

**REPORT**  
**OF**  
**IIM Review Committee**

Negotiating The Big Leap

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IIMs: From Great Teaching Institutions to Thought  
Leadership Centres

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**GOVERNMENT OF INDIA**  
**MINISTRY OF HUMAN RESOURCE DEVELOPMENT**  
**DEPARTMENT OF HIGHER EDUCATION**  
**(MANAGEMENT DIVISION)**

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# IIM Review Committee

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# 1. Executive Summary

## CURRENT SITUATION.

- The six functioning Indian Institutes of Management (IIMs), established over different periods, have emerged as great teaching institutions and their products are in high demand in India and abroad.
- IIMs enjoy complete academic freedom and admission to them is strictly on merit.
- One new IIM has recently started at Shillong and Government has announced that 6 more are to be established. Bringing the new IIMs to even the level of the present IIMs would be an enormous challenge.
- IIMs have not been able to expand their admission capacity for the MBA programme (PGP) adequately, to match the rapidly rising demand both from the increased rate of growth of the Indian economy and higher world demand.
- The quality and quantity of research papers from IIMs have not been commensurate with the status of IIMs and have not enabled IIMs to become thought leaders.
- IIMs have not been able to attract enough faculty, especially in the functional areas, where there is demand from other sectors. This has inhibited growth of MBA admissions.
- Government determined remuneration for the faculty has been a deterrent to attracting adequate faculty to the IIMs, particularly in the functional areas.
- The responsibility for the governance of IIMs is divided between the Government the Boards of the IIMs and the Directors. None of them have been able to play an effective role in developing strategies and goals for meeting new challenges, and making IIMs institutions which could rank with the best business schools in the world.
- Divided responsibility for governance, and lack of clarity of the role of Government, Boards, Chairman and the Directors has meant that none of the key players have any real accountability for results.
- The Directors of IIMs, because of their somewhat ambiguous position between the Government and the Boards, have not also been effective in driving IIMs to greater degrees of excellence.
  
- IIMs are, and will to an increasing degree face intense competition from private business schools, and could lose their pre-eminent position if remedial steps are not taken now.

- The economy and the Indian people expect IIMs to enhance their brand image, expand admission capacity for the MBA programme, become thought leaders and provide means blind education based purely on merit.

## **RECOMMENDATIONS OF THE COMMITTEE.**

1. Long term excellence of any institution is closely correlated to the quality of governance. Good governance requires that all involved should have clarity of roles, powers to execute the allocated tasks and accountability for results.
2. IIMs have been established by the Government with public funds, are perceived as public institutions and thus IIMs cannot expect to become fully independent of the Government.
3. At the same time there are several limitations inherent in Government being directly involved in framing policies and strategies, and monitoring their implementation, so that IIMs become thought leaders and amongst the best business schools in the world.
4. This task would become virtually impossible when the number of IIMs increases to 13.
5. To assist the Government in playing its role, it is proposed to create a Pan-IIM Board, consisting of 15 members. 5 of these would be Government nominees, and the rest would be eminent and highly successful individuals living in India or abroad, and who are willing to devote time to work on this Board. The Chairman should be nominated by the Prime Minister and the Secretary of the Board would be one of the 5 Government nominees. This Board should not be involved in any day to day management matters of an IIM, but would approve Vision and Mission statements, give guidelines for framing policy, and approve 2 year business plans. The Board would review performance of each IIM once in two years, and would advise Government on all matters relating to the IIMs. Government should act only on the advice of this Board.
6. The Pan-IIM Board should bring about coordination between all the IIMs in all areas where this would be beneficial. The establishment of the 6 new IIMs should be coordinated by the Board. This Board should also help in raising private funds for the IIMs.

7. The Boards of IIMs should be reconstituted and consist of 11 members against the present 24-26. Six of these would be independent professionals. The other 5 would be one nominee each of the Central Government, State Government, faculty, and the Chairman and the Director. No person should be a Board member for more than 6 years, with a single term of 3 years. Board members would be expected to have a minimum of 75% attendance.
8. A Committee headed by Secretary MHRD and including 3 independent professionals should make the initial selections to the Boards. Thereafter, vacancies in each Board would be filled by the Boards themselves.
9. An attempt should be made to induct as many IIM alumni as possible, both in the IIM Boards and the Pan-IIM Board.
10. The Board of the IIMs should have full powers to manage, including selecting and appointing the Director, proposing the name of the Chairman to the PAN-IIM Board, raising funds, determining fees for all courses, creating or abolishing posts, and determining conditions of service of all those appointed on a contract basis.
11. The Memorandum of Association of each IIM should be amended to implement the changes being proposed.
12. The Boards should ensure that the policy of 'means-blind' education is sincerely implemented. While bank loans would form the basis of financing education, IIMs should build an adequate scholarship fund to provide assistance in all genuine cases. A transparent and objective scheme should be formulated for providing assistance.
13. Wide publicity, on a centralized basis, should be given to this policy.
14. IIMs should sponsor and support students to procure PhDs, to substantially increase their availability over time.
15. To overcome the faculty shortage situation, various possibilities have been suggested, including the appointment of teachers on contract, use of technology, increasing output of PhDs, and rationalizing the Fellowship programme.
16. The MBA teaching programme should remain the core activity of IIMs, with adequate quality research being carried out. Income generating executive training programmes and consultancies should be balanced with the needs of teaching and research.
17. All IIMs which are over 5 years old should be able to generate a small operating surplus. The fee for the MBA programme should be fixed after taking into account all other incomes, and the need to have a small surplus. This surplus should be used to partially fund new infrastructure, and also to build the scholarship fund.

18. IIMs should first attempt to increase annual intake for the PGP to 750. This would enable better economies of scale being achieved.
19. Government may fund 70% of all new capex in the older IIMs. The rest should be raised by the IIMs. New IIMs would need to be fully funded by the Government.
20. Raising a corpus should be a prime objective of each IIM. Some changes to the tax laws may be required. The IIMs should have flexibility to be able to use the funds so raised, above a base level of Rs.50 crores, without any Government approvals or controls.
21. Existing IIMs should be actively involved in the establishment and management of the 6 new IIMs. The brand image of IIMs would be tarnished if these IIMs do not attain the same degree of excellence as the existing IIMs.
22. The academic and administrative functions in IIMs should be separated. This would enhance efficiency and also give faculty more time to teach and do research. Much greater use of technology should be made in administrative functions.

## **2. - IIM Committees, History and Context**

Government of India, through a gazette notification, brought this Committee into being on 17<sup>nd</sup> October 2007.

2.1 This is the seventh Committee in the history of the IIMs and the third Review Committee appointed under the Articles of Association. In 1959, the Planning Commission, experiencing difficulties in finding suitable managers for the massive public sector enterprises being established in pursuance of the Industrial policy, invited Prof George Robbins of the Graduate School of Business, University of California to formulate a scheme to set up an All India Institute of Management Studies. Based on his recommendation IIM Calcutta and IIM Ahmedabad were established in 1961 and 1962 respectively. In 1972, a committee headed by Prof Ravi Mathai, seeing the rising demand for graduates of the first two IIMs, recommended the need to have two more IIMs. The Institute at Bangalore was consequently set up that year, designed to cater exclusively to the needs of Public Sector enterprises. In 1981, the first Review Committee headed by Mr. HP Nanda, noting that the three IIMs together were then producing about 400 PGP graduates, felt that they had reached their optimum capacity and any further growth ought to be met by establishing two new IIMs. It also proposed a step-up of the Fellowship Programme to meet the demand for teachers in the management schools springing up as part of Universities all over India.

2.2 In 1992, a second Review Committee headed by Dr V.Kurien, taking note of the national fiscal crisis, proposed that IIMs stop depending on the government for their annual operating expenses ( “Non-Plan expenses”); it suggested that corpus funds be created at each IIM, that the Government of India should put the next 5 years planned operating expenses to start this corpus , that task forces under the Chairman of each IIM augment this corpus with contributions from alumni and industry and that returns on the investment of these corpus funds be used to bridge the operating deficit. Acting on these recommendations, the Government of India contributed their share to the corpus (though the matching contributions from Industry and Alumni did not happen) and the IIMs set forth on this new path of financial self-reliance for operating expenses.

2.3 In 2004, alarmed by fees increases for the PGP, a one-man Committee, Mr VK Shunglu, ex-C&AG, Government of India, was asked to study the finances of the IIMs.

2.4 In 2007, attempting to find a solution to the social turmoil surrounding caste-based affirmative action in higher education, a Committee headed by Mr. Veerapa Moily recommended that IIMs (by now seven) dramatically raise their annual PGP intake from a level of 1800 in 2008 to 2800 by 2010 with 52% of the increased intake being reserved for Scheduled Castes, Scheduled Tribes and Other Backward Classes (SC, ST and OBC) candidates. It proposed that Government provide grants to the IIMs to cover both recurring and capital expenditure for this expansion. This expansion is being implemented now.

2.5 The present committee meets under circumstances that are very different from the ones that faced earlier Committees: The Indian economy is now on a significantly higher growth path and demand for managers has exploded; globalization has led to Indian managers being in demand worldwide; there is a huge gap between the supply and demand for well educated business professionals; more than 250,000 applicants vie for admission to IIMs; business schools are being established on a large scale in the private sector and IIMs will increasingly feel the heat of competition. IIMs are embarking on a massive expansion in the PGP, largely to cater to the reservation requirements; six new IIMs are to be established; there is a worldwide shortage of faculty; education globally is being impacted by the rise of the internet and the impact of technology and communication systems is becoming significant; policy makers aspire that Indian higher education institutions like the IIMs now match their world peers in reputation.

