ETHICS, BUSINESS AND SOCIETY

MANAGING RESPONSIBLY

EDITED BY ANANDA DAS GUPTA

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To my daughter Debarati

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List of Abbreviations

ACGA	Asian Governance Association
BITS	Birla Institute of Technology and Science
CLCA	Comprehensive Leprosy Case Association
CLCP	Comprehensive Leprosy Care Project
CSR	Corporate Social Responsibility
CSRC	China Securities Regulatory Commission
EPIC	Election Process Information Collection
ERC	Expenditure Reforms Commission
GCMMF	Gujarat Cooperative Milk Marketing Federation
GDI	Gender-Related Development Index
GEM	Gender Empowerment Measures
HDI	Human Development Index
HDR	Human Development Report
HPI	Human Poverty Index
HRM	Human Resource Management
IFFCO	The Indian Farmers Fertilizer Cooperative Ltd.
ILO	International Labour Organization
IMCI	Integrated Management of Childhood Illness
MDG	Millennium Development Goals
MDP	Management Development Programme
MDT	Multi-drug Therapy
NFSD	Novartis Foundation for Sustainable Development
NGO	Non-governmental Organization
NYSE	New York Stock Exchange
ODA	Official Development Assistance
PIL	Public Interest Litigation
PPP	Purchasing Power Parity
PSS	Psychosocial Support Schemes

PSU	Public Sector Unit
REPSSI	The Regional Psychosocial Support Initiative
S&T	Science and Technology
SBU	Strategic Business Unit
SEBI	(The) Security Exchange Board of India
SOA	Sarbanes-Oxley Act
TBEM	Tata Business Excellence Model
TCCI	Tata Council for Community Initiatives
UNDP	United Nations Development Programme
VRS	Voluntary Retirement Schemes
WCFCG	World Council for Corporate Governance
WHO	World Health Organization
WTO	World Trade Organization
XLRI	Xavier Labour Relations Institute

Foreword

Ethics, Business and Society: Managing Responsibly is an exciting, thought-provoking and challenging book. The organizers of this compendium and the contributing authors have attempted to bridge the gap between conceptual theory and grounded theory, globalization of commerce and national constraints on its unbridled reach, and between ethical norms of a secularized albeit Western society, and the deeply embedded and overlapping cultural and religious norms of the Indian society.

This could not have been an easy task. However, the editors and authors have largely succeeded in meeting this challenge. They have provided a good blending of various approaches to defining ethics and corporate social responsibility (CSR) in the context of public good, and the extent to which corporations can and must balance the competing interests of a company's direct stakeholders and those who are indirectly impacted—both positively and negatively—by corporate actions.

An important part of the book is the inclusion of numerous case studies dealing with ethics and CSR issues of Indian companies, large and small, and civil society organizations. These case studies demonstrate both implicitly and explicitly what is perceived to be a good corporation in the Indian context. This experiential road map is particularly important to scholars and practitioners dealing with CSR issues in other parts of the world. It suggests a more nuanced approach to comparing corporate conduct under different socio-cultural norms and levels of economic growth.

I only wish that the editors and authors of this compendium had gone beyond what CSR is and what CSR ought to be. In the changing world of globalization with its ever shifting balance of power between multinational corporations and nation states, we cannot leave CSR to be defined, measured and considered satisfactory by the corporate leaders themselves without any meaningful input from and accountability to external stakeholders who are impacted by corporate actions but have little influence on corporate decision-making. Instead, we must ask a more fundamental question, that is, to what extent are companies minimizing negative externalities emanating from their normal business operations, and how are they ameliorating the adverse impact of these externalities on the environment and the people?

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Prologue

Business ethics can be examined from various perspectives, including the perspective of the employee, the commercial enterprise and society as a whole. Very often, situations arise in which there is conflict between one or more parties, such that serving the interest of one party is a detriment to the other(s). For example, a particular outcome might be good for the employee, whereas it would be bad for the company, society or vice versa.

Philosophers and others disagree about the purpose of a business ethic in society. For example, some suggest that the principal purpose of a business is to maximize returns to its owners, or in the case of a publicly traded concern, its shareholders. Thus, under this view, only those activities that increase profitability and shareholder value should be encouraged, because any others function as a tax on profits. Some believe that the only companies that are likely to survive in a competitive marketplace are those that place profit maximization above everything else. However, some point out that self-interest would still require a business to obey the law and adhere to basic moral rules, because the consequences of failing to do so could be very costly in fines, loss of licensure or company reputation.

Some theorists have adapted social contract theory to business, whereby companies become quasi-democratic associations, and employees and other stakeholders are given voice over a company's operations. This approach has become especially popular subsequent to the revival of contract theory in political philosophy, which is largely due to John Rawls' *A Theory of Justice*, and the advent of the consensus-oriented approach to solving business problems, an aspect of the 'quality movement' that emerged in the 1980s. Professors Thomas Donaldson and Thomas Dunfee proposed a version of contract theory for business, which they call Integrative Social Contracts Theory. They posit that conflicting interests are best resolved by formulating a 'fair agreement' between the parties, using a combination of (*a*) macro-principles that all rational people would agree upon as universal principles, and (*b*) micro-principles formulated by actual agreements among the interested parties. Critics say that the proponents of contract theories miss a central point, namely, a business is someone's property and not a mini-state or a means of distributing social justice.

Social responsibility and business ethics

Social responsibility and business ethics are often regarded as the same concepts. However, the social responsibility movement is but one aspect of the overall discipline of business ethics. The social responsibility movement arose particularly during the 1960s with increased public consciousness about the role of business in helping to cultivate and maintain highly ethical practices in society and particularly in the natural environment.

Corporations are increasingly being challenged to act in ways that serve the best interests of society. Many companies are aggressively seeking strategies that can allow them to 'do well by doing good', leaving a positive 'footprint' on the world and avoiding actions that could harm consumers, employees, investors, competitors, suppliers and the general public. In this book, we will examine how corporations can become more effective at managing their social impact, improving the relationships they have with all of their stakeholders in the process. Among the corporate social impact challenges that will be addressed in the course are: How to achieve transparency without revealing proprietary information? How to differentiate a company/brand in the marketplace using social involvement? How to persuade consumers to engage in socially beneficial (for example, healthier, environmental friendly) behaviours? How to avoid misinforming consumers about product benefits and shortcomings? How to serve less-advantaged populations at the 'bottom of the pyramid' profitably? How to improve operational efficiency through careful environmental management? How to protect the welfare and rights of workers? How to manage and promote employee volunteering? How to avoid antitrust charges of collusion, monopolization or exclusionary behaviour? Recent debates about issues, such as obesity, tobacco and alcohol marketing, the immigration issues and gasoline prices will receive special attention.

Already an increasing number of companies are recognizing that globalization is transforming corporate responsibility from a choice into an imperative. A recent international inquiry into consumer expectations concluded, for example, that 20 per cent of consumers surveyed had avoided products and services of particular companies because of their negative ethical profile, and a further 20 per cent were considering doing so.

The fact is that in today's connected world, there is no hiding place for poor corporate citizens and no excuse for poor corporate citizenship. Whether it is labour practices, environmental habits or human rights, companies today must be concerned about their global reputations because their actions can quickly become globally known. The Internet is both the great advertiser and the great tattler—it can open doors faster than you would believe. But, it can also close them faster than you would imagine.

The threshold of CSR

The CSR is generally understood to be the positive role that businesses can play in a host of complex areas, including safeguarding employees' core labour rights (to non-discrimination, freedom of association and collective bargaining; against child labour and forced labour), protecting the natural environment, eliminating bribery and corruption and contributing to respect for human rights in the communities where they operate.

The CSR is not new to the international agenda, it has been around for many years. It has been gaining prominence and momentum worldwide: conferences are held weekly; papers and articles are published almost daily; new and innovative partnerships are being developed. There is reason for optimism. Even if we look only as far back as the Battle of Seattle in the fall of 1999, since then numerous initiatives such as the Organization for Economic Co-operation and Development (OECD), Guidelines for Multinationals and the Global Compact have been introduced, implemented and, in some cases, refined and implemented again.

The global scenario

The growing international and domestic interest in CSR stems largely from the concerns held by many in every society about the real and perceived effects of rapid globalization. The interest has been reflected in the expectation that globalization must proceed in a manner that supports sustainable development in all regions of the world. People insist that the activities of corporations should make a positive contribution not only to the economic development and stability of the countries in which they operate, but also to their social and environmental development. Failure to respond to such an agenda satisfactorily will contribute to increased social tensions, environmental degradation and political upheavals. Good corporate conduct makes an important contribution to sustainable development in any community, and thus goes a long way towards responding to the concerns that globalization raises.

Many companies and business associations have recognized the importance of CSR. Not very long ago, the dividing line between business and society appeared to be clearly drawn. According to the economist Milton Friedman, 'There is one and only one social responsibility of business: to use its resources and engage in activities designed to increase its profits'. This view no longer prevails. The CSR agenda is a complex one, requiring cooperation among a wide variety of stakeholders to be addressed effectively. Improved dialogue between the private and non-governmental sectors is one positive pattern emerging from recent CSR trends. While early relationships were often characterized by mistrust and misunderstandings that fed a cycle of opposing actions and reactions, today stakeholders are increasingly recognizing the value of multisector dialogue or partnerships to achieve substantive, long-term reform. Such a dialogue can facilitate a better understanding of the expectations and concerns of key stakeholders, and it can also act as a forum where debates over differences are more about identifying mutually acceptable solutions and practical implementation steps than reiterating entrenched, non-retractable positions. Forward-looking companies and non-governmental organizations (NGOs) are working with their stakeholders and, in the process, are benefiting from the expertise of all involved. Responsible development brings major challenges, and no stakeholder is capable of adequately responding to them alone.

The international community has policy tools to influence business activity within and between nations, and to help ensure that globalization proceeds in a way that benefits all. These tools include legislation and regulatory frameworks, voluntary compliance with an agreed set of standards monitored by a third party, or self-regulation by businesses, often in conformance with voluntary codes of conduct.

Indian context

India is also working to promote CSR through support for the development of globalization, which is already a force for great change, not simply a spectre on the horizon. Through technology, communications and economics, globalization and our increasing interconnection are inevitable. Time, distance and geography are disappearing: globalization is a reflection of that reality. In this environment, companies can and do make an important contribution to sustainable development in communities where they operate. Certainly, progress has been made in some areas. But, we must temper our optimism with the awareness that there is still much to be done and many challenges for us to keep in mind as we strive to ensure that globalization is for the benefit of all people, in all countries of the world.

Interlude

During the last 20 years, human resource management (HRM) has become a common way of managing people. Such an approach involves human resource professionals partnering with other managers so that people are used in the most effective way. More recently, there have been calls for HRM to demonstrate that it adds value to the business.

CSR and responsible capitalism pose a number of challenges for HRM and for leadership in organizations. The HRM paradigm is based on a rational strategic management framework which is consistent with traditional economic analysis. This paradigm is limited in circumstances where organizations seek to behave responsibly with regard to a range of internal and external stakeholders and seek to take a longer term perspective.

According to Milton Friedman, a business has no social responsibilities other than to maximize its profits. However, today there is a growing perception among enterprises that sustainable business success and shareholder value cannot be achieved solely through maximizing short-term profits, but instead through market-oriented yet responsible behaviour. This responsible behaviour of corporations can be called CSR.

There are different approaches in explaining CSR. One of them is the classical theory stressing that the primary goal of company is to secure its shareholders' financial goals and to respond to their wishes relative to the corporation. Second, the social demandingness theory of CSR means to promote and protect the general public's interests. On the other hand, the social activist theory holds that there exists a universal standard for determining responsible corporate conduct that is independent from the stockholders' interests.

Finally, the stakeholder theory on the CSR, influenced by the view that companies are also corporate citizens, seeks to balance among the competing demands of stakeholders that support a company. From the stakeholder perspective, the CSR means a commitment by a company to manage its roles in a society as producer, employer, marketer, customer and citizen in a responsible and sustainable manner.

Especially since the 1980s, CSR has become an important business issue. Today, it has not only an impact on the local and national levels, but also on the global scale. It is getting more crucial for the global companies to support the social programmes. They especially realize that for several social projects, the national governments cannot give enough money. The purpose of this study is to present the main findings from a survey of the top 50 Turkish companies on the extent to which they evaluate the HRM dimensions of their CSR policies and practices. This book analyzes five HRM dimensions of CSR: To what extent do the companies see the role of HRM in their CSR policies and practices? How do the companies communicate their CSR policies to their stakeholders? To what extent do the companies view the influence of CSR policies and practices on the HRM functions? To what extent do the companies consider the HRM practices from their CSR perspective? What kind of incentives do the companies offer to employees to get involved in CSR activities?

The stakeholder theory is an important and commonly used framework within CSR. Therefore, the study relies on the stakeholder view as a basic approach in analyzing the dimensions of CSR.

In both practice-oriented and academic discourses, the concepts of CSR and HRM are often treated separately. It is argued here that this is an outdated approach. Starting from the observation that organizations develop towards open systems, it becomes obvious that CSR and HRM are intertwined. In open systems, cooperative action is based on the willingness of humans to bring in and develop their talents as part of communities of work. The proper functioning of organizations becomes dependent on shared values between networks of people. At the same time, these networks broaden the perception of what (new) roles and functions an organization should fulfil. This brings in the notion of CSR. Organizations are expected to encompass a broadening range of responsibilities combining the delivery of added value in the market place with broadening responsibilities. These developments require a repositioning of the role and perception of HRM towards a new strategic approach labelled here as Human Value Management.

CSR and sustainable development are gaining increasing prominence in the global business culture, as many businesses attempt to accommodate the CSR agenda. The concept of corporate sustainable development is still the subject of controversy, and therefore the indicators used to measure CSR continue to be the topic of debate. However, no matter what indicators are used, the notion of responsibility includes responsibility for people in the collective sense (such as communities) and also for individuals.

An Australian measurement process, the Reputex Social Responsibility Ratings, provides a system to measure social responsibility performance and attempts to integrate the expectations of a variety of stakeholders. Two of its four criteria reflect the impact on people and have direct relevance to HR. Four categories of measurement are used: environmental impact, corporate governance, social impact and workplace practices.

The criteria used to measure workplace practices relate specifically to HR practices. The criteria include: employee involvement, fair and reasonable rewards and conditions, a positive commitment to diversity and work-life balance, industrial relations arrangements based on mutual respect, occupational health and safety arrangements, executive remuneration that is fair and reflect the concerns of internal stakeholders, independently verifiable performance measurement and evaluation systems and training and development policies. These criteria indicate that an organization that is seen as socially responsible creates a culture that is perceived as open, fair and attractive to potential and existing employees.

But, is CSR nothing more than 'a religion with too many priests, in which there is no need for evidence or theory…driven by top management's personal beliefs', as management guru Michael Porter said at the 2004 European Business Forum.

Research demonstrates that CSR initiatives have a positive impact on employee morale, motivation, commitment, loyalty, training, recruitment and turnover. Benefits in these areas have been found to improve the bottom line of companies. Three surveys across Europe, the USA and a survey involving 25 countries found employees felt greater loyalty, satisfaction and motivation when their companies were socially responsible.

Therefore, corporate initiatives can contribute to the branding of organizations in the labour market. These initiatives can make the organization attractive to employees with similar values and so assist the organization to become an employer of choice for these potential employees. And, if it lives out the values and initiatives on a daily basis it will assist the retention of desirable employees.

This is supported by the experience at the 2004 Economic Forum in Switzerland. Less than 20 per cent of the 1,500 delegates, most of whom were business leaders, identified profitability as the most important measure of corporate success. Almost 30 per cent identified criteria that reflected CSR—almost one in four cited reputation and integrity of the brand and one in 20 cited CSR as the most important measure of corporate success.

CSR certainly seems to be the emerging flavour of the month, but is it a reflection of a 'two-faced capitalism'? In some senses it could be.

First, Porter argues that CSR initiatives need to be undertaken not for 'feel good reasons' or as defensive actions to avoid scandals, but they should be integrated into an organization's competitive strategy. Companies need to be clear about how CSR initiatives contribute to organizational success and efficiency. This view reflects an emphasis on the desired outcomes of one stakeholder in relation to other shareholders.

Second, many CSR initiatives could just reflect the intention of management and be no more than rhetoric. The intention to further corporate and social responsibility does not appear to be implemented in many cases. Research by Business in the Community (BiTC) found that 60 per cent of firms are not living up to their values. In addition, a report by a charity, Christian Aid, cites Shell, British American Tobacco (BAT) and Coca-Cola as paying lip service to CSR, but in reality the community development projects they undertake are ineffective.

It appears that many CSR initiatives reflect the essence of HRM activities. So, what is the role of HRM in CSR? At present, it appears HR is falling down in this task. A survey by Cronin and Zappala in Australia revealed that HR played a negligible role in decision-making in corporate citizenship. However, CSR will become an even more widespread and accepted way of doing business and it should have a further impact on HR's role. Not only will HR need to see its role as strategic from the shareholder's viewpoint, but it will also need to accommodate this view with the need to create a situation in which the workforce and the organization is sustainable over the longer term.

HR has a role in demonstrating the benefits of workplace practices that both reflect CSR and, at the same time, contribute to organizational efficiency and success. In order to do this, HR needs to be familiar with the latest research on work practices and employee performance and also the language of business. It requires HR to integrate CSR initiatives through its roles as business partner, employee champion, administrative expert and change agent. It also requires HR to be an organizational advocate in the community and with other external stakeholders.

CSR provides HR with opportunities. It provides a further opportunity to contribute to business success and employee satisfaction and performance. It also provides additional opportunities to contribute to community well-being.[1]

This is why, CSR means a commitment by a company to manage its roles in a society in a responsible and sustainable manner. Especially since the 1980s, CSR has become an increasingly important part of the business environment. Today, there is a growing perception among enterprises that sustainable business success and shareholder value cannot be achieved solely through maximizing short-term profits, but instead through market-oriented yet responsible behaviour. The aim of this study is to present the main findings from a recent survey of Turkey's top companies on the HRM dimensions of their CSR.

Much examination of corporate social performance has related whether or not good social performance is directly related to financial performance (Harrison and Freeman, 1999). By analyzing the interest of stakeholder groups, such as customers, employees and investors, the multifaceted aspects and contributions of corporate citizenship can be understood. Implementing a balanced perspective of stakeholder management can provide the opportunity to obtain maximum productivity from each stakeholder. A key principle is that managers should acknowledge the potential conflicts between (*a*) their own role as corporate stakeholders, and (*b*) their legal and ethical responsibilities for the interest of other stakeholders, and should address such conflict through open communication, appropriate reporting and incentive systems, and where necessary, third party review (Clarkson, 1999).

Our overall hypothesis is that corporate citizenship contributes to competitive advantage. We argue that corporate citizenship is a potentially lucrative business practice, a position based, primarily, on the findings of two research projects that demonstrate the existence of a relationship between corporate citizenship and improved competitive advantage.

Stakeholder responsibilities

Despite the variety of stakeholder groups and their demands, CSRs can be classified into four broad categories: (*a*) economic, (*b*) legal, (*c*) ethical and (*d*) discretionary responsibilities. Corporate citizenship can, therefore, be defined as the extent to which businesses meet the responsibilities imposed by their various stakeholders.

As society's economic agents, businesses are expected to (*a*) generate and sustain profitability, (*b*) offer goods and services that are both desired and desirable in society and (*c*) reward employees and other agents who help create success. To satisfy these expectations, businesses develop strategies to keep abreast of changing customer needs, to compensate employees and investors fairly and to continually improve the efficiency of organizational processes. A long-term perspective is essential when establishing these strategies: a responsible business must continue to earn profits from its ongoing business in order to benefit its stakeholders.

Regardless of their economic achievements, businesses must abide by established laws and regulations in order to be good citizens. Because training all the members of an organization as lawyers is impossible, the identification of legal issues and implementation of compliance training is the best approach to preventing violations and costly litigation. The establishment of strict ethical standards in the workplace may also be an excellent way to prevent legal violations by creating a focus on integrity in decision-making.

In addition, an organization guided by strong ethical values may also be better able to satisfy ethical responsibilities, the third type of responsibility imposed by stakeholders. Two main types of ethical issues are likely to emerge in an organizational context: (*a*) decisions in so-called gray areas in which the right decision is debatable and (*b*) decisions in which the right course of action is clear, but individual and organizational pressures propel even well-intended managers in the wrong direction. A proactive corporate citizen develops precise guidelines that help organizational members deal with such pressures by stressing the importance of stakeholders' viewpoints relative to organizational achievements.

In addition to meeting economic, legal and ethical responsibilities, businesses are also expected to display a genuine concern for the general welfare of all constituencies. For example, society desires a cleaner environment, the preservation of wildlife and their habitats, as well as living wages for employees, but it also demands low-priced products. Companies must balance the costs of these discretionary activities against the costs of manufacturing and marketing their products in a responsible manner.

The relationship between ethical citizenship and intrafirm trust, commitment to quality and market orientation

One of the dimensions of corporate citizenship is an ethical work climate that includes values, traditions and pressures exerted in the work environment to make legal and ethical decisions. An ethical climate involves formal values and compliance requirements as well as an understanding of how interpersonal relationships affect the informal interpretation of ethics. Loe (Unpublished) examined the association between an ethical climate and improved organizational processes. When clear barriers are established to limit the opportunity for unethical activities, and when ethical behaviours are rewarded, an ethical climate prevails in an organization. In an ethical work climate, employees are able to identify ethical issues as they arise and are aware of the company resources available to help them act ethically and according to organizational policy and culture. An ethical climate characterizes businesses that are committed to ethical citizenship.

Before we examine the benefits of an ethical work climate, it may be useful to briefly consider the negative outcomes that may arise from a work climate that does not emphasize ethical conduct. Consider the case of Bausch and Lomb. The company's operations were governed almost exclusively by strict sales and earning objectives. Under stringent bottom-line pressures and with no counterbalancing values helping them to differentiate right from wrong, managers engaged in unscrupulous pricing and fraudulent billing. These practices translated into a series of lawsuits from customers and distributors, bad publicity and a sharp decline in the firm's market value.

Thus, a major benefit of an ethical climate is avoidance of negative consequences that may result from unscrupulous conduct in the workplace.

The linkages between 'business' and 'society'

The linkages, relationship and interface between 'business' and 'society' are from their inception, over the years, has undergone spectacular changes. The survival and effectiveness of any organizational entity depend on the quality of support it gets from all stakeholders, including the society at large. Although in the initial years of this interface between 'society' and 'business' CSR was confined to 'philanthropy', there have been successive changes and developments in the understating of these stakeholders to make it more of 'business strategy' rather than 'philanthropy'.

The CSR is the continuing commitment by business to behave ethically and contribute to the economic development while improving the quality of life of the workforce, their families as well as of the local community and society at large. Business needs a stable social environment that provides a predictable climate for investment and trade. Understanding society's expectation is quite simply enlightened self-interest for business in today's interdependent world. The CSR, therefore, will be centred on (*a*) to treat employees fairly and equitably, (*b*) operate ethically and with integrity, (*c*) respect basic human rights, (*d*) sustain the environment for future generations and (*e*) be a caring neighbour in their communities.

Due to globalization, corporations are no longer confined to the traditional boundaries of the nation state. On the one hand, globalization has provided a great opportunity for corporations to be globally competitive by expanding their production base and market share. On the other hand, the same situation poses a great challenge to the sustainability and viability of such mega businesses. Labourers, marginalized consumers, environmental activists and social activists have protested against the unprecedented predominance of multinational companies (MNCs). The success of CSR initiatives, in future, will largely depend upon the relationship between the corporate system and the social and political systems. The notion of a generalized responsibility is not an operational concept anymore than is the idea of profit maximization. A company's goals, policies and strategies must be uniquely determined in the light of opportunities and threats sighted in its external environment, its internal resource strengths and weaknesses and the values haled by its principal managers.

Note

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Section I

The Society, Business and Ethics: The Broader Canvas

1

Business Ethics

Arabinda Ray

Introduction

The question of ethics is faced in all walks of life. Everywhere it raises hard, often insoluble, questions about the choice of the right path. Business is probably one of those areas where the most difficult part is to answer the question satisfactorily. Answers can never be of universal application; they are also time-specific. What may have been the right thing to do in one age may be totally wrong in another age. Parties with perfectly clear consciences may often choose radically different paths.

Ethics is necessary because there is always conflict in man's desires. The primary cause of conflict is egoism; most people are more interested in their own welfare than that of other to the extent of damaging the latter. This would seem to put business in a very tight spot. The whole question of the approach to competition raises many moral issues on this score. But conflicts are equally possible even when there is no element of egoism as such. One man may want everybody to be a Catholic, another may want everybody to be a Methodist. Such non-egoistic desires are frequently involved in social and political conflicts. Ethics has a twofold purpose—first to find a criterion to distinguish good and bad desires; second to promote the good and discourage the bad by means of praise and blame.

