

Interview Article with Prof. Arvind Mahajan (Texas A&M University)



On 20th January 2023, Prof. Arvind Mahajan Texas A&M University System Regents Professor, Presidential Professor for Teaching Excellence, Piper Professor for Scholarly and Academic Achievement, and Lamar Savings Professor of Finance delivered an address as a distinguished speaker on “New Age Marketing-Catalyzing Transformation through Innovation, Technology, Analytics and Sustainability” on the occasion of International Marketing Conference 2023 Pre-session, the Dimensions and Mporia had the honour to interview Prof. Arvind Mahajan to capture insights from their experience.

The interaction is as follows:

Dimensions Team: “How do you prepare students to handle stakeholder pressure while making ethical marketing decisions?”

Prof. Arvind Mahajan: “That's a great question, a difficult question, there are two answers to it, for many years I did a seminar on ethics through our center for executive development for senior executives. And when I start the seminar, I would tell them (as a joke) that if they think I can convert scoundrels into ethical people, they must be mad, and I said that as a joke, but there was truth in the joke because, after taking a class, people don't become ethical. People come with a certain set of values and ethics and make decisions in the context of those. A lot of that gets determined early on in a person's life: family, parents, community, and educational institutions shape us. So, in my university, there are six core values: respect, excellence, leadership, loyalty, integrity, and selfless service, and at every juncture in every class, in every interaction between students and in student organizations, these values are repeated again and again, they're not just repeated, When people violate these, they are nicely told about it, even faculty adhere to them and that ultimately shows up in the loyalty the students have to the organization. In America, the government provides funding for institutions, but a big chunk of funding comes from former students and Texas A&M University students are one of the largest donors to the university because of the values which the university imparts to them. So, the answer is, you train in an

environment, which is pushing for those values, then seize any opportunity to reiterate those values so that the students when they get out, hopefully, will make the right decisions. What an educational institution can do is to cultivate the human mind, but we are all free agents and ultimately you are going to make your own decisions.”

Dimensions Team: “Portfolio managers usually follow a set theory that might evolve as experience grows and learn the hard way. But the ones who are trying to get smarter try to synthesize a set theory beforehand and if it works, they emerge as successful but if they take the traditional route of learning, that is the hard way here the fundamentals are defined by the old and antiquated metrics, how to reset these metrics to involve these qualitative fundamentals and be a successful practitioner of investment management.”

Prof. Arvind Mahajan: “So there is a set prescription of the financial theory which says that portfolio managers should hold a diversified portfolio, And the diversified portfolio is the market portfolio, and this is called passive portfolio management strategy. But then many fund managers follow active management policy, they think they know better than the market and they then make bets on certain sectors. Most hedge funds do that as well. And some have been very successful, and some have not been. Now, ultimately it depends upon the owner of the capital who is going to invest money. So, if A is a passive manager, and B is an active manager, and you hold a diversified portfolio, you will be working for Fidelity, Vanguard, etc. as a hedge fund manager or a PE manager, these people will say invest in me, so I must assess A or B’s ability to beat the market, so the question is how long should he have beaten the market? and that’s an assessment that we have to make. The initial financial theory assumed that the market was perfect and frictionless, everyone had the same information, and everyone acted rationally and that’s where the passive management portfolio theory came from, over time we discover that markets have frictions, there’s information asymmetry, i.e., people don’t behave rationally all the time. We have periods where the market goes up because everyone jumps on the bandwagon to buy. So, in a market like this, how do we make choices? Those choices are driven by our ideological belief in how markets work, and how human beings behave, do some people know better than others and we make choices based upon that. It’s a personal assessment, there’s no universal model, which can be said because having known the hedge fund industry, nobody talks about the graveyard of hedge funds, but nobody talks about it, so the question is if A or B is beating the market, is it luck or talent? and segregating luck from talent is very difficult and what people want is talent, not luck because, on the next flip, the point would be very different”.

