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**The Hands off IIMs Movement**

**Hands Off IIMs**

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# Sustaining Academic Excellence

A Position Paper Prepared by the Faculty of  
the Indian Institute of Management,  
Ahmedabad on the Issues of Fees and  
Autonomy

**March 2004**

## Executive Summary

Two contributory factors to the success of IIMA have been the continued and sustained support of its stakeholders and the supportive approach of the Government. All the stakeholders have recognised the importance of autonomy to enable the Institute to accomplish its mission and goals. On our part, we, the faculty have ensured that we meet the expectations of the stakeholders by maintaining effective governance, providing intellectual objectivity and leadership, professional integrity and high standards.

A series of developments in recent months have dented this process and raised serious apprehensions about the Institute's autonomy being threatened: the changes in the procedures for appointment of Directors, cancellation of CAT Examination unilaterally, attempt to reduce the corpus and impose a highly restrictive MoU, unilateral reduction of fees and threats to dismiss the Director and dissolve the IIMA Society if they dared exercise their constitutional right of seeking legal redress of their grievances. These developments are clear attempts by the Ministry of Human Resources Development to gain operational control over IIMs and run them as extensions of the office of the Ministry. These are matters of grave concern to the faculty.

The present unilateral notification by the Ministry regarding the fees to be charged by IIMs to the PGP students does not seem to be a step in the right direction for the following reasons:

**First**, the notification on the fee reduction by the Ministry violates the time honoured process of the fee being decided by the Board of Governors, after due consultations with the faculty and the Director.

**Second**, it is not necessary to reduce fees to achieve the stated objective of making management education more affordable to the less well-to-do sections of society. IIMA has used scholarships and student loans very effectively to ensure affordability of management education. Even though the fees has increased from Rs 3,000 (1983) to Rs 1,50,000 (2003), there has been no change in the profile of the economic background of students between 1983 and 2003. The real entry barrier to IIMA has never been fees, but the capability of applicants.

It has never been an "elitist" group, if the term elitist means rich and very well to do. Yes, it has always been elitist in the sense that only the brightest students get admission, through a fair and transparent system based on merit.

Good students from very poor economic backgrounds can enter, and have entered IIMA. They have always been able to finance their education either through bank loans or through full scholarships offered by IIMA. The faculty have always been committed to the idea that no student ought to be deprived of education at IIMA for want of financial resources. We stand by, and reiterate this commitment. We also strongly feel that the notification of fee reduction from Ministry is an incorrect solution to the affordability problem. It subsidizes richer students who can easily afford the current fee.

**Third**, the order has to be seen not in isolation, but in the larger context of many other decisions by the Ministry that threaten the autonomy of the Institute.

We stress that we seek to protect the autonomy of the Institute in all its aspects: academic, administrative, institutional and financial. We believe that it is autonomy and the consequent sense of ownership at IIMA and the other IIMs, shared not only by faculty but also by the staff that has enabled these institutions to become centres of excellence. We also believe that these components of autonomy are inextricably interlinked, and one cannot have only one component. It seems ironical that when the Government is opening up various sectors of the economy and liberalising their functioning, it should attempt to assume greater control of the IIMs, despite their creditable performance over decades.

Associated with autonomy is accountability – accountability not only to the Government, but to all stakeholders. Accountability should be on broad parameters of performance and not on operational issues. It involves three issues – (a) visibility of achievements (for example, high position in international rankings), (b) audit of financial statements to preclude allegations of misappropriation, and (c) social accountability – contribution of the Institute to the society at large.

**Summing up**, we would like to state that we share the dreams and visions of the President of India and the Prime Minister who have both expressed their desire to make India a force in the international arena. IIMA has set for itself the mission, of being recognised as one of the best management schools internationally and giving India yet another reason to be proud of. IIMA wishes to establish a legacy of creating world- class professionals through building an institution where ideas are nurtured, dreams fulfilled and future leaders of global society born. The IIMA will need an enabling environment to meet these challenges and succeed in this mission. IIMA and the faculty ask for the autonomy without which such a dream would not be possible to achieve.

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## **1. Objective**

The objective of this paper is to place on record the views and concerns of the faculty of the Indian Institute of Management, Ahmedabad (IIMA) on the recent developments regarding fee reduction, institutional autonomy, governance and academic freedom. We, the faculty, also wish to place on record our determination to maintain and enhance the academic excellence of IIMA and pursue its mission of professionalizing Indian management through teaching, research, training, institution building and consulting.

## **2. Introduction**

Indian Institute of Management, Ahmedabad (IIMA) was established in December 1961 as an autonomous body with the active collaboration of the Government of India, Government of Gujarat, and Indian industry.

IIMA has been consistently rated as the Best Business School in India and among the top three in the Asia-Pacific region. This year, IIMA has been rated as the Best Business School in Asia by international agencies.

IIMA contributes to nation building through the following major activities:

- Creation of world class managerial talent for Indian economy (MBA programmes):
  - Two year Post Graduate Programme in Management (PGP)
  - Two year Post Graduate Programme in Agri-Business Management (PGP-ABM)
- Development of management theory and practice relevant to India:
  - Doctoral programme known as the Fellow Programme in Management (FPM)
  - Research and Publications by the Institute faculty
- Enhancement of quality of management education in India
  - Faculty Development Programme for Management Teachers
- Enhancement of the competitiveness of Indian economy:
  - Developing Executive Development Programmes for Managers from the Indian private and public sectors
  - Training Officers of Indian Civil Services and Public Systems
  - Providing Consultancy Services to Indian Industry, Central and State Governments, NGOs and International Organizations.

In all the above activities, IIMA has been widely acclaimed for the high levels of excellence it has achieved. Today, IIMA graduates occupy key positions in top organizations both in India and abroad. Whether in government, industry or academics, these graduates have made a mark for themselves and have contributed significantly to the progress and development of the nation (Exhibit 1).

Two contributory factors to the success of IIMA have been the continued and sustained support from its stakeholders and the supportive approach of the Government. All the stakeholders have recognised the importance of autonomy to enable the Institute to accomplish its mission and goals. On our part, we, the faculty have ensured that we meet the expectations of the stakeholders by developing effective governance, providing intellectual objectivity and leadership, maintaining professional integrity and high standards.

All stakeholders through their sustained efforts over the years have built this institution and its governance system. The Central and State Government, using a consultative process, have provided policy directions to the Institute to strengthen its activities. The views of the faculty have been an important input towards formulating these policy directions. Such extensive consultation among all stakeholders has been the key attribute of the autonomous structure and decision process.

It is in such a context that recent developments regarding the autonomy of the Institute give us cause for grave concern.

### **3. Autonomy of IIMA: For the Government and Not of the Government**

The IIMA have followed all guidelines and policy directions that have evolved through a consultative processes described earlier. Needless to say, the Institute has been following the mandate spelt out in the National Education Policy 1986 and reaffirmed by the National Policy on Education (NPE) Review Committee, the Kurien Committee and the Expenditure Reforms Committee (ERC) Report.

