

Education and Looking beyond Profit¹

Shashi Tharoor

Let me begin by saying how delighted I am to be amongst you today for the inaugural edition of the IIM World Conference with the theme "Emerging Issues in Management". Coming as I do from an academic background devoid of any formal education in management theory-unlike my senior colleague Pallam Raju, who actually has an MBA - but, given my seven years of professional experience managing the largest department of the United Nations Secretariat, with over 800 staff in 77 offices around the world, a shrinking budget and political pressure to prune overheads, the theme I have chosen for my remarks today - and one of the overarching themes being addressed at this conference - is "Looking Beyond Profit". I chose it because I think it represents a vital area where management theory meets the challenges of the real world and is forced to acknowledge both its internal limitations and external constraints. Given the experience of the developed world in the last half-decade or so (especially the recent backlash against the Anglo-American model of laissez faire capitalism, in the wake of the global recession and given the difficult choices we have had to make during our own six decades of experience as an independent nation and those we would need to make for the foreseeable future, I am sure you will all agree that it is a theme that is more relevant than ever for not just teachers and students of management, such as yourselves, but for all of us who care for India's present and future.

Before I proceed, let me compliment the Directors and faculty members of the IIMs who are part of the team that has conceived and organised this conference. In over six decades of their existence, Brand IIM has well and truly come into its own and is today synonymous with a world class management education with a distinctively Indian flavour. The story of the recent

economic resurgence of India would be essentially incomplete without acknowledging the critical role collectively played by the IIMs in providing our country with an amazingly talented, highly motivated and highly successful group of managers who have gone on to transform every area of our society and economy with their exceptional leadership. I can't even begin to enumerate the extraordinary achievements of IIM Alumni and the difference they have made to India. I am proud to affirm that your alumni have more than realised the hopes and vision with which Pandit Jawaharlal Nehru first envisaged your existence. As in many other areas of our nation-building, we must pay homage to his farsightedness for recognising that, to meet its tryst with destiny, India would need world class leaders of business and industry.

I want to outline before you my view of the challenges we will face in the 21st century, and I put the proposition to you that how we think of profit must also change to reflect the ways in which we, as a society and a nation, will take on those challenges. We are dealing with two topics of long-standing controversy here: the role of profit in economic activity, and the role of government in economic activity. The former has seen much debate - and evolution - since Adam Smith's work on *The Wealth of Nations* was decried as promoting the "worship of Mammon". The latter, too, has seen its share of theorists and trials, be it the dominant Keynesian formulations of the 20th century, or India's own experiments with Nehruvian/Fabian socialism and a planned economy.

What we see evolving today, however, is a sophisticated and interconnected system which I like to think of as an emerging knowledge society. Note that I say knowledge *society*, and not merely the knowledge economy whose benefits, we are told, India stands to reap. A knowledge society is dedicated to the greater goals of development and integration in an atmosphere of enlightenment; the rules of the market economy

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certainly have their role to play, and indeed are of great benefit when applied in their proper place, but that is no invitation to apply the economics of the market-place indiscriminately to every field of human endeavour. After all, another long-running debate has been about whether rules of economic rationality also approximate rules of justice, fairness and morality. The jury is still out on this one - there is, for instance, Justice Richard Posner's persuasive writing in the USA regarding the economic efficiency of the Common Law - but suffice it to say that human rationality can factor in more variables than the traditional economic model would permit.

In this emerging (also, emergent) system, our concept of profit too must be reexamined, to align more closely to what is profitable in a knowledge society. Traditionally, profit (and its related concept, profitability) reflects simply an assessment of the extent of returns one can expect from any economic enterprise - in other words, how much one can expect to make over and above the amounts needed to cover the costs involved in that enterprise. Profitability is also a factor for assessing the merit of any enterprise. The rationale for such evaluation is elegant in its simplicity: the goal of any economic activity is to provide the greatest possible returns on the resources invested in it, presumably with each investor gaining a share proportionate to his/her contributions. A profitable endeavour can best provide such returns, thus succeeding in its prime goal. That is to say, barring any form of impropriety or diversion, shareholders can expect to get their share of profits, generated by enterprises in which they have invested.

