

# IIMC SOME CONCERNS ABOUT ITS FUTURE

## A POSITION PAPER ADOPTED BY FACULTY COUNCIL

INDIAN INSTITUTE OF MANAGEMENT CALCUTTA

March 5, 2004

### Preface

Recent announcements by the MHRD, GOI, regarding the Indian Institutes of Management (IIMs) have created apprehensions about the future of IIMC. The academia, the industry, the press and electronic media, as also the IIMs themselves, have expressed strong resentment against these actions of the Ministry, which are seen as serious attempts to curtail whatever autonomy the IIMs have been exercising so far. The IIMs have attained international recognition as Centres of Excellence in the face of stiff global competition, leveraging their financial strength which is partly dependent on assured government funding. In spite of the fact that about a thousand business schools have now opened in India, the six IIMs account for the top thousand students, chosen from one hundred and twenty five thousand aspirants appearing in the Common Admission Test (CAT). In recent times the Government has been insisting on a Memorandum of Understanding (MOU) with the IIMs on its own terms. The MHRD had unilaterally announced cancellation of the last CAT in violation of established procedures. More recently, the MHRD has unilaterally announced a drastic cut in tuition fees, even though the Memorandum of Association (MOA) of IIMC clearly specifies that the fees are to be determined by the Institution itself. IIMC has been functioning as an autonomous institution through its Board of Governors under the terms specified by the MOA for over forty years.

The IIMC faculty is extremely concerned about the recent developments. During the past couple of months, the faculty has deliberated on these issues through intense debates, formal and informal. In the emergency meeting of the Faculty Council held on February 11, 2004, the Faculty expressed its deep anguish at repeated attempts of the MHRD to interfere with the autonomy of the IIMs in general and IIMC in particular. The interference has been taking place over various issues ranging from selection of Director to promotion of faculty members. In the same meeting the faculty also decided to create a position paper on the recent crisis and present it to the Board to facilitate its decision making. In its meeting on March 5, 2004, the Faculty Council finalized the position paper: **IIMC: Some concerns about its future**. This document has primarily focussed the discussion around the Fees Cut -- the different ramifications of the decision on society at large, on student intake, on resource generation, and most importantly on the autonomy of the Institute. The arguments are based on data on the socio-economic background (and other factors) of the students admitted to the Institute since 1991. The fees were first raised in 1993 in the context of the Government's revised pattern of funding order, wherein IIMC (together with IIMA and IIMB) was asked to generate its own resources and reduce its dependence on government funding. The position paper has also analyzed the financial management of different aspects of the Institute for last ten years. In this meeting the Faculty Council expressed its strong opinion against the interference by the Government.

# IIMC

## Some Concerns about its Future

### Highlights of the Faculty Council Position Paper

1. The HRD Ministry has been taking measures and making announcements that seek to significantly restrict the ability of IIMC to raise its own resources. The cut in fees is part of a package. The following three restrictions have adverse consequences for revenue generation.

- There is to be a substantial reduction in fees along with a ban on any other charge. This is tantamount to a regime of price control.
- The MHRD is not keen that IIMs generate any savings and is asking the Institute to dissave and reduce its corpus to Rs.25 crores. This will imply a substantial loss of interest income and reduction of financial flexibility.
- There is already a set of restrictions on donations that the Institute may receive and the government is discouraging direct donations to the Institute.

2. There is a considerable anxiety arising from the signals being given out by MHRD (often through press releases and interviews) regarding the abolition of the Common Admission Test and the Group Discussion and Personal Interview of potential, short-listed candidates. Interference with long tested selection criteria that are exclusively merit-driven may dilute academic standards. If that happens, the standing of the Institute will be very adversely affected.

3. The way in which the fee cut was announced by MHRD revealed a lack of concern for the usual consultative and transparent procedures of governance. It also revealed a lack of concern for the institutional autonomy under which IIMC has operated since its inception. Therefore, we are worried that autonomy of decision making enjoyed by the Institute and due processes of good governance may be compromised. Should that happen, quality and repute that constitute excellence will be rapidly eroded.

4. The changes that appear to be very likely, once the full implications of the fee cut has been understood, will take the Institute back to the decade of the seventies and eighties and the associated inefficiencies of deficit financing. One might, however, ask: if IIMC had survived and flourished then, what could be the problem now? The answer to this is obvious. The external environment of the economy in general and the higher education sector in particular, have changed beyond recognition in the past decade. The country has bid farewell to the inward looking, protective policies of the past, and is ready to face competition with self confidence. Today it is the era of liberalization and global competition that defines policies and performance parameters for the country and for the leading institutions of the country. Going back in time is neither sound strategy, nor in keeping with the national policy stance. It is a strategy that will not guarantee growth; in fact it may not even guarantee survival.



