To numerous internet surfers, Kaushik Basu is a ‘Professor of Economics’ who writes a popular column on South Asia on the BBC website. Very few of those who read his column may actually be aware of the fact that Basu, who holds a joint appointment as the Carl Marks Professor of International Studies and the Director of Comparative Economic Development at Cornell University in addition to his appointment as Professor of Economics, has a large and varied body of theoretical work that occasionally goes beyond economics into political science and sociology. This is a review of his collected scholarly publications, divided into two volumes, according to the broad areas under which they can be categorized. It is worth mentioning at the outset that Basu is a wonderful writer. His sentences slide seductively off the page along with the lemmas and propositions, but you are often oblivious of the latter as Basu has already explained them in clear language.

Volume I is entitled Development, Markets and Institutions, and reproduces Basu’s single authored as well as co-authored articles that cover an eclectic mix of topics related to development, institutions, governance, and labour markets. These include the application of evolutionary game theory to social institutions, empirically motivated theoretical research dealing with land tenure and child labour and research on the measurement of literacy and aging of populations that is in a similar vein to the work of the Nobel Laureate Amartya Sen, his advisor and mentor at the London School of Economics, in the seventies. Volume II is entitled Rationality, Games and Strategic Behaviour and includes Basu’s scholarly articles on game theory, its more mainstream applications to oligopoly theory and entry deterrence as well as more unconventional applications to governance, bribery, and corruption. This volume also contains articles that examine the nature of rationality and paradoxical situations, where it may be intuitively obvious for agents to deviate from the often very logical theoretical predictions.
Volume I begins with a survey, On the Goals of Development, which contains a number of the ideas Basu has worked with over his career that appear in other scholarly papers in this volume. One of the most important themes present in Basu’s entire body of work is the idea of strategic interdependence of policy and development objectives in governance both within the borders of a country and in international relations. This idea (which has a long history in political science) has become very important today in the era of globalization and formation of common markets and trading zones. If one modelled the interaction between policies taken by countries (that have negative effects or externalities on other countries) as a Prisoner’s Dilemma, it may be individually optimal for all parties to go for more uncooperative strategies that make each one individually worse off (more radioactive waste, more short term growth that promotes environmental degradation, etc) in a Pareto sense than if they cooperated. In an environment where countries are ‘conditionally moral’, i.e., each country is willing to cooperate if the others cooperate too, there is an urgent need for coordination in policy.

An important segment of Basu’s work is his attempt to model the economics of child labour. Basu makes use of two critical assumptions, the ‘luxury’ axiom and the ‘substitution’ axiom to derive a situation with two equilibria in markets with child labour, one with low adult wages and the existence of child labour (the ‘bad’ equilibrium) and the other with higher adult wages and no child labour (Basu and Van, 1998; Basu, 1999).1 A common thread that runs through the group of four papers that deal with the theory, empirics, and policy prescriptions with respect to child labour is that an outright ban on child labour (or indeed any kind of unethical labour practice) unless it is of a coercive nature may often be detrimental to the well-being of the households of the participants. Thus a ban may be in order for developed countries where this practice is often an aberration as opposed to the ‘mass child labour’ that exists in developing countries, where legislation may exacerbate poverty levels.2 Furthermore, minimum wage legislation, by increasing adult unemployment may actually increase child participation in the labour force if the effective labour supplied by the children in a single household is high (Basu, 2000).

Finally, due to the heightened mobility of capital in the world in recent history, a unilateral ban on child labour by one country may lead to a flight of capital from that country to others with less regulation. This may cause more unemployment among both children and adults, and lead to a rise in other social evils like prostitution among subsistence households. Basu’s work in this area serves the important purpose of sensitizing the mainstream economics audience regarding the working of markets with child labour. Furthermore, it rightly opposes indiscriminate boycotting and bans of sectors that employ child labour as manifestations of ‘Northern protectionism’. However, his model is based on an assumption that lacks empirical support and his policy prescriptions are cautious and sketchy and do not advocate much more than increasing the amount of support-led measures like education, free and compulsory schooling for children, and mid-day meal schemes that would over time improve the economic condition and productivity of the adult labour force. Ray (2000) finds mixed support for the ‘Luxury Axiom’ using data from Pakistan and Peru, i.e., increase in income does not in all cases decrease the incidence of children’s participation in the labour force. Furthermore, the poverty-child labour causality may be two way and thus having children working may erode the productivity of adult workers and over time promote more child labour. These issues may complicate the move from the ‘bad’ to the ‘good’ equilibrium as measures to increase the condition of the households may be countered by the existence of child labour. Finally, the non-pecuniary benefits to employers from using child labour, such as the inability of children to organize (Stella, 2003), as well as the strong segmentation (based on class, religion, and gender) of labour markets in most developing countries such as India work to keep the adult wage rate depressed and thus children at work. The research presented in this volume does not explicitly investigate these issues, but opens the field up to newer economic models that would incorporate some of these observations.

A section of Basu’s important work is in the development of indices and measures for developed and developing economies. One such interesting measure is

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1 The ‘luxury’ axiom pertains to the fact that to a poor family, having a child not working is akin to a luxury good, the consumption of which increases as incomes increase. The ‘substitution’ axiom states that adult labour and child labour are substitutes from the firm’s point of view.