Aristotle sought the golden mean in every situation of conflict. Every virtue is a mean between two extremes, each of which is a vice.

This provides the means of examination of various virtues. Courage is a mean between cowardice and rashness, liberality between prodigality and meanness, proper pride between vanity and humility and modesty between bashfulness and shamefulness. In the world of business, the golden mean is sought between monopoly and the appropriate share of the market; between the consumer's desire for total satisfaction and the producer's cost of achieving this; between the employees' concept of rightful compensation for labour and in the share of the profit on the one hand and the management's desire to maximize in every way the profits of the business.

Imperatives—Avoidance and contradictions

It provides some satisfaction to human beings when regulatory diktats prevail. It is comforting to be able to say with honesty that the regulatory imperatives have been faithfully observed. When in the Middle Ages religion laid down imperatives for almost all aspects of life, Europeans must have had clear consciences when they were committing what can be judged in another era as acts of gross atrocity. Belief in God who will ultimately judge one's deeds and reward or punish was for centuries an effective way to prompt one to stick closely to the moral code laid down by the spiritual authority. Gradgrinds and Murdstones need not have had sleepless nights when continually committing, as we judge today, deeds of extreme cruelty.

Now that reason has replaced God and religion, reason has to dynamically set up the golden mean in every situation. A grounding in ethics then becomes ever so important. All judgements on issues, both in the personal and in the corporate sphere must control four predominant passions inherent in humans—anger, vanity, insincerity and greed. Millenia ago, the Vedas listed the basic virtues to control such passions and they are useful even today in both personal and corporate contexts. These virtues are truthfulness, charity, self-control, gratitude, fidelity, forgiveness, non-stealing, non-cheating and non-injury.

From the guilds of olden times to the modern age accountancy, all trade and professional bodies have tried to establish guidance rules which when pursued by practitioners give a sense of being ethical. Thus, the Hippocratic oath has for thousands of years famously established a set of principles for the medical graduates. When someone qualifies as a chartered accountant, he/she is enjoined to be well aware of his ethical responsibilities. He/she has to acknowledge his/her obligation to act in an ethical manner and encourage others to do the same—act with integrity, competence, diligence and respect.

It is a matter of enquiry as to why MBAs from whom future CEOs and entrepreneurs will come, should not be made to take formally a universally uniform oath which at least defines the basic ethical principles to which they should conform in their basic lives. Scattered exhortations exist but it would add strength to their application if they were founded in formality. In any case, the public should see an established moral code under which a professional manager operates.

Of course, there is a limit to how much a declared code or even regulation can do. In the final analysis, one can write down all the rules and moral guidances one wants, pass resolutions in appropriate bodies, but conformity remains doubtful. Ultimately, there has to be a philosophy of ethical behaviour that should come from the way human beings operate in a professional manner.

The bigger hurdle even to a sincere wish to conform to ethical principles is the persistent cropping up of situations where ethical principles themselves may be contradictory and one has to make a difficult choice, guided by one's conscience. A classic example of this anguish comes from the Bhagavad Gita in the Mahabharata where Arjuna is faced with an awesome dilemma. In the battlefield into which his chariot is driven, he is confronted by his close relatives and kinsmen whose treachery and unconscionable behaviour has brought about the war he has to engage in. If justice has to prevail, he must fight and kill them. Arjuna breaks down and wants to lay down his arms but Krishna who is acting as his charioteer convinces him that he has to do his duty as a warrior. The idea of duty is what mediates between having an imperative and performance of the course of action demanded—one has to transcend moral distinctions to do one's duties with an inner freedom to work with clear and enlightened intelligence and to act as if you are an instrument of God's purpose. The work has to be done as an end in itself without any thought of a reward. The Hindu concept of 'dharma' is a constant elaboration of this point. It would be rewarding to list the imperatives of dharma in a business context.

There will often be a conflict between the immediate business interest and the wider aspects of social imperatives or public morality where a responsible person's ethical sense must dominate. The unnecessary use of the female body in advertisements, the not always innocuous belittling of another human being, race or nation in a conference, the twisted publicity given to an unacceptable happening are all matters to guard against.

Global warming

There are bigger issues today making a universal demand on the conscience of business. They are being reluctantly entertained in the domain of ethics. Predominant among these is the question of carbon emission and global warming. It is now at last being admitted that every business has a grave responsibility in this matter and will have to employ all possible resources to reduce/eliminate its carbon emission problem. It is interesting to note in passing that *Chambers Dictionary* defines ethical investment as one which does not exploit people and animals.

Industrialization is essentially the systematic exploitation of wasting assets. In all too many cases what we extol as progress is merely an acceleration in the rate of that exploitation. Such prosperity as we have used up to the present day is the consequence of rapidly spending the planet's irreplaceable capital—be it coal, oil or minerals.

As the biggest commissioner of this exploitation, business as such owes an ethical debt to future generations to ensure they can continue to enjoy the so-called fruits of the earth. Consumption of fossil fuels has to be minimized through the development of alternate sources of energy at competitive prices. These alternatives have crossed the thresholds of usable technology and a commitment is called for from business now to fund co-operatively adequate sums to help in their extended use. Nuclear energy is, of course, a possibility but its attractiveness must not hide others which are or will ultimately be cheaper in installation and are being extensively used. India went into a massive political campaign to get strategic support for the country's plans to extend the use of nuclear energy without disruption. Yet, as on date, against 5,000 megawatts of power generated through the nuclear route, India already produces 17,000 megawatts of electricity through wind power. More corporate money needs to be spent in the spread of solar power, for cheaper transmission methods, for hydroelectricity generation, for electrically-driven cars and for teaching methods to minimize the consumption of oil- and coal-based power and through efficient automotive usage.

Concern for global warming should lead on to consciousness about one's environment and ecology at large, to the Biblical command in respect of one's neighbours. The purity of air in the vicinity of one's factory, the treatment of effluents ensuing, proper connecting roads may all be deemed to be the demand of business ethics.

Employees

Employees represent a major area for the application of business ethics. All sensible businessmen conform to the laws governing employee relations. But the daily impact on relationships call for the practice of ethical judgement—in solving disputes, both with the management and among themselves, in grading, merit assessment and promotions, in fixing reasonable wages and providing terminal benefits, if necessary, in excess of statutory requisites. It must be the ethical objective of business leaders to work towards a situation where employees develop a *sit mens sana in corpore sano* (a healthy mind in a healthy body). This is the best contribution business can make to the well-being of the state. It is accepted that the objective can never be fully achieved but what remains to be done should not be lost sight of at any time.

Cultures have changed. Up to quite recently, attrition in established firms was rare and although it did not get institutionalized as in Japan, lifetime employment was the desired objective of both the employer and the employee. We need to recognize the more pressing desires for self-fulfilment in today's world as well as the competitive environment of the employer's business. A sense of ethics must be the guide in these altered circumstances.

Corruption

It is generally believed that politicians and bureaucrats present the biggest challenge to the practice of business ethics. It is the duty of business to go out of its way to support undisputedly just causes promoted by politicians in conformity with declared national objectives. But the more frequent cases arise from corrupt politicians, and taking advantage of the corrupt environment created, bureaucrats demand unethical support—be it in money or for nepotistic gratification or for satisfying the greed for land. By meeting such demands, the business in question might make temporary gains but like the picture of Dorian Gray the image of the business is tarnished forever. There is no short or easy answer. The morally acceptable desirable action is not unknown to anyone but only a persistent collective effort to meet the challenge truthfully and vigorously will serve any purpose, and ethical business has the duty to strive for such collective effort, for example, by persuasion and even threats of boycott. Each electoral season could provide the opportunity to build that collective programme.

Corruption involves the isolation of established rules for personal gains and profit. We can obviously eradicate it by inducing people to be less self-interested in general, but what is more needed is to provide a specific reason to sacrifice personal gain—a case of carrots and sticks.

Organizational reforms and a smart active judiciary system can to a great extent check corruption. Brisk judgements in courts, a system of inspection and penalties, a speedy and impartial decision by arbitrators in disputes have been time-honoured bases for confronting corruption. The great 4th century BCE Indian political analyst, Kautilya (who had specific remedies for alternatives in practically every aspect of a citizen's life), carefully distinguished between as many as 40 different ways by which one can be tempted to be financially corrupt, and described how a system of spot checks followed by penalties and rewards could prevent these activities.

The over-concentration of power in the hands of poorly paid officers—in business as well as in government—is the ideal breeding ground for corruption. The erstwhile 'licence raj' of India now mercifully a matter of the past provides a classical example. Theoretically, handsome pays should help to create a more honest bureaucracy but it is doubtful whether in practice this has happened to a significant extent. Business organizations too, the world over, have weaknesses in their personnel leading to temptation, and every organization needs to be constantly aware of this threat.

Regulatory practices, fiats and punishments can play a part. At the same time, how people behave often depends on how they perceive others' behaviour. A sense of 'relative justice' vis-à-vis an available comparison can be an important influence in behaviour. The importance of role models and imitation and the pursuit of time-honoured conventions have a direct impact on moral sentiments in business life as well as the social and political context. The exemplary role of a leader is crucial. What Adam Smith wrote more than 200 years ago is still valid:

> Many men behave very decently and through the whole of their lives avoid any considerable degree of blame, who yet, perhaps, never felt the sentiment for the propriety of which we found our approbation of their conduct but acted merely from a regard to where they saw were the established rules.

We need environments to produce a majority of such men. As observed by the Chinese author, Hui-nan-Tzu, 'if the ruler is not upright, then evil men will have their way and loyal men will retire in seclusion'.

Competition

Competition constantly raises ethical issues. The fittest must of course survive and thrive, but does this mean that the winner be so ruthless as to eliminate opposition by direct action—by its advertising, pricing, poaching—by any means whatsoever only making the end justifiable. These are obvious issues and there is no need to dilate further. A new ethical dimension is added to competition by the onslaught of the free market and globalization. The macroeconomic benefits of the world embracing free market cannot be disputed nor likewise can the miseries it brings about in the microeconomic sense. No doubt one day in the future the benefits will reach those who suffer today and are fortunate to survive, but should enlightened ethics-driven business look for ways and means within its powers to alleviate the burden today—in its own long-term interests?

In many countries, including India, commissions exist to control monopolies and the overextended reach of competition, supposedly to protect the weak. In the process, the beneficial effects of competition serving the need of the public, is often overlooked. Here the acknowledgedly ethical practices of business could make such attempts at regulation easier if not redundant. After so many years of a controlled and command economy, a competition culture has yet to take root in India. Policymakers and the public meekly accept anti-competitive practices. The government-appointed competition commission has yet to get down to its work. Laws and commissions are not enough to ensure meaningful competition. Professional management and good corporate governance need to create a good enabling environment for a competition culture placing the consumer at the centre of its objective. Indian business ought to be grateful for the significant changes that they have been able to provide for the Indian consumer since they found their feet against global competition. Telecom is only one among many, many examples.

Regulators are nevertheless necessary; otherwise cartels may harm the cause of the consumer. Business needs to have a clean record against possible charges of collusive acts through seller cartels to divide markets and fix prices to benefit each member of the cartel at the expense of the consumer.

Consumer care

The customer is king in all declarations of good business and it should, therefore, be a natural reaction for business to assist consumer protection movements. However, unless this is regarded as an ethical imperative, observance of codes will be more in words than fully in spirit. Litigation expenses are often a good measure of the degree of ethics prevailing. A very good but understandably difficult case is that of the tobacco industry. Since the harmful effect of cigarette smoking is widely accepted and public warnings about these harmful effects are now mandatorily enforced, the huge business interests need to fight back or compromise rather than give up. Governments also cannot overlook the huge amounts of excise duty the industry provides. One wonders how the situation is different from the time that legislation changed gradually the lethal working conditions prevailing once in cotton mills and organized mining.

A similar situation is before us with the production of agricultural pesticides. Organic farming has gained widespread acceptance and the manufacturers of such chemicals should read the writing on the wall and gradually shift to alternative industries rather than spending fortunes in fighting the spread of organic farming.

Capitalism and value system

We have moved inexorably into a world dominated by capitalism. It is not correct to state that the ethical success of capitalism as an economic system depends only on self-interested behaviour rather than on a complex and sophisticated value system that has many ingredients, including reliability, trust and business honesty (in the face of constant temptations). Every economic system makes some demands on personal ethics and capitalism is no exception. And values do have very considerable reach in influencing the behaviour of individuals.

The successful operation of an exchange economy depends on mutual trust and the use of values—explicit and implied. Where they exist freely, their role is often overlooked. But when they have to be cultivated, that lacuna can be a major barrier to everyone's area. Corporations' needs for motivational structures that are more complex than profit maximization has been widely acknowledged; and that non-profit motives have a role in the success of capitalism is not a new point but it is constantly overlooked. We do not appreciate the benefits of the ubiquitous availability of oxygen in the atmosphere till we are gasping for breath. To quote Adam Smith again: 'An object with which we are quite familiar and which we see every day, though both great and beautiful, has but a small effect upon us; because our admiration is not supported by either Wonder or Surprise.'

Values can be relative. What may not cause surprise in Frankfurt or Geneva or London may look problematic in Cairo or Mumbai or Nairobi in their challenging struggle to establish the norms and institutions of a free market economy. Japan is seen as a great example of successful capitalism yet its internal organizations are difficult to recreate elsewhere. This is something business leaders who so avidly want the success of the free market system must recognize and take conscious steps to inculcate ethical values in business transactions and human resources management because these values are immutable and incorruptible rather than blindly copy successful models.

Islands in the oceans of poverty

We then move on to the biggest universal challenge to business for the practise of ethics. The challenge can only be conceived to be such only if it is enfolded in the concept of ethics. Professionals in business cannot continue to operate in small islands within an ocean of deprivation and poverty however affluent and growth-oriented the economies of those islands may be. A kind of rise in the level of the oceans a la global warming must be considered a distinct middle to long range possibility. The flaunting of wealth by businessmen to build multi-storeyed fully air-conditioned skyscrapers for exclusive occupation of the family in the same city where more than a million people sleep on pavements and go hungry; whose families flit around in luxuriously equipped private jets on personal trips are blows to the sense of ethics of business at large.

The situation can be understood if it prevailed in a fascist or a dictatorially governed country but if it happens in a democratic country like India it spells grave dangers for society at large. For long it has been believed that the trickling down effects from a rapid growth in gross domestic product (GDP) will expand these islands of affluence to increasingly large areas of deprivation raising standards of living in general. But in reality this is not happening. The top is certainly becoming world beaters in many fields of business through the reach of their products, through global acquisitions and the flow of funds into their coffers. In the meantime, the poverty level remains menacing, illiteracy especially among women thrives, quality drinking water is scarce for majority of the population and healthcare for the masses is appalling while the rich enjoy facilities globally comparable. Thanks to television the have-nots are made constantly aware of what is available but they are missing out on. Corruption and inefficiency reign. The country has remained democratic but the voting power is unscrupulously manipulated. The worm is bound to turn one day unless imbued with the right spirit of business ethics accepts it has a role to play.

It is not enough to have periodic sessions on the social responsibility of business. Action needs to transcend words. The Constitution of India is a noble monument to social justice and an egalitarian society; its articles are constantly quoted in every judgement and *ad lib* in the Parliament but we do not live our personal lives using this as the guiding star. It has been stated that conformity to regulatory edicts can only happen if there is a philosophy of ethical behaviour that comes from human beings operating by the precepts of their profession or *dharma*.

Conclusion

The word 'company culture' is bandied around and at the same time derided in business circles governed by hard-nosed leaders. In today's world of footloose managers, the culture of a particular company has the problem of being absorbed by a joining manager before he can practise it. A properly established company culture can go a long way to make the company operate with an ethical sense on all fronts but in the ultimate analysis what we need is a value system commonly shared by business at large and not specific to an organization.

One has travelled a long way since a coal merchant in Chicago gathered a few friends from different trades 100 years ago and collectively and publicly vowed to operate under fair trade practice. The Rotary movement's progenitors certainly lit a lamp which spread the world over but in the process, talks, camaraderie, conferences took over the preponderance from action. The world today needs a revival of that spirit in a genuine form and a similar global development of applied business ethics.

2

Governance and Economic Development

Bibek Debroy

Introduction

The expression 'governance' has now become a buzzword. Everyone uses it, without necessarily defining it. At one level, we have a concept of corporate governance, related to efficient management of corporations.[1] That too, has a link with economic development. However, when we normally link governance with economic development, we have in mind what should actually be called public governance, related to the act of governing. Every society has a framework for exercising government functions through three main organs of state, the legislature, the executive and the judiciary, with divisions between the three enshrined in the Constitution, if there is one. In Francis Bacon's time, religion was also included in the framework of government. He wrote, 'So when any of the four pillars of government are mainly shaken or weakened (which are Religion, Justice, Counsel and Treasure), men had need to pray for fair weather' (Bacon, 1625/2006).

A distinction is also sometimes drawn between the state and the government, the former being more permanent, while the latter refers to the incumbent elected government. But clearly, governance is more than these formal institutions of government. It is also about decision-making processes and about interactions between civil society and these formal institutions. The focus thus is on domestic public governance because governance also has an international or global dimension.[2] Good governance will be characterized by predictability, transparency and accountability, while bad governance will be the opposite. And these days, one seeks to improve the public governance function through electronic governance or e-governance. Most poverty and deprivation can be interpreted as resulting from asymmetric access to information. Information technology can certainly be a powerful tool in reducing this asymmetric access to information. Within the e-governance framework, in the Indian context, one can refer to the examples of *e-seva* in Andhra Pradesh, *bhoomi* in Karnataka, *gyandoot* in Madhya Pradesh, *SETU* in Maharashtra and *RajNidhi* in Rajasthan. There are also successful public–private partnerships.[3]

Having said this, it is not easy to define governance. Three commonly used definitions will illustrate the point. To the United Nations Development Programme (UNDP),

> Governance is the system of values, policies and institutions by which a society manages its economic, political and social affairs through interactions within and among the state, civil society and private sector. It is the way a society organizes itself to make and implement decisions—achieving mutual understanding, agreement and action. It comprises the mechanisms and processes for citizens and groups to articulate their interests, mediate their differences and exercise their legal rights and obligations. It is the rules, institutions and practices that set limits and provide incentives for individuals, organizations and firms. Governance, including its social, political and economic dimensions, operates at every level of human enterprise, be it the household, village, municipality, nation, region or globe. (UNDP, 2004)

For the World Bank,

> We define governance as the traditions and institutions by which authority in a country is exercised for the common good. This includes (*a*) the process by which those in authority are selected, monitored and replaced, (*b*) the capacity of the government to effectively manage its resources and implement sound policies, and (*c*) the respect of citizens and the state for the institutions that govern economic and social interactions among them.[4]

And finally, for the European Commission,

> Governance concerns the state's ability to serve the citizens. It refers to the rules, processes, and behaviours by which interests are articulated, resources are

> managed, and power is exercised in society. The way public functions are carried out, public resources are managed and public regulatory powers are exercised is the major issue to be addressed in this context. In spite of its open and broad character, governance is a meaningful and practical concept relating to the very basic aspects of the functioning of any society and political and social systems. It can be described as a basic measure of stability and performance of a society. As the concepts of human rights, democratisation and democracy, the rule of law, civil society, decentralized power sharing, and sound public administration, gain importance and relevance as a society develops into a more sophisticated political system, governance evolves into good governance. (*Communication on Governance and Development*, October 2003, COM (03) 615)

These definitions may complement one another and even overlap. But they are not identical.

Let us now turn to the notion of economic development. Once upon a time, attitudes towards economic development were fairly simple. Economic development was then regarded as synonymous with economic growth and implied an increase in per capita income, spliced with diversification of the economy, such as the shift from the primary to secondary sectors, the tertiary sector then being regarded as relatively unimportant. The trick for developing economies, or underdeveloped economies as they were then called, was to boost the domestic savings rate and supplement it with foreign savings,[5] with an accompanied transformation of the agriculture sector. Somewhere down the line, the focus then shifted to technological progress, access to technology and factor productivity gains, a more efficient use of factor inputs, as opposed to an increase in inputs that were going into the productive process.[6] Stated differently, growth requires efficiency. Efficiency requires competition and thus the switch away from import substitution to export promotion. Notwithstanding whatever may have been thrown in through investments in human capital formation, by investing in health and education, this remains the core of the so-called Washington Consensus with competition as the key. It is a separate matter that like chastity, competition is invariably praised, but rarely practiced. Often, this is because of vested interests and protectionist pressures. The Canadian publisher, Campbell Hughes, had the following to say about Canadians,

> A Canadian is someone who drinks Brazilian coffee from an English teacup and munches on French pastry while sitting on his Danish furniture having just come home from an Italian movie in his German car. He picks up his Japanese

> pen and writes to this member of Parliament to complain about the American takeover of the Canadian publishing business.

Appropriate economic policies like competition are indeed important. But perhaps recognition began to sink in that while appropriate economic policies, narrowly defined, were necessary conditions, they were by no means sufficient. And thus one witnesses a resurgence of what has come to be called institutional economics, with a focus on politics, history, institutions, the law, social conventions and the family. For instance, there are works by Ronald Coase, Armen Alchian, Harold Demsetz and Oliver Williamson on transaction costs and property rights, James Buchanan and Gordon Tullock on public choice, Richard Posner and William Landes on jurisprudence and legal processes and Robert Fogel and Douglass North on social and economic history.[7] The emphasis on governance fits into this resurgence of institutional economics. However, there is a caveat. There is indeed an emphasis on governance because one wishes to establish a link between governance and economic development and perhaps even make cross-country and time-series comparisons, just as one wishes citizens of developing countries to demand transparent and accountable governance. While this objective is laudable, one should recognize that much of the emphasis on governance is actually donor-driven, with an attempt to link official development assistance (ODA) to improvements in governance indicators.

To get back to institutional economics, modern growth and development theory has often tended to be myopic, as has much of neoclassical economics. The emphasis on institutional economics and governance is something that classical economics would have assumed as axiomatic. A few quotes from Adam Smith (1723–1790), the father of modern economics, will illustrate the point. In a lecture in 1755, he stated, 'Little else is requisite to carry a state to the highest degree of opulence from the lowest barbarism but peace, easy taxes, and a tolerable administration of justice: all the rest being brought about by the natural course of things' (Smith, 1776). The *Wealth of Nations* states,

> According to the system of natural liberty, the sovereign has only three duties to attend to...first, the duty of protecting the society from the violence and invasion of other independent societies; secondly, the duty of protecting, so far as possible, every member of the society from the injustice or oppression of every other member of it, or the duty of establishing an exact administration of

> justice, and thirdly, the duty of erecting and maintaining certain public works and certain public institutions, which it can never be for the interest of any individual, or small number of individuals, to erect and maintain. (Smith 1776: Book IV, Chapter IX)

The *Wealth of Nations* also states,

> Great nations are never impoverished by private, though they sometimes are by public prodigality and misconduct. The whole, or almost the whole public revenue, is in most countries employed in maintaining unproductive hands....Such people, as they themselves produce nothing, are all maintained by the produce of other men's labour....Those unproductive hands, who should be maintained by a part only of the spare revenue of the people, may consume so great a share of their whole revenue, and thereby oblige so great a number to encroach upon their capitals, upon the funds destined for the maintenance of productive labour, that all the frugality and good conduct of individuals may not be able to compensate the waste and degradation of produce occasioned by this violent and forced encroachment. (Smith 1776: Book II, Chapter III)

In line with Adam Smith's advocacy of the invisible hand, these quotes illustrate a minimalist role for the government. But they don't advocate an abdication of role by the state either. He didn't want a predatory state, but he did want a visible state.

Indeed, any definition of governance is contingent on what role one expects the state to assume. Henry Thoreau (1849) said, 'That government is best which governs not at all'. A minimalist state role encompasses preservation of rule of law and property rights and some investments in physical and social infrastructure, apart from ensuring a facilitating environment for private entrepreneurship and growth. And insofar as public expenditure is concerned, there are issues of efficiency, transparency and accountability. While these are the bread and butter of governance discussions today, they are also recurrent themes in Adam Smith.[8] By rediscovering governance, economics has simply gone back to its original roots.