2.6 The terms of reference of the present Committee (in Appendix 1) reflect these concerns and aspirations and seek a way to balance these apparently contradictory goals of growth and excellence.



### **3. Performance of the IIMs**

#### **CURRENT SITUATION**

3.1 The IIMS are a great success based on the demand for admissions, and the starting salaries for its PGP graduates. With 250,000 aspirants competing for 1800 seats, the selectivity is 1% which is better than any business school in the world. Government is to be congratulated for allowing IIMs absolute academic freedom. Admissions to the PGP programme are purely on merit and both Government and the IIMs are also to be congratulated for this.

3.2 The IIMs (like much of Indian Higher Education) have come in for criticism for not having periodically increased admission capacity for the MBA programmes, despite the growth of the Indian economy and the demand for admissions. Perhaps the need for substantial expansion was not an important requirement till the late 1980's because of the relatively slow growth of the economy. This changed in the 1990's and there was also a dramatic worldwide explosion in demand for MBA graduates. This can be gauged from the fact that against 25,000 students taking the CAT examination in 1990, the number has crossed 250,000-a ten fold increase. However, the admission in all the IIMs during this period has increased from 500 to about 1,800.

3.3 The IIMs could not react to this market need quickly enough. They were not able to expand their physical infrastructure (land, hostels, classrooms, faculty offices and residences), or recruit faculty fast enough to meet this growth expectation. Neither the Government of India, nor the Boards of the IIMs, recognized the need for expanding MBA admission capacity, or made efforts to overcome the constraints in the way of such expansion. The market requirement led to many business schools sprouting in India and elsewhere in the world, further increasing the demand for faculty. At the same time, teaching in the IIMs became less and less attractive as the compensation differential between academic and industry widened. No well thought out plan to deal with Faculty shortages was evolved, and the IIMs only responded by increasing the management development programmes, so as to generate incomes for the institutions, and some of the faculty.

3.4 The collegiate style of internal decision making in the IIMs, where all faculty members have a say in every decision, could not also help in finding a good solution to the problem of increasing admissions and meeting the shortage of faculty.

3.5 The Boards of the IIMs continued to do 'business as usual' until the need to expand capacity to meet the reservation requirement for OBC's forced the issue.

3.6 Finally, the IIMs have come in for criticism because they have lagged behind leading global business schools in publishing papers in internationally peer-reviewed management journals. It is apparent that the quantity and quality of research carried out in the IIMs has been inadequate. The system does not encourage, or provide incentives to the faculty, to give greater attention to research and publishing papers.

3.7 In rankings done by international business journals like the Financial Times London, Economist and Business Week (US) IIMs do not figure. Criteria used in these rankings vary widely but in most rankings, the starting salary of graduates is the single largest component with a weightage of 40% or more. This handicaps the IIMs because their average starting salaries at Rs 14-15 lakhs looks high by Indian standards, but is only a fraction of the starting salaries of MBAs in the West. Other criteria used include the percentage of faculty with Ph.D.s, opinion of recruiters and the extent of faculty research published in international peer-reviewed management journals.

3.8 The recently started one year program at Indian School of Business (ISB) in Hyderabad figured in the top 20 in the Financial Times, London rankings for 2007 which, for the first time, used Purchasing Power Parity and not absolute \$ salaries. The IIMs were not eligible to enter this particular ranking because one of the criteria for eligibility was that a substantial part of the student body has prior work experience; at the IIMs most of the students for the flagship PGP course are fresh out of undergraduate courses.

## **Our Analysis**

3.9 The IIMs have achieved a worldwide reputation as institutions offering a very high quality business education. This is despite the inadequate research being done in the IIMs and the shortage of faculty. To an extent this reputation is the result of the very bright and motivated students who enter the IIM programme.

3.10 The long term continued shortage of faculty, and the inadequate remuneration paid to those in functional disciplines, has undoubtedly had an impact on the ability of the IIMs to expand the admission capacity of the PGP classes, and for the faculty to devote more time to research. It may be argued that IIMs also did not have funds to build the infrastructure required for expanding capacity. However, this argument would have had greater weight if well thought out proposals for expansion, and the needed funds, had been sent to the Government and had been rejected. This did not happen.

3.11 The inability of IIMs to fill all the sanctioned posts and the shortage of qualified persons to teach in business schools is a result of the inadequate number of persons doing doctoral programmes. The numbers of PhDs getting qualified is smaller than the demand. The Boards, as well as the faculty of IIMs do not appear to have analysed the root causes of why this is happening, or taken any steps to rectify the situation. The IIMs cannot expect to become thought leaders, or even retain their teaching excellence if this basic difficulty is not mitigated significantly.

3.12 The performance of any institution is largely determined by the quality of governance, and the vision and involvement of those at the helm of affairs. The excellence of every Institution or Company is almost invariably shaped by the CEO, and the Board of Directors. If IIMs have not performed as well as they should have in some areas, it is necessary to take a close look at the roles played by the Directors of the IIMs and their Boards.

3.13 The Directors of IIMs have generally been persons selected on merit, and have been very competent persons. At least in recent times, they have all come with a strong academic back ground. Yet, it would be difficult to say that they have been able to function as CEOs who have been effective leaders and have played a significant role in directing IIMs towards greater excellence. There are several reasons for this. The Director is selected by a Committee appointed by the Government, and the appointment is approved by the Government. Yet the appointment order is issued by the Chairman of the Board of Governors. The Director is not a Government employee, though many believe that he is. At the same time the Boards of IIMs do not treat the Director as being responsible to them, particularly as the Boards do not select him, determine his emoluments and probably cannot remove him without getting Government approval. It seems that this somewhat ambiguous position of the Directors has prevented them from being effective CEOs who use the Boards to carry forward their own vision for the Institution. The Directors have not played a lead role in formulating strategies for the growth and development of the IIMs possibly because they themselves have not been sure whether they are supposed to do so or not, and whether they should look to the Government or the Boards for support as well as guidance in formulating policies. The Directors have not been particularly effective in being able to influence the Government to provide resources and support to implement the changes required to enable their institutions to respond to the changing times. In fact, our perception is that there is a lack of mutual confidence and trust between the IIMs and the Government, and communication between the two has been less than adequate. There is a clear need to remedy this situation. The decision making process in the IIMs with strong faculty involvement has also tended to weaken strong leadership from the Director.

3.14 Another possible reason for Directors not becoming strong leaders is the fact that in IIMs the non-executive Chairmen have been persons with very strong personalities and reputations of success in their own business enterprises. It would be understandable for Directors, who have largely had academic experience, to be somewhat overawed by such Chairmen, and to assume that the Chairmen would play the leadership role in the IIMs. Looked at from the point of good governance, this is not an appropriate situation. The CEO should be the leader.

3.15 The IIM Boards, though generally headed by very eminent Chairmen, have also not been effective in formulating and implementing strategies which would lead to the growth of the IIMs, excellence in research and removal of constraints in the way of attracting and retaining good faculty. Most Chairmen appear to have believed, not without reason, that policies for such matters would be determined by the Government, since the resources in these areas were largely controlled by the Government. However, it is somewhat surprising that despite the Chairmen being such eminent persons, and being appointed by the Government, they have not been able to build better communications between their institutions and the Government and overcome constraints to moving IIMs towards greater excellence.

3.16 One essential requirement for good governance is that responsibilities for governance should not be divided, and decision making should be quick. Accountability becomes impossible if key powers of governance are divided. The powers of the Boards of IIMs are restricted in many key areas, where the Government has the final say. IIM Boards perceive that the Government has financial control over them. This is because the IIMs have always depended on the Government for funds for capital investment, and for long periods of time for meeting the shortfalls in revenue expenditure. The Government has the power to approve the annual budgets, though this power has not been used for a long time. It is only in recent times that IIMs have been allowed to build a corpus, but its use has to be as laid down in orders contained in a Government circular. The Chairmen, Boards and Directors have apparently tended to feel that without control over their finances, it was no use taking major initiatives. The reasons are not important, but the reality is that IIMs feel that Government was unlikely to look kindly at proposals which would require expenditure. Certainly in the 1990's there were severe constraints to Government spending.

3.17 Growth of MBA admission capacity is not possible without making large capital investments. The IIMs are dependent on Government for approval of plans and for funding. Faculty quality and motivation are critical for the excellence of an educational institution. However, the power to create faculty posts, (only the overall number of posts, not their selection, promotion, appointment in specific grades or distribution across functional areas) and determine remuneration packages, conditions of service and retirement benefits of the faculty are with the Central Government. Many members of IIM Boards have expressed a view that they feel that without financial powers, and the ability to create conditions to attract and retain good faculty, the Boards could not be expected to do much in an IIM, that is why most Boards have over decades continued to deal with only routine administrative and financial matters. It is obviously necessary to change both this perception as well as the reality for the future.

3.18 While IIMs have retained their pre-eminent positions so far, new challenges now face them. The competition from both Indian and international business schools is growing and is likely to accelerate. The quality of faculty, teaching and research work in these business schools is likely to improve dramatically, because of pressure of market forces. If the companies who recruit from the IIMs start to shift to the good private schools, many of the brightest students may also prefer to go to them rather than to an IIM. To prevent such a situation, remedial action is needed now. In addition, there is public demand that the IIMs dramatically increase the PGP intake, and meet the needs of the rapidly growing Indian economy and the global opportunities for Indian managers. IIMs have to face and overcome these challenges during a period of a worldwide shortage in faculty particularly in the Finance, Organization Behavior, Marketing and Strategy areas.