The Government has traditionally followed a consultative process in giving policy directions to the Institute and the appropriate committees of the Board and Faculty have dealt with various decisions in the light of national policy imperatives taking into account the views of the other stakeholders.

A series of developments in recent months have however seriously compromised this process and raised apprehensions about the declining autonomy available to the Institute.

- The Ministry changing the selection process of the Directors of IIMs. The process has marginalized the role of the Board. Instead of the search committee being set up by the Board, it was set up by the Government of India, without consultation with the Board.
- The Ministry cancelling the CAT test unilaterally. It is a blow to the IIMs' internal processes and autonomy because a decision to hold a retest was to be made, if needed, first by the CAT group and then on their recommendation by the directors of all the six IIMs. It is a measure of how jealously the independence of

the admission process is guarded within the IIMs that the Directors are not expected to act unilaterally without the recommendations of the CAT group.

- The Ministry putting pressure on the IIMA to sign a MoU containing restrictive clauses that would severely undermine the autonomy of the Institute. This happened despite the fact that IIMA was willing to give up the budgetary support from the Government in order to protect and preserve its autonomy.
- The Ministry attempting to reduce the corpus of the Institute. The corpus is a key element in the financial independence of the Institute and a unilateral attempt to force the Institute to hand over a major chunk of the corpus to the Government is an erosion of autonomy.
- The Ministry claiming a veto power on the efforts of the Institute to extend its geographical reach in pursuit of its mission.
- The Ministry ordering that the fee be set at Rs 30,000. This is a serious erosion of autonomy because fixation of fees is a responsibility that has been assigned to the IIM Board acting on behalf of the IIMA Society. The Board in turn takes this decision on the basis of inputs provided by the faculty and the policy direction given by the Government. In the early 1990s when the Government wished the fees to be *increased*, this was the process that was followed (Exhibit 2 contrasts the process followed then with the process followed now).
- Ministry officials threatening dismissal of members of Society, Board members and director if the IIMA proceeded to seek legal redressal. It is a direct blow to the autonomy of IIMA and the IIMA Society because legal redressal is a constitutional right available to these bodies.
- The Ministry claiming that the IIMs should manage with a lower number of teachers per student, without even taking into consideration the activity mix of the IIMs. This is an erosion of the autonomy of the Institute and also a threat to its academic excellence. A high quality programme requires a large number of faculty with wide ranging industry exposure and research output to offer a full range of specialized courses (Exhibit 3 describes the activity mix of the Institute and its faculty and explains the need for a large number of faculty).

We strongly emphasise that autonomy has been the most important pre-requisite for success of IIMA and therefore preserving autonomy is critical to sustaining its academic excellence. As enunciated in the report of the ERC, increasing the autonomy of institutions of excellence is an accepted feature of government policy.

For example, paragraph 27 of the ERC report states that:

*“...at the same time there are also several autonomous organisations...known the world over for the excellence of their output. It therefore appears necessary to put in place a system of reporting and screening that will ensure that organisations that are doing excellent work are encouraged to further, even as those that are not in this category are not allowed to pre-empt for themselves a large chunk of scarce budgetary support at the expense of the more deserving ones.”*

The ERC report goes on to say:

*...review has to be conducted of the various autonomous institutions depending on their size and nature of activity and such review has to focus on whether the user charges levied are appropriate or not and whether efforts have been made to maximise the internal revenue of these institutions and reduce their dependence on the government for funds to minimum. Based on review reports for institutions where such reviews have been periodically conducted, the budgetary allocation has to be extended for 2002-03 and such budgetary support has to be reduced to strengthen internal resource generation. ....herein also it has to be kept in mind that internal resource generation should be encouraged so as to keep budgetary dependence to the minimum.*

The report further suggests:

*.....that a small number of autonomous institutions whose performance has been outstanding and internationally acclaimed must be selected and their future performance should be encouraged by providing them with greater autonomy. They can be extended flexibility in matters of recruitment and financial rules and also be exempted from steps which are likely to create impediments in their development. Also such rules and procedures should be clearly laid down as to maximise transparency.*

Of all the threats to the autonomy of IIMA, it is the issue of fees that has attracted the greatest attention. We therefore proceed to discuss this issue at length before discussing the role of autonomy.

#### 4. Fee Reduction: The Facts

The Fee Order issued by the Ministry enumerates a number of reasons that are factually incorrect:

Assertion	Reality
IIMA was set up by the Government of India.	IIMA was established as an autonomous body with the active collaboration of the Government of India, Government of Gujarat and Indian industry. The Ford Foundation also contributed considerable funds at the time of its inception.
IIMs are fully funded Central Government technical Institutions and their financial requirements are met through the Central Government budget.	In recent years, the government support has been only a small part of the IIMA's income (less than 30%) and the IIMA had stated its willingness to forego the government budgetary support entirely.
The reduction of fees is in accordance with the Supreme Court judgement in the TMA Pai case.	The TMA Pai judgement says that institutions should be allowed to charge fees that cover their cost and generate a reasonable surplus. IIMA's fees have never covered even the cost.
The U. R. Rao Committee recommended a cut in fees.	The U. R. Rao Committee report has not been made public and has not been made available to the IIMA despite a written request. Press reports indicate that the IIMs were outside the purview of the U. R. Rao Committee.

However, having pointed out these errors and inconsistencies, we now proceed to deal with the central argument that the fees charged by the IIMA are “exorbitant” and hence “unaffordable to capable but poor students”.

#### The fee has not kept out poor students

The income profile of students joining the Institute has changed little over the last two decades, while the fee charged by IIMA has increased substantially as may be seen from the following table drawn from Exhibit 4:

Item	1983-84	1993-94	2003-04
PGP fee (including hostel charges)	Rs 3,000	Rs 20,000	Rs 150,000
Number of applicants	7,470	15,459	94,740
<b>Broad income category of PGP students</b>			
Low income	20%	17%	18%
Middle income	58%	63%	60%
Higher income	22%	20%	22%

Through these two decades, the proportion of students from the low income group has remained at around 17-20%, the middle income group at 58-63% and the high income group at 20-22%. This is direct evidence that the fee has not kept out poor students.

Moreover, there has been no instance where a meritorious and deserving student has not been able to pursue the programme at IIMA due to lack of financial resources.

This result is not an accident but is the outcome of a conscious policy of the Institute to make education accessible to students with limited financial resources by increasing the availability of scholarships and education loans. While increasing the fees, the Institute specially earmarks annually an amount of Rs 25 lakhs out of the fee collected to provide need based financial assistance to students. Charging a uniform fee of Rs 30,000 will remove this cross-subsidisation and benefit the rich at the cost of the poor. A poor student who pays nothing today for education at IIMA would then have to pay Rs 30,000.

### **The fees are already heavily subsidized**

Far from being exorbitant, the fees are heavily subsidized. The annual subsidy per student comes to Rs 1.13 lakh on a conservative estimate and Rs 2.80 lakhs on a more comprehensive estimate (Exhibit 5). Interestingly, over the last decade, the level of subsidy has been going up despite fees increases. The subsidy per student is now 2-3 times more than what it was a decade ago.