While the focus of policy has changed, so has the equation between growth theory and development theory. It is now recognized that economic development is more than increases in per capita income, or about percentages of population below the poverty line. That is, economic development is a more broad-based notion than that of growth. Other indicators of human development and human deprivation have therefore been developed. The standard source for making cross-country comparisons of human development is UNDP's Human Development Report (HDR).[9] HDRs have been around since 1990. The argument for publishing something like HDR is obvious. Conventionally, economists have measured development through indicators like per capita income or even the percentage of population below a designated poverty line. But the percentage of population below a poverty line, known as the poverty ratio or head count ratio, is also based on income or expenditure. And income ought to be an input into the human development process. Instead, we should capture tangible improvements in indicators like health or education attainments. Having accepted the argument, problems arise. Data must be available and if cross-country comparisons are to be made, the cross-country data collection must be comparable. That's difficult, even for something as simple as income. Every country has reasonably satisfactory collection systems for aggregate national income, through national income statistics. That can be converted into per capita income by dividing by population. However, that figure will be in national currencies. To use it for cross-country comparisons, there has to be conversion into a common numeraire like the US dollar. Should one use official exchange rates for this conversion? That will be misleading, because goods, and certainly services, are often cheaper in developing countries. Therefore, one uses purchasing power parity (PPP) exchange rates. However, to obtain figures on poverty ratios, one needs data on personal income or expenditure distributions. That's not available through national account statistics and is only available through surveys. To complicate matters further, some countries have surveys of income, others of expenditure. Moreover surveys are not held every year and every country suffers from the problem of a mismatch between aggregate consumption expenditure as obtained through surveys and aggregate consumption expenditure as obtained through national accounts. Such survey-related data problems also crop up for health and education indicators. In addition, distributions matter. Averages are useful aggregate indicators. But because they are aggregated, they also hide more than they reveal.

Once one has decided on variables and obtained data on the variables, there is the question of constructing an index. This involves weighting the variables before aggregating them and subjectivity is involved in almost any selection of weights. It would have been better to leave data on the variables as they are, but people love indices. HDR has five such indices—human development index (HDI), human poverty index for developing countries (HPI-1), human poverty index for selected OECD countries (HPI-2), gender-related development index (GDI) and gender empowerment measure (GEM). Of these, HPI-2 is not relevant for developing countries like India. HDI is the most commonly cited one and is based on three variables—a long and healthy life (measured by life expectancy at birth), knowledge (measured by adult literacy rate and gross enrolment ratio) and a decent standard of living (measured by per capita gross domestic product in PPP US dollars). The aggregation process is such that the maximum value of HDI is one and the minimum value is zero. The higher the HDI value, the better. Depending on the HDI value, countries are divided into three categories—high human development for countries that have HDI more than 0.800, medium human development for countries that have HDI between 0.500 and 0.800 and low human development for countries that have HDI less than 0.500.

The next index in HDR is HPI-1, based on a long and healthy life (measured by probability at birth of not surviving to age 40), knowledge (measured by the adult illiteracy rate) and a decent standard of living (measured by percentage of population without sustainable access to an improved water source and percentage of children underweight for age). GDI attempts to capture gender disparities. It follows the same methodology as HDI, but factors in male–female differences. There are fewer countries because gender-disaggregated data are sometimes not available. GEM is an indicator of female empowerment, with variables that capture political participation and decision-making, economic participation and decision-making and power over economic resources. Requisite data are not available for an Indian GEM or GEM rank to be constructed.

All of these indicators are attempts at capturing economic development, as opposed to economic growth alone and some of them can also be accepted as governance indicators. The Millennium Development Goals (MDGs), adopted as targets to be attained by developing countries by 2015, are also an example of economic development goals. There are eight such goals: (1) eradicate extreme poverty and hunger, (2) achieve universal primary education, (3) promote gender equality and empower women, (4) reduce child mortality, (5) improve maternal health, (6) combat HIV/AIDS, malaria and other diseases, (7) ensure environmental sustainability and (8) develop a global partnership for development.

Stated thus, these sound like vague motherhood statements. However, it is targets under these goals that make the goals operationally meaningful and enable one to quantify and measure progress towards the MDGs. There are 18 such targets and we will ignore the seven targets under goal 8 of developing a global partnership for development. The targets for the other goals are shown in Table 2.1. One does notice that targets are a bit more precise up to Goal 5.

Let us leave aside the question of how India is progressing towards these MDGs. The answer is a function of which specific goal one has in mind. Suffice to say, that in the aggregate, if the developing countries as a group are falling behind on MDGs that is largely because of sub-Saharan Africa. But let us note that broader notions of economic

Table 2.1 MDG goals and targets

Goal 1	Target 1: Halve between 1990 and 2015, the proportion of people whose income is less than US$1 a day
	Target 2: Halve, between 1990 and 2015, the proportion of people who suffer from hunger
Goal 2	Target 3: Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling
Goal 3	Target 4: Eliminate gender disparity in primary and secondary education, preferably by 2005, and in all levels of education no later than 2015
Goal 4	Target 5: Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate
Goal 5	Target 6: Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio
Goal 6	Target 7: Have halted by 2015 and begun to reverse the spread of HIV/AIDS
	Target 8: Have halted by 2015 and begun to reverse the incidence of malaria and other major diseases
Goal 7	Target 9: Integrate the principles of sustainable development into country policies and programmes and reverse the loss of environmental resources
	Target 10: Halve, by 2015, the proportion of people without sustainable access to safe drinking water and basic sanitation
	Target 11: Have achieved by 2020 a significant improvement in the lives of at least 100 million slum dwellers

Source: www.un.org/millenniumgoals/bkgd.shtml (accessed on 21 April 2010).

development and human development are also used. In a broad sense, human development is about freedom. In an influential book by Amartya Sen, titled *Development as Freedom*, five instrumental freedoms are mentioned—economic facilities, political freedoms, social opportunities, transparency guarantees and protective security (Sen, 2000). In the subsequent and related rights-based literature, the point is made that development is not only about improvements in outcomes, but also about processes. However, most standard measures of human development concern economic indicators, sometimes spilling over into socio-cum-political ones. Since that is the province of governance also, we next confront the issue of establishing a correlation between governance and economic development.[10]

This is easier said than done. Defining governance may have been difficult, measuring and quantifying it is virtually impossible (see Besancon, 2003; Hyman and Silver, 1998; Kapoor, 2004; Kaufmann and Kraay, 2003; Kaufmann et al., 2000; Landman and Häusermann, 2002; Sudders and Nahem, 2004). Some of these problems are the following. First, some governance indicators depend on *de jure* international commitments made by countries and these may have no relation with what actually obtains *de facto*. These are indicators based on ratification of standards, codes or treaties, but monitoring implementation is close to impossible. Second, governance measurement should be based on tangible improvements in outcomes or performance. These are indeed the kinds of indicators one uses in measuring and quantifying economic development. However, governance is a process and quite apart from the problem of differing perceptions about what should be included and what should be excluded in governance, objective data are impossible to obtain. Hence, one relies on subjective responses to questionnaires administered to respondents. Each such survey raises questions about sample designs, sample sizes and even the questions themselves, apart from the issue of inherent subjectivity and a perceptional problem. Third, while on these surveys, there is an issue of converting what is fundamentally an ordinal or ranking response to cardinal values. This is typically done through scores. Fourth, the normative assumptions in questions cannot be ignored. For example, voter turnouts are used as a proxy for democracy, the value judgement being that high voter turnouts are better. But in countries where voting is not compulsory, non-voting also represents a choice. Alternatively, questions may be asked about the period between detention and trial, the value judgement being that the shorter the period, the better. However, justice is also about a fair trial, not just a speedy trial. Fifth, once one has obtained the scores, they must be aggregated to arrive at a composite figure and this requires choice of weighting and differing weights can lead to differing overall results. The point is not to denigrate the use of governance surveys. After all, one is trying to capture something that is difficult to measure. However, most governance surveys tend to gloss over these problems and suggest robustness in governance estimation that simply does not exist. In one of the Sherlock Holmes stories (A Scandal in Bohemia), Arthur Conan Doyle had Holmes say, 'It is a capital mistake to theorize before one has data.' One remembers this quote, but not always the second sentence, which says, 'Insensibly one begins to twist facts to suit theories, instead of theories to suit facts.' It is a current mistake to theorize with imperfect data. To compound matters, such surveys are used not only to track temporal changes in a country over time, but also to make cross-country comparisons. A listing of such major governance surveys is the following,[11]

1. Afrobarometer Surveys,[12] covering national public attitudes on democracy, markets and civil society in Africa;
2. Freedom House's Annual Survey of Freedom,[13] focusing on political freedom, that is, political rights and civil rights;
3. Transparency International's[14] Bribe Payers Index;
4. Transparency International's[15] Corruption Perceptions Index;
5. European Bank for Reconstruction and Development and World Bank's Business Environment and Enterprise Performance Survey (BEEPS),[16] attempting to gauge the investment climate and competitive environment that firms operate in;
6. The Cingranelli-Richards (CIRI) Human Rights Database,[17] published by the National Science Foundation and the World Bank;
7. Center for Global Development's Commitment to Development Index,[18] with an emphasis on donor policies;
8. East Asia Barometer,[19] covering politics, reform, democracy and citizen action in East Asia;
9. International Institute for Democracy and Electoral Assistance's (IDEA) Electoral Quotas for Women Database,[20] focusing on quotas and actual seats obtained by women in public elections;

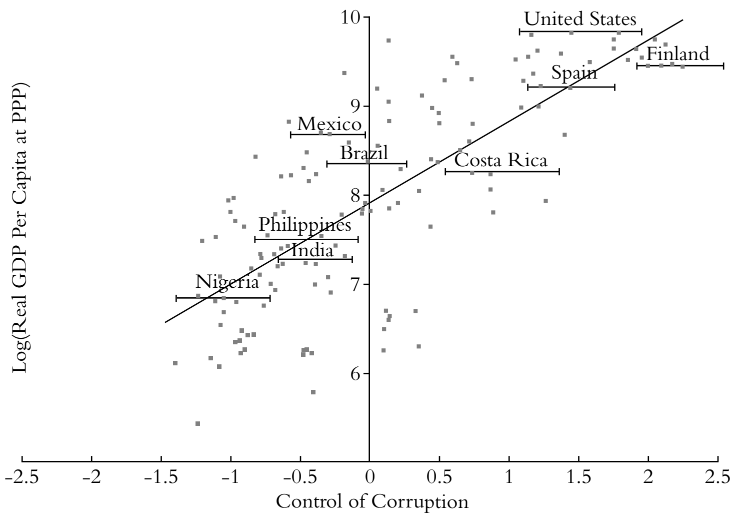
10. The Election Process Information Collection (EPIC) database[21] produced by IDEA and UNDP;
11. European Commission's Eurobarometer,[22] with an emphasis on attitudes towards European integration, European Union (EU) institutions and policies;
12. ILO's GAPS in workers' rights;[23]
13. One World Trust's Global Accountability Report;[24]
14. University of Strathclyde's Global Barometer Survey,[25] with an emphasis on attitudes towards democracy;
15. The World Bank Institute's Governance Matters set of indicators,[26] with governance measured under six aggregate heads or clusters—voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law and corruption;
16. World Economic Forum's Growth Competitiveness Index,[27] based on three components of economic growth—a technology index, a public institutions index and a macroeconomic environment index;
17. Danish Center for Human Right's Human Rights Indicators;[28]
18. Heritage Foundation and *Wall Street Journal*'s Index of Economic Freedom,[29] based on 10 broad factors of economic freedom—trade policy, fiscal burden of government, government intervention in the economy, monetary policy, capital flows and foreign investment, banking and finance, wages and prices, property rights, regulation and informal market activity;
19. Kurtzman Group's Opacity Index,[30] attempting to measure costs to countries through reduced foreign direct investments;
20. University of Pennsylvania's Political Constraint Index;[31]
21. Purdue University's Political Terror Scale;[32]
22. Freedom House's Press Freedom Survey;[33]
23. Center for Public Integrity's Public Integrity Index;[34]
24. University of California (San Diego's) Weberian Comparative State Data Project,[35] to capture the impact of bureaucratic structures on economic performance;
25. United Nations University's World Governance Assessment;[36]
26. World Press Freedom Rating,[37] produced by Reporters Without Borders;
27. University of Michigan's World Values Survey.[38]

This is by no means a comprehensive list. But this plethora of surveys and indicators suggest that pinning down and quantifying governance is by no means an easy task. Even if the analogy of the blind men and an elephant is unfair, people with 20/20 vision have grasped one aspect of the elephant. And it is also understandable, given the focus of different surveys on different aspects of governance, that a country might score well in one survey and not in another. As the listing illustrates, some surveys concentrate on political, social and civil freedoms, others on a narrower dimension of economic freedom. The correlation between economic development and democracy is often debated and the Human Development Report for 2002 explored this in great detail.[39] Cross-country econometric estimations fail to establish a clear link. While there are countries that have performed well in the absence of democratic rights, there are also countries that have no democratic rights, but have registered appalling economic growth rates. There has been sometimes talk of a democracy tax, implying that because of democratic institutions, the rate of gross domestic product (GDP) growth has slowed down. There is no evidence that such a democracy tax exists. But were there to be such a hypothetical trade-off, democracy would be regarded as non-negotiable. Democracy is like oxygen. We don't realize its value because it is always around. However, in its absence, life is unsustainable.

We have discussed attempts at measuring and quantifying economic development and we have also discussed attempts at measuring and quantifying governance. The thrust of the argument has been the obvious one. Measurement of economic development is more robust than measurement of governance. And partly as a result of this, there are problems when we attempt to correlate the two. Jeffrey Sachs needs no introduction and recently, Sachs (2005) has produced a popular and extremely readable book titled *The End of Poverty*. The goal of eradicating poverty is a laudable one and as was said earlier, if the world as a whole is falling behind on the MDGs, that's largely because of sub-Saharan Africa. The Sachs argument is one of increasing official development assistance (ODA) or aid. While the merits of that argument need not occupy us now, there is a chapter in that book, titled *Myths and Magic Bullets*. In that chapter, Jeffrey Sachs tries to counter the argument that aid will not work in Africa because of governance problems. A quote is in order,

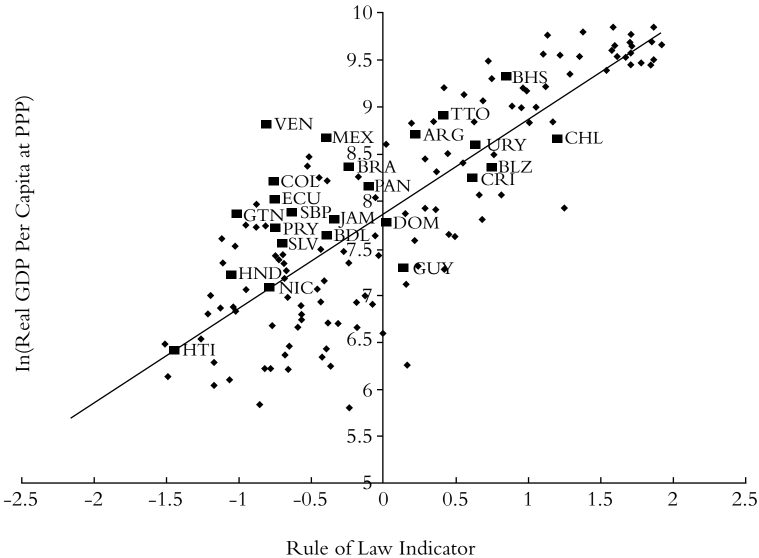
> The point is that virtually all poor countries have governance and corruption indicators that are below those of the high-income countries. Governance and higher incomes go hand in hand not only because good governance raises incomes, but also, and perhaps even more important, because higher income leads to improved governance. As a country's income rises, governance improves for two major reasons. First, a more literate and affluent society is better able to keep the government honest by playing a watchdog role over government processes. Newspapers, television, books, telephones, transport, and now the Internet, all of which are vastly more available in rich countries, enhance this watchdog function and empower civil society. Second, a more affluent society can afford to invest in high-quality governance. When governments are backed by ample tax receipts, the civil service is better educated, extensive computerization improves information flows, and the public administration is professionally managed. (Sachs, 2005)

There are two kinds of issues that arise. The following three figures (Figures 2.1, 2.2 and 2.3) reproduced from Kaufmann and Kray (2003) plot three measures of governance (control of corruption, protection of property rights or rule of law and voice and accountability) against cross-country real per capita GDP, adjusted for purchasing power parity. These figures tend to show a strong positive relationship between per capita income and governance.



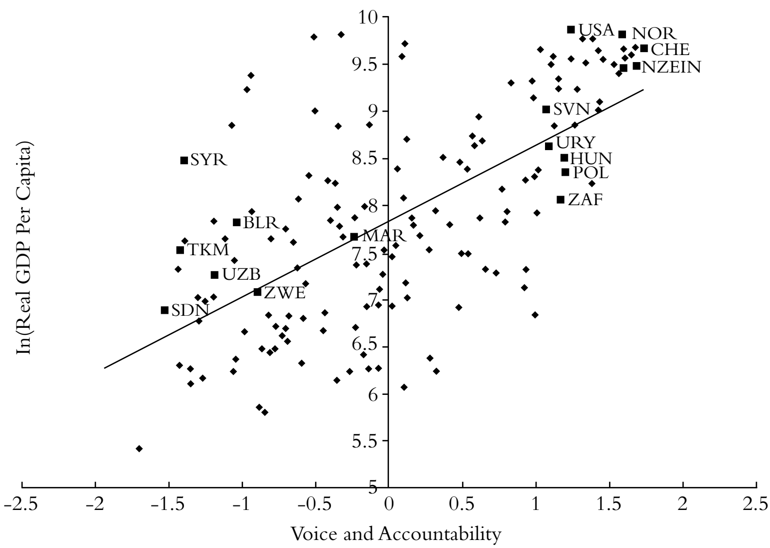
Source: Kaufmann and Kraay (2003).

Figure 2.1 Control of corruption and per capita incomes



Source: Kaufmann and Kraay (2003).

Figure 2.2 Rule of law and per capita incomes



Source: Kaufmann and Kraay (2003).

Figure 2.3 Voice and accountability and per capita incomes

But on the first issue, how strong is the correlation between per capita income and governance? These figures pick on three indicators of governance and suggest that there is a strong positive correlation. But, as we have seen, there are various indicators of governance, and such strong positive correlations do not characterize all indicators of governance. And this is precisely what Sachs means by arguing that the correlation between governance and economic growth is not all that robust, although a weak correlation does indeed exist. The second issue is an even more important one. Does this correlation establish causation, and if so, in what direction is the causal relationship? Does better governance lead to a benign effect on per capita incomes? Do higher incomes lead to governance improvements? Or is the correlation entirely spurious and are there other factors that lead to improvements in both economic development and governance? Based on time-series data, in India, there is a high degree of correlation between the number of reported rape cases and the number of books published. Surely that doesn't indicate causation. The jury is still out on causation and is unlikely to ever come in. Proponents of better governance tend to argue that good governance is good for economic development and over-state their case. The statistical support for such a strong assertion is weak.

However defined, measured and quantified, good governance is desirable. It is 'good' rather than a 'bad'. Hence, it is an end in itself and need not be looked upon as a means to trigger economic development. We should look at better education and health outcomes no differently. Higher literacy levels have a positive impact on economic development and so do lower levels of mortality and morbidity. But even if that were to be not the case, better education and health are desirable outcomes and governance is no different. And it is for this reason that the assorted governance indicators perform a useful function. However, in using these governance indicators, a caveat is in order. Since there are serious subjectivity issues in evolving such indicators, how much credence should we attach to cross-country comparisons? It seems that cross-country comparisons should be taken with a pinch of salt. The use of pepper is more warranted when such indicators are used to track a single country's improvement over time, so that progress can be benchmarked.

How do we ensure improvements in governance? Do we have to wait for income and literacy levels to increase or are there other ways?

In India, there is a great deal of variation across states. There is also a great deal of cynicism about the three main organs of the state, the executive, the legislature and the judiciary. John Kenneth Galbraith (1958, 1967) spoke of the secession of the successful in a slightly different context. Relatively richer sections of society, the relatively successful, can afford to secede. But if the three organs of state are to deliver, or deliver better, countervailing force has to be exerted by civil society. And the catalyst for civil society action or civil society pressure invariably has to come from the successful sections, who are more educated and more literate, and also more aware of their rights. Across India, there are indeed successful instances of where such better-off citizens haven't seceded. The resultant civil society pressure has lead to right to information laws, citizens' charters and transparency and accountability in public expenditure. Corruption has many dimensions and no single solution can eliminate all forms of corruption. But discretionary and arbitrary administrative cum executive decisions have also been curbed by such pressure and rent-seeking, bribery and corruption reduced. After all, all machinery requires oil and grease, and the government machinery is no different. Public interest litigation, invoking the court system, has also goaded the executive from inaction to action. All of these illustrate the rise of what has been called the social entrepreneur (Bornstein, 2004). These are instances of non-secession.

Let us now turn briefly to the Indian experience with administrative law reform. Legal reform has to have an administrative law reform component, meaning the subordinate legislation in the form of rules, regulations, orders and instructions from ministries and government departments. Often, constraints to efficient decision-making come about through administrative law, rather than through statutory law and discretion, bribery and rent-seeking are fallouts. Unfortunately, administrative law is not readily available and this is especially true at the state level. Rather remarkably, a government-appointed commission on review of administrative laws had the following to say:

> The Commission was seriously constrained by the fact that it did not have access to a complete set of subordinate legislation in the form of rules, regulations and administrative instructions, issued under different Central Acts, by individual Ministries and Departments. It appears that the Legislative Department itself did not have such a complete compilation of rules, regulations and procedures issued by the Ministries….Another handicap was that the Central Ministries did not have full information about the rules and regulations issued

> by State Governments by virtue of the authority vested in them by Central laws. (Department of Administrative Reforms and Public Grievances, 1998)

Yet, administrative reforms are required to ensure better delivery of governance. However, administrative reforms are often interpreted as civil service reforms, although they should be much more than civil service reform. On reforming civil services in India, several recommendations have been made. The report of the Fifth Central Pay Commission is one example.[40] The 10-volume report of the Expenditure Reforms Commission (ERC) is another.[41] Apart from these, there was a Surendra Nath Committee Report in 2003 and a Committee on Civil Service Reforms in 2004. The issues of downsizing, identifying surplus manpower, retraining, voluntary retirement schemes (VRS), contractual appointments, lateral entry and evaluation and vertical mobility keep recurring and the reform agenda is also known. However, what is invariably implemented is, hikes in salaries. Downsizing is invariably difficult. The British created a civil service job in 1803. A man was supposed to stand on the cliffs of Dover with a telescope and ring a bell when he saw Napoleon coming. This job was eventually abolished in 1945. In India, it is still fashionable to blame the British for everything that went wrong with India's economic development. In this case, the blame is probably warranted. The British left us a bureaucracy. But we have perfected and improved upon it beyond their wildest dreams. The problem is not that the bureaucracy is inefficient in India. The problem is that it is efficient in what it does and it does the wrong things. It is not surprising that Jim Hacker and Humphrey Appleby's escapades are widely appreciated in India.[42]

The broader agenda of administrative law reform involves two kinds of relationships that can overlap—dealings between the citizen and the government and dealings between an enterprise and the government. The latter can again be divided into three phases of an enterprise's existence—entry, functioning and exit. The former involves birth certificates, death certificates, land titles, assorted requirements of establishing one's own identity and issues connected with accessing public services. For both the citizen and the entrepreneur, the years since 1991 have witnessed the exertion of countervailing pressure, documenting corruption and inadequate delivery of services, even if this countervailing pressure tends to be located in certain geographical parts of the country. For instance, for citizen pressure, one can mention the Public Affairs Centre in Bangalore, Lok Satta in Hyderabad, the Mazdoor Kisan Shakti Sangathan (MKSS) in Rajasthan, Jana Agraha in Bangalore, the Centre for Science and Environment in Delhi, the work of the Administrative Staff College in Hyderabad, the Consumer Education and Research Centre in Ahmedabad or *Parivartan* in Delhi. These have questioned not only executive inaction through public interest litigation (PIL),[43] but also the inefficiency and leakage in government expenditure. Right to Information Acts in Goa, Tamil Nadu, Karnataka, Delhi, Rajasthan and Maharashtra are partly an outcome of such pressure, eventually resulting in central legislation in 2005. On the entrepreneurial side, countervailing pressure, highlighting constraints to efficient decision-making through discretionary subordinate legislation, have been highlighted in reports brought out by larger chambers of commerce and industry like Federation of Indian Chambers of Commerce and Industry (FICCI), Confederation of Indian Industry (CII) and The Associated Chambers of Commerce and Industry of India (ASSOCHAM).[44] But one should not form the impression that big business alone is the issue. Since transaction costs have economies of scale and scope, they have a distributional angle and hurt the small entrepreneur more. One instance of countervailing pressure being exerted on behalf of small entrepreneurs is *Manushi*'s work on cycle-rickshaws and vendors. This eventually led to intervention by the Prime Minister's Office (PMO) and changes in municipal laws.[45]

At the central government level, the Fifth Central Pay Commission also flagged the need to make government more citizen and business friendly. This report was submitted in 1997. And also in 1997, there was a conference of chief ministers on effective and responsive administration. In 1995, the Finance Ministry sought to introduce reform measures in different central ministries and government departments. In 1997, this was followed by an exercise started at the initiative of the PMO. Reportedly, 43 ministries and government departments identified administrative law (and statutory law) where simplification, rationalization and harmonization are possible. There is no report card on the extent to which these recommendations were implemented. In 2000, the Prime Minister's Council on Trade and Industry also submitted a report on administrative and legal simplifications.[46] Understandably, this had an industry focus and listed the following as industry concerns,

> Large number of clearances/permissions required; complex regulation governing day-to-day functioning; multiple agencies regulating operations functioning independently; lack of co-ordination between various governing agencies; frequent changes in policies/procedures/tariff structures; unpredictability of changes; lack of clarity on issues between Centre and States; transaction oriented approach of the system instead of a corporate approach, leading to increased costs and delays; lack of openness and transparency in communication and providing information.

