

Lehman: Premier Branded Talent Syndrome

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INTRODUCTION

It's 5 p.m. and I have just finished my lecture to MBA students in my university. The focus of the lecture was - how to manage uncontrollable factors (political, economical, social, technological, competition...) when they have unfavorable impact on the business of an organization. The domination of unfavorable uncontrollable factors - UUFs has increased primarily due to increasing diversity in the macro environmental factors and increasing options available to the stakeholders. In most of the cases, UUFs have an integrated and cascading spiral effect on the overall business environment which then infects the organizations with poor immune system. In short, I concluded my lecture with the statement that the corporate executives should incorporate the unfavorable uncontrollable factors in their business strategies in such a way so that there should be minimal effect of UUFs on the business of the organization. Merely knowing about and discussing UUFs in board rooms over a cup of tea for the sake of discussions only will not suffice.

MANAGING UUFs

How do executives look at UUFs and how do they manage to cope with them, reflect the future of their organizations. In fact, as per managerial concepts, there are seeds of opportunity in every crisis due to UUFs which must be identified and utilized for the growth of an organization or for its survival in turbulent times. This is the power of management education which is taught during the two year MBA program to facilitate the future executives for not only taking decisions but for taking Quick Quality Decisions - QQDs by managing UUFs effectively and efficiently in the organizations of the twenty first century.

Professor C K Prahalad, one of the world's foremost management thinkers and author of works like - The Fortune at the Bottom of the Pyramid, was in Bangalore for the TiE Entrepreneurial Summit mentioned in The Times of India on Dec 19, 2008, "Apart from issues like increasing productivity and building global efficiencies, they would also have to build the capacity to handle volatility....." In today's scenario, it has become utmost important for the corporate executives to develop the expertise of managing the UUFs' volatilities for the survival and the growth of their organizations.

The dilution of business ethics is also one of the significant factors that have led to the financial catastrophe confronting the corporate sector of twenty first century. The unethical business practices are weakening many organizations from within and may cause so much trouble when they finally burst like Lehman, Enron.....

If executives are not able to save their organizations from the onslaught of UUFs; it is not the failure of management profession, capitalism or blaming UUFs, but it is a failure of the executives/ capitalists themselves for not taking quick quality decisions-QQDs, to save their organizations from bankruptcy.

CASES

Corporate executives can't behave like politicians by blaming UUFs for their failures as the management profession is rich in knowledge like other professions. The profession has got the solutions to all the problems of the corporate sector (If somebody is having its knowledge in depth and also knows how, when, where and with in which magnitude to apply its concepts). Ratan Tata is utilizing all managerial aspects for bringing NANO in the market irrespective of political and other social uncertainties.

The State Bank of India (which is not packed with premier branded talent and also the organization with the executives who are not paid exorbitant salaries like their counterparts in private sector) is an interesting case of managing UUFs effectively. By introducing their new products successfully through their quick, quality decision making ;it was able to attract the deposits of more than rupees five thousand crore in just seven days at a time when the other organizations were busy in just understanding the consequences of the global economic meltdown on their business.

PREMIER MANAGEMENT TALENT

Interestingly, Lehman was the organization packed with the decision makers equipped with their MBA degrees

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from the premier business schools of the world. The failure of these executives (who could be termed as premier management talent) also raises serious question about the deterioration of quality of management education in the premier branded institutions which used to publicize about the placement of their graduates with Lehman and other organizations at exorbitant salaries.

Management institutions should also consider themselves equally responsible for such corporate failures as they are considered as the base of the pyramid of corporate growth. It is a right time for the premier management institutions to introspect; otherwise the bubble of such management institutions may also burst one day like Lehman and many other organizations.

Management education is not just a fashion statement. Business institutions should not be contented by only playing the role of employment exchanges. Unfortunately, in many business schools, the focus is getting shifted from quality management teaching to the placements.

The over indulgence of business schools in summer placements, final placements and publicizing astronomical pay packages through advertisements and media outlets may dwarf their status to super employment exchanges in near future rather than the institutions of research, innovation and developing quality professionals for corporate and social sector.

The management programs should be the optimum mix of quality content, relevant knowledge associated with the exposure to rigorous ethical business practices during internship in corporate sector.

Many executives are poorly equipped with the skills of developing relations between business and uncertainties at both micro and macro levels as very few case studies of failed organizations/executives are taught and analyzed during management programs. Failed companies and executives are rarely talked about and analyzed extensively in the management and corporate executives programs. It is another major weakness of business schools and the corporate sector as failures teach us many times more than successes.

