Homo Calculus

A personal view
Kunal Basu

Kunal Basu is co-author of 'Memo to CEOs' (*Fast Company*) and 'Beyond Selfishness' (*Sloan Management Review*), both recently published to great acclaim, in which he argues that the culture of business is increasingly being defined by selfishness. Here, he looks at the philosophy behind this new culture – and asks where it will lead.

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People ask about Enron. They ask about Andersen, and Global Crossing. Editorial sleuths go about unearthing dirty secrets, investigators piece together shredded paper, and politicians pontificate. In this collective shaking of heads, it becomes bafflingly clear that values have been disregarded by a whole army of middle-class professionals who are just like you and me. Baffling indeed, for values, after all, are a middle-class fetish. But who's stolen our very own crown jewels? Amidst all the finger pointing, I see an unlikely culprit: the calculator. The miracle machine that allows us to deduct cost from benefit, loss from gain, lets us merrily trade-off one good for another, has turned us into a new species – Homo Calculus – and set us down the road to ruin.

There was a time when it was fashionable to speculate on the sources of human behaviour. Philosophers and psychologists spent careers trying to capture the complexities of human motivation within their models. Arch rivalries grew out of contending views, some of which have remained with us – Plato's Kinship, Maslow's Needs, Marx's Class War, to name a few. If anything, these models have served to illustrate the point that we, Homo Sapiens, can be wonderfully diverse, and rather slippery to mould. Of late, however, a specific model has taken hold of our collective imagination, threatening to erase all that we knew to be true, even partially true, about us. And, it has come from the pen of two business professors.

'The calculator has made it easier to make and justify our decisions'

In a widely cited article written in 1994*, Michael Jensen and William Meckling argue that *all* behaviours of *all* humans can be successfully explained by a model that describes us as resourceful, evaluative, maximising beings (REMMs, in short) who are always willing to trade-off a quantity of one good for that of another. We respond to our environment, they claim, by seizing opportunities that maximise personal gain, which we are able to perceive clearly through evaluating our choices and by displaying the flexibility of substitution. The REMM is willing to give up some sufficiently small amount of *any* good for some sufficiently large amount of other goods. Inside our minds are smart calculators, which operate not on the basis of absolute needs, but temporary wants. Jensen and Meckling, in fact, hail the Homo Calculus as a far more liberated species than the Homo Sapiens, unencumbered as it is by the messy business of irrational needs, ideologies, and quaint values. Behaviours of REMMs are championed as rational, flexible, and downright efficient – qualities that have of late taken over the hallowed seat of values.

Like it or not, REMMS we have become, and unwittingly. Think of any domain of our lives, and you'll see the indelible trace of trade-offs. The calculator has made it easier to make and justify our decisions, from choosing a car to buying a house. Armed with information, a list of costs and benefits, we have managed to eliminate anxiety from choice. The culture of managerialism within which we exist, has heightened our challenge to 'achieve goals with limited resources,' a task well suited to the spirit of smart choices. Trade-offs, in fact, have come to govern large swathes of management practice: long-term vs. short-term, market share vs. profitability, make vs. buy, cash flow vs. ROI, and so on. Listen to any management guru and the message that'll come through is that there is no absolute good, simply actions that might deliver the goods. The challenge of management then, as with much else in life, is to figure out what works best where and rid us of the useless. Jensen and Meckling, while certainly not responsible for the cult of the calculator, aren't too far off describing our world that has increasingly come to resemble a giant Weight Watcher's diet, with an exciting variety of trade-offs that can help us reach the target number of points.

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What about items that shouldn't be traded, that can't be entered into our calculators? Despite numerous treatises on Value-Based Management, values themselves – such as truthfulness and integrity – are too unwieldy when it comes to combining them with other decision factors. They are unwieldy because they suggest fixity while all else is variable; they carry the unpleasant whiff of dogma in an open-ended setting. Additionally, they don't promise to maximise anything, offering simply psychic gratification. When was the last time we heard of a CEO being congratulated by his/her board or fêted by the media for incurring a loss on the back of a value-based decision? Yet values, drawn from human experience and/or faith, could very well lead us to defeat just as they might to success. History is replete with martyrs, who have done just that – died for their values. Of course, nobody, not even the harshest critic of corporate governance, would deem that to be appropriate.

It is important to realise that Enron et al aren't simply corporate perversities, or the mischief of a few wayward managers. They illuminate a deeper question: can the conduct of business be any different from our conduct of life? Will the model we enshrine invariably percolate everywhere, finding its way from the supermarket to the boardroom?

It's time for the Homo Sapiens to stand up to the Homo Calculus.

'The Nature of Man', by Michael C. Jensen & William H. Meckling, *Journal of Applied Corporate Finance*, Summer 1994, V. 7, No. 2, pp. 4–19

Also see: 'Memo to CEOs', by Robert Simons, Henry Mintzberg & Kunal Basu, *Fast Company*, June 2002, 117–121.

'Beyond Selfishness', By Henry Mintzberg, Robert Simons, & Kunal Basu, *Sloan Management Review*, October 2002.