Conclusion

The action plan, emerging from the aforementioned chief minister's conference, focused on three areas where administrative law reform was important—(*a*) making administration accountable and citizen friendly; (*b*) ensuring transparency and right to information and (*c*) tackling corruption and motivating the civil services. There is also a central government identification of departments where the citizen interface is the most. This central government categorization mentions public grievances (electricity, water, telephone, ration cards, sanitation, public transport, police), rural services (land records, BPL[47] cards), police (first information report (FIR) registration, lost and found, missing persons), social services (pensions, land acquisition, rehabilitation and compensation, registration of licenses and certificates, ration cards, birth certificates, death certificates, domicile certificates, caste/tribe certificates, arms renewal, registration of documents, motor vehicle registration, driving licenses, school registration, university registration), public information (employment exchanges, examination results, railway, road and airline timetables, government notifications, government forms, government schemes, hospital/bed availability and services), agriculture (information about seeds, pesticides, fertilizers, crop diseases, weather forecasts, market prices), utilities (electricity, water, telephones), commercial (taxation and return filing) and government (electronic procurement). The intention behind this identification was to increasingly resort to e-governance.

While this is a central government list, many of the issues concern the state governments and even the local bodies. Indeed, the citizen's interface with the government is often at the local body level. At the state government level, reform initiatives have varied across states and have also sometimes been a function of the extent to which donor agencies have pushed governance reform. While few states may have set up Law Commissions, the track record on setting up commissions or task force on administrative reforms is better. One should mention the Tamil Nadu High Level Committee on Administrative Reform and Preventing Corruption (1997), the Karnataka Administrative Reforms Commission (2001), the Kerala Administrative Reforms Committee (2001) and the Good Governance Committee in Maharashtra (2000).[48] Following Andhra Pradesh's coinage of the term, the thrust of these recommendations is to make administration simple, moral, accountable, responsive and transparent (SMART). The implementation varies widely from state to state. And we have already alluded to e-governance initiatives earlier. Notwithstanding these isolated successes, one doesn't form the impression that implementation of administrative reforms has snowballed and acquired sufficient momentum. However, one should also mention the 12 reports submitted by the Administrative Reforms Commission (ARC) set up by the UPA government. Of the 12 reports it has submitted so far, the most relevant are the 6th (local governance), 11th (e-governance) and 12th (citizen-centric administration).[49]

The Preamble to the Indian Constitution states, 'We, the People of India…do hereby adopt, enact and give to ourselves this Constitution'. The Constitution, and the governance structure, was given to the citizens of a free country by the citizens themselves. Yet, the structure that delivers governance often reflects a colonial legacy, a 'we versus they' syndrome—where the 'they', the citizens, are invariably supplicants and 'we' are the ones who deliver administration. For better governance, and perhaps for faster economic development as a byproduct, this mindset needs to change. And it will not change unless there is countervailing pressure by concerned citizens who were aware, unless there is non-secession. Before complaining about the governance structures in our individual countries and succumbing to cynicism, we need to remember a clichéd quote from John F. Kennedy, 'And so, my fellow Americans, ask not what your country can do for you; ask what you can do for your country.'[50]

That is the route towards better governance, regardless of how we choose to measure it.

Notes

1. There is no unique definition of corporate governance either, encompassing, as it does, contracts, incentives, rights and responsibilities across different agents within the corporation and shareholder democracy.
2. This has implications for provision of global public goods and reform of international institutions.
3. *Drishtee* and *Tarahaat* are examples.
4. World Bank Institute website, http://www.worldbank.org/wbi/governance/
5. The so-called two-gap model of a foreign exchange constraint and a gap between the domestic savings rate and the investment rate.
6. A switch from extensive to intensive development, so to speak. Econometrically, total factor productivity increases are measured as a residual after netting out inputs of labour and capital, the two main inputs. The dichotomy between the two paths is thus partly statistical.
7. There are many others and this is not meant to be a complete list. This resurgence of institutional economics is also reflected in Nobel Prizes in Economics.
8. And in the writings of other classical economists.
9. There is also a *Human Development in South Asia* document, published annually by the Islamabad-based Mahbub ul Haq Human Development Centre.
10. The 1999 South Asia Human Development Report, published by the Mahbub ul Haq Human Development Centre in Islamabad, focused on the crisis of governance in the South Asia region.
11. Based on Sudders and Nahem (2004) However, there is overlap and using of each other's data across these sources.
12. www.afrobarometer.org
13. www.freedomhouse.org/research
14. www.transparency.org
15. www.transparency.org/surveys
16. www.info.worldbank.org/governance
17. www.humanrightsdata.com
18. www.cgdev.org/rankingtherich
19. www.globalbarometer.org
20. www.quotaproject.org
21. www.epicproject.org
22. www.europa.eu.int/comm/public_opinion
23. www.ilo.org
24. www.oneworldtrust.org
25. www.globalbarometer.org/governanceindicators
26. www.worldbank.org/wbi/governance
27. www.weforum.org
28. www.humanrights.dk
29. www.heritage.org/research

30. www.opacity-index.com
31. www.management.wharton.upenn.edu
32. www.comm.ucsb.edu/Research
33. www.freedomhouse.org/research
34. www.publicintegrity.org
35. www.weber.ucsd.edu
36. www.odi.org.uk/wga_governance
37. www.rsf.org
38. www.worldvaluessurvey.org
39. The empirical argument was that democracy is no obstacle to high-income and low-income is no obstacle to democracy. In addition, there is no automatic link between democracy and equity or between democracy and human development.
40. This was submitted in January 1997.
41. The final report was submitted in 2000. Since this was about government expenditure, it also covered issues like food and fertilizer subsidies.
42. 'Yes, Minister' and 'Yes, Prime Minister', by Jonathan Lynn and Anthony Jay, the books and the BBC series.
43. Environment protection is an obvious example. The issue of the judiciary stepping into the executive's arena naturally arises.
44. Many such studies suggest that transaction costs add around 20 per cent to costs of doing business. However, these studies also tend to include infrastructure costs in transaction costs. That is, transaction costs are not procedural costs alone. Also see, World Bank publications like *Doing Business in 2005*, *India Regional Profile* and *India*, *Investment Climate Assessment 2004* and *Improving Manufacturing Competitiveness*.
45. The *Manushi* work began in 1996 and has been documented in several issues of the magazine. The issues are discussed again in Madhu Purnima Kishwar (2005). For related follow-up work, see Shah and Mandava (2005).
46. This was chaired by Kumar Mangalam Birla.
47. Below Poverty Line.
48. Although less formal, there were also a cabinet sub-committee on administrative reforms in Andhra Pradesh, a task force on governance and civil service reform in Orissa and some issue-specific reports in Karnataka, Tamil Nadu and Kerala.
49. http://arc.gov.in/
50. Inaugural address, 1961.

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3

Corporate Philanthropy as an Integrated Concept: The Case of the Novartis Foundation for Sustainable Development

Klaus M. Leisinger

Introduction

MASS POVERTY: A CHALLENGE FOR ALL

Whatever has been achieved over the past decades with regard to scientific breakthroughs, democratic progress, social and ecological awareness, and economic growth, the global community still faces a devastating poverty crisis (Bhargava, 2006):

- Some 2.5–3 billion people in developing countries live on less than US$ 2 a day, and about a billion of them must subsist on less than US$ 1—they are not able to satisfy even their most basic needs.[1] The consequence is a deadly health crisis, first and foremost for infants, children and their mothers.
- Over three-quarters of a billion people are malnourished, and each year about 10 million children die from malnutrition or preventable diseases before reaching their fifth birthday.

- Over half a million women die every year in childbirth or pregnancy from lack of appropriate healthcare, malnutrition or disease—about 1,400 a day.
- More than 100 million children of primary school age, the majority of them girls, do not attend school.

World population in 2010 is about 6.9 billion people and is expected to grow beyond 9.3 billion by 2050. The economically less developed regions will by then have 86 per cent of the world population.[2] Even with the most optimistic scenario about achievements of the millennium development goals (MDGs), the global community will be faced with deprivation, disparity and strife on a large scale and for many decades to come unless there are new initiatives of a commensurate dimension and consistency to change the whole picture. Sustainable success will only come if and when all social, economic and political actors in all countries put their different skills and resources together in the fight against poverty. It is part of an enlightened definition of corporate responsibility of companies in all countries to participate in this fight.

CORPORATE RESPONSIBILITY AND CORPORATE PHILANTHROPY

This is not the place to deal with the subject of corporate responsibility in detail; I have done this elsewhere (Leisinger, 2007a). Nevertheless, some words are helpful for the sake of conceptual clarity. The basic conclusion put forward by J. Maurice Clark more than 90 years ago remains valid—Corporate Responsibility should not be confused with Corporate Philanthropy:

> The world is familiar enough with the conception of social responsibilities. These do not need to be rediscovered in the year of our Lord 1916. But the fact that a large part of them are business responsibilities has not yet penetrated, and this fact does need to be brought home to a community in which business men and theoretical economics alike are still shadowed by the fading penumbra of laissez-faire. The issue is deeper and much more far-reaching than anyone can realize who has not tried earnestly to understand the sources of the deep sense of injustice that animates the discontented classes. The trouble is not that the unfortunate are not helped, but that they are helped in the name of charity, regardless of whether they are victims of their own weakness or of the misfit

> grindings of our non-too-perfectly-adjusted industrial machine. To many the very word 'charity' is as a red flag to a bull, and this will never be otherwise as long as so much that passes for charity is merely repairing the damage or salvaging the wreckage for which industry is the chief responsible cause; the same industry which distributes the dividends out of which charity funds so freely come. (Clark, 1998: p. 28)

Therefore, first and foremost a company must put its 'corporate house' in order and minimize or avoid negative externalities of a social, ecological, political or other kind. Only if this is done can corporate philanthropy legitimately come into the picture. A pragmatic approach to grasp the complexity of the corporate responsibility concept is to define three levels of a pyramid with different moral qualities and different degrees of obligation:[3]

1. A 'must' *dimension*—that is, mainly legal and regulatory compliance and hence non-negotiable.
2. An 'ought to' *dimension* expected by modern societies—that is, striving for legitimacy and not only legality by voluntarily but consistently and accountably applying corporate responsibility norms that go beyond local legal minima if and when these do not stand up to the judgement of a fair-minded, impartial third person (Smith, 1984: p.135).[4] The content of this dimension is to a certain extent 'negotiable', as it depends on the corporate resources available and management's willingness to consider stakeholder demands.
3. A 'can' *dimension* comprehending the whole portfolio of different voluntary pro bono contributions—that is, corporate philanthropy. While it is desirable that for at least part of the 'ought to' dimension a progressive global implementation of respective law is initiated (Doane and Holder, 2007), the 'can' dimension will remain a totally voluntary part of corporate responsibility.

Competing with integrity—that is, achieving business success without collateral social, ecological and political damages—is to a very large extent identical with *good management practices* and thus in enlightened corporate self-interest.

CONTRIBUTING TO POVERTY ALLEVIATION WITHIN THE NORMAL BUSINESS CONTEXT

Successful entrepreneurial engagement is one of the most important drivers of economic growth. Economic growth increases choices, widens opportunities and makes all other development efforts easier to achieve (Birchenhall, 2007).[5] By creating employment and income, providing technical and managerial skills as well as social benefits and bringing innovative solutions to economic, social and environmental problems, corporate management can be a force for good: 'It is companies, not abstract economic forces or governments, which create and distribute most of a society's wealth, innovate, trade and raise living standards' (Birkinshaw and Piramal, 2005: p. 2).

Corporate profits are usually not achieved in a zero-sum game through other actors' losses; they facilitate significant economic growth stimulus through linkage effects from which hundreds of millions of people have benefited. The national economies of developing countries participating in globalization (home to about 3 billion people) grew in the 1990s almost twice as fast as those of Organization for Economic Co-operation and Development (OECD) countries; in the same period, the economic growth of non-globalizing developing countries stood at only half that of OECD countries (Dollar and Kraay, 2002: pp 120–133). As would be expected, 'good governance' affecting the quality of the social, economic, health and education policies of the nations host to investments makes a lot of difference (Wolf, 2003).

Given the positive economic effects of responsible business engagement, a number of thinkers look for possibilities to enhance the business component for development. C. K. Prahalad (2005) proposed to widen and deepen the positive externalities of entrepreneurial engagement by using corporate core competences to develop new markets through special corporate emphasis on the lower income brackets (UNDP, 2004). A related but structurally different approach of enlightened market development is the social investments recommended by Michael Porter and Mark Kramer (2002; 2006) as 'strategic philanthropy'.

Poverty alleviation even within an enlightened business context, however, will only be felt by those who can benefit from the product and services markets as well as from the linkage possibilities and hence income opportunities related to production facilities and other employment opportunities. In countries and for segments of populations where this is not the case, normal business activity cannot 'lift the boats' of people living in extreme poverty. For them to get a chance to escape the poverty trap, support-focussed assistance programmes in the form of low-cost, proven and effective interventions such as those suggested by Jeffrey Sachs's Millennium Villages project are needed.[6] Such programmes could be implemented on a much broader scale if and when substantial additional resources were made available—also in the form of corporate philanthropy.

The enduring poverty crisis has dire consequence and inflicts disastrous human costs. It perpetuates diseases that again impair economic growth and thus perpetuate poverty (Leisinger, 1984). Despite this knowledge, the reaction of the international community fails to be commensurate. Big and powerful corporations could make a difference by engaging in needs-oriented corporate philanthropy, focusing on the problems of the world's poorest and achieving high returns in terms of human lives saved and human suffering eased. Novartis and its corporate predecessors are on record for this.

CORPORATE PHILANTHROPY TO FIGHT EXTREME POVERTY: THE NOVARTIS FOUNDATION FOR SUSTAINABLE DEVELOPMENT

The Novartis Foundation for Sustainable Development (NFSD) (www.novartisfoundation.org) forms part of the corporate responsibility portfolio of Novartis today. It serves as a competence centre for corporate responsibility and international health cooperation and has consultative status to the Economic and Social Council of the UN. The foundation is committed to 'development with a human face' and wants to help promote the emergence of a lasting social environment where human rights are guaranteed, basic needs are satisfied and there is maximum possible equality of opportunity and social justice for all. Its main focus is the achievement of the health-related UN MDGs. The foundation is considered one of the leading private sector organizations for international development; its Think Tank work, its networking function and its project and programme work that focuses on the poorest of the poor have made it a benchmark for other companies.

THE HISTORY

The foundation's humanitarian engagement reaches back to the 1960s, when the chemical companies of Basel (then Ciba, Geigy, Sandoz, Durand & Huguenin, Hoffmann-La Roche and Lonza) founded the Basel Foundation for Developing Countries. The project to be supported then was the research field laboratory of the Swiss Tropical Institute in Tanzania, which had been in existence since 1957 (it continues to work successfully today as the Ifakara Health Institute; see www.ihrdc.org). At about the same time, a Clinical Officers' Training Center (today the Tanzanian Training Centre for International Health) was built in Ifakara, Tanzania.

At the time, none of the participating companies had a consistent concept with regard to handling matters arising from the human suffering associated with the unfortunate socio-economic conditions of developing countries, then called the Third World. This changed in summer 1970, when the staff of Regional Services of Ciba Geigy AG commissioned me to draft an 'Africa Policy'. That policy was well received and led less than four years later to the formulation of a Corporate Policy for the Countries of the Third World. The principal philosophy of that policy was that not everything that is considered to be good practice in Switzerland, England or the United States must necessarily be appropriate for countries with totally different socio-economic, educational and governance conditions. On 1 April 1974, the Executive Committee of Ciba-Geigy also set up a Third World Policy Working Group that regularly evaluated the necessity for specific adaptations of the corporate 'business as usual' conduct of their agricultural and pharmaceutical divisions in developing countries.

Part of that policy was also that 'in individual cases', the company was willing to offer development assistance and humanitarian aid. For this purpose, the working group proposed setting up a foundation, which is what happened in 1979.

Mali was the second country after Tanzania in which the Ciba company—now through its foundation—became active. In Cinzana, a small community between the rivers of Niger and Bani, an agricultural research station was set up for the development of improved (mainly drought-resistant) millet varieties in 1979. Together with the United States Agency for International Development (USAID), the foundation financed the project. The joint venture quickly became a huge success as it helped increase the yields of the main source of food significantly (Leisinger and Schmitt, 1995). Other agricultural projects supported by the foundation were located in Eritrea, Laos and the Philippines. The whole agricultural project and programme portfolio was transferred to the Syngenta Foundation for Sustainable Agriculture in 2001 after the spin-off of the agricultural business of Novartis and its merger with Astra-Zeneca's agricultural business to form the Syngenta company (www.syngentafoundation.org).

In 1986, a fund for the fight against leprosy was set up, initially endowed with 8 million Swiss francs. The original intention of making money and medicines available to leprosy aid agencies was judged to be insufficient, as leprosy is a much more complex disease than can be treated with appropriate medicines and then forgotten. The foundation's employees, working for the Leprosy Fund that was later integrated into the foundation shortly after its constitution, had to find ways to counter the social exclusion of patients by changing their perception of the disease. One of the most successful endeavours was the use of social marketing campaigns, spreading the message that 'leprosy can be curable'—making patients come forward for treatment as soon as they became aware of some easily recognizable symptoms. The staff then had to popularize multi-drug therapy (MDT)—still able to cure leprosy today without major side effects—and they developed a handy blister pack that made it easy for the patient to take the medication correctly and at the proper intervals.

The year 1991 can be described as a decisive milestone, when the World Health Organization (WHO) decided to eliminate leprosy as a pandemic disease. Recognition of a common goal also fostered political commitment in the countries affected and mobilized resources. From 2000 onwards, thanks to a decision by the newly appointed president of the Novartis Corporation, Daniel Vasella, the company started to offer leprosy treatment to all patients in the world for free.

Today, the Novartis Foundation has a rather comprehensive project and programme portfolio of disease-specific work on leprosy, tuberculosis (TB) and malaria; psychosocial support programmes for AIDS orphans and other vulnerable children throughout southern and eastern Africa; engagements in primary healthcare, including a rural health insurance scheme; and new approaches to health education, including a computer-based learning programme for the integrated management of childhood illnesses (IMCI). The strategic niche for the foundation is to come up with innovative and creative new solutions to 'old' problems—and then to make these available to be scaled up by whoever is willing to do so. Cooperation with the Millennium Villages project and the Earth Institute of Columbia University is one of the ways to achieve the desired scaling up and to eventually mainstream innovative solutions.[7]

DEVELOPMENT DIALOGUE

In 1989, the Foundation for the first time invited representatives of aid organizations as well as critics of multinational corporations, such as Ciba, to a dialogue on matters of mutual interest. The atmosphere was initially tense but became more relaxed when the invited participants realized that they were not being taken for a public relations ride. Initially, no media were invited, and participants agreed to maintain silence about the meeting. The first meeting was considered useful by all participants and it was agreed to repeat the event. At the request of the invited aid organization and civil society representatives, the company was to discuss in more detail its business policy in the disputed areas of agrochemicals and pharmaceuticals in the second meeting. The concept of the open argument without any taboos quickly proved a great success. Year by year, the event became ever richer in substance until eventually, in 1999, it grew into a full one-day symposium covering such diverse topics as health and development, nutrition and development, business and human rights and the right to health.[8]

Today, the event is considered a *jour fixe* on the development aid policy scene. Through its position as a foundation with close corporate ties, the NSFD can play a mediating and balancing role between the private sector, politics and civil society and can facilitate dialogue on global development matters as well as corporate responsibility.

THE THINK TANK WORK

At the beginning of the 1990s, the Foundation increased its Think Tank activities for human development, population policy and agricultural development as well as corporate responsibility and business ethics. The Novartis Foundation has been an active participant in academic and public debate and gained recognition through a wide range of publications and activities, stimulating debates on all aspects of a global development with a human face.[9]

Following the establishment of the UN Global Compact—with Novartis being one of the first companies to commit to the Compact—special importance was given to the work done on the implementation of its principles in daily business activities (Leisinger, 2003). In the years after 2004, the subject 'business and human rights' gained special significance in this context. It might be seen as a gesture of acknowledgement for the Foundation's Think Tank work that, in addition to my task at Novartis, I was appointed as Special Advisor to the United Nations Secretary General for the UN Global Compact by Kofi Annan in September 2005. This mandate ended with Kofi Annan's tenure as UN Secretary General on 31 December 2006. I continue to work with the UN as a member of the Human Rights Working Group of the UN Global Compact.

More than a drop in the bucket

The sustained engagement in poverty-related corporate philanthropy can have a substantial impact on a significant number of poor people. Although it is small in the context of global misery, the work of the NSFD contributed over the past 30 years, for example, by:

1. curing several million leprosy patients—nearly 5 million alone since Novartis started distributing all medicines for multi-drug therapy free of charge in 2000;
2. helping more than 5 million people in rural sub-Saharan Africa to live better lives by providing better seed varieties and promoting improved agricultural practices;
3. empowering hundreds of thousands of people in poor communities, enhancing their opportunities to cope with challenges in their daily lives and prevent illness;
4. saving thousands of lives, mainly of children under the age of five, as a result of a commitment to poor communities in sub-Saharan Africa and South-East Asia;

5. finally, supporting the development of strategies and good practices, such as for the psychosocial care of AIDS orphans, social marketing and patient-centred TB treatment, and innovative approaches to sustainable healthcare in collaboration with local stakeholders, resulting in tangible successes for poor people and leveraging existing efforts of other institutions in the same sector.[10]

It also contributed to a broader understanding of corporate responsibility issues.

As mentioned earlier, corporate philanthropy is not a substitute for competing with integrity—but if it is done in a professional way, it can prevent the waste of lives of countless children, women and men. Where essential goods and services are needed to solve life-threatening problems today, waiting for the long-term development induced by economic growth (accompanied and supplemented by good governance and appropriate national development policies) will not be a viable option. For tomorrow, more than 10 million human beings—children under the age of five—never arrives if more resources for needs-driven development work does not also come from the corporate sector.

OUTLOOK

Given the results that corporate philanthropy can achieve in the fight against extreme poverty, why are companies engaged in this fight such a small minority? I am not insinuating that the top management of companies not involved in needs-based philanthropy has a lower morality or a lack of ethics. I do, however, explain different attitudes with regard to extreme poverty with differences in social consciousness leading to a different use of the moral-free space that any management has (Leisinger, 2007b).

How could more members of the top management of more companies be motivated to support a 'private sector campaign against extreme poverty'? One of the most important elements for success in this direction is in my view not to rely exclusively on managers' values but to introduce incentives that give the fight against extreme poverty a business case dimension. The donation of reputation capital to those who deserve it by civil society and those engaged in the fight against absolute poverty could make a lot of difference. Today, this is often not the case—on the contrary, it seems that those engaged in 'development' often have an 'anti-globalization' and thus an 'anti-multinational corporations' fixation.[11]

REPUTATION CAPITAL FOR THE RIGHT THING TO DO

Corporate managers who get involved in solutions to the problems of the poorest billion do so because their values tell them to. Because of that, they will not be affected by a lack of appreciation from civil society or the media—but they will remain a small minority. Mainstream managers will continue to allocate resources strictly according to return on narrow financial investment criteria, as there are few or no incentives to do more than what the law, the market and decency demand—at the best, they will become involved in sponsoring activities in areas where they expect a short-term return.

Assuming that the 'value set' of mainstream managers is not something that can be changed in a short time, the prospects for more companies becoming engaged in the fight against extreme poverty are sobering—the resources allocated by the minority will remain under the critical minimum needed for a 'big push' against extreme poverty.

The perspective could change if there were a greater amount and more positive feedback from society for the managers and their companies who are doing 'the right thing' from a human development point of view. If, in a first phase, those individuals and organizations who publicly are the most visible and audible advocates of poverty alleviation would go on record with differentiating judgements on corporations and thus 'donate' reputation capital to those that deserve it, the media would probably follow and make such corporate deeds an issue for public debate.