### **Current fees are consistent with national education policy**

The idea that fees for higher education should be increased goes back to the NPE 1986 (as modified in 1992 and reissued in 1998). NPE, which was approved by parliament emphasises that increased reliance on fees and user charges was important not only to reduce the burden on state resources but also to create a greater sense of responsibility in the educational system<sup>1</sup>.

As far as the IIMs are concerned, the Kurien Committee (recommendations of which were accepted by an Empowered Committee of Ministry of Human Resources

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<sup>1</sup> Department of Education, Ministry of Human Resource Development, Government of India, *National Policy on Education, 1968 As Modified in 1992*, (New Delhi: 1998) paragraph 11.2, page 35.

Development and asked to be implemented by the IIMs via a letter dated January 17 1994, Ref No. F.5-12/92-TD.II) was even more categorical:

*There is also an increasing realisation that the cost of management education and training should not be so heavily subsidised as at present by the Government and that the direct and indirect beneficiaries of the system should bear a sizable portion of the cost. There is an urgent need for IIMs to evolve and implement a package of measures for augmenting their internal income. The expectation that the Government would or can support without limit the maintenance budget of the Institute is untenable in the current context of financial stringency....there is a good scope for taking up a variety of measures by the institutions for raising their internal revenues. Such measures may include upward revisions of the fee structure...<sup>2</sup>*

The fee increases that took place over the last decade were part of this larger policy framework articulated by the Government to encourage the IIMs to become financially independent and reduce, if not eliminate, their dependence on government funds. This stance was endorsed in a UNESCO Conference paper to which the foreword was written by Dr. Murli Manohar Joshi<sup>3</sup>:

*Recently, major efforts have been mounted for mobilisation of resources and it has been recommended that while the Government should make a firm commitment to higher education, institutions of higher education should make efforts to raise their own resources by raising the fee levels, encouraging private donations and by generating revenues through consultancy and other activities.*

Clearly this reflects the Indian government commitment to allow, and even insist on institutions of higher education to raise their own resources.

### **Tuition fees are only one component of total fees**

The recent order of the Ministry reducing fees prohibits collection of any other charges/fees except mess charges. Running a high quality programme involves a number of costs in addition to tuition fees. As may be seen from Exhibit 5, the cost of books, teaching materials and other supplies alone amount to 1.5 times the total fee mandated by the Ministry.

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<sup>2</sup> Ministry of Human Resource Development, Government of India, *Report and Recommendations of the Committee to review the Functioning of Indian Institutes of Management (Kurien Committee)* (New Delhi: July 1992), Secs.7.1; 7.3, pp.17.

<sup>3</sup> Dr. M.M. Joshi, "Higher Education in India: Vision and Action". Country Paper, UNESCO World Conference on Higher Education in the Twenty-First Century. Paris, 5-9 October 1998. Taken from MHRD's website <http://www.education.nic.in/htmlweb/unhighedu.htm>.

The implication is that the worst hit institutes would be those in which the programmes are rigorous and require more books, adequate teaching materials (e.g., international management cases), better computing resources (e.g. internet connection, sophisticated software, variety of databases, etc.), modern teaching aids (e.g., simulation games, films, etc.) and networking with industry. Institutes that provide better hostel facilities and health care would also suffer. The risks to the programme are clear.

### **The fees are reasonable relative to income levels**

In absolute terms, annual fees at IIMA (\$2,700) are among the lowest in the world. In comparison, top ranking US schools charge<sup>4</sup> around \$35,000 and top rated European schools charge similar amounts. European schools that do not figure in the international rankings and charge much lower than the top schools still charge far more than IIMA (for example, Germany's Stuttgart Institute of Management<sup>5</sup> charges \$14,000). Even in Asia, business schools charge much more than IIMA. International University of Japan charges \$17,000, Thailand's Chulalongkorn University charges \$9,600, Korea's KAIST charges \$9,000 and China's CEIBS charges \$8,300. In India itself, the Indian School of Business charges Rs 11.8 lakhs.

The Ministry's order avoids this comparison and focuses on fees as a percentage of per capita income. It says that the fees should be pegged at 30% of India's per capita income. This appears to be based on a computation of US MBA fees as percentage of US per capita income.

This computation is fallacious because the comparison must be with reference to the average income not of the entire population, but of the relevant group. We must therefore relate the fees to the income levels of MBA graduates in the US and India. The average starting salaries<sup>6</sup> of MBAs in the top business schools are in the range of \$150,000 and the annual fees in these schools is in the range of \$35,000. The fees amount to about 23% of starting salaries. By comparison, the current fees at IIMA amount to only 11% of average starting salaries of Rs 11 lakhs. By this benchmark, fees at IIMA are more affordable than in the US.

It might be asked whether we should consider the income level at the time of entry to the programme rather than the income at graduation. The reason for looking at income at graduation is the easy availability and popularity of education loans. Because of the loans, the cost of education is incurred when the student pays the loan instalments. Affordability of these loan instalments depends on the salary level after graduation. Fees at IIMA are therefore highly affordable. Moreover in cases where the students cannot afford the fees, the Institute steps in to give scholarships that may even result in their paying zero fees.

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<sup>4</sup> Data on fees at various business schools is provided by the US magazine, *Business Week* in its ranking and profiles of MBA programmes available at its web site <http://www.businessweek.com/bschools/03/index.html>

<sup>5</sup> <http://www.uni-simt.de/content/en/programs/financial.asp>

<sup>6</sup> The starting salaries at various business schools is provided by the *Financial Times*, London in its ranking of MBA programmes available at its web site <http://rankings.ft.com/rankings/mba/rankings.html>

## **There is no economic rationale for subsidizing MBA education**

Very often it is argued that education leads to significant externalities and hence has to be subsidised by the Government. It is important to recognise that the nature and magnitude of externalities differ substantially for different levels and types of education. Externalities are much lower for higher and advanced education than for primary education. Within higher education, the externalities in MBA education are even lower and such externalities as exist can be largely internalised by the employer. As a result, the social benefits of MBA education are more or less completely reflected in the salaries of the graduates. Secondly, there is no theoretical justification for subsidy when the private benefits exceed the private costs of an activity, as they do in the case of MBA education. Thus, on the face of it, the Government at large does not have to subsidise MBA education. *Prima facie* there are no market failures to be corrected by using subsidies<sup>7</sup>.

If at all there is a likelihood of 'market failures', it is likely to be in the market for student loans. As already argued, the student loan market works quite well in the case of IIM education. This could be partly the result of two government interventions in this market: (a) providing a tax break for repayment of student loans and (b) including student loans in the category of priority sector advances. It is also, at least partly, the result of the efforts made by the IIMs to ensure that their programmes are affordable to all students.

Economic theory does not therefore provide any justification for the fee cut.

