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Indore Management Journal

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Reflections on the Higher Education in India[1]

Sudhir Kumar Sopory

My congratulations to all the members of the Indira Gandhi National Open University (IGNOU) for having played an important national responsibility in giving access to education and in increasing the overall gross enrolment ratio (GER) in the country. I was associated with IGNOU in its early days. I was part of the team that designed and prepared the reading material related to plant biology and was a member of some of the committees. Today, of course, I am coming to this campus after a very long time.

IGNOU and the Jawaharlal Nehru University (JNU) have something in common; both are named after great statespersons, visionaries and the former Prime Ministers of this country. Both supported education and science as a means for the transformation of our society. Mrs. Indira Gandhi once said, "Education is a liberating force, and in our age it is also a democratizing force, cutting across the barriers of caste and class, smothering our inequalities imposed by birth and other circumstances". To quote Jawaharlal Nehru "A university stands for humanism, for tolerance, for reason, for the adventure of ideas and for the search of truth. It stands for the onward march of the human race towards ever higher objectives. If the universities discharge their duties adequately, then it is well within the nation and the people". In this context, IGNOU has made a mark in the field of distance education and definitely made a change in educating a large section of society.

The question that we face today is: have we come upto the expectations of our leaders. Being a scientist by profession, I have not done any serious analysis on this topic. I only speak as a general educationist and one who is concerned with various issues related to higher education.

Currently, higher education is imparted to the students of this country through around 550 degree awarding Institutes, 42 central Universities and about 240 state and other universities. In addition, we have a number of IITs and other such Institutes. Despite a massive expansion that has taken place in education in the last plan period, access to higher education is still an unfulfilled aspiration of Indian youth, whose percentage in the total Indian population is ever increasing. Over 5.4 million graduates and 1million post-graduates have the desire to study further. How do we then meet the expectations of our young generation? To meet this demand, private sector has come up to set up new Universities and education institutes; some of these are well established. However, many of these are in the business of teaching, may be good teaching, but most of these are not involved in generating knowledge. Also, these private Universities are not easily accessible to the economically weaker sections of the society.

Accessibility to higher studies is an issue that we have taken seriously at JNU. Our admission policy, right from its inception, had factored in a mechanisms to give access to socially and economically weaker sections. We have also adopted the OBC (other backward class) policy. Our gender policy has also helped us to achieve an equal ratio between girls and boys. We have also developed courses to empower the weaker students with language, communication and IT related skills.

While expansion and accessibility are the issues that have to be dealt with even in the future years, a major concern has been to foster excellence in teaching and research. More than anyone else, this rests with teachers. To create students with the ability to think and innovate, we need to change our course architecture, which is still very rigid. Students have less flexibility to select and choose the courses of their choice. We bind them to a specific stream at a very early age without giving them an opportunity to change at a later stage. We make them choose "Career for life and not life for career".

Even though we have a large number of Central and State Universities, the knowledge generation and research output in sciences, social sciences and humanities is not adequate. Although some of our Universities have shown better results, yet these have

1 Speech delivered at the IGNOU Foundation day on November 19, 2011.

also not been able to make it up to the World ranking Universities. This demands analysis, and some measures from within and without need to be taken towards improvement of our productivity, both quantitatively and also qualitatively. Even in the technology sector, I feel that we have just been trained to adapt to new tools, gadgets and technologies but have failed measurably to innovate except in some of the low-end technology sector. Of course, in the area of space research and agriculture we have made good strides.

To me, excellence and performance will remain a major concern for most of the universities and to overcome this we need to relook at our recruitment and appointment policies at all levels of entry in the teaching and administration. The carrying capacity of each unit should be planned; too thin and too obese organization will always show "disease symptoms". Every component of the university i.e., teachers, staff, administrators and students must be responsible and accountable.

I understand that in the 12th Plan, a major emphasis will be on the teacher who, I feel, is the central figure and cornerstone of education system. Rabindranath Tagore also once remarked "A teacher can never truly teach unless he is still learning himself, just as a lamp can never light another lamp unless it continues to burn itself".

Universities are a dynamic system where students come and go. This dynamism brings in new culture and new ideas which, most of the time, we are unable to tap or let them bloom due to rigid ideas and compartmentalized course and research structure. There is more emphasis on transmitting knowledge and less emphasis on analyzing the gained knowledge and coupling it with one's own experience, which may result in the generation of new knowledge. Learning and teaching has been emphasized in our culture as essential for healthy physical, mental, intellectual and spiritual upbringing. Shri Aurobindo, a great Indian philosopher, has said "Each human being is a self develope soul. The educational curriculum should be designed in such a way that it should enable and help the learner to educate himself, develop his own intellectual, moral, aesthetic capabilities and grow as a better human being. It should enlighten the darken areas and awaken the dormant centers of the brain". The objective of education thus, is self development and development of others and the society. To build a system of education, worthy of its commitment to society, one has to have the moral and ethical standards in place. The knowledge must spread beyond self. For this, like a tree, we must keep our roots in our traditions and culture, spread our branches in the air of modern education, set flowers that will attract others on our side and set seeds which will spread and germinate in and outside the borders of parameters and boundaries. In this century, where we have to attend to many global issues like climate change, water, energy, peaceful coexistence and development based on new knowledge, it is important that higher education and knowledge must transcend the national boundaries. It is in this context that one is emphasizing on the global education programs, and on developing linkages with institutions within and outside India.

Last I must admit that I have many questions in mind for which I do not have any simple answers: For example:

1. Before partition and after the independence, the performance of many of our Universities was very good; the contributions of many scientists were well recognized world over; the standard of teaching and research was high. I do not want to name any one in particular, but why these Universities could not improve or even sustain their excellence?
2. Why we have not been able to create new frontiers of knowledge or even catch up with them? Why is it that when our own students / teachers go abroad they innovate and generate novel ideas?
3. How to bring value to education?

Thus, in addition to expanding our education institutions, creating good opportunities for education to all the sections of society, improving methodologies and facilities to create excellence in teaching and research, there is a need to create "greater education temper & culture", together with generating financial and material support and sensitizing the central and state organizations to the needs of colleges and universities, teachers and students and above all, of the Nation. Mr. M.C. Chagla once said, "I wish I were both the Education Minister and the Finance Minister, and then I could write cheques for education. But I am not….I have to beg….Please give me some money for education because I think this is the greatest national activity that we can have".

I end with a quote from Rabindranath Tagore, whose 150th birth anniversary we all are celebrating this year "For some time past, education has lacked idealism in its mere exercise of an intellect which has no depth of sentiment. The one desire produced in the heart of the students has been an ambition to win success in the world, not to reach some inner standard of perfection, not to obtain self-emancipation".

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Ravi Matthai and IIMA: A Story of Institution-building[1]

T T Ram Mohan

I understand that you are celebrating your Foundation Day. Today, we remember the father of the nation, one of the great institution builders of the last century. The moment is apt. It is appropriate that we recall today the services of Ravi Matthai. You are still a young institution, an institution in its teens and, therefore, a work in progress. Wherever an institution is being built, particularly an academic institution, it is appropriate to think of Matthai. For what he accomplished at IIMA was truly remarkable.

There is an iron law of higher education that operates in this country. Institutions are set up with great fanfare, then over two or three decades, they degenerate and sometimes even go to ruin. IIMA is a luminous exception. You may say that this is true of IITs and IIMs in general. It is, but I would submit that IIMA is a little different. You cannot say that IIT Bombay is unambiguously superior to the other IITs or that is true of IIT Bombay or any of the other IITs.

IIMA is that rare institution that has stayed at the very top for most of the past 50 years. The only time it lagged behind was in the initial year when IIMC was perceived to be ahead. Once Matthai came on board, this changed forever. I happen to be among those who believe that the success that IIMA has enjoyed is very substantially on account of what Matthai did during his tenure as director.

I never had the privilege of getting acquainted with Matthai or even of seeing him. He passed away in 1984. I joined IIMA in late 1998. I have only felt Matthai during my association with IIMA. I kept hearing about him off and on and I was intrigued. Why are people talking about a director of 40 years ago?

One day, I stumbled upon a collection of his writings, Occasional writings and speeches of Ravi Matthai. I was struck by the quality of these writings. Then, it struck me that the scheme of things at IIMA was not unpremeditated or accidental. Most of it had been carefully thought through. There was a clear plot and it unfolded act by act during Matthai's tenure. I decided to explore further. My book is the outcome. This was a story waiting to be told. I am happy I had the opportunity to tell it.

The speech has been divided into four parts. First part talks out about the plan for setting up the IIMs and the early years of IIMA. The subsequent parts talk about Matthai's background, the seven years of Matthai's directorship and, very briefly on his experiment in rural education. The speech concludes with some tentative lessons on institution-building.

Part 1

The story of the IIMs predates 1961 when the first two IIMs were set up. In 1956, the Ford Foundation got Harvard Business School (HBS) to nominate two of its professors, to investigate the potential for setting up a B-school in India. They suggested the setting up of one school in Bombay. Bombay University did not respond properly, so the proposal was shelved. In 1959, the idea was revived but UCLA replaced HBS as the potential collaborator. The Associate Dean of UCLA, George Robbins, came down and presented a detailed plan.

Several key ideas were mooted by Robbins: an autonomous institution, that is, an institution that was outside the university framework; scope of activities to include teaching, research and consulting; and mechanisms of faculty development. The Robbins report was accepted by the Planning Commission in 1959 and the ministry took several steps towards implementation in mid 1960.

1 Speech delivered on October 02, 2011 at Indore, on the eve of the foundation day celebration of IIM Indore. This speech is based on his own book, *Brick by Red Brick: Ravi Matthai and the Making of IIM Ahmedabad* (Rupa Publications).

This report too recommended the creation of just one IIM, in Bombay. Two departures were made from the Robbins report: it was decided to set up two IIMs, not one; and the locations would be Ahmedabad and Calcutta, not Bombay and Calcutta. There is much speculation as to how the location was changed from Bombay to Ahmedabad. One story I have heard is that there was some resistance from Bombay University. When Vikram Sarabhai came to know of it, he pounced on the opportunity to move the proposed Institute to Ahmedadad, with strong support from local businessmen.

IIM Ahmedabad came into existence in December, 1961. Vikram Sarabhai was honorary director for the first three and a half years. We must credit Sarabhai with three significant accomplishments. The first was the creation of the autonomous structure which one has come to associate with the IIMs. The IIM is run by a board that is accountable to a Society and not directly to the government. The IIMA Board also decided not to get IIMA approved under an Act of Parliament) which was required if IIMA was to award degrees) as that would have brought IIMA under the supervision of Parliament. That is how the IIMs have ended up awarding a diploma and not a degree.

The second accomplishment was the choice of collaborator. Sarabhai was not in favour of UCLA, he thought IIMA should seek the help of the best known business school, HBS. Ford Foundation was unhappy about his preference; Sarabhai eventually had his way as UCLA itself lost interest in the project somewhere along the line. It was decided to send the first few batches of recruits to HBS for training under the ITP, which was a nine-month programme. This benefited IIMA in several ways:

- It got the first batches of faculty used to teaching and writing cases helped IIMA introduce into the Indian system a totally new pedagogical tool, the case method, which was an analytical way of approaching problems in the classroom.
- It familiarized several IIMA faculties with the culture and governance systems of a top western university.
- It fostered a sense of camaraderie among the faculty and a common approach towards building the new institution.
- It involved HBS faculty in the design of the curriculum of the programmes of IIMA. It also involved HBS faculty in the executive programmes although their involvement in PGP teaching was rather limited.

The third accomplishment in Sarabhai's time was the decision to get Louis Kahn, one of the foremost architects of the last century, to design the buildings for the campus. I don't know how many of you have seen the IIMA campus. The one word to describe the architecture is 'uplifting'- the high ceilings, the numerous arches and oval openings, the long corridors are all intended to open the mind and send the spirit soaring. Long before the Institute became known for its architecture, long before it made a name for itself in the academic realm. It is truly an architecture designed for a great institution. Getting Kahn involved was a masterstroke.

So, the foundations were in place when the board started looking around for a full-time director. This brings the second segment of the speech, the selection of the first full-time director and Matthai's background.

Part 2

To Sarabhai, it was clear who should be the first full-time director. It was his close associate, Kamla Chowdhry, who had been involved with IIMA right from the planning stages and who had served as Sarabhai's second-in-command at IIMA. However, the choice simply did not find acceptance with the board; the faculty was divided on the issue. In particular, HBS felt that while Chowdhry was a good academic, she did not have the skills to run the Institute. So Sarabhai was forced to look outside.

The board considered a number of outsiders for nearly two years, including some who had distinguished themselves in the civil services. Sarabhai was driven to frustration at his lack of success. Then, one day, from out of the blue as it were, Sarabhai and Prakash Tandon, the HLL chairman who happened to be on IIMA's board, zeroed in on Ravi Matthai. Matthai was 38 years old at that time and was not an academic by training. He had done BA (Hons) from Oxford. He had been a corporate executive for 12 years and had just joined IIMC about a year earlier as a faculty member. If I were to propose a person with these credentials for the directorship of IIMA today, I would probably not keep my job!

Matthai happened to be teaching in a workshop for executives held in Srinagar. Sarabhai and Tandon flew into Srinagar for a meeting. They seemed to have decided on the spot that they had finally found their man - something about the young man was totally arresting, his strong sense of values, clarity of thinking and complete self-confidence.

Matthai was then asked to meet with the representatives of HBS at IIMA and with the Ford Foundation chief. Both immediately approved the choice. IIMA quickly decided to make an offer. But Matthai was reluctant to accept because he had just joined IIMC and been sent to MIT for training. It took a year for the IIMA board to persuade Matthai. Matthai joined in August, 1965.

Let me tell you a little bit more about Matthai's background. He came of an aristocratic background. He was the son of John Matthai, member of the Viceroy's Executive Council in the pre-independence days and finance minister in Nehru's cabinet. He was later director of Tata Sons, vice chancellor of Bombay University, and chairman of SBI, to mention only a few of the positions he held. Matthai's mother was extremely wealthy and with a strong social orientation. I have heard that she gave away hundreds of acres of family land to the church in Kerala and to Calicut University.

Matthai was educated at boarding schools for the most part, including Doon School. One incident during his school years is worth recalling because it tells us something about how his character was being formed. He was once punished for an offence he said he had not committed. He was asked to run around the playground a couple of times. Matthai kept running and would not stop until the school authorities accepted that the punishment had been wrongly imposed.

From Doon School, Matthai went on to Allahabad university and then to Oxford. He had a good time at Oxford and became president of one of the student associations there. Matthai was recruited at Oxford by a managing agency in Calcutta, McNeil and Barry, which had interests in plantations and other industries. He rose to become chief executive of one of their firms and led a very comfortable life, complete with paid holiday in the UK with family.

When IIMC was set up, he received an offer from K T Chandy, the first director. He accepted it promptly. He had to give up his spacious company accommodation for a small apartment and accept a change in his lifestyle in other ways as well. He didn't seem to mind at all.

Part 3

When Matthai joined, the PGP had yet to settle down. There was a lot of discontent amongst students about various aspects of the programme, including the quality of teaching in some courses, the evaluation system etc.

His first priority was to streamline the flagship, the PGP. He dealt with student disturbances by having long chats with students without any faculty accompanying him. He was a man of enormous persuasive powers and great sincerity. The student disturbances quickly died down. One reason was the codification of various PGP processes, which ultimately found expression in the PGP manual.

The next challenge for Matthai was getting acceptance for the PGP product in industry. Today, we have a couple of thousand b-schools in the country and we take placement for granted at least in the leading institutions. It was Matthai and his colleagues at IIMA as well as IIMC who did the hard work of selling the PGP to industry.

Matthai took a couple of key decisions within the first couple of years of his tenure. He decided to end the collaboration with HBS. The reasons have not been spelt out and the decision remains controversial. My sense is that he felt that the collaboration was not contributing much.

HBS was not doing enough by way of sending faculty. The three persons sent initially were all doctoral candidates. Senior faculty used to come only for short spells in the executive programmes. There was no collaboration in research and IIMA faculty could not teach at HBS. In Ahmedabad, IIMA was becoming known as a branch of HBS. Matthai felt that either the collaboration should be upgraded or it should end. The latter happened.

Matthai also discontinued IIMA participation in ITP. He said faculty training would be need-based: some faculty could go for a PhD, some for an MBA, and all the faculty need not go to HBS; IIMA must diversify its options. There are people who believe that these were wrong decisions and that if only IIMA had continued its collaboration with HBS, it would have become a world-class institution. One wishes life were that simple. I believe Matthai was right in concluding that the collaboration had served its purpose in getting IIMA off the ground and that it was up to the Institute now to build itself.

One of Matthai's greatest strengths was in HR- his judgement of people and his skill in managing them. He devoted a great deal of effort to recruiting faculty. He mostly recruited from abroad because he felt that recruiting from India did not enhance the faculty pool and was not much of a contribution. The faculty strength grew from around 25 to 55 in his time with a large complement coming from abroad. Every year, he travelled to the US and interviewed candidates. On one visit, he interviewed some 65 candidates. He was very good at selling IIMA to Indian academics in the US and persuading them to return. This was one of his biggest contributions.

Not all who joined were acquainted with the case study method. Many believed that the basic disciplines need to be imparted through more conventional lecturing. Matthai tended to indulge them. He once declared that he did not want IIMA to 'become the Roman Catholic Church of the case study method'. Some fault him for undermining IIMA's USP, which was the case method. This criticism is not valid because IIMA continued to produce a large number of cases in Matthai's time.

Matthai completely transformed IIMA's financial situation. The Institute was running out of cash when he joined. The government had imposed a strict ceiling on its contribution; the costs of campus development had escalated steeply and were way above the commitments made by industry. Matthai managed to persuade the central government to loosen its strings. Funding ceased to be an issue. Thanks again to his persuasive powers. He was able to get government to contribute in a big way without compromising in the slightest on the Institute's autonomy. The point is worth making today when autonomy is somehow construed as meaning not taking funds from government.

Under Matthai, IIMA developed its sectoral focus by setting up centres for agriculture and education. Sarabhai and Matthai believed that IIMA should not cater to business alone. It must develop expertise in a number of under-managed sectors- agriculture, education, banking, government systems, trade unions. The centre for agriculture came up in Matthai's time and, in due course, the two year programme in agriculture. This sectoral approach has served IIMA well and, over the years, the Institute has developed centres for healthcare, infrastructure, retailing, and telecom, to name a few.

During Matthai's tenure, IIMA commenced its fellowship programme as its doctoral programme is known. It also took upon itself the task of mentoring other management institutions, including one each in Punjab and Kerala.

As the director, Matthai was responsible for expansion and consolidation at IIMA. But this has happened at so many B-schools. There is no dearth of management institutions that have grown in financial terms. IIMA accomplished something else in Matthai's time. It developed an enviable reputation for excellence, a reputation that it has preserved since. The important theme of my book is that this particular achievement of IIMA can be ascribed to the culture that was created during the years of Sarabhai and Matthai. I also believe that it is this culture that clearly differentiates IIMA from other institutions in the management fraternity. Let me now turn to this aspect.

IIMA rests on three pillars- autonomy, faculty freedom, and faculty governance. Autonomy is freedom from outside interference. Faculty freedom is freedom of expression and also operational freedom- freedom to design courses, freedom to pursue one's research interests, freedom in matters of evaluation, etc. All these elements were carefully fostered by Sarabhai and Matthai.

Let me give one example. Two faculty members co-authored an article on the pharmaceutical industry. In the article, they questioned the pricing practices in the industry. The industry was upset and complained to Matthai. Matthai told them he could do nothing about the article. If the industry people felt that the article lacked substance, they should tear it up. Matthai completely insulated the faculty from any kind of outside interference in those crucial formative years, in admissions, recruitment of faculty, research, etc. He took all the heat.

Then, there is the distinguishing feature of IIMA, faculty governance. This is that all important decisions, and certainly all academic decisions, are taken by faculty. This is the decentralised governance model of the western university that has conduced to excellence there. Sarabhai conceived it, Matthai gave it the practical shape and all faculty in those days contributed to this culture taking firm root at IIMA.

All matters at the Institute level as well as at the area level are decided by committees of faculty. The director tends to go by the recommendations of these committees. Faculty meetings and committee meetings were well attended. They went on for hours and often for days. The meetings were meticulously minuted. There was a complete absence of hierarchy- junior faculty could speak as freely as senior faculty. This gave faculty an enormous sense of ownership and pride in the institution and brought out the best in them.

Alongside faculty governance, a strong peer culture developed. Faculty discussed each other's cases. They attended each other's classes. They gave comments on each other's research. There was considerable mentoring of new faculty. Certain egalitarianism was part of the culture. All the faculty members were addressed as professor and everybody, including the director, by first name. Matthai was 'Ravi' to his colleagues. There was very little differentiation in faculty housing and housing was allocated not according to rank but according to arrival on the campus. All this was reinforced by a certain austerity, with Matthai leading by example.

One should be careful here not to jump to conclusions. Faculty governance did not mean that the director was a glorified head clerk who allowed himself to be nose-led by faculty. Not at all. Matthai always was in command of the situation. After he stepped down as director, he described himself as a 'benevolent despot'. Faculty governance meant giving people a sense of participation in decision-making. It did not mean leaving all decision making to them.

Certain administrative or financial decisions were taken by the director in consultation with the board. In academic matters, faculty reigned supreme but Matthai did not hesitate to impose his will when the situation demanded. The FPM programme was launched in the face of opposition from faculty for several years. In the case of the agriculture programme, Matthai overruled faculty and decided to go ahead. One must not interpret faculty governance to mean that the director is a cipher. It was not so in Matthai's time and I doubt that it has been so under any director.

There were a few other elements to the culture. One was an aversion to rules for many matters and a preference for norms evolved by faculty. As a result, for a whole range of matters, IIMA still does not have an official book of rules. One must understand that this leaves open wide room for discretion. The other element was the absence of administrative authority for activity heads and area heads. The area chairman cannot dictate anything to his colleagues, he has to persuade them. So also the PGP chairman, the admissions chairman and the placement chairman. I have dwelt on the rationale for these in my book. Matthai perceived all these elements as crucial to the liberating sense of freedom that alone can get the best out of academics.

Lastly, what I regard as one of Matthai's greatest contributions to IIMA and the IIM system in general, the principle of a single term for the director. After seven years at the helm, Matthai chose to step aside as director- he was reluctant to use the expression, 'step down' because that would imply that the director was above faculty. He was only 45 and at the peak of his performance, so people were shocked. They were not aware that even at the time of accepting the job, he had told Sarabhai and Tandon that he would stay in the job only for 5-7 years. He gave reasons for his decision. As an organisation evolves, it needs different styles of leadership, different structures. He could test the robustness of his model only by stepping aside.

Matthai clarified that he was 'stepping aside', not 'stepping out', meaning if the faculty and the board agreed, he would like to continue as a faculty member. This too was an act of greatness, considering that he was inundated with offers from both the government and the private sector. He explained this part of his decision as well. Institutions of higher education suffer because their heads used their positions as stepping stones to other positions; in his book, this was just not done.

We can sum up the key elements of what we might today call Matthai's 'sustainable business model': a clear sense of mission; a focus on faculty freedom as the key to unleashing creativity; faculty governance and an emphasis on peer culture; a single term for the director. These elements explain IIMA's unusual success in the Indian educational system.

I must add quickly that what Sarabhai and Matthai cannot be ascribed merely to some abstract principles. The managerial abilities of the two individuals are an important factor. Sarabhai was an able leader, Matthai was a supremely gifted manager. It was the combination of principles and individual traits that must explain why the particular culture and processes that they put in place endured for a long time.

Matthai stayed on as professor for 12 years after he stepped aside as director. He devoted himself to a unique experiment in rural education in the Jawaja block of Ajmer district in Rajasthan, trying to help the poor people of that block. There is much debate about the merits of his experiment. Many people at IIMA are dismissive about it; they think Matthai was simply chasing a delusion and that his experiment produced no results. Others see it as a forerunner to several initiatives in the social sector. I devote a chapter to it in my book. I will not go into it here. Let me just say institutions must experiment all the time; whether the experiment succeeds or fails is secondary; better, sometimes, to fail magnificently than to succeed trivially.

Was there a downside to all this? Certainly. Matthai's faculty-centered approach meant a certain neglect of all other sections of employees. One former faculty member has said they were reduced to 'second class' citizens in a community in which faculty were the prima donnas. Matthai refused to deal with the staff union, and this may have led to labour problems erupting after he stepped down.

Faculty members were more prosperous thanks to consulting opportunities and they were very conscious of their importance in a faculty governed Institute. This led to what might be called an 'institutional ego' and a sense of isolation from the rest of the world. One reviewer of my book has commented acidly that if at all the term 'ivory tower' was applicable anywhere it was to faculty at IIMA.

Part 4

Friends, I draw to the close of this talk. What lessons do we draw from the great experiment of Matthai and his colleagues? It is for each one of you to draw his or her own conclusions. I would imagine that the most important lesson is that an organisation's culture can become a differentiator and a source of competitive advantage. What precisely this culture would involve can be debated. To some extent, the answer would depend on the context.

I suppose certain things in the Matthai culture are non-negotiable: autonomy and freedom of expression. What about faculty governance? In entirely academic matters and at the area level, yes. At the Institute level? Matthai himself was not dogmatic on this question. He said once that, in certain situations, a high amount of centralisation may be needed before decentralization can happen.