Acknowledging exemplary corporate behaviour and the positive attitudes of the relevant management would probably have consequences of a very human dimension. It is human nature to respond to praise—and this is likely to have positive effects also on senior managers. If managers who decide to allocate resources for social purposes well beyond the business case get positive feedback from society, they are likely to allocate even more resources for such purposes.[12] Other companies—those who in the past decided not to do this—might change their minds as a result. The more reputation capital is given, the more media reports are printed or aired, the more consumers vote with their purchasing power—the more incentives are created to do what has been done by those who got the praise. Within management circles, peer pressure will develop and thus, create even more dynamism.

If such a cumulative process is developed, it could create a new dimension of rivalry between companies competing with integrity and could lead to more philanthropy for the poorest billion. As reputation ranks high on the corporate agenda, public appreciation of special efforts is likely to motivate even hard-nosed business managers to jump on the bandwagon to fight extreme poverty.

Conclusion: Towards a public–private partnership to fight extreme poverty

Business can play a significant role in the solution of major global issues. Well beyond the positive external effects triggered by doing what is the primary purpose of business with its core competence, corporations can contribute skills, mindsets and techniques to make a significant difference to the quality of life of the world's poor.[13]

This is not meant to do injustice to anybody engaging in other kinds of corporate philanthropy; it would be a false dichotomy to make a moral differentiation between C. K. Prahalad's approach ('strategic' philanthropy) and corporate philanthropy to fight extreme poverty. My point is that it matters as far as impact on lives saved and diseases prevented is concerned. The recipients of the additional corporate philanthropy resources who need it the most to get out of the poverty trap are bypassed if a company is 'doing good to do well'. Those far away, anonymous individuals living in misery will not for the time being constitute a business-relevant constituency.

Obviously, no single company can do this alone or in the context of a conventional, conservative business model. And of course, companies should not 'reinvent the wheel' when it comes to fighting extreme poverty but should engage with competent partners—be it consulting companies, multilateral or bilateral institutions, academic institutions such as Columbia University's Earth Institute, or non-governmental organizations (NGOs). The combination of resources, skills, experiences working and organizational cultures brought together in multi-stakeholder programmes helps to spend money more effectively.

Corporate philanthropy will remain just one link in a long chain, and individual programmes are just one step in a long journey. Other actors have to come in and additional steps have to be taken—but then, it is the same old story of the long journey and the first step. Enlightened companies can—and should—make a difference.

Box 3.1 REPSSI—The benchmark in psychosocial support in southern Africa

There are more than 34 million orphans in sub-Saharan Africa today, and some 11 million of them are orphaned by AIDS. During the last decade, the proportion of children who are orphaned as a result of AIDS rose from 3.5 per cent to 32 per cent—a figure that will continue to increase exponentially as the disease spreads unchecked. As a result, AIDS is in effect making orphans of a whole generation of children, jeopardizing their health, their well-being and sometimes their very survival, not to mention the overall development prospects of their countries.

The Regional Psychosocial Support Initiative (REPSSI) was founded with the aim of laying down benchmarks in psychosocial support (PSS) for children affected by AIDS, poverty and conflict in eastern and southern Africa. REPSSI works with over 140 local NGOs to train PSS course leaders and develop courses and manuals, and it cooperates with the governments of the 13 countries in which it operates with the objective of securing recognition of PSS as a basic right and a fundamental element of social policy. The Johannesburg headquarters is responsible for Lesotho and Swaziland as well as South Africa; the Lusaka office covers Malawi and Namibia in addition to Zambia. The Dar es Salaam office covers Kenya and Uganda as well as Tanzania, and the Bulawayo one handles Angola, Mozambique, Zimbabwe, and Botswana (this list did not agree with the REPSSI Web site; I have changed Angola and Mozambique to match that, but if you have more recent info then you need to change it back).

Building on pilot projects

The REPSSI has its roots in the attempts by two Swiss aid workers, Stefan Germann and Kurt Madörin, to combine their ideas about supporting AIDS orphans and offer others the benefit of their experience. Independently of each other, Germann, who was with the Swiss Salvation Army in Zimbabwe, and Madörin, with terre des hommes schweiz in Tanzania, both began translating their ideas into pilot projects in the mid-1990s. While Germann focussed on

Box 3.1 continued

Box 3.1 continued

providing courses centrally at the purpose-built Masiye Camp, Madörin—via the Humuliza project—organized teacher training and later created a self-help organization for AIDS orphans in the village of Nshamba. The Humuliza project was supported from the very start by the Novartis Foundation for Sustainable Development (NFSD). Both men, however, shared the same central concern: children who were traumatized by the loss of their parents and also suffered economic and social disadvantages as a result of being orphaned were in need of psychological support as well as material assistance. In October 2000, Kurt Madörin presented his programme in a workshop at Masiye Camp. The plan for the REPSSI was born at a second event the following year, attended not only by providers of support to AIDS orphans, representatives of aid organizations and scientists, but also by children and young people.

Solid donor community

The aim in creating the new organization was to bring together the different approaches and increase awareness among relief agencies working in the region of the well-founded, tried-and-tested concepts of PSS. In March 2002, the Swiss Agency for Development and Cooperation, the Swedish International Development Cooperation Agency and the NFSD came together to form a stable donor community, and two months later the first members of staff were recruited. The organization then grew at breathtaking pace, until it became clear that it was unable to keep up with the constantly increasing demands. The management team had to learn to set priorities, while the donors had to appreciate that the managers needed additional professional support.

Customized courses

Through the intervention of the NFSD, the highly motivated Human Resources Department at Novartis International in Basel stepped in to provide support in this area. As part of the Corporate Citizenship programme, a team of experts worked with specialists from prestigious training companies to develop customized courses in management skills and leadership, intended to benefit not only the staff at the REPSSI headquarters but also those in the regional offices. The programme has been extremely well received by all those involved. The REPSSI staff are highly enthusiastic about the training opportunities that reflect the reality on the ground, and the trainers are delighted with the contribution they are able to make to the success of the REPSSI.

Source: Novartis Foundation.

Box 3.2 Providing comprehensive leprosy care—The Indian approach

India is one of the few remaining countries with high numbers of new leprosy cases, accounting for nearly 60 per cent of all new cases registered worldwide. Disabilities remain the most important factor for social stigmatization of the

Box 3.2 continued

Box 3.2 continued

disease. By far, the best way to prevent these is through early detection of patients and treatment with multi-drug therapy (MDT). However, there remain large numbers of disabled people dating back to the pre-MDT period or due to delays in starting treatment or improper management of leprosy reactions. Depending on the nature of the disability, these can be corrected or cared for and prevented from worsening, but the requirement is substantial, as each disabled person may have more than one deformity and may need multiple services.

Thinking longer term

In 1989, the NFSD set up the Comprehensive Leprosy Care Project (CLCP) in India. Its aim was to provide integrated leprosy care, including improved access to MDT treatment, field-based disability care services, and reconstructive surgery and rehabilitation, where required. In addition, the social and economic (re-)integration of patients into their communities was an important objective. In 1994, this project led to the establishment of a nonprofit organization, the CLCP & Medical Aid Association, which in 2005 was renamed the Novartis Comprehensive Leprosy Care Association (NCLCA). It is housed in offices belonging to Novartis India Limited.

Learning and healing

Although most disabilities can be avoided through preventive care or subsequently corrected, all too often there are insufficient resources for this. The NCLCA started collecting data and information on leprosy patients, compiling experience and developing pioneering techniques, products and procedures for the integrated treatment of leprosy patients for little cost. These include simple care procedures that can be provided through the existing network of general health workers at village level. Innovatively, the NCLCA has placed increasing emphasis on training personnel in the field—often in disability care camps—as a natural way of increasing outreach while at the same time providing hands-on experience and on-the-job training for health practitioners. For example, in 2006 about 150 participants, including 20 surgeons, were trained at the camps and at a reconstructive surgery workshop held at the Plastic Surgery Department of the Sir J. J. Group of Hospitals.

For patients with irreversible deformities, reconstructive surgery is often the only realistic option. The reconstructive surgery camp and workshop approach has proved beneficial to both patients and surgeons undergoing training. It enables large number of patients to receive operations, while offering excellent training opportunities for healthcare personnel. For example, health workers learn about the criteria for selection or referral for surgery, and physiotherapists learn about pre- and post-operative exercises, plaster casts and splint applications. The programme has proved to be such a success that it was dubbed the 'Gujarat Model' by the Government of India, and other states were asked to use it as the basis for improving patients' access to surgery.

Box 3.2 continued

Box 3.2 continued

Among the broad range of activities undertaken by the NCLCA, all are conceived as part of a wider, more comprehensive approach to leprosy treatment and rehabilitation.
These include:

- Offering health education to patients with insensitive limbs to prevent injury, burns, wounds, and ulcers.
- Teaching patients important physiotherapy exercises for each deformity to prevent its worsening and consequent secondary disabilities.
- Providing physical aids like prefabricated hand and foot splints that not only help correct the disability but can also be used as an adjunct to pre- and post-operative regimens.
- Providing made-to-measure Modulan® grip-aids to enable people with advanced, inoperable hand deformities to carry out daily tasks without assistance; prefabricated grip-aids that fit all disabled hands and can be fitted to multiple articles such as a toothbrush or comb are also being deployed.
- Enabling patients to heal foot wounds and ulcers with a specially designed self-care kit.
- Providing special footwear made with microcellular rubber in attractive designs to eliminate the stigma of wearing single design footwear, which can easily identify the user as being affected by leprosy.
- Providing reconstructive surgery for functional improvement; this also leads to increased social acceptance of patients due to the correction of visible disabilities.
- Providing economic rehabilitation through provision of equipment and articles for income generation, thereby enhancing self-esteem and social well-being.

Over the years, the NCLCA has developed a systematic approach to disability care. The starting point is the collection of standardized information on the overall disabled patient load in the area and careful analysis of information in order to set priorities, plan interventions, train staff and provide the necessary materials and services. The patient data and photographic documentation allow close monitoring of individual patients' progress as well as clearer project oversight and management. Once disability care services have been provided to most patients in an area and integrated into the local health service, the NCLCA turns its attention to another region. The disability care component was extended from a small area to four low-endemic districts and finally five high-endemic districts in a phased manner in Gujarat and also to a rural area district in Maharashtra, in collaboration with the state government. In this way, more than 18,000 patients have benefited from these services, and many of the innovative modalities have been adopted by the government and non-NGOs working in the field of leprosy as an integral part of disability care services. As a result of its success with leprosy patients, the NCLCA now also provides integrated care to non-leprosy cases.

Box 3.2 continued

Box 3.2 continued

Providing comprehensive care

The NCLCA began its operations in the state of Gujarat, later extending its services to Goa, Maharashtra, and, by collaboration with NGOs, to the rest of India. The NCLCA has also supported other NGOs like the missionary sisters of Canossa Convent, who care for leprosy-disabled patients in their clinic; the Missionaries of Charity (Mother Teresa), who offer treatment to patients through their 18 leprosy centres; and Ramakrishna Mission in Chennai. It has also held camps for plastic surgical correction of non-leprosy deformities, with an overwhelmingly positive response.

Education and empowerment

Lack of sensation in the hands is common in leprosy sufferers. Patients must be educated on how to cope with this residual disability in order to avoid burns or other limb injuries and the development of ulcers. The injuries that do occur must be properly treated. The NCLCA not only provides the training of health-care staff, it has also developed an empowerment approach for patients, using leaflets, instructions and practical demonstrations through camps. Teaching simple exercises to keep the joints mobile and providing prefabricated splints and other materials is done at the time of counselling.

The NCLCA self-care empowerment camps teach patients the hows and whys of self-care. The Association has developed a special self-care kit, containing sterile gauze pieces, scissors, sticking plaster, foot scraper, bandages, antiseptic cream and a moisturizing cream. These are produced locally by the Anti-Leprosy Campaign, making it easier for replacements to be supplied so that patients can continue to take care of their feet. Follow-up clinics held after two months have indicated good compliance with the self-care instructions: nearly 40 per cent of cases had healed thanks to use of the kit, while the rest showed dramatic improvement. Once patients and their families are convinced that self-care is effective, it becomes second nature. The self-care kit now forms part of the Prevention of Disability guidelines issued by the government of India. Other organizations, too, have adopted its principles and are making their own kits with similar materials.

Income generation

As a natural follow-up to its disability care work, the NCLCA has also provided eligible patients with tools and equipment, together with vocational training, to help them to earn an income. Priority is given to those who have had reconstructive surgery and those most in need. The most common articles provided include hand carts, sewing machines, carpentry and masonry kits, agricultural tools and vehicle repair tools. This holistic approach has had encouraging results, for as well as assisting in their rehabilitation, disabled leprosy patients have been able to pursue occupations that not only earn them an income but also change their standing in the community. It has proved to be a low-cost, high-gain sustainable development scheme. Since 2003, the services have been extended to include other groups of disabled people.

Box 3.2 continued

Box 3.2 continued

Exporting the expertize

India's comprehensive leprosy care model has also been adopted in Sri Lanka. Hundreds of patients were examined and advised by visiting the NFSD consultants. Reconstructive surgery was initiated a few years ago and is gradually being extended to district level through the training of interested orthopaedic and general surgeons. On-the-job training of physiotherapists, clinical case studies with dermatologists, group therapy for empowerment and discussions during consultants' visits have all facilitated bringing leprosy disability care into the mainstream.

Similarly, the NFSD has also helped other countries like Mexico and Tanzania to understand the importance of caring for the leprosy-disabled with simple, cost-effective strategies like those employed by the NCLCA. The experience so far indicates that with commitment and innovative thinking, leprosy disability services can be brought effectively into mainstream healthcare to the benefit of all.

Impact of the comprehensive care programme

In India, the NCLCA has been able to pioneer a system of prevention, correction, care and rehabilitation based on simple modalities, which can be mastered by general healthcare staff. Since its inception, the NCLCA has believed in integrating disability care into mainstream health services. The adoption of its modalities by other agencies and their incorporation into medical and health services has been an undisputed success. At Borsad Taluka, the NCLCA's first project area, leprosy elimination has been achieved. And in Goa, where the organization was active from 1993 to 2000, the leprosy prevalence rate has come down, paving the way for eventual elimination. By supporting early new case detection, improving access to MDT, and training health and medical staff in reaction management, the NCLCA has contributed significantly to the prevention of disabilities.

Training surgeons in reconstructive surgery, conducting camps and workshops, devising simple techniques and transferring technology have all served to bring treatment closer to the leprosy-disabled and accelerated their integration into general healthcare services. This has benefited thousands of people who otherwise would have developed inoperable deformities with consequent handicaps.

Finally, the focus on income generation and moral support for economic rehabilitation has transformed the lives of many of the poorest of the poor affected by leprosy, and their resulting ability to earn and support themselves has brought about better social acceptance and integration. In recognition of its efforts, the NCLCA was awarded the prestigious Golden Peacock Award for Innovative Products/Services by the Institute of Directors, India.

To ensure that the benefits of the NCLCA model are spread, the scope of the programme has been extended. Brochures will be updated and reprinted and continued efforts will be invested in rolling out the comprehensive care programmes, reconstructive surgery workshops, rehabilitation and economic

Box 3.2 continued

Box 3.2 continued

regeneration activities. A particular focus will be examination of the child case load, with a view to identifying high-risk cases and promoting early intervention to avoid development of deformities. The NCLCA's work is far from over, but its efforts have ensured that—thanks to comprehensive care—leprosy in India is no longer a life sentence.

Source: Novartis Foundation.

Box 3.3 Strengthening healthcare systems and patients alike—The Access Initiative in rural Mali

In order to improve the general health situation in poor southern countries, people must have access to primary healthcare. This is one of the major challenges faced by health authorities, communities and development partners in Mali; it mainly applies to rural areas with poor geographical accessibility, where villages are far apart. In light of this situation, the NFSD, together with its Malian partners, developed and supported an integrated healthcare project in Cinzana, the country's largest rural community, between 2001 and 2006. The establishment of a health insurance scheme was linked from the outset with an improvement in the range and quality of curative and preventive health services. Since 2007, the Foundation, in cooperation with the regional authorities for health and social development, has extended this five-year pilot experience to another 10 health zones in the region of Ségou. Potentially, 250,000 people can be reached and hence increases the impact of the measures and is intended to show that the concept developed in Cinzana can work on a larger scale.

Aligning healthcare services and client needs

The new initiative to improve access to primary health services for people in selected rural areas in the Ségou region was conceptualized based on experiences from the pilot phase and the results achieved, as well as on specific local needs. The underlying model was developed as part of the malaria-related ACCESS Project in Tanzania in collaboration with the Tanzanian Ifakara Health Research and Development Centre and the Swiss Tropical Institute. According to this concept, 'access' can only be improved in an appropriate and sustainable way if the local healthcare system and its services are aligned with the needs, expectations and available resources of the clients. This degree of fit between healthcare system and clients can be measured and improved along five access dimensions:

- Availability and quality of healthcare services.
- Geographical accessibility.
- Client-friendly organization of services.
- Cultural acceptability.
- Affordability of services.

Box 3.3 continued

Box 3.3 continued

Initial preparatory steps
The Foundation and its partners are convinced that 'access' can only be sustainably improved if local actors are strengthened and are able to 'carry' the healthcare system. For this reason, the initiative started with a participatory situation analysis in each of the 11 health zones involved. As part of this analysis, the facilities of the health centres were examined, with special attention given to the management capacity of the healthcare personnel and the voluntary personnel of community health associations who manage the local health centres and community-based health insurance schemes. It was also important to find out whether managers both understand and fulfil their roles and functions within their organization, and whether community health associations and health insurance schemes have followed the necessary registration procedures (registration confirmation, state recognition, and so on). All managers had a decisive role in the analysis and elaborated their own five-year action plans and budgets on that basis. They must also make a (financial) contribution of their own for each planned activity.

The initiative will also be supplemented with action research and comprehensive monitoring and evaluation in order to measure its performance. The main indicators for measuring improved access are not only higher utilization rates for health services but also the technical quality (as assessed by experts) of diagnosis and treatment as well as patient satisfaction both with diagnosis and treatment and with the friendliness of the healthcare personnel and the quality of their advice. The ultimate goal of the initiative is to ascertain its contribution to an improved general health situation, specifically by reducing child and maternal mortality (MDGs 4 and 5).

Ongoing activities relating to the five access dimensions.
The initiative has started working on all five access dimensions. For example:

- Community health associations and the managers of existing health insurance schemes receive further training and support in financial and administrative management—quality aspects.
- Infrastructure and equipment are upgraded with targeted renovations and improvements (medical equipment, and so on)—availability, acceptability aspects on the part of staff and clients.
- Organizational improvements to healthcare services are carried out (notification of opening times and rates, repair and cleaning of buildings, and so on)—client-friendly organization aspects.
- Preventive and curative healthcare services (prenatal consultations, vaccinations, raising awareness of hygiene and nutrition) are offered directly in villages at regular intervals—geographical accessibility aspects.
- Healthcare personnel as well as health insurance managers are trained and supported in communication (friendliness, explanations of diagnosis and

Box 3.3 continued

Box 3.3 continued

treatment, patient and user rights as well as obligations)—cultural acceptability by clients and healthcare personnel aspects.

- The health insurance schemes are supported in their management, information work and marketing endeavours, so as to attract more members. This in turn will enable them to expand their risk pool and ultimately provide financial protection for costlier healthcare services—affordability aspects.

Furthermore, work is currently ongoing under a pilot project component to improve the affordability of health services through additional initiatives such as access to micro-credits and promising activities to generate income.

Initial progress analyses towards the end of 2008 will show whether the chosen approach of strengthening local healthcare managers as part of a decentralization process and linking this with concrete improvements in services and the clients' available resources is actually making it easier for the rural population to get access to primary healthcare services.

Source: Novartis Foundation.

Box 3.4 ICATT—Computer-based learning programme for health professionals in developing countries

Infant mortality is one of the most urgent problems of developing countries. For years WHO has been trying to reduce mortality and morbidity rates in children under the age of five. One answer to the problem is integrated management of childhood illness (IMCI), an integrated approach for the management of the most common childhood diseases, including, among others, diarrhoea, malaria, measles, malnutrition and HIV/AIDS. IMCI is practised in over 100 countries around the world today. The generic IMCI clinical guidelines need to be adapted at the country level, which can be a long and cumbersome process.

Closer to the people

IMCI contains a training programme for health service staff that facilitates a rapid diagnosis of the most common diseases by applying simple basic principles. Every year, various IMCI courses are held around the world for doctors, nurses and other healthcare professionals. The generic IMCI course lasts up to 11 days and requires a substantial effort on the part of the organizers. During the courses, however, the people to be trained are not available to the health service for up to two weeks. In addition, health services in developing countries show high staff fluctuation rates. The demand for IMCI courses thus far exceeds the number of courses that can be offered. There is, therefore, a case for training to be brought closer to the people who need it, and also for training times to be reduced or the training itself to be organized in a more flexible way.

Box 3.4 continued

Box 3.4 continued

A solution to this problem has been developed by the NFSD, together with the WHO, in the form of a computer-based learning programme for IMCI known as ICATT (IMCI Computerized Adaptation and Training Tool). At the national level, this programme is aimed at professionals entrusted with adapting the IMCI clinical guidelines and/or designing training courses in IMCI. Once the adaptation is finalized, they can then close the tool and distribute it to other users in the country for training purposes. Using ICATT it is possible to introduce new learning methods (for example, distance learning, self-study). The spread of this training programme via computer thus offers the advantage of more flexible training possibilities in various settings.

Simple and fast

The training programme has a simple structure, making it easy to understand for people who are not used to working with computers. Learning is based on the four components of 'read', 'see', 'practice' and 'test'. The first part offers students key information about the training unit as well as further reading. In the 'see' part, what has been described in texts is illustrated and explained by means of videos, images and sound. The third part offers simple practical exercises. The fourth part lets students test themselves on the knowledge they have acquired.

What makes ICATT such an invaluable tool is that the programme can be quickly adapted to new developments or country-specific circumstances. Ultimately, the aim is for ICATT to be applicable worldwide. The WHO provides a generic programme, which can be supplied with relevant data by individual countries and kept constantly up-to-date. This considerably shortens the time needed for the regular adaptation of clinical guidelines. ICATT is thus a cost-effective tool through which human and financial resources can be freed up and deployed for other tasks.

Positive feedback

ICATT has been tested for its user-friendliness and functionality in various beta tests both in Basel and also in Zambia with representatives of all WHO regions, training experts and first-level health workers. The feedback from these tests provided a basis for improvements in the programme. As of 2008, the tool is being applied in India, Peru and Tanzania.

Source: Novartis Foundation.

Notes

1. For example, adequate nutrition to avoid chronic hunger, access to basic health and education services, potable water and adequate sanitation, safe

housing and access to public infrastructure. This problem has been part of the development debate since the 1970s. See, for example Streeten (1981).

2. See 2008 World Population Data Sheet, at www.prb.org
3. Similar to the model introduced by Ralf Dahrendorf in 1959 to qualify the significance of social norms, see Carroll (1993).
4. Close to this 'theoretical' observer's view come surveys or polls such as the Environics/GlobeScan Millennium Poll (Toronto, 1999) or expert surveys such as The GlobeScan Survey of Sustainability Experts (Toronto, 2005). A good way to judge a corporation's nonfinancial performance is to do so in the spirit of the 10 principles of the UN Global Compact.
5. For the record, policies to improve income distribution in the context of economic growth will help to 'lift more boats.' For an introduction of this debate, see Chenery (1974).
6. See www.earthinstitute.columbia.edu/millenniumvillages
7. For details on all projects and programmes, see www.novartisfoundation.org/platform/apps/project/view.asp?MenuID=245&ID=539&Menu=3&Item=44.12
8. For details see http://www.novartisfoundation.org/page/content/index.asp?MenuID=268&ID=609&Menu=3&Item=45.9
9. For details see http://www.novartisfoundation.org/mandant/apps/publication/index.asp?MenuID=269&ID=611&Menu=3&Item=46
10. Novartis has given support to facilitate access to medicine in leprosy, tuberculosis, malaria, and leukaemia in the order of magnitude of about a billion Swiss Francs in 2007. Over the 29 years of existence of the Novartis Foundation for Sustainable Development, the company has spent more than 200 million Swiss Francs for health, social and agricultural projects. The Novartis Institute for Tropical Diseases in Singapore is engaged in not-for-profit research addressing new ways to fight dengue fever, tuberculosis and malaria applying cutting-edge scientific know-how and technologies (www.nitd.novartis.com).
11. At least in the German-speaking part of Europe such endeavours are often denounced as 'alibi actions' used by corporations to distract the public from the implied carried-out irresponsible business conduct. From a US background of experience, Michael Porter and Mark Kramer state that 'the reputation argument seeks…strategic benefit but rarely finds it' (Porter and Kramer, 2006).
12. This argument is not meant to insinuate that people act only morally if there are strong incentives to do so. My argument is based on Amitai Etzioni's approach that people's behaviour is influenced by two factors: first, by what they perceive to be their moral obligation, and second, by what they perceive to be in their interest. Etzioni acknowledges significant differences with regard to the extent to which each of these factors works with different personalities. (Etzioni, 1988).

