legal framework (the cynic may suggest, even for designing transactions outside that framework!). Business law (and indeed business ethics and social responsibility) is to an MBA what systems software is to a computer configuration. It is sad that the curriculum of several business schools do not provide for enough 'core' inputs on business law. The result is that business graduates go out into the marketplace hardly knowing, for example, the difference between guarantees and warranties, anything at all about patents, trade marks, and other intellectual property issues. Surely, one is not advocating that MBAs be converted into legal wizards but they should at least know enough to identify a legal issue when they see or sense one so that they could turn to an expert legal counsel for advice. Srilata Zaheer places business law on the same footing as engineering and questions why these highly technical and specialized subjects should be taught in business schools. This question could also easily be extended to subjects like accounting, taxation, banking, and many others, which are all equally technical and specialized and are currently being taught in the business schools. The compelling reason for including these in the curriculum is the fact that the conduct of business

in real life demands a basic understanding and appreciation of these disciplines. A field or a subject as a core business by itself needs to be distinguished from a subject taught as an adjunct to operating other businesses; law schools will teach the subject from the perspective of a professional specializing in law, likewise, accountancy for a professional accountant, banking for a professional banker, engineering for an engineer, and so on. On the other hand, knowledge of many of these subjects will be required at an appreciation level to run any kind of business and it is at that level the business schools should teach those subjects. The system of electives currently operating in business schools curricula adequately caters to the varying need-levels of students. Beyond that, one, of course, has to seek a much deeper understanding from specialized institutions and business schools certainly are not geared, and may not attempt, to offer such advanced instruction. (Even here, possible exceptions could be doctoral and post-doctoral level programmes in the business schools but those are not the focus of this discussion.)

On Teaching Ethics

Literature is replete with scholarly inquiries into topics like whether ethics as a subject could be taught at all, whether unethical corporations prosper on a sustainable basis, and whether differential ethics is required to suit different geographies and time periods, and so on. It is true that ethics eventually is individual-centric. Corporate ethics is a function of what individuals at the top collectively ordain for their organization and the zeal they exhibit to ensure that their philosophies are embedded in their business processes and decisions. To the extent we accept that there are 'right' and 'not-so-right' ways of doing business and reaching desired bottom-lines, there is a strong case for teaching ethics in business schools. Far too often, especially after the event, corporate misdemeanours are lamented upon by 'markets' as well as governments usually followed by a flurry of legislative or regulatory over-reactions. Almost invariably, the diagnosis tends to zero-in on the declining levels of moral and ethical behaviour of those in authority, whether they be the all-powerful CEOs or the indifferent independent directors on their boards. Ironically, this itself is the strongest justification for ensuring that basic ethical principles are taught to the would-be corporate tycoons. Whether this would turn every corporate manager into an ethical person is open to debate. Some are inherently ethically-oriented, while some others are equally strongly inclined the other way. It is possible that fresh ethical inputs may not be needed for either of these two categories of business school students. But, I would argue that there would be a large population of would-be managers who hover between these two extremes. I would speculate that it is worth our while as teachers to try and inculcate good ethics to this impressionable and sizeable group of students. Even if a small proportion of this group leaves the business school with a more ethical frame of mind, I feel the teaching community would have done its bit to make this world a slightly better place to live in.

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There is an argument advanced (as indeed also suggested by Professor Romie Littrell in his contribution to this colloquium) that ethical values, such as they are, are firmly entrenched by the time people go to business schools and hence, by inference, teaching ethics is not functional. This is perhaps valid to some extent, especially in countries where managers go to business schools after several years of business exposure. Countries like India have a different experience: a large, though slowly diminishing, proportion of student intake in business schools comprises relatively 'green' students with little or no business exposure. Age profile at entry is also relatively low; most of the students come from middle to upper-middle class backgrounds where, thankfully, moral and ethical val-

