BADM Governance and Business Violence: An Indian Outlook

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Abstract

Corporations being powerful institutions must be more accountable for their business policies and practices as their activities, for better or worse, have a significant impact on individuals, whole communities and society at large. But unfortunately, Capitalism at the beginning of the 21st century with overemphasis on economic performance has evolved the rule of unproductive economic activities, exploitation of customers, illegal monopolies, political patronage and personal gains. The observed inconsistency between the role and rule of business, being detrimental to the society has raised a concern about implementing business governance that would integrate value framework, ethical framework and moral framework under which business decisions are taken. To comply with the moral standards for optimizing the outcome for directly negotiating parties the corporate need to adopt a dual goal concept: a strategic goal and moral goal. An ideal situation is possible once the ethical perspectives of a business is internalised through value-based negotiations and exchanges at all levels, social, political and symbolic; hence broad objective of this paper is to put forward some guiding principle for the business firms to evolve responsible behaviour and avoid bad governance and business related violence.

Keywords: Business Ethics, Business Violence, Corporate Governance, India

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Introduction

The concept of business governance is defined in several ways because it potentially encompasses the entire gamut of activities having direct or indirect influence on the financial and moral health of the business entities. Business governance structure specifies the distribution of rights and responsibilities among different participants in an organization/corporation, such as the Board, managers, shareholders, and other stakeholders, and spells out the rules and procedures for making decisions on business affairs (OECD 1998). The governance structure sets the business objectives, provides means to attain those objectives and furthermore the performance is measured through business governance to ensure the attainment of those goals with effective utilization of resources. The scope of business governance, to some (Monks and Minow 2001, Shleifer and Vishny 1997, Vinten 1998), is limited to the question of shareholders value i.e. how the business owners can motivate and/or secure that the corporate managers will deliver a competitive rate of return and to some others (Freeman and Evan 1990, Freeman 1994, Jensen 2002, Luoma and Goodstein. 1999, Maren and Wicks 1999) it is extended to the interests of multiple stakeholders.

The existence of global financial markets and the Anglo-Americanization of these markets have contributed greatly to the short term perspective of mono stakeholder approach and unfortunately much of corporate activities today are driven by this standpoint. Due to pressure from both within the organization and externally from financial intermediaries the managers concentrate on shorter term financial objectives as there is always a threat of value destruction when the performance fall short of market expectations. The prejudiced approach of maximizing organizational profits by any means possible to the detriment of other considerations. A race for the top through the “survival of the fastest” mantra in the present business milieu has goaded many large companies such as Adelphia, Enron, Parmalat, Tyco, WorldCom etc to present misleading financial facts and received considerable criticism on the informative role of corporate reporting in efficient allocation of scarce resources in an economy (Brown

Profits earned by hook or crook cannot be the sole criterion for judging the success of a business. The success of liberalization requires the steady development of a new corporate ethic.
A B Vajpayee, 15th August 2001, Prime Ministerial Address
Bad Governance and Business Violence – The Rule of Business

Violence, in general is construed as an act of manipulation that controls or intends to control the freewill of others for the sake of egoism. Eventually, the notion of free choice and responsibility are the cornerstones of moral reflection. Unlike other organisations, the business entities emerge and exist as a result of an autonomous choice while considering the given circumstances with its opportunities and limitations and hence, the general idea of free choice and responsibility is applicable to business performance. However, the application to be meaningful and pragmatic has to understand the circumstances in which a business firm makes its choice. Business houses, being a human organisation must have the ability to participate with conscious sharing values and reshaping norms in consonance with the environmental changes. For a conscious participation they need to have an understanding of the society and proper manifestation of responsive behaviour in tune with the moral demands of the society. It is of course obvious that their ability to participate is expected to vary from organisation to organisation depending upon how much moral responsibility they assume towards the society. Business governance precisely centres on this moral responsibility towards the society. Any act that has detrimental impact on the societal well-being is therefore considered as immoral and violent.