This is, of course, an exaggeratedly simplified view of profit and business. The devil is in the details, or in this case, in the definition. We all know profit equals earnings less costs, but exploring that simple formulation in any detail opens a fair few cans of worms. What revenue qualifies as an earning, and what exactly does one account as a cost? What exactly does one do with whatever amount has been identified as profit, and what (if any) implications does that have for profitability? And on which of these does one have to pay taxes, as opposed to those on which one can safely claim an

exemption? (Incidentally, it is by virtue of their mastery over this arcane knowledge that CA's, CFA's and tax lawyers remain such feared and respected figures in our community. This is an example of information arbitrage, and it is one of the traditional means of cornering profits which the 21st century knowledge society, with its tax submitting software, might well make increasingly obsolete).

The moment we delve into the definition of profit, some reservations can arise. One is fairly evident and well-explored: a pre-occupation with profit in the present too often translates into neglecting the sustainability of profit (or the enterprise, community or society itself) into the future. The practically universal adoption of Corporate Social Responsibility (CSR) norms and practices can be seen as one form of awareness of this shortcoming: businesses across the world now accept that their earnings, their profits, come from society, and as such they must take steps to ensure the health and vibrancy of society if they are to thrive. Further, as we are coming to realise, globalisation and a shrinking planet on which, more to follow-do not permit the commercial equivalent of slash and burn agriculture. Rather, a society or community must be cultivated with care and attention if it is to serve as a lasting asset. As the global financial crisis most recently established, anyone who erodes parts of the foundational linkages between economics and people anywhere in the world soon finds that he has undercut himself in the bargain. Regaining a steady footing from that position is proving a challenge for nations in two entire continents even today, and the measures those nations take in this effort continue to have implications for every one of us, even here in India. The changing profile of tourists visiting the lovely state of Goa and the nationalities of those purchasing property here is but one illustration of how financial instability, change and rebalancing in the economic centres of the West can be transmitted to our shores!

This idea - that profits ultimately stem from society - can be thought of in terms of Public Trust doctrine. Gandhiji had spoken of trusteeship this is a related idea. Simply put, we are given only temporary stewardship over the resources we use, which makes it our duty to

pass on to our successors resources undiminished in quality or value, though they may be transmuted in form. (Environmentalists have long made this argument: an African proverb which - my former boss Kofi Annan often quoted - says the Earth is not ours, it is a treasure we are meant to safeguard for the next generation.) This leads to an entirely new understanding of profit - one which would restrict it largely to the benefit gained from "our" resources, without depleting the resources to which others, including future generations, are entitled. This is the exact opposite of the traditional view of using resources to generate profits, from where comes our concern with efficiency, i.e. reducing the extent of those resources wasted in this conversion. In this new conception, 100% efficiency is the minimum we demand, because trading off our resources for gains in the short term would be a loss. Applying gains to improving our stock of resources would be true profit. The implication is that the idea of profit must be reconsidered, to reflect not so much those who can best secure value for the resources they hold in trust, but rather those who can ensure that their resources will be maintained and even grow in value. Profit is inherently judged also in terms of the capacity to make future profits. I put it to you, then, that an understanding of profit suitable to the 21st century is this- profit is a measure of capacity building, and profitability is the ability to improve on existing assets.

In thinking of profit as capacity-building, we resolve many of the definitional conflicts to which I earlier alluded. For instance, when we speak of improvements on existing assets, this must take into account the extent to which our activities are consuming or degrading them in the first place. Evidently, profitability refers to net improvement. (I say this is evident, because if resources are held in trust by society at large, then distinctions between "my resources" and "someone else's resources" are rather artificial. If using my resources to generate a profit also causes the degradation of someone else's resources, then that is a loss, and a loss that must be taken into account before declaring a profit!).

Again, we have environmentalists to thank for drawing our attention to this concern. In the decades since Rachel Carson first wrote about the environmental costs of

pollution, most nations have brought in legislation to ensure that firms are forced to take account of at least the most egregious of these implicit costs - paying taxes equivalent to the damage they cannot avoid, and liable to massive fines if they cause damage by negligence. Whether it is superfund legislation in the USA, methane taxes on livestock in New Zealand, international treaties to protect fish stocks under the Law of the Sea, or our own Supreme Court's 2009 judgment in the Vedanta/ Niyamgiri alumina mining case, we already have an understanding that costs are no less real merely because they are imposed on others. How else can one explain the outrage against clothing or sporting goods multinationals when their products were found to be the result of sweatshop labour, or the willingness of customers to pay a premium - a loss to them - for Fair Trade goods?