# **IIMC**

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## **1. THE OBJECTIVE**

This report is prepared on behalf of the Faculty Council, Indian Institute of Management Calcutta. Its objective is to analyze the main implications of the recent MHRD order to drastically cut fees at IIMs from about Rs.1.5 lakhs to Rs. 30,000 per year. The analysis provides arguments and factual evidence, wherever available, to conclude that the fee cut is unwarranted from the perspective of the long run health of the Institution. The cut would not guarantee the reach of management education to the very poor section of India's population, it would subsidize the section that can afford higher fees, it would reduce India's global competitive advantage in higher education and put pressure on the fiscal deficit of the country. In short, our position is that the extra subsidy that will be required does not serve the purpose it apparently seeks to serve. The funds could (and should) have been used to augment primary education. The social benefits lost in this regard are substantial. The social gains are non-existent. This report also discusses a few other relevant issues connected with the (present and future) state of management education in India, with special focus on the Institute we all proudly belong to: Indian Institute of Management Calcutta.

## **2. THE HISTORY OF FEES, CORPUS FUND AND IIMC STRATEGY**

IIMC inaugurated its Post Graduate Programme – the 2-year MBA program – in 1964. For the first three decades, the fees collected from students were kept at a low level: even in 1991-92, a student was required to pay only about Rs.3000 annually to IIMC, inclusive

of room rent. Since the Government of India set up IIMC, the fees were fixed in keeping with the government pricing policy prevalent at that time.

### ***2.1 The era of liberalization***

Substantial changes in the government's policy stance began to take place from the early nineties. These changes also affected (a) the composition of finances for the IIMs, (b) the level of the fees, and (c) the attention given to facilities for students. The imperatives of containing the government's fiscal deficit, the efficiency of decentralizing decision-making, and the urge for generating greater accountability to the user, ushered in the era of economic reforms in India. At the heart of the new thinking on the role of the State, was the opinion that the government ought to change track. It should move away from those areas where the market was willing and capable, and move into those areas where the market was absent or likely to fail. More specifically, it meant that higher education would be best left to the market, with loans and scholarships used to meet the needs of economically poor students, while primary education would be made universally available and affordable for all. Resources, perforce would have to be shifted from universities and IITs and IIMs to the creation of enough primary schools in every nook and corner of India. It is patently obvious that if one cannot get into a primary school or afford secondary education, then **no amount of subsidy will get that person into a good college, an IIT or an IIM**. About 50% of the Indian population has never been to primary school.

### ***2.2 Higher education in management in the era of liberalization***

The records showed that placements were assured for students of the top management institutions of the country, and this was taken as a reliable signal of the market's willingness to bear the costs. The Union Cabinet therefore decided that the IIMs must reduce their dependence on government grants. Experts also agreed that, in keeping with the opening up of India, these institutions must aim to become world-beaters, benchmarking themselves against the very best international schools and becoming globally competitive. In this way, not only would the IIMs directly contribute to the pool of managerial talent, but it could also be expected that the world's attention would be drawn to the quality of India's human resources. In turn, this would induce investments into India.

The upshot of this all, was that by an order dated May 23, 1994, the MHRD introduced the **revised pattern of funding** scheme for the IIMs at Ahmedabad, Bangalore and Calcutta. The order was based on a cabinet decision. It required the IIMs at these three places to become financially independent by building up a corpus, the interest out of which would ultimately replace the government's non-plan grants. This order was a watershed in the life of the IIMs. It marked the termination of the deficit financing regime and the introduction of the **block grant** scheme by which grants were frozen and de-linked from revenues and expenditures.

### ***2.3 The rapid rise of fees***

Since IIMs A, B and C were asked by Government of India to raise their own financial resources so as to become less and less dependent for budgetary funds, it was necessary to allow these institutions to retain their savings and build up a corpus or **endowment fund**. To encourage these institutions to generate savings (by increasing revenues and cutting costs) the GoI promised to give **matching grants** for the money added to the endowment fund. That was circa 1994 and matching grants were obtained during the 8<sup>th</sup> plan period, up to 1996-97.

The IIMs A, B and C responded to this challenge. The Board of Governors agreed with the logic of the scheme and directed that the institute raised its revenues and reduced subsidies. The decision was based on the well-reasoned argument that in a poor country like India, with a paucity of resources, higher education (post-graduate) should not be given a blanket subsidy. Subsidies should be phased out in management programmes with good placements. There were prolonged discussions in the faculty meetings held at that time. There was concern that raising the fees might change the profile of students who would get into the IIMs. IIMC took the lead in assuring publicly to the aspiring student community that no one selected on merit would be sent back because of the lack of means. Scholarships, industry help, soft loans from banks, were all used to resolve any problem that meritorious students might otherwise face. The CAT bulletin makes it clear that no one will be denied an IIM education because of lack of means. For example, CAT Bulletin 2003 says: **“It is a declared policy not to turn away any one selected for the programmes because of inability to pay tuition fees.”** The Bulletin then lists out details about bank loan facilities and various merit-cum-means scholarships available to the economically weaker sections. It is a fact that there has not been any change in the socio-economic background of the student community as a result of the fees having been raised.