Business preoccupation with economic performance as the sole yardstick of success of so-called an economic entity leads inevitably to several extra-market implications in modern society, inflicting it with deterioration in the quality of life through environmental degradation, social dislocation, psychic turmoil, exploitation of the weak members of the society and erosion in the value system (Dash, 2005). Stakeholders having direct access to the business decisions or deriving direct tangible benefits have tend to continue to influence the corporate choices to the extent stakeholders having thinner interests are dormant or unrepresented by a visible pressure group in legitimization of their interest. The pursuit of the interest of an individual, or of a group of individuals in the present generation has been achieved with a myopic vision.
Capitalism at the beginning of the 21st century has evolved the rule of unproductive economic activities, exploitation of customers, illegal monopolies, political patronage and personal gains. In many countries of the globe capitalism is characterized by a system where a handful of immensely wealthy families control almost all of a country’s great corporations (Morck and Steier, 2005). Each corporation in family capitalism system has a CEO at the helm of affairs who dictates corporate policies and strategies to a largely passive board of directors with his/her individual political, social, and economic beliefs. The use or abuse of considerable powers by such family entrepreneurs has truly made the millions of middle class shareholders, the real owners, powerless. Another fallacy of capitalism is the pyramid structure of business, frequently found in many countries, where the company controlled by a family entrepreneur hold control over some more other companies. In many occasions the self interested entrepreneurs try to erect the pyramid business groups to entrench the status quo. Nothing can be a better example than quoting the Birla family of India who was accused of manipulating the licensing system of the country. Few academic elites also infer that the dimensions and eminence of the group has taken them beyond political rent seeking to interference in the licensing system of the country.

Over a couple of decades of the command based economy, a large parallel black economy has developed in India where transactions are carried out in cash and are not recorded in the books of accounts (Verma, 1997). Some industries were at one stage so strongly infused by the black economy that many Indian business groups have succumbed to the lure of black money as it was almost impossible to carry on business without using black money. The source of black money was primarily from cheating the government of its legitimate dues (Verma, 1997). The black money in many instances has helped the entrepreneurs in cooking the books as in unfavorable time when a company makes losses in its books, the true picture of the business is much different and in normal times the black money is not accounted for in the company’s books ultimately cheating the minority shareholders. In India the common belief is that the country may have many financially sick companies but no financially sick promoters (Verma, 1997).

Further the political patronage inflicts inferior governance on state owned enterprises and the nexus between political parties and business families have questioned the genuine entrepreneurial tendencies. The direct political involvement in state owned enterprises and indirect involvement in big corporate houses have led to wastage of a lot of resources of the nations. The bankers being institutional investors or creditors have the overall responsibility of monitoring the governance of the firms and in case of necessity should never hesitate to correct the governance mistakes. Unfortunately many of the bankers have proved themselves misgoverned either because of their illicit political nexus or overenthusiastic attitude in public lending. The lack of altruistic and competence on the part of bankers led to inefficient allocation of scarce resource and hindered economic growth.

An individual firm’s strategies and practices which directly affect the relative resources and power status of individuals, communities, social segments and generations are therefore to be consistent with widely shared social priorities on one hand and individuals, legitimate aspirations on the other. The observed inconsistency, if there is any goes against the well-being of the society and hence may be regarded as an instrument of violence. Accordingly, any business that picks up a business strategy of inducing the younger population segments to smoking, alcohol consumption or sells a product that causes injury to customers or that selects a location in environmentally fragile region in operational tactic, or that produces externalities to harass the human community is not considered as a business rather a weapon against the societal well-being and peace. If we strictly go by the Buddhist definition that construes violence as an act of killing, injuring or destroying, many business firms due to their irresponsible business practices fall within the orbit of violence.

**Good Governance in India – Rhetoric or Reality?**

India, in particular, though did not experience severe corporate collapses like that of developed world, it cannot be said that corporate sector in India is an exception to mis-governance as many critics allege that the Indian corporate sector has offered ample ground with their different kinds of questionable practices. In Indian context the rule of managing business is quite unique right from the colonial period. During the colonial period, the medium for corporate growth was through the managing agency of corporate governance model where the locus of corporate power and control from the individual company level to a closely held company or partnership that functioned like a holding company. This model of corporate governance was based on the principles of profit maximization without questioning the means through which the profit is generated. Profits at that point of time, of course, were not generated from sources like innovations or efficiency gains, rather were primarily due to market imperfection or for inflationary effect of artificial scarcities and to some extent the price fluctuations caused by wars, famines and similar causes have also contributed to profit generation. Being circumscribed by the managing agency model, this process of industrialization failed to generate social wealth either in the form of wages or in the form of shareholder
incomes. Managing agents quite blatantly violated the basic rights of shareholders, and sought consciously to exclude them from having any effective voice in the manner in which firms were run (Reed, 2002).