Similarly, it would be unwise to generalise from the Matthai era about the absence of rules and the lack of administrative authority down the line. The great American universities do not have these features- there are clear rules and the area chairman is a seat of power- and these are among the greatest institutions in the world. These were features that suited Matthai's personality and they were appropriate to the Institute in his time. A different institution or the same institution at a different time may require very different structures and processes. It is possible to have a totally rule-bound and transparent system and make a success of it. One should be careful not to rush to sweeping judgments in these matters.

We can take home certain other things from the Matthai era. You can have very basic infrastructure, very ordinary people and yet, given clear direction and a shared sense of purpose, you can create an extraordinary institution out of these. When people are united by a higher purpose, when they give themselves over to a larger objective, the greatest of feats are within grasp. Again, it is possible to have a humanitarian approach towards people, to be fair in your dealings, and to scale great heights. Performance is not incompatible with values.

Indeed, at this distance in time and in the environment in which one finds oneself, one is struck not just by the enormity of Matthai's achievement but by the value system that made it possible. If there is one thing about Matthai that stands out, it is his unswerving commitment to institutional norms; never using the institution for selfish ends, always putting the institution before oneself.

When an institution is young, it is a little easier to create the necessary value system. Youth is freshness, it is energy, it is the ability to dare. IIM Indore is, as I said at the outset, still a young institution. What can you not achieve if you choose to dare?

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Global Recession and Determinants of CEO Compensation: An Empirical Investigation of Listed Indian Firms

Avantika Tomar, Suresh Korla

Abstract

This paper examines the determinants of CEO compensation using six year data on firm performance, corporate governance and top executive compensation from a large sample of 132 listed Indian firms. A linear regression model is used to develop explanations for total CEO cash compensation. Key contributions of the study are the findings related to the effect of firms' stock price increase on their respective CEO compensation both before and after economic recession. Before the recession, the increase in stock price between consecutive years meant higher CEO compensation (This finding is not substantiated in the post-recession data). It is found that CEOs who also chair their firm's board of directors tend to have higher compensation. PSUs have lower total CEO compensation when compared to private sector firms. Firms with greater percentage of independent directors pay less.

Key Words: Corporate Governance, CEO Compensation, Stock Price, Financial Performance, Global Recession

1. Introduction

The level of compensation and the extent of pay-for-performance for chief executive officers (CEOs) has been a topic of considerable controversy in the academic and business communities. It involves issues ranging from labor economics and industrial organization, to accounting, finance, law, organization behavior and strategic management (Talmor & Wallace, 2001). Compensation packages can play an important role in motivating top managers. Therefore, it is important to understand how corporations set CEO compensation packages and to study the link between compensation and performance (Parthsarathy, Menon & Bhattacherjee, 2006).

The board of directors in modern corporations serve to institutionalize the process of fixing managerial compensation and monitoring performance, thereby ensuring that the wealth maximization objective of the shareholders is maintained (Parthsarathy, Menon & Bhattacherjee, 2006). At the same time, members of the top management like the CEOs are often members of the board. In the context of executive compensation, good corporate governance requires certain mechanisms in the processes of fixing compensation and monitoring top management performance. These include the presence of "independent" directors on the board, division of responsibilities between the chairman and the CEO and the establishment of compensation committees. Observable as well as unobservable shocks influencing CEO compensation packages might also have an impact on firm performance and some of the other firm-specific characteristics, e.g., growth opportunities, firm size, and ownership structure. It is likely that observed relationship between CEO compensation and firm-specific characteristics reflect the effects of CEO compensation on the latter rather than vice versa. Thus, it is important to control for the potential endogeneity problem in CEO compensation analysis (Ozkan, 2007).

In comparison to the US, empirical literature on CEO compensation in India is rather limited. There is no literature available on the CEO compensation with recent data and more specifically, no study that investigates the effect of stock price changes on executive compensation. In addition, there are no studies to establish the effect of recession on CEO compensation. We not only study the effect of stock prices on CEO compensation but also do so across six years. We analysed data for four years before the 2008 recession, and two years after the recession (2009-2010).

Additionally, in our empirical analysis we control for a comprehensive set of corporate governance variables, foreign ownership, proportion of independent directors on board, board size and firm level risk.

2. Context of the Research: Global Economic Recession

India's integration into the world economy over the last decade has been remarkably rapid. Integration into the world implies more than just exports. Going by the common measure of globalization, India's two-way trade (merchandize exports plus imports), as a proportion of GDP, grew from 21.2 percent in 1997-98, the year of the Asian crisis, to 34.7 percent in 2007-08 (Subbarao, 2009). Second, India's financial integration with the world has been as deep as India's trade globalization, if not deeper. If we take an expanded measure of globalization, that is the ratio of total external transactions (gross current account flows plus gross capital flows) to GDP, this ratio has more than doubled from 46.8 percent in 1997-98 to 117.4 percent in 2007-08 (Subbarao, 2009).

Moreover, Martinez and Santiso (2003) emphasize, in their study, the relationship between politics and financial markets in emerging economies. In emerging markets, financial turbulence and politics are closely linked. Also, output losses from financial crises tend to be larger in emerging markets than industrial countries according to these authors. The emerging literature suggests that political variables are indeed significant explanatory factors in emerging markets' crisis. Countries like India, therefore, are more prone to crashes than the developed economies.

The economic boom in India that preceded the 2008 downturn was dependent upon greater global integration in three ways: greater reliance on exports particularly of services; increased dependence on capital inflows, especially of the short-term variety; and the role these played in underpinning a domestic credit-fuelled consumption and investment boom. These in turn made the growth process more vulnerable to internally and externally generated crises, as is now becoming clear.

According to Roberts and Jones (2009), at the beginning of 2008, it was clear that something unexpected and unanticipated was happening in financial markets and that knowledge had failed market participants in important ways. The Indian stock markets also followed rapid fluctuations of the overseas markets and more so because it was way beyond what the fundamentals justified. Indian industry and exports had been showing signs of slowing down. Due to rising inequality, the market in India was narrow and dependent on investments and exports for growth (Kumar, 2008). As a result, Indian economic growth started decelerating early in 2008, even before the effects of global slowdown were transmitted through sharply declining exports. Real GDP growth, which was 9% in the financial year April 2007 to March 2008, decelerated to 7.6% in both the subsequent quarters. Industrial production peaked in December 2007, fell by 6.5% in April 2008 and remained well below the earlier peak until January 2009. So the internal bubble-generated growth process had already begun to slacken when the impact of the global crisis created further adverse pressures (Ghosh & Chandrasekhar, 2009).

The decoupling theory, which was intellectually fashionable even as late as 2008, held that even if advanced economies went into a downturn, emerging economies will remain unscathed because of their substantial foreign exchange reserves, improved policy framework, robust corporate balance sheets and relatively healthy banking sector. In a rapidly globalizing world, the 'decoupling theory' was never totally persuasive. Given the evidence of the 2007 end and 2008 - capital flow reversals, sharp widening of spreads on sovereign and corporate debt and abrupt currency depreciations - the 'decoupling theory' stands totally invalidated. Although, there is considerable variation across countries, the notion that in a globalized world, growth prospects of emerging economies can be undermined by the financial crisis is now reinforced (Subrahmanyam, 2009). India too had been impacted by the crisis - and by much more than it was suspected earlier.

3. Research Gap

The paper examines the determinants of CEO compensation in large listed Indian companies. The context of the research is the economic recession and therefore, we develop two models to compare the impact of different determinants before and after the recession.

The remainder of the paper is organized as follows: The next section provides an overview of literature review on CEO compensation determinants and therefore, develops the hypotheses of this study. The section after that presents the variables used in the analysis, the regression model and the data sources used. The results - descriptive statistics, correlation matrices and regression results follow this section. The last section analyses the findings of the paper and presents the conclusion.

4. Literature Review

4.1 CEO Compensation and Corporate Governance

The importance of corporate board structure and executive compensation as a mechanism of corporate governance has always been a matter of considerable academic debate in both theoretical and empirical literature. In a typical agency theory framework, the assumption is that there is a mismatch between the interest of the shareholders, who are the owners, and that of the management, who run the corporation, on behalf of the shareholders. Economic theory of executive pay focuses on the design of optimal compensation schemes to align the interests of hired managers and shareholders. Agency theory identifies several factors by which these interests may differ; including the level of effort exerted by the manager and problems resulting from the unobservabilty of the agent's relevant skills. The design of an optimal compensation contract is essentially a trade-off between different incentive problems and risk-sharing considerations (Talmor & Wallace, 2001).

In order to better monitor the managers, shareholders appoint the board of directors (Ghosh, 2003). Large boards are likely to be efficient monitors of the CEOs and other executive directors. Results suggest that firms with weaker governance structures have greater agency problems which results in greater CEO compensation but lower performance (Core, Holthausen & Larcker, 1999). There is consistent evidence of a negative relation between the compensation predicted by the board and ownership structure variables and subsequent performance. This finding suggests that the weightings of the board and ownership variables in the compensation equation relate to the effectiveness of the firm's governance structure, rather than using these variables as proxies for the determinants of the CEO's equilibrium wage.

Larger boards are less effective in monitoring and more susceptible to influence of CEO power (Ozkan, 2007). The author suggests that board structure matters for the total CEO compensation level and non-executive directors do not seem to provide monitoring for the level of total CEO compensation. A strong counterargument expressed by Fama and Jensen (1983) is that the directors' concern for developing reputation as experts in decision controls provides them with the incentive to ensure the well-running of the company. Davila & Penalva (2004) point out that weaker corporate governance is associated with lower variability in the executive pay and higher cash components of the total pay.

The institution of corporations in emerging economies is different from that of the developed countries. Emerging economies are basically identified by poor corporate governance system, block shareholdings, large intervention of families in both management and control, lack of standardized accounting measure and less transparency in reporting data. The board of directors of an Indian firm is responsible for setting the CEO's and top executives' pay. "The board is therefore responsible for designing incentive systems and determining salary and bonuses" (Jaiswall, 2005). In light of a conflict of interest, many firms have set up a remuneration committee composed of independent directors and delegated the task of designing management incentive schemes and setting the top executive pay. "Corporate governance guidelines in India (SEBI Committee on Corporate Governance, 2003) strongly advocated the use of remuneration committees although many firms do not comply with the recommendation" (Jaiswall, 2005). The independent directors that make up the remuneration committee may therefore be biased toward increasing the CEO's pay regardless of the firm's performance.

All the recommendations of different committee in different countries point out some common features: (1) Size of the board should not be too large or too small. The optimum board size that is largely recommended is twelve. (2) Majority of the board should be comprised of non-executive directors only. The recommended proportion of non-executive directors is in between two-third to three-forth. (3) Most of the compensation should be based on the performance of the firm, in the form of stock options or others. Disclosure of all components of the compensation package is a mandatory recommendation for all the committees (Jaiswall, 2005).

4.2 Board Size

There is evidence that firm performance falls with the increase in board size due to free rider problems. Jensen (1993) also argues that boards of directors are ineffective because boards are too large; board culture discourages conflict, CEO determines the agenda and provides the information to the board; the managers and non-managers on a typical board have little equity ownership and also the CEO and the board chair is frequently the same person. Moreover, boards usually rely on the compensation consultants hired by the CEO, and this may lead to compensation contracts that have been optimized not for the firm, but for the CEO.

The size of the board of directors is expected to be associated with less effective board monitoring, based on the argument that larger boards are less effective and more susceptible to the influence of the CEO (Jensen, 1993; Yermack 1996; Talmor & Wallace, 2001). Pfeffer (1981) argues that internal board members are more loyal to the management, and thus the CEO can exert relatively more influence over internal (as opposed to outside) board members. The CEO is also board chair in about 76% of the companies and an average board consists of 13 directors (Core et al., 1999).

For a sample of 414 UK companies in 2003, Ozkan (2007) finds that the proportion of non-executive directors has a positive impact on CEO compensation, suggesting that non-executive directors do not play a monitoring role. The problems with coordination, communication, and decision-making can hinder effectiveness of the board, which might translate into a higher cash compensation for CEOs as the number of director increases. Fung et al (2001), however, have shown that, in the Chinese context, firms with a larger number of directors tend to restrict CEO compensation.

Hypothesis 1a: Ceteris paribus, a negative association will exist between a firm's board size and total CEO compensation.

4.3 Percentage of Independent Directors on the Board

Lambert et al. (1993) and Boyd (1994) document a positive relation between CEO compensation and the percentage of the board composed of outside directors, whereas Finkelstein and Hambrick (1989) find that compensation is unrelated to the percentage of outside directors on the board. The proportion of non-executive directors on board does not have a significant impact on CEO compensation (Ozkan, 2007). CEO compensation is also higher when outside directors are older and serve on more than three other boards.

Usually 60% directors are independent (Shivdasani, 1993; Bhagat & Black, 1997). The objective is to ensure the presence of truly independent directors on the board so that they can play an active role in upholding shareholder interests (Parathsarathy et al., 2006). According to the latest amendment to clause 49 of the Listing Agreement of SEBI, the number of independent directors on the board should not be less than half of the total strength of the board when the chairman is an executive director, and should not be less than one-third of the total strength of the board when the chairman is a non-executive director. So in theory, the independent directors play a critical role in designing the compensation of the CEO apart from their monitoring roles.

Each of the three variables that measure the lack of independence of the outside directors (outside directors appointed by the CEO, gray outside directors, and interlocked outside directors) has a positive coefficient, implying that less independent outside directors are associated with greater CEO compensation (Core et al., 1999). The negative coefficient on the percentage of inside directors is consistent with the mixed empirical evidence on the monitoring value of additional outside directors, and provides no support for the common contention that outside directors are better monitors of management than internal directors.

Talmor and Wallace (2001) find that director independence and effectiveness acts as a substitute to incentive compensation. Also, there is a positive association between firm performance and board strength. Together with the finding that companies that compensate 'excessively' tend to have higher subsequent performance, there is support to the thesis of efficient contracting. In India, according to the Kumar Mangalam Birla Committee Report (1999), in case a company has a non executive chairman, at least one third of the board should comprise of independent directors and in case a company has an executive chairman, at least half of the board should be independent (Proportion of inside and outside directors).

Hypothesis 1b: Ceteris Paribas, a negative association exists between the percentage of independent directors in the board and total CEO compensation.

4.4 Dual Leadership

With respect to the board-of-director variables, we find that CEO compensation is higher when the CEO is also the board chair; the board is larger; greater percentage of the board is composed of outside directors and the outside directors are appointed by the CEO or are considered "gray" directors. Activist shareholders have argued for the separation of the board chair and CEO, and a number of empirical studies suggest that agency problems are higher when the CEO is also the board chair (e.g., Yermack, 1996). However, Conyon (1997) finds that separating the roles of chairman and CEO which might potentially mitigate agency problems associated with top pay setting, plays a minor role in influencing director pay.

A dual leadership structure refers to a situation where the CEO of the firm is also the chairman of the board of directors. A dual leadership structure will lead to higher total CEO pay. The CEO's power base widens when the CEO also serves as the chairman of the board (Talmor & Wallace, 2001). This led Jensen (1993) and others to recommend that the function of the board chair be separated from the CEO. Finkelstein and D'Aveni (1994) argued that a separate leadership structure will lead to a greater degree of independence to the board in various issues related to monitoring managerial performance. There is evidence that moral hazard problem increases when CEO becomes the Chairman of the board and therefore it reduces the performance of the firm (Jensen, 1993).

Hypothesis 1c: Ceteris paribus, a CEO who is also the chairperson of the Board of Directors will earn a higher total compensation than his counterpart who is not the chairperson.

4.5 CEO Compensation and Firm Performance

The link between executive compensation and corporate performance has been explored extensively in western countries, especially in the US. The question whether executive compensation reflects company performance is a controversial one with different authors taking up widely different positions on the issue.

There is a positive and significant link between CEO cash compensation and performance while the link between total compensation and performance is positive but not significant (Ozkan, 2007). Jaiswall (2005) in a study of 193 Indian firms finds a significant positive relation between CEO pay and a firm's performance (return on assets and Tobin's Q). Thus, a CEO is rewarded for the good performance of the firm. Using data from a large number of firms in the manufacturing sector, Ghosh (2003) finds that the board's compensation depends on current and past year performance while CEO compensation depends on only current year performance. Yermack (1996) finds no association between the percentage of outside directors and firm performance. Yermack (1996) also provides evidence that firm value and performance is a decreasing function of board size.

The results from standard agency models suggest that the level of pay is an increasing function of firm performance. Firm performance is measured using the accounting return on assets and the annual stock market return on the common stock. Return on Assets is the percentage of corporate Return on Assets or the ratio of earnings before interest and taxes to total assets for the prior year. Stock return is the percentage of stock market return for the prior year. Theoretical models (e.g., Banker and Datar, 1989) suggest that compensation risk (and the level of expected compensation) may either increase or decrease with firm risk. Cyert et al. (1997) find that CEO compensation is higher at firms with greater stock return volatility. The empirical results indicate that there is a positive and significant relationship between firm performance and the level of CEO cash compensation while the relationship is positive but not significant for total compensation (Ozkan, 2007). Results also indicate that institutional ownership has a positive and significant influence on CEO pay-for-performance sensitivity of option grants.

Empirical evidence in developed countries generally supports a positive relation between pay and performance although there are differences in what type of performance measure (return on assets, stock returns) is important. As Jaiswall (2005) states: "Problems with ROA and other accounting measures are that they encourage a short term outlook and they can be manipulated by management via accruals accounting."

Hypothesis 2: Ceteris paribus, a positive association will exist between a firm's ROA and the total CEO compensation.

4.6 CEO Compensation and Nature of the Firm

Consistent with prior theory and empirical work (Rosen, 1982 and Smith and Watts, 1992), we expect that larger firms with greater growth opportunities and more complex operations will demand higher-quality managers with higher equilibrium wages. According to previous studies (Conyon & Murphy, 2000), larger firms pay greater CEO compensation. Company size and sales have a significant and positive impact on the total compensation level (Ozkan, 2007). A number of earlier studies (Core et al 1999; Ramaswamy et al 2000; Talmor and Wallace 2001; Fung et al 2001; Ghosh 2003) on executive compensation have incorporated firm size as an explanatory variable. In this paper, firm size is used as a control variable so that any differences in the CEO compensation due to firm size across companies are captured. In accordance with prior research, we have used log of total assets as the proxy for firm size.

Company size provides an indication of managerial responsibility and job complexity. Researchers have predicted a positive relation between firm size and the level of CEO compensation (Talmor & Wallace, 2001) and executive pay (e.g., Ciscel and Carroll, 1980, Schaefer, 1998). However, using a sample of the top 150 Indian firms, Ramaswamy et al., (2000) hypothesized that human capital, firm performance and corporate governance variables jointly determine the CEO remuneration. They found that firm size was not a significant explanatory variable for CEO compensation, rather firm performance (as measured by Return on Assets) was.

Hypothesis 3a: Ceteris paribus, the larger the size of the company, the greater is the total CEO compensation.

Jaiswall (2005) found that there is some evidence that firms with foreign shareholders pay higher compensation to their CEOs. There has been a significant amount of foreign direct investments (FDI) inflows in India over the last decade.

Hypothesis 3b: Ceteris paribus, CEO of a firm with foreign shareholding has higher total compensation than one with only domestic shareholding.

The case of public sector undertakings (PSU) is unique to the Indian context where these companies are owned and managed by the government. "Compensation in PSUs is decided by the government and is subject to government rules and regulations. The firm on its own has little or no autonomy in deciding its managerial salaries" (Jaiswall, 2005). Therefore, a dummy variable, representing whether a firm is a PSU will be used as a control variable in our model.

Hypothesis 3c: Ceteris paribus, public sector CEO pay will be less than private sector CEO pay.

Although, researchers have contributed to the establishment of a relationship between stock price and firm performance, not many studies exist on the effects of stock prices on the CEO compensation. Abowd's (1990) results showed that paying an incremental 10 per cent bonus to CEOs for good stock performance results in a 4 per cent-12 per cent increase in stock performance in the subsequent period. Rosenstein and Wyatt (1990) provide evidence that shareholder wealth is affected by the proportion of outside directors by documenting a positive stock price reaction at the announcement of the appointment of an additional outside director. A firm's stock market risk is negatively related to CEO compensation (Jaiswall, 2005). This finding counters the argument that managers in high risk firms should be paid more (Gomez-Mejia et al., 2003). The Greenbury Report (1995), UK highlighted that directors should not be rewarded for any increases in the share prices (or any other indicators) which might reflect inflation or general market movements, i.e. which are not directly related to the managerial actions. Additionally, it was recommended that executive directors' remuneration should be structured so as to link rewards to corporate performance.

The primary hypothesis of this study is:

Hypothesis 4: Ceteris paribus, the percentage increase in the current year's stock price relative to previous year should have a positive influence on the total CEO compensation.

This paper attempts to integrate the literature cited above and develop a model explaining the determinants of CEO compensation in Indian firms. The data set is from the recent period2004 to 2010 and covers 132 non-financial firms in five sectors - manufacturing, IT, telecom, energy and real estate. An Indian study involving stock prices changes in the pre- and post-recession periods has not been conducted before.

5. Methodology

5.1 Variables

The variables used in this study can be clubbed into the following five categories: sector/industry, corporate governance, firm size, firm performance, data year. All the variables are discussed in details in this section (See Tables 1-3). There are five sectors, namely IT, real estate, telecom, energy and manufacturing, included in the study. The performance variables, compensation strategies and stock market movements for financial firms are completely different and hence, they were left out of the sample. The total numbers of firms included in the sample for manufacturing, IT, telecom, energy and real estate are 87, 10, 6, 10 and 19 respectively. Thus, data has been collected from these 132 listed firms in India.

One industry specific variable used in the study is beta which essentially is the systematic risk that a firm is prone to. It usually displays the dependence of a firm on stock market fluctuations and the external environment. Three variables have been included in the study to represent corporate governance - boardsize, perc_ind_dir and ceo_chair. Board size is the total number of directors on the board. Per_ind_dir measures percentage of the Board's directors who are not executives of the firm and are hence, not on the payroll of the firm. Inside directors is the percentage of the boards who are managers, retired managers, or relatives of the current managers. Outside directors appointed by the CEO is the number of outside directors on the board appointed by the CEO as a percentage of board size. CEO_chair is an indicator variable equal to one if the CEO is also chairman of the board, and zero otherwise.

Two variables PSU and Foreign have been used to capture the effect of public or private undertaking and the presence of foreign shareholding on the total compensation of the firms' CEO respectively. Age of the firm has been also been used as a variable in the study. Year-wise dummy variables have also been used as shown in Table 2 and 3 for pre- and post-recession data respectively.

Firm size has been captured using the natural log of the total assets of the firm. In order to measure the performance of the firm, two variables namely, ROA and Pct_inc_stock have been used. ROA is measured by dividing operating profits by total assets and Pct_inc_stock refers to the percentage increase in current

Table 1 : List of variables used in the study

Variable	Acronym	Definition	Predicted effect (based on theory and literature) on the total compensation
Total no. of Directors in the Board.	BoardSize	The sum total of all the directors in the Board.	-
Percentage of Independent Directors in the Board.	Perc_Ind_Dir	Percentage of the Board's directors that are not executives of the firm.	-
Dummy Variable coded (1) if CEO is the Chairman of Board, (0) Otherwise.	CEO_Chair	The presence of Dual Leadership where the CEO of the firm is also the Chairman of the Board	+
Dummy Variable coded (1) if the firm is a Public Sector Undertaking, (0) Otherwise.	PSU	Signifies whether the firm is a public or private sector undertaking	-
Dummy Variable coded (1) if the firm has foreign shareholders, (0) Otherwise.	Foreign	Signifies whether the firm has foreign or only domestic shareholders	+
Log of total assets.	Size	The natural log of total assets	+
Operating Profits divided by total assets	ROA	Calculated by dividing a company's annual earnings by its total assets, ROA is displayed as a percentage.	+
Systematic Risk of the firm	Beta	Beta is also referred to as financial elasticity or correlated relative volatility, and can be referred to as a measure of the sensitivity of the asset's returns to market returns, its non-diversifiable risk, its systematic risk, or market risk.	-
Percentage Increase in current year's stock price relative to last year.	Pct_Inc_Stock	Percentage Increase in current year's stock price relative to last year. All data has been taken as on 31st December.	+
Total years since establishment of firm	Age	Total number of years of the firm's existence.	+

year's stock price relative to last year (data being noted as on 31st December each year).

Pre-Recession Variables: Apart from the variables highlighted in the table above, the following binary variables have also been used for the pre-recession analysis. The excluded sector is 'Manufacturing' sector and the excluded year is 2004.

Table 2

Sector1	Dummy Variable coded (1) if the firm belongs to IT Sector, (0) Otherwise.
Sector2	Dummy Variable coded (1) if the firm belongs to Telecom Sector, (0) Otherwise.
Sector3	Dummy Variable coded (1) if the firm belongs to Energy Sector, (0) Otherwise.
Sector4	Dummy Variable coded (1) if the firm belongs to Real Estate Sector, (0) Otherwise.
Year1	Dummy Variable coded (1) if the year is 2005, (0) Otherwise.
Year2	Dummy Variable coded (1) if the year is 2006, (0) Otherwise.
Year3	Dummy Variable coded (1) if the year is 2007, (0) Otherwise.

Post-Recession Variables: Apart from the variables highlighted in the table above, the following binary variables have also been used for the post-recession analysis. The excluded sector is 'Manufacturing' sector and the excluded year is 2009.