ues, at least at home, are still quite strong. I would argue that the target group for fruitful ethics instruction, in such circumstances, is quite large and hence, there is every case to offer strong ethics inputs in such countries. Even in the case of more mature students, I am inclined to believe that entrenched views could change due to superior or inspired instruction as much as through peer-pressure and peer-comparisons. Many good managers end up doing wrong things. It is not that they do not know what is right but just that they could not do that, very much like the arch villain, Duryodhana, in the Indian classic *Mahabharata*, who confesses: "I know what is proper, but I am not able to do it; I know what is improper, but I cannot stop myself from doing it."[21] If managers could learn from a peer group in a classroom environment that it was possible, that others were doing it all right and were yet in business making healthy returns to their shareholders, there is a possibility that they would begin thinking about doing the right and proper things and eschewing the wrong and improper things in their business circumstances. Teachers should be pleased that they have added some more managers, however small in number, to the population of the converted, and thus taken one more step in the journey towards a better corporate and business world.

On Teaching CSR

Jayanth Varma makes the insightful point that the dictum "thou shalt not steal" applies to managers not stealing from the shareholders directly but also extends to them not stealing on behalf of the shareholders such as by allocating corporate resources to their 'pet charities or their favourite social goals.' The point is well made especially in the context of corporate philanthropy, which I refer to, in a lighter vein, as largely the application of the 'chairman's mother-in-law syndrome!'[22] Srilata Zaheer seems inclined against corporate philanthropy, *albeit* for different reasons, but, more importantly, favours a process of 'listening' to stakeholders, especially the employees, in the event of such philanthropy. As I have mentioned before, CSR is much more than corporate philanthropy. It connotes the internalization within the managerial decision-making processes of an organization of responsible principles and policies that are ordained not necessarily by legislation or regulation but by general consensus within societies as goals to be achieved. Being an 'equal opportunity employer' is not prescribed by law but is considered a 'good' practice to be followed; ensuring that the outsourced contractor complies with labour-related requirements such as employee insurance coverage or operating within permissible hour of work, etc., even where required by law but not strictly enforced in practice, is a conscientious responsibility of the corporation. Surrogate advertising for products and services to circumvent legal injunctions is not good corporate behaviour as is the case of printing mandated cautionary warnings in unreadable fine print or speeding up such alerts in audio-visual advertisements on television to an extent that listeners are not able to follow what is being said. I believe that taking advantage of poor enforcement machinery in a country to subvert legal regulations in spirit (no pun intended!) if not in letter is a socially irresponsible corporate behaviour and that needs to be appreciated and eschewed. Returning to the "thou shalt not steal" analogy, when something does not belong to a person, in my opinion, there can be no stealing of that property from that person. If a corporation cuts corners in matters of legal compliance or erodes its 'reputation' by not following socially accepted best practices in business behaviour even if, in the longer run, impairing its own competitiveness when accessing markets (capital, employee, product/service or inputs), any wealth created by such action is not legitimately earned and hence does not really belong to the shareholders. Corporations strictly following such good principles and, thereby, in the short run apparently eroding current profits, I argue, cannot be labelled as 'stealing' the shareholders' money to that extent. This, I believe, is what business schools should teach their students: CSR is not about charity, CSR in the real sense is behaving as a responsible corporate citizen, complying with its laws and regulations even if their enforcement is weak, and it is really in the longer term interests of the shareholders since the corporation

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would enhance its reputation and thereby enhance its competitiveness in different markets which will eventually lead to sustainable wealth creation for the shareholders.