Mporia Team: “Do you think the marketing strategies of the major companies have changed post covid? Cause after the pandemic, people are thinking more about sustainability and ESG factors. So do you think that that will be a factor influencing the marketing strategy?”

Prof. Arvind Mahajan: “It’ll depend upon the product because consumer behavior has been affected by covid and the market strategy has to evolve based on that, it depends upon different sectors because in some sectors you have necessary items which people have to buy, and then you have others which are discretionary items and

during covid time, discretionary spending has gone down dramatically, now post covid, it is picking up in certain sectors but not in others. So, depending upon which industry you are in, you will have to shape your post covid strategy. Strategy is always dynamic, it is driven by what's happening in the macro economy and my guess is in five years' time people would've forgotten about covid, this is what markets do, they forget and get comfortable, make the same mistakes which people made 10 years ago and face the same problems the market has limited memory. Now to answer your question, companies must strategize based on the product they're selling, the industry they are in, the clientele, nature of the product, and shape their marketing strategy based on all these factors. It's not one size fits all."

Mporia Team: "But some companies are taking advantage of the CSR activities they conduct. Like for example, Mama Earth, says that for every product you buy, we will plant a tree. So, is it ethical to use CSR activities for their advantage in marketing? CSR should be a social service, it should not be used for the advantage of the company, right sir?"

Prof. Arvind Mahajan: "Yeah, I agree. Companies should not do that on the flip side, South Africa where I was talking to some executives a few years ago, is the same as India. There the government requires a company to spend X percent of its profits on CSR activities. Companies are not happy about doing that and the reason is that the people in the C-suite unless we can make them ethical, and socially conscious, and remove the incentives for them to only maximize stock price, they are going to behave as human beings, will work in their self-interest. We cannot change human behavior unless we change their thinking. So basically, ultimately, frankly, the purpose of higher education and business should be to create socially conscious, ethical, decent human beings and not just automatons which maximize only one thing and that requires understanding philosophy, history, geography, and having a soul."

Mporia Team: "In the current situation where the companies are talking highly about ESG implementation, do you think it is important for educational institutions like us to include ESG in the curriculum? If yes, how will it impact the overall profile of the student?"

Prof .Arvind Mahajan: "ESG, corporate social responsibility, these are buzzwords. What we are talking about is developing people with a conscience who care about humanity, we are all interested in self-interest. The purpose of higher education or education is to create enlightened self-interest, for example, when you are single and you joined an undergraduate program you care about yourself and you're learning, you're having parties, you're having a good time, and then you get married, certainly another person's happiness becomes a part of your utility function and then you have children, suddenly your utility function is affected by theirs. Oftentimes if you have just one piece of bread you give it to the child, and that gives you more happiness than you eating that bread yourself. This is kind of strange that is because the sphere over which my utility function operates is no more me, not my spouse, it now includes my children, and then my family. This is enlightened self-interest,

as you progress, it includes your neighborhood, community, city, and country then ultimately humanity. That has been at the heart of the Vedic philosophy which came out of this country and the Prime Minister keeps repeating: What one family, one world. That means when something bad happens in Africa, it pinches us and somehow our conscience is affected and that is simply enlightened self-interest. So ultimately what higher institutions and people in the C-suite should seek is that kind of mindset”.

Dimensions Team: “Sir, a follow-up question, when we spoke about the ethical part you had mentioned that it is a long-term process and doesn't come in the two-year PGDM course, but don't you think it is a long-term inculcation what our parents put to us and when we are kids? So how do you think it is easy for us to change the ethical perspective of a person when he is not used to it from childhood?”

