BOOK REVIEW

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Rethinc: What's Broke at Today's Corporations and How to Fix It

T T Ram Mohan

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The corporation has become an immensely powerful entity in modern life. With the focus on economic growth as the primary objective of states and the adoption of capitalism as the almost universal economic model, society is more reliant on corporations than ever before. The corporation may have had a modest beginning as the preferred agent of the state to undertake limited tasks such as building a railroad or managing debt, but today it pervades everything we do. In such circumstances, it is not surprising that there is increasing attention towards how the corporation functions.

Cases of egregious fraud or deception by large and prominent corporations with resultant deleterious effects for thousands of people have put the spotlight firmly on how corporations are governed. The contemporary corporate governance 'movement' started a little over two decades ago, but has gathered steam in recent years after the financial sector collapse in 2007–2008. Yet, it often appears that we are no closer to ensuring a better governance of corporations than before.

It is against this backdrop that Professor T T Ram Mohan has written *Rethinc.* He has covered two issues in detail—why aren't corporations governed in a more democratic manner, and how can corporate boards and CEOs be made more effective?

In the first part of this book, Ram Mohan makes the case that corporations with more distributed and participative decision-making do better than those with the traditional command-and-control-based hierarchical structure. He gives examples of corporations ranging from large- (WG Grace) to mid-size (the much-cited Semco), and cites empirical research to support this stream of thinking. Drawing on his earlier book on IIM Ahmedabad, *Brick by Red Brick: Ravi Matthai and the Making of IIM Ahmedabad*, he argues that such decentralized models can work in non-corporate organizational settings too (Ram Mohan, 2011).

For individuals, there is undoubtedly a certain lure of such self-organizing models and I can understand Ram Mohan's fascination for them. I recall reading about several such organizations myself about a decade ago, including some that Ram

Mohan has not mentioned, such as AES Corporation, a large US-based energy corporation that grew very rapidly in the 1980s and the 1990s, and JetBlue, the US low-cost airline. In a similar vein, in India, there has been much written about Shriram Transport Finance, a company that focuses on financing small truck owners.

From whatever I have read about these companies, the main reason they have been managed differently is that their founders had strong faith in human beings, and believed in 'Theory Y' as the appropriate model to explain human motivation and behaviour. In fact, I am not aware of many companies that have changed their organizational philosophy mid-stream. Ram Mohan does acknowledge the role of founders in creating such unorthodox systems, but does not, in my view, give the role of founders the salience it deserves.

The most interesting section of the first part of the book is the one on prediction markets. This basically makes the argument that organizations can use crowd-sourcing to make better forecasts of future outcomes and that this is a powerful reason for involving more people in the management process. Ram Mohan wonders aloud why companies don't make the greater use of prediction markets, and I certainly think he has a point there.

The second half of the book treads the more familiar ground of corporate governance. Ram Mohan's essential argument is that CEOs are overpaid and have become too powerful and that the way directors are appointed has to change if they are to play the oversight role that contemporary norms of corporate governance expect of them. Here he covers the governance issues arising in both the professionally managed companies of the Anglo Saxon world and the owner-managed companies common in India.

Ram Mohan makes an interesting point that, even in the West, the huge salaries paid to CEOs can be traced back to the 1980s and the 1990s. Prior to this period, salaries of CEOs were much more modest, both in absolute terms and relative to average employee compensation. This was obviously a period of great excesses and it is not surprising that it culminated in debacles like Enron and Arthur Andersen, and the later financial sector meltdown.

Ram Mohan argues that overly powerful and dominating CEOs are at the root of the problem of corporate governance. He suggests leadership teams (as opposed to individuals) and term limits as the solution to this problem. While Ram Mohan is persuasive that CEOs are overpaid and that many positive things attributed to their leadership cannot be attributed to their efforts alone, the image of the swashbuckling CEO driving the corporation is so embedded in popular folklore that I cannot see how we will ever move to a different model!

As for Board reforms, there is little doubt that in the present system few independent directors are genuinely independent. Even if they are independent as defined by the law, they have, as Ram Mohan explains, little incentive to rock the boat. Better systems can be designed, and Ram Mohan points to some ways in which this can be done. He advocates moving away from the present system where independent directors are chosen by the management of the company to one in which all major stakeholders (institutional investors, large creditors, employees) are involved in the selection process. He also argues for expanding the pool of potential independent directors well beyond the current set of retired bureaucrats and company officers.

But I sometimes wonder whether we can ever have perfect corporate governance. Ram Mohan shows that several 'successful' CEOs in the past have had much in common with psychopaths, the analogy to psychopaths is not new though. In his thought-provoking critique of the modern corporation, Bakan (2004) argues that the corporation itself has psychopathic trends. He traces these to the way the corporation has evolved, as an artificial person created by lawyers based on an ownership model of limited liability. If Bakan is right, nothing that we do to corporate governance is going to solve a problem that exists in the very notion of the modern corporation itself!

Notwithstanding this, I would recommend *Rethinc* to readers. It is not a dry tome on corporations and their governance. It is a well-crafted book, written in a reader-friendly style. It draws on both qualitative and empirical evidence, on companies from advanced markets and from India, and makes a persuasive case. We have few well-researched and business-related books written in India that are accessible to the lay reader, and this one belongs to that small set.

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Rishikesha T Krishnan

Director & Professor of Strategic Management
Indian Institute of Management, Indore
e-mail: rishi@iimidr.ac.in