On Teachers' Responsibility

Teaching has at least two dimensions: First, dissemination of all available theories, propositions, and insights culled from empirical observation in practice; second, advocacy of any particular viewpoint strongly held or endorsed by the teacher from among the alternative approaches available or even going beyond them. Allowing for reflection, debate, and personal choice is essential to convert this body of knowledge into deeply assimilated wisdom which in itself is a long process of experiential learning; the teacher could help the student to make a beginning in that arduous journey. Humility is a great virtue which unfortunately is in tremendous short supply. No one, least of all MBAs, is omniscient or omnipotent. Neither should business school teachers arrogate to themselves a position of such invincibility. This is extremely important since, whether one likes it or not, very often, teachers tend to be taken as role models by a majority of students. Besides equipping students with various adjunct skills they will need in business, teachers should encourage them to become good 'managers' which would involve motivating capabilities and leadership qualities. Henry Mintzberg articulates this view very well when he says: "Managers can (not) be created in a classroom. You take people who are managers, who understand the managerial situation and who understand organizations and then you build on that."[23] In the Indian situation, where a majority of management students come with little or no business experience, this would mean equipping them with the skill sets, simulating business situations in the form of cases, and creating an enlightened awareness of motivational and leadership literature and experiences so that they can graduate into good managers with appropriate exposure in the rough and tough world of business. While this is, in a sense, a challenge to business school teachers, it also provides a golden opportunity to prepare and equip students with inputs of 'good' principles of management, the important components of which would undoubtedly be business ethics, CSR, and other rules of the game which have to be obeyed even while striving to maximize (or optimize?) shareholder wealth. Finally, business school teaching and learning, as indeed all education, should be a collaborative and mutually rewarding experience. An ancient Indian scriptural invocation dealing with student-teacher collaboration pithily expounds this principle: "May He protect us both; may He be pleased with us both; may we work together with vigour; may our study make us illumined; may there be no dislike between us." [24] Adapted to modern business school education, this would support the view that students should be exposed to various, often divergent, approaches to business issues, the student and the teacher should collaborate in promoting a better understanding of the subjects, and there is no place for one-upmanship in this joint endeavour of knowledge transmission.

Teaching has at least two dimensions: First, dissemination of all available theories, propositions, and insights culled from empirical observation in practice; second, advocacy of any particular viewpoint strongly held or endorsed by the teacher from among the alternative approaches available or even going beyond them. Allowing for reflection, debate, and personal choice is essential to convert this body of knowledge into deeply assimilated wisdom which in itself is a long process of experiential learning; the teacher could help the student to make a beginning in that arduous journey.

Sebastian Morris

One of the constructs that some of the participants of this colloquium (Littrell, Balasubramanian) have put forth in an attempt to buttress their position is the notion of the 'stakeholders' of the firm that consist of many others besides the shareholder — workers, community, government, possibly consumers, and many others. Once the idea that firms have many stakeholders is swallowed, then the idea of CSR (and profits for survival) seems logical. The problem is with the idea itself. The idea of multiple stakeholders is a situational convenience used by middle managers at particular junctures to manage the many dissonances and contradictions that are rife

at that level (administrative or managerial decisions, Ansoff, 1965[25]) in firms. Thus, when middle managers are given a particular task, say, to manage a division or a function, then the complexity of the task (which is Ethiraj's point) means that there is no unique way in which the task can be carried out. In such situations and especially when there are no measures for the 'task-in-progress,' it makes sense to work towards consensus and motivation through the notion of the stakeholder. But, that is a limited reality which can only become a myth (or a dysfunctionality) when extended to the strategic and top management decisions of firms. Surely, firms should not be operating in high cost locations out of concern for the local community when they have other cheaper options. Firms can and should dump products and markets, change locations, hire and fire workers and also managers, take over other firms, shed portions, all to enhance the value they create for the society. Firms also die (indeed must be allowed to die) and new firms are created especially when technological change is rapid. Only in the totality of the society can either survival for its own sake or goodness be sought. The analogy of all members of a family or of a band being its stakeholders cannot be extended to firms in the very same sense and much of the mischief arises from this lazy extension. After all, firms, as we have argued, are creations of society just as much as markets, rules, institutions, and other organizations are and all have their roles. And, though roles have been changing, they have clearly been in the direction of greater differentiation (and separation) and specialization with the integration taking place at levels external to the firm and particular organizations.

Once the idea that firms have many stakeholders is swallowed, then the idea of CSR (and profits for survival) seems logical. The problem is with the idea itself. The idea of multiple stakeholders is a situational convenience used by middle managers at particular junctures to manage the many dissonances and contradictions that are rife at that level in firms.