Table 3

Sector1	Dummy Variable coded (1) if the firm belongs to IT Sector, (0) Otherwise.
Sector2	Dummy Variable coded (1) if the firm belongs to Telecom Sector, (0) Otherwise.
Sector3	Dummy Variable coded (1) if the firm belongs to Energy Sector, (0) Otherwise.
Sector4	Dummy Variable coded (1) if the firm belongs to Real Estate Sector, (0) Otherwise.
Year1	Dummy Variable coded (1) if the year is 2010, (0) Otherwise.

Finally, we have used log of total CEO compensation, lnTotalCEOComp as the dependent variable. One justification for this practice is that the typical "Guide Charts" used by the human resource consultants to set compensation levels are constructed by regressing the logarithm of compensation on the logarithm of firm size (Amacom, 1975). The total CEO compensation is the sum of total cash compensation that includes salaries, bonuses, and perquisites. Executive pay is disaggregated into salary, bonus pay, and perquisites although Jaiswall (2005) suggests that the division of total compensation into three categories is often arbitrary. We are not using stock options because the reporting of stock options is very mixed (for the few firms that have options) and we cannot develop consistent measures across firms.

5.2 Regression Model

We use regression analysis to examine the various determinants of CEO Compensation. The model is:

We have two separate models for pre-recession and post-recession data.

5.3 Data

The sample covers a 6-year period from 2004-07 and 2009-10 for 132 non-financial companies from the CMIE - Prowess Database. CEO compensation is the total cash component - salary and performance bonus. We use the

BSE 200-Index companies as our source database. These are the two hundred largest listed firms on the Bombay Stock Exchange. These firms disclose the CEO's pay whereas the pay of the top executives of the small companies often falls below the threshold required for disclosure. Data are collected for the two periods termed pre- and post-recession. Data from 2004 to 2007 have been collected for the first period and data for 2009 and 2010 have been collected for the latter. After data cleaning, the total number of relevant and usable observations for the two periods has been 251 (pre-recession) and 203 (post-recession) respectively.

Before undertaking any statistical test, a basic check for accuracy of the data file was conducted in order to ensure that no data was missing or incorrectly entered. Univariate normality of the quantitative variables was checked by examining their skewness and kurtosis values. The data needs to follow a normal distribution in order for most analyses to work properly. There are two aspects to normality of a distribution, skewness and kurtosis, and both must be tested before normality can be established. Skewness describes how unevenly the data is distributed with a majority of scores piled up on one side of the distribution and a few stragglers off in one tail of the distribution. Skewness is often but not always caused by outliers. Kurtosis describes how "peaked" or "flat" a distribution is. If too many or all of the scores are piled up on or around the mean, then the distribution is too peaked and is not normal; vice versa for a too flat distribution. The skewness and kurtosis values were all within the acceptable range of +2.0 to -2.0. Before undertaking regression, it was tested that there was no problem of multi-collinearity between the independent variables in any of the multiple-regression analyses. The values of the Variance Inflation Factor (VIF) lie between 1.000 and 3.012 which are well within the acceptable limit of ten (Stevens, 2002).

6. Results

The descriptive statistics for both periods' data have been exhibited in Table 4 and 5. Some key observations can be made from these tables. Studies in western countries reveal that the CEO is also board chair in about 76% of the companies and an average board consists of 13 directors (Core et al., 1999) and usually, 60% of the directors are independent directors. The average boardsize across the five sectors as seen in Table 4 and Table 5 are 14.03 and 13.85 which is nearly the same as the advanced economies. The average perc_ind_dir in the two sets of observations are 74% and 76% respectively. One interesting result is that the TotalCEOcomp in the Energy Sector is substantially lower than that in other sectors in both the Tables (Rs. 9,283,566 and Rs. 18,900,000). The energy sector has the highest aggregate assets in comparison to other firms, Rs. 31790 and Rs. 33234 crores respectively. On the other hand, ROA of IT sector is the highest (0.22 for years 2004-07 ad 0.23 for 2009-10) owing to least total assets (in crores). Real estate sector is the most risky sector with high beta values of 1.41 and 1.69, in pre- and post-recession periods respectively.

Tables 4 and 5 reveal some very interesting findings. The beta values have gone up for all sectors between the two time periods i.e. the sectors' assets have become more susceptible to market changes. Another interesting finding is that between these two time periods, foreign shareholding in the IT sector increases from 16% to 47% and foreign shareholding in the Telecom sector increases from 17% to 29%. These results cannot be relied upon because the number of firms across the time periods is not same for both sectors and the sample size is also small. However, one valid finding that emerges from these descriptive statistics is that in both these sectors, as foreign shareholding increases, the percentage of firms whose CEO is also the chairperson of the board, comes down drastically. Theoretically, this is a valid finding because as the foreign intervention increases in any firm, its corporate governance practices improve and hence, the probability of CEO also being the chair is less. Thus, this negative relationship between foreign shareholding and CEO also being the Chairperson is an important finding of the study.

Table 4 : Descriptive Statistics: Pre-recession
Pre-Recession (Averages over 2004-07)

Variables	Sector wise averages				
	Manufacturing	**IT**	**Telecom**	**Energy**	**Real Estate**
Observations	176	25	6	20	24
TotalCEOcomp	Rs. 24,200,000	Rs. 19,800,000	Rs. 70,000,000	Rs. 9,283,566	Rs. 21,000,000
boardsize	13.70	11.24	17.00	14.30	13.92
perc_ind_dir	72%	81%	86%	68%	63%
ceo_chair	27%	40%	67%	15%	38%
psu	11%	0%	0%	40%	17%
foreign	26%	16%	17%	15%	33%
Assets (in Crores)	9027	3549	12430	31790	4088
ROA	0.14	0.22	0.09	0.15	0.10
Beta	0.89	0.81	0.77	1.09	1.41
Age	40.74	24.60	13.83	34.45	32.50

Table 5 : Descriptive Statistics: Post-recession
Post Recession (Averages over 2009-10)

Variables	Sector wise averages				
	Manufacturing	**IT**	**Telecom**	**Energy**	**Real Estate**
Observations	124	17	7	26	29
TotalCEOcomp	Rs. 47,300,000	Rs. 43,400,000	Rs. 84,900,000	Rs. 18,900,000	Rs. 59,800,000
boardsize	13.52	12.35	15.57	14.77	13.03
perc_ind_dir	73%	77%	91%	72%	69%
ceo_chair	31%	24%	14%	15%	45%
psu	10%	0%	0%	35%	7%
foreign	36%	47%	29%	15%	41%
Assets (in Crores)	19961	10099	27986	33234	15390
ROA	0.14	0.23	0.08	0.12	0.09
Beta	0.96	0.87	0.89	1.20	1.69
Age	39.93	25.82	15.57	36.42	30.38

Correlation values between the independent variables have been given in Tables 6 and 7 for the pre- and post-recession periods, respectively. Age of the firm is positively correlated with board size, size of the firm (Total assets) and ROA. In fact there is relatively higher correlation between age of the firm and its size (0.34 in 2004-07 period and 0.30 in 2009-10 period). Similarly, and not surprisingly, there is relatively high correlation between size of the firm (in total assets) and the size of the board of directors (0.45 in 2004-07 period and 0.31 in 2009-10 period). Since, none of the correlation values are very high, we can assert that there is no significant problem of multi-collinearity when interpreting the results of the regression.

Table 6 : Correlation Matrices
Pre-Recession (2004-07)

	boardsize	perc_ind_dir	Size	ROA	beta	pct_inc_stock	age
boardsize	1.00						
perc_ind_dir	-0.14	1.00					
size	0.45	-0.21	1.00				
ROA	0.03	-0.01	0.04	1.00			
beta	0.00	0.06	-0.02	-0.36	1.00		
pct_inc_stock	-0.10	-0.13	-0.29	-0.06	0.15	1.00	
age	0.22	0.00	0.34	0.13	-0.03	-0.18	1.00
Post-Recession (2009-10)							
	boardsize	**perc_ind_dir**	**Size**	**ROA**	**beta**	**pct_inc_stock**	**age**
boardsize	1.00						
perc_ind_dir	-0.05	1.00					
size	0.31	-0.10	1.00				
ROA	0.05	-0.10	-0.24	1.00			
beta	-0.10	0.06	0.13	-0.37	1.00		
pct_inc_stock	0.02	0.00	0.02	-0.17	0.11	1.00	
age	0.16	-0.02	0.30	0.05	-0.14	0.01	1.00

The results of the regression for pre-recession data are shown in Table 7 below. The total number of usable observations after data cleaning (removing missing and spurious values) is 251, with an adjusted R-square value of 0.5184. There are several key findings from the data during 2004-07. Consistent with existing literature, the percentage of independent directors on the board is negatively associated with the total CEO compensation. Dual leadership leads to higher CEO compensation is also confirmed by the results with a positive coefficient value as expected. PSUs pay less to their CEOs than their private counterparts. In addition, there is a negative influence of PSUs on total CEO compensation. Larger firms (with more total assets) pay higher compensation to their CEOs. Finally, percentage increase in stock price in two consecutive years leads to higher CEO compensation.

Table 7 : Pre-Recession Regression Results

PRE-RECESSION (2004-2007)						
Source	**SS**	**DF**	**MS**	**F (17, 233)**	16.83	
Model	250.8352	17	14.75501	**Prob. > F**	0	
Residual	204.2608	233	0.876656	**R^2**	0.5512	
Total	455.096	250	1.820384	**Adj. R^2**	**0.5184**	
				Root MSE	0.9363	
IDV	**Coefficient**	**Std. Err.**	**T**	**P > t**	**[95% Conf. Interval]**	
sector1	-0.33045	0.235797	-1.4	0.162	-0.7950223	0.134113
sector2	0.484302	0.429533	1.13	0.261	-0.361963	1.330567
sector3	-0.36003	0.237414	-1.52	0.131	-0.8277861	0.107719
sector4	-0.02275	0.240603	-0.09	0.925	-0.4967866	0.451286
boardsize	0.00755	0.01766	0.43	0.669	-0.0272428	0.042344
perc_ind_dir	**-0.92684**	0.524723	-1.77	**0.079**	-1.960645	0.106969
ceo_chair	**0.284716**	0.136282	2.09	**0.038**	0.016214	0.553218
psu	**-3.29921**	0.252264	-13.08	**0**	-3.796216	-2.8022
foreign	-0.44134	0.150091	-2.94	0.004	-0.7370458	-0.14563
size	0.353679	0.058721	6.02	**0**	0.2379873	0.469371
ROA	-0.38944	0.897935	-0.43	0.665	-2.158551	1.379668
beta	-0.16241	0.20704	-0.78	0.434	-0.5703181	0.245501
pct_inc_stock	**0.031309**	0.014893	2.1	**0.037**	0.0019678	0.060651
age	0.002525	0.003156	0.8	0.424	-0.0036926	0.008744
year1	0.28028	0.19848	1.41	0.159	-0.1107651	0.671325
year2	0.370585	0.19081	1.94	0.053	-0.0053485	0.746519
year3	0.632578	0.195349	3.24	0.001	0.2477021	1.017455
_cons	13.95159	0.665139	20.98	0	12.64114	15.26205

The results of the regression for post-recession data are shown in Table 8 below. The total number of usable observations after cleaning the data is 203, with an R-square value of 0.452. There are several key findings from the data during 2009-10 periods. Consistent with existing literature, dual leadership leads to higher CEO compensation is confirmed by the results with a positive coefficient value of 0.637492 (p-value of 0.00). PSUs pay less to their CEOs than their private counterparts. Moreover, as per the results, there is a negative influence of PSUs on total CEO compensation, with a high coefficient value of 2.6543 (p-value of 0.00). Larger firms (with more total assets) pay higher compensation to their CEOs (coefficient value of 0.287748 and p-value of 0.00). Increase in stock price variable is, however, negatively associated with the total CEO compensation during 2009-10 (See Table 8) and can be interpreted as an effect of recession.

Table 8 : Post-Recession Regression Results
POST-RECESSION (2009-2010)

PRE-RECESSION (2004-2007)						
Source	**SS**	**DF**	**MS**	**F (15, 187)**	12.14	
Model	144.4249	15	9.628327	**Prob > F**	**0**	
Residual	148.352	187	0.793326	**R^2**	0.4933	
Total	292.7769	202	1.44939	**Adj R^2**	**0.4526**	
				Root MSE	**0.89069**	
IDV	**Coefficient**	**Std. Err.**	**T**	**P > t**	**[95% Conf. Interval]**	
sector1	0.0051	0.247864	0.02	0.984	-0.48387	0.49407
sector2	0.002169	0.387922	0.01	0.996	-0.7630963	0.767435
sector3	-0.22503	0.209531	-1.07	0.284	-0.6383769	0.18832
sector4	0.382261	0.238451	1.6	0.111	-0.0881376	0.85266
boardsize	0.007356	0.018691	0.39	0.694	-0.0295153	0.044228
perc_ind_dir	-0.42598	0.560982	-0.76	0.449	-1.532651	0.680683
ceo_chair	0.637492	0.144577	4.41	0	0.352281	0.922702
psu	-2.6543	0.257032	-10.33	0	-3.16135	-2.14724
foreign	-0.0693	0.139775	-0.5	0.621	-0.3450412	0.206434
size	0.287748	0.062094	4.63	0	0.1652538	0.410242
ROA	1.136919	0.823045	1.38	0.169	-0.4867273	2.760565
beta	-0.24237	0.212915	-1.14	0.256	-0.6623901	0.177659
pct_inc_stock	-0.07924	0.071114	-1.11	0.267	-0.2195252	0.061051
age	0.000923	0.003211	0.29	0.774	-0.005411	0.007256
year1	0.26462	0.204421	1.29	0.197	-0.138647	0.667888
_cons	14.65935	0.72792	20.14	0	13.22335	16.09534

7. Analysis and Conclusion

This paper empirically analyses the effect of corporate governance, firm size and firm performance and increase in stock price on the compensation of the CEO in an emerging economy, India. Based on the above results, we can confirm some of the hypotheses initially laid out. Hypotheses 1b and 1c are supported by the results in both periods of study. Hypothesis 2 is weakly supported in the post-recession period of the study. Hypotheses 3a and 3c are strongly supported by the results. However, hypothesis 3b is rejected. Finally, hypothesis 4 is strongly supported in the pre-recession period (2004-07) but fails during the 2009-10 period, where there is a negative association between increase in stock price and total CEO compensation. This can be seen as an impact of the 2008 economic recession.

Overall, this study documents that board and ownership structure are associated with the level of CEO compensation, after controlling for the standard economic determinants of compensation (the firm's demand for a high-quality CEO, prior firm performance, and risk). As argued by previous researchers, corporate governance mechanisms can reduce the potential agency problem between managers and shareholders and, thereby influence the way firms set their compensation packages. With respect to the structure of the board-of-directors we find that CEO compensation is negatively associated with higher percentage of independent directors and positively associated with CEO also being the chairperson of the board. The empirical results indicate that there is a positive and significant relationship between firm size and the level of CEO compensation. Finally, stock price increase is positively associated with the total CEO compensation in the pre-recession years.

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Building Competitiveness: A Case of Handicrafts Manufacturing Cluster Units

S. Venkataramanaiah, N. Ganesh Kumar

Abstract

Handicrafts manufacturing is a low technology fragmented and predominantly labour intensive one. This art was learned and transferred from one generation to the next. This sector has undergone significant changes due to the ever increasing global competition, technological advancements and economic developments. This paper presents various drivers that are affecting competitiveness of handicrafts manufacturing units of a cluster through empirical study. Various challenges faced by the cluster units were identified through field visits, interaction with stakeholders and detailed analysis. Based on the study a suitable framework and recommendations for improving competitiveness of the cluster units is proposed and policy implications were identified.

Key words: Clusters, Competitiveness, Handicrafts, Productivity.

1. Introduction

Recent empirical studies (ASK, 2007, Basu et al., 2009, Mutua et al., 2004, Tiwari, 2002) show that firms in clusters, in developed and developing countries, become competitive and contribute significantly to the economic growth of the country. Clusters are emerging as the engines of economic activity, capable of improving standard of living for the region. With economic growth, the clusters/units undergo significant changes in its form, products, interventions, market channels and overall performance (Porter, 1990). Further, it is to be noted that the cluster development primarily depends on social environment, network of organisations, innovation of entrepreneurs and interventions. While implementing recommendations one needs to focus on policy implications for the local, State and Central government agencies. Effective implementation of various interventions requires development of suitable project structure consisting of timeframe, leadership, pilot run, research team, policy issues, funding sources etc. Clusters provide a framework for formulating and implementing effective public policies and making public investments to foster economic development (Porter, 1990). Policies need to have an impact on productivity, innovation and need to change the environment for many companies in the cluster not just a few.

From empirical studies it is noted that the cluster development is better when the responsibility is given to the cluster members with a focus on regional development (USAID, 2006). Handicrafts business worldwide has undergone significant changes in both its manufacturing, distribution processes, marketing and funding mechanisms. In addition, handicrafts are also not exempted from global competition, technological advancements in the manufacturing process and economic developments. In case of developing countries, handicrafts are contributing through increased exports as well as meeting increased domestic demand. Governments at both central and state level are supporting the handicrafts units through suitable interventions like cluster development programmes (CDPs). As a part of this, suitable productivity improvement approaches in different areas like product and process design, planning, manufacturing, marketing and distribution were developed and implemented that help to sustain in the competitive environment. Technological developments, mechanization in manufacturing, innovative financial services and allied areas have helped in improving the productivity and quality of products and services offered in almost every sector. Several studies (Zhang et al., 2004; McDonald et al., 2006; Basu et al., 2009; Lin Grace and Sun 2010; Venkataramanaiah and Parashar, 2007; The Hindu, 2010 and Business line, 2010) have highlighted the importance of cluster approach in building competitiveness among organisations of different sizes and located in industrial clusters. In few cases, factors that account existence of clusters are also addressed. According to Porter (1990), the competitive advantage of industrial cluster is influenced by four determinants viz., factor conditions, demand, supporting industries and firm strategy.

This paper is based on a comprehensive field study conducted by the authors with the objective to improve the competitiveness of the cluster units. This paper identifies various problems faced by the cluster units through field visits and interaction with stakeholders. From the field visits and interaction with the stakeholders, it is noted that the unit holders' problems are primarily due to low degree of adoptation of appropriate methods and technology and lack of integration with processes such as manufacturing, marketing and distribution. We propose suitable framework and make recommendations that might help in building competitiveness of the cluster units.

The paper is organised in seven sections. In the following section, demographics of the cluster units and institutional support are given. Section three describes the problem and objective of the study followed by challenges faced by the units in section four. Methodology and analysis is given in section five, recommendations are given in section six and finally conclusions are given in section seven.

2. Demographics of the Cluster and Institutional Support

A cluster is defined as a geographic concentration of units producing near similar products and facing common opportunities and threats. Artisans cluster is defined as geographically concentrated household units producing products such as handicrafts, handloom, leather etc. Typically these artisans belong to a traditional community producing long-established products for generations (Sarkar and Banerjee, 2007). Moradabad is famous for its handicrafts and is supported under cluster development scheme. Moradabad city is the head quarters of Moradabad district (see figure 1). Moradabad is located at a distance of about 170 km (100 miles) from Southeast of Delhi on the banks of Ramganga, a tributary of Ganges. Moradabad city was founded in 1625 and named after Murad, son of Mughal emperor Shahjahan. Moradabad is famous for production and supply of metal artifacts since eighteenth century. Moradabad is well known for metalware, particularly brass work and had made a mark in the world for handicrafts. The brassware is exported to countries such as USA, Britain, Canada, Germany and to the Middle East, Asia and many other countries in the world. Moradabad is popularly known as "Peetal Nagri" or "Brass City". The brassware industry in Moradabad bloomed in early 19th century and British took the art to foreign markets. Artisans from Benaras, Lucknow, Agra and many other places came to Moradabad. Local people learnt from the immigrating craftsmen and passed on the skills from one generation to another. A vast majority of the population of Moradabad city is dependent on handicrafts and most of the Artisans are not educated and they dependent on handicrafts industry as source of employment and livelihood. It manufactures wide variety of handicrafts for both domestic and overseas customers (Wikipedia, 2012). (Figure 1)

As per 2011 census, Moradabad stands at 26th rank in the country out of 640 districts with a total population of 47,73,138. Moradabad district has a population density of 1,284 inhabitants per square kilometer. Its population growth rate during 2001-2011 was 25.25% and has gender ratio of 903 female for every 1000 male. The literacy rate is 58.67% which is less than the national average of 74.04%. Minority population is about 46% of the total population of the district. Moradabad is a category "A" district i.e. having socio-economic and basic amenities parameters below the national average (Census of India, 2011).

In 1980's various other metalware like iron, steel, glass, wood, aluminum etc. were also introduced to the art industry of Moradabad. According to ASK (2007) study, there are about 14,500 household units dedicated for brass handicrafts, 11,500 for Aluminium and about 500 units to steel crafts. There are about 46,000 workers working across household units which generates about Rs. 34 crore annual income. Of late, the units are facing severe competition from both domestic and overseas

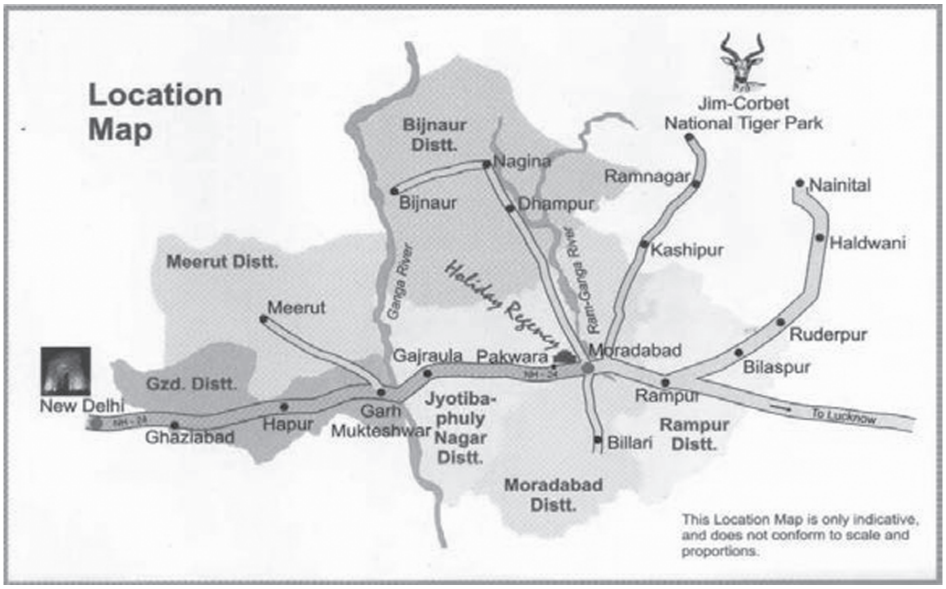

Figure 1: Moradabad Location Map

players apart from rising prices of raw materials. New technologies like electroplating, lacquering, powder coating etc. have also given further boost to this industry. Old and traditional units need to adopt new technologies, enhance skills, improve the working conditions and productivity and use ICT for marketing both within the country and outside.

Table 1: Composition of Moradabad Cluster Units

Type of Unit	Number of Units			
	Brass	Aluminium	Steel	Total
Casting	10000	7000		17000
Polishing	1000	1500	500	3000
Scrapping	1000	500		1500
Welding	500	500		1000
Grinding	500	500		1000
Coloring	500	500		1000
Engraving	1000	1000		2000
Total	14500	11500	500	26500

Source: ASK, (2007)

As per the discussion of the authors with district authorities, there are 6431 registered units and about 25,000 unregistered units in Moradabad engaged in production of brass, aluminium, steel, glass and wooden artifacts. There are about 250 export units of different sizes. Approximately four lakh Artisans are working in the cluster units. The number of household units undertaking different activities is given in Table 1. Exports of handicrafts during 1999 and 2011 are shown in figure 2 (Export promotion council for handicrafts). From the details (given in figure 2) it may be noted that there is a recovery of exports from the year 2008 onwards. This is primarily due to adoption of productivity improvement approaches, global economic recovery, and support extended by the government agencies through suitable interventions such as mega cluster development programme etc. (Figure 2)

From the details of the empirical study and interaction with unit holders, upgrading of existing processes/ practices is very essential to build competitiveness of the units. The major stakeholders of Moradabad cluster is shown in figure 3. Government is spending significant amount of financial and non-financial resources in developing and maintaining necessary infrastructure at cluster level. Government agencies such as handicrafts department, directorate of foreign trade, export promotion council for handicrafts, department of industries etc. are facilitating in availing loans from banks and other financial institutions at affordable rates to registered unit holders. Government agencies are

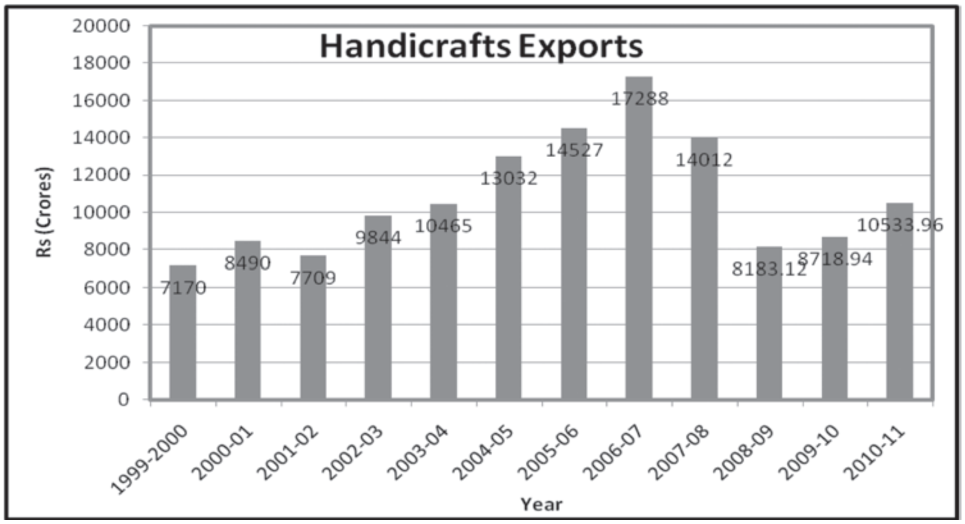

Figure 2: Handicrafts Exports: An Overview

spending significant amount of resources to generate power supply, provide good road network, exclusive industrial area for export oriented units and creating good opportunities for young entrepreneurs. Recently, department of handicrafts launched Comprehensive Handicrafts Cluster Development Scheme (CHCDS) by integrating other schemes as well. Facilities like CAD centers, communication networks, resource centers, raw material bank, design bank, marketing infrastructure etc. are being developed under public private partnership (PPP) model. During our field survey, the unit holders who have adopted productivity improvement approaches and institutional support reported various benefits. These include the following:

- Most of the unit holders reported improvement in revenue due to increase in productivity.
- 50% improvement in labour productivity and 30% improvement in production yield due to process redesign. (Figure 3)
- 20% reduction in labour cost due to continuous work and more than one and half times increase in number of working days during normal demand period.
- 25% savings in power bill paid by the unit holders due to automation of some of the old and inefficient processes.
- Around 40% improvement in non-value added (NVA) activities.
- 2-3 times increase in floorspace utilization, significant improvement in operational efficiency, better utilization of raw material and finished products.
- Improvement in working environment due to re-organisation of manufacturing and supporting resources.
- In few cases, more than 80% improvement in production volume was reported due to process redesign by addressing bottlenecks in the process.
- About 45% reduction in production run-time due to reduction in cycle time which is mainly due to addressing the bottlenecks in the process.
- 30-40% improvement in material flow/handling and inventory turns.
- Improved access to financial, technical, market, health and education related services.
- Few unit holders were also able to take up high end products from both domestic and overseas customers.
- Reported better prices for the products due to better quality and on-time delivery.
- Improved transparency across value chain due to adoption of ICT tools.