### ***2.4 Fees collected versus cost to IIMC***

The fees at IIMC were raised in the context of the 1994 Government order, which has not been superseded, and in the context of the unchanging student composition. From Rs. 3,000 in 1992, the annual fees were raised to Rs.14,000 in 1993, thereafter progressively to Rs. 48,000 in 1997-98 and to Rs. 1,04,000 by 2001. The rationale for this steep rise in fees was to enable augmenting of facilities and delivery systems for the PGP – the global benchmarking objective - without effecting an equivalent increase in subsidy. **However, the subsidy was not withdrawn.** The fees have never been set so as to fully recover the direct variable costs of running PGP. **There has never been any question, therefore, of accumulating a surplus at the expense of the students.** [Please see Annexure 1: Statement of Income and Expenses for details.] Nor have the fees been set with an eye to how much the market can bear (i.e., to eliminate the excess demand for IIM seats). Actually, the fees have been kept at around 62.5% of the direct revenue expenses on an average during the tenth plan period.

Concomitant with the increase in fees, there has been a substantial increase in the facilities provided to the students. Thus, during the tenth plan period, the per-student expenditure by the Institute in the Post Graduate Programme, has trebled (from 0.99 lakhs in 1996-97 to 2.96 lakhs in 2002-03). [Please see **Annexure 1**: Statement of Income and Expenses for details.] Thus not only has the subsidy to students been substantial, **the absolute amount of the subsidy has gone up considerably**. In 1996-97, the deficit per student was Rs.58000, but by 2002-03 it had mounted to Rs.176000. In other words, **the increase in fees has been used to substantially augment the learning facilities for students and to improve the quality of the education imparted**.

### ***2.5 Strategic repositioning***

In repositioning IIMC to compete with the best in the world, quality of education and academic facilities embodied in new and emerging technologies were of paramount interest. Hence, consistently, more resources have been used to this effect.

Despite this, IIMC has consistently subsidized students admitted to its PGP ever since its inception in 1964. The subsidy has remained significant despite substantial increase in fees during the last decade. **In fact the deficit has more than doubled in the same period**. To repeat, **the Institute has dedicated increasingly more resources to the PGP than it has been collecting from students**.

The increased commitment of resources to the PGP has enabled major augmentation of the following: (a) Enormous expansion of IT services for students and teachers. IIMC was the first management institute of its size to provide Internet facilities in every hostel room. (b) Enormous expansion of library resources and databases for students and teachers. (c) Significant increase in volume and quality of course material, including textbooks, handouts, and web-based material. (d) Introduction of student exchange programs with several well-reputed Business Schools in four continents. (e) Increase in faculty strength, including full-time visiting faculty.

### ***2.6 The rise in fees and the socio-economic background of students***

Before proceeding further, we would look at a few more relevant facts about the type of students entering IIMC.

Over the entire period 1991-2003, when the fees were being continuously revised upwards, there has not been any marked change in the profile of students at the entry point. This includes the educational background of the students and their parents, average age, average family income (when it is adjusted for inflation and the growth rate of India's per capita income), or occupation of earning parents. [Please see **Annexure II** for details.]

This is only to be expected since the highly competitive and exclusively merit-based admission procedure at IIMs would eliminate a large section of students with weaker social, economic and educational backgrounds who, because of increasing real costs of quality school level education, are finding it difficult to compete with the best at the high school and graduation level. The fees **after** admission have nothing to do with their elimination. In fact, **this bias at the admission stage would remain even if the fees at IIMs were reduced to zero.**

However, the proportion of students entering with work experience has shown a marginally upward trend. To some extent it may reflect the trend that a larger number of students prefer to cover the higher cost of education (at least partly) from their accumulated savings from work.

A large percentage of students avail of student loans offered by banks. For recent batches the proportion is around 40%. [Please see **Annexure II, Table 2.11.**] The amount of loans sanctioned varies from Rs.1 lakh to Rs.4 lakhs. The loan carries an interest rate of around 10.5% per annum. The repayment begins one year after the course period ends, or 6 months after getting a job. The loan is repayable within 5-7 years after commencement of repayment. According to a survey conducted by the current students, most students do not face any problem in getting the loan on the basis of their admission letters. However, some have faced minor procedural difficulties. According to data provided by State Bank of India, IIM, Joka Branch, about 81% of students taking loans are from MIG families, about 5% from LIG families and 14% from HIG families.