Similarly, the description of the managers' situation as attempting to maximize the profits of a firm (while adhering to all laws and socially accepted mores) is quite different from the idea that a firm has multiple objectives (the CSR position). How does one weigh the multiple objectives? Forced into using the language of multiple objectives, I would claim that the CSR proponents implicitly and explicitly give to the manager the choice of weights urging upon him through moral suasion to do what seems to be good. In that sense, they are like preachers who urge people to do good. Social scientists and those worried about the design of society and the economy cannot leave the matter of goodness and justice in the society to the goodwill of managers and to moral instruction. They need to create the mechanisms (incentive compatibilities) that are consistent with goodness and justice in the society. Asking managers to determine the weights is to place on them an unjustified load. It would also result in perversities and could amount to theft (Varma), since this is nothing short of usurping the role of the society and the state by the manager. When laws, commitment to welfare of employees, and the locality are recognized as constraints (or hygiene factors), the objective remains meaningful and capable of being operationalized by the managers to allow firms to play their specialist roles in the society — that of value creation. It is not correct to talk of multiple objectives but only of a single objective constrained in many ways.

An important question that somehow got missed is: Is social value maximization achieved when firms maximize profits rather than add value (i.e., all factor earnings)? When factor markets function effectively, profit maximization can be shown to maximize social value in a static sense, i.e., when technology itself is not changing. No one has shown formally the same in the general case of technological change, and so, the case of moderating profit maximization to allow for a seemingly risky research and development expenditure cannot be rejected. But, that in no way justifies CSR although it weakens the idea of profit maximization in the microeconomists' sense. Other situations where the two deviate are well understood — in instances of market failure and endowment failure — both of which require the state to intervene in a variety of ways—regulation, sometimes public ownership, newer ways of defining property rights to enlarge the ambit of markets, constructed markets as in electricity today. When there is disguised unemployment in society, profit maximization *per se* would not ensure social value maximization and value added maximization has to be directly resorted to. This is the

basis for state intervention in late industrialization. Redistribution of the states to overcome endowments failure is also justified. The successful (late) industrializers of the 20th century have done this through investments in education and through land reforms. Neither market weaknesses nor the need for inter-firm relationships justify other objectives than that of profit maximization though the sense in which the same is understood has moved considerably from that of static economic analysis. Many 'seeming' deviations have been successfully understood by incorporating into economic analysis and models the ideas of information, its asymmetries, and cost.

Ethiraj makes a valuable point in drawing attention to the complexity that surrounds the managers' decision so that a reduction of his actions into a template is not possible and hence of the need and functionality of the intermediate targets. While the role of intermediate targets within organizations is important, these are contingent and cannot be absolute. These are endogenous to the situation and the firm and part of the task of management is to itself create these measures. Having created them, they are only as good as they are useful and part of the art (and science) of management is to choose or design a set that is relevant. Managements that ritualize and objectify performance measurement for its own sake lose out and die at least in a Darwinian sense if there is sufficient competition. If these contingent measures are allowed to take on a life beyond their legitimate use, then managers are asking for trouble. And what may have allowed such a thing to happen is the large slack in organizations under non-competitive or monopolistic situations. Wise managers are able to think strategically and in ways that are not easily modelled on the lines of optimization models. But, nobody is saying that the agent has a cut-out simple algorithmically describable task laid out for him. If that were the case, he would be a mere instrument not an agent and the question of what the agent should do would not arise.

The most important learning that we can impart to any human in the true spirit of science is that there is much that we do not know and that there is no absolute knowledge and so we must take recourse to thought and observation with vigour and not shy away from truths in the name of goodness and balance. This is not to deny the role of values and balance but their true place needs to be understood and not assumed *ad hoc*. Hence, while there is a role for the study of ethics, moral education should not be a part of B-Schools.

Littrell takes the issue with social scientists for the enchantment with the 'scientific method.' Strangely, unlike scientists, it is the social scientists who seem most concerned with *the method* believing that in either being empirical or theoretical (constructing formal systems), they are being scientific. Physical scientists do not have any method as such: what they practice is the subjection of all they do to the falsifiability principle. Parsimony, while a value, is not above the former. Reductionism, while it has worked in a wonderful way in the physical sciences, still has its *ad hoc* territories as in the transition from chemistry to biology or from physics to chemistry. I am in full sympathy with Littrell that social scientists in attempting to imitate the form of reductionism have hurt the development of disciplines. Thus, macroeconomics may have been hurt too much by the insistence on microfoundations when, in contrast, chemists went ahead with their own axioms and primitives which only much later were explained by the physics of chemistry. But, neither reductionism nor holism constitutes the 'scientific method.' Indeed, there is no identifiable scientific method. Physical scientists would concur. The methodological fixation of the social scientist on the form but not the philosophy is, of course, at the root of the rather poor success of the social sciences. This is so especially in both 'grand theory' and in the 'abstracted empiricism' (Mills, 1959[26]). Principally, social scientists need to subject themselves to falsifiability in the sense of Karl Popper. 'Realism' of theories (presumably of their assumptions) cannot be used to evaluate theories. That must entirely rest on their ability to predict. Indeed, theories can be useful only when they are 'unreal' as Milton Friedman, Karl Popper, and many others argue. Prediction (in various ways—in terms of patterns, over time and space, and over occurrences, over deviations