Apart from the above benefits, there are few important social benefits like reduction in migration of Artisans from high skilled work to low skilled work. It is also observed that due to proactive support from government

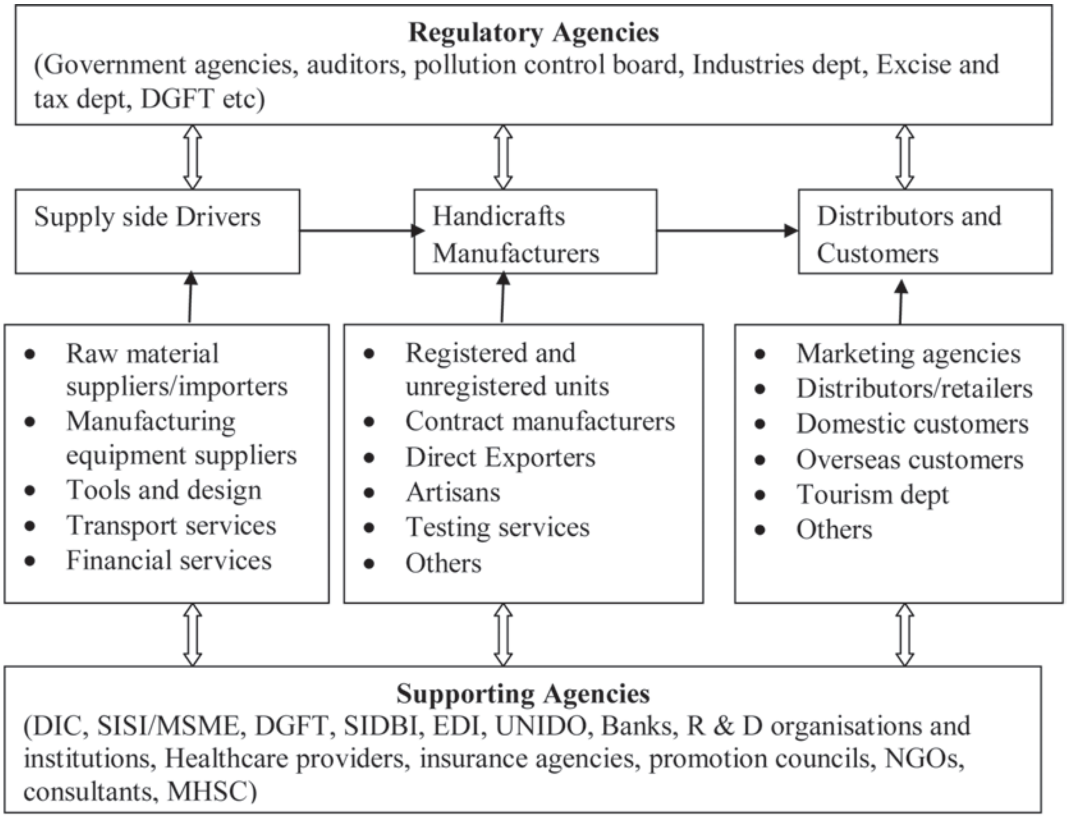

Figure 3: Stakeholders of Moradabad Cluster

agencies, a good number of youngsters are taking up handicrafts manufacturing and export. Some of the important areas where new entrepreneurs are focusing include supply of raw materials, high value added products and services, packaging, marketing, distribution, development of Artisans skills, business development services etc.

3. Problem Description and Objectives of the study

The proposed study primarily based on a planned intervention by Commissioner of Handicrafts, Ministry of Textiles, Government of India for improving the competitiveness of handicrafts manufacturing units of Moradabad cluster. The study is aimed at identifying the bottlenecks in the handicrafts manufacturing and distribution process and improving the productivity and competitiveness of the cluster units. The study includes, identification of non-value added activities (NVA) in the handicrafts manufacturing, distribution and allied areas. The study has been carried out in three phases viz., preliminary study for identification of units and products for detailed study. Phase two included detailed study using process flow analysis and time study analysis of the selected products and production processes. In phase three, recommendations were made based on the analysis. The study also covered analysis of macroeconomic environment, technology, processes followed, evaluation of craft category, product mix and assessment of present production processes.

The primary objective of the study is to provide recommendations based on detailed analysis that helps in building the competitiveness of the cluster. The study is aimed at improving the productivity of the production process by reducing wasteful /non-value added activities in the manufacturing process and disseminating the results across the cluster. The study also aimed at identifying the bottlenecks in manufacturing, distribution and other supporting areas and suggesting remedies that helps in enhancing the competitiveness of the cluster units.

4. Challenges Faced by Cluster Units

Handicrafts manufacturing is a low technology, fragmented and predominantly labour intensive industry. The unit holders faced several challenges including high production cost, low productivity of scarce manufacturing resources, inefficient layout of resources, uncertainty in supply of raw materials, exchange rate fluctuations, fluctuation of raw material prices, high transaction cost in procurement of input resources as well as marketing of final product, poor logistics infrastructure etc. From the field study and interaction with the unit holders, it was found that as high as 20% of the products were rejected at the end customer level due to quality problems (damages). General acceptance of final product at customer end is around 90%. In addition to the above, manufacturers also faced challenges due to limited availability of skilled manpower, inadequate institutional support for critical areas like funding, infrastructure, IT support etc. In addition, the units faced difficulties in printing, packaging and distribution facilities, integration of market information and connectivity to both domestic and overseas markets, quality and timely availability of raw material, lack of appropriate equipment for quality control, limited power supply, limited awareness among unit holders about market linkages and technological trends in handicrafts business. The challenges faced by the unit holders were categorized into five major areas viz.,

(i) Manufacturing and technology

(ii) Operations

(iii) Market access and logistics,

(iv) Financial and infrastructure and

(v) Social, educational and healthcare.

Specific challenges under each category were identified through interviews, field visits and detailed data analysis. These challenges were considered and suitable recommendations for manufacturing unit holders and policy makers were suggested (Venkataramanaiah and Ganesh Kumar, 2012a).

5. Methodology

The methodology included field visits, interaction with stakeholders including unit holders, Artisans, officials of government agencies, members of manufacturers association, financial institutions, healthcare providers, educational/ training institutions etc. Information regarding production processes, Artisans, and market related details was gathered from different sources including Metal Handicraft Service Center (MHSC), UNDP, ILO, DGFT and others. In this process, a semi-structured interview has also been followed.

The study has been carried out in three phases. In the first phase, a three member study team visited the cluster units to understand various problems and important concerns of unit holders, Artisans, government agencies and other stakeholders. Apart from these the team also undertook the study to identify non-value added (NVA) activities and their extent in the current production and allied processes. At the end of the first visit, the team selected about 15 units for detailed study. During second stage details pertaining to various products and processes have been collected. During second phase, the study team designed methods for improving the production capabilities of units. The team identified various constraints faced by the units and suggested some measures to address them at macro level. Proven productivity improvement methods/ approaches such as process flow analysis (PFA) and time study analysis were adopted in this study. These approaches were used to identify critical areas that affect the competitiveness of handicrafts manufacturing and distribution. In phase three, recommendations were made for improving the competitiveness of the units.

From the detailed study, it is noted that there is a huge potential for improving the productivity of the cluster units. In order to improve the productivity, the unit holders as well as support service providers need to focus mainly on streamlining the product design, process design, manufacturing, marketing, distribution, integration of vendors and customers across the value chain. Figure 4, shows typical relationship among these major functions. Based on process flow analysis and time study, bottlenecks in the system were identified and standard times were determined for test cases. This would help in suitable pricing of products, cost control of various activities, offering incentives to workforce etc. Recommendations under each category based on analysis (Venkataramanaiah and Ganesh Kumar 2012a, 2012b), are given in the following section.

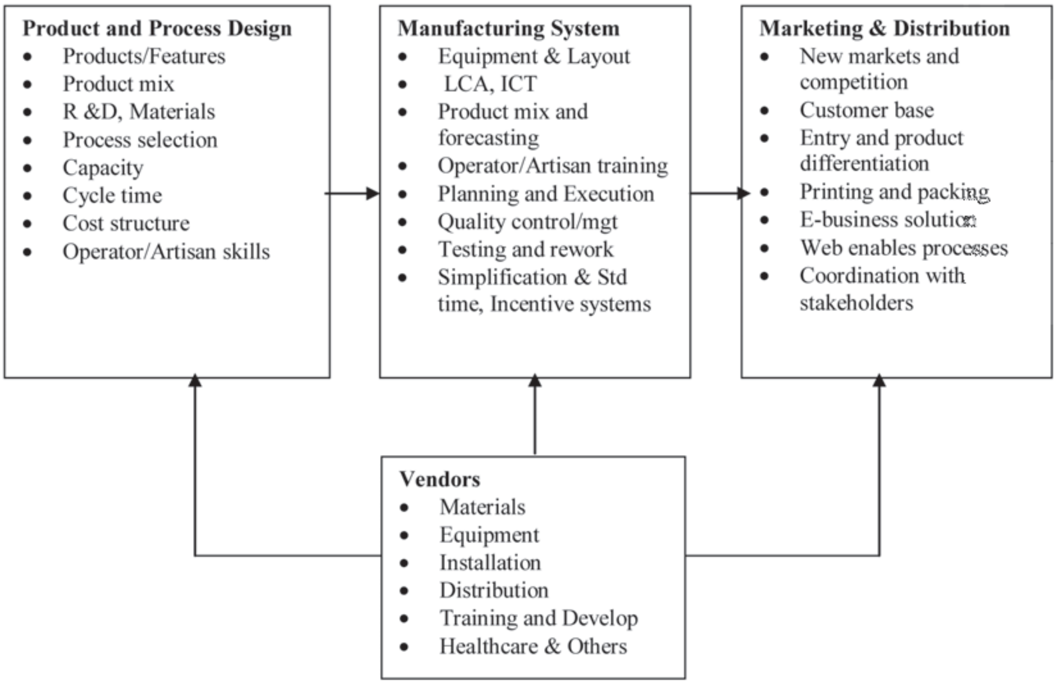

Figure 4: Major functions of cluster units and their relationship

6. Recommendations

The recommendations were categorised into four major areas viz., productivity improvement, financial resources, marketing, logistics and support services and MHSC services. The details are given below.

6.1 Recommendations for Productivity Improvement

Many unit holders are operating their units from homes, which were started more than twenty to thirty years ago. Some of them were started more than two generations ago, are still operating in the same old way and are not able to scale up to meet the demand volume. Units are operating at very low efficiency and create higher pollution levels. Many units evolved over a period of time by adding manufacturing equipment and other resources in an incremental way.

Based on the process flow analysis and time study analysis, bottlenecks in the processes were identified and remedies for improving the performance of the units are given. The estimated improvement by the proposed method over current method was calculated. The estimated improvement by the proposed method in manufacturing lead-time and system output is more than 45% and 83% respectively. Similarly, the operator output is increased by more than 52%. The significant improvement in the proposed method is due to increase in the capacity of bottleneck resource. However, the number of operators in the proposed method is increased by 20%. These observations are in agreement with the improvements reported by unit the holders those who have reorganized their units in the recent past. From these results, it can be concluded that the productivity and competitiveness of the system or units can be improved by balancing the capacity of sub-processes or operations.

It is proposed to establish a common facility center (CFC) at Metal Handicrafts Service Center (MHSC) for high capital-intensive manufacturing equipment such as computerized quality control machine (Coordinate measuring machine, CMM) costing more (approximately Rs. 20 lakh) under a, appropriate Public- Private-Partnership (PPP) model. Unit holders can avail the services from CFC on payment basis. Financial resources required for these schemes including establishment of CFC can be availed from SIDBI, banks, SFCs. Handicrafts Department can provide one time grant of 50% of the cost of CFC. It is also proposed to meet the interest subsidy cost by handicrafts department.

6.2 Recommendations for Financial Resources

The extent of financial resources and their timely availability are very critical in building competitiveness of the cluster units. While designing and offering support schemes, guidelines based on Micro and Small and Medium Enterprises (MSME) Act can be used to classify the cluster units as micro, small and medium category. Limited financial support (one time loan) for upgrading the manufacturing resources is proposed. Such loans should be linked to productivity related investments. The financial support and other details of a sample proposal are given in table 2. From the sample results it is noted that the benefit of the schemes is very significant and many unit holders are highly motivated to improve the existing systems and procedures thereby the units can become more competitive.

6.3 Recommendations for Marketing, Logistics and Support Services

One of the most important challenges faced by many unit holders is limited or no direct access to domestic and overseas markets and cost competitiveness. This is mainly due to lack of awareness in developing and offering high end products in accordance with the changes in the market. Suitable market mechanisms need to be developed. Currently many small and medium unit holders are not able to connect to the mainstream market channels due to lack of suitable infrastructure at unit level as well as high cost involved. Such units are dependent on large and export units and traders for getting orders. Many SME unit holders are not able to get the due share in the final price of the product. Adding to this, there is limited or no access to logistics and other services like printing, packaging, quality certification etc. In order to avoid these problems, suggestions that help improving market access, logistics and other services were proposed. These include,

Table 2: Details of sample financial support

Unit type	Sales turnover (Rs. Lakhs)	Rate of Interest to offer (%)	Capital support* (Rs in Lakhs)	Max. No of units proposed (1st year)	Total capital required (Rs in Lakhs)	Interest subsidy cost# (Rs in Lakhs)
Small	Up to 50	0	10 or 50%	60	600	216
Units owned by Women	Up to 50	0	15 or 60%	10	150	54
Medium	50- 100	3	15 or 50%	20	300	81
Others	More than 100	5	20 or 50%	10	200	42
			Total	**100**	**1250**	**393**

*The capital support can be limited to the amount mentioned or 50% of approved project cost, whichever is lower.
Interest on total capital for 3 yrs at the rate of 12% per annum.

Marketing related

- Formation of consortium of handicrafts manufacturers, Artisans, R & D organisations and other stakeholders and network them with the professional organisations at national and international level which will help in improving sales and marketing.
- Develop appropriate and cost effective direct market channels. For example, networking with tourism and cultural departments at state and international level.
- Appropriate training and education on development of high end products would enhance the adoptability on large scale. Further, this would help in direct marketing of the products in domestic and international markets at better prices.
- Develop ICT resources and train the unit holders and Artisans to facilitate in developing high end products to wide range of customers using ICT.
- Develop of common website at MHSC for promotion of products and services of cluster units including MHSC.
- Reduce intermediation through education, training on use of ICT tools.
- Increase the support for participation in international and national level trade fares and exhibitions.
- Establish additional model showrooms for exhibiting the products of the cluster at different important locations in the country and networking with tourism department.
- Facilitate in offering products based on product differentiation strategy in place of cost strategy alone.
- Common IT infrastructure connecting unit holders and other stakeholders for cost effective and seamless integration with the reliable data on marketing and other aspects.
- Facilitate the unit holders and Artisans in developing innovative products and services.
- Establish Business development center/services using the expertise available within the cluster and outside and provide training on entrepreneurial and other skills.
- Build systems for buyer, seller and Artisans collaboration and development.

Logistics related

- Enhance the facilities in the warehouse/logistics center, so as to improve the responsiveness of the delivery process.
- Enhance logistics infrastructure and distribution services by forming consortium of unit holders, distribution and transport service providers.
- Establish state-of-the-art printing and packaging facility at local distribution or logistics center.
- Provide latest technologies that facilitate fast response for customs clearance etc. Use of RFID and related technologies would facilitate in improved response time to customers.
- Develop cost effective EDI and ICT tools at various stages including tracking of the order status etc.

Support Services related

- In order to improve the operational efficiency and competitiveness of the cluster units, an approach of Self Help Groups (SHGs) consisting of unit holders and Artisans is proposed. Under this mechanism, stakeholders can share their technical expertise and design skills of Artisans and scarce resources available within the cluster. This promotes cooperation among cluster units and lead to sustainable development.
- The resources at MHSC, needs to be reorganized suitably to implement recommendations under project mode.
- In order to support high value products, strengthening of MHSC with suitable skilled manpower and advanced resources is strongly recommended.
- Single window system for supply of raw materials and other resources using Artisan Credit Card (ACC) or UID is suggested to ensure the transparency in the implementation process.
- It is also suggested to link unit holders, MHSC, equipment and raw material suppliers with educational institutions and research organizations in the region to address specific issues like product design, testing, development of cost effective distribution systems and evaluation of benefits on regular basis.
- Continuous evaluation of performance of units, benchmarking within the cluster and other competitors are also suggested.

- Design and adoptation of suitable framework for institutionalization of the support on continuous basis is suggested.
- Suitable healthcare needs to be provided in collaboration with hospitals and insurance agencies through group insurance.
- In order to ensure health and hygiene, an effluent treatment plant is also suggested with the help of local Municipal Corporation.
- Continuing education for unit holders, enhancement of existing ITI and regular school with sufficient amount of resources for educating the children of the cluster members is also suggested.
- Upgrade vocational training center and provide required skills to large number of small unit holders and Artisans on regular basis.

6.4 Recommendations for improving MHSC Services

Dr. V K R V Rao, Economist, noted that "The Link between infrastructure and economic development is not a once and for all affair. It is a continuous process and progress in development has to be preceded, accompanied and followed by progress in infrastructure, if we are to fulfill our declared objectives of generating a self-accelerating process of economic development" (Sarkar and Banerjee, 2007).

The Metal Handicraft Service Center (MHSC), Moradabad was established by Government of India with financial and technical assistance of UNDP and Government of Utter Pradesh as well and functioning under the administrative control of development Commissioner (Handicrafts) Ministry of Textiles. The center is a national level institution for testing, metal finishing and allied processes of art wares and is providing necessary up gradation of skills and technique/services to the exporters situated in and around Moradabad, besides Training Artisans. The infrastructure of the center has grown reasonably but not adequate to the growing needs of the unit holders and changing dimensions of competition. In order to meet the needs of the small and medium unit holders recommendations were made to enhance the services of MHSC. These include,

- Upgradation of conventional manufacturing resources with latest and efficient resources which can help in meeting the quality and volume requirements
- Development of computer based design software and training of the unit holders and Artisans on technology frontiers.
- Development of cost effective printing and packaging services under common facility center.
- Development of common facility center with the state-of-the-art technology, printing and packaging services, business development and training services.
- Establishment of R & D resources like product design & development services, material testing, quality control, market research services, courses on crafts development etc and develop MHSC as a national level center of excellence for handicrafts.
- Development of quality management and quality certification services to unit holders.
- Recruitment and development of adequate and quality technical, managerial and support manpower under suitable scheme on contractual basis or consulting basis.

7. Conclusions

According to Porter (1990) and other experts, cluster approach provides a platform to address the specific barriers companies face in a given market environment apart from other general challenges that companies face. Clusters also provide a framework for formulating and implementing effective public policies and making public investments to foster economic development. Growth of firms in clusters slow down due to multiple factors such as market dynamics, technology obsolescence, scaling problems, migration of firms and workforce, lack of innovation, lack of financial resources, lack of suitable and timely interventions and other resources (USAID, 2006; Business line, 2010). Economists also noted that creation of one time infrastructure is not sufficient for sustainable economic development. Effective implementation of interventions requires suitable organisation structure and better understanding of problems faced by cluster units and implementation framework along with roles and responsibilities of stakeholders.

In this study various drivers that affect the productivity and competitiveness of cluster units was identified and recommendations were suggested based on detailed analysis conducted using time study and process flow analysis. The results of the study show that significant gains in productivity are possible with minor modifications in the production process and this will help in improving the competitiveness of the cluster units.

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Infosys: Transition at the Top*

Srinivas Gunta, N. Ravichandran

"These people were professionals first and founders second. They came out and set up this company as professionals - they invested their savings and built a professional company. But they took a great degree of care to make sure that as founders they did not stand anywhere in preference to professionals. So, in a way they subjugated themselves to professionals."

- Mr. K V Kamath[a]

On 20th August 2011, Mr. N R Narayana Murthy stepped down from the position of the Chairman of Infosys Limited, an Indian IT services company. He was associated with it for over 30 years - from the day he had founded it on 2nd July 1981 with six other entrepreneurs as co-founders. Infosys has been widely recognized as an exemplar of the Indian software services[6] industry not only in India (where it is among the 30 firms that constitute the BSE Sensex[1]) but also worldwide (as a part of the Nasdaq-100 index[2]).

While Infosys has been the poster boy of the new India in the wake of the 1990's economic reforms carried out in the country, N R Narayana Murthy (NRN) had been its public face all along, in the capacity of Chairman since its inception (Exhibit 1). NRN had won several laurels including being recognized as the World Entrepreneur of the Year by Ernst & Young for 2003 and being felicitated with Padma Vibhushan in 2008, India's second highest civilian award. As such, his retirement was expected to leave a void in the operations of Infosys. Aware of his criticality for the firm, NRN took a series of steps over the years to ensure that the impact of his absence would be minimal. While he stepped down from the role of CEO in 2002, he stayed on in the role of the Executive Chairman of Infosys with a clear and loud signal that he would step down from that role at the age of 60[b]. He stepped down from the executive role as he reached that age on 20th August 2006 and agreed to stay on as the Non-executive Chairman of the Board and the Chief Mentor of the company till such time that he reached the age of 65 (Exhibit 2). The Nominations Committee of the board initiated a due process well in advance of his reaching this age to find a successor for him.

Finding the Next Chairman

The nominations committee was headed by Professor Jeffrey S Lehman, an independent director on the Infosys board (Exhibit 3) and had the mandate to find a suitable candidate for the position of Chairman. The committee first got down to approaching the task in early 2010, given the enormity of the job. The parameters for selecting a potential successor were probably as important as selecting the successor himself - especially given the pride Infoscions (affectionate term used for employees of Infosys) took in the unique culture of Infosys. Given this background, the board had determined that bringing in an outsider that did not have an exposure to and awareness of the firm's ideology would be a strict no-no. At the same time, given the stature of NRN, it was vital that his successor also be well renowned. The nominations committee had to primarily balance these twin objectives.

A dominant view was that the next Chairman could be selected from one of the remaining founders still active in the operations of the firm. At the same time, there was widespread speculation in the media that the Chairman could well be from one of the independent

* Srinivas Gunta and N. Ravichandran, Indian Institute of Management Indore (IIMI), prepared this case solely for the basis of class discussion and are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

1 The BSE (formerly Bombay Stock Exchange) is the premier stock exchange of India and is located in Mumbai, the financial hub of the country. Its benchmark index, known as Sensex (Portmanteau of Sensitive and Index), comprises a weighted index of 30 firms based on free-float market capitalization.

2 The NASDAQ-100 is the benchmark index of the US-based NASDAQ, the world's largest electronic stock exchange and comprises its 100 largest non-financial companies by market capitalization, including companies incorporated outside USA.

directors of the board as well - Infosys had a long history of independent directors playing a major role in the firm (Exhibit 4). A conjecture was made about the candidature of Mr. K V Kamath, an independent director - apart from being a leading light in his own right for establishing ICICI, India's largest private sector bank, he was well known to NRN. They were first acquainted at the Indian Institute of Management Ahmedabad where NRN was employed when Kamath was a student. Many years later, NRN served as an independent director on the board of ICICI when Kamath was the CEO[c].