3.19 It must be noted that IIMs presently account for less than 5% of MBAs produced in India and that this percentage will not change appreciably even after the expansion plans of the current IIMs are completed. Clearly, if IIMs have to continue receiving public funds, they need to contribute to improving the quality of management education in India, and themselves become centres of excellence and thought leadership.

3.20 IIMs have not been publishing enough in world class peer reviewed journals. This is partly the result of faculty not devoting enough time to research and partly because the system does not adequately reward excellence in research. IIMs need to review the importance which attaches to good research and publishing, in determining the careers and prospects of faculty. At the same time enough supporting infrastructure for research should also be provided.

3.21 Currently the practice is that either one individual faculty or sometimes two or three of them get together to do a research project. Some of these studies are also published. It is necessary that faculty understands clearly that in the system of promotions, special increments and recognitions, research contribution has a substantial weight as a prime factor. From this point of view, whether for research initiated by the faculty on its own or through a sponsored research project, it should be of an international quality. At the end of the day, it will be in the cumulative impact of research in the field of management from which the stature of the institute will be judged. The institutes in our view should get themselves involved in sponsored research, as it encourages:-

- (i) research to be focused on felt needs;
- (ii) better quality of research so that it can meet the sponsor's approval and
- (iii) availability of additional finance for research

Efforts should be made to encourage both applied research and fundamental research. There is a shortage of applied research in the field of management in India and the IIMs should make significant contribution to changing this situation.

3.22 There is an expectation that since IIMs are publicly funded they should increase the output of their doctoral programmes that supply management school teachers to the newer IIMs as well as other business schools in India. A necessary condition for success will be that the teaching profession should become more attractive and good students should enroll for doctoral programmes because they expect career prospects to be commensurate with the time and effort spent on such studies.

3.23 Most of the management development programmes being conducted by IIMs consist of courses for comparatively junior PSU executives. It is rare for senior management persons, particularly from the private sector, coming to IIMs. This reflects on the perception of business and industry about the value addition which IIMs can provide for senior managers. While these development programmes generate funds for the IIMs and faculty, they do little to enhance their reputation for excellence or help in creating knowledge for better teaching of the MBA courses. Boards of IIMs need to take a careful look at this important aspect of IIM working.

3.24 Finally, there is a public expectation that just as Indian companies are achieving world recognition, IIMs ought to figure in international rankings as well. This is a matter which can be addressed through better governance and resolving issues relating to faculty.

## Our Recommendations

3.25 On the basis of the above analysis, we recognize that there is need for innovations in the governance system at the IIMs, flexibility in the financing methods, and a change in the faculty and staff compensation system. The objective should be to empower and motivate the people responsible for achieving these goals . At the same time, the changes should keep in view the public character of the IIMs and the fact that the Government has invested, and will continue to invest, large amounts of money in these and the new IIMs. We make recommendations on each of these factors in subsequent chapters of this report.

3.26 Since expansion of MBA capacity, and increasing quality publishing are important and urgent issues, we recommend that the IIMs focus on the following performance parameters to be achieved in the next three years (i.e.by March 2011):

	IIM A,B,C	IIM I,Koz,L	New IIMS Proposed
PGP intake( annual)	500 each	250 each	100 each
FP intake ( annual)	20 each	10 each	5 each
PGP Ex ( annual)	100 each	50 each	-
Online/Satellite	2000 each	500 each	-
Papers in Top 25 journals	10 /year each	5/ year	1/year each
Ranking in international business journals	Top 50	Top 100	Top 100

The Boards of IIMs may consider these recommendations and make suitable plans for each IIM, adding such other targets as they consider necessary. IIMs do need to keep in mind the benefits of economies of scale.

3.27 We also suggest that IIMs consider sponsoring and supporting a reasonable number of students for a doctoral programme. They should be required to execute a bond that they would teach in an IIM for at least 5 years after completion of the PhD. Such a programme would have to be funded by the IIMs but seems essential to overcome the problem of inadequate numbers of PhDs being produced.

## 4. The IIM Governance System

### CURRENT SITUATION

4.1 IIMs are societies established under various Societies Registration Acts, some under the central act and others under State society's acts. Each Society has a Memorandum of Association (MOA) and Rules. The MOA lays down the objects for which the Society was established, and the Rules provide the system of governance of the IIM. The general superintendence, direction and control of the affairs of the Society and its income and property are vested in the Board of Governors or the "Board". The MOA also contains certain specific powers of the Central Government in respect of the Society. The powers reserved for the Central Government in respect of the Societies are listed in the annexure. This Committee has been appointed under these powers.

4.2 The Director, who is the Chief Executive Officer of an IIM is selected and appointed using a process used for all autonomous societies under the Central Government. A Search-cum-Selection Committee appointed by the MHRD composed of the Chairman of the Board of that IIM, the Secretary MHRD and two or three prominent industrialists recommends a list of candidates from among the applicants. The final decision is made by the Appointments Committee of the Cabinet and the actual appointment order is issued by the Chairman of the Board on terms approved by the Central Government.

4.3 The Chairmen, who are non-executive, are appointed by the Central Government and have generally been eminent and successful private entrepreneurs. The Boards are not involved in the appointment of the Chairmen.

4.4 Board agendas are filled with routine administrative approval requests partly because many decisions of the Director need Board approval and also because officers within IIMs use Board approvals as a legitimization of their actions and a defense against government audits. This crowds out strategic debates which leads to increased disinterest on the part of talented and busy Board members. Only rarely do Boards discuss strategy and prepare any long term plans. The low attendance of Board members appears to be partly the result of their feeling that they cannot add value, and are thus wasting time in attending board meetings. The decision making process in the IIMs is slowed down as the Director has to get the approval of strong Faculty Committees for operating decisions. This applies not only to academic matters but also to administrative decisions and is a hold-over of the period when IIMs were small with 20-30 faculty members and a PGP class of less than 100. Clearly, this informal system of decision making is difficult with the scale of activity having become much larger.



## **Our Analysis**

4.5 The march towards excellence of any institution, over the long term, is directly related to the quality of governance of that institution. The objectives set out for the IIMs cannot be achieved without ensuring that the governance system is as effective as possible.

4.6 Presently the governance of IIMs is divided between the Central Government, the Board of Governors and the Directors of the IIMs. The Government has provided the bulk of the funding for the IIMs and the Memorandum of Association and the Rules have reserved some critical powers for the Government. The MOA also gives the Government the power of appointing Committees to review the working of the IIMs and to issue directions based on the recommendations of the Committees. The IIMs are bound to carry out those directions. The IIMs are widely perceived as being 'public' institutions and the public largely holds the Government responsible for the way IIMs function. It is the Government which decides if any new IIM is to be established. The Boards of the IIMs have been given, under the MOA, the responsibility for the general superintendence, control and direction of the IIMs. However, virtually all Boards of IIMs have, over the years, believed that they have only limited responsibility for the management of IIMs, and that the Government shares this responsibility and would take all key decisions. This feeling has been created partly because of the legal powers with the Government regarding critical areas of management, including financial control, creation of posts including faculty posts, determination of remuneration and conditions of service, approving capital expenditure, and issuing directions. Even where Government does not have legal powers, suggestions from the Government cannot be easily ignored by Boards. This has been apparent, for example, in the area of fee determination. Government has stopped IIMs from opening new campus sites. Further, as discussed elsewhere, the CEO is essentially a Government appointee, as also the Chairman. Not unreasonably, this leads to the Boards assuming that the Government is overseeing the management of the IIMs.

4.7 An effective governance system requires that those charged with the responsibility for governance have the required knowledge and expertise, are adequately motivated, remain on their jobs for reasonable periods of time, and are accountable for results. The present system perhaps suffers most on the accountability factor. Where responsibility for management, and results, is not clearly and specifically assigned to a single entity, but is divided, accountability is impossible. In the case of IIMs the Boards do not believe they are fully responsible for the management of IIMs because of the role of the Government, as analysed above. The Government itself has not fixed any targets or goals for the Boards, and there is no mechanism to hold the

Boards responsible for results. Board members exhibit limited interest in driving IIMs towards excellence, as evident from the low attendance in meetings, the absence of discussions to set long term goals and objectives, and inadequate efforts to find solutions to perceived problems. This is despite the fact that IIM Boards have always had a number of talented and competent members, and they have not been changed frequently. In fact, some Board members have remained on the Boards for very long periods, despite no real contribution from them.

4.8 The ability of any Government to provide good governance to an educational institution of excellence is limited. Officers who deal with IIMs are not selected on the basis of their expertise or knowledge in that area. Frequency of transfers is usually quite high, and detracts from building experience and expertise. The concerned officers have multifarious responsibilities and cannot usually find adequate time for contributing to the management of the IIMs. Since no person in the Ministry has any defined and quantitative targets for achievement in respect of each IIM, the question of accountability does not arise.

4.9 The areas where IIMs have, in recent years, not performed adequately, can be attributed to divided management responsibilities, and the lack of accountability. The difficulties in these areas will become more intense with the increase in the number of IIMs to 13 and the challenges from privately run business schools. It is essential that the governance system be changed to enable IIMs to meet the challenges which are facing them.