from the 'ideal type' (in the sense of Weber), is all that one can and should insist upon in a theory. It is strange, therefore, that the theories whose predictabilities are good are the ones that are attacked by management scholars like Ghoshal.

Coming to the question again of what should be discussed in management education, I would most certainly say that major controversies including the present one (irrespective of the merit of the positions) should not be missed.

The last question presumes that there is or must be a reconciliation. The most important learning that we can impart to any human in the true spirit of science is that there is much that we do not know and that there is no absolute knowledge and so we must take recourse to thought and observation with vigour and not shy away from truths in the name of goodness and balance. This is not to deny the role of values and balance but their true place needs to be understood and not assumed *ad hoc*. Hence, while there is a role for the study of ethics, moral education should not be a part of B-schools. Moral instruction is best done at home during early childhood by the example of parents and others and there is little that can be done to correct warped attitudes later in life.

DVR Seshadri

I would classify the responses broadly as falling at the two ends of a spectrum. At the stakeholder value end are Romie Littrell, Srilata Zaheer, Sendil K Ethiraj, N Balasubramanian, and myself. The five of us may, however, occupy different discrete positions at that end of the spectrum, however. On the other hand, Sebastian Morris and Jayanth Varma have positioned themselves at the other extreme of the spectrum, viz., shareholder value maximization. I am of the view that unless we as faculty in a business school wake up from our complacency, indifference, and slumber and sensitize our MBA students to the realities of the new world in which they have to discharge their managerial roles, the world as we know today may not exist for very long as it would have been devoured by the beast of shareholder value. In the following, I would like to reflect on the views of these various thought leaders who have contributed to this colloquium.

Unless we as faculty in a business school wake up from our complacency, indifference, and slumber and sensitize our MBA students to the realities of the new world in which they have to discharge their managerial roles, the world as we know today may not exist for very long as it would have been devoured by the beast of shareholder value.

I agree strongly with the views expressed by Romie Littrell which are consistent with my own views presented above. However, I differ from Romie's view that since ethics are already firmly established in the personalities and belief systems of students of B-Schools, there is no need to discuss it in B-Schools. I believe that if these issues is sufficiently emphasized in B-Schools, students will understand their importance. By being silent on these important issues, as we are doing presently, we might be giving them ambiguous and confusing signals. Also, while I agree that business executives must be able to differentiate between good and bad theories, as Romie suggests, the same cannot be said of 21-23 year old MBA students. It is the task of the faculty to help them differentiate the good from the bad and I really do not see the need to soft-peddle on these very important issues.

I cannot disagree more with the views of Sebastian Morris. To suggest that CSR is dangerous to the society and the economy cannot be farther from truth. This opening statement sets the tone for the rest of his thesis. His fourth point, for example, suggests that since equity is widely held, including by the poor, profit maximization can be the only objective of firms. However, this ignores the fact that the really poor have really no voice in the running of the company. It is often the minority shareholders with ability to wrest control of the company that make the vital decisions in the company. The rest of the shareholding is often widely dispersed, no single shareholder from this dispersed, and, although collectively, the group's shareholding may be a significant fraction of the total shareholding group of shareholders has any voice in real terms in the affairs of the company. It is a reality that a large number of shareholders do not get the true and total picture including true costs to society, etc. The vehicle of shareholder wealth maximization, in such a situation of asymmetric information and equally asymmetric power sharing, is a palliative that serves to lull the small shareholder into a feeling that 'everything