## **5. Autonomy and its Linkages**

By autonomy we mean the freedom of an institution to take all legitimate actions as are needed to achieve the mission and the goals of the institution. It is the privilege and the capacity of an institution to make appropriate choices for action to achieve the mission and the goals specified. Consistent with the mission and the goals, the Board where various stakeholders are represented, specifies the objectives such as achieving excellence in education and training, ensuring equality of opportunity/diversity of student body, conducting research and disseminating knowledge. The objectives define the attributes within which the institution's autonomy and accountability are operationalized.

To pursue these goals to the fullest, authority is devolved to the institution and its Director on finance, staffing, curriculum, student admissions and other similar matters. The main aim is to delegate decision making to the institution so as to empower it and hold it accountable. The responsibility of the faculty and the Director is to make decisions that take into account the relevant interests of all the stakeholders.

Once the mission and the goals are agreed upon and the objectives defined, autonomous institutions ought to be judged not only by the process by which they

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<sup>7</sup> In addition, there is the argument that not all market failures require government intervention because there is a possibility of state failure as well.

attain these goals (provided they are legal and ethical methods, of course) but also by the end result. The power to set the objectives and specify the criteria for evaluation of performance of the institution are the prerogative of the Board where all stake holders, including faculty, are represented. The operational power is however vested in the faculty governance system and the Board does not interfere in the operating procedures, controls and monitoring arrangements that the faculty set for effective achievement of objectives.

IIMs were set up outside the University system because the founders of IIMs such as Dr. Vikram Sarabhai clearly saw that under the university system, there was little chance for the IIMs to become centres for excellence in education. Hence a model based on faculty governance and autonomy on all matters - academic, administrative, financial and institutional - was evolved. This was the usual system in most of the leading universities of the world. In the context of India, this was an innovation, and led to systems in IIMs that were strikingly different from those prevailing in the Indian universities. We now elaborate on the four different aspects of autonomy and how they are interrelated.

### **Academic Autonomy**

In all academic matters, the IIMs are free to decide on their own norms and procedures, and administer them in a way they think best. The system of academic administration prevalent in IIMs is the product of the philosophy of faculty governance. This has involved significant time commitment from the faculty and has resulted in achievement of high standard academic programmes. The best way of maintaining the quality of the academic programmes is, as discussed above, not subjecting the mix of the activities, conducted by the Faculty, to “bureaucratic” norms and regulations.

Academic autonomy does not simply imply the freedom to teach in the classroom, but also the freedom to design courses, freedom to choose the cases and teaching material to be used, freedom to design the method of instruction and evaluation, freedom to collaborate with other agencies to improve effectiveness of delivery of courses, freedom to engage in relevant research and consulting that would enhance the quality of academic output, freedom to design and control the admissions process for fair and transparent selection procedures. Such freedom is essential for enhancing the prestige and reputation of an academic institution.

### **Institutional Autonomy**

This refers to freedom to decide the framework and structure of decision-making processes, linkages with society, donors and stakeholders, and internal structure. IIMs are not organised into “departments” as in Universities with an internal hierarchy (such as a head of the Department exercising powers over the “junior” faculty). The IIMs have a collegial system, in which faculty members are considered as equal colleagues, to be respected rather than ruled over. The Chairpersons of the areas are more like “coordinators” rather than “bosses”, and their roles are to facilitate and reconcile rather than adjudicate. The faculty members are permitted multiple memberships in different areas and groups, so as to enable them to work across disciplines and enhance their potential. The autonomy consists in giving freedom to

the Institutes to devise their own structures and systems, so long as they achieve their goals and objectives.

The capabilities of many management education institutions are stunted today because the majority of them are not able to either attract capable academic support, especially faculty or retain them due to low compensation, restricted academic and operational autonomy and opportunities to interact with industry and practising managers. IIMs have a different story. Despite the low pay scales, IIMA has been able to retain faculty by providing autonomy and flexibility in internal working environment. IIMs have also been able to sustain their professional and organisational commitment by their active involvement in key decision- making processes relating to selection of students, curricula design, evaluation of the students, research projects and other internal functions. The faculty governance system, unique to the functioning of IIMs, under the guidance of the Board and in partnership with its stakeholders has been the key to developing and implementing strategies which have contributed significantly to the growth and development of the Institute.

### **Administrative Autonomy**

IIMA is administered through an arrangement consisting of a Society, which is an independent non-profit legal entity. This Society consists of donors from industry who contributed to the IIMs, particularly at the time it was set up, the Board members and Government representatives. The Board of Governors consists of representatives from the stakeholders: the Society, the Government of India, the State Government of Gujarat, industry representatives and representatives from the faculty.

The Board functions as the body that sets the objectives and evaluates the performance, while providing strategic direction and policy guidelines, in conformity with the mission of the Institute. The Society has delegated to the Board the powers required to perform these functions. Administrative autonomy encompasses full freedom in recruitment, promotion and disciplinary matters with regard to staff at all levels. The specification of qualifications, experience and competencies required for various jobs, the job descriptions and the organisation structure and processes are operating decisions that are taken by the Director and the faculty with requisite inputs from the Board.

The IIMs have functioned with full autonomy in their internal administration, securing approvals from the Board as required. At IIMA, government procedures have been adopted in some areas of functioning, not because they were government procedures, but because they were basically sound procedures. . There are several areas of functioning where the Institute has designed its own procedures for enhancing the effectiveness of functioning. The Board and the Director have enjoyed such administrative autonomy and given the creditable performance of the institute on all parameters of evaluation, it is clear that such autonomy has served the purpose well. It will be in the interest of all stakeholders, including the Government, to preserve this tradition of administrative autonomy to devise and adopt structure, systems and procedures that enhance the effectiveness of achieving the mission and the goals of the institute. IIMA should continue to be a Board managed entity and not be subjected to bureaucratic clearances and interventions from the Ministry to ensure that it continues to excel in performance. Such a view was also enunciated

unequivocally in the Kurien Committee Report (that was accepted by the Government of India, without qualification):

*...the IIM Boards can govern effectively only if they are the ultimate repository of all authority within the Institute...*

*The Director's role and authority should be strengthened with a view to ensuring more orderly management of the Institutes. Stronger and more committed Boards would enhance the Director's ability to manage the Institutions for greater productivity and usefulness.*<sup>8</sup>

## **Financial Autonomy**

Financial autonomy implies freedom to raise resources and to decide the items of expenditure. Financial autonomy also extends to deciding the nature of infrastructure to be created keeping in view the future requirements and enhancing the quality of infrastructure to international standards. It also implies that the Institute has the freedom to decide user charges for various services - not only student fees, but also the charges for different executive programmes, consultancy services and sponsored research. Traditionally, these charges have been determined on the basis of multiple considerations such as the importance of the service, the ability of the client to pay and other linked benefits for the institute. For example, the Institute has been conducting programmes for IAS officers at well below the rates charged from the private sector for similar programmes, since it believes that training civil servants is an important activity for the nation and has significant ramifications for management of the nation. Work done for socially relevant sectors includes projects for the Ministry of Human Resources Development (designing of literacy campaigns), the Ministry of Agriculture (management of water resources, restructuring of co-operative sector, etc.). The institute is a key member of the 3i-network (IDFC, IIT Kanpur and IIMA) that has done extensive work over the last three years on the infrastructure sector and brought out three extremely well-received collections of writings on a host of issues in the sector. These efforts are invariably put in by the institute at well below 'market' rates charged from other organisations for similar activities. Straight-jacketing the process of charging for services and fixing rigid norms for charging that cannot take these multiple considerations into account, and will only result in either undercharging clients who can pay, or overcharging (or not doing the project at all) some clients. Both would be undesirable consequences.