## **Our Recommendations**

### **Pan IIM Board**

4.10 While recognizing the limitations of the Government in directly contributing to the management of IIMs, or even effectively guiding them and monitoring performance, it is obvious that the Government cannot adopt a totally hands off policy and delegate all powers to the IIM Boards. The IIMs have been largely funded with public money and will continue to receive public funds in the future. The Parliament and people at large have a right to know how well these funds are being spent and if the IIMs are working in the public interest. At the same time building excellence in a specialized academic institution calls for expertise and relevant experience. At present there is no institutionalized system of Government having access to advice from a body of persons who have the necessary expertise and global experience of building and being involved in the management of institutions of excellence. We believe that Government will be better able to discharge its public responsibilities if it acts on the advice of a body of such persons.

4.11 With the decision to establish another 6 new IIMs, the problems of efficient management will be further compounded. While we are making some suggestions regarding the new IIMs in another chapter, we would like to point out that 'IIM' is now a brand, and there is need to protect this brand in terms of what it has come to signify world wide. Any dilution of the quality of output from the IIMs, or failure to keep among the very best business schools in India, will be an immense set back and loss to the brand built over 35 years and at considerable expense. We believe for achieving the goals of excellence in the future, and maintaining the brand value, there is need for much greater, and effective, coordination in a large number of matters involving all the IIMs, including the new ones to be established.

4.12 The IIMs have a common entrance examination. However, each IIM conducts separate interviews of the students who qualify in the CAT. In future, a student may theoretically have to attend 13 interviews. The same student would be interviewed 13 times by a number of faculty members of each IIM. On the face of it this is enormously wasteful and unnecessary. Like for the Civil Services, there should be a common interview where all the IIMs could be represented. The students who qualify may choose the IIM they wish to join. Some of the IIM Directors were not happy with this idea and initially it could be implemented on a voluntary basis.

4.13 A common approach is required for developing IT systems for financial, administrative and human resource management. Better utilization of faculty and resources can be ensured if there is a common approach on this aspect. Technology use for teaching can become more effective with IIMs cooperating in this task..

4.14 In matters of pay scales, contract appointments, conditions of service, approach to consulting work and the management training programmes and similar matters, a common policy would be clearly desirable.

4.15 The new IIMs would require, and benefit from support from the older IIMs. It is important that each IIM should not think it is independent, and unconcerned with the other IIMs. After all the 'parentage' of all is the same, and it would be unreasonable for any IIM to desire full powers of management, with freedom to decide its own policies..

4.16 The existing system of coordination and evolving common policies through a committee of Directors has not worked effectively enough. We would like to recommend that the PAN IIM Board, through the mechanism of the Directors Committee, or in any other manner, should ensure that this important aspect of management is effectively implemented.

4.17 Accordingly, we recommend the creation of a Pan IIM Board. This Board can be created by an executive order.

This Board will have the functions described below:

### **FUNCTIONS OF THE Pan-IIM BOARD.**

1. To review and approve the Vision and Mission statements of each IIM.
2. To provide broad guidelines on policy issues to each IIM. The business plans, and strategies of the IIMs should be prepared taking into account these guidelines. The Board would not be concerned with matters of day to day governance of IIMs.
3. To evolve an effective mechanism for ensuring necessary coordination in the working of the IIMs so that the IIM brand is enhanced, and resources of all the IIMs are utilized to best advantage. A committee of Directors could be used for this purpose.
4. To evolve a system to ensure that the 6 new IIMs get necessary support from the existing IIMs during their development phase.
5. To review the achievement of policy objectives.
6. To require IIMs to prepare 4 year rolling plans, and to approve business plans prepared for 2 year at a time.
7. To review the performance of each IIM once in two years, and specifically in respect of achievement of business plan targets, quality of governance, financial condition, status of faculty and quality and quantity of research work.
8. To approve the terms and conditions of service of Directors of IIMs.
9. To fill any vacancy which may occur in the Committee established for approving the selection of Chairmen/Board members of IIMs.
10. The Board would make a report to Government on each IIM after conducting the review, and recommend such actions as it considers appropriate. The Government would take actions on the basis of these reports.

4.18 The Pan-IIM Board may consist of 15 members. Of these 5 should be nominees of the Central Government. They need not all be serving Government officers. The rest should be made up of independent professionals of eminence and record of success, living in India or abroad. Other things being equal, preference should be given to IIM alumni for appointment to this Board. One third of the Board would retire, by rotation, at the end of each year. A member would be eligible to be re-appointed, provided his/her total period on the Board does not exceed 6 years. Future vacancies would be filled by the Board itself, through recommendations made by a nominations committee of the Board, consisting of four non Government members.

4.19 The Chairman of the Pan-IIM Board should be nominated by the Prime Minister. We strongly believe that the Chairmen of this Board, and particularly the first Chairman, would be critical in determining how effective the Board will be in achieving the objectives proposed for it, and shaping the future of IIMs. Not only should the Chairmen be persons of eminence and proven track record, with the ability to understand the needs of an educational system, but they should be willing to devote enough time to the Board, motivate other members to actively participate in the meetings and ensure that the Board is respected by the IIMs because of the value it adds.

4.20 The Board should mandatorily meet at least twice a year. The Secretariat of the Board would be in the Ministry of HRD. One of the Government nominees on the Board should be the Secretary of the Board. All costs involved in the functioning of the Board should be met by the Ministry.

## **EMPOWERING BOARDS**

4.20 We recommend that, as provided in the MOA, the Boards must be responsible for the management of IIMs. For the Boards to ensure effective governance and faithfully discharge the responsibilities placed on them, they must have full and undivided authority to manage. Their authority should not be diluted or divided in any way. This should include the power to create posts in the IIM, select and appoint the Director, undertake capital works, raise funds and choose their own Chairman. The Boards should ensure that policies and objectives, which may be laid down from time to time by the Government/Pan IIM Board are implemented effectively.

4.21 A necessary condition for Board governance is that the Board members must be fully competent to discharge their responsibilities and should work in an environment where they are effective as well as accountable. The selection of Board members, and the composition of the Boards is thus of crucial importance.

4.22 The present size of Boards with about 26 members is too large for effective governance. We recommend that the Boards consist of 11 persons. The Kurien Committee in 1992 had recommended a Board size of 15. The Nanda committee in 1987 had suggested that there should be a Managing Committee of not more than 10 members. Harvard University has a Harvard Corporation, which exercises the main executive powers and has 7 members. In the Corporate sector Boards of well run companies are rarely more than 12.

4.23 The IIM Board should have one nominee each of the Central and State Government, one nominee of the faculty, the Chairman and Director, with the remaining 6 eminent and successful independent professionals, representing a variety of disciplines. As many alumni of IIMs as possible should be appointed to the Boards.

4.24 The term of office of a Board member should be reduced to 3 years from the present 5 years and the total maximum period as a Board member should be 6 years compared to the present unlimited tenure. This rule should apply to all the existing members of the Boards of IIMs.

4.25 One third of the 6 independent Board members should retire every year. The existing Boards should cease to exist on a date to be determined, and new Boards, selected according to the process being suggested by us, should assume office on that date.

4.26 The Board members would be required to attend at least 75% of the meetings. The membership of any member of the Board, whose attendance is 50% or less in a 12 month period, should be deemed to be automatically terminated.

4.27 The present Chairmen should continue till their terms of office come to an end, assuming that their terms are amended to 3 years from the present 5 years.

#### **PROCESS FOR SELECTING INITIAL BOARD MEMBERS-**

4.28 It is proposed that a Committee may be constituted to select and approve the initial Board members of all the IIMs. This Committee should consist of the Secretary, Ministry of HRD (ex-officio) and three independent and eminent professionals selected by Government. In addition, the Chairman of the IIM, where the Board members are to be appointed would be an ex-officio member of the Committee.

The quorum would be 3. Members of the committee would have a term of three years.

4.29 Once the initial Boards are filled, any future vacancy on the Boards of IIMs, after the initial constitution, should be filled by the Board concerned, through its Nomination Committee, which must be composed of independent members of that Board.

## **SELECTING THE IIM DIRECTORS**

4.30 We recommend that the Director of each IIM be selected and appointed by the Board of each IIM, with the conditions of service being approved by the Pan IIM Board. The process of selection should be determined by each Board.. We also recommend that the selection field should .be broad based to attract the best available talent. It is true that the present system of selection has worked well in the sense that there has been no political pressure in the selection process. However, it is important to ensure that in the future the possibility of political factors coming into play in the selection process is ruled out.

4.31 Current system at the IIMs is to train faculty members to assume leadership positions by taking on roles such as Deans, and Chairpersons of Activity Areas. This process should be strengthened to groom leaders for the future.

## **SELECTING THE CHAIRMAN OF EACH IIM**

4.31 We recommend that the Chairman should be selected by the Pan-IIM Board from a list sent by the Board, plus any other names which may be added by the Pan-IIM Board. The Chairman should have a 3 year term of office, renewable for another 3 years, based on performance.

4.32 We recommend that in selecting Chairmen, consideration be given to candidates who can work within the parameters of the public system and those who have clarity of vision about the role of education in society. It is important that the Chairmen recognize the importance of good corporate governance, and help the Directors in playing their role as CEOs.

## **5. The Business Model of the IIMs**

### **CURRENT SITUATION**

5.1 Every organization needs to find its balance between what it costs to produce and deliver its services, the investment it needs to make in long-term capital assets and the price it can charge for its services- this is its business model.