The license regime in post independence period, where all existing and proposed industrial units were required to obtain licenses from the central government, developed the widespread rent-seeking attitude of the entrepreneurs. Though the model included state planning and various restrictions on economic activity, it extended many new opportunities for domestic business houses. These opportunities were totally exploited by entrepreneurial families and business groups as these well positioned leading managing agents now used licenses to secure monopolistic and oligopolistic privileges in new industries. From the beginning of independence to the late 1960s, the corporate sector was dominated by 20 family groups who had their beginnings as traders in the pre-independence era and became pioneers in industrialization for the advantage of the licensing system they enjoyed from their political connections. This led to rampant abuse of shareholders’ rights and public money associated with the business house model.

The widespread nationalization starting with petroleum companies and collieries in order to preserve employment and foster economic development created massive state owned industrial and service sector. The state ownership directly and indirectly through the ownership of investment and developmental financial institution brought with it specific dys-functionalities, inefficiencies, cost disadvantages, and corporate governance problems. The use of development banks to promote industrialization combined with tightly controlled, rigidly licensed, highly protected, import-substituting milieu resulted in crony capitalism, rent-seeking, inefficiency, and corporate mis-governance with public funds.

It was common practice for the groups to obscure corporate accounts or diverts funds for making political contributions to the detriment of the small investors. There was hardly any transparency. The family members of leading business houses started independent trading companies which would act as agents for procurement of raw materials or sales of the finished product and divert funds through an unfair transfer-price mechanism. Promotion to senior management positions was not based on merit but closeness to the family. Family disputes leading to separation invariably resulted in a division of the company, much to the detriment of individual shareholders. Manipulation of prices in the stock market was not unusual and the small investors enjoyed little protection. Financial institutions not only turned a blind eye to such practices, but a cardinal principle of their policy was to support the family group’s management of the companies (Verma, 1997). Given subsidized loan funds and various tax incentives to set up industries, most promoters recovered their relatively meager equity within a year or two of operation but failed to honour the covenants with DFIs in making loan repayments. The relationship between business groups and politicians ensured that defaulted debts would invariably be rescheduled in the name of rehabilitating financially sick industrial companies.

This corrupt practice created widespread corporate mis-governance, including a major diversion of DFI funds for other ventures.

In the post globalization period MNCs do play a major role in establishing desired corporate behaviour. Though in theory, free trade is intended to benefit all who participate in the global trading order, hitherto to, its benefits have been proved to be asymmetrical, benefiting wealthier nations and contributing to interstate and intrastate conflicts (Epstein, 2007). It is interesting to note the double standard of transnational companies, who on one hand invest in host regions they become forces for good in the development of these areas by employing best practices like development of educated labor force, safeguarding the environment, protection of employees’ health etc., and on the other hand pursue policies that are exploitive of less developed nations (Epstein, 2007).

During the post liberalization phase sudden growth of cases where multinational companies started consolidating their ownership in India by issuing preferential equity allotments to their controlling group at steep discounts to their market price (Goswami, 2000). Between July 1993 and September 1994 the stock index shot up by 120 percent. During this boom, hundreds of obscure companies made public issues at large share premiums, buttressed by sales pitch by obscure investment banks and misleading prospectuses. The management of most of these companies siphoned off the funds, and a vast number of small investors were saddled with illiquid stocks of dud companies. This shattered investor confidence and resulted in the virtual destruction of the primary market for the next six years. Further exploitation problem deepens with the manner in which a MNC structures its business between two subsidiaries in India, one with higher stake and the other with relatively smaller stake (Verma, 1997). In many cases properties and rights have been transformed from subsidiary with smaller stake to subsidiary with higher stake at a very low price causing severe damage to the minority shareholders. Even there are cases where parents have charged percentage for the use of their brands in spite of the fact that the brand has been cultivated by Indian subsidiaries in Indian market at the cost of the subsidiaries.