The challenges and opportunities that corporations and industries pose for business leaders, are posed for politicians by nations and governments. Despite the different habitats inhabited by the two apparently different species, I would suggest that the temperament, the intellectual ability and the qualities of endurance and patience that are required in a successful business leader are entirely the qualities that no self-respecting politician desiring recognition and seeking public office can do without. Owing to my own background, much of what I have to share with you about leadership today will be applicable to both business and politics in equal measure.

By now, most of you would have heard endless times that a new age is upon us. This is a banal and trivial truism if ever there was one, for new ages are always dawning upon the generations that live in them. The old order is always changing and yielding to the new, sometimes smoothly and sometimes in extremely disruptive and disorienting ways. What, then, makes this new age of our times so different from the new ages of the past? I believe it is the speed with which it has come into being. In the last 25 years or so, beginning with the fall of Communism in 1989, a paradigm shift has taken place in politics and business. But what characterizes the defining features of this shift, the

changes that leaders must deal with today? What does this new age mean for you?

It means several things to me. As I see it, the salient features of this paradigm shift are - the spread of globalisation, the growth and success of democracy and universal ethical standards, and the occurrence of sudden systemic shocks both in politics and business. Related to these three prominent features are the no less significant changes caused by the spread of technology and environmental degradation.

The first challenge for leaders in our new age is of course globalisation. Now, more than ever, leaders must be able to grasp and balance the scales of a globalised world economy and society. "Globalisation" is a fairly new term. Professor Theodore Levitt, a marketing professor at the Harvard Business School, first employed it in a 1983 article in the Harvard Business Review. Globalisation became a buzzword following the end of the Cold War, but the phenomenon has long been a factor in the foreign relations of the United States and has deep roots in history. Globalisation is a complex, controversial, and synergistic process in which improvements in technology (especially in communications and transportation) combine with the deregulation of markets and open borders to bring about vastly expanded flows of people, money, goods, services and information. This process integrates people, businesses, nongovernmental organizations and nations into larger networks. Globalisation promotes convergence, harmonisation, efficiency, growth and, perhaps, democratisation and homogenisation.

But globalisation has a dark side too. It promotes convergence but also disruption the era of increasing globalisation is also an age of terrorism, religious intolerance and the so-called clash of civilisations. It produces economic and social dislocations and arouses public concerns over job security the distribution of economic gains and the impact of volatility on families, communities and nations. As a modern day leader one must learn how to handle the thorns that come with the roses. In the words of the distinguished Nobel laureate Amartya Sen, "We cannot reverse the economic predicament of the poor across the world by withholding

from them the great advantages of contemporary technology, the well-established efficiency of international trade and exchange, and the social as well as economic merits of living in an open society. Rather, the main issue is how to make good use of the remarkable benefits of economic intercourse and technological progress in a way that pays adequate attention to the interests of the deprived and the underdog. The question is not just whether the poor, too, gain something from globalization, but whether they get a fair share and a fair opportunity." The assets of the 200 richest people in the world are more than the combined income of 41% of the world's people; this would be one indication that our ideas of profit and profitability have some disconnect from ground reality.

The second element of leadership in the new age is learning how to deal with black swans - especially the psychological bias that makes people individually and collectively blind to uncertainty and unaware of the massive role of rare events.

Black swans have existed throughout history, yet their shape has transformed. The Cretaceous-Palaeogene extinction event, almost 66 million years ago, wiped out the entire dinosaur population while closer home, one of the greatest financial crises of all times threatened to throw the Euro zone into darkness. Uncertainty affects decision making in many ways. For instance, if firms cannot predict future levels of effective demand or growth rates, how can they take a rational decision regarding investment? Similarly, how can banks lend to potential borrowers if they do not know whether they will be able to repay their loans, given the uncertain levels of effective demand in the future? Malcolm Gladwell's theory on uncertainty provides some valuable insights.

In his book *Blink*, Gladwell narrates the story of a statue dealer. A dealer brings a new statue to the Getty Museum, a Greek Kouros. The Museum is ecstatic, but first wants to check the statue's authenticity. The lawyers go first and find no problem with the paperwork. Next the Museum checks the stone to see if it came from the right quarries and if it had been out of the ground long enough. So far, so good. Getty's then decides to buy it, pays a huge amount of money (\$10M) for it and invites

an expert to see it. The expert takes one look at the statue and says it's a fake, but can't explain why. Another expert is called in; he too gives the same immediate response, but is unable to say why. The Museum takes the statue to Greece and unveils it to a huge audience of experts who then have the same response. When they get back, the lawyers call to say that there is now in fact a problem with the paperwork and the geologist calls to say that there is a problem with the age test. In the end, the data proves that it is indeed a fake, just like the experts thought it was. In the statue example the experts were doing a kind of complex pattern matching - taking a pattern they had in their head about real Kouros statues and matching it to the actual example in front of them. In military circles they talk about *coup d'oeil* - at a glance - the ability to see immediately what is needed. Building such deep levels of intuition requires great amounts of experience. Research suggests that a person needs 10,000 hours of experience to build the kind of knack we described.