In a Business School, a particular dilemma arises because its reputation is largely based on the success of its two year residential full-time MBA programme and for this it needs to attract the best and the brightest on a means-blind basis. This puts some limitations on what it can charge for this flagship programme. On the other hand, business schools are free to charge premium prices for their Executive Education programmes (including the one-year residential PGPEX), in-company training and consulting activities. Success lies in arriving at the right product mix.

### **CAPITAL COSTS**

5.2 IIM education is capital intensive because the key ingredient of the IIMs' educational experience is living and learning together, for two years, with several hundred equally talented peers and faculty. Till now the capital expenditure in IIMs has been almost totally funded by the Central Government. State Governments have in the case of all IIMs provided land free of cost. We estimate the capital expenditure to increase the intake of each PGP/PGDM seat to be in the range of Rs 30-40 lakhs and that for each PGPEX or Doctoral seat to be Rs 35 lakhs. With increasing cost of land, cement and steel these costs may go up.

5.3 Capital costs in higher education are usually funded through outright grants from governments (Europe and State Universities in the United States) or from endowments funds created by private donations (US not-for-profit universities like Harvard and Stanford). In the case of IIMs private donations have not played any part in funding capital expenditures.



## **CORPUS**

5.4 In July 2005 the Government introduced a new Block Grant Scheme for Higher Educational Institutions, including IIMs. The Government allowed IIMs to retain the internal revenue/income generated by them. The Government decided to provide a matching grant equivalent to the annual savings from the regular non-plan grant and other receipts, but excluding receipts earmarked for designated purposes. The matching grant would be available till the Endowment Fund (commonly called the Corpus) reached Rs.50 crores. Funds in excess of Rs.50 crores were allowed to be used for infrastructural development. Interest from the Endowment Fund could be used for meeting operational expenses. All contributions/donations/grants by individuals, institutions and organizations in India or abroad were to be credited to this fund. The funds in the Endowment Fund were to be invested as per guidelines issued by the Government of India.

5.5 In the case of the three older IIMs, when funds were transferred to the corpus, it was done without making any provision for retirement liabilities that existed when the Block Grant scheme was started in 1992.

## **PRICING**

5.6 The Boards of IIMs have full authority to determine the fee to be charged for various courses. Till 1991 the fee for the PGP course was insufficient to cover the operating expenses and Government had to provide subventions. Following the economic crisis, IIMs were asked to recover their operating expenses. As a consequence the PGP fee has been periodically raised in all the IIMs, though there is no uniform fee structure prevailing in the six operating IIMs. Due to problems in allocating common costs in IIMs it is really not possible to determine the extent to which fees for the PGP cover the costs of the programme. However, it did take varying periods of time, after 1991, for the 6 IIMs to achieve overall breakeven in respect of operating expenditures. This breakeven was achieved by following the accounting system prescribed by the Government, which is not consistent with the generally accepted Indian accounting principles GAAP). If GAAP were applied, the surplus would become much lower and may even disappear. The breakeven, and subsequent surpluses in some of the IIMs, was considerably helped by increasing incomes from courses other than the 2 year PGP.

5.7 Whenever IIMs raise the fee for the PGP course, some questions are usually raised about the 'reasonableness' of the fee and the impact this would have on the ability of meritorious students to enter IIMs if they do not come from well off families. At times, Government has applied informal pressure to keep fee at lower levels. An attempt by the Government to lower fees led to criticism that Government was 'interfering' in the running of an academic institution. Till now, there are no well defined criteria on how the PGP fee should be determined, and there is little transparency in the process of fee fixation. While the need for implementing a 'means blind' policy is accepted by all the IIMs its implementation level is not entirely clear.

## **Our Analysis**

5.8 The healthy and balanced growth of the IIMs requires a product mix that involves all of its courses and services. While the two year PGP programme must remain the core activity, the specific product mix for each IIM has to depend on the capabilities they have built so far, the faculty and alumni network, physical location and the quality of its internal management processes. These factors are too complicated to be mandated centrally and are best left to the individual Boards.

5.9 The policy that no person qualifying for admission would be denied education because of inability to pay, is stated in the application forms for the PGP/PGDM courses. However, no other publicity is made of this policy. There is no evidence to support the view that the 'means blind' policy actually works in terms of talented children coming from low income families feeling confident enough to even take the CAT test.

5.10 Ever since the IIMs started to raise the fee for the PGP courses, bank loans started to become available to finance IIM education but with varying terms regarding repayment periods, interest rates charged, guarantees needed and margin money. Despite the considerable increases in PGP fees in recent years, there has been no apparent hardship to those gaining admission to the IIMs. A small percentage of students finance their studies from parental resources. The majority rely on bank loans because banks have simplified the process of giving loans and enhanced the loan amounts to cover the increased fees. During discussions with some students, and faculty of the IIMs, we were told that bank loans were easily available and covered the full tuition fee.

5.11 All the IIM Directors were also requested to give their views on bank loans, their adequacy and availability to all those applying for them. They have stated that students do not face any difficulty in obtaining adequate bank loans to finance their studies at the IIMs. Banks are competing with each other in offering these loans. The students are not required to offer any collateral or margin money, and in many cases students stand surety for each other and the banks accept this. The economic background of those applying for a loan is not taken into account while sanctioning loans. There are also no reports of any defaults and the loans to IIM students have not gone bad.

5.12 It would appear that over the years the bank loan scheme has become much more user friendly, largely because the loans are being repaid and are profitable to the banks. Competition between banks for giving these loans can only further benefit the students. These bank loans cover virtually all the expenses at an IIM including the cost of hostel accommodation and going abroad for those selected for the exchange programmes. The cost of food, entertainment, home travel and such expenses are not covered by the loan. Thus, by and large any student who qualifies for admission to an IIM can complete his studies, with the help of a bank loan. It is true that the student has to undertake to repay the loan, but considering the salary which an MBA commands after completing his or her education, this is also not a burden.

5.13 However, we are not entirely sure if the picture is quite as rosy, and some banks apparently do require a small margin above a base level of loan, as well as a guarantee from the parents. It has also been reported that a small number of cases of default have happened. Thus, in our view, bank loans cannot be relied upon as a complete answer to implementing a means blind policy. Firstly, the need to repay the bank loan creates a strong incentive for the student to look for jobs which pay as high a salary as possible. That is why multi national financial companies and consultancy jobs are the most sought after. The Government sector, on the other hand, is not able to attract any MBA from the IIMs. Those who want to do a doctoral programme and subsequently teach, are also in difficulties as to how to repay the loans. This situation needs correction. Secondly, there could be some students from the economically weaker sections who may not be willing to take the risk, however slight, of fully financing their studies with a bank loan. This is understandable, and such students would need some additional financial support. Thirdly, there is also a problem in the case of those students who do not do well in their first year exam, but are allowed to stay on and improve performance in the next year. The number of such cases may increase as the larger admission numbers could lead to some dilution of academic competence. Banks have restrictions in giving loans to those who do not fare well after their first year exams.

5.14 A 'means blind' system would require that all genuine cases where a bank loan would not enable a student to undertake studies in an IIM should be enabled to get financial support. The IIMs would need to have a transparent and objective scheme for undertaking this task. Where a student is unable to finance his studies fully with a bank loan, a means related scholarship may be provided to the extent necessary. Again support may be required to be given at the end of the first year to those who become ineligible to continue to get a bank loan. Lastly a system of helping pay the bank loan installments of those who decide to take jobs in the public domain, or undertake doctoral studies would have to be devised and publicized. This will encourage IIM students to join services in the public domain.

5.15 The Ministry of Social Welfare provides scholarships for ST/SC students. Procedural complexities have prevented this scheme to be effectively used by IIMs. The Ministry of HRD and the Ministry of Social Welfare need to solve the difficulties in the way of benefits reaching ST/SC students in the IIMs.

5.16 The Government is introducing a scheme to subsidise education loans. This would certainly help in reducing the reluctance of some IIM students to avail of bank loans and would make repayment easier for all.

5.17 The IIMs generate income from their product mix, and the price fixed for each product. Assigning a cost to each product is an extremely difficult and complex task because the same infrastructure, faculty and administrative staff are used for each of these products. We do not think that attempting to cost the various programmes, or trying to work out a per student cost, would add any value or even be accurate and free from controversy. As such we are not attempting this exercise.

5.18 The main sources of income for an IIM are fees from the 2 year PGP course, the one year PGP-Ex, the various management development programmes, consultancy assignments, placement fee, donations and interest income from corpus funds. Where ever the payments come from the corporate sector, the fee to be charged should be market related, and would reflect the value which the corporate houses attach to the services offered. This is necessary to generate income to meet expenditures and thus to help keep PGP fees to reasonable levels. At the same time, it has to be ensured that the faculty time, and infrastructure allotted to such programmes, do not adversely impinge on the time and infrastructure available for the core PGP programme, and research work. The Boards of IIMs would have to ensure that a good balance is attained. Unfortunately, at present, the percentage of resources devoted to the MBA programme and research is too low. While this enables PGP fees to be kept at a lower level, it reduces the output of MBA's and defeats the fundamental objective of an IIM.