### ***2.7 Expected earnings and cost borne by students***

The average starting salary, as well as the minimum salary at the time of placement has been showing a strong upward trend throughout the period 1992-2003. This rise would be all the more pronounced if one included the \$ salary of students while computing the average. [Please see the **Annexure II** for the data and the graphs.] This explains why loans are freely available and, therefore, why it is not necessary to be rich to study at the IIMs paying relatively high fees.

### ***2.8 Students' selection at IIMC***

Other than statutory reservation of seats for SC/ST and those with disabilities, **it is merit and merit alone, which is the criterion for admission to IIMs.** For instance, this year nearly 1.3 lakh students are competing for the 1200 odd seats at the 6 IIMs. The Common Admission Test (CAT) is a written test that checks a student's quantitative, analytical and verbal skills. Candidates with very high CAT scores are then called for group discussion (GD) and intensive personal interview (PI). This process is meant to verify academic strength, and also check motivation, communication skills, leadership qualities, and other basic attributes deemed to be essential for successful managers.

The CAT scores, the scores at GD and PI, the past academic achievements are all taken into consideration to prepare a composite score and the final selection is made strictly according to this merit list. The admissions procedures at the IIMs are time-tested and command the highest levels of credibility. There is not a single known case where a student has been able to enter an IIM in violation of the merit list, though there are known cases of attempts to do so. The merit list is absolute and no section is given concessions (apart from requirements of statutory reservations). That includes children of VVIPs, of Board members, of IIM directors, of faculty members. The sanctity of CAT and the admission procedure have been fanatically guarded and we are glad that this is widely recognised. This year's leakage of the CAT paper, which most probably happened at the press, is an aberration that is a matter of deep regret and concern. This shows how vigilant the test administrators need to be against unscrupulous people trying everything to break the bastions of merit and excellence.

The strict merit-based admission procedure at IIMs explains why the profile of incoming students has not changed significantly over the years, despite a steep hike in fees at IIMs. In other words, **the level of fees is irrelevant in determining who would get through CAT, and the GD and PI stages.**

### **3. QUALITY, COST AND AUTONOMY : SOME ISSUES**

#### ***3.1 Do High Fees at IIMs Exclude the Poor?***

There is an impression that only students from affluent backgrounds study at the IIMs because the fees are too high for others. It has been asserted that since the government has funded the IIMs, these institutions must be equally accessible to meritorious students belonging to families with modest means. It is sometimes argued that this will happen if the fees are lowered.

The above position is questionable. It is argued below that lowering the fees will not make IIMs more accessible to the lower income groups. The benefit of the fee reduction will go to the higher income groups. The short reason for this seemingly perverse argument is the following: **Fees charged have nothing to do with affordability of higher education.**

Students qualifying for admission to an IIM are assured of loans on easy terms and enough scholarships. These loans are recovered from the salaries earned after they start working. This arrangement is possible because an IIM graduate immediately gets a high paid job on completion of his studies. The average starting salary is 4 to 5 times the fees charged. These facts are now widely known. These are publicized in the CAT Bulletin. See the **Boxes** below for two real-life stories about how meritorious students from disadvantaged families try and succeed in getting to IIMs. Why should a person getting Rs.6 lakhs per annum not be able to afford 1.5 lakhs per year for two years if she is not

required to pay upfront? So the pertinent question is not whether the fees are affordable or not. If indeed it is the case that students from modest backgrounds are not coming in great numbers to IIMs, then we have to look for the reasons elsewhere.

Here are two stories about how students from disadvantaged families try to get into IIMs and make successful careers.

### **THE FACILITATOR: CREDIT MARKET**

The first one is a success story told by the man himself in The Economic Times, Feb 13, 2004. His name is Varun Arya, the current Director of Aravali Institute of Management, Jodhpur. In his own words: "I myself came from an extremely poor family, where in my childhood it was often that my family did not have even one meal a day. However, I could study at IIT Delhi because I got a merit scholarship from NCERT. At IIM Ahmedabad, I took a loan from State Bank of India and paid it back with interest in three years." He then adds: "There are many cases like mine..... All those who have the merit but not the means can always get scholarships and educational loans, which are now easily available specially for IITs and IIMs." He cites his own example to support the contention that "in the history of IITs and IIMs, there has not been even a single student who was selected for admission in these institutions but could not study because of want of finances."

