

# MANAGEMENT AND POLICY RESEARCH IN AN INDIAN CONTEXT

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The topic of my presentation will be 'Management and Policy Research in an Indian context'. The outline of the presentation will be as follows: First, I'll talk about the importance of academic research in management and policy - a general discussion as to why academic research is important. Secondly, I'll talk about how academic research can help in developing 'Brand India'. Finally, I will summarize some of the Indian context research. Of course it is only a sample in the given amount of time that we have, just to give a sort of flavor of some of the things that are going on, which are published in the top journals and lastly some suggestions for what people can do to build in this area.

So why is academic research important for Indian universities like Great Lakes and others. Why should we encourage academic research? One reason is to attract high quality research oriented faculty to the Indian academic institutions. When we talk about high quality faculty, almost by definition, in addition to being good teachers they are intellectually curious and interested in doing research. So you cannot attract them unless the institutions they are in hire them and give them the databases and other infrastructure that are necessary to do research. Second reason is to build international reputation by publishing in top academic journals. The only way is to encourage the faculty to publish in top academic journals. Next is having good students, but of course these institutions which I am talking about will obviously have good students. But that is not sufficient in order to have an international reputation. Fourth is to develop a knowledge base for teaching - You can apply the research done by the faculty in developing a knowledge base for teaching in an Indian environment and attack problems that are unique for India. You could take it further by writing cases and use them as a knowledge base too.

For e.g: I talk about market efficiency and so on in my class but all the research I am aware of is only in the US context. So I'm at a loss to talk about market efficiency in an Indian context. So if you had some research in market efficiency in Indian context, then we can bring it to the classroom and the students can then apply that in the market right after they graduate. Fifth is to retain the high quality students in India and attract students from abroad. Right now we have people going into universities like Stanford and Wharton and Cornell to do their MBA. They mainly have their reputation because of research. If we can develop those things then we can retain those students in India and attract students from abroad - students from Singapore, Malaysia and Sri Lanka, the best students from those countries coming to do MBA over here. Sixth is to obtain research grants from industry and other sources both from India and abroad. Of course if we do research then we can always apply for research grants. There is a lot of money available, especially for policy research. You can get grants from World Bank, IMF, United Nations also as they give grants to do research; especially policy research.

The next step is the establishment of top quality academic and practitioner journals. Now all the top journals are mostly US based, few are European based, other than that you don't have top journals in the business field in Asia, Japan or in China. So that becomes a great opportunity for India, given that everything is in English here. So once you get the faculty and the research, we can also start journals which are of international quality. Next is the development of unique research databases. The amount of unique data available in India is just enormous. Of course if there is research and the faculty then you can develop databases that are unique to India like the Indian stock market, Indian Accounting data, the marketing data etc.

The next important step is to help government in setting public policy. In government we have economic policy debates all the time. Things are rapidly changing in government policy and all of these debates are based on emotion and not based on data. So we need some systematic data analysis and policy recommendations which are supported by data. We do not have this at the moment. Right now it is driven by emotion and gut feeling and poor logic.

For e.g., How do you privatize the PSU, (Public sector units), what is the best way to sell the public sector units? What are the implications of different types of policy? What is the most efficient way of privatizing the PSU and which PSU should be privatized?

It could also help Indian industries solve some unique problems. There are some unique problems for the Indian companies, of course these are problems specific to India, so research is not being done anywhere else in the world on it. Research infrastructure here in India can study those kinds of problems in industry which are very specific to India. For e.g., some of the industries facing infrastructure problems like power, etc.

The next segment of my talk is on how academic research can help in developing 'Brand India'. Economic development of India is unique in the world. Some of the unique factors that I have listed (there might be more) are:

1. India is a democratic country and we have tried to develop as a democratic country. For e.g., we talked about the recent Nandigram and Singur issue. We know about what is happening there. When we think about it, of course those kinds of debates will not happen in China. China is not a democratic country, it is a communist country, obviously if they want a piece of land to build a factory they just grab the piece of land from people who hold the land and there is nobody to protest. If they want to build a road or a highway and if there are people already living on the land or highway they just get them out. But we cannot do that in India. The obvious reason is that India is a democratic country. Believe me, I would personally have it this way. Even though people are very frustrated because they say it is blocking our progress and making it slow. But I would disagree; I would rather have it this way. So it is a very unique development model trying to develop from a backward country to a developed country within the democratic setup.
2. After Independence we started with an economic model of a mix of public sector and highly regulated private sector. We are trying to move from that model and more recently transitioning into less regulation of private sector and gradual privatization of public sector.

3. Large English speaking population which is again unique. That is again a big advantage. Also a large and very prosperous NRI population who are extremely loyal to India and interested in aiding its economic and social development.

So we have these very unique characteristics under which we are trying to advance the economic development of India. This combination does not exist anywhere else in the world. There might be some others which I might have missed, but this combination is very unique. And it is very rich in terms of doing research as to how to develop it, what kind of policy to make and so on. This scenario describes opportunity for Indian academic research and policy research which can then be marketed as Brand India Research.

Just to summarize I took a few papers published in top journals in various areas. So even though the research is sort of India specific it can still be published in top journals.