The bad governance practices does not end only with MNCs in the present market scenario; the domestic companies also equally contribute to the
questionable practices. Recently around 125 IPO scams have been experienced in Indian climate deceiving the innocent investors, where IPOs were all at premium through the book building process. Even many financial institutions have been alleged of collusion with entrepreneurs in IPO scam and many other capital market scams (Chattopadhya, 2006). Not only scandals but also the hostile takeovers make a mockery of corporate governance in a sense that companies doing well become targets of the empire-builders around the globe as well as in India. The rule of present business is not only shareholders exploitation but an equal exploitation of the other stakeholders. In India we had an inexpedient experience when lack of proper maintenance in Union Carbide’s gas plant at Bhopal resulted in 2000 deaths and over 200000 injuries. The death toll due to poisonous liquor is reported to be enormous. To cite few more- the mustard oil case of 1998 and adulteration of milk case of 1999 in Lucknow etc can never substantiate a cleaner and greener image of Corporate India.

Ethical Approach to Governance – For Performance or People?

Traditionally, ethics and morality refer to the idea of mores, with its two-fold meaning of ‘considered to be good’ and ‘imposing itself as obligatory’. While ethics derives from the Aristotelian teleological perspective, and focuses on the character of the person who is aiming to lead a virtuous life, morality draws on the Kantian deontological perspective, and “is concerned with the norms, values, and beliefs embedded in social processes which define right and wrong for an individual or a community” (Nayak et al., 2007). Regarding the primacy of ethics and morality the academic literature is alienated in two parts. While few academia argue ethics to be concerned with the study of morality and the application of reason to elucidate specific rules and principles that determine right and wrong for a given situation, the others in contrast, argue for the primacy of ethics over morality as morality constitutes a limited, albeit legitimate and necessary representation of the ethical aim (Nayak et al., 2007). In spite of the debate the fact remains that a combination ethics and morality makes a sound business sense and therefore arises an increasing need for the corporate to understand their responsibilities towards the society form which they derive power to establish and run their business.

Many a times even though companies demonstrate ethical behaviour the reality is not the same. The European corporate sector was upholding a rich green and blue image till 1999 in fulfilling their responsibilities to society but the scandals at the beginning of the millennium while tarnishing the clean European image have forced companies to realize that just social responsibility on the part of a company is not sufficient and as a bare minimum it requires a blend of business ethics, governance and CSR policies to earn the title of a conscientious citizen (Hurst, 2004).

Keeping in view few ethical concerns like the protection of investor interest, especially the small investor; the Confederation of Indian Industries (CII) in India took a special initiative, the first institutional initiative on Corporate Governance in 1996. The highest-flying regulator of Indian economy the Security and Exchange Board of India (SEBI) did set up the Kumar Mangalam Birla Committee and on recommendation of the Committee it introduced a regulatory framework on corporate governance for listed companies in 2000. The Kumar Mangalam Birla Committee defined Indian corporate governance as one which aspires to marry together the competing needs of different stakeholders in seeking the “enhancement of long-term shareholder value while at the same time protecting the interests of other shareholders” (SEBI press release, 4, June, 1999), thus combining ethics and morality with sound business sense.

Business ethics relates primarily to achieving outcomes from organizational decisions which have favorable rather than adverse effects upon related corporate stakeholders (Rossouw, 2005). It involves bringing the corporate behavior up to a level where it is congruent with the prevailing social norms, values, and expectations. The society expects businesses to make a profit without violating the law and, in addition, to behave in certain ways and conform to the ethical norms of society. Hence an organization’s approach to ethics must have its foundation in its corporate governance framework. The ethical foundation of corporate governance gives rise to the hope that the governance mechanism will restore the public trust in business. This intrinsic ethical nature of corporate governance is called as the ethics of governance (Rossouw, 2005). Along with ethics of governance what more required for an organisation is the governance of ethics, i.e., how companies specifically govern their ethical performance (Rossouw, 2005). The governance of ethics necessitates a proper direction and control from the top management in determining the ethical standards of the company and ensuring that the company abides by these standards as a whole act with integrity. They have to take responsibility for ensuring that ethical standards are institutionalized on the strategic, systems, and operational level. Therefore corporate governance has a distinct ethical nature.