### **THE FACILITATOR: MERIT**

The second story is about Shri Pradipta Dasgupta, a driver at IIMC. His gross salary is only Rs. 6,900 per month. His only asset is his son who is a bright student. After studying in the campus Central School and then Physics Honours at Ashutosh College, he got through West Bengal Joint Entrance examination. Now he is a B.E. in Chemical Engineering from Jadavpur University, one of the top non-IIT engineering colleges in India. He sat for this year's CAT. In the process of preparing, his family has already spent more than Rs. 20,000 for private coaching (from a recognized coaching centre) for the written test and the subsequent GD. Dasgupta considers such a large amount of investment to be worthwhile, given the market value of a degree from IIMs and some other top-ranking management institutes that base their selection on CAT results. He told us that he knows that if his son gets admission in IIMs or any other top management institute, getting loan and repayment of loan would be no problem for him. Unlike the previous example, this is not yet a complete success story. We can only wish Dasgupta (and many such cases) all success. This story clearly reveals the opportunity to try.

It should be pointed out that management education in the best institutions of the world is not cheap. Nor is it state funded. This is because a management degree from a reputable institution is readily marketable. In contrast to this, basic research is not that easily marketable. That is largely because the benefits of basic research spill over to society at large, rather than accrue exclusively to the patron. So basic research requires a pattern of funding that is different from that of management education. Many of us have done our graduate education in US schools. There was no question of us being able to pay the

tuition and living costs from our own pockets. However we were given fellowships or assistantships that took care of these costs. The same is and should be the case for our fellowship (Ph. D) students.

At this point, one may raise the following question. Even if high fees may not prevent access to quality education because of the availability of loans or scholarships, low fees cannot but make it easier still for students. Then the necessity of finding a bank and paying interest would not arise, and students from poorer families would find things more inviting. However, it is a delusion to suppose that low fees increase access to the best schools. Access to best schools (including IIMs) depends on merit. Merit is acquired through past investment in education. Quality education at the primary, secondary and high school level is not cheap. The best schools are private schools that the needy can hardly afford. Standards at other schools are woefully inadequate. Private tuition and coaching have become necessary to do well in school leaving exams. Thus the affluent sections have gained a monopoly over quality education at the school level. Therefore a larger number of affluent students are to be found among the meritorious.

For instance, one needs only to look at government colleges. To be sure the fees are negligible. Over time, with reduction in the purchasing power of the rupee, the real value of fees in government colleges has come down sharply. At the same time, however, the composition of students in the best colleges has changed in favour of the well to do. This indicates that **there are things other than fees that determine who gets access to higher education**. Simply put, there is a cost of investment in human resources. If these costs are high at the school level (remember that no bank will give a loan at that stage), then the poorer sections will not be able to afford that. So students seeking admission to the best institutions of higher learning will be those that have been able to afford investment in the required abilities.

Thus it is clear that **by and large students from poorer backgrounds are not able to acquire the level of merit necessary to gain admission into the IIMs. Those poorer students who are able to acquire merit have also been able to finance their IIM education. An IIM diploma immediately confers substantial earning power against which loans are freely available. In view of this, a reduction in fees is not only unnecessary; a reduction in fees will have undesirable consequences. Unreasonably low fees could be counterproductive in the long run**, as explained more fully below.

### ***3.2 Why fee cuts could be counterproductive in the longer run***

Why should the nation provide across-the-board subsidies, when credit market and scholarships options are adequately available? Credit options **are** being used, and scholarships **are** being availed of. There are more loans on offer every year, and more and more banks are queuing up. In most cases no collateral is demanded. Offer letters for admission are sufficient for sanctioning a loan, and registration sufficient for release of the first installment. And we are still not charging anywhere near full cost fees.

We have argued that the main reason why students from families with weaker educational, social and economic backgrounds are not able to enter IIMs is that they are not able to get quality education from the very beginning. The students from more advantaged families go to better schools (starting from primary stage right up to college) and better coaching centres. To correct this state of affairs the state needs to invest heavily in primary and secondary education and to make quality education accessible to the poorer sections. Simply charging lower fees in schools is not the answer; schools must also provide quality education, so that a child can attain competitive merit even if the parents cannot afford private coaching. But the government will not be in a position to finance the massive expenditures required for upgradation of educational standards in state funded schools if it does not reduce needless subsidies being granted elsewhere. The greater the subsidies elsewhere, the greater will be the dependence on private means for financing school education, and smaller will be the acquisition of merit by the poor. This explains why **the recent MHRD order to slash fees would be counterproductive in terms of achieving its professed objective of “empowering” the disadvantaged.**

In this context, it is interesting to observe that Harvard University has recently decided that students with a family income below a cut-off figure (poor students) would not have to pay any fees. This is a much better model than subsidizing across-the-board. If the government wants, a part of government grants to IIMs can be earmarked for this purpose.