However, the nominations committee included Kamath as well. As it became apparent that Kamath was in the reckoning for the position of Chairman, he recused himself from the deliberations of the committee.[d] After due consideration, the committee reached unanimous resolutions on the changes that needed to be made to the board. Subsequent to a board meeting on 30 April 2011, NRN, the Chairman, announced that Kamath would be taking over as the Chairman with effect from 21 August, 2011. Mr. S Gopalakrishnan (popularly known as S G Kris), one of the founders and the CEO of Infosys would be elevated to the position of Co-Chairman that day while another founder, Mr. S D Shibulal would be elevated to the position of CEO & MD from his erstwhile position of COO (Exhibit 2). Market analysts and industry experts opined that these appointments not only balanced the two objectives that weighed on the nominations committee but also brought about an optimal mix of continuity and change.[e] Moreover, this triumvirate arrangement of Non-executive Chairman, Executive Co-Chairman and CEO & MD had been employed successfully at Infosys before, with Messrs. NRN, Nandan M Nilekani and S G Kris playing these roles respectively in 2007-08 and 2008-09 (Exhibits 1 and 2).

The board also decided to extend the retirement age for the Chairman to 70 years, except for the founders for whom the limit was maintained at 65 years. The board believed that this extension was important to attract best candidates from outside for the job. Also, the status quo was maintained with respect to the retirement age for executive positions - 60, including for founders, meaning that S G Kris would be expected to step down from an executive position on the board in another three years. A few days earlier, on 15 April 2011, it was announced that Mr. Dinesh, another of the cofounders of Infosys who was to retire soon from the board did not seek reappointment despite being eligible for it.[f] Indeed, this paradoxical aspect of strengthening the hands of non-founders and independent directors in the company, coupled with selfless renouncement of entitlements by the founders seemed to be the dominant motif in the history of corporate governance at Infosys over the years.

A Brief History of Corporate Governance at Infosys

Mr. N S Raghavan, one of the co-founders of Infosys and the "first employee," held the position of Joint Managing Director till 1998-99. When he was offered the position of Managing Director, he declined, suggesting that a younger person would be more suitable for such a role. Nandan M Nilekani, one of the younger co-founders, took up the role of MD and later, the role of CEO as well (Exhibit 2). Even as the company grew rapidly under the leadership of Nilekani (Exhibit 5), he moved into the position of a Co-Chairman in 2007-08 in order to ensure a smooth succession - S G Kris took over the position of the CEO. S D Shibulal became the CEO from 2011-12 onwards as S G Kris transitioned into the position of Co-Chairman. Thus, each co-founder made way for another younger person from the founding team so that the firm could continue to grow in a dynamic fashion, even as continuity in the value system was maintained.

While NRN served on the board and oversaw the transitions in leadership, other co-founders who had exited from the board roles served the industry and the country in their own way. For instance, N S Raghavan voluntarily retired from the board in 1999-2000 and since then focused his energies as an angel investor with technology start-ups; he also acted as the Chairman of the advisory council of the eponymous center for entrepreneurial learning located at the Indian Institute of Management Bangalore. Nandan M Nilekani relinquished the position of Co-Chairman from 9th July 2009 and had been working with Government of India closely, as the Chairman of UIDAI[3] (Unique Identification Authority of India), a government agency with the mandate of implementing a citizen identification scheme; he also heads TAGUP (Technology Advisory Group for Unique Projects), a group looking into technology aspects of five large financial sector projects.

Just as renouncements to entitlements by co-founders formed a large part of the narrative on corporate governance at Infosys, the role accorded to independent directors played an equally important part in elevating the governance standards at Infosys. Infosys initiated the position of independent directors on its board from 1997-98 - the Audit, Compensation and Nominations Committees were fully staffed by independent directors ever since (Exhibit 4). Infosys had been a forerunner in this regard (the regulations related to the appointment and independence of audit committees were formalized in India only in the year 2000). Furthermore, the number of independent directors was 50% or more of the board composition since 1999-2000 (Exhibit 6). Clause 49 of the listing agreement on Indian stock exchanges (as amended by a Circular dated 8 April 2008) mandates at least 50% independent directors on boards where the Chairman is a promoter or related to promoters of the company and 33% where an independent director is the Chairman. Infosys had been adhering to these norms much before they were mandated; more interestingly, when K V Kamath, an independent director took over as the Chairman in 2011-12, 9 out of 15 directors were independent.

Numbers told just a part of the story with respect to the independent directors at Infosys - the quality of the independent directors and their fit with the operating context was arguably as important, if not more. Drawn from diverse fields such as academia, industry, government and NGOs, these independent directors were luminaries in their own areas of expertise (Exhibit 3). Apart from providing broad guidance, these directors were probably also in a position to guide Infosys to dovetail its business model according to the geography and the industry. Infosys was among the first Indian companies of Indian vintage to have independent directors of non-Indian origin. Given the born-global nature of export-driven Indian software services industry, it may indeed be deemed as a strategic imperative to have diversity in the board, and yet maintain consistent and harmonious growth, a feat Infosys accomplished. Most importantly, in 2003-04, Infosys started the concept of lead independent director in India[4] - such a director could call meetings of the board or the executive sessions of the independent directors.[g]

With a view to improve corporate governance standards in India, SEBI[5] constituted a committee in 2002 under the leadership of NRN to provide recommendations on responsibilities of audit committees, the role of independent directors and the measures to improve the quality of financial disclosures. This was just one among the several accolades that came the way of Infosys directly and indirectly for its robust practices on governance. Yet, even as Infosys was well positioned as the paragon of governance standards, several questions were raised on the efficacy of corporate governance standards in general.

Adequacy of Corporate Governance Standards under the Scanner

On 7 January 2009, Mr. Ramalinga Raju, the founder and Chairman of Satyam - a large Indian software services firm and a competitor to Infosys - resigned after admitting to falsification of accounts and assets on the company books for several years. Earlier, on 29 December 2008, three independent directors had resigned after a board meeting at Satyam, objecting to decisions taken on acquiring infrastructure companies that were founded by the family relations of Raju - this issue had already resulted in a 55% drop in share prices of Satyam on the New York Stock Exchange. Yet, revelations on ongoing fraud were a matter of a different magnitude and order, calling the judgment of independent directors into question. Hence, the government of India quickly stepped in after the shocking revelations by Raju and reconstituted the Satyam board on 11 January 2009.

3 This designation is equivalent to that of an Indian central minister with cabinet rank.

4 The position was done away with in 2011-12 as the Chairman himself was an independent director.

5 SEBI, the Securities and Exchange Board of India is the regulator for securities market in India.

Even as the Indian government moved into a damage control mode on the Satyam fiasco, analysts started raising questions on the adequacy of safeguards and drew parallels with other such scandals internationally, such as Enron and WorldCom. Moreover, Satyam was not just another company - it formed an important part of the pantheon of software services success stories from India as its fourth largest exporter of software services[6]. Furthermore, Satyam had won the prestigious "Golden Peacock" award for Corporate Governance in September 2008 - UK-based World Council for Corporate Governance, the awarding institution, withdrew it immediately as the scandal came to light but it left many questions unanswered as to how the award could have been bestowed on Satyam in the first place. While non-disclosure of material facts by Satyam may have led to this oversight by the Council, analysts pointed out that publicly available information such as the company's filings provided glaring instances of drawbacks[h] - it did not have a nominations committee; no individual serving on the audit committee was designated as "Audit Committee Financial Expert"; and though the independent directors were in a majority (5 out of 9), couple of them served on nine boards each. More intriguingly, while the Satyam board had divided the roles of Chairman and CEO, the individuals holding these positions were brothers and held executive roles.

The separation of the roles of Chairman and CEO had been on an increasing trend over the years: Among the companies that comprised the Standard & Poor's 500-stock index in the USA, while only 22% had separate Chairmen & CEOs in 2002, this went up to 27% in 2004, 37% by 2009 and 40% by 2011.[i] In a 2004-05 study of Indian firms comprising BSE Sensex and NSE Nifty[7] by Mr. Das, it was observed that 46% of the firms had a non-executive Chairman and hence maintained the split between the positions of Chairman and CEO. If the government-controlled/ public sector firms were to be excluded, this number rose to 61%. Yet, in a seemingly foreboding statement on the likes of Satyam, Das observed, "However, it is an open question as to whether, or to what degree, non-duality is a good indicator of independence, given the fact that the boards can still be effectively controlled by the management or minority owners even without the exercise of duality."[j]

Legally speaking, the position of Chairman is a statutory position mandated by the Companies act wherein the Chairman has the responsibility of convening and moderating the board meetings and finalizing their minutes.[k] Yet, as the board of directors has the primary role of acting as a fiduciary to the shareholders of the company, the fact that the Chairman acts as the head of this board indicates a strong case for separating the role of the CEO from that of the Chairman. However, the differences between these roles were not necessarily understood by the general public. For instance, Kamath had to repeatedly explain to the journalists that as the Chairman of the Infosys board, his role would be more in the realm of corporate governance - including but not limited to non-executive supervision of and support to the CEO.[l]

Ever since 2001-02, Infosys separated the roles of the Chairman and the CEO. Even though these roles were separated for several years, both the roles were always held by two people from among the founders till before the appointment of Kamath. Apart from the philosophical questions of propriety that the erstwhile phenomenon could raise, there was a practical question as well for the near and the distant future: the question of selection of C-Suite occupants and executive positions on the board became important as Infosys steadily moved to a new era of leadership beyond the founders. More so, especially because the founders of Infosys, unlike the promoters of most Indian firms, had it incorporated in the bylaws of the firm that none of their family members would have a role to play in its functioning[m].

Board Composition Choices: Founders vs. Professionals?

In an interview with Business Today, Kamath was asked about his opinion on one Infosys founder succeeding another to the top position. What was unasked albeit implied in the question was if the founders were being preferred to professionals. In response, Kamath observed

6 Tata Consultancy Services, Infosys and Wipro were the three largest Indian software services exporters.

7 The benchmark index of the National Stock Exchange, the largest Indian stock exchange is known as Nifty or S&P CNX Nifty (Short for Standard & Poor's CRISIL NSE Index 50). In 2004-05, 29 of the 30 firms comprising BSE Sensex were also a part of Nifty.

that the founders were professionals first and founders second. He also pointed out that Infosys has always been a meritocracy and that the selection of its leaders to date has been a merit-based process.

Indeed, the founders' vision was stated as building a world-class company, "Of the professional, for the professional, and by the professional."[n] Yet, one of the major reasons that the founders versus professionals debate surfaced in Infosys had to do with the exit of Mr. T V Mohandas Pai, an employee of Infosys for 17 years and an executive board member since 2000-01 (Exhibit 1). He was originally persuaded to join Infosys by NRN who was impressed with his questions at an annual general meeting of the firm. A chartered accountant by training, Pai was instrumental in helping Infosys list on Nasdaq[o] - alongside the IPO in 1993, the Nasdaq listing in 1999 is widely perceived as epoch changing in the history of Infosys for its role in bringing the firm into prominence. With experience in several key roles such as the CFO, the head of human resources and the head of Infosys Leadership Institute, Pai was widely considered as the only non-founder CEO material of Infosys but had quit on 15 April 2011,[p] questioning the process of CEO selection. Looking back at his relation with NRN, which he described as the one between a son and a father, and his long career at Infosys, he later asserted that he quit because he felt that it was time to move on and not because he had unfulfilled CEO aspirations.[q] A few days later, NRN had observed that while Pai may have been on par with Shibulal, the founder who was named the CEO, the latter had a longer duration of tenure in the company; moreover, weightage was accorded to this tenure precisely due to the policies in iRace (the internal HR module of Infosys for career progression), designed by Pai himself.[r] Interestingly, in an employee survey conducted by a leading daily newspaper, while only 15% of employees felt that Pai was the right choice for CEO, at the same time, almost 60% felt that his exit was unjustified.[s]

Commenting on Indian boards in general and the board process used by Infosys for selection of CEOs in particular, Ms. Rama Bijapurkar (a consultant and an erstwhile independent director on the board of Infosys) observed that frontrunners for the CEO position were usually from the founding group (or family). While acceding to the presence of a process, she nevertheless raised questions on the rigour of the same vis-à-vis firms in US and invoked skepticism by framing the issue as a form-versus-substance debate. In the specific case of Infosys, she queried if the board process also involved considering questions such as desirability of every founder getting a chance to run the business vis-à-vis the pros and cons of frequent changes at the top. She suggested that, in general, the 'substance' in the board process was a function of "how the non-promoter board members choose to discharge their responsibility."[t]

While Infosys had a long history of indubitable independent directors, the fact remained that, among the executive directors, non-founder directors were always outnumbered by the founder directors through its history (Exhibits 1 & 6). Furthermore, while the definition of independent director adopted by Infosys is much stricter than the ones mandated by Indian and American regulatory authorities and while it had a majority of independent directors on its board, this could at best be considered a signal of the intent rather than a conclusive proof of great governance. As Das observed, "It is, however, an open question as to whether a simple majority of independent directors is an indication of board-independence especially given the fact that minority owners/ promoters in India are frequently able to assert over selection of independent board members."[u]

Indeed, the major issue in Indian firms appeared to be the control that promoters of most firms were able to exercise, disproportionate to their shareholding. As Bijapurkar pointed out, in many of the listed companies, the shareholding of promoters/ founders is far less than 51% and hence, it called for more public decision-making in succession issues.[8] All the same, she conceded that boards might prefer to go along with the promoters for the simple reason that the latter may know the business better by virtue of being involved with it for a long time as well having a significant (if not a majority) stake in the success of the firm. Moreover, she suggested that most Indian shareholders also seemed more comfortable

8 For instance, the shareholding of the founders in Infosys was 16.04% (2010-11 Annual Report figures).

with founder/ family members.[v] 61% of employees surveyed in Infosys preferred that founders be made CEOs[w] - given the huge presence of stock options among employees, it is possible that several of the surveyed employees were also the shareholders of Infosys and hence, the finding is probably not much of a surprise.

On 10 May 2011, an announcement was made regarding the redistribution of work hitherto done by Pai and Dinesh among the existing executive board members.[x] More importantly, on 11 June 2011, the day of the annual general meeting, the board was expanded with the induction of three new directors - all the three were executive, non-founder members, and in their 40's, signifying the arrival of the next generation of leaders.[y] Of significance was the fact that for the first time in the history of Infosys, non-founder directors outnumbered the founder directors (Exhibits 1, 4 and 6).

Infosys: The Road Ahead

When queried about leaving Infosys, NRN observed: "It is just like the feeling when a person's daughter leaves the family after getting married to a young man. You feel sad because somebody whom you have given birth to and raised all these years is, in some ways, going away. But there is also a feeling of happiness, as she will have a better future with the younger person."[z]

While the announcement about the appointment of Kamath as the Chairman of Infosys was the big news item subsequent to the board meeting on 30 April 2011, there was an arguably even bigger announcement in terms of both magnitude and order. The name of the firm was to be changed from its erstwhile name of Infosys Technologies Limited to Infosys Limited with effect from 16 June 2011.[aa] The operating context had changed dramatically from mid-2008 due to the US sub-prime mortgage crisis followed by the bankruptcy of Lehman Brothers, a US-based global financial services firm. The name change of Infosys was an effort to signal that the company would move from being a mere technology provider to becoming a business partner for its clients. Terming the makeover as Infosys 3.0, the head honchos of the firm expected to cultivate new vistas of engagement with their clients, such as intellectual property-led innovations and consulting-led transformations.[bb] While Infosys had previously also transformed its business model, such as reducing the total percentage of revenues from Application Development & Maintenance space (10 years ago, it was 90%; now, it is 45%),[cc] the proposed transformation was very different from what it had attempted earlier - moreover, with the continuous headline performance of Tata Consultancy Services and Cognizant Technology Solutions which were increasing their revenues at a faster rate, Infosys was in the danger of losing its bellwether status.

The aiming for a new business model, coupled with a new management team implied that the absence of NRN could affect the firm adversely. Yet, at the same time, some people suggested that the role of Chairman is overrated. It did not seem to matter at least in the US, where markets were not too sanguine about Steve Jobs quitting the CEO position in Apple, despite him becoming Chairman; the share prices fell by 7%.[dd] Still, in an employee survey, 74% of Infoscions felt that NRN should reconsider retiring from the company and continue to play an active role[ee] - the underlying belief seemed to be that his advice and experience could be invaluable even if he did not play a direct role in the operations of the firm.

As if to respect their sentiments, the board made another announcement on 30 April 2011 apart from the ones on board level and C-suite changes and the change in the name of the company. NRN was to be appointed as the Chairman Emeritus of Infosys with effect from 21 August 2011. An honorary position usually for life, the position of Chairman Emeritus did not entail representation on board and hence, no responsibility and accountability in the legal sense, in comparison to the position of a non-executive Chairman. While the position of Chairman Emeritus had originated only in the 20th century, India had several illustrious examples of people holding such positions - Mr. J R D Tata and Ms. Simone Tata in the Tata group, Mr. Vijaypat Singhania in Raymond, Mr. L N Jhunjhunwala in the LNJ Bhilwara group, Mr. Subhash Dandekar in Camlin and Mr. C P Krishnan

Nair in Hotel Leela Venture.[ff] Mr. Kiran Karnik, the former chief of Nasscom[9] had earlier alluded to the importance of NRN when he wrote "…the key for anybody who succeeds Murthy - not to try and be Murthy, but to use his stature to take Infosys ahead"[gg] - having NRN in the position of Chairman Emeritus would help in retaining his expertise and stature for the benefit of the firm, despite no clear legality for the role.

Chairman Emeritus position for NRN had largely evoked a positive response from analysts. Professor Vijay Govindarajan of Tuck School of Business at Dartmouth College remarked: "Strategy for any organization is all about intelligently marrying timeless with timely. Every organization has timeless assets - its identity, core capabilities, etc. But times do change, and organizations need to adapt. Founders can keep reminding organizations about the "timeless" part, new management can do the "timely" part. This is a good arrangement."[hh]

In an interview, NRN himself underlined what his role would entail when he observed that his Non-Disclosure Agreement with Infosys would expire on 20th August 2011 and as such he did not see himself advising the officials of Infosys on matters that could have stock market implications. He suggested that his role would be on more generic matters such as improving the image of the firm etc. He also articulated his viewpoint that while Infosys may move away from the tenet of PSPD (Predictability, Sustainability, Profitability and Derisking) of revenues that was the hallmark of his leadership, his personal philosophy has been that the tenet is important and hoped that Infosys would not change it.[ii]

Despite the euphoric response to the appointment of NRN as the Chairman Emeritus, there were some who expressed a mixed opinion. Commenting on the changes at the top in Infosys, an article in Business Standard observed: "Needless to say, the ability of the new trio to leave its mark will also depend on Mr Murthy's willingness to let go and allow the new team to experiment and make mistakes. Mr Murthy has said that he feels like the "father of the bride". Mercifully, he did not say "mother of the groom", since the mother-in-law syndrome is not particularly helpful when it comes to managerial transition!"[jj]

Epilogue

Even as Infosys was in the process of transitioning under a new generation of leaders, the events preceding the selection and appointment of these leaders raised several questions. These questions were pertinent not just to Infosys which had reasonably well-defined board processes but also had wider ramifications for corporate governance in Indian firms. Unlike most Indian firms that were controlled by founding families with minority stakes, Infosys was widely perceived as a professional firm. Yet, the founders versus professionals debate took center stage in Infosys despite none of the family members of Infosys having a role to play in its functioning. Apart from raising questions on transparency, this debate also underscored the probable need for wider consultations.

However, in an environment that was defined by huge employee turnover, the question remained if a "professional" employee would have the same understanding of the company culture in comparison to that of a founder. Also, this raised the question of the acceptability of a "professional" CEO, especially in cases where he may have spent a substantial period of his working life in other companies vis-à-vis those employees who may spend most of their working life in a single firm.

Yet, the issue seemed to be more of lack of acceptable choices not only at the C-suite level but also at the board level, both in terms of expertise and fit. Kamath's was not the only example of a member of the nominations committee recusing himself as he was found to be in reckoning for the Chairman's position. Cyrus Mistry, member of the panel searching for a successor to Ratan Tata, the Chairman of Tata Sons, recused himself from the deliberations of the panel as they wanted to consider his candidature as well. He was later named as the Chairman-designate of Tata Sons. Analysts expected Ratan Tata to be named as Chairman Emeritus of Tata Sons to ensure continuity, *a la* what happened in the case of NRN at Infosys.

9 The National Association of Software and Services Companies is an Indian industry body set up in 1988.

Exhibits

Exhibit 1: Board composition at Infosys over the years

1994-95	1995-96	1996-97
N R Narayana Murthy	N R Narayana Murthy	N R Narayana Murthy
N S Raghavan	N S Raghavan	N S Raghavan
Nandan M Nilekani	Nandan M Nilekani	Nandan M Nilekani
S Gopalakrishnan	S Gopalakrishnan	S Gopalakrishnan
K Dinesh	K Dinesh	K Dinesh
V A Sastry`	G R Nayak`	S D Shibulal

1997-98	1998-99	1999-2000
N R Narayana Murthy	N R Narayana Murthy	N R Narayana Murthy
Susim M Datta*	Susim M Datta*	Susim M Datta*
Deepak M Satwalekar*	Deepak M Satwalekar*	Deepak M Satwalekar*
Ramesh Vangal*	Ramesh Vangal*	Ramesh Vangal*
Marti G Subrahmanyam*	Marti G Subrahmanyam*	Marti G Subrahmanyam*
N S Raghavan	N S Raghavan	Philip Yeo*
Nandan M Nilekani	Nandan M Nilekani	Nandan M Nilekani
S Gopalakrishnan	S Gopalakrishnan	S Gopalakrishnan
K Dinesh	K Dinesh	K Dinesh
S D Shibulal	S D Shibulal	S D Shibulal

2000-01	2001-02	2002-03
N R Narayana Murthy	N R Narayana Murthy	N R Narayana Murthy
Nandan M Nilekani	Nandan M Nilekani	Nandan M Nilekani
Deepak M Satwalekar*	S Gopalakrishnan	S Gopalakrishnan
Marti G Subrahmanyam*	Deepak M Satwalekar*	Deepak M Satwalekar*
Ramesh Vangal*	Marti G Subrahmanyam*	Marti G Subrahmanyam*
Philip Yeo*	Philip Yeo*	Philip Yeo*
Jitendra Vir Singh*	Jitendra Vir Singh*	Jitendra Vir Singh*
Omkar Goswami*	Omkar Goswami*	Omkar Goswami*
Larry Pressler*	Larry Pressler*	Larry Pressler*
Rama Bijapurkar*	Rama Bijapurkar*	Rama Bijapurkar*
S Gopalakrishnan	Claude Smadja*	Claude Smadja*
K Dinesh	K Dinesh	K Dinesh
S D Shibulal	S D Shibulal	S D Shibulal
T V Mohandas Pai`	T V Mohandas Pai`	T V Mohandas Pai`
Phaneesh Murthy`	Phaneesh Murthy`	Srinath Batni`
Srinath Batni`	Srinath Batni`	-

Note: Names without any legend indicate founding members of the firm. Names marked with the ` sign indicate executive members. Names marked with * sign indicate independent directors. The first name is that of the Chairman.

Exhibit 1: Board composition at Infosys over the years (contd.)

2003-04 & 2004-05	2005-06	2006-07 to 2008-09#
N R Narayana Murthy	N R Narayana Murthy	N R Narayana Murthy
Nandan M Nilekani	Nandan M Nilekani	Nandan M Nilekani
S Gopalakrishnan	S Gopalakrishnan	S Gopalakrishnan
Deepak M Satwalekar*	Deepak M Satwalekar*	Deepak M Satwalekar*
Marti G Subrahmanyam*	Marti G Subrahmanyam*	Marti G Subrahmanyam*
Omkar Goswami*	Omkar Goswami*	Omkar Goswami*
Rama Bijapurkar*	Rama Bijapurkar*	Rama Bijapurkar*
Philip Yeo*	Larry Pressler*	Claude Smadja*
Larry Pressler*	Claude Smadja*	Sridar A Iyengar*
Claude Smadja*	Sridar A Iyengar*	David L Boyles*
Sridar A Iyengar*	David L Boyles*	Jeffrey S Lehman*
K Dinesh	Jeffrey S Lehman*	K Dinesh
S D Shibulal	K Dinesh	S D Shibulal
T V Mohandas Pai`	S D Shibulal	T V Mohandas Pai`
Srinath Batni`	T V Mohandas Pai`	Srinath Batni`
-	Srinath Batni`	-

2009-10	**2010-11**	**2011-12 (as on 06.12.11)**
N R Narayana Murthy	N R Narayana Murthy	K V Kamath*
S Gopalakrishnan	S Gopalakrishnan	S Gopalakrishnan
S D Shibulal	S D Shibulal	S D Shibulal
Marti G Subrahmanyam*	Marti G Subrahmanyam*	Deepak M Satwalekar*
Deepak M Satwalekar*	Deepak M Satwalekar*	Omkar Goswami*
Omkar Goswami*	Omkar Goswami*	Sridar A Iyengar*
Rama Bijapurkar*	Sridar A Iyengar*	David L Boyles*
Claude Smadja*	David L Boyles*	Jeffrey S Lehman*
Sridar A Iyengar*	Jeffrey S Lehman*	R Seshasayee*
David L Boyles*	K V Kamath*	Ravi Venkatesan*
Jeffrey S Lehman*	R Seshasayee*	Srinath Batni`
K V Kamath*	K Dinesh	V Balakrishnan`
K Dinesh	T V Mohandas Pai`	B G Srinivas`
T V Mohandas Pai`	Srinath Batni`	Ashok Vemuri`
Srinath Batni`	-	Ann Marie Fudge*@

Notes: Names without any legend indicate founding members of the firm. Names marked with the ` sign indicate executive members. Names marked with * sign indicate independent directors. The first name is that of the Chairman.