Today when resources earmarked for higher education institutions are becoming scarce, institutions that lack financial independence run the most serious risk of substantially compromising their autonomy and in turn being unable to sustain excellence. The greatest threat to the academic freedom and institutional autonomy would come from inadequacy of funding. Financial sustainability is a pre-requisite for

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<sup>8</sup> Ministry of Human Resource Development, Government of India, *Report and Recommendations of the Committee to Review the Functioning of Indian Institutes of Management (Kurien Committee)* (New Delhi: July 1992), Sec.6.3.1, pp.16.

achieving the mission and the goals of IIMs. **It goes to the credit of the Government that all these years, despite much higher levels of funding, they did not interfere in the financial autonomy of any of the IIMs. It is paradoxical that today, with much reduced funding support the Government is seeking to violate this autonomy.**

Internal generation of funds at IIMA has been well accepted by both the Government and the Board as one important source for sustenance of the Institute to achieve its mission and goals. The Kurien Committee Report (that was accepted by the Government) of 1992 was of the following view:

*Functional autonomy is essential for IIMs, if they are to retain and enhance their capacity for excellence. Such functional autonomy is not possible without financial independence.<sup>9</sup>*

Reducing financial independence entails the most serious risk of substantially compromising the autonomy of IIMA. Preserving the work culture and conducive environment for achieving its mission would be impossible in a scenario where the institute is not allowed to assess its financial requirements and self-generate financial resources. Financial and functional autonomy are inextricably linked, and without these it would be impossible for IIMs to attract and retain quality faculty – the key resource for sustaining academic excellence. Any compromise on autonomy would negatively impact the Institute’s vision to become a well respected, world class management school.

### **Linkages across autonomies**

The four types of autonomy are intertwined. Saying that the IIMs can have full academic autonomy but not financial or administrative autonomy is meaningless. Launching a new course, or a new programme, for example, requires marketing effort, and this effort would need recruitment of appropriate persons and agencies to carry out the job. This would involve administrative and financial autonomy. Upgrading of curriculum involves subscription to databases, getting cases to read and select (on an average, about ten cases and articles are read for every case or article that finally finds its way into the curriculum) cases and networking, attending conferences, and collaborating in joint research with peers from other institutions. All these involve expenditure that may not be strictly justifiable under a government process or audit framework. This does not mean that such expenditures are reckless or infructuous. It only means that many a time they cannot be justified through answers to questions such as “what will happen if you don’t read ten articles, and read only six?” Appointments of persons may be linked to the demands of the job (determined through the academic processes) and it may be necessary to appoint person/s who do not strictly meet the qualifications as specified in the recruitment policy but in the judgement of the institution are best suited for the job. Straight-jacket bureaucratic

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<sup>9</sup> *Ibid*, Sec.7.5, p.18.

procedures that governments typically tend to adopt would simply not be appropriate for academic institutions striving for excellence.

We apprehend that once financial autonomy is compromised, it is only a matter of time before the other types of autonomies are also compromised.

## **6. What about Accountability?**

A legitimate issue associated with autonomy is that of accountability. While asking for autonomy, IIMs should also agree to accountability towards all the stakeholders, in particular towards those who provide the resources required. The Government being a major provider of resources has every right to ask for accountability.

However, it would be pertinent to emphasise two points: (i) IIMs should be accountable not only to the Government but also to all the stakeholders; and (ii) the accountability should be assessed on broad parameters of performance and not on operational issues such as the fee charged.

In our view, the accountability of the Institute involves several things:

- For institutions of excellence such as IIMs, the visibility of achievements is one major element of accountability. When an institution figures among the top institutions in the Asia Pacific including Australia, and figures among the top sixty in the world (more than fifty of these are from U.S.), it has met this test.
- It is natural to require an audit of financial statements (to the extent funds are provided by the Government) so as to preclude allegations of misappropriation of funds. The accounts of IIMA are audited and are routinely presented for scrutiny to the Board that has representatives of the Government as well as nominees of the Government.
- Another major dimension of accountability is the social accountability: what has the Institute done for the society at large? As elaborated earlier, IIMA's social contributions are indeed significant: institute faculty have made contribution to various social sectors; Institute's faculty serve on the Boards of large PSUs and several government bodies – contributing thereby to management of publicly owned resources and shaping public policies; institute's faculty has worked extensively for not-for-profit organisations that are engaged in helping the under-privileged in the society. Social accountability would also involve ensuring equal opportunity for admission to qualified students from all sections of the society, ensuring quality education and research, helping in professionalizing management practice of socially desirable, but under-managed sectors, assisting business and industry through training, research and consultancy, undertaking research on the issues that are significant for the nation and disseminating the insights gained for wider usage, collaborating with other academic institutions to help them improve their academic standards and sensitising the participants in the various education programmes to the concerns and needs of the society. The IIMA has consciously done all the above activities and fulfilled its social obligations.

The Government can and should look at these dimensions, and provide constructive feedback and suggestions on how performance on any of these dimensions could be enhanced even further. The faculty is convinced that if the financial and the functional autonomy of the Institute are compromised, then the Institute's ability to contribute to socially relevant activities would also be compromised. That indeed would be a loss to the nation and entirely counter-productive to what the Government and Ministry would like to achieve.

## **7. IIMA's Vision and Future Strategy**

IIMA's vision is to emerge as a top ranking Business School in the world by 2010. IIMA's success in this endeavour has the potential of making India one of the most attractive destinations in the world for acquiring management education.

IIMA's future strategy to realize this vision includes the following:

- Meet the demand for managerial talent to support the growing Indian economy:
  - Expanding of total student strength in the long duration teaching programmes (PGP, PGP-ABM and FPM) from 450 in March 2003 to 700 by March 2007.
  - Introducing an Executive MBA Programme in 2005.
  - Strengthening the Faculty Development Programme for training management teachers.
  - Contributing to the process of institution building in the field of management education in India.
- Support the globalization of the Indian economy:
  - Helping Indian Industry to become globally competitive by providing cutting edge training and consultancy services.
  - Internationalizing Executive Development Programmes and Research & Consulting Activities.
  - Introducing International Faculty Exchange Programme
  - Promoting India as a leading Global Brand in the field of Management Education.
- Contributing to development and governance
  - Conducting socially relevant research and training activities.
  - Helping in the promotion of E-Governance.
- Building world class infrastructure at IIMA.
- Reducing the financial burden on the Government by focusing on internal resource mobilization and also making optimal use of available resources.