### ***3.3 Quality of education and fees charged***

If it happens to be one’s own money that has been invested, then one would demand quality. If, on the other hand, one has risked a small amount, one would make allowance for that, and the demand for quality would be weak. The returns to investment in education, moreover, have an important distinguishing character. The returns depend at least as much on the effort applied by the student concerned. When this is known, along with what is at stake, the level of effort is bound to be high. Thus, **high fees stimulate better performance.**

Charging higher fees from students, who are going to end up getting large salaries, means letting the user pay for the benefits. That also means that the benefits must match the costs. If, as an institution, we fail to deliver, there will be a hue and cry raised to improve our performance. Making students more conscious of quality can only help IIMs maintain competitive standards. It will enforce on all concerned a degree of “accountability” if what we are charging reflects benefits expected out of the education we are giving. In numerous colleges, accountability has ceased to matter. The reasons are not far to seek.

At IIMs students do raise their voice at different forums (such as open house, newsletters, by approaching the Director) when they feel they are not getting their money’s worth in terms of facilities or teaching inputs. This has made the faculty and the administration more responsive to their needs. **This aspect of quality delivery has been particularly set aside in the MHRD order where it has been suggested that commercialization of**

**higher education alters the attitudes of parents and students (i.e. those who pay) in a socially undesirable way. Is demanding quality higher education undesirable?**

### ***3.4 Sorting on the basis of Merit***

**IIMs have done the nation proud in producing students who are acknowledged to be at par with the best in the world.** This has received wide recognition. In particular, the market has acknowledged the value of an IIM product. The expected salary of a graduating student hovers at around Rs.5 to Rs.6 lakh per annum. Spending around Rs. 3 lakhs (out of past savings, or by borrowing) for an IIM education makes eminent sense. The students also demand quality and keep the institutes on their toes. Rs.3 lakhs is far from the total cost of an IIM education. Part of this subsidy is borne by the institutes through their earnings from executive training programmes and consultancy for business, industry and government.

It is true that there exists an excess demand for a management degree from an IIM. This is precisely because of the market demand for high quality MBAs. On the supply side, throughout the decade of the nineties, there has been a huge proliferation of institutes and university departments granting a post-graduate education. The private institutes (not the university departments) charge at least as much as the IIMs, often more. However, there is a gradation in terms of the quality of education as well as the quality of students who study. **There is sorting done on the basis of merit, and there is nothing wrong with it.** It is a universal feature of higher education.

One sometimes fails to distinguish between excellence and elitism. Excellence in education can be perceived as elitism, but all elitism is certainly not based on excellence (example: membership of an exclusive rich peoples' golf club may have little to do with golfing skills). At IIMs we are dealing with a very different kind of elitism when we recruit students. It is the elitism that drives a meritocracy. Please recall that there is no special prerequisite except that one has to be a graduate (or equivalent) to write the CAT examination. **In a sense the set of eligible candidates is already an elite set. In India (with about half the population illiterate) anyone who can acquire a college education has to be part of a privileged minority in terms of educational attainment.** The real absence of egalitarianism occurs when, as a nation, we cannot guarantee access to a basic capability like primary education.

### ***3.5 Intake and standards***

The IIMs are centres of excellence because of the high quality of faculty and students. Both these resources are scarce and it has not been easy to reach the top. However, it is not difficult to slip from the top and quickly fall into mediocrity. This is exactly what is likely to happen if there is intervention that reduces the quality of student intake. This will adversely affect the standing of the IIMs. We are extremely concerned with attempts to unilaterally interfere with the process of selection of students. At present, students are

selected strictly on merit as judged by performance in the written test (CAT) of eligible candidates, and group discussions and personal interviews of short-listed candidates. This process has earned very high credibility across the board (especially among prospective candidates and recruiters) and, together with the high academic standing of the PGP course, has contributed significantly to the ability of IIMs to get the best students. The screening process as a package has stood the test of time. The composition of students at the IIMs is merit driven as it should be. We are part of a meritocracy and it is imperative that we continue to be so.

Any fall in student quality will act as a strong disincentive for top quality faculty to come to these institutions. The best faculty will then shift base and move out to other institutions in other countries. **It is the concentration of outstanding faculty and brilliant students that generates high quality output.** Putting one or two brilliant faculty in the midst of average students can hardly improve standards. Students in these schools will not be able to extract the best out of the more proficient faculty resources because the respective “wavelengths” will not match. The argument is simple: outstanding professors produce much better output when placed in the company of other outstanding professors. Outstanding students perform much better when competing and interacting with other outstanding students.