5.19 Business Schools in the USA generally have large corpuses, built with donations from private companies, individuals and alumni, and capital works are largely financed from these funds. The 2005 scheme of the Government, for creating an Endowment Fund of Rs.50 crores in each IIM provides that till this figure is reached, the only expenditure that can be made from the Fund, is the amount of interest earned. Once the level of Rs. 50 crores has been reached in the Fund, the amount has to be kept intact and cannot ever be diminished. Any excess over this limit can be used for infrastructure development. The interest earned each year can be used to meet operational costs. All donations from any source have to be credited to this Fund

5.20 One issue is regarding the pending liabilities for retirement benefits. Normal financial prudence requires that these liabilities should be extinguished. The Indian and International Accounting Standards both require that such liabilities should not be allowed to remain unmet, and become a charge on current income when any such liability has to be met.

5.21 There is also a widespread feeling among the IIMs, and alumni, that the use of corpus funds is Government controlled and if large donations are collected and credited to the Endowment Fund as now required, the Government may regulate how these funds are to be used in the future. This is theoretically possible by amending the circular relating to the creation of the Endowment Fund. Apparently this is one reason why no serious efforts to collect donations has been made till now. The very fact that Government requires all donations to be credited to the Endowment Fund, and prescribes the way this Fund is to be used, does create an apprehension that in future some other directions may come from Government. The same apprehension is created by the use of the words 'Institutes shall be allowed to retain internal revenue/income'. We think that the circular does create an impression that spending of donations and contributions by private persons is subject to Government directions, and is a serious handicap to raising funds from alumni and other sources.

## **Our Recommendations.**

### **FEE STRUCTURE**

5.21 The existing IIMs, except Shillong, are already operationally either breaking even or generating a small surplus. The objective should be to generate a small surplus which could be used to part finance capital expenditure. However, Boards need to ensure that adequate resources are allocated for the core PGP programme, and research, in line with our recommendations. Faculty expenditures will go up because of the Pay Commission report as well as our recommendations regarding contract appointments in areas where faculty is scarce. It would be useful to prepare an estimated balance sheet and P&L account for the next three years, taking into account the higher admission levels to the PGP course and the requirement for more research. The fee structure for different products, including the PGP, should then be determined.

5.22 We expect that Boards, with the composition and method of selection of Governors which we are recommending, will deal with this matter quite adequately, taking into account all relevant circumstances prevailing at any point of time. Any specific recommendations made by us regarding fees would introduce an element of rigidity, which needs to be avoided. However, we recommend the following guidelines which may be considered while taking a decision:

5.23 Each IIM should aim to ensure that incomes on revenue account exceed the revenue expenditure by 10% at the end of 5 years of operations of an IIM. The surplus should be with accounts prepared according to Indian GAAP and from 2011 the International Financial Reporting Standards ( IFRS). The following illustrates what we are recommending as the methodology for determining the fee structure:

1. Total gross revenue expenditure for the year (according to GAAP/IFRS) Rs GE.
2. Total gross income for the same year, excluding income from the PGP fee, but including interest on the Endowment Fund Rs. GI
3. GE minus GI equals gross deficit Rs.(GD)
4. Income required from the PGP would be Rs.GD plus 10%of Rs.GE equals Rs GF
5. PGP fee would then be Rs.GF divided by the number of PGP students.

This formula could be applied at any time, once the end target of a surplus/deficit for the revenue budget has been decided. All the existing IIMs excluding Shillong should thus be generating a small surplus.

5.24 The Board of IIMs should pay special attention to implementing an effective means blind education policy. The publicity to all aspects of this policy should be on a central basis, like the CAT examination. A financial support scheme needs to be devised and implemented in all the IIMs. This scheme should take into account the bank loan scheme and its working, the psyche of those coming from economically weaker sections, and the need to encourage students to opt for doctoral programme and the teaching profession, or join services in the public domain. The grant of financial support should be made by a small body of independent persons, but including the Director, so as to ensure that the scheme is objectively implemented and serves the purpose of ensuring means blind education in the IIMs. The Boards should monitor the effective working of this policy.

5.25 Implementation of a financial support scheme would require that each IIM have an adequate fund for this purpose Part of the annual surplus, say 10%, could be added each year to the existing scholarship fund till an adequate level is reached. The Government may also consider making a one time donation to this scholarship or financial support fund. In determination of the fee for the PGP courses the Boards should keep in mind the Supreme Court judgments on the matter of fixing fees in education institutions, and not indulging in 'profiteering'.

#### **CAPITAL EXPENDITURE:**

5.26 Government would need to fully fund all the capital expenditure of the new IIMs. World experience is that education of this quality would not be viable if the capital funding was done only by borrowing money. For the older IIMs we recommend that the Government should fund 70% of the capital expenditure. The remaining 30% should be met from the revenue surplus, borrowings from banks, and donations. The capital expenditures to be funded should be those which are included in the projects approved by the PAN-IIM Board for IIMs. Government may make 'on account' payment for capital works based on estimates prepared by the IIM. The final adjustment of payments may be made on the basis of audited accounts for capital works. CORPUS

5.27 All IIMs should be actively encouraged to create a corpus based on donations from alumni, industry and individuals. The Boards of IIMs as well as the PAN –IIM Board should help in raising funds for IIMs. This objective would be facilitated if more alumni are inducted on these Boards. However, for this effort to be successful, Government should clarify that the IIM Boards have full authority to spend money raised in this manner for any activity related to the betterment of the IIM and the Government would not intervene, or issue any kind of directions. The 2005 circular should apply as long as matching grants are given by the Government and a corpus of Rs.50 crores is being built. After Rs 50 crores has been reached, it should be kept intact, but there should be no other restrictions on the use of further funds raised by an IIM from non Governmental sources.

5.28 We also recommend that the IIMs should be required to meet their retirement liabilities, as calculated under Indian GAAP and this amount may come from the Endowment Fund. The 2005 circular should be amended to this extent and the Fund built to Rs.50 crores after meeting these liabilities.

5.29 We recommend that fund raising has to be done professionally, by creating an organization for this at each IIM. It should, however, be noted that outside the United States, higher education institutions have not found it possible to create large corpuses based on alumni donations. US college alumni find it worthwhile to make these donations because of a favorable tax policy that combines high death duties and large tax breaks from both capital gains and death duties for contributions made to not-for-profit educational institutions. Under Indian laws, donations to IIMA and IIMC allow the donor to claim 125% deduction. This facility needs to be extended to all the IIMs. The law also provides for benefits to donors who give funds to the IITs. IIMs should be given the same benefits in the law. In addition, a study could be done to see if any other changes be required to be made to the tax regime as would facilitate fund raising for the IIMs.

## **6. The Faculty Resources at the IIMs**

### **CURRENT SITUATION**

6.1 The quality of teaching and research at an IIM would be determined by the caliber of the faculty and its motivation to strive for excellence. If IIMs are to move towards greater excellence, fulfill public expectations of them, and face the challenges of competition, this aspect will have to be given the highest importance.

The IIM system of management education has three components: a strong foundation of the basic disciplines like statistics, accounting, sociology, economics, psychology, etc., a set of functional area courses like Finance, Organization Behavior, Marketing, etc and a third set of multi-disciplinary, cross functional courses like Strategy.

6.2 While faculty for the basic disciplines are freely available in both quantity and quality from the Indian university system at the current pay scales of the IIMs, it has proven difficult to recruit faculty in the other two streams because of several factors: low output of doctoral programs in these disciplines, rising demand from other sectors of the economy at much higher remuneration and the worldwide explosion of demand for management teachers. A large number of Indians are teaching at business schools in the USA and other English speaking countries.



6.3 IIMs have not been able to fill all sanctioned posts. These posts have remained vacant almost from the time each IIM started to function. The vacancies are in the functional disciplines, where those with PhDs are in great demand and command high wages in the financial service sector, industry and business.

6.4 The quantity of young people being attracted to doctoral programs, and thus to the teaching profession, is not at all enough to keep pace with the exploding demand from industry and business and the teaching profession. The drastic cut in Fellowship Programs in the early 90's, as a cost saving measure, and the continued low intake of Doctoral students has aggravated the problem.

6.5 Many of the IIM faculty is teaching because of their love for the profession and because they value the quality of life which an academic environment like that of an IIM provides. Nevertheless, they still need to increase their incomes to provide for their families and security after retirement. Hence, a considerable part of their time is spent in conducting comparatively low level management development programmes, and doing consultancy work. This leads to a reduction in time available for teaching the MBA courses and doing research work.

### **Our Analysis**

6.6 Over the years, as the economy has kept growing and opportunities for employment have multiplied, the teaching profession, at all levels, has gradually lost its relative attractiveness. Barring a small percentage of self motivated persons, those attracted to teaching are not amongst the best students. Teachers also do not command the same respect and status as they did say 30 years ago. On the other hand educational facilities have expanded dramatically. The result is that while there are still many institutions of excellence, the average quality of education, and particularly higher education, has been declining.

6.7 The IIMs are able to attract the best of the teachers for the basic disciplines because of the status enjoyed by them. Nevertheless, with increasing competition from private business schools, IIMs will need to keep a close watch on the situation.

6.8 The problem in the functional disciplines is acute. The ability to rapidly increase the intake of PGP classes and to devote more time for research will depend on the ability to not only fill the vacant positions but also the increased requirement arising from expansion. Since higher remuneration will also have to be paid for functional disciplines, the costs will, rise sharply. One of the solutions to this is the use of technology to increase the productivity of teaching, without diluting quality. We deal with this matter elsewhere in our report.