2 The case where a legislative ban can actually harm a household is when the economy has the ‘bad’ equilibrium prevailing, and the adult labour force is so unproductive that the new adult wage with the children taken out of the labour force is lower than the sum of the previous adult wage and the child’s wage.
that of ‘quintile income’, in which Basu looks at the economic condition of the lowest 20 percent of the population of countries. This, according to Basu, is not a bid to discredit other indices of population welfare like the UNDP’s Human Development Index, but to reinforce them with a measure that is arguably correlated to them. In a paper with James Foster (Basu and Foster, 1998), Basu drives a literacy index that differs from the standard headcount ratio measure by incorporating the idea that access to a literate person generates a positive externality on someone who is illiterate and can increase his or her ‘effective’ level of literacy. Using different parameterizations of this externality he illustrates that a society with a larger headcount of illiterate people may through the distribution of these illiterates among literate people actually attain a higher level of effective literacy. A joint work with Alaka Basu (Basu and Basu, 1987) finds the economist refining the conventional headcount index of aging (proportion of the population aged 65 and above) to build an index that reflects increases in age among the aging as well as rule out disproportionate jumps in the index due to a large number of people crossing the age of 65 at the same time.

The section on Agrarian Organization deals with topics in technological stagnation, the interim nature of land sales or purchases, product and credit market interlinkages in rural economies, and the theory of surplus labour. In almost all of Basu’s essays in this section there is an attempt to bring in the element of strategic behaviour and develop models that are in line with modern theories of industrial organization. A strong example of this occurs in the ‘Disneyland Monopoly’ paper where a pool of agricultural labourers may be exploited by a landlord using a ‘two-part tariff’ scheme where he ties employment at lower than the market wage to his credit market monopoly and offers the labourer a wage, interest rate package that keeps his utility level just above his reservation utility. Basu’s work on the interlinkages between employment and debt find powerful extensions to not just the direct employment of a labourer by a landlord, but in the economic behaviour of commission agent-cum-moneylenders in rural India who buy agricultural produce from small/marginal farmers (who they advance loans to at the beginning of the season) at considerably lower than market prices to sell to outside markets at four to five times the procurement price (Sainath, 1996).

The articles in the section on Institutions, Norms and Power in my opinion would be better placed in volume II in a section that included these as well as the two articles on rationality and social norms. Almost all of these are theoretical works of an interdisciplinary nature, trying to explore the interface of economics with the related disciplines of politics, sociology, and anthropology. In the chapter entitled ‘One Kind of Power,’ Basu uses Akerlof’s (1976) idea of caste equilibrium to highlight an internally consistent situation where a totalitarian regime may continue to persist even when no individual believes in its ideological underpinnings, but deviation from the status quo would make an individual an ‘outcaste.’ Furthermore, the critical mass required to build a breakaway coalition would never get formed as the individual return to deviation is always smaller than the costs of being branded as ‘outcaste.’ Basu uses Vaclav Havel’s (1978) identification of a ‘faceless’ dictatorship in Eastern Europe to illustrate this equilibrium concept. This idea may have as well been illustrated by the persistence of racism in the developed world or the McCarthyist persecution of individuals with left leanings in the US of the fifties.

Volume II starts with two economic situations, one by construction and the other from the real world, in which the perfectly rational prediction seems very unlikely to be chosen. The ‘Traveller’s Dilemma’ is a game with similarities to the Bertrand duopoly, constructed by Basu (1994). In it, the unique Nash equilibrium prediction with both players choosing the lowest payoff possible is unintuitive and there is indeed something very rational about rejecting the ‘rational’ choice. Basu is unable to resolve the paradox, but offers interpretations of the game that may make the non-Nash outcomes plausible. Capra et al (1999) operationalize Basu’s game in the laboratory with financially motivated subjects and different levels of the punishment/reward parameter and find that average claims in the traveler’s dilemma are inversely proportional to the magnitude of this parameter. In particular, observed behaviour seems to approach the Nash prediction for large rewards and punishments. However for the parameterization chosen by Basu (1994), the paradox is amply demonstrated in the laboratory. Basu then goes on to emphasize the role of institutions in an early paper (Basu, 1983) that examines the motivations behind why we do not walk off without paying for taxi rides. In his exposition, he takes
aim at the ‘trained incapacity’ of economists who embrace a model of self-interest in society where every act that is unselfish is supposedly motivated by an underlying ‘rational’ adherence to some reward or punishment payoff that keeps individuals in check. In discussing ‘other’ behavioural motivations that are not a consequence of rewards or punishments, Basu (and indeed Arrow (1982)) predates the vast experimental literature on altruism, reciprocity and other regarding preferences in the nineties by Jim Andreoni (1989, 1990, 1995) and other theorists.

Basu’s obsession with paradoxes (where logic and intuition do not go together) is reflected in an examination of the iterated Prisoner’s Dilemma and a version of Rosenthal’s (1981) Centipede Game. In both Basu tries to find game theoretic answers to the paradoxes rather than question the preferences of individuals. Thus it is the complexities of the common knowledge assumption (when the prisoner’s dilemma is repeated a large number of times), rather than any ‘cooperative’ or ‘social preference’ that may lead to the cooperative stage game outcome. In a bid to challenge the all-pervasive rationality clause in mainstream analysis, Basu (1990) posits an impossibility theorem that allows for a certain set of actions played in a game to identify a player as irrational. Adherence to axioms that include this assumption along with other standard game theoretic axioms creates a situation where none of the standard equilibrium concepts satisfy this new set of rules. In this, Basu is in line with more modern theories of learning that deal with more ‘noisy’ equilibria which allow agents to deviate systematically from the ‘perfectly rational’ Nash predictions. Another interesting variant of the Prisoner’s Dilemma idea is explored by Basu in his ‘Escher’s Waterfall’ game. The background he chooses is the idea of utilitarianism in speech in a society of countably infinite number of individuals. The main result is that the pursuit of utility enhancement may lead to a society choosing actions that get it to a position where everybody’s utility is lower than if they chose the dominated non-utilitarian strategy.