Unfortunately, the present management education system is developing individualistic career oriented professionals with exclusive focus on their growth rather than the growth/existence of their organizations and the upliftment of society. The initiative should be to bolster economic growth with a social touch which is in the interest of executives, organizations and the other stakeholders on a long term basis.

STRATEGIC CORPORATE ROLE & EXECUTIVES:

Companies should also take lessons from such failures and must review their strategies which unfortunately, in many cases are formulated by incorporating the myth that the talent is only available in premier institutions and talent becomes super talent if you pay the executives exorbitant salaries of many millions of dollars at even entry level.

As recently as March, 2008, Lehman Brothers CEO, Richard Fuld was awarded a \$22 million bonus for 2007, plus generous pay package with perks and the company also offered millions of dollars salaries to the fresh management executives from premier branded institutions even when this organization was standing on the verge of collapse.

In future, such companies may also be considered as culprits for disturbing the social equilibrium and creating unrest among the other professions like medicine, defence, education, etc. as professionals in these areas (which are also the pillars of the society/country) have already started feeling hurt to see their counterparts in management profession paid astronomical salaries (unfortunately astronomical salaries are highly publicized through media by both the organizations and the business schools for promoting their hidden interests) without significant difference in their talent.

For example, it was defence services and the courageous staff members of two major service providing organizations (Taj and Oberoi hotels) of corporate sector who saved hundreds of precious lives of executives and customers during the major attack on them by terrorists at their premises in Mumbai on Nov 26, 2008. The defence forces personnel sacrificed their lives and protected the billion dollar infrastructure of these corporate houses from the major losses during the attack.

Already, discontentment due to significant disparity of salaries and extravagant life style of executives with lot of artificial hype and propaganda has started surfacing among many other sections also which is not good for the health and peace of the society on a long term basis and will invariably affect the business also.

Jamshed Irani, director, Tata Sons Ltd, mentioned, "The Tata credo is that 'give back to the people what you have earned from them.' So from the very inception, Jamshedji Tata and his family have been following this principle....moreover none of the Tata Board of Directors will ever be in the list of rich people....We generate wealth but personally don't get any of it. The trusts accumulate the funds and disburse for various social causes accordingly." (Source - The Indian Express March 16, 2005). This is an interesting example of real business concept which unfortunately is neither being practiced in many organizations nor taught in business schools effectively. Many executives in the corporate sector are good in complicating simple things and thus become expert in

converting success of their organizations into failures. Their downfall occurs due to their myopic professional vision and egoistic closed door approach towards the feedback and suggestions of their subordinates and customers. Most of the products are failed and stimuli the decline of many organizations due to the poor pricing decisions as in many cases, executives formulate their pricing strategies under the influence of id factor (Freudian Theory) or otherwise in simple words, it is the temptation of earning a lot in shortest span of time at any cost which surely deviates from the real spirit of the business.

Interestingly, most of the executives forget to analyze and identify the factors responsible for the growth of their organization and therefore unconsciously, instead of encouraging those inputs, they kill them with their business policies leading to the fate of decline/closure/bankruptcy of their organizations.

Organizations start evaluating their business when there is decline and after that take so much precious time to understand its reasons and magnitude which becomes the other reason for the death of many companies.

CORPORATE BAILOUTS

In the present situation, this super branded talent expects now, that the American Government should bail out their failed firms through the contributions (taxpayers money) of common man and keep on allowing these failed executives to enjoy exorbitant salaries plus lavish benefits (which are just a dream for majority of the taxpayers). Professor Luigi Zingales of the University of Chicago correctly mentioned - Do we want to live in a world where profits are private, but losses are socialized? It is a right time to save capitalism from such decision makers. Fear has swept across the world that even the biggest companies are endangered and may collapse any time like a paper house. The world's biggest bank, Citibank, with the slogan "The Citi never sleeps" would have slept forever had it not been rescued by the US government.

CORPORATE CELEBRATIONS FROM BAILOUT (BEGGED) MONEY

Amazingly, Days after American International Group - AIG got a federal bailout, it spent \$440,000 on a posh California retreat for its executives, complete with spa treatments, banquets and golf outings, according to lawmakers investigating the insurance company's meltdown. AIG sent its executives to the coastal St Regis Resort, south of Los Angeles even as the company tapped into an \$85-billion loan from the government it needed to stave off bankruptcy. The resort tab included \$23380 worth of spa treatments for AIG employees. According to invoices, the resort turned over to the House Oversight and Government Reform Committee. The retreat did not include anyone from the financial products division that nearly drove AIG under, but lawmakers still were enraged over thousands of dollars spent on an outing for executives of AIG's main US life insurance subsidiary. "Average Americans are suffering economically. They're losing their jobs, their homes and their health insurance," the committee's chairperson, Representative Henry Waxman of California, said as he scolded the company during a lengthy opening statement at a hearing on Tuesday. "Yet less than one week after the taxpayers rescued AIG, company executives could be found wining and dining at one of the most exclusive resorts in the nation." Former AIG CEO, Robert Willemstad, who lost his job a day after the Federal Reserve put up the \$85-billion amount on September 16, said he was not familiar with the conference and would not have gone along with it.