6.9 To make up for the low base pay of faculty a system evolved in some IIMs where faculty are paid extra remuneration for all PGP teaching done beyond 80- 90 hours a year. While the need for remunerating scarce faculty is quite understandable, this system itself should not be perpetuated. The IIMs have been established to primarily teach the MBA courses, and faculty hired for this purpose. If the faculty teaches MBA classes only 80-90 hours a year, and for more hours is paid the equivalent of overtime in a factory, there can be valid criticism that the IIMs are finding back door methods to pay the faculty.

6.10 The drive to achieve operating self sufficiency after 1991 led to another distortion in academic priorities. The fee charged for the PGP course did not cover costs. Thus expanding the PGP intake would have led to a widening gap between income and expenditure. This perhaps was one of the reasons why PGP intake was not increased, and demonstrates the danger of operating the main activity of IIMs at a loss. IIMs could, however, charge much higher fees for the Executive Training programmes. The high reputation of IIMs made it comparatively easy to attract companies, and particularly public sector companies, to accept such programmes. These training programmes, mostly conducted for junior level executives, now take substantial time, and generate large surpluses for the IIMs and also additional incomes for the faculty involved.

6.11 The extra incomes are also very unevenly distributed among the faculty members with roughly 25% of faculty earning 80% of this additional income. The faculty which benefits are primarily those in the functional disciplines and hence reduces the earnings gap between those in the IIMs and those in industry and business. However, even within the functional disciplines, the extra earning levels are not uniform.

6.12 While the IIMs have achieved the object of financial break even, and found ways of increasing the compensation to faculty in the functional disciplines, it cannot be said that this has been done in a manner which is fully consistent with the objectives and purpose for which the IIMs were established.

## **Our Recommendations**

6.13 Ideally the remuneration of all IIM staff should be determined by the Board, taking into consideration market conditions so as to attract and retain high quality talent, ability to pay, and the need to provide motivation for performance. The Board should also periodically review the compensation packages taking changes in the environment into account. At the same time, all the IIMs should have some degree of uniformity in remuneration packages, adjustments being made for local conditions. However, for various reasons this is not practicable in the IIMs and the basic salary structure would have to be that notified by the Government on the basis of the Pay Commission report.

6.14 We recommend that the Boards should draw up a compensation scheme that has the following features and is consistent with the orders that Government may issue on this subject.

6.15 If the Government orders permit, a higher level of base salaries be fixed for faculty in the functional areas of management such as Marketing, Finance, Strategy, etc. This could be in terms of a special pay for defined disciplines. However, the system of 'overtime' should be discontinued. The total remuneration, including the special pay, should remain 15% lower than that of faculty appointed on a contract basis, to cater to the risk attached to contract appointments.

6.16 A system of appointing faculty on a contract basis be introduced, where market oriented salaries could be paid. The contracts could be for 5 years or more, with provisions for increases in remuneration based on performance and termination of services for non performance. Taking into account the attractiveness of an academic environment, the contract amount could be around 70% of the market wages for persons with similar qualification, experience and capabilities. Earnings for such faculty from executive training programmes or consultancy assignments should be limited to around 15% of the contract amount.

6.17 Faculty in the basic disciplines may be paid according to the Government scheme. Incentives could be considered for performance related to research publications. Income from Executive training programmes and consultancy should be limited to 15% of salary.

6.18 We recommend that all full-time faculties give priority to teaching the 2 year PGP and doing research. The system of prescribing any number of teaching hours should not exist. If in any IIM some faculty members are underutilized, they could be asked to teach in another IIM.

6.19 Research work should be given due weight in determining performance-based compensation, and making promotions and this is accessed through an outside peer review system so that quality of research and academic work can be objectively evaluated.

6.20 The problem of good quality faculty cannot be solved in the short term even after revising salaries. Among other routes to conserve and make best use of the limited faculty talent in functional areas are: (a) Use of technology such as online learning, (b) strengthening the administration system such that senior faculty spend less time in Institute administration (c) greater use of teaching assistants and doctoral students in the teaching and tutoring process as is done in academic institutions in the West and (d) putting in place post-doctoral programs where promising PhDs in the pure disciplines are put through a two year programme of management education and converted into management teachers (e) IIMs should develop a closer relationship with Industry, and introduce a programme, so that managers at the age of around 45, who are interested in a change of careers and would like to teach, could do a PhD and become teachers.

6.21 There is considerable underutilization of faculty in the FPM programme. This is because of the very small number of students enrolled, and the need for a faculty member to take classes for such small numbers. This is an area with considerable potential for cooperation between IIMs, so that the number of students in the FPM programme can be increased and faculty resources better used. As a result, more faculty will be available for the PGP teaching.

6.22 We also recommend that IIMs should sponsor suitable students for PhD programmes and arrange their placement in good institutions in India and abroad. These students should be required to sign a bond to teach for 5 years after completion of the PhD., or to repay the money spent on them. This programme, if coupled with higher remuneration for teachers, could over time, help to improve the availability of faculty.

6.23 There is need for Boards of IIMs to review the income generating programmes being undertaken by IIMs. The primary objective of establishing IIMs was to provide the 2 year Post Graduate Programme in Management. This has also been stated in the Shunglu Committee Report. While consultancy is an integral part of the activity of an IIM, the primary purpose of consultancy should be to give exposure to the faculty to real life situations and thereby strengthen and improve the effectiveness of teaching and research. The Kurien committee made this very valid observation and also noted that

often consultancy programmes did not relate to the development of teaching materials or the agenda for research. This situation has continued without any perceptible change. The incentive to derive additional incomes is distorting the fundamental objectives of consultancy and other training programmes.

6.24 The time spent annually by faculty members on executive development programmes and consultancies should be limited. This could be say to the extent of 90 days in a year, with not more than 40 days during the 9 month period when the Institute is running the PGP courses. The limitation on earnings for faculty members from these programmes would also help in correcting the present distortion. The objective should be to generate material and experience for more effective teaching. If and when IIMs have the resources, there could be institutional bids for consultancy work. Such institutional consultancies could be undertaken in any part of the world.

6.25 The present system of faculty selection needs improvement. The faculty themselves decide who to call for selection, how to run the selection process and who to select. The process is very slow and there is no full time Human Resource function inside IIMs driving this process. The selection process needs to be in line with that prevailing in Industry. The Boards should also ensure that annual human resource plans are prepared and implemented.

6.26 We have also been asked to examine the question of incentives for teaching and non-teaching staff. Any scheme of incentives has to be designed in the context of specific and measurable objectives to be attained by providing an incentive. Incentives often lead to undesirable distortions in the working system and so have to be very carefully monitored. Incentives can be both monetary as well as in the form of promotions and recognition. We believe that monetary incentives have little place in an academic institution, and the present schemes in place in different IIMs have created undesirable results. No doubt the intention was to compensate faculty for the inadequate remuneration package, but since this aspect can be resolved by the recommendations made in this report, this requirement will no longer exist. Excellence in teaching and research should be rewarded in other ways. Each Board should devise means of doing this.

## **7. Expansion of PGP Admissions.**

7.1 The intake to PGP courses has increased very slowly and not kept pace with the growing needs of the economy. Expansion of capacity is also required to meet the national objectives of affirmative action. Faculty shortage has been one handicap. Suggestions for overcoming this have been made in this report. Infrastructure would also have to be created and for this funds would need to be raised. We have dealt with this also in the report. Lastly, the IIMs would need to assess the impact of higher PGP students on the operating costs and ensure that operational viability is ensured. Goals for expansion should be proposed by the Boards and approved by the PAN- IIM Board.

7.2 Land is a scarce resource, though in the past it was not treated as such. If the IIMs are to expand intake to an optimal capacity of around 750 PGP admissions year to year, more intensive use of the available land would have to be made and vertical construction will be a necessity. Faculty and administrative staff residences could be moved to off-campus sites, and accommodation bought/rented there. The existing infrastructure could be more intensively used.

7.3 We believe that the annual admission capacity of an IIM should be restricted to 750 a year, as managing larger numbers could create several problems. On the other hand, admission levels of around 300-400 a year do not permit economies of scale to be realized. If an existing location cannot reach this level due to infrastructural shortcomings, it should be possible for an IIM to expand by opening a new campus. Such a campus should be within the State where an IIM is presently located. Such campuses should be opened only after the capacity of the existing site has been fully utilized. IIMs could also fulfill their aspirations to expand by entering into an arrangement by which they take over the responsibility for establishing and developing one of the new IIMs. The arrangements will have to be blessed by the Government and will have to be acceptable to both the existing IIM and the State Government where the new IIM is to be established.

7.4 Funding capital expenditure will be the major issue in expanding capacity. We have made recommendations relating to funding of capital expenditure in Chapter 4.

7.5 The ability to expand would also depend on the faculty constraint being overcome. The use of technology, as suggested in this report needs to be pursued vigorously. Use of technology would not only improve teaching quality but also avoid faculty members doing repetitive work. While this form of teaching may not find favour with the purists, it still needs to be seriously considered given the fact that faculty shortages are going to persist. A less than ideal solution is better than no solution at all. In fact use of technology should be used to help the private business schools improve

the quality of their teaching also by lectures being beamed to them and a charge levied. Teaching and research assistants could also be used to a much larger degree to reduce load on the time of the faculty. If the faculty could be freed from most of the administrative work they are required to do, it would further increase the time available for teaching and research.