The penultimate section of this volume contains some of Basu’s more mainstream articles on topics dealing with the theory of industrial organization such as durable goods monopolies and entry deterrence in oligopoly markets. However, true to Basu’s style, there are some pieces in this block that are rooted in such everyday observations that as an economist you are left wondering, why you didn’t think of it first. An example of the latter is Basu’s Economics Letters piece on why so many goods are priced to end in nine. Even by his own admission Basu doesn’t tell the whole story of why producers have a penchant for prices ending in nines, but he gives a plausible explanation that is sound in logic. But I am not giving the story away in this review.

The last section on Governments, Games and the Law contains a very important idea that I feel is neglected in modern economic theory. Often, in order to make models more ‘tractable’, we tend to consider the government as a monolithic institution with one objective function rather than a collection of individuals with different payoff structures and strategy sets in games that are imperfect and asymmetric. If we drop this simplifying assumption, we are then in a world with endogenous governments where ‘intervention’ is not non-strategic any more as we assume in numerous macro models. It is truly surprising that this idea has not diffused more widely into economics as the phenomenon of lobbying by special interest groups, which is all-pervasive in the developing and developed world, must necessarily mean that the intervention of government cannot be invoked at will and requires persuasion and strategic action.

It is the integration of ideas such as the one above that I feel is Basu’s strongest suit. His ability to wisely use the work of his seniors and contemporaries such as George Akerlof, Joseph Stiglitz, Kenneth Arrow, and Amartya Sen coupled with his considerable intelligence, allow him to refine, extend, and formulate advanced ideas, apply them to existing institutions, and build some of his own. He also draws profusely from classical and modern philosophers such as Mill, Hobbes, and Habermas and of course the work of Smith and Ricardo often in contexts where they would not be invoked by a less well-rounded scholar. His body of work is scattered amongst numerous sub-disciplines sometimes with little correlation between one segment and another, but this is more a reflection of his curious mind which seems unsatisfied with confining his vision to a narrow area. He is also endowed with a healthy scientific skepticism and an aptitude for speculation that may make his output occasionally too vague to economists for whom the religion of a perfectly rational Homo Economicus ruled by an invisible hand reigns supreme. But for the rest of us it is a thought provoking, sometimes puzzling, but always enjoyable ride.
The Future of Competition: Co-Creating Unique Value with Customers

C K Prahalad and Venkat Ramaswamy

What is the relationship between product variety and the experiences of customers world-wide? Why hasn’t the explosion in product variety resulted in better experiences for customers? According to Prahalad and Ramaswamy, unless we are able to move away from a firm-centric model of value creation to one where firms and customers are able to join hands in the co-creation of value, we are condemned to the old paradigm of product variety co-existing with customer dissatisfaction. But what does it really mean to co-create value with the customer? Does such co-creation really represent a new paradigm at the intersection of strategic and marketing theory? If so, what are the rudiments of such a paradigm? After all, the authors do not merely challenge the assumptions of value creation in the industrial system, but seek to ‘guide business leaders in their search for new strategic capital.’

The need for a new paradigm of value creation has arisen because of a fundamental shift in the mind of the customer. The customers who were hitherto content to play a passive role have now taken on a more active one thanks to the availability of information, globalization, the ability to network, and the desire for both activism and experimentation. These factors have forced a change in the customary equations between companies and customers. The customary equations presupposed not only the unilateral creation of value by companies, but also the inherent value of a product for sale in the market.

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Sujoy Chakravarty
Assistant Professor, Economics Area
Indian Institute of Management
Ahmedabad
e-mail: sujoy@iimahd.ernet.in
The authors however want to move away from such an essentialist notion of the product to proposing a relational one, where the product is situated in an experiential network. In this new model, particular forms of customer satisfaction at specific moments and locations will constitute the experiential event for the customer. In other words, the product ceases to be an isolated object in space and time and takes on the experiential colours of specific customers. In this new model, there is no need to differentiate between B2B and B2C customers. A market that functions through the new paradigm will resemble a ‘forum’ rather than traditional ‘pockets of demand.’

This book aims to help managers move from the plane of ‘best practices’ to those of ‘next practices.’ In other words, it is not enough to squeeze out value through operational efficiencies and cost-cutting; managers must also be able to function on the plane of innovation. There are several examples to celebrate this transition, but what these examples have in common by way of conceptual ‘building blocks’ is captured through the acronym, DART, which stands for dialogue, access (as opposed to the ownership of products), risk assessment of the product (like, say, medicine) and transparency to reduce the traditional ‘information asymmetry between the consumer and the firm.’ Dialogue allows consumers to articulate their views on what actually adds value; access challenges the idea that an object must be owned in order to be enjoyed; risk assessment means that consumers are willing to take responsibility for new products under certain circumstances (like clinical trials where no other medicine or therapies are available); and transparency ensures that higher levels of trust between the company and the consumer leads to greater levels of disclosure than those available under current practices.