13. For example, they can contribute a 'problem-solving' and 'return on investment' mind-set for philanthropic investments, a 'results-based payment' approach that provides incentives to achieve concrete outcomes or impacts rather than reporting about activities and inputs, and the use of modern human resources methods (including job descriptions, the setting of targets, performance appraisals and bonus-systems).

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4

Perspectives on Corporate Social Responsibility (CSR): A Case Study of the Tata Group of Companies

D. K. Srivastava

Introduction

The linkages, relationship and interface between 'business' and 'society' are from their inception, however, over the years have undergone spectacular changes. The survival and effectiveness of any organizational entity depend on the quality of support it gets from all stakeholders, including the society at large. Although in the initial years of this interface between 'society' and 'business' Corporate Social Responsibility (CSR) was confined to 'philanthropy', there have been successive changes and developments in the understating of these stakeholders to make it more of 'business strategy' rather 'philanthropy'.

The CSR is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce, their families as well as of the local community and society at large. Business needs a stable social environment that provides a predictable climate for investment and trade. Understanding society's expectation is quite simply enlightened self-interest for business in today's interdependent world. The CSR, therefore, will be centred on (*a*) to treat employees fairly and equitably, (*b*) operate ethically and with integrity, (*c*) respect basic human rights, (*d*) sustain the environment for future generations and (*e*) be a caring neighbour in their communities.

The contributions of international bodies such as the United Nations Development Programme (UNDP), International Labour Organization (ILO), World Council for Corporate Governance (WCFCG) and to a great extent NGOs, to develop a feel and flavour of togetherness in trade and society are commendable.

This is being realized by one and all that trade and society cannot function in isolation. Accordingly, challenges for trade is not only the 'business' but sustainable development of society also where broader social issues like equity and equality, transparency, human rights, environments (Agenda 21), poverty, health and education of community and ethical conducts will have to be adhered too. In the wake of the World Trade Organization (WTO), the 'social clause' and 'core labour standards' have become equally important for international business.

This is strongly argued that CSR should not stop after extending certain services to the community rather it should continue till the community is able to sustain by its own developments.

International experiences with Corporate Social Responsibility

In a joint survey (10 in-depth case studies) conducted by the UNDP, PricewaterhouseCoopers, Confederation of Indian Industry (CII) and the British Council on CSR in 2001 (UNDP/BC/C11/PWC, 2002), the aspects of ethical conduct including conduct and transparency of business and nation building were seen as the closest definitions of the CSR. The survey also revealed that three of the most important factors that impact social reputation of a corporation are business ethics, compliance with regulatory requirements and consistency in value delivery. Similarly, in another survey of 20,000 people in 20 countries, including Canada, USA, UK by Environics International (2002)[1] offers some interesting insights into the way consumers and societies at large, perceive the social and environmental responsibilities of business. Some of the key findings are: (*a*) significant numbers of investors take a company's social performance into consideration when making investment decision, (*b*) in wealthy countries, social responsibility makes a greater contribution to corporate reputation than brand image, (*c*) companies that ignore social responsibility place market share at risk, (*d*) views and behaviour of opinion leaders indicate that consumers' social expectation of company will continue to grow.

On the basis of these findings, it can be said that corporate social responsibility is going to emerge as the key to business success in future, and old model of the CSR, that is, 'Philanthropy Centric' will also change to a new model of 'Business Centric'. Accordingly, contours of the CSR will expand and include the aspects of environment, human rights, corporate ethics and transparency in disclosure of financial and non-financial information, apart from conventional aspects.

Indian experiences with Corporate Social Responsibility

The CSR in India has its own ways and models. The government, being 'model employer' for the public sector units (PSUs), on one hand, has followed the path of social development in phased manner through five-year plans after independence in 1947. Accordingly, the Constitution and Directive Principles of State Policy have guided social responsibility in PSUs. At macro level the government for the development of less developed or backward areas of the country, has provided level 'special packages' whereas at micro level CSR has become an integral part of organizational activities. On the other hand in the private sector too, Tata Group translated the vision of the CSR into action with a great zeal and commitment in India way back in 1920 at Tata Iron and Steel Co. Ltd (TISCO), which was seen as a 'role model' to be followed by others subsequently. The Tata Index for sustainable human development has been termed as 'trendsetter' by the UNDP. Now, apart from Tata, many leading organizations in India both in public and private sectors are actively engaged in the CSR, to name a few are WIPRO, A.V. BIRLA Group, Mahindra & Mahindra, Godrej, G.E. (India) Ltd, HLL, ITC, BPCL, HPCL. The most common practices adopted by them are village adoption for all round development, environmental protection, basic education and health programmes and related community services.

The CSR typology

The CSR, therefore, follows a framework of two-dimensional entities ranging from narrow to wider perspective (Quazi and O'Brien, 2000). Based on the two-dimensional model, that is, benefits from the CSR action and costs from the CSR action as suggested by Quazi and O'Brien the following four typologies emerge:

1. Classical view: This is based on an understanding of narrow responsibility with a cost from the CSR action. In this concept, the CSR is very limited as it is seen to generate a net cost to the company without any direct benefit from the activity. This view believes the CSR as an unavoidable liability.
2. Socio-economic view: This view although believes that the CSR is a liability but at the same time accepts that the CSR activity will benefit the company in the longer run. This concept, therefore, justifies the CSR activities on the ground that it might benefit the company in future.
3. Modern view: This view considers the CSR activity beyond a narrow view of profit maximization, as it is seen generating benefits from the CSR action. The company under this category accepts the CSR as a wide responsibility towards the society and therefore includes the stakeholder view as well.
4. Philanthropic view: This is concerned with the view in which companies agree to participate in the charitable activities in spite this may add to the cost. Traditionally, most of the older Indian companies fall within this category. The origins of the CSR lie in the pioneering efforts of 19th century corporate philanthropists such as Cadbury brothers in England and the Tata family in India.

Case study of Tata Group of Companies

The Tata Group is a giant family of businesses that dominates Indian markets. There is a long history of the CSR within the group, and it is no surprise that all Tata companies have adopted a Tata Code of conduct as well as many international standards. At Tata, the CSR flows out of the core business process, and therefore it is never any form of add on. Similarly, products and services are featured only after due environmental and social considerations and are meant to serve people, and in the long run, develop a whole region and gradually the nation.

Tata group of companies are guided by Tata Business Excellence Model, followed by a 25-principle code of conduct. The CSR activities are guided by Tata Index for Sustainable Human Development. All of these work towards systematic institutionalizing of CSR as a group purpose.

Tata Index for Sustainable Human Development

> The Tata Index for Sustainable Human Development is a product of a long and consistent of Tata Community Champions under a networking arrangement called the Tata Council for Community Initiatives (TCCI)….The guidelines emerge from a corporate domain and are more specifically constructed around the Tata Business Excellence Model (TBEM)….The unique feature of guideline is that it measures Assurance not only at the level of action and implementation, but importantly, assures the quality of response from the Institutional level by putting score on the commitment of the management. It also demands a certain level of response from key employees. This response is a result of well defined processes for selection training, orientation and steps taken to ensure sustained delivery of social performance. (TCCI Report, 2003: p. 8).

Scoring break-up

Table 4.1 shows the distribution of points across the Index with a balance between process (P) and outcomes (O) at the three levels with 17 sublevels and 46 parameters under these levels.

Process of CSR in Tata Group of Companies

The Tata Group of Companies is part of the TCCI network. Every company within the group has a Vice President level as the corporate Head of the CSR. Apart from these, there are Board Committees to review the CSR activities on a regular basis.

The CSR cross-functional teams involve nearly 150 Senior Executives and more officers who have their performance ratings of CSR as much as with their other business targets. CEOs have a significant CSR responsibility incorporated into their balanced scorecards.

Table 4.1 Assessment levels of CSR activities

Assessment levels	Point Values	Break-up (P + O)
Systems response: Level I	275	(150+125)
1) Leadership commitment and involvement	55	(30+25)
2) Management structure and deployment	55	(30+25)
3) Strategy development and action plan	55	(30+25)
4) Review mechanism and reporting	55	(30+25)
5) Communications and awareness	55	(30+25)
People response: Level II	175	(100+75)
1) Selection, career development of key employees and performance management	45	(25+20)
2) Training for professional, organizational, managerial competence and enhancement of role in the CSR	45	(25+20)
3) Training for leadership development, enrolment of other employees, personal learning and development and enhancing role in the CSR	45	(25+20)
4) Volunteer scheme and evolving degrees of volunteering	40	(25+15)
Programme response: Level III	550	(300+250)
1) Managing change and assessment of social impact	65	(35+30)
2) Felt needs of the key community related to core competencies	65	(35+30)
3) Volunteering process in the community	65	(35+30)
4) Social concerns addressed through programmes	95	(55+40)
5) Improving attitudes/government processes	65	(35+30)
6) Self-reliance and sustenance	65	(35+30)
7) Learning and innovation transfer	65	(35+30)
8) Effective management and good governance	65	(35+30)
	1000	(550+450)

Source: TCCI Annual Report, 2003.

Volunteering in Tata Group of Companies is a means by which employees learn from the reality of their surroundings. This gradually generates a different sort of reflection among individuals that actually creates a base for 'Learning Organizations' to eventually impact product design and service features.

Tata Group of Companies assesses impacts and systematically brings concerns, if any, into programmes budgeted for in advance. Costs of such 'development' work are treated like any other cost of the venture. In the group while all other forms of outreach and relief work continue, there is also a growing belief that the CSR is strategic to business development. Product and services gradually align to new market needs, especially to reach the relatively lower sections of society.

The CSR is part of the employee and corporate ethos; it need not become a separate way of saying it. Tata group of companies also believes in participatory networking with prominent NGOs, local governments and the agencies like ASSOCHAM, CII and FICCI.

The SMEs are an important focus group for CSR. The issue is not the size but CSR is intrinsically a matter of attitude and personal character a kind of choice (Mr Anant G. Nadkarni, General Manager, Group CSR, Tata Group of Companies).

Conclusion

> I believe that social responsibilities of our industrial enterprises should now extend, even beyond serving people to the environment. This need is now fairly well recognized but there is still considerable scope for most industrial ventures to extend their support not only to human beings but also to the land, to the forests, to the waters and to the creatures that inhabit them. I hope that such need will be increasingly recognized by all industries and their managements because of the neglect from which they have suffered for so long and the physical damage that the growth of the industry has inflicted, and still inflicts on them. (J.R.D Tata: TCCI Annual Report, 2003)

Due to globalization, corporations are no longer confined to the traditional boundaries of the nation state. On one hand, globalization has provided a great opportunity for corporations to be globally competitive by expanding their production base and market share. On the other hand, the same situation poses a great challenge to the sustainability and viability of such mega businesses. Labourers, marginalized consumers, environmental activists and social activists have protested against the unprecedented predominance of multinational companies (MNCs). The success of CSR initiatives, in future, will largely depend upon the relationship between the corporate system and the social and political systems. The notion of a generalized responsibility is not an operational concept, anymore than is the idea of profit maximization. A company's goals, policies and strategies must be uniquely determined in the light of opportunities and threats sighted in its external environment, its internal resource strengths and weaknesses and the values haled by its principal managers.

Note

1. Refer to http://www.bsdglobal.com/issues/sr_csrm.asp

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5

Ethical Dimensions in Technical Education—The BITS Experience

L. K. Maheshwari

Introduction

In a globalized world which is witnessing rapid technological advances, ethics on the part of all professionals are very much needed. Education is a vehicle to inculcate ethical dimensions among the students and technical education is no exception to this. Although a young person imbibes ethics from his family and the society in which he/she lives, the role of educational institutions is very important in imparting the ethics which a young person is expected to practice in his profession. While the approach of the University Grants Commission (UGC), All India Council for Technical Education (AICTE) and other organizations has been to prescribe a compulsory course on ethics to be given to all the students, it alone is not sufficient. The complete planning and execution of the education system has to be such that by following best practices in a continuous manner, the students imbibe ethics in their day-to-day operations. This chapter describes the approach which the Birla Institute of Technology & Science (BITS) has taken in this direction.

Structuring of the programmes

The four-year first degree programmes offered by BITS in various engineering and science disciplines were restructured way back in the year 1972–73 whereby components of linkages with industries were brought in as an integral part of all the programmes. Further, a full semester was devoted for elective courses which are chosen by the student depending on his/her interest irrespective of the degree discipline he/she belongs to. The introduction of other reforms like internal and continuous evaluation, letter grading, open book examination, no compulsory attendance, and so on, also pave way for the creativity of the students to be exhibited in various ways. An open book examination with a minimum weightage of 10 per cent in each subject enabled teachers to design innovative question papers.

The transparency in teaching and evaluation process brought out by the academic regulations contributed significantly to the inculcation of values among the students. The regulations while defining the objective of the classroom education also prescribe steps to make the system as transparent as possible. For example, the instructor is asked to announce within one week of the beginning of the class work to his/her class, through a hand-out, the necessary information in respect of all the operations of course, the evaluation scheme, the policy of grading, the policy of make-up examination, and so on. Similarly, it demands that the answer scripts of any test must be promptly evaluated, shown to the students for them to obtain any clarification on their own performance. Some of the details of the academic regulation clauses are given in the Appendix 5.1.

Practice school component in educational programmes

All the four-year first degree programmes of the institute in engineering as well as in sciences have component of practice school (PS) which is similar to the concept of internship in medical education. The practice school is operated through two courses spanning over a period of seven and a half months' duration, namely, PS I and PS II which are conducted in the industrial settings and a BITS faculty resides at the industry where the PS is conducted. These courses form a controlled simulation of the real life whereby the students undergo the rigour of the professional world. The PS provides them an opportunity to apply the classroom knowledge to live situations faced in the industry.

Since the educational process in the PS courses seeks out focused attention on many latent attributes, the evaluation decides a student's intellectual ability, team work, leadership, initiative, personality, professional judgement, problem solving ability, decision-making ability, communication ability, punctuality, and so on. A student in PS has to exhibit the highest order of professional ethics which are normally required in the industry. The academic regulations of the institute prescribe the highest order of professional conduct from the students. If one's conduct is found to be unworthy of the professional world, he/she may be required to discontinue from the PS programme. Thus, it can be seen that without a structural reform in the educational programme, it is not possible to bring features which will demand ethical and professional standards from the students and also from the faculty. The students through such courses attain the desired ethical standards in their profession.

Societal projects under elective category

Students at BITS are free to choose electives from a wide pool of courses offered in each semester. They can seek involvement in projects of societal development and get an academic credit for such involvement. Many students of the institute have carried out projects dealing with entrepreneurship among rural population, education and health among children and women in villages, and so on. Through these courses taken as elective, the students get an experience in dealing with the wider section of society in the surrounding vicinity and participate voluntarily in the upliftment of all sections of the society, including children, women and youth. This also brings a sense of responsibility and ethical behaviour on the part of the students.

Courses offered on ethics

At BITS, a pool of courses are available to the students which deal with the heritage of the country and teach ethics expected of the young students and faculty. Some of these courses are (*a*) professional ethics, (*b*) Srimad Bhagavad Gita, (*c*) Sankara's thoughts, (*d*) heritage of India, and so on. Not only are the teachers involved, eminent speakers from outside are also invited from time to time as adjunct faculty to participate in the offering of these courses. The experience shows that the students who register in some of these courses have significantly improved in their day-to-day behaviour towards their own fellow colleagues and they have also performed reasonably well in other courses.

Conclusion

Ethics are very much desired to be integral in all technical education programmes. Merely teaching one or two courses on ethics may not serve the desired purpose and may not affect the society. Institutions offering science and technology (S&T) education have to give proper thinking on the structure of the programmes and bring in the features of a teaching–learning process so that ethical behaviour becomes integral in the working of all the stakeholders, namely, faculty, students, office staff, and so on. The BITS experience shows that the structural reforms providing planned courses in the industries, transparency in all operations of teaching and evaluation, flexibilities in offering of electives, and so on, in the long run motivate the students to follow highest ethical standards in their career.

Appendix 5.1: Some academic regulations clauses on the transparency of teaching and evaluation at BITS

The objective of classroom education is to awaken the curiosity of the students, generate habits of rational thinking in them, gear their mind to face the unfamiliar and train them to be able to stand on their own. While classroom instruction help the students in the organization and correlation of facts, in comprehension of ideas and the creative use of knowledge, the teacher has the added responsibility to make the students search for knowledge on their own and induce them to use the facilities like the library, laboratory and the environment to optimize their learning process. Self-study by the student would therefore be an important factor in the planning of teaching and evaluation. The student is required to cooperate and respond to this challenge. Teaching and evaluation form a unity of function and operate in a climate of mutual understanding and trust. To ensure a shared responsibility, the regulations indicate some formal guidance.

Within one week of the beginning of class work, the instructor-in-charge/instructor must announce to his/her class/section through a hand-out, the necessary information in respect of (*a*) the operations of the course (its pace, coverage and level of treatment, textbooks and other reading assignments, home task, and so on); (*b*) various components of evaluation such as tutorials, laboratory exercises, home assignment, several quizzes/tests/examinations (announced or unannounced, open book or closed book), regularity of attendance, and so on; (*c*) the frequency, duration, tentative schedule, relative weightage, and so on, of these various components; (*d*) the broad policy which governs decisions about make-up; (*e*) mid-semester grading; (*f*) grading procedure (overall basis, review of border line cases, effect of class average, and so on) and (*g*) other matters found desirable and relevant.

Just as evaluation is done in a continuous manner, feedback should also be available in a continuous manner. Thus, the answer scripts must be promptly evaluated, shown to the students for them to obtain any clarification on their own performance and returned to the students whenever practicable. The performance of the students in the examination should be discussed in the class giving as much detail as possible like the highest, lowest and average performances.

At the conclusion of the semester, a student is awarded a grade in each of the courses he/she has taken during this period. The grade awarded to a student in a course will depend on his/her total performance in all the components of evaluation as designed by the instructor-in-charge.

6

XLRI: 'Renewing the Face of the Earth'[1]

Pingali Venugopal

Introduction

'Fifteen years!' was the response of a Management Development Programme (MDP) participant when I responded to the usual query of 'how many years have you been here'? An expression of surprise was clearly visible on his face. Though this was becoming common during most of the 'happy hour' get-togethers, I started brooding over the issue after the entertainment started and the MDP participants got busy. I went back to 1 May 1994 when I joined the institute to start my second innings (after a stint of 10 years in the industry, I shifted to academics).

After completing my Fellow programme at a premier management institute, I had offers from Indian Institute of Management (IIM) and Xavier Labour Relations Institute (XLRI). But something attracted me to the XLRI and I joined the XLRI. Though I did not join IIM, the offer was open for another nine years.

Sometime in 1997–98 the Director of an IIM even asked me, what does XLRI have; 'do they have better facilities than what we (IIM) have'. I did not have to think twice to say no. I told the IIM Director that 'XLRI does not have any comparable facilities; but in totality, however, XLRI is better'. Something that is difficult to describe but can be experienced (maybe the 'gestalt' effect as explained in organization behaviour course). Many faculty do experience this.

The more I think of this the more I realize that this experience is because of the 'management values' that built this institute. I have talked about this on many occasions. Even when I wrote a paper on how B-schools should be ranked I argued that a variable of 'management values' needs to be added to capture the gestalt effects.

THE BEGINNING

The XLRI was founded in 1949 by Fr Quinn Enright, S.J. in the Steel City of Jamshedpur. Fr Enright visualized XLRI to be a partner in the liberation and development journey of the independent India with a vision of 'renewing the face of the earth'. Since then the Jamshedpur Jesuit Society has nurtured the growth of XLRI keeping with its commitment to 'Magis' (excellence in everything).

Over all these years XLRI has developed its own identity. The hallmark of this identity is not to walk on the beaten path but to strike new routes; not to benchmark but to be benchmarked, to be the second to none but to be the first to respond to the needs of the people and the nation, by taking up the tasks which are bold but necessary which nobody has hitherto taken up. This enterprising and pioneering spirit can be witnessed through all activities taken up by XLRI.

IN PURSUIT OF EXCELLENCE

XLRI's vision of Magis, that is, pursuit of excellence, focuses on three areas: academic excellence, personal values and social concern.

Fr McGrath, one of the Directors of XLRI in its early years (1958–62) and who continues to be associated with the XLRI in various capacities recently said in an interview,

> I see that there is tremendous talent everywhere. Students are smart, they are aware…they are also very privileged. We need to manage the culture of management institutes and channel some amount of energy towards social consciousness rather than self absorption and isolation. There needs to be sensitivity to the tremendous inequities in the world including education, health, nutrition, etc. It is impossible to build such awareness without sustained contact. I would like to see management institutes churn out graduates with a conscience.

Mr B. Muthuraman, Managing Director of Tata Steel and Chairman, Board of Governors of the XLRI in his 'CEO Forum' addressing the students stressed on the following:

1. Select a job you have passion for so that you will enjoy.
2. Life/career is a marathon; do not treat it like a 100m sprint.
3. There are more failures in life than successes; learn to deal with them.
4. Plan for your 'self'; do not chase positions, chase quality in your life.
5. Purpose of business is to improve the quality of life of the society.
6. Keep time for yourself.
7. Companies make different products, but quality of jobs depends on processes…select your jobs based on quality of processes.

DEVELOPING GRADUATES WITH A CONSCIENCE

Over the years with this philosophy of the management, XLRI has developed its students' passion for achieving excellence in everything they do. While informality, flexibility, humaneness and esprit de corps are the hallmarks, growth and development of the whole person with integrity and ingenuity are the values developed in XLRI. This process starts right from the induction programme.

THE EYE-OPENER—IN THE VILLAGES OF JHARKHAND: A TRYST WITH REALITY

XLRI has started the Rural Visit Programme for all first year students, wherein they spend two to three days/nights in villages as a part of their induction into XLRI and its values and culture. Here is an account from a student of '08 batch (name withheld),

> After all, the village was going to be a totally new experience for us and we were expecting nothing for survival there..., however, it turned out that there were lots of eye-openers on this trip awaiting us....
>
> We went to villages which had severe water problem and were suffering from the problem of distress migration. Their language was out of my understanding, their only means of livelihood was making hats of bamboo sticks and their condition was really pathetic....They are surviving on snakes and rats at times.

> The village road was in bad shape and the village did not have proper electricity. I was thinking about what these people would do with the homes if they do not have proper food to eat. Reality was showing its face.
>
> Despite their problems, villagers were happy to meet us and were very hospitable. Another eye-opener was this conversation with a villager there:
>
> *Me: Do you watch movies?*
> *Villager: I have never seen cinema.*
> *Me: Ever been to Kolkata? Any city?*
> *Villager: No.*
> *Me: Any desire to go to the city? Are u happy here?*
> *Villager: I am very happy here…never feel like going anywhere else*
> *Me: At what time in the morning do you go to the fields?*
> *Villager: We don't know about the time.… we don't have a clock out here.*
>
> This conversation broke many of the perceptions. I was forced to think: how about leading a life in one such village.… Can I survive there? 70% of India lives like that.… Can we make a better world? Yes, WE CAN and WE WILL!!!

THE SOCIAL CONTRIBUTIONS

The social values developed at XLRI have been translated into several student initiatives.

SIGMA, the Students' Initiative Group for Managerial Assistance, aims at taking up and implementing 'socially relevant projects' on campus. Thus, it is the students' way of achieving the vision of XLRI's founders—'to change the face of the earth'. Recently, SIGMA tied up with Goonj, the non-governmental organizations (NGOs) dedicated to provide clothes to the needy. Another project of SIGMA is to provide Basic Computer Literacy Programme (BCLP) for underprivileged children in Jamshedpur. The BCLP was started in an attempt to utilize the idle computer resources at the XLRI. Yet, another 15 volunteers from XLRI taught 34 students of the Loyola Open School, Jamshedpur for three hours on 10 Sundays.

Social Entrepreneurship Trust was set up by XLRI in association with its alumni. The trust aims to encourage and support 'entrepreneurship with a social cause' among XLRI students, alumni and community. Currently, it is supporting two student initiatives—Swavalamban (Box 6.1) and Parichay (Box 6.2). XLRI students are also looking at social sector as their career option. 'About 40 students of its 180 strong batch have so far shown interest in moving away from high paying corporate jobs and opted for a career either as a start-up or in joining established players in the social sector (State Bureau, 2008).

Conclusion

XLRI completes 60 glorious years in 2009. What have the students gained from XLRI?

Here's what alumni of the initial batches had to state (names of alumni have been deleted):

1. Deep insight into the power of people relationships.
2. A collaborative rather than confrontation approach to issues.
3. The value of superior communication skills.
4. Simplicity and non-hierarchical way of managing.
5. Friendship that will remain for ever.