The Institute is today at a point where it needs to invest large amounts to improve its library, computing resources and physical infrastructure. At the same time, it also needs to invest heavily in research and creation of cases and teaching material relevant to the globalizing Indian economy. A reduction in the fee will compromise the ability of the Institute to undertake this much needed investment in building the hardware and software for offering high quality management education in India.

## 8. Conclusion

The present unilateral notification by the Ministry regarding the fees to be charged by IIMs to the PGP students does not seem to be a step in the right direction for the following reasons:

**First**, the notification on the fee reduction by the Ministry violates the time honoured process of the fee being decided by the Board of Governors, after due consultations with the faculty and the Director.

**Second**, it is not necessary to reduce fees to achieve the stated objective of making management education more affordable to the less well-to-do sections of society. IIMA has used scholarships and student loans very effectively to ensure affordability of management education. Even though the fees has increased from Rs 3,000 (1983) to Rs 1,50,000 (2003), there has been no change in the profile of the economic background of students between 1983 and 2003. The real entry barrier to IIMA has never been fees, but the capability of applicants.

It has never been an “elitist” group, if the term elitist means rich and very well to do. Yes, it has always been elitist in the sense that only the brightest students get admission, through a fair and transparent system based on merit.

Good students from very poor economic backgrounds can enter, and have entered IIMA. They have always been able to finance their education either through bank loans or through full scholarships offered by IIMA. The faculty have always been committed to the idea that no student ought to be deprived of education at IIMA for want of financial resources. We stand by, and reiterate this commitment. We also strongly feel that the notification of fee reduction from Ministry is an incorrect solution to the affordability problem. It subsidizes richer students who can easily afford the current fee.

**Third**, the order has to be seen not in isolation, but in the larger context of many other decisions by the Ministry that threaten the autonomy of the Institute.

We stress that we seek to protect the autonomy of the Institute in all its aspects: academic, administrative, institutional and financial. We believe that it is autonomy and the consequent sense of ownership at IIMA and the other IIMs, shared not only by faculty but also by the staff that has enabled these institutions to become centres of excellence. We also believe that these components of autonomy are inextricably interlinked, and one cannot have one but not the other components. It seems ironical that when the Government is opening up various sectors of the economy and liberalising their functioning, that it should attempt to assume greater control of the IIMs, despite their creditable performance over decades.

Associated with autonomy is accountability – accountability not only to the Government, but to all stakeholders. Accountability should be on broad parameters of performance and not on operational issues. It involves three issues – (a) visibility of achievements (for example, high position in international rankings), (b) audit of financial statements to preclude allegations of misappropriation, and (c) social accountability – contribution of the Institute to the society at large.

**Summing up**, we would like to state that we share the dreams and visions of the President of India and the Prime Minister both of who have expressed their desire to make India a force in the international arena. IIMA has set for itself the mission, of being recognised as one of the best management schools internationally and giving India yet another reason to be proud of. IIMA wishes to establish a legacy of creating world-class professionals through building an institution where ideas are nurtured, dreams fulfilled and future leaders of global society born. The IIMA will need an enabling environment to meet these challenges and to succeed in this mission. IIMA and the faculty ask for the autonomy without which such a dream would not be possible to achieve.

## **Exhibit 1: IIMA's Contribution to the Nation**

IIMs are institutions imparting post graduate management education: they were created not as business schools but as management institutions. It is a clear misconception that the IIMs are sources of talent only for the private sector and the MNCs. According to IIMA's 2003 placement data, around 53% of students joined Indian companies with no foreign collaboration whatsoever. Another 27% joined MNCs like Hindustan Lever which have a substantial Indian holding. Many of the enterprises in India are today headed by IIM alumni, the enterprises contributing tremendously to the nation's economic development.

The faculty have also equally contributed to various research and training activities nation wide. It is ironical that the Government claims non-contribution from the IIMs when the faculty members have in fact distinguished themselves by serving on the Boards of government bodies and PSUs and in various advisory committees of the Government.

IIMA established the Centre for Management in Agriculture (CMA) in 1963 and the Public Systems Group (PSG) in 1975, both centres which have contributed immensely to the cause of rural agriculture, health and nutrition, and research work and training relating to government public systems, Health and Population, Education, Energy, Transportation etc. Various members of the faculty are also actively involved in doing research in the areas of Infrastructure and help in the preparation of the annual India Infrastructure Report which acts as a precursor to India's Infrastructure policy. The Institute's Ravi Matthai Centre for Educational Innovation has also made substantial contributions to the National Literacy Campaign and pioneered research by developing and implementing nation-wide research project on Same Language Sub-Titling.

Through Management Development Programmes, the faculty have developed specialised programmes for Indian Managers at the middle and senior management levels of mid sized companies. Further there have been various programmes that are aimed at officers of the Indian Civil Services and Indian Administrative Services. In the year 2002-2003 close to one third of India's research output in the field of management studies was contributed by faculty members of IIMA. Even in the earlier decades, the faculty has substantially contributed to the research and development of teaching materials and case studies which have been used by many post-graduate management institutions around the country.

## Exhibit 2: Fee Change: Process Issues

Apart from the lack of justification for the fee cut, the procedure which has been adopted when imposing the fee cut order leaves much to be desired. The contrast with the process followed while changing the fees in the early 1990s is most instructive.

The Government appointed the Kurien Committee to study the functioning of the IIMs. The terms of reference of the Committee were decided in consultation with IIMs and included the issues of financing and fee revision. The Committee sent a list of questions to IIMs on matters pertaining to the terms of reference. The faculty of IIMs discussed the questions and were involved in preparing a response. The Committee visited the IIMs and held discussions with the faculty, directors and Boards of IIMs.

The Committee recommended in its report:

*There is also an increasing realisation that the cost of management education and training should not be so heavily subsidised as at present by the Government and that the direct and indirect beneficiaries of the system should bear a sizable portion of the cost.*

*There is an urgent need for IIMs to evolve and implement a package of measures for augmenting their internal income. The expectation that the Government would or can support without limit the maintenance budget of the Institute is untenable in the current context of financial stringency....there is a good scope for taking up a variety of measures by the institutions for raising their internal revenues. Such measures may include upward revisions of the fee structure...<sup>10</sup>*

The fee increase was not an *ad hoc* or a stand-alone decision. It was part of a larger policy framework articulated by the government at that time to encourage the IIMs to become financially independent and reduce if not eliminate their dependence on government funds. The policy was widely debated and discussed. The Ministry examined the committee recommendations and held several rounds of discussions with IIMs on how to operationalize them, for there were concerns that the IIMs may not be able to find the resources on their own so quickly.

After subsequent discussions between the Institute and the Ministry and deliberations in the faculty council, it was proposed that the gap between the average cost of training one PGP student and actual fee charged should be reduced in phased manner over a period of time. After the Board approvals the fee has been increased in a phased manner. The first time when this exercise was done there was a gap of about Rs 70,000 (the difference between actual cost and fee). This gap was reduced by increasing fee by about Rs 20,000 in the year 1994-95.