For India to be globally competitive, the best institutions must be capable of meeting the best international standards. As of now, the number of institutions in India meeting the exacting global standards is small. This is the reality. As a nation we can either shut ourselves out by downgrading the best institutions to the level of the average, or accept the reality and make the best use of the highly skilled resources in these institutions. **It is indeed ominous when sources at MHRD have been benchmarking IIMs against statistics that represent global averages.** It is just not true that these institutions have been having a small impact on the fortunes of our country. As an example, consider the IT sector. What has brought the world’s attention to Bangalore? Why is it referred to as the “Silicon Valley of the East”? It must be because of the catalytic role played by IIT engineers who have done well in the West, particularly in the US. IIM products are likewise supposed to function as opinion-makers, changing the world’s impression of India and inducing recognition of the high potential of our country in the knowledge economy. The real test of the value of the IIMs lies in their ability to produce **leaders** having the power to influence policies that affect the fortunes of a large number of people. It is wrong to suppose that their impact must be small because the number of leaders is small.

While there is room for improvement, especially in relation to achieving and surpassing global standards, IIMs believe that they have been turning out leaders. Leaders are not average people and schools turning out leaders cannot be average schools either. They have to be exclusive. Admission requirements have to be stringent. CAT is essentially the admission test for students aspiring to join IIMs. If it is not suitable for other schools, then that should not engage the energy of IIMs.

### ***3.6 Excellence and the need for autonomy***

Centres of excellence, everywhere in the world, have traditionally enjoyed a great deal of autonomy of decision making. There are good reasons for this state of affairs. These reasons basically derive from the benefits of decentralized decision making. First, decentralization effects economy of information gathering and dissemination. This improves the quality of information gathered and improves the factual basis of decision making. Second, instead of pushing uniformity, autonomy (and decentralized decision making) encourages innovation best suited to local strengths. It also allows different autonomous units to try out different solutions to common problems. Successful experimentation provides examples for others to follow. Experimentation, innovation and creativity cannot thrive without the freedom and the space they need.

In the context of IIMs, autonomy with respect to course structures, pedagogy of teaching methods, areas of concentration for research, training and consultancy, selecting the best students and faculty, have all contributed to different IIMs creating different identities and engaging in healthy competition. Curriculum has been revised several times in the past, through internal initiatives, to keep pace with changing times and societal needs. The views of all stakeholders have been actively sought and incorporated as far as possible. Successful ‘models’ in specific areas pioneered by one institute (such as PGDCM at IIMC, or the 3-year evening programme for working executives, foreign student exchange programme) have been followed by others. Yet, over time different IIMs have come up with their respective areas of strength, diversity and distinct brand images.

### ***3.7 Accountability to society***

Since the IIMs have been set up by the government with public money, continuing accountability to society is an obvious necessity. In fact social accountability is a high priority for an institution such as IIMC. This is strongly reflected in the orientation of the syllabus and the heavy emphasis on understanding the social realities. The accountability to society at large is exercised through the composition of the Boards of Governors as laid down in the Memorandum of Association. The Board consists of representatives of government, industry (private and public), and academia. The government also appoints chairpersons of the Board and Directors of IIMs. The Board takes all policy decisions. Periodically expert committees have been appointed by the government to review the working of IIMs and these have provided important inputs for improvement.

Apart from the formal requirement of accountability, IIMCs programmes reveal its reach for all sections of society, especially through its executive training and consulting activities. Over and above the teaching of PGDM students screened through CAT, IIMC has launched many programmes to impart training, and upgrade education for working executives, managers and young teachers of management institutes through an array of short term and long duration programmes. These people come from a wide cross-section of organizations, including private sector, public sector, civil servants, lower level government officials, other management institutes and NGOs. In addition, IIMC has done

a good deal of consulting work for the different layers of government, small scale organizations and self-help groups. Thus the reach of IIMC education has spread much beyond the top corporate sector. All these have taken place as a result of initiatives taken by IIMC, with the support and approval of the Board, **without any direct intervention from the government.**

### ***3.8 Lowering of fees and some revenue implications***

The first question is this: If the students do not pay for their education, then who does? According to reports in the press, the MHRD has assured additional funds to make up for the revenue shortfall on account of the fees. There is a serious ambiguity here because at present there is no formula based on which funds to IIMs are being released. The IIMs have been given *ad hoc* grants since the 9th plan and in recent years there has been an unexplained cut back in the quantum. There is no base level relative to which “additional” can be understood. From all accounts, it seems that the MHRD feels that IIMs should not “save” and add to their corpus. This suggests an attempt to revert to the deficit financing era that the country is trying to leave behind, and which the government order of 1994 terminated. A reversal to deficit financing will generate a considerable loss of incentives (to cut costs and perform better in revenue earning activities) and a substantial loss of existing financial flexibility. Such flexibility has enabled faster response to competitive challenges in terms of enhancement of facilities and attempts at global benchmarking. Financial flexibility has always been exercised with due approval of the Board of Governors and with full transparency.