Another alumnus commented that, 'XLRI gave me a world view. And maybe social skills of a corporate kind. The beauty of XLRI is that we learnt from each other too'.

'We were young, but we had good advice and good ideas and lots of enthusiasm.' Summarizes an alumnus from BM '09.

I am sure the management style and culture of XLRI would form a benchmark for other management schools.

Box 6.1 Swavalamban

स्वावलंबन

Team: Ankur Saboo, Anand Raghavendran, Abhilash Soman (BM '07–'09) Swavalamban is an Ox-Driven Generator. The energy generated from the system is clean energy thereby ensuring sustainability. This system is highly effective as it utilizes the existing and easily available resources of villages to provide electricity which is a dream for most of the villages in concern. Rural electrification achieved through our product can revolutionize the lives of rural folks by giving them extra hours and with it plethora of business opportunities. It is a proven fact that the gross domestic product (GDP) of villages after electrification has at least doubled.

Our mission is to help improve the quality of life of villagers in the far off villages that are deprived of the basic needs like electricity. Through this product, we wish to extend their living life by additional four-five hours with sufficient electricity. This leads to a greater education and alternate sources of income for the villagers leading to the development. Our goal is not just to build the generator but also to sustain the utility of the generator by building the commitment in the stakeholders. The product has variants starting from individual home electrification and scaled to a level of complete village setup.

Box 6.1 continued

Box 6.1 continued

It all started as an inspiration and observation from the village tours we made at the start of our MBA journey. All three of us were back to India after a challenging global stint. Our experience abroad made us realize what we want to do. We observed that within a distance of 20 km from the Ranchi highway, villagers literally had no idea as to how will they ever get their homes electrified. Our dream is to empower those villagers who belong to the bottom of the pyramid (BOP) segment of our nation and they belong to close to 105,000 villages still to be electrified. The values that we gained from XLRI and BIT Mesra are driving us to take Swavalamban, as a start of a revolution in the unconnected villages.

Source: XLRI Social Initiatives, Jamshedpur.

Box 6.2 Parichay

Parichay is a young social entrepreneurship venture started in the year 2007. The cofounders are a group of students from the XLRI, Jamshedpur pursuing the Business Management Course and working towards bringing a change in the Indian Art and Handicraft Industry at the grass root level. The efforts have begun from Jamshedpur and are driven towards:

- Organizing the unorganized at the rural and the tribal levels.
- Improving the project management at the grass root level.
- Creation/promotion of business development activities for a select group of NGOs truly working with the artisans and craftsmen.
- Bringing innovation in the product design and utility with modern/professional designer's involvement.
- Improving product quality to successfully compete in domestic and international markets.
- Enabling market linkage for the rural and tribal handicrafts.

The efforts are guided towards contemporizing the products so as to enable better acceptance in the market and hence create a sustainable livelihood at the grass root level. But the ethnic sanctity and values of the craft will always stay intact. To realize its dream, the venture has established the Parichay 'Design & Learning Center' at Khas Mahal, which is first of its kind in Jharkhand.

Source: XLRI Social Initiatives, Jamshedpur.

Note

1. Most of the information has been taken from XLRI websites and interpreted by the author.

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7

Education for a Just, Humane and Equitable Society

Dileep Ranjekar

Introduction

A discussion on the purpose of education can itself be quite complex and draws a variety of responses from the varied spectrum of parents, children, administrators, educationists and academics. And when one has to address the role of education that facilitates an equitable society, it becomes even more complex. Yet, I have chosen to address this topic since we at Azim Premji Foundation are engaged in our work with a vision to contribute to the kind of education that facilitates a just, humane and equitable society.

In attempting this task, I will draw upon my personal experiences and the experiences of Azim Premji Foundation through its work in rural government schools of India. I will also articulate the position of Azim Premji Foundation on what we believe is the kind of education and the kind of school environment and classroom processes that provide growing children the perspective and understanding to appreciate the kind of society that we should create and cherish. I will also draw upon the scholarly exposition of some of the eminent experts who spoke on the theme of education for an equitable society at the National Learning Conference organized in May 2007.

Our Constitution—The guiding spirit

Let me begin by quoting the short and exquisite Preamble to the Constitution of India. This according to us is the guiding spirit for all our actions in India.

> We the people of India, having solemnly resolved to constitute India into a sovereign socialist secular democratic republic and to secure to all its citizens: Justice, social, economic and political;
>
> Liberty of thought, expression, belief, faith and worship;
>
> Equality of status and of opportunity;
>
> And to promote among them all Fraternity assuring the dignity of the individual and the unity and integrity of the nation;
>
> In our constituent assembly this twenty-sixth day of November 1949 do hereby adopt, enact and give to ourselves this constitution.

How far we are from realizing the shining goal visualized by the leaders of the nation more than 60 years ago is well known. Our country's rank among all nations on the Human Development Index has been stuck around 120 to 130 for many years. The sex ratio, the status of women's health, the hygiene and health conditions, the infant mortality rate—each of these and other indicators are in their own way a reflection of how far we are from the equitable society envisaged in our constitution.

The prevailing inequity in society and our education

Nothing perhaps reflects the inequity in our society more starkly than our school education. Therefore, the premise of what I am trying to convey is that unless we have equitable education, unless we have equity in the classroom, unless we provide every child a similar quality of education, unless we provide the extra support to the disadvantaged child—unless we do all this and more, the notion of an equitable society is almost utopian. Therefore, if we have to realize our promise as expressed in our constitution we need equitable education.

We have over 200 million children in the age group of 6 to 14 years. According to the latest statistics, over 92 per cent of these children are enrolled in school. Of these, nearly 80 per cent attend the government schools. It is an incontrovertible fact that more and more, only the most disadvantaged children or those who do not have a choice are in government schools. It is a fact that there are some wonderful schools among our government schools but this would constitute at best 10 per cent of the schools. This implies that of the 10 lakh government schools in our country, maybe only one lakh schools will be providing the kind of education that ought to be provided. A variety of research including some of our own field studies at the Foundation shows that this small percentage of excellent schools is not because the system or the institutions got it right here but merely because some excellent, totally committed and dedicated teachers have made this happen.

The stark injustice to our children—as reflected in the inequality in the quality of education that they receive in our schools—is perhaps captured best in a photograph that I took while on a visit to a village in Vidisha District of Madhya Pradesh. Since I visited this school less than 24 hours after I had seen a private school where the economically well-off urban citizens send their children, the gulf made me boil at the 'inequity and total unfairness' in the whole system.

Sitting huddled together, 80 to a dank dark room and another 20 spilling on to an open slush filled courtyard, (Figures 7.1 and 7.2) with one very wet and tired teacher hopelessly placed—whom are we trying to fool while talking about efforts to provide quality education. To add to this, almost 60 per cent of these children are first generation learners and whose parents are mostly daily wage labours in farms.

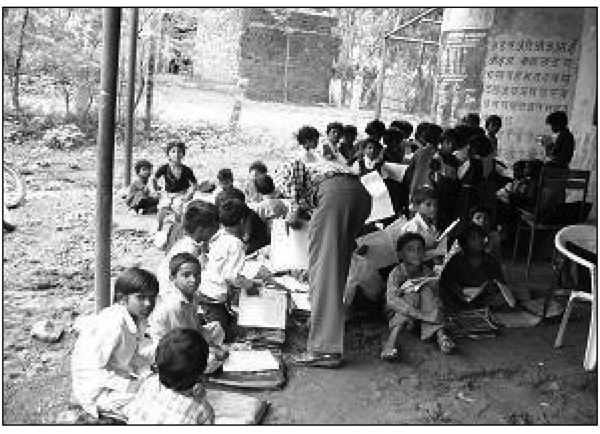

Figure 7.1 Children sitting in slush in the open to write their tests

Figure 7.2 More than 80 children squeezed tight in a small dark classroom

This is how the dice is loaded against them right from their earliest days in school.

If this is one representation of the gross inequality that is visible, there are a number of invisible and even more damaging manifestations of inequity in the education that we provide. The inequity that we are talking about is in the kind of discrimination that is overtly and covertly practised in school—gender bias, class bias, caste bias to name some. And also the branding of children as slow learners, and ignoring the last children in the classroom because 'they are incapable of learning'.

And yet, I often draw heart from some of the finest classrooms that I have had the privilege to see, the finest and most humane of teachers, who irrespective of the modest resources that their village government school provided, had made it their lives' passion to provide their children warmth, inclusiveness and equality, where the last child in the classroom was provided space and time to learn in his or her own way; a classroom where I saw a girl enact the role of the king in a lesson from the social science topic that was being discussed that day. Perhaps these photographs are only expressing to a very small extent what I saw and felt that day (Figures 7.3 and 7.4).

As we move forward in our discussion, it is appropriate to also keep in sight what the National Policy on Education (NPE) says about the kind of education that our children should receive, because we can

Figure 7.3 Participative engaging classroom in rural government school

Figure 7.4 Collective action for educational initiatives

show that what we are asking for is actually what the government has stated in its own policies but not being implemented. So the NPE states the following about education for our children:

1. Essential for all round development.
2. Acculturating role—national cohesion, scientific temper, independence of mind and spirit, socialism, secularism, democracy as enshrined in our constitution.
3. Strengthen world view, international cooperation, coexistence.
4. Equality; equal opportunity for access and conditions for success.
5. Education for equality; education of scheduled castes, education of scheduled tribes, minorities.
6. Education of comparable quality for all—equally important to ensure excellence at the top of pyramid and opportunity for all at the base of pyramid.

The Kothari Commission stated that if there had to be a peaceful transformation in society, it could happen only through education. This vision of a transformed society brought about through education has been reinforced in several other education commission reports.

Distinction between equality and equity

At this stage, it is perhaps necessary to dwell even if briefly on distinction and differences between equity and equality and then to be able to explain why and how education can influence a society so that it is just, humane and equitable.

Equality can be addressed along the dimensions of opportunity, process and outcomes. Equity is a term that is used when we want to describe the inequalities between groups as against the inequalities between individuals. Given this understanding, we can appreciate the meaning of gender equity and social equity which describes the extent to which the members of both gender groups and all social groups are able to participate equally. Educational equity can then be the term that describes the extent to which all children, including the children of all marginalized groups, are able to partake and participate in the domain of education and thereby enable equal opportunities in other fields including employment opportunities.

In his address at the National Learning Conference in May 2007, Andre Beteille said,

> A school system if properly designed can do something to reduce the inequalities of life chances among persons. It cannot dismantle at one stroke or even through a succession of Five Year Plans all the accumulated inequalities of a hierarchical society with which people have lived for two thousand years.... Education can and must be put to the service of creating a better society, but our approach should be realistic. It undoubtedly contributes to the removal of odious distinctions and creates channels for individual mobility. (Beteille, 2007)

The above observations by Beteille, in fact, explain why there is a section of thinkers and doers who look at equitable education as the availability of common schools based on the neighbourhood school concept while for the others it is defined as providing equitable quality education in government schools.

It is in context with the above that I began this essay with illustrations and examples of inequitable quality of education that prevents all children from participating in the classroom; examples of the inequity because of the language and the pedagogy, and examples of how inequitable provision of infrastructure makes it impossible for the children of all backgrounds to access education.

Azim Premji Foundation's vision of equitable education

Our Foundation's approach and work has been in the realm of the pragmatic—how can we contribute to make the government school system provide better education to children who largely come from the more marginalized and more deprived sections of society. By better education, given the context, we mean equitable quality of education. The strategic direction for our work is derived from our vision of this kind of education. I devote the next section to describe in some detail Azim Premji Foundation's position on what it believes is equitable quality education. We believe that education:

1. Opens a world of knowledge, imagination, creativity and material prosperity.
2. Facilitates independence of thought and action leading to informed and empowered choices.

3. Enables the consummation of an individual's potential and ability to productively participate in society's endeavours.
4. Encourages the ability and the willingness to help build humane, equitable, healthy and prosperous communities.

We must view today's education in the context of the commitments that we, as a nation, made towards the education of our children through our Constitution. Sixty years after independence and self-governance, India is yet to achieve the basic goals of universal elementary education. Our national policy documents have visualized an education system that is inclusive and yet we have a school system that is exclusive and increasingly stratified along socio-economic, cultural and gender lines. This stratification has led to an education for the poor that lacks academic rigour at one end and mindless competition for the rich at the other. These increasing gaps reflect deep inequities, which need to be comprehensively addressed.

Education is a complex process influenced by individual, social, political, economic, cultural and environmental diversity. There is often little direct established correlation between input and output or any assurance about scalability and replicability of best practices. Any mass strategy (one size fits all) is unlikely to work primarily due to the dichotomy that exists between the need to meet unique individual requirements and simultaneously achieve scale. The expectations may be different for each stakeholder, and this adds to the complexity of implementing large-/mass-scale approaches. Therefore, there is a need for constant and necessary experimentation, nuanced understanding of social development and a commitment towards not dishing out standard solutions, but designing committed, long-term customized approaches that make a difference and are accepted by the stakeholders.

Based on our experience of ground level work with several thousand schools across several Indian states, we at the foundation see the following as critical challenges influencing the delivery and in achieving the goals of universal quality education:

1. *Political will*: Despite a lot of debate, recommendations of various commissions appointed for specific purposes and clarity provided by the NPE as well as the constitutional mandates, successive governments have failed to achieve the goal of

quality universal education. Lack of political will towards allocating necessary financial resources as well as monitoring rigour on implementation of various programmes is evidence enough that the issue of education is not a priority for elected representatives.

2. *Teacher*: There has been an overall failure to provide the teacher with necessary enabling conditions of service as well as prestige and position of pride in the society. The quality of teacher preparation and development programmes leaves a lot to be desired and this is particularly painful because every year there is ritualistic and dismal quality of teacher training that is dished out to virtually every teacher.
3. *Education functionaries*: There are several commitments and actions specified in the NPE for educational functionaries and management. Several programmes have attempted to create the necessary resources and mechanisms to achieve these commitments but the delivery system has failed to execute necessary policies, programmes and strategies towards fulfilling their objectives. Such failures are equally attributable to a lack of will to execute policy objectives and a paucity of financial resources.
4. *Examination system*: Board examinations (Class X and XII) and professional examinations predominantly drive the expectations of learning for the child, the teacher, the parent and the employer in India. Assessment is excessively focused on rote learning and not on understanding, thinking, application or creativity. A singular focus, therefore, on 'learning by heart' for examinations builds pressure in the classroom to prepare children solely for rote-oriented examinations throughout their academic engagement. In such a context, no amount of classroom teaching–learning reform for understanding and application, in the years preceding Class VIII, would serve any purpose unless the approach towards Board and professional examinations is reformed.

Our understanding of education is that it is a continuous process of learning, development resulting in acquisition, application and creation of knowledge. Education as a process enables the refinement of knowledge through a variety of experiences. 'Quality' education is defined as the kind of education that promotes

> All children, young people and adults have the human right to benefit from an education that will meet their basic learning needs in the best and fullest sense of the term, an education that includes learning to know, to do, to live together and to be. It is an education geared to tapping each individual's talents and potential, and developing learners' personalities, so that they can improve their lives and transform their societies. (UNESCO, 2000)

To educate, therefore, is not just a systematic or systematized attempt to fill a child's head with useful information and concepts and skilful means of using such information and concepts as the prevailing educational system may deem fit. The more significant part of the process of education lies in the ability to draw out of every child his or her capacity to explore, to play around with words, objects, concepts and ideas.

Elementary education lays the foundation for the entire education process. Quality and equity issues at the elementary education level lead to infirmities in secondary, tertiary and professional education.

We are committed to a holistic, child-centred pedagogy that encourages enquiry and exploration. Learning could also be defined as the process of acquiring the ability to access, understand and use knowledge. The principles that underlie our understanding of learning are in keeping with that of the National Curriculum Framework, 2005.

Learning has been defined and construed in multiple ways. The National Curriculum Framework, 2005 defines learning as '…a generative process of representing and manipulating concrete things and mental representations, rather than storage and retrieval of information'.

We believe that learning is a cognitive as well as social process of acquiring abilities, skills and knowledge which helps to make sense of the physical and social environment towards achieving the aims of education. Making meaning or understanding remains central to all learning.

The underlying principles of equitable education stem from the belief that:

1. All children are capable of learning and are naturally motivated to learn.
2. Children learn best when they are respected and valued (punishment is detrimental to learning).

3. Children learn in a variety of ways (through experience, experiment, exploration, conversation, discussion, movement, questioning, listening, speaking, reading, writing, thinking, reflecting, creative expression).
4. Children learn with and from each other.
5. The pace of learning is different for different children.
6. Physical development supports emotional and cognitive development among children.
7. Primacy of children's experiences, voices and active participation is critical to a child-centred pedagogy.
8. Like adults, different children respond to same situation differently and the same child responds differently to similar situations.
9. Fear, punishment or material incentives must not be used.
10. Inequity in the classroom on the basis of caste, gender, socio-economic conditions or performance of the learner cannot be accepted.
11. Curriculum of what is worth learning in order to foster skills and experiences that make meaning to the learner and serve larger societal needs. This encompasses many aspects of what we ought to try and learn throughout our lives. School is then seen as preparatory ground that supports children to become lifelong learners.
12. Rote memorization must not be the primary form of learning as well as of assessment.
13. Children must not be treated as passive receivers of information—no classroom process should lead to boredom and monotonous routines.
14. We believe that the role of a teacher is to advise, orient, coach, mentor and facilitate learning (by watching and listening, giving feedback, asking challenging questions, calling attention to issues and neglected aspects, instigating curiosity, and so on).
15. A teacher's function in a classroom is to serve as a reflective practitioner who demonstrates vision and understanding of society, education and children.
16. An effective teacher is one who approaches teaching/learning material from the learner's perspective and values; acknowledges and accommodates student diversity; encourages reflection

through discussion, debate, storytelling/writing, and so on; encourages active discovery and independent learning; gives timely feedback on work done; believes in non-threatening; engaging learning and aligning the interests of the learners to that of the teaching–learning process.

I will not go into more detail about the pedagogical and curricular aspects of equitable education as evidenced in the classroom and in the school environment. Let us briefly articulate what the use of knowledge and understanding gained through such an education implies:

1. *Make informed choices/decisions*—The world constantly challenges an individual to make innumerable choices and learning should enable rational and independent judgement.
2. *Visualize, plan and act*—This means learning to consciously respond to various challenges of life through a well-defined ability to visualize (understand and anticipate) problems, plan and act for resolution.
3. *Communicate clearly and effectively*—The ability to communicate with the world around clearly and effectively involves coherence of understanding, thought and expression through, verbal and non-verbal means.
4. *Develop physical, emotional and mental well-being*—Develop the ability to nurture one's physical, emotional and mental well-being.
5. *Contribute to society*—Each individual must contribute to society through better understanding of the world. This contribution should manifest through the development of employability skills, collaboration with fellow citizens, and participation in social processes for change.

And going ahead in similar vein, we would describe the guiding principles and values as follows:

1. *Develop sensitivity and empathy*—This means respecting and responding with care to diversity and differences by understanding social realities, recognizing and appreciating differences, developing mutual acceptance and appreciating others' values.

2. *Develop aesthetic appreciation*—This involves the development of a sense of beauty and aesthetics for understanding the variety and art of the world around. The development of all senses through observation, exploration and expression is critical.
3. *Understand cultural values*—This means understanding values within the frame of the culture that they exist in and developing values that help evolve an inclusive society.

I conclude this section with a brief overview on assessment which is an integral part of the curriculum and teaching–learning process:

It is important here to reiterate our fundamental pedagogical principles that all children are capable of learning, that children learn at their own pace and that they learn in a variety of ways. Our approach to assessment proceeds from this.

Teaching practices should be geared to achieving the aims of the curriculum, and assessment should reflect curricular objectives in such a way that it reinforces best practices in teaching.

Assessment should provide credible feedback to the teacher and to students that helps each one to do better—in particular, it should inform every teacher's pedagogic practice. The primary purpose of assessment is to help improve both teaching–learning processes and materials. This is also a means of keeping parents informed of a child's progress. But, assessment should not become a process that encourages labelling and segregation or intimidates students. We envisage assessment as a process that:

1. determines the achievement of curricular goals through continuous, child-friendly processes;
2. informs teaching and learning through the use of scientific tools and processes.

The classroom is an enabling learning environment that provides freedom, openness, acceptance, meaningfulness, belonging and moderate challenge for every child. The classroom is focused on learning and flexible for varied learning needs, sensitive to cultural contexts and provides life-related experience. Azim Premji Foundation, thus, envisages a paradigm shift in emphasis from rote learning, static conceptualization and memorizing to cognition, comprehension and creativity that is contextual.

Conclusion: Do not forget—The guiding spirit of our Constitution

I began by invoking the preamble of our Constitution and I would like to end by again drawing reference to that wonderful document.

We all envision a dramatic change in the kind of education and learning experiences that our children receive. We want their school life to be interesting, where they can engage with and enjoy the learning processes and appreciate the context of their learning with the real life. This spirit of active learning will help the child develop an inquisitive mind, his/her curiosity will be sharpened, his/her analytical powers will bloom, and she will be able to relate learning experiences to both within and outside the class room. The class room becomes a window to the world.

Often, we do not step back and question the reason why we want this change. The answer to this question lies in the vision we have for our society and nation. We realize that we cannot talk of education without recognizing that education is a socio-political domain, of equity, of justice; we cannot create change in sterile environment. Our Constitution states that we shall be a democratic republic where each citizen shall be entitled to freedom, equality and liberty. What the nation's constitution envisages can be realized only through the way our education shapes our citizens and society.

It is our children who will fulfil our vision of a just, equitable and humane society. This is possible only if they develop a questioning mind, a strong sense of justice, fairness and concern for others. When teachers move the classroom away from rote learning to develop the full potential of the child, they are contributing to this development of our society and nation. The question of what is worth teaching—the aims of education, the curriculum, the pedagogy, the learning environment—makes greater sense when we keep the larger picture in mind. The readings of Aurobindo, Tagore, Gandhi and other thought leaders can be a constant beacon for us in our journey.

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8

Civil Society and Governance

Subir Raha

Introduction

CIVILIZATION: A SYSTEM OF VALUES

The first word of the topic is civilization. How do we define civilization? Is there only one civilization for humankind, or are civilizations different in different geographies for different groups of people at different times? Are there better civilizations, greater civilizations or long-lasting civilizations? Are there non-human civilizations? What about civilizations beyond the earth? I propose to define civilization as a system of values. There could be many other definitions. Ants live in heaps, bees live in hives and dolphins live in schools, they live organized lives—are these civilizations? Eagles and lions live in families, like we do. Are the Homo sapiens tribes, say the Jarwas in the Andamans, less civilized or uncivilized? To me, the essential premise of a civilization is a system of recognizable values.

SOCIETY: A SYSTEM OF SHARED VALUES

The next word is society. Given the definition of civilization as a system of values, a society is a particular group of people who share a given set of values. The acceptance is mostly voluntary, because of their birth, geography, commonality of needs and fears, compulsions of survival, and so on. Thus, a society is a system of shared values guided by common cause. There are differences in the nature of the common cause, like societies by religion, by language, by politics, and so on.

GOVERNANCE: A SYSTEM OF RIGHTS AND OBLIGATIONS

Next, focus is on governance. Let us define governance as a system of rights and obligations. I thought of saying that governance is a system of controls and benefits but that did not ring true. Governance is a system of rights and obligations because every member of a society has certain rights—that is why he subscribes to the membership; he also must comply with certain obligations necessary to sustain the society. These are complementary concepts—rights and obligations. We cannot have one without the other. This is why families are formed, not only among humans but animals as well. Families evolved into tribes and clans, and then came the kingdoms and finally, the state.

The states define the respective forms of governance and vice versa. The four estates—religion, politics, judiciary and media—constitute the process of traditional governance. To me, corporations have evolved as the fifth estate because in today's global village, these entities are as pervasive, as influential as any of the traditional four estates. Let us take the traditional estates first.

THE FOUR ESTATES: RELIGION, POLITICS, JUDICIARY AND MEDIA

Organized religion has perhaps been the oldest form of governance because when our ancestors moved into caves as the first step of civilization, they were afraid of many things, just as we are at present, only we have many more fears. Of all their fears, darkness was the worst because they could not see but the animals could. They were afraid of the forces of nature which they could not foresee but some animals had prescience. The members of the tribe would counsel and comfort each other, and some of the smarter ones became priests who supposedly acquired supernatural powers, the medicine men who claimed to have the know-how to cure our wounds and illnesses, the witches who allegedly had the ability to subvert our destinies. The priests created religions which evolved into the first corporations, the first hierarchies of Gurus as CEOs, *Chela*s as managers and yes, even management trainees! Religion continues to be the first estate because we live and die with these primal fears.