In contrast to this, the present fee reduction involved no genuine consultations at any stage. At no stage did the Ministry seek to assess the impact of the fee reduction on

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<sup>10</sup> Ministry of Human Resource Development, Government of India, *Report and Recommendations of the Committee to review the Functioning of Indian Institutes of Management (Kurien Committee)* (New Delhi: July 1992), Secs.7.1; 7.3, pp.17.

the IIMs' finances. Nor was there any real justification given for the decision except for an assertion that the present fee structure is too high and that "quality" management education must be made affordable. Alternative ways to achieve these objectives, such as more scholarships to poor students or a differential fee structure for different income strata were never discussed with anybody concerned.

We emphasise that all these years it has been the prevalent practice that the Institute's Board of Governors decide the fee structure in accordance the MoA and Rules of the IIMA Society. The government too, over the last four decades, has upheld this system and the government representatives have functioned as a part of the Board offering constructive advice, giving support when needed, and pointing out pitfalls. They never functioned as external persons simply conveying the government views but as part of IIMA family. There sure were powers for the government to overrule the Board and Society, but it was realised that these powers were to be used in exceptional circumstances and with adequate justification. We cannot see how the present circumstances can be termed as warranting such interference.

In issuing the notification regarding fees reduction, the right course of action would have been to convey the concerns that the Ministry had with the present fee structure and ask the Board and the Society to come up with ideas or decisions on how to address those concerns. But the Board and the Society were not given a chance to exercise their responsibilities and give their decisions. However, the Ministry has behaved as if these bodies did not exist at all.

### **Exhibit 3: IIMA's Programmes, Activities and Faculty-Student Ratio**

#### **Activity Mix**

The Institute currently offers three long duration programmes (PGP, PGP-ABM, FPM) and various other executive development programmes. Every year, close to 60 electives and 23 compulsory courses are offered to the students of PGP, 20 elective courses to PGP-ABM and another 20 electives to the FPM students. All these electives are highly specialised courses and their quality has been maintained by constantly revising the contents and adding new electives. This wide range of electives offered is essential for the overall quality of the management programmes offered at the Institute. About a third of the elective courses that are offered each year are new and several others undergo major revision of materials and case studies.

High quality of course content can only be ensured by constant development, redesign and improvement so that the courses always remain relevant in terms of content, pedagogy and evaluation methods. In this system, accountability comes from two sources: student evaluation and peer evaluation. Managing the development, redesigning and improvement of teaching materials and cases in light of the frequent development in the environment requires a lot of effort, coordination and industry exposure.

IIMA's research programmes and consultancy activities are an integral part of the academic process that helps establish the credibility of whatever inputs are presented in the classrooms. Bringing real industry experience into the classroom is another way of establishing the credibility of any given course. These real world insights are brought into the class room directly through case studies, examples and a more practical line of discussion than would be possible otherwise.

We are concerned that questions related to faculty-student ratio, expansion of programmes, and time spent in class room teaching are being raised without duly considering some of the intertwined character of the various activities.

#### **Faculty Student Ratio**

IIM-A has 75 faculty members including those who are currently on long leave leaving an effective strength of 65 as of December 2003. This number includes faculty involved in research centres like the Centre for Management of Agriculture, the Public Systems Group, the Ravi Matthai Centre for Educational Innovation. There are around 254 students in PGP First year, 166 in PGP Second year, 42 FPM students and 25 and 30 students respectively in PGP-ABM First year and Second Year adding up to a total of 517 students.

As discussed above, currently about 125 courses are offered by the faculty in each academic year. Given that these courses are specialised and in order to maintain quality each faculty at the most can offer 2 courses in PGP. The Institute at any given point of time will need 60 to 65 faculty members to coordinate and offer these courses suggesting a student-faculty ratio of about 1:8. Any increase in student intake would essentially involve an increase in the faculty strength also so as maintain the current level of involvement and quality of input from the faculty in the courses that they

coordinate and teach. An expansion of the student intake without a similar expansion in the faculty strength would stem the vision of creating intellectual leadership and world class managers and bring about a drastic reduction in the quality of courses taught.

Teaching a full credit course can involve 180-200 hours of work when pre-class preparation, updating the materials, case studies, class room contact hours, supervisions, examinations and other associated activities are taken into consideration.

In view of all of the above, it is not proper to think in terms of straight jacketing the number of hours a faculty member should engage in classroom teaching. Such an approach would lead to a probable reduction in time dedicated to pre-class preparation, less or no time to engage in research projects and consultancy activities. And as elaborated above, such restrictions would in turn directly affect the quality of the academic programmes offered. And this is not compatible with Government's objective of making "quality education" available to the students.

### **Expansion of PGP**

We emphasise that the expansion of one programme cannot be decided in isolation because the Institute does not offer one standardised programme. We believe that diversity of courses is critical to meet the requirements of management programmes and coordinated expansion of all activities is crucial to achieve synergy and use the resources more efficiently.

Research is of course absolutely critical to academic excellence. Consultancy projects and executive programmes also lead directly to improvement of PGP teaching itself. It is the learning, experience, and feedback from research, consulting and executive education that lies at the heart of quality academic programmes and delivery systems.

Therefore, the decision to expand one programme also means expanding other activities. It also means recruiting high quality faculty who are in short supply. For this reason, the IIMA has embarked on a phased expansion of its academic programmes.

### **Academic Administration**

A world class programme requires not only high quality faculty and well designed programme content, but also smooth management of an entire range of academic processes. So critical are these processes that faculty take direct responsibility for most of them. Most of these planning and coordinating activities (generally termed as "academic administration") are carried out by the faculty through various committees constituted for each specific activity. Academic administration is so intertwined with the academic activities themselves that it is not practical to outsource these activities or delegate them to administrative staff. About one-third of the faculty's time goes in strengthening and managing the academic administration to ensure that the programmes are delivered effectively.

A good example of this time commitment by the faculty is the admission process. The admissions of students to the PGP courses are through a Common Admission Test

(CAT) conducted by the IIMs themselves jointly, followed by separate interviews for each Institute. The admission interviews are conducted by panels of faculty. This system of admissions, while imposing a huge burden on faculty in terms of time required for managing the whole admissions process, has stood the test of time, being recognised as fair to the candidates giving all a chance to compete, and as one free from corruption and malpractices that plague many activities in India. This system has been able to select students of exceptional quality, recognised as among the finest in the world.

#### Exhibit 4: Income Profile of Students over Two Decades

The PGP fees at IIMA were only Rs 3,000 in 1983 and even around 1992-93 the fees were as low as Rs 20,000. It was only after the government liberalisation reforms were initiated in the 1990's and the government decided to restrict the financial support it was rendering to the IIMs that the issue of fee hike crept up. The fee revisions were made under policy directions from government as described in Exhibit 2.

The Table below gives the data on the fees charged in 1983, 1993 and 2003. What is striking is the similarity in the student profiles despite widely varying fees levied. Thus in 1983, while the fees charged, *including hostel charges* was Rs 3,000 per year, the profile of students in terms of income groups they came from has been very similar to that prevailing in 2003, when the fees was Rs 1,50,000 p.a. In 1983, the percentage of students from high income background has been 22%, and that from low incomes, 18%. Almost 60% of the Institute's students were from the middle income background. In 2003, these figures changed to 18 in the case of low income group, and no change in the high income group. All over the years, almost 60% of the student body in the Institute is formed of students belonging to the middle income groups, and 80% from low/middle income groups.