## **8. The Non-Academic Administration at the IIMs**

### **CURRENT SITUATION**

8.1 The administrative operations of an IIM have two parts: academic administration which includes curricula and course framing, exams, grading and so on and a non-academic part consisting of running the placement system (reaching out to prospective employers, scheduling campus interviews...), the admissions system (CAT exams, interview scheduling...), management development programs (scheduling, marketing...), running the consulting activities (marketing, pricing, resource allocation, collections...) and so on.

8.2 The IIM system of administration is to have volunteer faculty function as Chairpersons of each of these activity areas for two year stints. These faculty Chairpersons are supported by Programme Administrators and student volunteers.

8.3 Most faculty members regard time spent in these roles as time away from teaching, training or research. Also, by the time a faculty member gets a grip on what is going on in these functions; his tenure in the activity area is over.

8.4 US business schools have specialized and highly competent executives dealing with these activities on a full-time basis and faculty members are involved only in governance roles and not as administrators. At the IIMs, the Programme administrators are clerical employees who have risen from the ranks.

8.5 The scale of activities in each of these areas has grown manifold in the last few years and this has meant those faculties who volunteer (or are morally pressurized) into these roles have to abandon all teaching and other academic activity for those two years.

8.6 Accounts are prepared by following Government laid down systems for Autonomous Societies. The Indian GAAP or IFRS principles are not applied for reporting to Parliament. The result is that the balance sheets do not give an accurate picture of the financial health of the IIMs in so far as accrued long-term liabilities such as retirement benefits are not fully provided for. This needs to be corrected and Boards should insist that quarterly accounts are presented to Boards in accordance with Indian GAAP/IFRS.

## **Our Analysis**

8.7 The time has come to separate administration and academic activities. Faculty time is scarce and valuable, and should not be spent doing work which could be done by persons who have lower academic qualifications, cannot teach but have developed specialized knowledge of administrative work, and are likely to increase productivity and the quality of output as far as administrative work is concerned.

8.8 The internal control systems for academic and non-academic areas are largely manual and this consumes a lot of faculty time and creates pressure to hire clerical level staff. Since IIMs were established by the Government, systems prevailing in Government were transplanted here. Over the years the Boards have failed to bring in modernization, perhaps fearing adverse reaction from the administrative staff. However, it is hardly appropriate that top level business schools do not use technology and modern systems to improve productivity and speed of work. There is an urgent need to computerize as many processes as possible. Government and public sector companies have computerized many operations. State Governments are introducing e-governance. Private sector companies are using technology to reduce costs and improve productivity and quality. An effort thus has to be made to persuade employees to accept technology, as ultimately it would be in their interest. At the same time, it would be necessary to ensure that programmes are introduced to train existing employees so that they could upgrade their skills, retain their jobs and be paid better.



## **Our Recommendations**

8.9 Drastically reduce the involvement of faculty in routine administrative task and focus their energies on governance issues in these areas. This can be achieved only by building a competent and reasonably well-paid administration team in each IIM.

8.10 The first step in this is to create a position of Dean Administration, reporting to the Director. Such a person should be in the same grade as a full Professor and can also be on contract basis. His qualifications and experience should be appropriate for this nature of work.

8.11 Besides taking responsibility for administrative work, the Dean Administration should also take charge of fund raising activities. Increasingly this should become an important part of work in an IIM and expertise needs to be built.

8.12 We recommend that the IIMs undertake as a joint project, the design and development of software systems to manage the academic and non-academic administration. Alternatively, this task could be outsourced. A decision should be made on the basis of evaluating the merits of the two alternatives.

## **9. New IIMs.**

9.1 The Government has decided to establish 6 new IIMs. This is in response to the need to increase the admission capacity to the MBA courses, and to increase the geographical spread of these prestigious institutions. While this Committee has not been specifically required to make any recommendations regarding these new IIMs, we felt that our terms of reference do require us to make recommendations regarding them also.

9.2 The advantage these IIMs have is the ability to draw upon the experience and learnings of the older institutions. We suggest Government may constitute a Committee of 3 present or past Directors of IIMs, and the detailed project reports of the new IIMs should be studied and commented on by this Committee. These recommendations should be used to finalise the DPR's.

9.3 The building plans for the new IIMs should take into account the future requirements of expansion and should ensure that optimum use of land is made. Building vertically is almost a necessity. While designing the buildings and infrastructure, the need to be environmentally as friendly as possible, and to minimize use of energy and water should be kept in mind. Solar energy use should be considered as also water harvesting and recycling. Expert agencies could be associated in this work.

9.4 From the start, processes should be designed to use technology, and the manpower planning should be done on that basis. It would be wrong to start with the traditional systems and processes, and the associated Class III and Class IV staff. These IIMs should function on the pattern of the most modern corporates, in terms of administration and financial processes. Where possible, outsourcing possibilities should be seriously considered. Common systems and processes should be developed for these 6 new IIMs. Since some degree of modernization is also required in these areas in the old IIMs, they too could benefit from the development work.

9.5 One of the biggest challenges would be recruiting faculty, especially in the functional disciplines. The system of making contract appointments should be tried out. In addition, the use of technology, in conjunction with an existing IIM, should be used to compensate for shortage of faculty. In fact use of technology, once well established, could be used to reduce costs.

9.6 Administration and Academics should be separated from the start, on the lines recommended by us.

9.7 All other recommendations made by us in the area of teaching priorities, role of executive development programmes and consultancies, principles for fee determination and achieving operational break even, and governance apply to the new IIMs also. They would, after establishment come under the purview of the Pan- IIM Board.

9.8 Despite all these steps, it is not unlikely that the new IIMs may experience difficulties in shortening the time taken to function at the same level as the older IIMs. If these IIMs are not able to maintain the standards of the other IIMs, not only would this dilute the brand image of all IIMs, but would result in a huge waste of public money. For this reason, it would be definitely desirable that each new IIM is managed by one of the existing IIMs.

# Appendices

## Appendix 1

Terms of Reference: Circular dated 17<sup>nd</sup> October 2007

- (i) To review the present status of IIMs in fulfillment of their objective as centers of excellence in management education and research.
- (ii) To review the existing courses being offered in IIMs in the light of their relevance and national priorities.
- (iii) To review their organizational and administrative structure and to suggest suitable changes therein with a view to serve better the country's economic and social development needs.
- (iv) To review expansion plans of the IIMs during the next decade, and particularly during the With Plan, with a view to optimal utilization of the existing capacities.
- (v) To review the position of the corpus fund in each Institute and to suggest broad guidelines for better utilization of this fund.
- (vi) To review the per student cost on various courses being offered by the institutes and to suggest guidelines for proportionate recovery of this cost from student fees, government grants, interest income from corpus fund etc.
- (vii) To review and suggest measures for easy availability of educational loans to students.
- (viii) To review availability of scholarships, fellowships, free ships and other forms of financial assistance to the students.
- (ix) To review the incentive schemes prevailing in various IIMs for faculty and non faculty staff and to suggest suitable modifications therein.
- (x) To give recommendations on the issue of powers and functions of Chairman, Board of Governors of IIMs.
- (xi) To report on any other aspects that is relevant to overall effective and efficient functioning of these institutes.

## Intake Trend in PGP (two year full-time residential programme)

NAME OF THE INSTITUTE	YEAR	TOTAL
IIM Ahmedabad	2004-2005	266
	2005-2006	275
	2006-2007	274
	2007-2008	283
	2008-2009	318
IIM Bangalore	2004-2005	187
	2005-2006	374
	2006-2007	253
	2007-2008	249
	2008-2009	271
IIM Calcutta	2004-2005	263
	2005-2006	259
	2006-2007	322
	2007-2008	280
	2008-2009	304

IM Lucknow	2004-2005	287
	2005-2006	298
	2006-2007	287
	2007-2008	242
	2008-2009	326
IIM Indore	2004-2005	117
	2005-2006	118
	2006-2007	179
	2007-2008	180
	2008-2009	240
IIM Kozhikode	2004-2005	133
	2005-2006	165
	2006-2007	186
	2007-2008	192
	2008-2009	261
RGIIM Shillong	2008-2009	64

**Methodology adopted by IIM Review Committee for formulating the Report.**

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1. The Committee met on its own 16 times.
2. Visited IIMs at Ahmedabad, Bangalore, Indore and Kozhikode on 25.04.2008, 08.02.2008, 04.04.2008 and 03.05.2008 respectively and held extensive discussions with the Directors, Faculty, Non Faculty and Students.
3. In IIM, Ahmedabad the Committee elicited the views of the Members of the Board of Governors of IIM, Ahmedabad based on the questionnaire developed by them.
4. Separately, comments of the Directors of all the IIMs on the questionnaire were obtained and deliberated upon by the Committee.
5. A presentation was given by Mckinsey & Company to apprise the Members of the IIM, Review Committee about the global scenario with regard to Management Education.
6. The Committee invited the comments of eminent Management Consultants on a questionnaire developed by them, from Dr. R.A. Mashelkar, Ex. Director General, CSIR, Shri K.L. Chugh, Shri R. Gopalakrishnan, Shri Atmaram Sarogi, Shri Minoo Daver, Shri Ramesh Gelli, Shri Sanjiv Goenka and Shri S.K. Swamy etc.
7. In its last but one meeting on 09.09.2008, i.e. before finalizing the Report, all the Directors of IIMs were invited by the Committee to have there final views on the constitution of a Pan IIM, powers of the Board of Governors and other related issues contemplated by the Committee in its report.
8. The Committee also deliberated on the earlier Reports given by the two IIM Review Committees.

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