For a successful integration of ethical concerns into the organization’s corporate governance structures a strategic plan needs to be developed. A commitment to business ethics involves establishing policies and processes that identify and support the ethical objectives of the organisation. Being a part of strategic planning this process requires continuous input from all levels within the organisation. Like
every strategic planning is long term and goal oriented, the identification and adoption of ethical principles must have the objective of promoting certain kinds of positive behaviours and outcomes in the long-term (Bonn and Fisher, 2005) that coupled with other corporate governance principles can drive business performance. Further a commitment to business ethics requires cross-sectional communication and cooperation and necessitates involvement of every one in identifying shared values and objectives towards which the entire organisation works (Bonn and Fisher, 2005).

In general a firm has got four options for ethical strategy while framing the overall strategy for the organisation as a whole (Galbreath, 2006). In a incorporating ethics into corporate shareholder strategy the size and age plays an important role. When the company is very small or in infancy it’s not possible for a deviation from profit maximization objective and engage in a higher level of social responsiveness. In its altruistic strategy, the corporation being an artificial person can give the business a human face through its management. So it’s the managers, whose value, ethics and conviction guide the social responsiveness of the firms for doing right things without any expectation. In their reciprocal strategy the firms are expected to reduce the gap between corporate doings and the environmental and moral expectations of the society. In its fourth strategy of citizenship the corporate houses should recognize the interest of different stakeholders of the society as a citizen has responsibility towards the other citizen. Since different stakeholders have different priorities the firm has to make a balance between those interests to evolve as a responsive citizen. But in many cases the big corporate houses claim to be socially responsible by meeting the altruistic strategy through donations or some philanthropic activity of one form or the other.

Business governance represents the value framework, the ethical framework and the moral framework under which business decisions are taken. In other words, when investments take place across national borders owing to increasing globalization and movement of physical and financial capital, the society wants to be sure that not only is the capital handled effectively and adds to the creation of wealth, but the business decisions are also taken in a manner which is not illegal or involving moral hazard. Ultimately, business governance is the net result of the individual sense of values, the values held in society or part of a society like professional bodies or business associations and finally the system of public business governance. If those who violate the norms are effectively punished then there is a fear and there will be adherence of the principles of business governance. But it is not implementable in the absence of well set business governance codes & legislations and speedy and effective executive and judiciary system. Again the people at various levels of those executive and judiciary institutions are to discharge their responsibilities with moral principles.

Law and ethics are not, of course, mutually exclusive and legal requirements frequently derive from and incorporate ethical precepts. Indeed, what were ethical aspirations for business behavior in one generation frequently become legal requirements in the next like that happened in Harshad Mehta Scam in India. In the scam, it was claimed that the manner in which the bank receipts were being treated was unethical but acceptable because that was the prevailing market practice which later on found to be highly objectionable and are not allowed anymore. Corporate governance extends beyond corporate law. Its objective is not mere fulfilment of law but in ensuring commitment of the board in managing the company in a transparent manner for maximizing long term shareholders value. So an effectiveness of governance system can not be enacted by law though rules, regulations and procedures must be enacted by law as a minimum requirement for the companies to follow and practice. The efficacy of a governance system rather depends on the cohesiveness of its four conflicting constituents known as, Ethics; Environment, Economies and Effectiveness; Emotional quotient; and Enablers.

The point that is made is mutual interest- to provide adequate and optimal exchanges with relevant partners negotiating in a business and to respect minimum rights of other social constituents of the society. As per this view the business people in order to comply with the moral standards have to affect deals that should optimize the outcome for all directly negotiating parties (stockholders, creditors, customers, employees etc.). This calls for a dual goal concept: a strategic goal and moral goal. In business, parties have often unequal resources of knowledge, skill, market position or financial strength. A party that is stronger at a particular moment may get easily the best part out of the deal, but has to moderate his claims for several reasons like presence of competitors, dynamism in the market that alters his position and of course for moral reasons. Business firms can be said to have moral obligation only when they take a long position for a hard bargain on issues overlooked by law. This calls for enlightened egoism that is based on a mediation between strategic and moral goal. This ethic has to work as an integrative force in management of a business and ought to be incorporated in the corporate culture. At every level of strategic and tactical choices the firm should follow the equality approach and a logical coherence. While equality approach would help in formulating propositions that seek mutual gain, a logical coherence would be supportive of a proper judgment rather than drawing only normative conclusions relating to various business perspectives.
Business Ethics – Is it a myth?