#### Comparative trends in PGP fees, number of applications and broad income profile of PGP students at IIMA over the last two decades

Item	1983-84	1993-94	2003-04
PGP fee (including hostel charges)	Rs 3,000	Rs 20,000	Rs 1,50,000
Number of applicants	7,470	15,459	94,740
Number of students admitted	197	203	254*
Average starting salary	Rs 24,000	Rs 93,000	Rs 11,15,000
Broad income category of PGP students			
Low income	20%	17%	18%
Middle income	58%	63%	60%
Higher income	22%	20%	22%

\* In addition to 254 students in PGP, 25 students were admitted in the PGP-ABM programme which did not exist in 1993. Hence the total number of students admitted in both PGP programmes together in the year 2003 works out at 279

Given the fact that India's per capita income at current prices increased three-fold during 1983 to 1993 and by another three fold during 1993 to 2003, households have been categorized into low, middle and high income on the basis of the following income ranges for respective years:

- Low income: 1983-84 up to Rs 15,000; 1993-94 up to Rs 50,000 and 2003-04 up to Rs 1,50,000
- High income: 1983-84 above Rs 50,000; 1993-94 above Rs 1.5 lakhs and 2003-04 above Rs 5 lakhs

Thus over the years, there has not been much variation in the economic background of the students applying to the Institute, and higher income groups accounted for only 20

percent of the students. Thus the real entry barrier has not been fees, and reduction of fees even to a zero level is unlikely to change the profile significantly.

It is also seen that over the period the number of applications to the Institute have also increased, and ironically a substantial increase has been recorded in the period of 1993-2003, during which the fees rose significantly. The increase in the number of applications is thus not related at all to what fee the institute charges or does not charge. Instead, it is dependent on the average starting salaries graduate students earn after completing their studies, a figure which has steadily seen a significant upward rise in the 1993-2003 period.

The Institute has been engaged in imparting post graduate education in Management for which a Bachelor's degree in any stream is a pre-requisite. However there is ample data to show that the rural population is not able to access even primary education. Access to a Bachelor's programme is minuscule, and only a small fraction of these graduates actually pursue a post graduate programme. It is this lack of wide primary education, and of good quality university education that constitutes the real entry barrier to the IIMs. The immediate need hence is to make primary, secondary and college education more accessible to the rural sectors so that they can merge with the mainstream students and are well qualified to pursue a post graduate study programme in the first place. A person who does not meet the required eligibility criteria will not be affected whether the fee stays at Rs 150,000 or is reduced to Rs 30,000.

## Exhibit 5: Level of Subsidy in Current Fee Structure

The subsidy implicit in the current fee structure is the difference between the average fees per student and the average cost per student. depends on how joint costs are allocated to various activities. The joint costs include establishment costs (salary of faculty and staff) and other administrative costs.

We provide two methods of cost calculations:

- The comprehensive method assumes that all activities and programmes of IIMA contribute directly to the PGP and FPM programmes. This point of view is explained in Exhibit 2. Under this assumption, the comprehensive method allocates 90 per cent of the joint costs to teaching programmes.
- The conservative method assumes (contrary to fact) that the teaching programmes can be run as standalone activities. On this basis, the conservative method allocates 45 per cent of the joint costs to teaching programmes (assuming about 45% of resources spent on PGP and FPM). This leads to an underestimate of the cost of the PGP.

While estimating average costs under both these methods, we have not included depreciation in cost calculations.

Under comprehensive method the cost per student works out to be Rs. 3.80 lakhs. If one includes the depreciation the cost works out to be Rs. 4.24 lakhs per student.

### Fee Subsidy under Comprehensive Method

Average fee revenue, material cost, establishment cost and subsidy (figures are in rupees per student)					
Year	Average fee (net)	Material	Establishment cost	Total cost	Subsidy
1993-94	23,724	13,102	104,362	117,464	93,740
1994-95	33,650	14,929	110,513	125,442	91,792
1995-96	41,390	17,495	134,207	151,703	110,313
1996-97	54,129	19,697	146,952	166,649	112,520
1997-98	65,248	23,800	159,869	183,669	118,421
1998-99	73,791	29,261	272,394	301,654	227,863
1999-00	76,355	30,426	263,499	293,925	217,570
2000-01	88,643	36,719	271,246	307,965	219,322
2001-02	98,141	42,130	283,064	325,194	227,053
2002-03	100,136	46,894	333,363	380,257	280,121

1. average fee is net of scholarships and fellowships
2. establishment cost is taken as equal to 90% of total expenditure on salary of faculty and staff and other administrative expenses (excluding depreciation)

### Fee Subsidy under Conservative Method

#### Average fee revenue, material cost, establishment cost and subsidy (figures are in rupees per student)

Year	Average fee (net)	Material	Establishment cost	Total cost	Subsidy
1993-94	23,724	13,102	52,181	65,283	41,559
1994-95	33,650	14,929	55,257	70,185	36,536
1995-96	41,390	17,495	67,104	84,599	43,209
1996-97	54,129	19,697	73,476	93,173	39,044
1997-98	65,248	23,800	79,934	103,734	38,486
1998-99	73,791	29,261	136,197	165,457	91,666
1999-00	76,355	30,426	131,750	162,176	85,820
2000-01	88,643	36,719	135,623	172,342	83,699
2001-02	98,141	42,130	141,532	183,662	85,521
2002-03	100,136	46,894	166,681	213,576	113,440

1. average fee is net of scholarships and fellowships
2. establishment cost is taken as equal to 45% of total expenditure on salary of faculty and staff and other administrative expenses (excluding depreciation)

We find that under both methods, the subsidy (gap between fees charged and costs) has increased over the period. This shows that past fee increases have been far from exorbitant, and have only partially offset the escalation in input costs over the period. As a result, the net subsidy to programme has increased. The cost of services, supplies and materials directly supplied to students alone has been about Rs 47,000 per annum per student in the year 2002-03. Many of these costs have been necessary in order to enhance the quality of the programmes and keep pace with the changing environment and new materials, knowledge, access to the state of art IT infrastructure, internet bandwidth, books and other teaching aids.

Since 1995 the average fee per student charged has increased from Rs 49,000 (Rs 41,000 net of scholarships and fellowships) to Rs 120,000 (Rs 100,000 net of scholarships and fellowships) in year 2002-03. The fee has increased at the rate of about 15 per cent per annum. The IIMA has consciously made a choice to increase the fee in phased manner and as per the policy directions.

During these years the costs of supplies and materials, administration, and maintenance have also gone up. After 1994-95 the cost of supplies and study material provided to students have increased at the rate of 16 per cent per annum in nominal terms. And in fact the gap between cost and fee charged, which was expected to reduce over the years, has in fact increased.

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