is fine.' There are surely short- and long-term costs that the managers are silent about. If this trend continues unabated, the society may not be around for very long in terms of quality of life for all, including for the 'poor' shareholders. Moreover, by definition, a person investing in a risky investment such as in shares is *prima facie* putting his capital at risk, knowing fully well that all of it may be lost. Categorizing such investors, irrespective of the size of their holdings, as 'poor' is totally misplaced. The argument embedded in his sixth point that laws have the task of circumscribing the activities of firms as they seek to make profits is a pipe dream, at least in developing countries like India. The ones with the moneybags are the ones with power in our society and that they can buy anything in the land, including politicians (the law makers), bureaucrats (the law enforcers) and others, is an open secret. Through their nexus with the musclemen of the society, they can also silence any inconvenient voices that come in their way of maximizing profits. In a more disciplined and law-abiding society, some of his contentions may be true, but in the rather opaque system under which we in India operate, I fear that much of what he proposes is out of sync with reality.

To expect the governments in developing countries such as India to change the rules, when practically everyone in position of power can be purchased for a price, is to escape the reality. This is all the more a reason for broadening the horizons of prospective managers in order to sensitize them to the multi-dimensionality as opposed to linearity of their future roles so that the collective wisdom of this 'future ruling class' of corporations comes into play.

His eighth point states that '…at this juncture it is efficient for a society as a whole for firms which have to make profits to go ahead with the business of making profits…' However, this line of argument fails to recognize the difference between efficiency and effectiveness. This is an example of a situation where what is efficient is far from what is effective and in the end effectiveness is what matters. Besides, it also seems to imply that just because someone has the power to maximize profits, he may as well go ahead and do it. The closest analogy that comes to my mind is that of an extortionist, who can, at his will, just because he has superior strength, extract money from the public.

His suggestion that '…the small set of not-for-profit organizations could grow into a much larger set…' is a pipe dream. Anyone who has dealt with some of these organizations knows the perpetual penury under which most of them operate. His ninth point that managers would perhaps educate the public of the possible pitfalls of profit maximization is again wishful thinking, if the nurseries where these managers are groomed, i.e., the B-Schools, pretend that this is a non-issue, as they are currently doing. The power of indoctrination that shareholder wealth maximization is the primary task of a manager, which occurs in B-Schools, appears to be grossly underestimated by him. The tenth point makes it sound as if the issue at hand is between profit maximization and CSR. This is an oversimplification of the problem. The issue at hand is much larger and CSR is a very small part of the missing whole. If B-Schools do not discuss these missing parts, is it small wonder that the business community sees nothing else other than profit maximization as the reason for its existence and all else as needless diversion?

To expect the governments in developing countries such as India to change the rules, when practically everyone in position of power can be purchased for a price, is to escape the reality. This is all the more a reason for broadening the horizons of prospective managers in order to sensitize them to the multi-dimensionality as opposed to linearity of their future roles so that the collective wisdom of this 'future ruling class' of corporations comes into play. The eleventh point is again centred on CSR, in the local area of the corporate's headquarters. Once again, the issues at hand are much broader. Attributing the collapse of the US steel industry to CSR is totally flawed. We have a standing counter example of Tata Steel, which, besides CSR, practises many other essential humanistic values. It is, today, the world's lowest cost steel producer (and, hence, one of the most competitive firms in the global steel business). The management of this company has time and again reiterated that the explicit reason for the company to be doing business in the first place is the more holistic canvas that it seeks to address besides

shareholder value. The analogy of knives used by Sebastian is again out of place. To take a counter position, would a society that distributes knives or guns indiscriminately, without training those who possess them on the right ways of using them, be a safe society?

Srilata Zaheer's views are broadly consistent with my own views. However, her focus is more on what corporates should or should not do rather than what B-Schools should do, which is the topic at hand.