Prof. Arvind Mahajan: “It is, it is hard and that is why it's worth doing, anyone can do easy things, there's no pleasure in achieving something easy, self-actualization, pleasure, realization, fulfillment only comes when we tackle difficult tasks and even if we don't succeed, there's a great deal of satisfaction in saying, I tried my best and once in a while you achieve success, so I'll show you something (showed pictures of a former student's wedding in Kerala) This guy and his partner started a start-up called Jai Kisan which I helped them with a little bit and they've been very successful and so have the other students been on Wall Street. This is what makes my life worthwhile seeing these guys succeed and do the right thing, they're making money, but they are also impacting the farmer's lives in a very fundamental way. Educational institutions and instructors have a moral obligation, whether students like it or not, to drill into them to do the right thing. But that is not where the journey ends. The journey just continues, frankly, it continues way beyond college, you might encounter someone at age 50 who just says something, and it connects the dots, and a light bulb goes on, it can happen anytime, so you have to always have the light switch turned on. Newton was not the first guy to see the apple fall, the difference was he was thinking about gravity all the time and he saw the apple fall, and bingo, right? Answers will just come if the switch is on.”

Dimensions Team: “What are the strategies companies should adopt to reduce the negative effect of violation of the ESG norms”?

Prof. Arvind Mahajan: “Well, the first thing the company needs to know is, is it going to be impacted by the competitors, the suppliers, and the buyers' behavior, it also needs to know if it violates something, is it going to be penalized by the market? (Especially in financial terms) I will go a step beyond that and say being ethical, irrespective of how it affects the stock price or not is needed, if it reduces the share price and the shareholders fire you, you need to take that risk and still be ethical and if you cannot take that risk, find another job or compromise your values and continue. If a competitor's behavior is going to affect you negatively and you cannot control the competitor, you certainly can create in the market a higher separation between you and the competitor. If everyone in the industry is negatively affected by one person doing something wrong, you can

start investing efforts in separating yourself from the rest of the industry in the perception of the market, that's why we do research, basically what you need is a risk management strategy.”

Dimensions Team: “In the latest times, we see a lot of cross-cultural advertising, some ads hurt the sentiments of human beings, and they start opposing it via social media and revolt. What would you like to say to today's marketers regarding strategizing properly so that it doesn't hurt the sentiments of people because they're using it a lot to bring in revenue and sales”?

Prof. Arvind Mahajan: “My bigger answer would be to tell the society to grow up. Live and let live. Having said that, if you are a corporate strategist and you advertise in a manner that is provocative to one segment of society, you must evaluate and analyze its consequences on your company. Some companies make money by behaving controversially and they have figured out, that's a strategy. It depends upon what the objective function is, is it to minimize the sentiments of everyone in the market? If that is the objective then you stay up at night thinking about every segment of the market, somewhere along the line you must take a stand, you have three choices and you'll have to make a call on all the choices depending upon your objective function.”

Dimensions Team: “Sir, a follow-up question, in this process, marketers in the present day, can run campaigns to increase the thought process of people outside and after that, they can do this advertisement, can this be one of the strategies? So that they can broaden the vision of people, it can be a way for them to enrich themselves to the outside world”.

Prof. Arvind Mahajan: “But the question is, should they be responsible for educating everyone or only for educating those who are buying their products? educating people is costly. So, in the sixties when in Holland, Netherlands, they were thinking about having commercials on television advertisements. There was a debate between Milton Friedman and Arthur Heller, who was at that time the chairman of the Federal Reserve. Great scholars. Friedman's view was that we should allow commercials on television, that people are rational, and that television should encourage advertisements because by advertising you are educating the consumer and the consumer will make a more informed choice about different products by knowing more about a product. Heller's argument we cannot assume that economic agents are rational. That is kind of where the marketing principal discipline is based upon that we can affect human behavior by doing something. His view was, if we allow advertising, this may sway people to start consuming something which is not necessarily in their best interest, we will be manipulating their minds because they are susceptible to being manipulated and therefore advertisement should not be allowed on television because it'll end up hurting consumers. The issue has not gone away, it still is with us. So yes, a company, if it can educate its clientele, will make more informed decisions and that will be a good thing to do societally, not necessarily good from the company's viewpoint. To conclude: Ethics do matter because somewhere down the line you will have difficulty sleeping. After all, you might have made a few million but if you have to take medicines to sleep there is a problem, right?”

