

**ePGP & ePGD-ABA Special Convocation Speech by the Director, IIM
Ahmedabad**

10th December, 2022

Shri Pankaj Patel, Chairperson of the Board of Governors of IIMA, Members of the Board of Governors of IIMA, my faculty colleagues, Officers and Staff of the institute, family members and friends of the graduating students, graduating students, Ladies and Gentlemen. Greetings. On behalf of the Institute a very warm welcome to today's Convocation.

Our world is afflicted by a polycrisis, a situation where economic and non-economic shocks are entangled. We have an inflation shock that stems from disruptions caused by a pandemic and an energy shock caused by a war. Rising inequality, the slowdown in growth, and cheap credit have obstructed political stability in many affluent democracies. Additionally, there is the peril of climate change.

We have been used to thinking about all these by focusing on them as issues in macroeconomics, finance, politics, social change, and the environment. That way of framing problems in disciplinary buckets and thinking of them in isolation works only when the pace of change in the world is steady. In the current juncture it is useful to think of the interactions amongst the various elements that are contributing to the rapid changes we are experiencing rather than to think in silos. To navigate the volatility of today we need to look at the interconnectedness of things, to do systemic thinking. It is materially the interconnection points of all the discrete problems inside a function that fundamentally affect outcomes.

In business whilst honing our core competencies we must increasingly look at the larger picture that is influencing our functioning. We need to take bets on how the future will pan out. What will bring about a satisfactory end to the Ukraine war? How will China escape the trap of its zero Covid policy? How will economies muddle through their financial woes and climate transition?

In our digital age the science of decision making is on the ascendancy. But we should not forget that making decisions requires accommodating different kinds of information and harnessing diverse ways of comprehending the world.

Decision makers who are looking for sure answers and are always on the lookout for better solutions to issues they face as revealed by what the data says are looking at minimizing downside risk. They prioritize addressing their anxiety about downside risks over options that have more upside potential. They neglect value added solutions that are head and shoulders above the consensus. As the investor Howard Marks wrote: “By definition, non-consensus ideas that are popular... are an oxymoron... And in the course of trying to be different and better [investors] have to bear the risk of being different and worse.” The same is true whatever the profession one takes up. Decisions by consensus are unhelpful when the group is homogeneous, there is insufficient information, or sentiments are extensively influencing the decision. In such cases by going with the average opinion you are keeping everyone happy and being popular, but you may not be adding any value.

The decision maker who identifies value that most other people do not see is straying from prevalent wisdom and can only get there by creatively evaluating the alternatives with a certain degree of cognitive reclusiveness. Instead of being assimilated by the collective wisdom of those around you and amplifying the blind spots of the crowd it requires mindful cognitive diversity to capture the differences in views between individuals and formulate a decision that is transformative rather than one that goes with the average collective view.

The Portuguese coach Fernando Santos understood this when he decided to not persist with the consensus approach of continuing with the captain of the team, Cristiano Ronaldo, the highest goal scorer in the team and one of the most renowned footballers on the planet. He replaced him with the much younger 21-year-old Goncalo Ramos. The forward players in the match with Switzerland were able to interplay the ball much more rather than making cross passes that eventually were

intended to feed the captain and idol. Ramos scored three of the six goals the team racked up that day.

There is of course the threat of a downside with a non-consensus view. For the 2018 Test series against Sri Lanka England made an unconventional decision of selecting three all-rounders and three spinners and won the series. In the next Test match, they chose an eclectic mix of players and got smashed in the West Indies. The challenge in such circumstances is not to become risk averse and to stop taking reasoned but unconventional decisions that boost value.

Furthermore, there is a predisposition in each of us to see the world from the optics of what we do for a living. Often businesspeople for instance, do not understand the world of politics. Partly this has something to do with businesspeople being pragmatic, believing everything is about negotiation, and the world is about deals to be made. The world of politicians by contrast is in part about galvanizing intangibles such as honour, pride, or partisanship that has the ability to move people to do extreme deeds. The inability of business to take the dogma of politicians at their word has shown up now and again in economic life.

For instance, investors did not believe that Liz Truss meant what she had conveyed. As far back as 2012 in a book titled *Britannia Unchained* a new generation of Tory MPs that included Liz Truss and Kwasi Kwarteng called for a return to free market Thatcherite principles of low tax and supply side reforms. She initiated the biggest unfunded tax cut of the last 50 years amounting to £ 45 bn. The markets reacted swiftly with a spike in government borrowing costs that threatened the solvency of the pension industry and the value of sterling plunging. Truss was forced to reverse the proposed tax cuts and sack her chancellor and she created a record for the shortest premiership in British history.

She was succeeded by Rishi Sunak who holds an MBA. Like you, he would have been trained in the ideas of competitive advantage, asset pricing, market

segmentation, organizational behaviour, and spreadsheets. He is the first person with an MBA to become a prime minister. Is that reassuring?

Not if he is like Mark Zuckerberg. If we consider the equivalent of what the bond markets thought of Liz Truss's plans for the UK, it is what the stock markets think of Zuckerberg's plans for Meta. The shares have lost two third of their value in a year, \$700 billion, and the company has been forced out from the ranks of the world's 20 largest companies. Meta has made a huge and expensive bet on huge uncertain investments at a time when its core business is no longer growing. Tech companies try out uncertain new things all the time but the size of the bet where the company has almost no free cash flow this year compared to \$10 bn the last year has worried investors. However, unlike Liz Truss who loses her job, Zuckerberg is the equivalent to a dictator and cannot be fired thanks to a dual class shareholder structure.

For you who are graduating today it is important that you be poets as well as quants. Poets are at ease in a world of uncertainties and cope with doubts. Quants are numerate and good at spreadsheets and valuation exercises. In the world of business as you assume positions of leadership count like a quant but also sing like a poet. Chi K'ang-tzu asked Confucius about the true gentleman who replied: "A gentleman takes as much trouble to discover what is right as lesser men take to discover what will pay. ... The essence of the gentleman is that of wind; the essence of small people is that of grass. And when a wind passes over the grass, it cannot choose but bend." (*Analects of Confucius*, trans. Arthur Waley, London, 1958) May you stand tall as the wind blow in your sails and may you have all success and happiness in your endeavours. Our very best wishes to you all.