

Economic way of thinking : A case of Prof. P.V. Ramana

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In early 1991, Prof. P.V. Ramana then a Senior executive with Grasim industries over a cup of tea with his friends Dr. Shenoy and Mr. Murti in a posh restaurant in Dadar reflected back on his contribution to various companies he served for umpteen number of years. All of a sudden he realised that that as compared to his contribution to his company his remuneration is very low. Though from a common man's perspective it was decent; handsome salary, variety of perks, a car with chauffeur, beautiful apartment, what more would you ask for. But the entrepreneurial streak in Prof. Ramana made him to think like a business economist. A typical Economist always dreams and does cost-benefit analysis. He thinks at the margin i.e. any economic decision he takes he weighs its cost and benefit. Sometime, he tends to build castle in the air, never complacent with limited (satisfied) wants, he thinks about bigger pursuits. The same thing happened with Prof. Ramana. After spending 25 precious years of life in industry after completing his MBA from U.S. what did he achieve. Few lakhs bank deposits and some immovable property. But is it worth the resources (sacrifice) such as time, money, skills, knowledge, expertise, experience, qualifications etc he spent over the last 50 years. This question intrigued him.

No, no, no was the answer his sharp calculative mind told him. He has sacrificed much more, in fact, many times what he has earned. The opportunity cost is enormous whereas the benefit is small. The trade off between existing employment and being his own boss is not palatable, he suddenly realised. His friends seconded him. I should set up my own enterprise, he muttered to himself. He repeated it again and again and finally uttered it to his friends over the sips of hot coffee. What venture should I start? Industry experience of more than 25 years and 4 – 5 years of teaching experience as a visiting faculty in various management institutes impinged upon his thought process, ideas after ideas were swinging like a pendulum. Though a senior executive by profession but a teacher by temperament, the idea of setting up of a management institute naturally came to him. Can professionals like Prof. Ramana, Dr. Shenoy and Mr. Murti set up a management institute? Why not? If we can teach management why can't we set up the management institute? All said together. This idea excited him. His U. S education and liberal thinking could foresee the enormous scope of management education in India particularly after the onset of economic reforms.

He firmed up and concretised his idea of setting up a management institute. With few lakhs bank balance and lot of family responsibility to his toe, he came to terms with the first lesson of economics that resources are scarce whereas wants are unlimited and this gives rise to economic problem of choice making. Management helps address this problem of choice making. After all management is nothing but organising and allocating a firm's scarce resources to achieve its desired objectives. That way economics and management are complementary to each other. Prof. Ramana by virtue of his stint with various companies and taking management decisions combined with his economic way of thinking

understood this relationship between economics and management quickly.

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A good manager always pursues economic way of thinking. When you are allocating your scarce resources to achieve a certain objectives, you need to follow a process dealing with questions such as :

- 1) What are the economic conditions in a particular market in which we already are or going to compete ? Particularly in terms of :
 - a) Market structure.
 - b) Demand and supply conditions.
 - c) Technology.
 - d) Business environment.
 - e) Global environment.
 - f) Future conditions.
 - g) Macro economic factors such as GDP growth, interest rate, inflation, exchange rates etc.
- 2) Should we stay/enter in the business ?
- 3) If so, what price and output we set in order to maximize our economic profit or minimise loss in the short run.
- 4) Where should we invest our scarce resources optimally and maintain competitive advantage over others by :
 - a) Becoming cost leader.
 - b) Focusing on product differentiation.
 - c) Focusing on market niche.
 - d) Outsourcing, alliances, mergers, acquisitions.
- 5) Last but not least, what are the risks associated with the above ?

Mr. Ramana exactly did the same thing. First, he was pretty sure that economic reforms are going to unleash the untapped potential of India in many areas including management education. In 1991 we did not have many management institutes except IIMs worth their salt. Foreign collaboration were non-existent, many Indians used to go abroad for higher studies. Given this context, his short term objective was to start his own institute in a modest way and subsequently in collaboration with foreign universities as a medium to long term objective.

The market structure of management education in 1991 was somewhat monopolistic with few hundreds of institutes led by IIMs and university departments. Demand and supply conditions, business environment, international conditions, and macro economic indicators such as growth in GDP, PCI, export growth started showing encouraging trends since 1993-94. Prof. Ramana could anticipate these developments very well in 1991 itself and started 'Institute for Technology and Management' (ITM) from a rented premises in Somaiya Institute of Management and Research Vidya Vihar. No sooner did he set up ITM, he encashed his U.S. relations and entered into an MOU with Southern New Hampshire University, U.S.A. As per the MOU, ITM and SNHU will issue a joint degree to the students. It proved a very good strategy and attracted 120 PGDBA students in the very first year. "People respond to incentives" is one of the important principles of economics and it worked very well in case of

ITM. Cost leader was another master stroke of Prof. Ramana and it worked very well. To offer two year PGDBM program just at Rs.8,500 caught the imagination of PGDBA aspirants very well. As compared to the competitors of ITM it was damn cheap. Though much higher than the university fee, students preferred private management colleges for the sheer quality, commitment, sincerity and flexibility. This proved one of the principles of economics “Markets are usually a good way to organise economic activity” true.

Focusing on the leftover students and starting the session a wee bit late in 1991 and preparing them to compete with their peers from other well established management institutes was a real challenge before Prof. Ramana. Needless to state, it required tremendous sagacity and perseverance on the part of Prof. Ramana and his team of faculty. Broadly, small start-ups do not boast of a tall organisational structure. This was true for ITM also. Prof. Ramana took the onus of becoming a Trustee, Director, Professor, Counselor / mentor on himself. His flair for teaching endeared him to the students and whatever pains and difficulties they encountered in terms of infrastructure bottlenecks were more than made up by the professor that resided in Prof. Ramana.

The journey of ITM that started from Somaiya institute, Vidya Vihar went on uninterrupted over the years and today after 15 years it has risen like a sphinx by its national presence and rearing to go global in the years to come. This growth story will be discussed in another case by the author.

Questions :

- Q1. What concepts of economics can be discussed with the help of this case?
- Q2. What are the core issues of economics? Does this case deal with those issues? Please explain.
- Q3. What kind of relationship exists between economics and management, Elaborate.
- Q4. When decisions related to allocation of scarce resources take place, what questions managers essentially deal with? Whether they are same for the service industry as well as production of goods.

Note:This case has been written primarily with a view to discuss the basic concepts of economics with the students. By and large, the characters and the situation depicted in the case are true.

However, at some places, the author has taken recourse to his imagination also.

References:

Keat, P.G. , Young, Philip K.Y (2005); 'Managerial Economics', Pearson Education, Delhi, pp 27