Though the lineaments of the new paradigm are clear enough, many companies are unable to give up traditional ways of creating value. The tension between the two ways of creating value ‘manifests itself at points of interaction’ between the consumer and the company – where the co-creation experience occurs, where individuals exercise choice, and where value is co-created.’ The dynamics of co-creation expresses itself across multiple channels, going beyond customization by rethinking the price of the experience in terms of value rather than cost. Co-creation then is an attempt to transcend the traditional forms of exchange in transactional economics, which are preoccupied with value extraction rather than with value innovation and co-creation. Co-creative interactions between companies and consumers actively supplement the traditional idea of transactions that are ‘passive, firm initiated’ and only ‘one-on-one.’

What exactly does it mean then to move from a product environment to an experience environment? What is the role of technology in making this transition possible? While the new paradigm of co-creation in an experience environment would be unthinkable in the absence of advanced technology, the authors have focused on five specific forms of technological capabilities. These include miniaturization, environmental sensing, embedded intelligence, adaptive learning, and networked communication. Miniaturization allows the manufacture of products that are ‘smaller, lighter’ and more ‘portable.’ Environmental sensing is a technique that uses microsensors to track changes in the environment. Embedded intelligence is the building in of specific capabilities in microprocessors and microchips. Adaptive learning is a technique to make products much more interactive by building in a learning mechanism to anticipate the preferences of consumers. Networking is the process of linking up different products to each other to enhance their individual capabilities in a holistic frame. But, lest we allow ourselves to get carried away, the authors remind us that ‘a new technology capability is meaningful to a consumer only when connected with experiences.’ The crucial task is to find ‘experience enablers’ and integrate them into ‘experience environments’.

In order to do this, the authors identify four ‘levers for experience innovation’ that can serve as ‘key tools’ for companies ‘to become skilled innovators of experience environments.’ These levers include granularity, extensibility, linkage, and evolvability. Granularity seeks to uncover the modalities that enable specific forms of consumer interaction in an experience environment. Extensibility is the process of finding new ways to satisfy old functions. Linkage is about working out the multiple levels of links in a consumer’s mind while using a product or service. And, finally, evolvability means learning from co-creation experiences so that the environment adapts itself to the consumer rather than vice versa. Henceforth the evolution of products must not be merely a reflection of changes in technology, but must represent changes in the nature of consumer experiences.

Innovation then ceases to be about products per se but shifts focus to the field of experiences such that consumers can retain their individuality at the moment of co-creating personalized experiences. An interesting
example is MIT’s OpenCourseWare initiative, which will post MIT’s course content free on public web sites. Here the basic assumption is that the students at MIT will continue to pay the high fees that they were willing to pay before the content was put online since it is not so much the availability of information that justifies the high tuition fee at MIT, but the quality of the academic exchanges manifested in the student-to-student and faculty-to-student interactions on campus. In this example, students are neither customers nor products, but both simultaneously. What students really value in the new model is the ‘co-creation of knowledge’. The academic equivalent of firm-centric thinking is embodied in the prototype of the instructor who talks down to the student. This is unacceptable in the new model, where the personalization of the learning experience on the part of the student is the locus of value addition. How else can MIT differentiate its academic program from its web sites?

While these are no doubt enabling ideals, they presuppose the availability of both infrastructural and experiential networks to make them possible. Otherwise, they will be individual endeavours rather than systemic achievements. In that sense there have always been not only instructors and students, but also companies and customers who have practiced the co-creation of knowledge or value. What is specific to the new paradigm however is the technological availability of infrastructural and experiential networks to make these forms of value addition generic rather than an idiosyncratic expression of genius for it is ‘this infrastructure’ that ‘enables managers to compete on experiences.’ It is also at this point in the book that the moment of co-creation between Prahalad and Ramaswamy embodies the new ethic. It is also the locus at which a theory of competitive strategy merges with a theory of marketing such that it becomes difficult subsequently to differentiate between the two. Unless we are able to appreciate such a textual moment, we will not be able to co-create value as readers.

This book has several examples of co-creating value between companies and customers along with notes on how technology can mediate this process. Here is a fascinating example from agri-business, which demonstrates that the essence of value addition lies in generating ‘multiple points in the system’ rather than ‘just at the point of product exchange.’ Deere & Co has transformed value addition for the farmer by not merely selling farm equipment, but by the innovation of a Global Positioning System (GPS) which enables him to ‘geofence’ his land. This DeereTrax system is extremely versatile and can track farm equipment to both enhance productivity and prevent theft using GPS technology. There is also a communication network that enables farmers to swap notes with each other. The farmer’s traditional transaction with the company has given way to multiple interactions that constitute an experience network. Deere & Co is not selling farm equipment per se but access to an experiential network, which then becomes a competitive advantage to attain both mind share and market share.

The idea of the experiential network in a sense goes beyond this traditional opposition to become part of a larger continuum in the minds of both companies and customers. The experiential network has both technical enablers and social enablers to facilitate unique experiences for customers. The locus of core competence is no more synonymous with the firm but is displaced onto the experiential network so that the focus is on Experience Quality Management (EQM) rather than on Total Quality Management (TQM). But how can a firm resolve the tension between the demands for heterogeneity of experiences while reducing the variability of production processes to maintain quality? The authors argue that ‘the experience network must be designed to accommodate variation in experiences while reducing variation in the quality of the supply processes that are activated to co-construct those experiences.’