While the board composition remained the same in the years 2006-07 to 2008-09, there was a change in designations: From the position of CEO & MD in 2006-07, Nandan Nilekani was elevated to the position of Co-Chairman in 2007-08; Similarly, S Gopalakrishnan was elevated to the position of CEO & MD (from President, COO & JMD) while S D Shibulal was made the COO in 2007-08. See exhibit 2 for more details.

@ Joined the Infosys board with effect from 1 October 2011.

Exhibit 1: Board composition at Infosys over the years (Tenure depiction)

Name\Year	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
N R Narayanamurthy	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
N S Raghavan	✓	✓	✓	✓	✓													
Nandan M Nilekani	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓			
S Gopalakrishnan	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
K Dinesh	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
V A Sastry	✓																	
G R Nayak		✓																
S D Shibulal			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Susim M Datta				✓	✓	✓												
Deepak M Satwalekar				✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Ramesh Vangal				✓	✓	✓	✓											
Marti G. Subrahmanyam				✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Philip Yeo						✓	✓	✓	✓	✓	✓							
Jitendra Vir Singh							✓	✓	✓									
Omkar Goswami							✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Larry Pressler							✓	✓	✓	✓	✓	✓						
Rama Bijapurkar							✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		
T V Mohandas Pai							✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Phaneesh Murthy							✓	✓										
Srinath Batni							✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Claude Smadja								✓	✓	✓	✓	✓	✓	✓	✓	✓		
Sridar A Iyengar										✓	✓	✓	✓	✓	✓	✓	✓	✓
David L Boyles													✓	✓	✓	✓	✓	✓
Jeffrey S Lehman												✓	✓	✓	✓	✓	✓	✓
K V Kamath																✓	✓	✓
R Seshasayee																	✓	✓
Ravi Venkatesan																		✓
V Balakrishnan																		✓
B G Srinivas																		✓
Ashok Vemuri																		✓
Ann Marie Fudge																		✓

Source: All the exhibits have been constructed from reading of annual reports (supplemented by analyst reports and newspaper reports as required) unless stated otherwise.

Notes: Indian firms follow the financial year convention of April to March. Hence, in the exhibits, 1996 would mean 1st April 1995 - 31st March 1996 and so on.

✓ Independent Director ✓ Non-founder Executive Director ✓ Founder Director

Exhibit 2: Positions held by the Founders of Infosys on the Board (from 1994-95)

N R Narayana Murthy	:	CMD till 1997-98; Chairman and CEO from 1998-99 to 2000-01; Executive Chairman and Chief Mentor from 2001-02 to 2005-06; Non-Executive Chairman and Chief Mentor from 21st August 2006 to 20th August 2011. Chairman Emeritus (not a board position) from then on.
N S Raghavan	:	JMD till 1998-99; voluntarily retired in 1999-2000.
Nandan M Nilekani	:	DMD till 1997-98; MD, President & COO from 1998-99 to 2000-01; CEO, President & MD from 2001-02 to 2005-06; CEO & MD in 2006-07; Co-Chairman in 2007-08 and 2008-09; Relinquished the position effective 9th July 2009 and working with Government of India ever since.
S Gopalakrishnan	:	DMD till 2000-01; COO & DMD from 2001-02 to 2005-06; President, COO & JMD in 2006-07; CEO & MD from 2007-08 to 2010-11; Executive Co-Chairman from 2011-12.
S D Shibulal	:	Joined back Infosys in 1996-97 from a sabbatical (1991-96 when he served as a senior information resource manager at Sun Microsystems); Director from 1996-97 to 2006-07; COO and Director from 2007-08 to 2010-11; CEO & MD from 2011-12.
K Dinesh	:	Director till the year 2010-11; did not seek reappointment in 2011-12.
Ashok Arora	:	Left the company and sold off his stake to other co-founders in 1989, much before its IPO in 1993.

Exhibit 3: Brief profile of independent directors at Infosys over the years^

1. Mr. Susim M Datta is a former Chairman of the Hindustan Lever Limited, the Indian subsidiary of Unilever, the Anglo-Dutch FMCG major.
2. Mr. Deepak M Satwalekar was the managing director of Housing Development Finance Corporation Limited (HDFC), an Indian NBFC focusing on home mortgages.
3. Mr. Ramesh Vangal was the President of Seagram (Asia-Pacific). Seagram was the world's largest distiller of alcoholic beverages and was headquartered in Montreal, Quebec, Canada.
4. Professor Marti G Subrahmanyam is the Charles E. Merrill Professor of Finance at the Leonard N Stern School of Business, New York University.
5. Mr. Philip Yeo was the Executive Chairman of the Economic Development Board, Government of Singapore.
6. Professor Jitendra Vir Singh is a Professor of Management at the Wharton School of the University of Pennsylvania. He was the Vice-Dean for International Academic Affairs at Wharton.
7. Dr. Omkar Goswami was the Chief Economist at the Confederation of Indian Industry (CII), a not-for-profit, non-governmental Indian industry body.
8. Mr. Larry Pressler was a former US Senator from South Dakota (1979-1997) and was a senior partner at O'Connor and Hannan, a law firm.
9. Ms. Rama Bijapurkar, a graduate of IIM Ahmedabad, is an independent management and market research consultant based out of India.
10. Mr. Claude Smadja was the Principal Advisor (and formerly Managing Director) to World Economic Forum, a Swiss non-profit foundation known for its annual meeting in Davos.
11. Mr. Sridar A Iyengar was the President of TiE (formerly The Indus Entrepreneurs), a non-profit global network that promotes entrepreneurship.

12. Mr. David L Boyles runs a boutique consulting practice that focuses on IT strategy. Before retiring from corporate life, his last held position was as the COO of ANZ Banking Group.
13. Professor Jeffrey S Lehman is a professor of Law and a former President of the Cornell University.
14. Mr. K V Kamath is the ex-CEO of ICICI bank, India's largest private bank and is its non-executive Chairman.
15. Mr. R Seshasayee is the Executive Vice-Chairman of Ashok Leyland, an Indian commercial vehicle manufacturing company. He was its managing director between 1998 and 2011.
16. Mr. Ravi Venkatesan is a former Chairman of Microsoft India (2004-11).
17. Ms. Ann Marie Fudge is a former Chairman & CEO of Young & Rubicam, a global marketing and communications group.

^These profiles capture the affiliation of the independent directors when they first entered the Infosys board.

Exhibit 4: Corporate Governance at Infosys: Significant Events

2012: NRN retires; is accorded the position of Chairman Emeritus.

2012: An independent director heads the board for the first time.

2012: Among executive members on the board, the number of non-founders overtakes the number of founders for the first time.

2007: Risk management committee debuts, fully staffed by independent directors (this has continued to-date (2010-11)).

2004: Lead independent director named for the first time.

2004: Investor Grievance Committee also staffed fully by independent directors (this has continued to-date (2010-11)).

2003: Mr. Phaneesh Murthy, an executive director, leaves the firm and the board; as a consequence, number of independent directors crosses 50% of board strength for the first time and continues to-date (2011-12).

2001: Board expanded with three executive positions held by non-founders.

2000: Number of independent directors touches 50% of board strength for the first time - the ratio maintained or crossed ever since.

2000: First-ever director of non-Indian origin debuts on Infosys board.

2000: One of the founders and the first employee, Mr. N S Raghavan retires.

1998: Board gets independent directors for the first time.[10]

1998: Audit, Compensations and Nominations Committee staffed fully by independent directors (this has continued to-date (2010-11)).

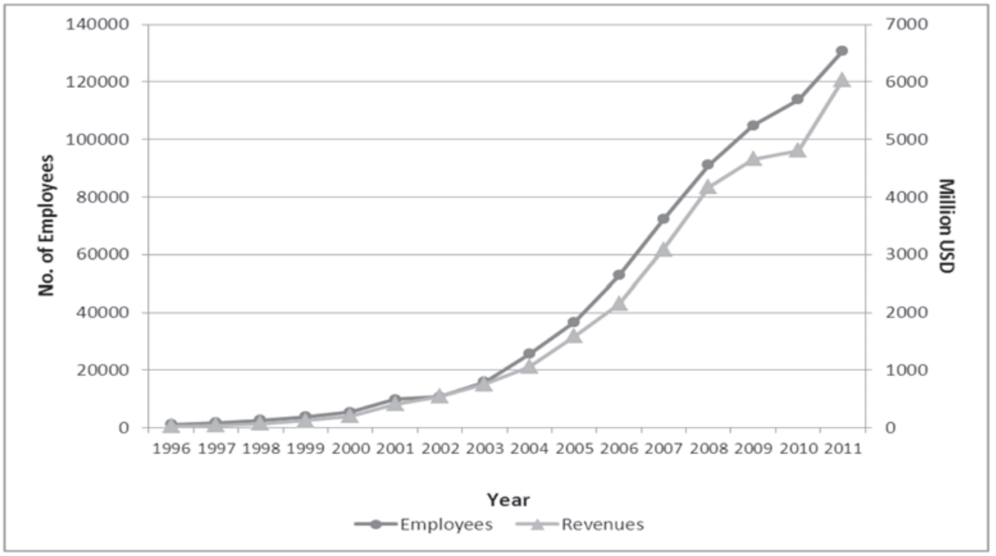
1997: Board exclusively comprises the founding members.

1996: Mr. G R Nayak, head of Finance & Administration becomes a director, and is the second-ever non-founder director at Infosys.

Early 1990's: Mr. Vyakarnam Anjaneya Sastry joins Infosys as the head of Quality department and as a director on the board of Infosys. He becomes the first-ever non-founder director at Infosys.

10 They are termed as additional directors in 1998; termed as non-executive directors in 2001 and termed as independent directors from 2002. NRN is termed as additional director from 2007, starting precisely from the time he gave up his executive role in August 2006.

Exhibit 5: Performance of Infosys over the years

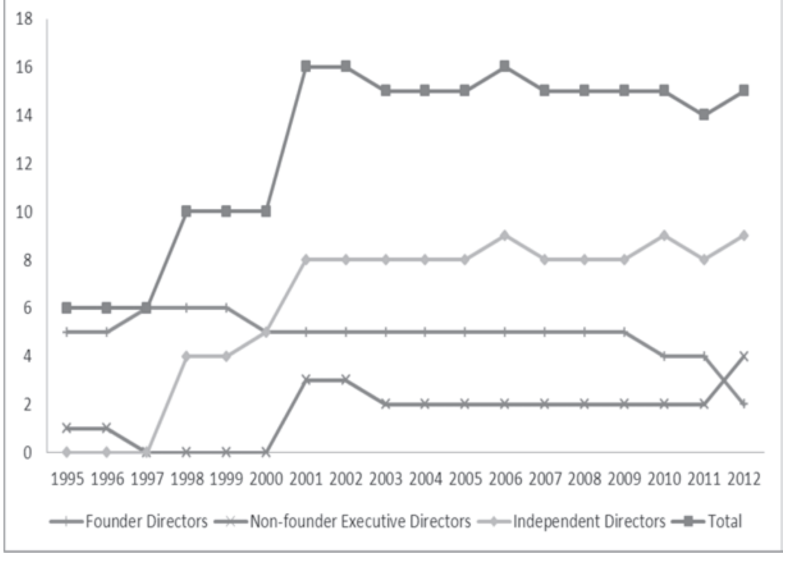


Financial Year (March-end)	1996	1997	1998	1999	2000	2001	2002	2003
Number of Employees	1172	1705	2605	3766	5389	9831	10738	15876
Revenues (Million USD)	27	40	68	121	203	414	545	754

Financial Year (March-end)	2004	2005	2006	2007	2008	2009	2010	2011
Number of Employees	25634	36750	52715	72241	91187	104850	113796	130820
Revenues (Million USD)	1063	1592	2152	3090	4176	4663	4804	6041

Source: Infosys Ltd.

Exhibit 6: Number of Directors on the Infosys Board over the years



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CASE COMMENTARY

Infosys: Transition at the Top

Arun Kumar Tripathy

The case describes the history of corporate governance at Infosys, a leading Indian multinational company that has always stood for achieving the highest standard of corporate governance in India. Impressed by its corporate governance policies, SEBI appointed Mr Narayan Murthy (one of its founder and former chairman) to chair a committee (in 2006), which recommend enhancements in corporate governance practises in India. This case highlights some of the good corporate governance practices that should be followed by founders.

The case brings to fore the various aspects of corporate governance, from board composition, nomination of board members, role of independent directors, role of Chairman and CEO, to executive succession planning. Infosys has successfully put in place the best practices and it reflects the company's corporate governance philosophy to satisfy the "spirit of the law".

The example of Satyam by contrast, subtly brings out the consequences of not having good corporate governance practices. More importantly, the example highlights how organizations try to satisfy "letter of the law" (like Satyam had a majority of independent directors, divided roles of Chairman and CEO) rather than the "spirit of the law". Satyam was able to fool the experts of UK-based World Council for Corporate Governance, to bag the prestigious "Golden Peacock" award for Corporate Governance in 2008, clearly highlights the magnitude of the problem.

The Board of Directors is at the core of corporate governance practice. Hence, its composition and succession planning are crucial elements of a firm's strategy. The nominations committee normally tries to find an optimal mix of continuity and change. The effect of the policies and practices put in by the founders (like not appointing their son / daughter on the company's board, retirement age of founders at 60) can be seen in the long term. For example, now after 30 years, non-founder directors outnumbered the founder directors. Chairman of the board of directors is also not a promoter. It is the strong corporate governance practices at Infosys that created aspirations for a non-founder executive director Mr Mohandas Pai (as reported in media) to become a CEO, inspite of the presence of senior founder member directors. Not to profess that age should be a criteria for selection of a CEO but as per company records of 31st March 2010, age of Mohandas Pai was 51 years and that of founder directors Gopalakrishnan and Shibulal was 55yrs. World over, examples of promoters being ousted (exceptions include Steve Jobs from Apple Computers), from the companies they founded are rare. Founders of Infosys have already put in place some good corporate governance practices (like retirement age, non-involvement of family members etc.) and it would be too much to expect, that they relinquish their executive position just because they are the founders, that too when the company is doing well.

One of the reasons for Infosys to charter a new path lies in the way it has transitioned at the top. However,a recent study by Quigley and Hambrick points at the pitfalls of retention of the former CEO as board chair, which has been the practise at Infosys and also at other leading Indian organizations. Executive succession is often viewed as an occasion for strategic realignment. It stands to reason that new CEOs can guide their firms in new directions to the extent that they have discretion to do so. The issue becomes more important in the presence of founding members of the organization. The predecessor retention can stem from a desire for continuity, but it restricts a successor's discretion. It has been found that predecessor retention dampens several types of strategic change in organizations: particularly in resource reallocation, divestitures, and executive replacements. Moreover, the company performance tends to adhere to pre-succession levels as long as the predecessor remains. Therefore, in the current environment, where the growth of Infosys is not at the same pace as the other leading players in the industry (TCS and CTC), it is important that the new CEO has no constraints. Given the philosophy of the founders, it would not be surprising to see Infosys get back to its winning ways.

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Infosys: Transition at the Top

Parama Barai

Strategic practices in succession management are emerging with renewed interest, with focus shifting from merely talent replacement to strategic orientations of organisations. Depending upon whether the organisation is aiming for continuity or reinvention or some other vision, various systemic alternatives to the planning and execution of the succession process are being suggested and followed.Thus, this case takes up a very topical subject to demonstrate how a "poster boy" organisation struggles to come out of the halo of its distinguished but outgoing Chairman without affecting corporate continuity, shareholder confidence and employee trust. The other aspect that the case highlights is on professionalism taking precedence over lineage. In a country that is dominated by family businesses, where succession planning is not much different from family planning, Infosys provides that rare opportunity to explore how Indian succession systems conform to best practices followed around the globe.

Infosys had been continually relying on its co-founders to fill the top job. The vision was to grow, while maintaining continuity in the corporate value systems. It is only now that the company has engaged Mr. Kamath, an outsider to become the Chairman of the company. Bower (2007) points out that both insiders and outsiders have strengths and weaknesses in taking up leadership positions in an organisation. While insiders know the company and its capabilities well, they are conditioned into the already traversed path of growth. New ideas, however, come from the outside, but the new manager may fail to weave those ideas into the existing fabric of the company's workings, thereby being unable to implement his ideas, and falling short of his mandate. This case reveals that the overall performance of Infosys as well as shareholders' satisfaction has remained upbeat over the years, although the founder directors have always outnumbered non-founder directors at the Board. During this time, Infosys made incremental changes in its business model, for instance it slowly distant itself from the Applications Development and Maintenance space. However, when faced with a strategic transformation in business - "from being a mere technology provider to becoming a business partner for its clients", Infosys opts for an outsider as its Chairman. But to ensure continuity and investor confidence, it also retains Mr. Murthy as Chairman Emeritus. This is an important anecdotal contribution that the case makes in the area of succession management during periods of upheaval or reinvention of an organisation.

Corporate governance issues involved in succession planning, is the other aspect that the case highlights. Anglo-Saxon literature describes the principal-agent problem as a conflict between manager and shareholder owners. The alternate form of governance concern is known as the principal-principal problem between the large shareholder and minority shareholders. However, in emerging economies, a more factual picture would be to present a triad - the principal-principal-agent problem between the promoter, external shareholders, who need not be a minority, and managers. In this triad, managers derive traditional private benefits of control which come at the expense of profits, while promoter derives non-pecuniary benefits of control which does not affect profits. Succession in this scenario has been shown to depend on the level of legal protection of outside shareholders (Burkart, Panunzi and Shleifer, 2003). In countries where such legal protection is strong, there is no need for monitoring and the founder promoter can sell out in the stock market, create a widely held firm, run by professional managers. This is predominantly the case in developed economies. On the other hand, when legal protection is weak, the founder cannot control agency problems, and hence keeps management within the family, although family successors may not be as talented as outside managers. Finally, where legal protection is moderate, it can be beneficial for the promoter to hire a more talented, external professional manager but stay on as a large shareholder to monitor him. This last outcome is observed to be played out in Infosys, as is the practice with most large, listed firms in India. While the case does not discuss much about the strength of legal frameworks existing in India, we know that the Securities and Exchange Board of India (SEBI) does keep a close watch over the rights of outside shareholders, although our judicial system still needs a lot of reform. Accordingly, we find that, when Infosys brings in Mr.Kamath, whose professional record is exemplary, its founder members still retain some control over the board, with Mr. Murthy staying on as a mentor, and possibly, as a monitor. Again, the case provides very apt anecdotal evidence on theories of ownership structures and optimal succession practices within corporate governance, consistent with extant view.

One of the areas that the case remained wanting was its reliance predominantly on secondary data. It would have been more enriching to have a first person account from one or two Board members of the company on the strategic and organisational considerations that led to the decision of engaging an external professional as the Chairman of the Board. Also, some indicators of stock market performance would have corroborated Infosys' standing amongst the corporate honchos in India. Barring these minor limitations, the case has been comprehensively written with clarity, objectivity and the occasional humour, which makes it a very interesting read.

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Infosys: Transition at the Top

Saroj Kumar Pani

The case "Infosys: Transition at the Top" is an interesting read for many reasons. The case not only chronicles the journey of Infosys in adopting governance standards that were clearly ahead of the prevalent industry norms in India, but also describes how such a successful company grapples with changes associated with transformation in governance structure. The case successfully highlights the associated tradeoffs that a company may go through while adapting to new and advanced corporate governance mechanisms. To explain such tradeoffs and the effects thereof, the case anchors itself to the interesting story of the recent change in leadership from the founder member Mr. N.R. Narayana Murthy to a non-founder professional Mr. K. V. Kamath. However, what interests me more in the case, in addition to the processual aspect of the leadership change,are the tacit but important tradeoffs associated with this change. Primary among them are the trade-offs between (a) the organizational knowledge and dependability of founder leaders vs. the potential expertise of professionals, (b) the concurrence to existing organizational ideology by founder leader vs. the best practices and changes that an outsider professional may bring, and (c) the control and associated efficiency of a homogenous owner dominated board vs. the diversity and inclusion of a heterogeneous stakeholder's board.

To discuss these tradeoffs in context of Infosys' thirty years of transformation, we need to go to the core of corporate governance literature. Like many other management concepts, now applied to the real world organizations, the concept of corporate governance finds its root in few established theories of management such as resource dependence theory, stewardship theory, agency theory, and stakeholders' theory. The importance of theories in the context of a real world phenomenon such as Infosys' transition is not only because of the clarity of understanding and the generalizability they provide but also because we can use such theories as frame of references to reassess the relative value of tradeoffs.

Resource dependency theory, in the context of corporate governance, highlights the role of board of governors and that of leaders in providing access to resources which may be critical to a firm's existence and growth (Hillman, Withers, and Collins, 2009). These resources may include domain knowledge, expertise, access to factor market and/or consumer market and so on. In the context of Infosys it is interesting to note how the type/characteristics of resources that the firm needs have gone through drastic changes over thirty years. The provision of resources those enhanced organizational functioning and stability, facilitated its rapid growth in the software services sector, established its credibility in and out of a developing country, and nurtured a new knowledge based industry in 1980s and 90s are surely different than the resources needed to take Infosys beyond 2010. And here lies the crux of the transition from Mr. Murthy to Mr. Kamath which is also highlighted by the fact that Infosys has changed its name from Infosys Technologies Ltd. to Infosys Ltd.

The change in relative importance of resources over thirty years also relates to the change in board structure of Infosys in the context of its predominantly non-domestic consumer market and the importance of credibility as a resource. This aspect of the case, seen from the overall context of Indian software industry and its transition, and from the operating context of Infosys in specific,makes the case interesting from resource dependency point of view. However at this stage a few questions are pertinent: Do the benefit in terms of resources that professionals may bring outweigh the disadvantage associated with parting of resources that an insider or founder leader provides in changed circumstances? And if both of them are necessary, how a company may innovate a governance structure that facilitates complementarity of resources that these individuals may bring? In this context, is the present governance structure of Infosys (including the triumvirate arrangement) ideal?

While the agency theory deals with possible dissonance of interest between principals i.e. shareholders and agents i.e. executives, the stewardship theory highlights the fact that a steward i.e. executives, "protects and maximizes shareholders wealth through firm performance, because by so doing, the steward's utility functions are maximized" (Davis, Schoorman, Donaldson, 1997). Though the assumptions about the nature of executives are different in the above-mentioned theories, Infosys case provides a meeting ground for application of the two theories. If the principal is the agent, as for a substantial period in Infosys, does principal agent problem arise? If a founder member is the CEO and reluctantly the effect of principal-agent problem is subsidized, will it not lead to principal (major) - principal (minor) problem? What kind of board structure is necessary to neutralize both? On the other hand, when can a firm assume that the executive actually works like a steward and what kind of governance structure may facilitate such behavior? A related question in this context will be, if adherence to ideology ensures stewardship behavior and if length of tenure is an indicator of ideological adherence, how does one facilitate entry of external talents and new expertise critical to build an open organization? There are no easy answers to these questions.This case highlights such paradoxes and that is one of the strengths of this case.

The composition of Infosys board, where till 2010, founder directors always outnumbered non-founder directors (among executive directors), and the opinion of one of the erstwhile board members to have a more social inclusive board takes us towards the third major tradeoff: homogeneity leading to control vs. heterogeneity leading to inclusion. Given these tradeoffs, probably the best way out was to seek a compromise: a person who has exposure to Infosys' organizational values and is endowed with industry credibility, external expertise, and founder's faith. However, the best outcome might not necessarily come out of the best process. The case highlights this truth while explaining the nomination process, readers of the case may easily find out. This leads us towards a more philosophical question. Is process important or the outcome? In most of the situations or cases it seems outcome is important. And outcome indeed is important. But isn't corporate governance about establishing a process that is fair?

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Sujet Supposé Savoir: Transferential Dynamics in the Case Method

Shiva Kumar Srinivasan

What is the role of speech in the transference? And, conversely, what is the role of the transference in speech? How does the relationship between these terms 'speech' and the 'transference' structure the analytic situation? These then are some of the important questions that emerge early on in psychoanalysis since there is no guarantee that the analysand will speak in a way that can take the process of analysis forward or which will eventually lead to a cure; but, nonetheless, the methodological wager in psychoanalysis is that it is an ethic of speech (De Certeau and Logan, 1983). The basic rule in the analytic situation is to say whatever comes to the analysand's mind; this process is called 'free-association' (Laplanche and Pontalis, 1967a, 1988a). The analysand is often unable to obey this simple rule in practice because it violates the usual conventions of conversation in everyday life, where a sense of decorum and propriety demands that not everything that comes to mind should be spoken openly. The analysand therefore finds it difficult to speak in the specific way that is demanded of him in the analytic situation, where he can feel free to jump from any topic to just about any topic without being too mindful of what the conscious and unconscious connections are between seemingly disparate topics. The rule of free-association however is often misunderstood because analysands labour under the idea that they have to narrate everything that has ever happened in their lives to the psychoanalyst. They wonder how, if at all, they will find the time necessary to do so. This thought then leads to failures in speech (i.e. in free association) since the analysand is now overwhelmed by the enormity of the task ahead, and this leads, in turn, to performance anxiety. But that is precisely what is not needed in psychoanalysis; it is not necessary to recount the entire life of the analysand during the process of analysis.