Secondly, simultaneously with the announcement of the cut in IIM fees, the Ministry of Finance has reduced the allocation for IIMs in the last Budget. So the moot question is the obvious one of how the IIMs will finance the mounting costs of a globally competitive management education. We have seen in this report how the expenditure on PGP has been stepped up to upgrade the facilities. Even here IIMC has been much below what is required. This is because of other constraints, primarily in terms of human resources needed to implement modernization projects, which we are trying our best to resolve. A major stumbling block has in fact been government rules in regard to appointments of expert personnel. Not only is financial autonomy necessary, it must be accompanied by administrative autonomy for IIMs to compete with the best. The answer to administrative constraints is not reduction of financial autonomy, but administrative autonomy in addition to financial autonomy. The move to deficit financing will hamper both kinds of autonomy and can only make IIMs uncompetitive at the highest levels. It will be appreciated that institutes that have had the experience of depending on government grants have suffered from the uncertainties in the quantum of flow, the uncertainty of the timing of disbursement, and the uncertainty of getting less than what one asks for, with all the consequent disadvantages for planning one’s activities and being in a position to respond quickly to new developments.

Thirdly, it has been argued in this report that the opportunity cost of subsidizing higher education for private benefits is extremely large in a nation with about half the population

illiterate. There is a great inadequacy of facilities for primary education. And the “market” cannot take care of this shortfall. Would a private investor open a primary school in a poor tribal village of Chattisgarh as a commercial venture? Most certainly not. So here the role of the state is critical. On the other hand, would a private investor open a post-graduate management institute in a metro city? They have already been doing so at an astonishing pace. The state’s role as promoter here is hardly needed. So, at some point in the future, pressures will again build up (just as they did in the eighties), given our democratic political system, for cutting down government grants to institutes like IIMs and increase allocation for primary education – in line with the prevailing trend worldwide.

### ***3.9 From fees to quality to institutional image***

Therefore **the fee cut is to be seen as part of a package**. The introduction of this package (familiar enough from the old days) will affect quality. This will be so not only because IIMC will find it difficult to provide (and maintain) excellent infrastructure, learning technologies, classroom facilities, and above all, good faculty (as potential new entrants will avoid us and go to other private schools), but also because of the loss of flexibility in decision making and loss of the competitive incentives to raise own resources.

There is legitimate apprehension that acceptance of the fee cut is only the beginning of a sequence of control measures. There is a simultaneous move to force IIMC into an MOU with MHRD. In this context, what is desirable is exactly the opposite of a cut in fees and a matching increase in government grants. **In fact one should recommend that IIMC seek less than 5 crores annually from the GoI.** That will obviate the need to sign an MOU. A number of interventions are sure to follow as implications of the Expenditure Reforms Commission (ERC) recommendations. This can be avoided by seeking a reduction in government grants while allowing IIMs to raise fees to reasonable and competitive levels. Otherwise we run the danger of having to reposition ourselves as an average institute not in the running for the race of attracting the best academic talents. Moreover there could be other levels of intervention. **Financial dependence increases (and does not lessen) the chance of interference in academic autonomy.** “He who pays the piper, calls the (academic) tune”.

Brand IIMC is known for excellence. But it requires best facilities, best students, and best faculty. All three are likely to change for the worse in the medium to long run with loss of autonomy consequent on reduction of fees and signing of the MOU.

### ***3.10 Implications of the fee cut: What does it mean for the market for post-graduate management education in India?***

It is unlikely that the fees of a non-IIM MBA programme will come down significantly. There may be some immediate pressure on private schools to reduce fees, but that may

last only for a few years. After the quality of infrastructure declines at IIMs, non-IIM business schools will increase fees, provide better infrastructure and faculty. Once that happens, the top students will then start to abandon IIMs because of the easy availability of loans to pay for the higher fees. Hence the brand image of such schools would improve and their fees could move further up. The net effect would be to reduce the competitiveness of the IIMs.

A promising new area of opportunities is just beginning to open up for top class institutes like IITs and IIMs, to attract good quality foreign students (and earn even higher incomes) by capitalizing on the brand image they have been able to establish globally over the years. Even at Rs. 1.5 lakhs per year, education at IIMs is unimaginably cheap relative to **comparable** institutes in US or Europe. But, to translate these opportunities into reality, IITs and IIMs need to develop world-class infrastructure that needs a lot of funds. If the current MHRD's effort to reposition IIMs through reduced fees, a lower corpus, and dilution of the CAT screening succeeds, it may mean an early death to the dream of India being a global hub of higher education, at least in south-east Asia and the middle-east.

The fee cut is part of a package that could imply a loss of autonomy and dilution of excellence. It has far-reaching implications for management education in India. Are we going back to a regime of price control and its associated inefficiencies? If that is indeed true, the nation stands to lose, and nobody gains in the long run.