If this can be done, we have to rethink what we mean by the market. Neither of the traditional definitions of the market (as ‘the locus of exchange’ and as an ‘aggregation of customers’) will remain unaffected by the experiential network. We will instead have to invoke the notion of the market as a ‘forum.’ The notion of the forum is to think of the market as not outside the value chain, but as internal to it. In this model, the customer has a greater say in the experience represented by both the product and the brand. The rise of auctions in e-commerce as a form of price determination is an example. While auctions may not guarantee lower prices, they at least ensure ‘that the customer pays according to her utility rather than according to the company’s cost of production.’ Furthermore, what is at stake here is the relationship between supply and demand. Since demand has now become ‘contextual’ and the customer’s response to a product has become experiential, the ‘co-
creation of value may well imply the death of traditional forecasting.’ Unless we are able to understand this transition from the idea of the market as a ‘target’ to that of the ‘forum,’ it will not be possible to work out how the co-creation of value with customers can lead to the generation of strategic capital since ‘the market as a forum challenges the basic tenet of traditional economic theory: that the firm and the consumers are separate, with distinct, predetermined roles, and consequently that supply and demand are distinct, but mirrored processes oriented around the exchange of products and services between firms and consumers.’ It is only a matter of time, argue the authors, before a new economic theory emerges that will reflect the experiential foundations of the new market.

What is the nature of the competitive space in such a market? How will it reflect the shift in the locus of core competence from the process of production to that of the consumer? The authors argue that the notion of core competence that has started to shift from the idea of the product space that is characterized by supply chains and innovation to the notion of solutions space comprising supply networks, systems integration, and solutions innovations will have to be extended even further. This extension will comprise an experiential space of an enhanced network including personalization, integration, and innovation. It is only by making such a transition that competitive advantages can be derived. Merely ‘extrapolating existing capabilities from the product or solutions space will not get us there…managers must build new strategic capital – a new theory of how to compete on experiences and build new capabilities consistent with that theory’. It is only by taking on the role of consumers that the managers can develop the understanding necessary to build strategic capital.

Managers must build the agility necessary to co-evolve with consumer experiences and promote knowledge environments that engage the ‘total organization.’ Excellent examples of such experiments in knowledge management include the much-studied Buckman Labs and British Petroleum, which the authors include as case studies.

The essence of co-creation then is collaboration through the production, dissemination, and management of knowledge in the organization, but such collaboration is not free of friction and entails its share of costs. Such a process however can render strategy ‘an exercise in continuous adaptation’ making it difficult for those who like economic stability. But for the authors, who echo Friedrich Hayek, instability is the essence of strategy. Hayek had suggested that the very task of competition is ‘about destabilizing industry structures’ and a theory of strategy must go beyond the traditional opposition between ‘formulation and implementation’ and take the form of ‘active learning and adaptation.’ Only then can the organization build ‘new capabilities for the future.’ This involves nothing less than building a new structure around the ‘centrality of the individual’ so that the traditional theory of the firm is able to accommodate the emerging realities of our time. The co-creation paradigm is not specific to businesses per se, but ‘may ultimately portend the emergence of a truly democratic global society in which human rights, needs, and values are predominant’ and not reducible to ‘the demands of institutions’. ✔

Shiva Kumar Srinivasan
Assistant Professor, Communications Area
Indian Institute of Management
Ahmedabad
e-mail: shiv@iimahd.ernet.in

Rational Exuberance: Silencing the Enemies of Growth and Why the Future is Better than You Think

Michael J Mandel

Michael J Mandel is an economist-cum-journalist with a track record of having authored books on the new economy. A fierce votary of disruptive technologies, Mandel argues strongly in support of risk-oriented, and innovation-driven growth that is backed by R&D. He argues against well-known economists who are focused on fiscal and monetary policies, which are targeted towards control and safety rather than accelerated growth. Throughout the book he convincingly builds up his arguments – supported by
examples – in favour of technology and innovation as the sole means of lasting growth to drive business and society.

The text is divided into 11 chapters and the author examines the meaning of exuberance, the significance of innovation, and the opponents of innovation-driven growth. Mandel then moves on to discuss areas where the next big breakthroughs may come and throws light on the importance of finance for such initiatives. Finally, after discussing the pros and cons of such breakthroughs, he calls for a joint effort by all the sections of business, economy, and society, which affect and in turn may get affected by such developments, to come together to make such growth possible in the future.

The book commences by making a clear-cut differentiation between innovation-driven growth and cautious growth. The author emphasizes that cautious growth is about getting more and more efficient in all processes and activities, which essentially result in greater productivity and better standards of living. However, this kind of growth is risk-averse, status-quo oriented, very slow, and incremental in nature. Exuberant growth is faster, more exciting, riskier, and involves an adventurous foray into unchartered terrain. The invention and discoveries of penicillin, the automobile, the railway engine, the airplane, electricity, the light bulb, the telephone, the computer, the internet, and more recently, nuclear and sub-atomic physics are the best examples of such growth. A very interesting aspect of such growth is that the disruption caused by them is unanticipated and it usually takes some time before the true impact is realized. Another important distinction between the two types of growth comes in the form of measurability. Cautious growth being efficiency oriented can be observed on measurable factors represented through the sheer numbers in terms of workforce, knowledge capital, and physical assets.