The Basic Rule

The basic rule of psychoanalysis merely says that the analysand must honestly report everything that comes to the surface of his mind. It is only after he has had his say, and sufficient psychic material has been generated, and a positive transference is in place, that the analyst should hazard an interpretation. And, then again, the analyst may prefer to wait if the analysand is willing to attempt an interpretation or a construction on his own; it is only at the point that the analysand is close to making a comprehensive interpretation that the analyst sets out a formal 'construction', which brings together a number of prior piece-meal interpretations (Freud, 1938a). Hence, the paradox that is inherent to the method of free-association. In order to make progress in the treatment, the analysand must be willing to free-associate (as opposed to having a normal conversation), but given the usual 'inhibitions, symptoms, and anxiety' that characterizes an analysand at this stage of analysis, it becomes enormously difficult for the analysand to free-associate with the cheerful spontaneity that is envisaged in Freudian metapsychology. So, free-association, in the strict structural sense, becomes possible only at the end of the analysis when the analysand has found some relief from the governing set of symptoms that hold him in its grip even though the treatment can only end if the analysand is willing to free-associate in the strong sense of the term (Freud, 1938b). Overcoming this structural 'paradox of free-association' then requires that the analysand work within the ambit of a positive transference. The analysand will free-associate only with the epistemological assurance and the ethical re-assurance of somebody whom he trusts. He needs to work with somebody whom he feels has done this sort of thing before and brought the analysis to a successful close (Freud, 1912; Freud, 1915;

Freud 1916-17). So when the analysand fails to speak, the psychoanalyst is supposed to think through the state of the transference rather than merely ask or urge the analysand to speak up like in everyday life (Chaitin, 1988).

Presence of Socrates

The relationship between speech and its placement in the discursive context of the transference however is not specific to psychoanalysis per se, but is related to the larger contexts of the rhetorical and dialectical traditions from which it emerges (Chaitin, 1996). In the dialogues of Plato, the disciples of Socrates find it easier to summon a greater degree of eloquence and participation when Socrates, the facilitator, is in the agora but feel a sense of psychological 'deflation' when he is not. This sense of a direct physical presence or physical absence in initiating and sustaining the pedagogical transference, and, subsequently, an indirect psychological presence and absence once the role of the facilitator is internalized by the participants in a discussion is a crucial attribute to the structure of the clinical transference in the analytic situation as well. It was from instances such as this in Greek philosophy that Lacan developed the idea of a 'subject presumed to know'. It is the physical and/or the psychological presence of the facilitator of a discussion in the locus of the 'subject presumed to know' that was to serve as the specific trigger of the positive transference. What does the facilitator know apart from the rules of moderating a discussion? In the Greek context of the Socratic dialogue, the facilitator - in this instance, Socrates himself - is supposed to know the true or correct definition of the terms whose meanings are sought to be clarified through the 'cut-and-thrust' of philosophical debate, even though that was not the formal Socratic contention at all. Socrates was always clear that there is bound to be an excessive attribution of knowledge in interpersonal situations by both the onlookers and the interlocutors when it is characterized by the positive transference (Schleifer, 1987). The facilitator in a philosophical discussion is not supposed to proactively define anything like a lecturer, but merely keep the discussion going until participants gain a better understanding of what is at stake in the discussion. It is important to remember that there was also a 'cathartic' element in these philosophical discussions. So, needless to say, the participants in these Socratic dialogues feel 'spent' at the end of the various symposia that they participate in; they can't help but wonder how Socrates was able to do this sort of thing day after day (Brenkman, 1977; Ragland-Sullivan, 1989). What was the passion that kept the figure of Socrates going? For Lacan, the crucial notion here is that of 'the subject presumed to know'. Whether or not the Socratic figure actually knows the answers to these philosophical terms and questions is not what is at stake. It is the presupposition that there is somebody who either knows the answers, or who knows how to cope with the problem in the absence of an answer, that is captured in the idea of the 'subject presumed to know'. This operative presupposition in the mind of the analysand is that there is somebody who is in the locus of the 'subject presumed to know' though he may not necessarily know who is in the locus of the subject presumed to know in the sense of having personal knowledge of the facilitator or the analyst. The discursive possibilities inherent in this presupposition are what emerge as the elementary forms of speech in the analytic situation in Lacan's structuralist 'take' on psychoanalysis. This is because it is equally important for the analysand, at the end of the analysis, to 'de-suppose' the analyst as the 'subject presumed to know' in the attempt to work-through the residues of the transference, or sublimate it in new contexts. Psychoanalysts in training often displace the residual transference, if any, on to the profession of psychoanalysis itself.

Socratic Facilitation

This brief but synoptic view of the role of the 'subject presumed to know' in the contexts of Greek philosophy and Freudian psychoanalysis will then help us to ask the same set of questions albeit in a different context - that of the case method in professional schools of law and business, where the answers to the assignment question are by no means obvious to the class. These are situations which require that students open up and think-through problems in ways that they are not used to. Here, again, the case instructor, who must moderate a discussion, must proceed with a lot of restraint. He must remember not to compete with the students in seeking a solution, but must minimize his participation, exercise caution, and be willing to listen. What this means is that a genuine case discussion is not necessarily a simple but logical unfolding of the problem until a satisfactory answer is reached, but will often proceed, if necessary, in 'fits-and-starts' that we encountered earlier in the context of free-association in psychoanalysis. The facilitator must remember not to lose his nerve at this point and jump-start the class with a quick solution (Hammond, 1976, 2002; Ellet, 2007). Instead, he too, like the Socratic facilitator, must understand that there is a cathartic element in a case discussion. He must regulate the levels of energy and participation in the classroom in such a way that the pace of discussion is evenly spread out both amongst the possible range of topics and participants in the class, but not merely for the sake of participation. If however the class clams up, is not prepared for a discussion, gets bogged down in a falsetto discussion, or simply loses its way or interest, it won't help to repeatedly urge the students to speak up or leave the class in a huff or in disappointment (Srinivasan, 2009).

'Is' and 'Ought"

This is where the challenge is in Socratic facilitation, which is preoccupied with ensuring more than a false sense of participation. The notion of a 'subject presumed to know', in the strong sense of the term, for instance, is something that is much more likely to emerge when contentious or fundamental issues emerge in a case discussion. Here the class is often split between, for instance, the 'is' and the 'ought' dimensions of a case analysis. Or, alternatively, there could be a more fundamental sense of disorientation from shifting perspectives in a litigation workshop, where a student is asked to switch from the locus of a plaintiff to that of a defendant or vice versa. In such situations students understand that the process of argumentation or making recommendations in the context of legal situations and business situations is not specific to the situations as such, but rather to the locus from which an argument is being put forth or a solution is being sought. The case method at such moments impinges not merely on their analytic or discursive abilities, but on their sense of professional identity as well. There are, needless to say, instances of students who will not agree to switch loci even for practice in a workshop that teaches the basics of litigation and the rules involved in constructing arguments for or against a proposition, since they feel that their sense of justice, professional identity, or ideological affiliation is at stake. What the case method forces students to do however is to work with a 'non-essentialist' notion of the arguments that are possible 'for' or 'against' any given motion in a specific instance of litigation or the analysis of strategic options before making a recommendation. Learning to navigate this sense of theoretical disorientation by developing the analytic, cognitive, and discursive skills needed to lawyer the case, or think-through a specific set of options in the context of business policy or strategic management then is a part of the skill-sets that are needed in the context of the case method. This is where the notion of the 'subject presumed to know' is important. The Socratic facilitator is able to help the participants to 'work-through' the affects in addition to analyzing the differences between the ethical, the epistemological, and the ontological dimensions of the gap between the 'is' and the 'ought' in the context of the case method (Leader, 1994). This is important because most forms of cognitive or existential disorientation leads to a loss of interest in the topics or areas being discussed amongst the participants. These then are the situations in which participants suspect that a solution can be found though not necessarily in a particular book, but often through forms of transferential representations in the learning process. This then is a unique opportunity for case instructors to work-through residual forms of transference from their training as case instructors, where they begin by identifying the different cognitive-cum-stylistic options available amongst the senior faculty and to sublimating the residues of such forms of transference in course of time to the case method itself.

Locus of the Facilitator

It is at this point that they will make the necessary transition from 'supposing' to 'de-supposing' the 'subject presumed to know' (the role models of case instruction to which they were exposed) as the regulative function of an ethical or a dialectical locus rather than to a person as such. It is, interestingly, desire which will keep them going like Socrates; since, as Lacan points out, the regulative element in transferential desire (in the professions) is not pre-given but rather self-reflexive. It must therefore be displaced on to the problems of method sooner or later if it is to be self-sustaining process. The case method is named after Socrates then precisely because this figure is synonymous with the process of transferential 'self-disruption' in the Greek tradition of pedagogy. What made this self-disruption an event that is worthy of our notice is the fact that it has interesting implications for the relationship between speech, the transference, and the role of the unconscious within the ambit of the case method. The prototype of disruption which emerges in discursive situations for Lacan is captured most effectively in the psychoanalytic axiom: 'the unconscious is structured like a language' (Miel, 1966; Gasperoni, 1996; Wilden, 1981). This axiom formalizes the split that the speaking subject experiences between the 'statement' and the 'utterance' in any discursive use of language (Benveniste, 1958, 1971). The unconscious, to put it simply, is that which emerges in the structural gap between the statement and the utterance. That is why techniques of literary analysis are now being used to interpret the formations of the unconscious; that is also why it is possible to claim, like many literary critics do, that 'literature is the unconscious of psychoanalysis' (Hartman, 1961; Felman 1982a; Gallop, 1984; Ragland-Sullivan, 1984; Felman, 1989; Wright, 1998).

Persona of Socrates

What is the transferential excess that generates the persona of Socrates in Greek philosophy? It is possible to argue, as Lacan does, that the Heideggerian distinction between 'empty-speech' and 'full-speech' is related to the manner of discussion in the Platonic dialogues, especially when we consider the role of the transference in inspiring the latter. This analytic distinction is formalized through the role of speech in the analytic situation (Lacan, 1953). The significance of starting with the Platonic context is related to the fact that it was Plato who created the persona of Socrates in Greek philosophy. Since Socrates is often represented as the 'patron-saint' of the case method, it is only appropriate that we should start with his example. There is a wide-spread perception in the dialogues that the rhetorical performance of the disciples of Socrates is related to his transferential presence. The relationship between the problems of desire, speech, and the transference, and the placement of Socrates in the locus of the sujet supposé savoir then is what is in contention in psychoanalysis (Lacan, 1973a, 1979a). This psychoanalytic formulation explains the fact that wherever there is a subject who is supposed to know the secret of the analysand's desire, there is the transference in the psychoanalytic sense of the term. Why is this usually the case? This is because the purpose of the analysis, according to Lacan, is to help the analysand to come to terms with his unconscious. This is especially the case in situations of acute 'psychopathology' where the subject experiences a distinct sense of 'splitting' that makes him feel as though the significant events of his life are happening to someone else. Furthermore, since the analysand does not have any direct access, knowledge, or understanding of his own unconscious, he participates in the analysis in the hope that the analyst will not only be more knowledgeable, but will help him to come to terms with whatever psychic-conflicts might be bothering him. The analysand however will not consent to going into analysis with the analyst unless there is already some pre-transference in place, especially because trust plays an important role in the analysand's willingness to disclose his problems and ask for help. The notion of a sujet supposé savior then is the pre-supposition of a knowledge that is thought to exist in the locus of the other; it is that presupposition which starts off the analysis or at least a desire for the analysis, or even the possibility of a cure for the analysand. Whether this will also lead to an actual cure though has to be determined a little later in the analytic process. But, nonetheless, this is a good start in what is also known as the 'positive' transference.

The Transference

The essential discovery in the theory of the transference from Freud to Lacan is that while the transference is synonymous with the analytic process, it is not reducible to the clinical situation since there are extramural transferences as well in everyday life. This is especially the situation in educational institutions, both in the classroom, and as characterized most famously by the emotional patterns that can be discerned in terms of how Ph.D. students and their advisors and/or supervisors collaborate, learn, and relate to each other in pedagogical situations (Felman, 1982b; Con Davis, 1987a; Con, Davis, 1987b; Jay, 1987; Brooke, 1987). Hence, the psychoanalytic contention that wherever there is a subject 'supposed' to know, or even 'presumed' to know in some instances, there is the transference in the analytic sense of the term. While the transference was initially seen as analogous to 'noise' (as opposed to the 'signal' in a model of communication), which has to be discounted in order to correctly identify the intentional meaning of the signal, it is now re-defined as something that is structurally inevitable in terms of the 'signal-noise ratio'. It is not possible to analyze the speech of the analysand without encountering the transference of either a positive or a negative sort on the part of both the analyst and the analysand. The re-definition of the transference and the counter-transference, as a necessary structural accompaniment of the analytic situation, made it possible to understand it as an archaic template that structures and mediates the conscious and unconscious life of the human subject. Understanding the cognitive 'distortions' introduced by this archaic template then gave both the analyst, and, subsequently, the analysand, a clue to the latter's style of thinking-through and working-through the challenges of life, which the analysand had a propensity to avoid by 'self-disrupting' the linear path of progress that he might have set up for himself. The modalities of this self-disruption then are not arbitrary but linked to the formations of the unconscious, which vary in their manifestations in terms of the modalities of the transference and its interpretation in the analytic situation. Once the inevitability of the transference as a structural problem was recognized by analysts, an interesting discussion began between the different schools of analysis on the differences between the transference and the counter-transference, where the former relates to the affects that the analysand experiences for the analyst, and the latter pertains to the affects generated in the analyst in response to the disclosures, the personality, and other mannerisms that characterize the analysand.

Implications of the Transference

There was also an attempt made by the different schools of psychoanalysis to work out and think through the different phases of the transference in terms of the pre-transference, the transference proper, post-treatment transference, and so on (Malcolm, 1981). It was not clear in the beginning as to whether the analysand should be alerted to the fact that he is experiencing transferential affects. This is called the problem of 'interpreting the transference'. This is still an unresolved issue since some schools of psychoanalysis feel that the analysand should be alerted to the transference and the debate, if any, is about the modalities involved, including the need to time it correctly. Not all schools are sure about whether the analysand should be alerted to this phenomenon, but all of them factor the transference in some form into the interpretation of the analysand's discourse (Laplanche and Pontalis (1967b, 1988b). The transference is important then because it is a core clinical idea that all schools of psychoanalysis agree upon as a 'universal' phenomenon even though its manifestations may vary, and the modalities of its interpretation differ, depending on the analytic situation, and the circumstances that made an analysis necessary. To summarize: the transference may be defined as an affective manifestation of the archaic affective/cognitive template that the analysand developed in early childhood and whose structure he himself is not consciously aware of. It is, in other words, akin to a default program in an operating system, which the end-user may not understand too well even though he uses it all the time. The transference is important in the history of psychoanalysis because it gave Freud an important clue to situations when the process of analysis was abruptly terminated through a process called acting-out (Evans, 1996a). Here, the analysand prefers to do something outside the analytic situation because he experiences either problems of impulse control in the everyday sense, or feels a sense of symptomatic compulsion to do something that goes beyond the ethical ambit of his usual activities, or because he feels that the analyst did not bother to listen properly. These situations, according to Freud, are those where the vicissitudes of the transference has got the better of the analysand. But the dangers of acting-out are not specific to the analysand; it is also possible for the analyst to act-out the counter-transference if he is not careful. The whole point of a training analysis is to prevent the possibility of counter-transferential acting-out by the analyst. A successful training analysis should make it possible for the analyst to work-through the complex representations of the transference to the archaic figures in his psyche without acting-out under provocation in the analytic situation. This is however easier said than done. Analysts sometimes act-out but if they are well-trained, they will not go into denial and take corrective action swiftly.

Acting Out

Acting-out is considered to be a regressive activity in the analytic situation. It is related to a situation in which the subject in analysis is not able to either think-through or work-through; there is then a regression of the libido to infantile forms of behavior that are complicated by the fact that the unconscious is now open. Of course it is not the libido as such that regresses, but certain signifiers, i.e. the ideational content to primitive modes of cognition. These phenomena then are to be found in other domains of activity as well, as Kets de Vries points out, in the inter-personal relationship, the 'emotional dance' between the consultant and the client, which is shot-through with transferential turbulence. This is an important problem in executive coaching since the client may conflate the locus of the consultant with the locus of parental figures and act-out unconscious psychic conflicts. Teaching and consulting then are instances where transferential phenomena are common-place, and acquainting professionals in these areas with transferential phenomena must be a part of their formal training. Kets de Vries offers consultants and clients a 2 x 2 matrix that students of strategy are well-acquainted with, in the form of a 'quadrant', in order to classify, and to theoretically work-through, the permutations and combinations of transferential problems that are possible in these turbulent encounters (Kets de Vries, 2009a). He also argues that executives who have a propensity to act-out are those who have never bothered to ask themselves what is it that they want out of their life; they have a compulsive propensity to rush towards more and more projects without any real understanding of the demonic forces that propel them in their pursuit of success. Such forms of compulsive behavior can be a cautionary tale however for all of us since acting-out is not specific to a personality type, but is a danger that can affect anybody at short notice under situations of extreme stress (Kets de Vries, 2009b). It is therefore important for executives to understand that material pursuits will not satisfy them beyond a point, and cultivate the quest for at least some measure of transferential authenticity in how they relate to themselves and others in their life (Kets de Vries, 2009c).

The Socratic Method

To go back now to our point of departure: Where is all this coming from? The Lacanian answer is 'Socrates' insofar as this figure represents the prototype of the transference in the Western notion of subjectivity. It is this model that is presupposed in the case method, which is also described as the 'Socratic method'. The figure of Socrates is not invoked merely because Socrates liked to ask questions like case instructors, but because the relationship between speech, desire, the unconscious, and the transference enter the history of ideas through the dialogues of Plato. Socratic disciples are said to experience a sense of deflation the moment he leaves the room. This sense of deflation is known as 'aphanisis' in psychoanalysis (Lacan, 1973b, 1979b); it marks the disappearance of the speaking subject in the chain of signification, when the gap between the statement and the utterance seems inescapable except in situations where a positive transference offers the possibility of suturing the gap through a process of imaginary or symbolic restitution in the contexts of creativity (Durand, 1983; Heath, 1981; Ragland-Sullivan, 1996). But, when the student is able to feel the transferential 'presence' of the teacher, he is able to summon an 'eloquence' that leaves him astonished by his own performance. This is the essential pedagogical insight that Plato uses to make an interesting set of links between a theory of the soul and a theory of pedagogy through the transferential mediation of Socrates, who is in the locus of the facilitator, rather than, strictly speaking, a teacher in the doctrinal sense of the term. Socrates, then, unlike religious figures, did not preach a specific doctrine that could be passed on. He was more preoccupied like a case instructor with the methodology of facilitation rather than with the codification of a formal doctrine which can be put together neatly in management programs.

The Socratic Method has a number of modern equivalents including the modalities of learning, learning to learn, and so on. The important thing however is that unlike religious teachers, the Socratic figure does not make a knowledge claim. The only thing that Socrates claimed to know was that he did not know anything more than the bare minimum needed to facilitate a discussion on philosophical topics (case instructors take heart!). But the performative dimension of facilitating a discussion with Socratic modesty and brilliance leads to transferential effects where the interlocutors attribute knowledge repeatedly to Socrates (Srinivasan, 2000; Srinivasan, 2002). It is this phenomenon that was started by a student of Socrates himself who identified his ability to perform to the enabling presence of the facilitator in the room. This notion of 'presence' however does not have to be taken literally; it is more of a transferential presence though there are, admittedly, manifestations of this phenomenon where a case discussion stops suddenly when the instructor leaves though it may carry on, even in his absence, if the positive transference is in place. Socrates then is the prototype in the Western world of the psychoanalytic notion of the 'sujet supposé savoir' because of his capacity to contain the complex range of affects and emotions that emerge when the unconscious opens up in these discussions without acting-out. The capacity to 'contain' then is defined as a kind of philosophical sobriety in Plato's Symposium, which ends with the Socratic figure leaving the symposium early in the morning, after a night of philosophical discussion, without any sense of wear and tear despite staying up the whole night. The other participants however fell into deep sleep and remained asleep for the better part of the day to recover from the heady combination of wine and philosophy (Brenkman 1977; Ragland-Sullivan, 1989).

Conclusion

The challenge in case facilitation, then, is not unlike those that are represented in these Socratic dialogues. The emotional effort in these discussions is linked to the transferential burdens that the facilitator must bear without complaining since not all the participants in a case discussion will be up to it. The rules of the case discussion then must be repeated ad nauseam. The process of deciding who will speak, when, to what purpose, and for how long, must be moderated with tact and diplomacy (Christensen, 1991a; Christensen 1991b). The difference between empty speech and full speech must not be invoked only as an analytic distinction in theory, but must be deployed in practice. The question of whether or not the transference should be interpreted must be faced head on. Strategies to contain those discussants that are on the verge of acting-out must be in place without the case facilitator succumbing to the temptations of acting out in his turn (Evans, 1996a; Laplanche and Pontalis, 1967c, 1988c). And, above all, the case facilitator must be able to inspire a desire for speech, and, even more importantly, a desire to speak rather than be content with merely using a case as a differential feature to the theoretical framework (Chaitin, 1988; Lacan, 1973c, 1979c). While a case discussion may not have the space that is presupposed in the fundamental rule of psychoanalysis, which is to say whatever comes to mind, i.e. free-associate, it still promises the participants much more room to have their say than any other pedagogical system in place. The case method, like psychoanalysis, can be understood, or at least re-invented, as in a response to the invitation of Jacques Lacan when he said in Seminar XVII: 'Come on, say anything, it will all be marvelous' (Evans, 1996b). The persistence of the case method then is a testament precisely to this sense of the 'marvelous' that Jacques Lacan anticipated, albeit in the context of his seminars on psychoanalysis in Paris (Roudinesco, 1990; Marini, 1993; Roudinesco, 1999).

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BOOK REVIEW

The Upside of Irrationality: The Unexpected Benefits of Defying Logic at Work and at Home

Shripad L. kulkarni

Ariely, Dan (2010). The upside of Irrationality: The Unexpected Benefits of Defying Logic at Work and at Home, Harper Collins, Price: Rs. 399, Pages 352, ISBN: 9780007412655.

Behavioral economics may seem to be an overwhelmingly apparent oxymoron at first but it is a beacon of light fervently in pursuit of the subtle nuances of decision making, and Dan Ariely is one of the most inquisitive and bright minds in the field. Having survived stepping on a land mine early in his life, he questions the very nature of our logic centric mind. "The upside of irrationality" is all about how being irrational in life and (shudder) work has its fair share of benefits for everyone. Following up on his previous book "Predictably Irrational" he further explores the hidden forces that dictate our mind on decisions we feel are governed by cold logic.

He begins with a proposition which is sure to send chills down the spines of all the students expectantly waiting to be placed. He talks about how paying executives large (sometimes considered by those not "worthy" as "vulgar") amounts of money would actually decrease their efficiency, not because they'll be worried whether they should vacation by the French Riviera or get that new Ferrari spider, but taking a cue from Yerkes and Dodson's experiments on motivation in which a controlled amounts of electricity dosage was delivered to mice to make them run mazes(the metaphorical representation to executives after the 2008 recession is undeniable) and from Dan's own series of experiments in India and America to get mind bending results (I won't spoil it for you but the executives aren't going to be lining up to subscribe to his thoughts).

Further on, the book explores other themes such as 'Contrafreeloading', which questions the assumption that organisms will always choose to maximize their returns with minimum effort. The author quotes cases in which fulfillment are the primary criterion for job satisfaction, not pay or recognition, such as when a perfectly good presentation is laid to waste because the purpose for which it was created was eradicated or when you spent days editing a book only to find that the deal didn't go through and it's never going to be published. , Even if you get paid more than handsomely for your efforts and your effort is lauded by your seniors and colleagues, the sinking feeling of your work never seeing the light of day is enough to make you want to leave it all behind.

Similarly, the Ikea effect talks about the level of investment in your work playing a part in the satisfaction you gain from it. This was very significant from a marketing perspective for Pillsbury who at first introduced their instant cake mix, all you had to do was mix in water and presto one delicious devil's cake. Result: It was shot to hell by consumers, housewives shied away from it like the black plague, unable to understand their misgiving they found out that even though the end result was top notch, housewives never got the satisfaction of putting in the effort for baking a cake, which earmarks the cake as a symbol of celebration. It's the effort that made the cake sweet for the creators and even more so for the appreciation given to it. This effect is termed as the Ikea effect because when you want Ikea furniture you have to build it yourself, with a series of complex instructions laid out for you to follow, but the end result no matter if it looks like a contorted iron maiden instead of the lush Turkish couch you had expected, it still remains to be a product you created with your bare hands and therefore you're going to enjoy your favorite reruns in that bed of thorns you so lovingly call your couch.

The other themes explored in the book go from hedonic adaptation to revenge with lucid examples from various experiments the author conducted with MIT students and from his personal insights. He delves deeply into his personal experiences from stepping on to the land mine to his complete recovery and how he has used his understanding of behavioral economics to positively influence people. This book is a must read for all students of business for a multitude of reasons, but mostly because as managers decision making is one of the most crucial aspects of the job. The difference in being under the illusion that cold hard logic is what dictates consumers and people and the fact that we as a species can be highly irrational and rightly so, would be the difference between being Kenneth Lay and Narayan Murthy.

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Matters of Discretion - An Autobiography

Wallace Jacob

I.K. Gujral (2011). Matters of Discretion - an autobiography, Hay House India, New Delhi. Price: 795; Pages 519, Hardbound, ISBN: 9789380480800.

There are a few business schools which have been able to arrange an internship at a constituency or parliamentary office for their students. The book under review is a valuable aid for all those students who have not been able to shadow a minister, because many of the necessary administrative skills can be acquired through experience or can be aided by attending a few courses or through a careful reading of some stimulating books.