First is the 'Influence of Indian incumbent firms on the decision to allow FDI (Foreign direct investment) [Chari and Gupta (2007)]. I don't know of the study but it was published in an economic journal. This study concludes that firms in concentrated industries are more successful in preventing foreign entry. So you can see that if the industries are more concentrated they can manage to lobby the government to prevent foreign entry. This research has been done with all Indian data. It also says that state owned firms or public sector firms are more successful in stopping foreign entries. Similarly profitable state owned firms are more successful in stopping foreign entry than unprofitable state owned firms.

All these have clear implication for policy. The Government can take this paper and apply it in policy for privatizing.

Another paper is on 'The analysts' activity and performance'. This study was done in the worldwide context and India is one of the countries of the study. But it shows that analysts' activity and performance is related to the average firm size in the country, and the size of the stock market relative to the country's GDP and the quality of accounting disclosure and country's legal origin. Analyst activity and performance depends upon these country specific factors. Business groups hamper analyst activity and performance since they are not willing to give out information to the analysts.

Next paper is 'Corporate Governance in India and firm value' (Black and Khanna 2007) again published in a top journal. It discusses the effect of the 1999 corporate governance reforms in India (Clause 49). They studied the effect of the corporate governance reforms and they found a 4% increase in the price of the large firms as a result of those reforms. Indian firms that have been cross listed, say in New York stock exchange and so on gained more than other firms, suggesting that local regulations complemented rather than substituted. Of course cross listed firms by definition have to meet the regulations of the foreign country in which they are listed. So their corporate governance is much better than the typical Indian firms listed only in Indian stock exchange. But their finding that the cross listed firms are benefiting more than the other firms suggests that Indian regulations are complementing the foreign regulations rather than acting as a substitute. Here is an interesting contrast, positive reaction to Indian regulation and negative reaction to the Sarbanes-Oxley Act of the U.S. Stock prices of many firms went down because the regulations actually hurt the firm. The Sarbanes-Oxley Act imposed some costly regulation on the firm. So you can see a contrast here, how regulations in India are beneficial to the firms and the stock prices goes up while a similar type of regulation in the U.S., actually brought down the prices of the firms. The Sarbanes-Oxley Act and the Clause 49 regulation is very similar type of regulation, that's why the comparison is very interesting and very relevant.

Another study by Mohanty 2006, examined the impact of Sarbanes-Oxley on Indian companies and whether this type of regulation will be suitable for Indian companies.

Here are some other suggestions for future research for those of you who are faculty members of other institutions in India.

Corporate Governance in public sector firms, including changes in governance in public sector firms that are privatized, like Air India being a pure public sector firm gradually being privatized. Also how two firms can be merged, like Air India and Indian Airlines. How do you change the corporate governance, as you go along, as you transition from public sector to private sector?

Study of unique accounting methods which are allowed in India, for example reversal of asset impairments.

*Earnings Management in India:* We don't know much about earnings management in India since there are no really good studies on this topic. There are only rumors and innuendos but no hard facts. There is no study of the extent to which the earnings are managed in India. Family business is passed on from father to offspring, including companies like Reliance. Now think about that. What if one of the Ambani brothers was incompetent, what would Kokila Ben do, would she say, give everything to one brother and take other brother out as he was incompetent. Would they do that? What would Dhirubai Ambani have done if he felt that one of the brothers was not good at running the company? Will he prevent one of the brothers from taking over part of their Reliance empire? In Reliance we can see that two sons of the founder are basically the CEOs and of course even in US, we can think about Ford. Gradually people from outside started running the company. These are very unique things in terms of the corporate governance in a family, the next generation running the company. They cannot be equally competent. At the same time when somebody is not competent in running the business, at that time, somebody from outside will have to run the business. So it is a really interesting issue in terms of the corporate governance, accounting, marketing and so on.

*Analysts' conflicts of interest:* This is an issue of debate in the USA. All these big companies like Morgan Stanley, Goldman Sachs have come to India and applied the US structure here. That structure has been a disaster in the US but then has been transported to India as is. Lot of people don't realize that though they are trusting their investment based on what these analysts are saying, these analysts have conflicts of interest. So lot of research has to be done on these conflicts of interest.

*Implications for regulators:* There have already been regulations in USA on analyst conflicts because there have been lot of analyst scandals.

*Privatization of the Public Ltd companies:* Should we do it in the Russian way, where the goondas basically took over the public sector companies and they became private or do we disburse the stock holding. Lot of research has to be done as to what is the best way from an economic efficiency point of view to prevent power being in a few hands and also in terms of social implications like jobs outsourcing and the policy implications for India and the US.

*The effect of close knit family on the performance of top executives:* There is a Danish study which is published in a top US journal on the effects of death of a family member on CEO performance. And the findings have been very interesting. So it will be interesting from the India context. So what happens, when the mother in law dies. . The Danish study showed that when the mother in law died the performance of the CEO actually went up. What would happen in the Indian context? Given the close family ties in the Indian culture, what would be the effect of illness or death in the family on Indian CEO performance?

So to summarize there are very interesting opportunities for research here in India which can be pursued for very India specific answers and a knowledge base that is unique for study and analyses in India.