One of the effects of globalisation and the knowledge society will be to give any person easier access to others who possess such expertise, and to reduce the opportunities for arbitrage based on unequal access to information (though opportunities for discretionary arbitrage will remain nonetheless). Despite that advantage, though, not everyone can be an expert, and even an expert can be wrong. In dealing with uncertainty, there will always be those who make the wrong bet; I put it to you that there is nothing wrong with this, unless (as with white swans) they persist in making the wrong bets by being repeatedly and predictably wrong. Failure is an important part of learning, and learning is at the core of adaptation and capacity building. To borrow the words of Rudyard Kipling, in his poem IF, 'If you can make one heap of all your winnings, and risk it on a turn of pitch-and-toss, and lose, and start again at your beginnings, and never breathe a word about your loss.'

- then you could still profit from your failure. There is a case to be made here, once again, for our traditional understanding of profit and loss to be re-examined.

The third and last element relevant in this new age that I would like to talk about is one that is often characterised by grey - ethics in business. The key difficulty surrounding business ethics is that ethics, by definition, goes beyond the merely legal- but how far beyond? No institutionalised rules exist defining an upper limit. Public opinion is not a very good guide. It is subject to change. Ask Ramalingam Raju! Then as leaders how do we judge what is right and what is wrong? A great philosopher who sought to establish ethical rules on the firmest possible foundation was Immanuel Kant. His deontological ethics principle puts forth a simple question

- "What if everyone did that?" When one is in doubt about a particular course of action, consider the impact if everyone does the same thing. If it will lead to greater harm to society - to a loss to everyone involved - then it is just as wrong for even a single person to do it. This is a simple Kantian insight, but I believe that this simple logic, except in some cases, works as an eloquent compass in times of moral dilemmas.

Ajit Balakrishnan began this morning by talking about corruption. Undoubtedly much of this stems from politics and politicians, from their ability to profit from the power to permit. When a business has to factor in what needs to be paid to obtain a licence to perform an economic activity or sometimes merely to expedite its processing - and especially if these are costs that cannot even be legally accounted for - it distorts not just ideas of profit and loss but even of the viability of the business. Indian politics has seen its fair share of scams and scandals in the recent past, and as a result lost not just domestic but also foreign investor confidence. Ethics in business and government has to be the anticlogging device that cleans the system every now and then, lest it burst from the pressures of greed and corruption. So, in a world mired with shaky souls and broken promises, we must each find the will to stick to the right path as leaders of not only a knowledge-driven but also a value- driven society. Only then will we see the positive economic connotations from the creation of trust, even as we see the negatives today. The experience will be an eloquent argument for

appreciating the role of societal context in determining profit, and of ensuring that we do our part to protect and maintain that context in its most conducive state.

Before I wrap up, I'd like to end by quoting a few lines by Rabindranath Tagore who says that, "The highest education is that which does not merely give us information but makes our life in harmony with all existence." This is a wonderfully Indian idea- a Tagorean idea of harmony. I believe that the IIM World Conference is just such an event that creates this harmony for educators and business leaders alike. I thank you all for contributing to it so tunefully, and hope that I have been able to strike some modest chords of my own. I look forward to your comments and questions.

Shashi Tharoor is an elected Member of Parliament, former Minister of State for External Affairs and former Under-Secretary-General of the United Nations. Dr. Shashi Tharoor is prize-winning author of thirteen books, both fiction and non-fiction, including the classic *The Great Indian Novel* (1989), *India from Midnight to the Millennium* (1997), *Nehru: The Invention of India* (2003) and most recently *Pax Indica: India & the World of the 21st Century* (2012). A widely-published critic, commentator and columnist, Dr. Shashi Tharoor served the United Nations during a 29-year career in refugee work, peace-keeping, the Secretary-General's office and heading communications and public information. In 2006, he was India's candidate to succeed Kofi Annan as UN Secretary-General. He has won India's highest honour for Overseas Indians, the Pravasi Bharatiya Samman, and numerous literary awards, including the Commonwealth Writers' Prize.



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