Exuberant growth has the potential to bring about change not only in the economy (via competitiveness, jobs, earnings, productivity, etc.), but also in various spheres of daily life through innovative products and offerings. Such growth is brought about in three ways: The first one is ‘Ramp-Up,’ which is an immediate effect of a breakthrough and a period of immense growth and interest from all entities. It is like a big jolt, which has a multidimensional nature, and shakes several establishments (e.g., the internet). The next is ‘Spin-Off’ – that is a by-product of ramp-up and thus accounts for impact in not too obvious areas of business and society. Quite clearly it takes some time, often years, before the spin-offs become visible (e.g., the invention of the automobile leading to the creation of suburbs, and the housing market). Finally, we have ‘Free-Lunch,’ which is a benefit of exuberant growth (led by innovation) that is more than the sum of its parts. A growth based on innovation and technology may greatly outweigh the one based on meticulous planning and prudence.

Because of its all-encompassing advantages the author proposes that such an approach should get support from all quarters. Surprisingly there are many opponents to this route, especially economists, who are supposedly the harbingers of progress and development. Noted advisors to the governments, Nobel Prize winners, and eminent scholars fall into this category of economists. Being pessimists they have put all their might into conventional approaches of prudence and cautious growth, which even by best computations could only give marginal impetus to growth. Innovations and discoveries have proved wrong the estimates of such economists time and again. Despite some busts and depressions, innovation and technology-led growth have been able to lift the economy and the living standards of people like none other.

One of the reasons for the dearth of such viewpoints is the inconvenience that the economists have with the unpredictability and uncertainty associated with technology. There are, however, a few supporters of such growth like Robert Solow, the Nobel prize winning economist, who has demonstrated through his work that technology has been a key driving force for long-term growth. But most economists have failed to give more than a passing (a rather pessimistic) reference to technology in their efforts.

Mandel has stated that the other enemies of growth are the group who are overly obsessed with budget deficits. They are the intellectuals, who are against borrowing, irrespective of the use money is being put to. The growth made possible through technological breakthroughs and innovations have proved that the US has performed better than the traditional conservatives like Japan and Germany (thus allaying the fears of the anti-deficit brigade). Liberals have their arguments of greater inequality and insecurity due to technology-led growth. While this is true to an extent, the fact is that the poverty levels declined and income of the poor also grew in the periods of exuberant growth. Environmen-
talists have always been up in arms against technology because of the few instances of harmful effects it has had on the environment (oil spills, global warming, nuclear radiation, etc). But this is just one side of the coin because all such negative effects can be controlled by advanced technologies and further innovations (e.g., solar power). Moreover there is bound to be some uncertainty and thus some risks associated with the new developments.

The author has indicated that there are a few fundamentals of exuberant growth, which have to be satisfied to silence the doubting Thomases. The foremost is that the new technology should have the potential to drive growth that should have a direct impact on day-to-day life. This would mean that after massive spending and investment in the development of such growth engines, they should not remain as technology demonstrations (nuclear power) and be converted into marketable products/services. Besides, all the negative effects and harmful consequences of such innovations should be removed to ensure acceptability. That despite all the predictions there will always be a chance of some drastic innovation that will profoundly impact our lives. Thus, after the internet boom, there could be a communications revolution through advances in telecommunication technology. There could be a revolution in manufacturing through advances in nanotechnology, in healthcare through biotechnology, in energy through fuel cells, solar power and nuclear power, and in space technology. While there is no guarantee that these areas would produce the desired change, there is a fair amount of optimism because of the promises and applicability these technologies have. Quite often it happens that a complementary technology is required for the main idea to take off (e.g., elevators for building skyscrapers). It thus becomes increasingly important that such ideas and development are in line with the latest developments in other related fields.

With so much effort required just to create one success, in the assessment of the author, finances become the sole critical factor for innovation-led growth. The capacity to explore and invest in different alternatives comes not only from faith but also from money, which should be continually pumped into promising ventures. Only three out of every ten initiatives are expected to survive and only one is supposed to get some results. Furthermore, enormous resources are required to convert the technological success into a marketable opportunity. This too is possible only if institutional and individual investors are nimble enough to divert finances to the most promising venture. The US has developed such efficient financial markets through instruments for financing innovative and risky projects like venture capitalists, stock options, junk bonds, etc.

The very fact that it is usually the small initiatives, by the relatively unknowns, which are the source of disruptive innovations, multiplies the importance of the flexible financial system which the US has developed over the years. In the words of the author, this potent combination of technology and finance gives the US a tremendous competitive advantage over any other European or Asian nation, in terms of pioneering any future technology-led revolution.

Mandel argues that innovations and new technologies are risky and unpredictable developments that provide a kind of high, which is either sustainable in nature or it is like a bubble that may burst soon. These bubbles are the true stimulators of growth. It would require the robust backbone of a resilient financial system (guided and guarded by a central authority like the federal bank) and a political system like that of the US to absorb the shocks of bursts.

To make the exuberant growth possible and to overcome the resistance of the adversaries of technology and innovation, Mandel suggests that various forces like government, business people, policymakers, and other public forces have to join hands. Given the pressures from various interest groups and the uncertainty associated with such growth, it will be immensely difficult to mobilize such powers to come together for a common cause. Apart from a few liberals, economists, environmentalists, and business people, the strongest support for such a coalition should come from investors who gain the most (and who are also the most vulnerable to loss).