Instead of the unanimity on ethics, many times question has been raised whether the term business ethics is rhetoric or reality. A part of the academic literature have construed ethic as a personal, individual affair, not a public or debatable matter. Few researchers (Friedman, 1970) view ethics not to be suitable for business professionals in addressing or dealing with issues seriously or professionally challenged, since they are not well equipped to do so. But individuals rely on organisations and are integral part of organisational cultures, which have norms, values, rules of conduct and standards to govern - which is acceptable and non-acceptable. Keeping a business organisation outside the orbit of ethics means non-acceptance of business as a social organisation and hence, is a myth. Another line of argument holds that business is separated from morality because it operates in a free market (DeGeorge, 1986). Apart from rational consumerism, business laws are there in every nation to safeguard against business related crime. A counter argument also seems to exist. Few authors bring out a debate that in a mixed economy devoid of powerful market mechanism, consumers to a great extent rely on government policies and laws to control for deficiencies and inequalities (Velasquez, 1988). In a country like India where neither the consumers nor the workers are competent to take rational decision in exercise of their rights, injustice thrives. When formulation of law takes place as a reactive measure to criminal practices, seeking justice from a slow judiciary system is not a cost-effective proposition at the individual level and average citizen is not conscious of his rights what else could save this society other than ethical conduct?

Another fable is that ethics in business is relative. If we carry ethical relativism to its logical extremes moral issues would suffer from moral muteness. If every person is right for him how do then the businessmen negotiate, interact, communicate and transact? Success in terms of profit sometimes drags businessmen to side with yet another myth that is ‘good business means good ethics’. This is just like a sword in the hand of a warrior. The businessman can afford to hold it and run to dash against consumers when it is pointed towards them and they are without any weapon. When the customers hold similar but more powerful one ‘good ethics means good business’ where do they stand? Business has its own contribution towards developing a nation and therefore no nation would like to cause its extinction. The business dies only when it is killed either through a suicide or through a retaliating force from the injured society. Those business firms which have realised this blatant truth are guided by the logic that ‘good ethics means good business’. This is perhaps, the reason why excellent companies and corporate cultures have created and pursued values and concern for people both in the workplace and market place that exceed the profit motive (Newton, 1986).

Conclusion

Business enterprises may have their own strategies and tactics for accomplishing business goals, but as social institutions and subsystems, they should direct their goals towards maximisation of social welfare rather than resulting in corporate aggrandisement. Taking shelter under some myths to escape from ethical burden some failing entrepreneurs and cunning managers particularly in developing societies devoid of powerful market mechanism and effective judiciary system often undermine their social responsibility while pursuing their business activities and do not care about the implications of their activities towards the societal well-being and ultimately blame the environment for finding excuses.

Owing to lack of effective implementation promulgation of several business governance codes by statutory bodies and business associations has miserably failed to check the Indian corporate sector from bad governance and business violence. In a situation like this the call of conscience becomes essential to ensure trust and fairness in business negotiation. If business institutions undermine this and take advantage of the grey areas of legal and market mechanism, people not only outside the domain of business but also within the business community itself will suffer constant moral and ethical violation. Mediation, between strategic and moral goal as the key to discharging social responsibility should be regarded as a corporate culture to influence actions at business strategy level, and at the level of operational tactics. Evolving and reinforcement of ethical business is possible through setting comprehensive social goals, restoration of community life through re-personalisation and empowerment, sound leadership, and greater participation of various stake holders in the running of a business organisation, and accountability through social audit programmes. Such an ideal situation is possible once the ethical perspectives of a business is internalised through value-based negotiations and exchanges at all levels, social, political and symbolic.

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References