With regard to Jayanth Varma's views, I will have to differ quite strongly. We must not forget that a majority of the faculty who teach at B-Schools are also products of B-Schools themselves. Hence, it may not be possible for them to take a broader perspective if left to the individual faculty, especially on issues such as stakeholder vs. shareholder value maximization, since it is often politically incorrect to take a strong position in favour of the former. Since he has raised the issue of moral legitimacy of stakeholder value quite forcefully, I would like to ask him if the indoctrination that we currently do of the supremacy of shareholder value maximization has any more moral legitimacy. What balanced view can the students of B-Schools take if the only voice they hear is that the reason for existence of a company is profit maximization and the reason for their own existence is to ensure that this happens? I have heard this being reiterated by my students as well as some seasoned managers. This has made me conclude that, currently, the voice of stakeholder value is very much muted. The reality is that through the propagation and practice of shareholder wealth maximization, we are, in fact, encouraging managers to steal from other stakeholders, from the society and from future generations, to name just a few. While Varma's dictum, 'Thou shalt not steal,' rings like music to my ears on the face of it, his forceful support of shareholder wealth maximization, in fact, precisely results in managers doing what he admonishes they should not be doing!

The views of Ethiraj and Balasubramanian more or less mirror my thinking that there is a clear need for broad-basing the discussion agenda of B-Schools and moving beyond shareholder value. The challenge that I see in implementing this, about which they are silent, is the bandwidth of the faculty of the B-schools to present a wide spectrum of ideas covering all the challenging issues that the managers have to contend with in the process of effectively addressing stakeholder value. Once again, given that the faculty have the existing dominant 'shareholder value maximization' paradigm ingrained in their minds by the B-schools where they studied, where will the broad spectrum of perspectives come from? This will necessitate, at least in the short run, that B-Schools mandate this transition from the myopic focus on shareholder value maximization to a broader perspective of stakeholder value maximization. Once sufficient number of faculty is created with this broader perspective, in a time span of 10-15 years, the system can be self-perpetuating.

CONCLUDING REMARKS

Obviously, a debate as this one is not likely to be conclusive. It can only reflect the widely different viewpoints that exist on the subject. The B-Schools need to take a stand on what teaching in MBA programmes should be all about. If everything is strategy, lack of a strategy is not a strategy at all. They need to consciously articulate their position and reflect the same in their curriculum, culture, and incentive and punishment systems. What applies to industrial organizations should also apply to academic institutions. After all, they are organizations! They have to decide on the question famously put by Henry Mintzberg: "Do they want to produce managers or MBAs?"

ENDNOTES

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4 Convocation speech, *op. cit.*
5 Reddy, C Manohar (1999). "Business Education in India," in Balasubramanian, N (ed.), *Management Perspectives: Essays on Managerial Priorities and Management Education*, New Delhi: Macmillan, 192-93.
6 I deal with this subject in greater detail in my article, "Embedding CSR for Competitive Business Advantage," *The Hindu Business Line*, June 13, 2005.
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gard ("The Profit Motive can Work with a Moral Motive," *The Australian Financial Review*, 7, April).
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9 Ghoshal, Sumantra, *op.cit*.
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20 Dawes, R M; Faust, D and Meehl, P E (1989). "Clinical versus Actuarial Judgement," *Science*, 243 (4899), 1668-1674.
21 Quoted by Cyrus Guzder in "Is Ethical Governance Bad Business? Defining the Conscience to Manage," in Balasubramanian, N (ed.) (1998), *Corporate Boards and Governance*, New Delhi: Sterling Publishers.
22 I allude to corporate charities or endowments to specific causes triggered by decision-makers' personal experience or exposure such as a company chairman's mother-in-law dying of cancer leading to a hefty endowment to support cancer research. While by themselves, such actions of individual generosity at corporate expense are welcome since they promote a good cause, the propriety of such actions will always be open to question in the absence of demonstrable evidence of due process of consultation among the company's shareholders (especially those who are not in operational control) and its employees who contribute significantly to the company's wealth-creating efforts.
23 Balasubramanian, N (1998). "In Conversation with Henry Mintzberg and Jonathan Gosling, "*Management Perspectives: Essays on Managerial Priorities and Management Education*, New Delhi: Macmillan,125.
24 This famous and oft-cited invocation appears in the *Katha Upanishad* which belongs to the Taittiriya School of *Yajur Veda*. The translation is from the commentary by S Radhakrishnan, *The Principal Upanishads* (1994) (13th impression 2004), New Delhi: Harper-Collins Publishers India, 594.
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Books are the carriers of civilization. Without books, history is silent, literature dumb, science crippled, thought and speculation at a standstill.

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