Another community who should be part of such a front are the believers in the power of knowledge and education – the educated class, who have throughout history benefited the most because of their ability to successfully deal with the change. Finally, the most important group is the working class. It has historically gained in terms of number of jobs and wages whenever there has been a surge in productivity due to technological breakthroughs.

A vibrant economy and exuberant growth along with greater safety for all its constituents can, according to the author, be maintained by following the principle of transparency, implying greater disclosures and open-
ness (maximum dissemination of information) on the part of various businesses, governments, and NGOs. Some steps have been advocated to mitigate the risks of such growth. One step is income insurance involving various steps that would serve as an insurance against risk. The easy credit available to individuals in the form of various loans and borrowings is an example. Another step is the safety net, which would mean some form of unemployment insurance and health insurance.

If the forces of growth fail in their mission, it would imply reduced technological growth and stagnation. This would mean that the focus will be on cautious growth with an emphasis on efficiency, which would in turn mean lesser demand for bright educated individuals to effect new and unexpected developments. This situation is akin to the death of education which has been on a high for two and a half decades (since the depression of 1970s) and could result in a vicious cycle where knowledge workers would lose their faith in technology-led growth (due to stagnation) leading thereby to a further slowdown.

While the US economy may be gaining momentum after the Internet bubble and 9/11, economic growth can come to a rapid halt with change in one or two variables only (e.g., Japan which grew for 30 years followed by more than a decade of stagnation). The duration and impact of this growth crisis is uncertain unlike a usual recession that follows an economic cycle. It would result in an increase in unemployment and increase in debt, thus adversely affecting students and youth the most. The outcome therefore is not momentary; it is going to affect generations creating not only a financial but also psychological ennui.

The choice is between incremental growth – leading to stagnation – and fast growth – towards prosperity and greater opportunity. The onus lies on all concerned to gather the economical, political, and moral will to embrace a stimulating, fast, and exuberant growth on the wave of technology and financial muscle power. It is not sure whether innovation-led growth is suitable for all countries, as many will not have the level of development in research and development for such technological breakthroughs. The commercialization of such technologies and the finances needed are also critical issues. Consumer requirements and purchasing power are also important factors for pursuing such a strategy of growth.

Another big question, which has not been addressed, is the ability of many countries to take innovative risks along with the creation of the requisite infrastructure to support such efforts. On the whole this book makes good reading. The arguments put forth are convincing. The real benefactors will be top executives and policy makers in the advanced nations.

Vishal Mishra
Research Scholar
ICFAI Institute of Management Teachers
Hyderabad
e-mail: mishrav@rediffmail.com

V S Pai
Professor
ICFAI Institute of Management Teachers
Hyderabad
e-mail: vspai@rediffmail.com

Transformative Organizations – A Global Perspective

Vipin Gupta (ed.)

The concept that ‘change is the only element that is constant’ has been stressed so much in contemporary management literature that it has almost become an axiom in strategic management. With changes in external environment happening at a more rapid pace than ever before, the onus is on the organizations to constantly reinvent themselves in order to remain competitive. Business history shows that only those companies that are able to understand and rapidly adapt to change are able to survive in such rapidly changing environments. For example, of the US companies that made it to the 1955 Fortune 500 list in terms of the highest sales revenues, about 75 per cent are now out of business; of those that made it to the 1980 Fortune 500 list, only about 50 per cent still exist as corporate entities. Such is the force of change that it takes away even the big and mighty if they are unprepared.

Research on organizational change is not new. From the time Kurt Lewin proposed his three-phase model of the change process (unfreezing-changing-refreezing) in
organization change has been an area of enquiry for many research scholars till date. Given the complexities of the change process and the increasing velocity of change, researchers and practitioners have proposed new theories and models on change. The transformative organization is one such concept that is increasingly relevant in today’s context. The book defines the transformative organization as an organization that has the capacity and the capability for continuing change and learning based on a systematic and strategic priority on meaningful cross-cultural exchanges. With most companies today operating in diverse cultural milieu, this book suggests that the transformative organization is better equipped to leverage the diversity for learning and cross-cultural value accrual.

The book is organized in two parts — Part I presents the change management initiatives in the Asian context and Part II deals with the transformative initiatives in the trans-Asian (global) context. The editor has written a good introductory chapter providing the background and setting the context for the book.

Part I comprises 12 chapters under the following sub-heads: Concepts and Case Studies in the Indian Context, Functional Strategies in the Indian Context, and Geographical Strategies in the Confucian Context. There are eight chapters covering the Indian context — the first four chapters introduce the key concepts for the transformative organizational theory and illustrate those using case studies from the Indian context and the next four chapters focus on the functional strategies of the transformative organization, viz., organizational behaviour, human resource management, international management, and marketing management. The articles are a mix of both case studies and conceptual/empirical studies covering the domestic private sector, public sector, small-scale, and multinational enterprises in India. Specifically, the case studies covered are: Coates India, Wesman Group, Orissa State Electricity Board, India Post, and L&T. The conceptual and empirical studies contain some interesting topics such as: (i) general implications and insights for learning and change processes in organization based on the work of Kabir (1440-1518), the medieval saint and scholar; (ii) innovative compensation practices for organizations in India; (iii) process of change that small-scale industries undergo during internationalization based on study of exporters from Aligarh; and (iv) using alternative media for gaining brand leadership. There are four chapters which highlight the techniques and frameworks for change management used in Confucian Asian societies of South Korea, China, and Japan using four different research methodologies — empirical analysis (performance drivers of corporate restructuring in Korea); case-based analysis (globalization of CHN-CHN Ceramics, China); conceptual analysis (developing a model based on forces of history and culture for Chinese managerial behaviour); and comparative analysis (a theory of management geography using a comparative study of three hybrid Japanese factories).