The book under review is a treatise on contemporary political history and provides a deep insight into the roles played by several politicians, bureaucrats and other people in positions of power. The timeline which the book covers is quite vast. It traces India Inc's odyssey from the pre-partition days of brutal carnages to the present era. At some places the description of certain events is bound to bring tears in the eyes of the reader but such description is warranted as it makes the reader realize the pain which our ancestors have borne silently, the ordeals and the travails which they underwent, and the harrowing experiences they suffered.

The superlative ton has been effectively divided into four parts. The first part examines I. K. Gujral's entry into the maelstrom of politics through three chapters. The second part delves into Sh. Gujral's transition from politics to diplomacy and it contains twenty-two chapters. The third part consists of thirty chapters and examines Sh. Gujral's reentry into the whirlpool of politics. The fourth part contains thirteen chapters which provide a look into Sh. Gujral's tenure as the Prime Minister of India.

The book is an autobiography of a person who served as a Union Minister, as India's ambassador to the USSR and as the Prime Minister of India. The book is written in a descriptive style and is a treasure house of knowledge; it highlights several historical figures - some good and some not-so-good. It presents certain facts in a neutral perspective. The book does not give tips on leadership; therefore it is not for people who are seeking shortcuts to positions of leadership or management. It describes some incidences which have actually occurred and shaped the things the way they are today. It will be helpful to managers of all hues. Reading the book may be an enlightening experience as it helps in learning something which is normally not taught in institutes and colleges, but, is essentially required for crossing the University of Life. The book analyses the interplay of sundry forces such as political, economic, and social which can help the policy makers in formulating suitable policies for the overall development.

The second chapter describes the last moments in the life of Jawaharlal Nehru, the election of Lal Bahadur Shastri and the election of Indira Gandhi as Prime Ministers of this country. The third chapter explores the split and complex personality of a very powerful politician. It also describes how some people like yoga guru of one of the Prime Ministers can threaten politicians, reshuffle the cabinet and get their work done. The early part of the fifth chapter delves into the differences between a Prime Minister and her daughter-in-law. It describes the extent to which people may proceed in order to vent out their personal vendetta. The ninth chapter is devoted to the first non-Congress Government at the centre. Some of the chapters in the book may help the reader in realizing that the fate of the country could have been different had the power wielding politicians not dismissed the pleas of certain intellectuals. In the following section I have touched on some of the chapters. The thirteenth chapter is devoted to the Shah Commission which had been constituted to inquire into the excesses committed during the emergency imposed in India that lasted from June 25, 1975 to March 21, 1977. The twenty-first chapter contains eight principles for the success of an ambassador as enunciated by the former US ambassador to India, Mr. John Kenneth Galbraith. It also contains an account which explains how some big players from other countries came up with a proposal to end the turmoil in Afghanistan. The thirty-first chapter provides a superficial view of an operation (but deeply dissects the aftermath) which had been included in the 'Top 10 Political Disgraces' by India Today magazine. The thirty-third chapter explains the formation of a party by the name of Janta Dal. Chapter-forty one is devoted to a painful imbroglio that rocked the nation in 1990.

The book provides a glimpse into the lives of several eminent ministers, Prime Ministers and Presidents of India. It contains several startling revelations. It also offers a detailed account of certain laudable actions and despicable incidents. Several chapters in the book provide deep insights into some historical events which took place in Afghanistan, Iran, Pakistan and the erstwhile Soviet Union. It speaks about minute electronic bugs that may be placed by intelligence agencies in order to gain access to confidential information. It also explains how innocent people have suffered because of irrational decisions originating from the fiefdoms of power.

Sh. I. K. Gujral has been able to unfurl a country's transformation with great skill and passion. I personally feel that such a book can be a part of the regular syllabi of a Management programme. The book delves into several issues to be understood: minority rights, cultural marginalisation, multiculturalism, state powers, plural society, secularism, social justice, national unity, Mandal Commission recommendations, the power struggles and the power networks in our country, the relationship between business and polity, hegemony of bureaucrats. By all means it is a tour de force of contemporary Indian history. There are no loose threads in the book. All the events mentioned are related in some order and sufficient background information pertaining to each event has been provided. The information contained in the book will help the reader increase his/her knowledge of the constitutional rights conferred on the citizens of India. The book contains photographs, copy of hand-written letters (written by none other than the first woman Prime Minister of India), excerpts from communications between highly important dignitaries which coupled with the author's rhetoric will keep the author glued to the book. The tome actually provides information that may, in part, be otherwise inaccessible to the masses. The book contains a description of several incidences which were fostered by greed for political power nurtured through a well orchestrated publicity campaign to mislead and misguide the masses. Thus it helps in developing a deeper understanding of the country's social and political fabric.

Marketers often speak of eight Ps of marketing: Product, Price, Place, Promotion, Packaging, Power, Pace, and Politics. A careful reading of the work under review will enable the reader in gaining deep knowledge of at least two Ps of marketing i.e. Power and Politics. The book will be helpful to the champions of Human Resource Management as it provides a true picture of the tensions and conflicts which working politicians have to pass through or face. Nonetheless one question remains unanswered: Whether the course of history is often predictable or often unpredictable?

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The India Way: How India's Top Business Leaders are Revolutionizing Management

Nishant Uppal

Cappelli, Peter, Singh, Harbir, Singh, Jitendra and Useem, Michael (2010). The India Way: How India's Top Business Leaders Are Revolutionizing Management, Harvard Business Press Boston, Massachusetts. Price: Rs. 995, Pages 304, ISBN: 9781422155554.

The authors have envisaged corporate reaction to 26/11 attack on Indian financial and commercial capital Mumbai, as primary source of inspiration for writing this book (page 1). The authors share Indian corporate leaders' resilience, persistency and social consciousness during the turmoil which they mention as unique features when compared to US business leaders' response to 9/11 attack. Therefore authors explicitly declare Indian corporate leaders as more humanly and adaptive. Authors also highlight the mix of capabilities, managerial practices, and company cultures of Indian enterprises as unparalleled and nearly non-existent in other part of world including US.

Authors claim to have covered 150 top listed companies and interviewed 100 senior executives (page 9). Questions like, 1) what owners and board of directors bring to the table, 2) divergence from or convergence with their western counter parts, 3) methods of recruiting talent, 4) what will be lasting legacy, among others, were asked to substantiate the findings. Authors in their interviews have used open and close ended questions regarding leadership, governance, and human resource practices.

Structure of Book

The book is organized in seven chapters. The first chapter introduces the subject matter and the second briefs four key principles (figure 1) of "The India Way". Next four chapters elaborate those four principles respectively and the seventh chapter briefs key learning and concludes the book. Mostly these key principles are supported by interview excerpts and citations from newspapers, company journals, and other such sources.

Highlights

Since the opening up of the Indian economy in 1991, the GDP of India has more than tripled, foreign investment has soared (increasing more than tenfold since 1995 alone) and poverty rate has been more than halved. At the same time, leading Indian companies such as Reliance, Tata and Infosys have become formidable competitors in the global business environment.

In these success stories, there is a distinctive Indian way of doing business that has lessons for Western companies. In their book, the authors argue 3Ps: people, pragmatism, and purpose as key ingredient of "The India way". Backed by the insights gained from the interviews of Indian corporate leaders the authors conceived four peculiar key principles (figure 1) those represent "The Indian Way" (page 4&5).

Holistic Engagement with employees (chapter 3):

Indian businesses see their employees "as assets to be developed, not costs to be reduced", and have a strong sense of obligation to them. As a result, improving workforce capability becomes an ongoing process.

Improvisation and adaptability (chapter 4):

This is a case of necessity creating a virtue. The complexity of doing business in India means successful companies have to be extremely flexible and creative to achieve their ends (e.g. concepts like Jugaad among others).

Creative value proposition (chapter 5):

Intense domestic competition and highly cost-conscious consumers imply that Indian companies have become skilled at developing new product and service concepts (e.g. Tata Nano motor car).

Broad mission and purpose (chapter 6):

Instead of simply focusing on shareholder value, Indian companies, say the authors, are more inclined to consider family, social, and national goals in developing and executing their strategies.

While acknowledging that some of the India way is a specific adaptation to Indian conditions, the authors argue that there are specific lessons in people management, executive leadership, competitive strategy, corporate governance, and social responsibility that can be applied by leaders of Western companies. Unlike the state capitalism of China, the India Way, say the authors, "preserves the logic of free markets and democratic institutions", yet "appears to avoid some of the apparent rapaciousness and excesses of the American model."

Views

As the US dominance of the global economy continues to recede, it seems reasonable to assume that business leaders will look to source ideas of leadership from sources outside the US. However external factors like government policies, increasing employable population, FDI inflow among others are also significant contributor to the growth of corporates in addition to their leadership, governance, and human resource practices. Few exemplars from other growing economies like Brazil and Russia can also add flavor to "The India way"., It would have been good, had the authors highlighted Japan (The Toyota way) and China (Public private partnership) in their book. Interaction with top executives through interviews have formed the opinion of authors which may simply be the views of corporate leaders. We should, in order to understand "The India way", expect its sequel in which views from middle level and lower level employees are also captured. These inclusions may justify India's poor 134th rank of World Bank's rating on ease of doing business for 2011. The rating of India has consistently declined from 132 in 2009 and 133 in 2010. Nevertheless "The India way" is a useful addition to the stock of ideas about how to make a business work, and may be a foretaste of many similar management books in the future.

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The New Supply Chain Agenda: The 5 Steps that Drive Real Value

Sudhir U. Ambekar

Slone, Reuben E., Dittamann, J. Paul, and Mentzer, Jhon T. (2010). The New Supply Chain Agenda: The 5 Steps That Drive Real Value, Harvard Business Press. Price: Rs. 1500, Pages 216, ISBN: 1422149366.

An Overview of the Book

Slone is currently executive vice president of supply chain at OfficeMax. He is a vetran supply chain executive and widely recognized as an expert on supply chain and e-business. Dittmann is the Director of Corporate partnership, University of Tennessee. Mentzer was a professor at the University of Tennessee, and one of the industry's most prolific and well-known academics.

The authors wonderfully discussed and distil the complexity of supply chain management (SCM) to its essence through five pillars: 1) Hiring the right talent, 2) Selecting the appropriate technology, 3) Collaborating internally, 4) Collaborating externally, and 5) Managing change.

These five steps are the essence of the book which is divided into eight parts.

The book starts with a focus on supply chain as a primary driver of shareholder value. The authors feel that the supply chain professionals must speak the language of the CEO and the business directors who understand economic profit and its connection to shareholder value. The key term "economic profit," means you are making enough money to cover your cost of capital and meet shareholder expectations. But Supply chain professionals continue to look toward cost savings only. This chapter provides various such situations like when CEOs speak of working capital, cash flow, and DSO (days sales outstanding), those in supply chain conventionally speak of inventory turnover. When CEOs speak of NOPAT (net operating profit after taxes) and ROIC (return on invested capital), they tend to speak of fill rate, shipments, and cost.

As per the book "the most neglected pathway to increasing shareholder value runs through the supply chain." The various activities which are the part of supply chain help to achieve this goal. These are the activity that manages the flow of information, money, and material across the extended enterprise, from supplier through the functional silos of the firm to customers, important point to note here is that the book does not restrict it to manufacturing only but rather focuses on the supply chain, outside the four walls of the plant.

So, two companies with identical profit levels on the income statement can have very different economic profits and which is achieved by the improved management of product availability, delivery, inventory, employed assets, and their associated costs and this is provided with evidence and industry data by the authors.

The book moves from this exciting opening chapter on acceptance of economic profit as a tool for the shareholder value to next part, devise a supply chain strategy. This is the centre theme of chapter two. The strategy formation composed of the five pillar elements. The authors include a short assessment tool to help senior executives quickly identify areas of deficiency. The tool, devised in a supply chain forum at the University of Tennessee, provides with an immediate sense for areas in need of attention.

The authors also provided a synopsis of findings from 35 companies that have completed the assessment. The findings suggest that a short-term focus on decision-making is "the greatest disease plaguing supply chain effectiveness," followed by cross-functional misalignments - which are two major barriers to achieving the supply chain dream.

The next five chapters (chapters three to seven) deal with the five pillars toward supply chain excellence. Assembling the right talent is proposed as the first step. Assembling supply chain talent is not limited to new hires coming in the door, but also the current personnel, including the senior supply chain leaders i.e. acquiring, developing and retaining the right talent is the key to build a world class supply chain.

This job of getting the right talent become more difficult because the supply chain executives not only need to possess expertise within the activities they manage but also they must have an ability to coordinate areas that they do not control in the end-to-end supply chain. This clearly poses challenges for the supply chain leaders who must not only understand the challenges faced by other functional areas of the firm (e.g., new product development, sales, finance, and marketing, among others) but to help these "outside" areas to appreciate the capabilities (and limitations) of supply chain operations. With this in mind, the supply chain executive must be held in the same esteem as the leaders of the interfacing functions.

The ideal supply chain leader must needs to have the following characteristics: global orientation, systems thinking, inspiring and inspirational leadership, technical savvy, and business skills. Perhaps most interesting quality of the modern supply chain leader is the ability to appreciate and accommodate cultural differences in a globally dispersed operation. Supply chain executives who have worked in other countries and understand the global environment are extremely valuable.

The next chapter deals with technology used by supply chain. The success of supply chain depends on selection of right technology. This section particularly offers a poignant consideration of various IT solutions, and their prospective role in advancing the supply chain agenda. It is the critical, enabling step towards building a strategy for supply chain excellence. But most of the time the technology employed in supply chain operations/planning often fall short of their anticipated benefit.

The authors have given three rules for successful implementation of technology - 1) Use leading-edge (beta) technology appropriately, 2) Realize that people issues are tougher than technical issues, and 3) Ensure that the technology project has a business case. The technology chapter closes with an excellent set of questions that supply chain executives should consider before acquiring or implementing a new piece of technology.

The next two chapters are with focus on the collaboration - both internal and external to the firm - to be the richest of the five agendas. These chapters address the concept of systems thinking; when applied across the functions of the business and to the larger supply chain beyond the company. It is here that the "team sport" that is supply chain management must take root, and the authors provide good, practical advice for aligning departments and businesses for the success of supply chain performance that creates shareholder value for the focal firm and its fellow supply chain members. The section on matching supply with demand through sales and operations planning (S&OP) offers real contribution through rich examples and supporting data. The inclusion of an S&OP Assessment Test is a one o the important concept which is given by authors. Likewise, the examples of successful external collaboration from OfficeMax, Lowe's, and West Marine are interesting.

The last of the five pillars (Managing Change in the Supply Chain) is a compilation of the previous four steps.

The book ends with a chapter on case studies on two firms who were successful in development and execution of supply chain strategy. The first case study depicts the setting up of Whirlpool, North America and emphasises on the process of transformation of a supply chain operation paralyzed by a disastrous ERP rollout in the year 2000. The second case study describes the Stage Stores Incorporated (SSI), during its aggressive growth throughout the 2000. Both examples demonstrate the power of building a strategy for supply chain excellence to drive economic profit and share holder's value.

In short this book is worth reading for anyone who is willing to work in supply chain as it can work as a guide for the executives. The book is full of advices which are worthwhile to follow. It is easy to read and make you involve as you start reading it.

Sudhir Ambekar is presently a participant of Fellow Program in Management at IIM Indore. He has ten years of experience as faculty member in various business schools in India. He has conducted several MDPs and has delivered project consultancies. His key research interest is in supply chain management and logistics. His ongoing projects are supply chain management in textile, cross docking etc. He is a graduate in textile technology and a post graduate in management.

Weathering the Storm: Straight Talk from the World's Top Business Leaders

Shiva Kumar Srinivasan

Weathering the Storm: Straight Talk from the World's Top Business Leaders, Lessons Learned Series (2009), Harvard Business School Press, Boston. Price: USD 9.95, Pages 96, ISBN: 978-1-4221-3979-0.

What must top business leaders do when they encounter the 'perfect storm'? What are the most effective modalities for weathering the storm without getting blown away? What must they do to reinvent themselves and their firms? These then are the three main questions that are addressed in this attempt at sharing experiences by top business leaders. It is important to remember at the very outset that there is a structural element to a business downturn, and therefore firms must be emotionally and financially prepared for it in terms of being willing to rethink their strategic approaches. So, for instance, J.W. Marriot Jr. of Marriot International argues that his group reinvented itself by focusing on managing hotels rather trying to buy and own hotels. This made it possible to build a more effective brand rather than waste capital in property transactions which were subject to the vagaries of the market. So it was by clarifying and re-defining wherein lay their core competence in the hotel industry that made it possible for the Marriot group to make a breakthrough amidst economic downturns. William Harrison of J.P. Morgan Chase cites an interesting instance of a perfect storm which hit his firm when they tried to merge with Chase Manhattan in the year 2000. A merger, Harrison argues, is the ultimate test of leadership, but when it is accompanied by a storm that results from the bursting of a bubble, as was the case for his firm, it is easy to become a 'lightning rod'. What sort of a mind-set does a leader need to help his firm survive such an excruciating ordeal? That is the question which worries Harrison who argues that an inherent sense of calm and a belief in 'positive outcomes' is an absolute prerequisite to survive a storm. And, furthermore, as Errol Davis Jr. of Alliant Energy points out, a storm is an opportunity to find out what stuff the management team is made of. It is important for a leader to be able to drawn upon his innermost strengths by being 'self-reliant and resilient'.

Sir Michael Rake of the BT group argues that developing such attributes is an important aspect of effective leadership training and team building; and furthermore, it is important to understand how leaders respond to 'bad news' to gauge whether they will be able to weather heavy storms or whether they will duck their heads in denial. What all these leaders emphasize however is the need to differentiate between 'exogenous variables' that are beyond their control, and actually demarcating a space within which they can make the strategic interventions that will make a difference. And so, as Sir Nick Scheele of the Ford Motor Company argues, it is important to work on what is within the leader's control. When Sir Nick was in charge of Ford Mexico, the company could have been engulfed by the inflation crisis in Mexico (1988-89), but since that was not within their control, he decided to focus on building vehicles in as cost-effective a manner as possible thereby making it more likely that Ford will pull through, and which, as the record shows, it did. The takeaway here is to only work on things that you can control, and 'let the rest happen'. This sage piece of advice is often forgotten both during peace time and when there is a crisis. As Lynda Gratton of the London Business School points out, there is always a plethora of suggestions on the part of consultants when they are asked for advice in such trying situations. She found herself lost amongst a large number of flipcharts - while ideating with her clients - when she was just starting out. It then dawned upon her that it is important to sort out the flowers from the weeds. What this means is that the firm must focus on just three or four initiatives that represent a strategic imperative; these imperatives must be 'tightly aligned' to the firm's over-all 'business strategy' so that these strategic efforts are not squandered. What this process of effective weeding out requires then is a strategic filter to maintain focus. Only then will the firm, as Ping Fu of Geomagic points out, rise from the ashes after a crisis. When Fu was confronted with a cash flow problem in the aftermath of the Internet bubble, he single-mindedly went after Align Technology and offered them the technology that they needed to launch an IPO; this deal raised two million dollars for Fu, and not only solved the cash flow problem decisively, but led to a 'win-win' situation for both Fu and Aliant. But, needless to say, not all situations will be susceptible to such decisive interventions, especially when decision rights are not vested with the leader.

Dame Barbara Stocking of Oxfam recounts a situation when she had to address the concerns of employees during a downsizing effort at the National Health Service (NHS) in the UK, but there was not sufficient clarity in the system on how exactly the system should be re-organized. She therefore argues that it is important to be absolutely candid as she was when she had to re-assure anxious employees (even when she was forced to admit that she didn't have too many answers or even the basic amount of information that they were seeking in order to plan ahead). It is important to be candid in a crisis or in situations that are inherently uncertain rather than mislead everybody by pretending to a sense of certainty that is elusive. In addition to being candid, it is important to be honest as Jimmy Wales of Wikipedia found out when the biography of a journalist was vandalized in his on-line encyclopedia. Acknowledging that there was indeed a problem did not lead to a decline in trust; instead it aroused even more interest in the product. The same logic applies in talking to investors as well so that they do not feel mislead. Blythe McGarvie of Leadership for International Finance points out a rather difficult moment when an important building that was crucial to Hannaford Brothers, where he was employed at the time, collapsed. The firm hit upon the innovative idea of 'digital storytelling' to explain what was happening in as 'forthright' a fashion as possible to anxious investors. The takeaway for Garvie then is that 'how you respond to a problem or an opportunity is more important than the problem itself'. A good instance of this is the situation that Richard Santulli of Net Jets found himself in when the recession hit the aircraft market in 1989; nobody was willing to buy a plane then and to complicate the problem further, Santoulli was almost bankrupt. That is the point at which he moved into the idea of selling fractional ownership instead of declaring bankruptcy or selling planes when the market made that impossible. Fractional ownership of aircraft made a turnaround possible even during a recession; the idea was so appealing that engine manufacturers and aviation fuel dealers were willing to co-operate to keep Net Jets flying. As Sir Gerry Robinson of Allied Domecq argues, it is extremely important in a turnaround to treat the process of downsizing with decency and streamline finances quickly. It is also important to be clear on what the three most important strategic initiatives are that will turnaround the firm as Santoulli did when he proposed the idea of fractional ownership. Turning an organization round is tantamount to reinventing it if all goes well.

Maurice Lévy of the Publicis Groupe discusses an 'economic revolution' which his ad agency launched during the French recession of the early nineties. Here all the employees of the agency met daily for a month to brainstorm solutions; the goal was not to 'stabilize' the firm, but to capitalize on the instability during a downturn and convert that into an agent for bringing about change. And, finally, in a similar vein, Shelley Lazarus of Ogilvy & Mather Worldwide recollects a situation of extreme despair when she was asked to take charge of the New York office in 1991. The firm was not able to find the strategic direction that was necessary to move forward. Shelley hit upon the idea of designing tasks that were within the motivational scope of an employee by asking whether they could at least get a particular account, for instance, instead of worrying about the firm as a whole. While the idea of breaking a huge task into little chunks is not an insight per se, what worked in this case, I think, is linking it to the motivational scope of a given employee. Within that scope - if properly delineated - there wasn't a motivational problem since the employees did not feel strategically overwhelmed by the task ahead. Multiplying instances of such tasks and seeing them to strategic fruition however will lead to a situation that will set up a virtuous cycle of belief in overcoming even seemingly impossible odds and set up important precedents for 'weathering the storm' successfully.

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Editorial

It is well known that education and hence, the educational institutions play an important role in nation building activities. While we are struggling to provide access to education to the masses, the issues that bother us in higher education are excellence in teaching and research. In his speech, Dr. Sopory highlights the need for greater education temper and culture in bringing excellence in higher education. The role of institutions of excellence and universities are important in this context. The second viewpoint enumerates how an institute, namely the Indian Institute of Management Ahmedabad was able to bring excellence consistently over the decades in spite of numerous changes in the environment. Through the discourse the speaker emphasizes the contribution of Dr. Ravi J. Matthai, the first full-time Director of IIMA in making it a great institution.

As in the past, there are two scholarly articles in this issue. One article investigates the determinants of CEO compensation in the context of recession and the second article presents the drivers that affect the competitiveness of handicrafts manufacturing units in the Moradabad cluster.

The case on Infosys highlights the changes that are happening at the top level and brings to the discussion table the issue pertaining to the role of founders versus the professionals in sustenance as well as the growth of the organizations.

The perspective on case method of discussion is based on the foundations of psychoanalysis and it highlights the role of case facilitator.

As in the past, the present issue carries a range of book reviews. While the first book highlights the benefits of irrationality at work and at home, the second book is an autobiography of Shri I. K. Gujral, the ex-Prime Minister of India. Building on the corporate reaction to 26/11 attack, the third book studies 150 top listed companies, and highlights how India's top business leaders are revolutionizing management. The fourth book argues the importance of supply chain in increasing shareholder value and enumerates five steps that drive value. The book on "Weathering the Storm: Straight talk from the World's Top Business Leaders" tries to answer the questions the top leaders ask when they encounter crisis.

The editorial team is happy to bring before you the collection of topics and believes that the readers would find this issue useful and enjoyable to read. We look forward to your suggestions and comments to make the future issues of IMJ more useful and relevant.

Editorial Team
Indore Management Journal (IMJ)

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Guidelines for Author(s)

Research Papers should

- Have a clear statement of purpose.
- Have a clear statement of importance; why the paper was written and what it contributes to the body of knowledge.
- Be well written and readable.
- Present reliable and valid conclusions appropriate to the methodology employed.

Manuscript Requirements

- Manuscripts submitted for consideration for publication in the Journal should be original and not published/submitted anywhere earlier.
- The body of the article should be in Arial with a font size of 11 points. The title of the article should be in 16-font size. The leading (line spacing) should be kept at 1.5 points.
- The manuscript should follow British English spellings.
- As a guide, articles should not be more than 6000 words in length.
- The Author(s) Profile should be approximately of 100 words and should include the name and professional biography.
- References must be in the APA format and carefully checked for completeness, accuracy and consistency. All the references should mentioned in the body of the text as well as in the reference table at the end of the article.

For the complete authors guidelines, please visit:

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Review process

The editor reviews each paper and if judged suitable for this publication, it is then sent to two referees for double blind peer review. Based on their recommendations, the editor then decides whether the paper should be accepted as is, revised or rejected.

Submissions Process

The author should send three hard copies along with a soft copy in CD along with related pictures and figures. A copy of the manuscript should be emailed to the editor at the address given below.

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