"It seems very inappropriate," Willemstad said in response to questioning from Representative, Elijah Cummings, a Maryland Democrat. "Those executives should be fired," Democratic presidential candidate Senator (presently president elect) Barack Obama said at a debate with Senator John McCain on Tuesday, referring to the retreat participants. Obama also said AIG should give the Treasury \$440,000 to cover the cost of the retreat. (This whole incident and discussions had been reported by Andrew Taylor - Mail & Guardian USA on Oct 8, 2008).

US automaker General Motors, facing desperate time, believed to pay major golf champion Tiger Woods around \$7 million a year and ended its endorsement deal which was due to expire at the end of 2009. Interestingly, GM has sought \$25 billion in loans from the US government to avoid a shutdown.

The world's biggest bank, Citibank, looked like collapsing but was rescued by the US government at the last moment. Citibank is another case of decision making quality decisions. Vikram Pandit, the chief executive of Citigroup, has said that was not based on the banking behemoth's putting in lot of money against US real estate is one of the main reasons that for things going wrong at the company. Pandit, who has Indian roots said, "...What went wrong is we have tremendous concentration in the sense we put a lot of our money to work against US real estate. So how we got here isby lending money and putting money to work in the US real estate market in a size that was probably larger than what we ought to have done on a diversification basis." (Source- PTI and The Times of India, Nov 27, 2008).

STRATEGIC APPROACH

Anyway, the American Government has to play a responsible role to safeguard the interests of the millions of direct and indirect stakeholders and also to save economy from its gradual slide into recession with some quality bailout solution. The bailout solution should instill confidence of common investors and tax payers in the system. In addition to financial bailout, the package should also have provision for sensitizing the corporate executives to the ground reality of the networking relations between business, economy, society, ethics and various UUFs for taking quality decisions in future instead of keeping on providing them with insulated flashy board rooms packed with artificially decorated power point presentations - lack of quality content and short of providing workable solutions.

Stop giving them the undue false feeling of superiority (super heroes) which has unfortunately become fashion in a corporate world and among the business schools in particular; instead motivate them.

The compensation of the corporate decision makers should have strategic focus on - PYT (Prove Your Talent), rather than merely on the basis of branded background. Strangely, in many organizations, an unbelievable, unjustified gap is existing between the compensation and benefits of top, middle, junior executives and supporting staff, which must be reduced to the optimum level in order to develop the spirit of team work for generating more ideas/ solutions that is ultimately helpful in taking quality decisions.

CONCLUSION

Nobel laureate, Amartya Sen speaking at an international conference organized to celebrate his 75th birthday mentioned, "There were several inferences that could be drawn from the economic crisis; Wall Street has made several bad decisions and has repeatedly failed....." (Source: The Times of India).

The whole discussion gives the logical impression that the branded talent has no monopoly on good ideas, the way they mismanaged their UUFs and took many times the poor quality decisions which eventually brought their organizations to decline/bankruptcy. In view of the above, it would not be inappropriate to mention that the premier branded talent at premier price may not always work.

There must not be unnecessarily too much difference between the salaries of the employees; in case the difference is towards extreme side (which was the case why many big companies got disappeared in smoke), integrity, team spirit, and loyalties, are highly affected and thus result in lower efficiency and poor participation of employees in decision making process.

The organizations should also formulate transparent, ethical contemporary human resource strategies by incorporating appropriate management motivational tools (which are available in abundance in management profession) for acquiring branded talent at optimum price and identify the quality talent from other sources also without compromising on quality and thus reduce their talent procurement costs substantially in order to survive / grow in the competitive global market. It is well said - Dare to think beyond.....

Redefined structured human resource focus (both intrinsic and extrinsic) with strategic innovation could provide leverage to the immune system of the organization to fight against various infections of UUFs on continuous basis effectively and efficiently. The bailed out organizations like AIG and others should not spend their resources liberally on the luxuries of their failed executives as the rescue packages (common man's money) are palliative and not long term cure. Bailouts without restructuring and reforms would be useless. Corporate begging (seeking for common taxpayers money in the name of bailout) could be stopped in future by sensitizing executives about their business as well as social responsibilities through quality management programs and let them remember - Become man from businessman and you will be a successful businessman.

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