Part II consists of 12 chapters which highlight the value roadmap and the transformative initiatives in the trans-Asian context. This provides an insight into alternative cultural approaches that organizations have adopted/experienced in these geographies. The first three chapters are based on the Northern European context — synchronous cultural changes in cross-border acquisitions based on a case study of mid-sized enterprises in Germany; elements of co-intrapreneurship process based on the experience of German firms; and empirical testing of different factors in functional flexibility using a sample of manufacturing firms in Norway. The following three chapters are based on an Anglo-American context, focusing on the strategic role of leadership as the driver of transformational initiatives in hyper-competitive and distressed environments. Subsequently, there are three chapters on the Latin American/Latin European contexts and three on the global context.

In the concluding part, the editor discusses the role of technology and societal culture in a transformative organization. He also proposes an innovative transformative potential index to assess the effects of societal culture and, using the data gathered from the Global Leadership and Organizational Behavior Effectiveness Research (GLOBE) study, presents the data for various cultural regions on this index. Since this book leverages significantly from the GLOBE programme, Robert House provides an overview of the GLOBE research programme as an epilogue. Conducted by 170 members of the non-profit organization entitled Global Scholars Network, GLOBE is a four phase, long-term, multi-method, multi-phase, cross-cultural research programme concerned with leadership, organizational practices, and values in 62 cultures.

The transformative perspective has gained popularity in recent years among social scientists as seen by the number of new concepts that has been put forward—
transformative change, transformative leadership, transformative mediation, transformative justice, transformative learning, transformative knowledge, and transformative technology. This book is a good addition to the topic of ‘transformative organizations.’ The different chapters provide insights on core dimensions of the transformative perspective — change, leadership, and learning.

Employing the case study approach helps to relate the theoretical concepts to the world of practice. The chapter on ePost, explaining the change process at a large organization like India Post, is particularly apt. This chapter showcases how a public service organization can be transformed under conditions where privatization may not be a politically and socially viable alternative. The authors analyse how the Indian Postal Department is capitalizing on its strengths — its vast distribution network, existing infrastructure, reliability and trust among the populace to tap new opportunities. However, there does not seem to be anything special about web-based ePost service: the timing is not the first, the technology used is not cutting edge, partnerships are not necessarily the best in their class, pricing is not the least in the market, the organization structure is not the most flexible, and the customer response time is not the best in the industry. While the authors have ended with a question, “Can ePost succeed?” the article clearly captures the transformative nature of change initiatives in such a large organization.

In addition to case studies, the text uses strong conceptual analysis to highlight the concept. For example, in the chapter based on knowledge management and change processes, the authors have interestingly drawn their lessons from the works of Kabir. The authors have contrasted the work of Kabir with Lewin’s change management model in order to highlight the relevance of the former for transformative knowledge and values management. Similar to Lewin’s model (1951), the authors have derived a three-step model from Kabir’s works for sequential learning: learning to discover; learning to develop; and learning to correct. However, the authors state that the model derived from Kabir’s works is more relevant for managing transformative organizations. A crucial limitation of Lewin’s model is an assumption that change is something that is rare and occasional rather than something that is continuous and discovery-driven. In the model derived from Kabir’s work, change does not necessarily require discarding the old, but gaining an awareness and appreciation of how the old or current practices are helpful.

In the concluding chapter, the editor indicates that, “societal culture plays an important role in the transformative potential of an organization.” Based on the data from the GLOBE programme, he goes on to develop a benchmarked configuration of societal culture in which organizations with high transformative potential are likely to emerge. Using nine dimensions for a systematic understanding of the culture of each society, he defines a transformative potential index for each culture. According to him, the Northern Europe and Anglo-American cultures have higher scores on practice-based transformative potential index leading to the conclusion that it would be easier for firms to sustain their transformations in these societies.

The strength of the book is its coverage of transformative organizations in different industries set in different cultural and geographical contexts. Ironically, that is also the weakness of the book. The underlying theme suffers from a lack of in-depth rigour because of the breadth of the content. However, given the focus of the book on a topic of contemporary importance, the diverse articles that focus on different aspects of transformative organizations more than offset this shortcoming in the book. Should a reader be interested in more depth on any topic, he/she can definitely benefit from the rich references provided in each chapter.

This book is a good resource for those who would like to understand the concept of ‘transformative organizations’ as the different case studies and conceptual articles provide more clarity on the topic. Since all the articles are research-based, they provide a good bibliography of recent research on the subject. For researchers in the area of organization change and transformative organizations, this book is especially valuable as it not only reviews extant literature on the topic, but also provides new ideas for research. For instructors and students of MBA programmes, this book can be a good source of reference on organization change.

REFERENCE


Thillai Rajan A

Strategic Planning and Unit Operations Manager
Infosys Technologies
Bangalore

e-mail: iaiiiht@gmail.com
Management Research in Emerging Economies

Mitali Sarkar

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