Then we came to politics. Food security depended on identified territories where the tribe could hunt and gather without the threat of competing tribes. Even today, we see this trend among the primates. As the clans grew larger and quality of life rather than survival became the driving motivation, it became necessary to secure bigger and better territories. For this, several structured processes were invented—a process for aggression, a process for defence, a process for control, a process for spying, a process for making sharper weapons with longer reach, and so on. The warriors became kings, and therefore CEOs of their corporations. Income tax followed. The world has changed over the millennia but income tax remains constant, only the rate varies! Seriously speaking, income tax became the key obligation, and protection the key right. In the currently popular form of governance—democracy—this second estate stands sub-divided into the legislative and the judiciary.

In the beginning, it was the priest whose word was law. Then, the kings took over. The concept of an independent judicial system evolved later when the kingdoms limited to city–states became empires, and too many people began raising too many disputes. The essential criteria of an independent judiciary are that the judge has no vested interest in the outcome of the judgement, and that the judge has no obligation either to the legislative or the executive branches of the government.

Media, public access to information, happened because of the invention of the printing press. Since then, media has evolved with technology—telegraph, telephone, radio, satcom and Internet. Media is no longer focussed exclusively on reporting of facts and circumstances about the first three estates; in the last century, media has evolved to a point where analyses and opinions are equally important, and thus the other three estates are now influenced by this fourth estate. In this decade, we have reached a stage where we not only receive media passively but we also create media on our own, as individuals or in random groups, for example, Blogs. The screen and the speaker are making paper obsolete. Most print media already have web-editions.

Times, they're changing. The estates remain important and relevant, but technology is enabling people as individuals and groups—sub-societies, to design specific sets of rights and obligations within the broad framework of their respective civil societies. This is one of my key submissions. The societies developed fairly stringent codes for practically every aspect of our lives—dress, food, conduct, relationships, and so on. The sub-societies are accelerating change; take the traditional Indian dress code: first *dhoti* surrendered to trousers, and now the saree is yielding to jeans. I have seen a religious procession held up because the priest wanted a cordless mike for chanting. We not only hear on telephone but also read SMS. When did pizza become a major Indian delicacy?

The new paradigm: Corporate, socio-economic and global

Let me move forward. A tsunami of independence swept across the globe after the Second World War. Invention of the transistor launched the communications revolution; geo-stationery satellites, imagined by Arthur C. Clarke in the 1940s, began to integrate the nation-based civilizations into a global village in the 1980s. Some 150 years after slavery was outlawed, and about 50 years after women got the vote in the USA, aspiration for quality of life has began to overwhelm religion, politics and commerce which had been traditionally dominated by the mechanics of exploitation of those born under-privileged. There are new paradigms for the way we live and work, and corporate governance has become a crucial compulsion today.

In the feudal centuries, exploitation was decided by birth; in the corporate process, exploitation is by rank. Almost exactly a century ago, the productivity movement began with the sole objective of getting ever-increasing output from as few people as the company must employ for as low wages as possible. As management trainees in 1970, we were lectured on the Boston Electric experiment of the 1930s as a shining example of the Productivity campaign. It took me some time to realize that the bottom line was exploitation. The lesson was that there is no incremental output from the so-called hygiene factors, and so, do not go beyond the minimum. The concept of Limited Liability emerged after a lot of companies collapsed because of fraud or incompetence or both. The concept of Corporate Governance goes beyond investor protection; the focus shifts to the Board, with Independent Directors being seen as the guardians. Similarly, Corporate Social Responsibility

(CSR) is focussed on the engagement between the company and its stakeholders, especially the consumers and the communities. The essence is that the companies have legally enforceable obligations to the stakeholders, to the community and to the environment, as distinct from the non-enforceable obligation to pay dividend to the share-owners. These frameworks grew out of increasing realization in the developed countries that companies are trashing legitimate concerns of the workers, the community and the environment, to maximize profit at all costs. Today, there is no dispute on the thesis that each corporate organization has a purpose above and beyond business as such. But as a practicing manager and as a concerned citizen, I am sad that corporate governance is often getting blinkered to technically correct compliance of the Listing Agreement, and that CSR equals charity and publicity.

I remember a case some 15 years back, when one of our most well-known business managers donated 20 lakh Rupees to Mother Teresa, and took out advertisements in the national newspapers to say that his company had done so. The advertisement perhaps cost another 20 lakh. I thought that this was indecent. I hold that if he had honestly believed in Mother Teresa's cause, he should have given the entire 40 lakh to her.

The other definition of corporate governance is compliance with the Listing Agreement. Everyone and his staff officer hold forth on Section 49. The implicit threat is that if you do not comply, your market capitalization may get eroded. So, you must appoint the Independent Directors and try to neutralize them along the way. Corporate governance in terms of concern for the well-being of the community, concern for environment, concern for human rights and animal rights as well, is not even on the agenda. No Indian company has been put out of business for illegal disposal of hazardous waste. No Indian company has been put out of business for deaths due to unsafe working conditions. No Indian company has been put out of business for poisoning the rivers. We are glued on art shows for charity, sponsorships for cricket and golf and half-marathons, and of course, unabashedly, on swimsuits. When I talk about professional managers, I mean everyone who runs an organization whether in the government or in companies or in non-governmental organizations (NGOs), academic institutions wherever, should look at corporate governance in a holistic way. We must carry out the business, and we must do so with ethics; beyond the confines of business, we must prove our concern for the environment, for the people whose lives are impacted by our business, today and tomorrow. That, to me, is true corporate governance.

Equity: Communication beyond censors, poverty and blocks

Today, if you look at the North American Free Trade Organization, it is no match for European Economic Community and the European Union. Same thing is with the South Asian Association for Regional Cooperation (SAARC), with all kinds of groupings that we see; but if the European Union could come up and keep on expanding—they are getting more members who are now joining voluntarily—then perhaps the day will come when from one continental process it becomes a multi-continental process and ultimately becomes a global process.

Equity is the cornerstone of civil society. Ethics with equity is the essence of every religion. The rewards of virtue and punishments for sin do not differ by caste or colour. Equity is the basic premise of democracy. Our DNA has remained almost unchanged over the millennia but our thought processes and social processes have always been in a state of flux; the rate of change is now accelerating with every technological innovation. Throughout the World, whichever country you live in, whatever language you speak, whichever religion you practise, the concern for equity, as evidenced by the aspiration for quality of life, is all pervasive. This urge for equity is intensifying; thanks to technology. Communications today are beyond censors, communication channels cannot be blocked and literacy is no longer essential for global communications. Because of technology, the facility for instant communication and the privilege of open access to information are available to everyone, including those with negligible purchasing power. Remember the time when owning a radio, especially owning a telephone, demonstrated purchasing power and promoted social status? That was just 30 years—one generation—back!

In the beginning, information was passed orally from one generation to another. The son of a priest would know the chants and the son of a king would know how to hold court. Writing came later, and the few texts were available only to select members of the clan or the guild. The public could read inscriptions on stone. Mass production of written matter became possible with the printing press. It was necessary to know how to read, and to have access to the books.

After three centuries, radio made it possible to cross these barriers to information, and cameras offered instant, accurate visual record. Cinema was the next big leap in communication technology. The time from the first silent movie to the first commercial TV was barely three decades. TV, like reading, is a visual medium; the difference is that on TV, you see things for yourself whereas in a book, someone else describes the events for you to imagine. Along the way, tape recorders, fax and copiers were launched. Then Internet happened. Communications changed from analogue to digital medium. Radio and TV moved up from the earth's surface to geo-stationary satellites. The latest quantum change is the portability advantage of mobile phones. Radios also are portable, and so are TVs, but the portability of cell phones is a different paradigm altogether. Today, you do not have to be rich, you do not have to be literate and you do not have to be at any particular place to access information and to exchange communication. No authority can shut you off from this pervasive, interactive flow. This development in human civilization has happened in less than a decade, creating a never-before sense of confidence, overriding age-old barriers of social standing, economic status and formal learning.

Conclusion: Congress beyond borders

We are now globally interconnected. This is creating new synergies among individuals, groups, societies and nations. The rapidly escalating concern about global warming is, to me, the best example of such a synergy. The Great Wall and the Maginot Line did not have global impact; the Berlin Wall did create global interest, especially when it was brought down. Today, in the global village, even the threat of international borders is diminishing: witness the growing number of countries waiving visa requirements, and passports becoming just ID cards. Across all borders, the prime motivation for all people is equity in quality of life. Therefore, equity in quality of life has to be the overriding objective of governance in civil society.

Questions and Responses

Q: Right from ancient times, the rich and the powerful have always exploited the poor. When the British left the country, this exploitation continued. Today, workers and employees at lower level are still exploited by the employers, especially in the unorganized sector. What should the society and the people's representatives do to stop this practice?

R: Exploitation happens with the sanction of the victim. Ayn Rand's thesis in Fountainhead was that a person becomes a victim because he allows himself to be victimized. So, if there are 10 jobs and 5,000 applicants, they sanction the victimization, they surrender to economic exploitation for the first basic need of survival. As I submitted, civil society has to ensure the rights of the members, and this has to be done through the process of governance.

Q: Do you agree that our values and morals are changing for the worse?

R: There are certain basic values which perhaps will never change or should not change. Like living in a family, not using the credit card beyond your limit, and so on. Morals are defined in given contexts: divine promiscuity is celebrated, human promiscuity is illegal. At the same point of time, morals differ from society to society, like blood feuds and honour killings are accepted norms in some societies, like female infanticide is still in practice.

Q: Sixty years after independence, we still follow the colonial system of governance, so what has really changed in governance?

R: You walk into a police station in New York or New Delhi. What is the likely difference? In New Delhi, they may not even respond to your complaint if you are helpless, and in New York, they will read you, your rights before taking you in. The rights and obligations of the police remain the same, the difference lies in effectiveness of the governance process. As information and communication processes enrich the civil society, things will surely change in New Delhi. The bottleneck, I think, is the fact that while civil service in the UK has evolved with the times, we remain stuck with the civil service of the Raj.

Section II

Ethics in Business and Corporate Social Responsibility: Towards Horizon

9

CSR for Promoting Stakeholder Engagement

Usha Jumani

Introduction

This chapter makes the argument that the concept of Corporate Social Responsibility (CSR) is applicable to all corporate entities and not to business entities alone. It then builds the case for promoting stakeholder engagement by the three institutional anchors of society—business, government and civil society—to facilitate the emergence of people's organizations for all sections of the population and strengthen them. The chapter is primarily focussed on the Indian socio-economic-political context and draws upon several key concepts developed by the author in earlier works.

Historical perspective

Eight separate strands of historical process analysis are presented first, which are then tied up to Corporate Social Reality and stakeholder engagement as understood at present.

STRAND 1

Corporate is the opposite of individual. The term 'corporate' refers to that which is incorporated or a body incorporate. The literal meaning of the term is that which is combined as a whole or collective and relates to a corporation. The term 'corporation' in turn is defined as a body of persons recognized by law as an individual person or an entity having its own name and identity, and with rights, privileges and liabilities distinct from those of its members and refers to any group of persons acting as one body.

Today, the world of large companies engaged in business is commonly referred to as the corporate sector. The fact is that companies constitute only the corporate world of business. There are bodies incorporated under legislations other than the Companies Act, in various fields such as health, education, entertainment, childcare, civic amenities and utilities, social work. All the registered bodies under various legislations are also part of the corporate world and constitute the corporate world of healthcare, education, entertainment, childcare, social work, and so on. Viewed in this way, the corporate sector is very diverse and complex.

Business is not the only form of corporate entity, and consequently the CSR has to be understood in terms of social responsibility of all types of corporate entities.

STRAND 2

Historically, in India, representative organizations of all occupations and activities have been established in the form of trade and artisan guilds to enable people to protect their work and social interests, to deal with conflicting situations, to set norms and standards of work, to ensure quality standards, to negotiate and bargain with other guilds and with the state and finally to participate in policy formulation. The social stratification of caste and tribe has been integrated with the occupations of different groups of people. The guilds, thus, integrated the social and economic interests of people in the same forum. Religious bodies and cultural forums have included various occupational and caste groups (Jumani, 1992, 2006).

As Rajni Kothari says, there has never been a centralized government in India until modern times:

> Indian society for centuries survived the vicissitude of history without a centralised political system. Except for short periods, it lacked a clear centre. Even those short periods had a rather limited reach and proved to be transitions in

> the long march of Indian civilization. The core of the civilisation was cultural rather than political. Its 'State' was intermittent, scattered and multipolar, an arena of conflicting claims of a large number of clans and regimes. The real 'action' was by voluntary entities representing trade and commerce and the 'mahajans' governing them, and cultural, religious and caste and caste-like organisations. (Kothari, 1998)

This form of organizing people leads to the emergence of two main institutional anchors of society—the state and the business. The functions of civil society, as we understand it in modern times, have traditionally been performed by business organizations which are overlapping with social organizations—the guilds, the *mahajan*s, the *sangh*s, the *samaj*s, the *mandal*s, and so on. These representative forums of people had economic roles, social integration roles, socialization roles, policy formulation roles, tax farming roles and judicial roles. The stakeholders in business and in the community were the members of the respective guilds who were socially and economically integrated with each other and with their guild in well-knit ways. Ensuring compliance and conformity with agreed upon norms of social and business conduct were the responsibility of the guilds (Chenna Reddy, 1991; Jumani, 2006; Mitra, 2007).

This form of representation, however, underwent a transformation in India, in the wake of industrialization. The groups of workers with an established employer–employee relationship became more and more organized along the lines of trade unions developed in the industrialized countries. They have been able to bargain and negotiate for more and more economic strength for their members, even though they constitute a minority of the workforce. The majority of the workforce, which is self-employed, has remained outside the fold of the representative forums called trade unions. Today, there are very few representative forums of self-employed workers because they have not been organized as workers in the modern sense. The traditional representativeness of the poor self-employed, in the form of trade and artisan guilds, has been destroyed and has not been replaced by other forums. The rich self-employed have been able to metamorphose the guild form of representative forums into the present day version of trade and industry associations, chambers of commerce, professional councils, societies, and so on. They are able to protect their interests through these forums; they also exert various kinds of influence on policy formulation to suit their needs. But the rich and well-to-do constitute only a minority in terms of the total number of self-employed people. The vast majority of self-employed workers have yet to establish their representative forums to truly protect their interests. The cultural, social, religious organizations in India, however, continue to be very active and wide-spread (Jumani, 1992, 2006).

STRAND 3

The interplay between the real and the virtual to understand the basis of material wealth in business. When individuals engage in business individually and/or jointly but with their own funds, they bear the full liability for losses and benefits from the full assets of profits as real material wealth. In such situations, risk in business is contained by the fear of full liability of losses. Borrowed funds are looked down upon, and individuals doing business on the strength of their own funds are rated much higher on the yardstick of respectability in business.

The situation observed at present in the form of the limited liability joint stock company model—where a company exists as a legal person distinct from the individual promoters, owners, investors, for business—allows full benefit of profits to the promoters and owners, but reduces the fear of full liability of losses by transferring the risk to a large number of investors. Hence, risk-taking behaviour increases manifold and working with borrowed funds is seen as a symbol of strength. Size and scale of operations are encouraged to grow manifold. Market forces and the stock exchange determine the value of the business, thereby separating the real from the virtual as two separate basis of estimating material wealth. Market capitalization, for instance, is a virtual estimate of the wealth of a business, whereas its net worth is a real basis. Such virtual measures and estimates are continuously monitored and tracked to provide investors with information about the strength and quality of a company's functioning. Thus, pressures for economic growth up to infinity become imperative to continuously maintain the high valuation of the business by the stock exchanges.

STRAND 4

The limited liability company form of business has evolved side by side with the ushering in of the industrial revolution, followed by the post-industrial revolution. Together, they have unleashed forces for exploiting natural resources of the earth for creating more and more material wealth. This is pursued in the name of 'unlocking value' as the wealth of a country/society/company is primarily measured in economic terms. Over the last two to three hundred years, immense material wealth has been created by business at the cost of many other types of wealth. In the process it has created wide disparities between the rich and poor of the world—in terms of rich and poor people, rich and poor communities, rich and poor organizations, rich and poor countries. Obscene wealth has come to coexist with obscene inequalities which can unleash forces of revolt from society and undermine the very foundations of the business itself. Hence, it has become a strategic need to do something for addressing the negative social fallouts of doing business.

STRAND 5

Economic growth and material wealth creation is being pursued by exploiting the natural resources of the earth infinitely and indefinitely. Unlocking value of natural resources is seen as inevitable for economic growth which, over time, has led to global warming through unrestrained carbon emissions by industries and use of products manufactured by them; pollution of air, water and land resources; destruction of the ecological balance of the planet earth; hardship and disease for the inhabitants of the earth; and so on, which threaten the very survival of life on earth and consequently the survival of the business organizations themselves.

STRAND 6

Modern economic development theories visualize a linear progression from prehistoric to agricultural to industrial to post-industrial society as the path to be followed by all countries of the world. The progress made on this path has become the basis for categorizing countries of the world as 'developed' and 'developing', depending on their per capita national income. This criterion has emerged as a very critical one in defining the terms of exchange between the two sets of countries. The ways of functioning of the 'developed' countries have been made the norm: the institutional architecture, the legal frameworks, the market economy and the forms of governance prevailing in these countries are the models to be adopted by the 'developing' countries.

Market economy, increasing commercialization of various transactions between people, industrial production of goods and services have led to viewing the population of a country as consumers and producers of goods and services. Every individual is a consumer or potential consumer, and the thrust of producers is to increase the levels of consumption by consumers so that business volumes increase continuously. Increasing levels of commercialization have led to more and more aspects of an individual's life being viewed in terms of producer–consumer interaction.

STRAND 7

The countries of the world are also ranked on the Human Development Index (HDI) in terms of the services provided by governments to their citizens. These services are viewed as entitlements of citizens. The HDI measures achievements on income, health and education by various countries according to a specific formula, with different weights given to these three components. Here too, the levels of adult literacy, gross enrolment rate of children in schools, years of schooling, life expectancy at birth, infant mortality rates, maternal mortality rates, per capita income levels of the 'developed' countries provide the yardstick to categorize countries as ranking 'high', 'medium' and 'low' on the HDI.

STRAND 8

The meaning of development as industrialization and moving towards the market economy and the HDI standards of the industrialized countries are converging today to unleash strong forces of uniformity in the countries of the world. These forces of uniformity are primarily focussed on the structuring of the economy in terms of organizing production, trade, services, markets, institutions, legal frameworks, modes of governance, measuring labour force participation, availability of infrastructure, such as roads, electricity, piped water supply, schools, hospitals, telecommunications, and so on along the lines of the 'developed' countries of the world. Basically, these economic and development indicators are measuring the material wealth of different countries with the focus on people as consumers and citizens. The present theoretical frameworks for comparing countries on material wealth capture these differences in considerable detail but they also imply an ordering which places absolutist superiority to material wealth creation and consumption. The terminology of 'developed' and 'developing' is based on the criterion of material wealth and implies that those who have more material wealth are better than those who have less. This terminology also implies that the 'developing' countries have to follow the same path as the 'developed' ones, if they want to be called as 'developed' countries.

These eight strands together have considerable bearing on the present understanding of the stakeholders of business.

Emergence of stakeholder focus of business

The *raison d'être* of business is its economic contract with society—to create wealth through the production of goods and services which are consumed by the people. Conventionally, the success of business has been viewed in terms of profits it generates, that is, a purely financial, single bottomline measure.

When business shifts from individuals to legal entities and when economic growth of the business is the only yardstick to measure its progress over time, then ways and means have to be developed to make economic growth possible indefinitely. The emergence of the joint stock company with limited liability for the promoters of the business is one such innovation which has become the vehicle for the growth of business leading to large-sized business entities with large number of employees and large number of shareholders who invest in the company. Such types of legal entities have been the focus of study because they have a large impact on their society. Not surprisingly, the stakeholders of a business are referred to mainly in the context of such business entities. Anyone who can affect or is affected by the decisions of the business is called its stakeholder.

The various stakeholders that a business is held accountable to include owners, investors, employees, suppliers, customers, government and regulatory authorities, the community, the environment and society at large. It is easy to see that this set of stakeholders emerges from the historical evolution of the eight strands described earlier and their coming together at this point of time in history. The need for incorporating the concerns of all the stakeholders of business becomes inevitable when all these eight strands are intertwined together. This strategic need of business organizations has paved the way for the shift from viewing business as shareholder focused organizations to stakeholder focussed organizations.

Peter Pruzan succinctly identifies the distinctive features of these two views of organization which he calls 'shareholder-value perspective' and 'stakeholder-value perspective':

> From a shareholder-value perspective, the goal is to maximise shareholder value, primarily via a maximisation of profits. To achieve this end, the most efficient use must be made of the 'instruments' available. These include not just technology and capital resources, but also employees, customers, suppliers, the media, the community, the physical environment, etc. From a stakeholder-value perspective this relationship between ends and means can be said to be shifted 180 degrees. The goals of the company will often include having satisfied employees who take pride in the organisation; customers who feel confident that they get their money's worth; products which not only are safe to use, functional, and of good quality, but are also produced in a manner which recognises human rights and does not unduly harm the environment; suppliers, and local communities that experience positive symbiotic relationships with the company; shareholders who receive a satisfactory return on their investments and are proud to own a share of the company; and so on. In order to contribute to the achievement of these goals, a high level of profits is required. Here the roles have been reversed. Income is no longer the primary *goal*, but a vital *means.* (Pruzan, 2001)

Over the years, the stakeholder-value perspective has led to viewing the success of business from several other measures besides profit.

Profits are necessary and inevitable to the success of business but the way the profits are generated is equally important. The social, environmental, ethical, informational means and methods employed to generate profits have a bearing on the responsible and accountable behaviour of business. Thus, a concept of multiple bottomlines has evolved from these concerns to measure the success of business as multi-purpose organizations set to achieve multiple objectives.

The triple bottomline approach (economic, social and environmental value added or destroyed) and the 3P approach (profits, people, planet) to assess the performance of business have been developed to contain the excesses of business and help it to move to a more sustainable path of functioning. The people and the environment increasingly become important stakeholders of business in the process.

The CSR has emerged as a special function in business organizations in the course of making the shift from a shareholder-value perspective to a stakeholder-value perspective. Business has to maintain a careful balance between the demands and pressures of these various stakeholders, which can also be conflicting in nature.

Three institutional anchors of society

The state, business (private sector) and civil society are posited as the three institutional anchors of modern societies. The corporate world (as elaborated in Strand 1 earlier in this chapter) is spread across all three institutional anchors of society which have a complementary role to play to make the lives of the people better.

When government shifts from monarchy or dictatorship to democracy, then elected representatives and citizens become stakeholders of government. Some citizens, in the form of business entities, do become more important than other citizens for the government. Government and business become mutual beneficiaries of each other's actions, thus leading to government becoming an important stakeholder of business and vice versa. Civil society emerges as a separate anchor to balance the collective negative impact of the state and business in modern society when these two anchors together become the dominant forces on the lives of people.

From the stakeholder-value perspective, the three anchors of society—state, business and civil society—are essentially also stakeholders for each other. Additional stakeholders are there for each anchor. For business, investors, suppliers and consumers are additional stakeholders. In a democratic government, citizens and elected representatives are stakeholders besides business. In civil society, communities of people, donors and experts are stakeholders along with government and business. Each institutional anchor has employees to run these organizations. The common resource for the survival of all three is the earth—environment—which is a superordinate stakeholder, and all are function in the context of society, which is the other superordinate stakeholder.

Essentially, the same stakeholders are juxtaposed differently when each of these three institutional anchors is the central organizational focus. All these stakeholders have their own interests to pursue, protect and promote which may converge or conflict with the interests of some other stakeholders—CSR tries to balance the interests of various stakeholders to maximize societal value for all.

Thus, government, business and civil society are active in trying to improve the situation of the people (citizens) through a variety of interventions. The gross inequalities between individuals, between organizations and between countries witnessed in present times are being addressed in the context of immense material wealth and immense material poverty which is directly related to the activities of one institutional anchor—business organizations. Civil society becomes an important institutional anchor of society in this juxtaposition to try and contain the excesses of state and business which can happen when limited liability business entities with state regulation become the mainstay of economic activity. Individually owned private business as proprietorships and partnerships can also contribute to economic excesses when the guild organization structure breaks down or is available only to some sections of the society.

When the concept of CSR is applicable to all corporate entities and not to business entities alone, the three institutional anchors of society are charged with the function of CSR as all of them enjoy corporate power. Bruce Lloyd sees the exercise of corporate power as a critical element in the long-term competitive advantage of successful organizations. According to him, when responsibility is internalized in the exercise of power its focus shifts from 'What is really important?' to 'What should be really important?' leading to responsible corporate citizenship. Decision-making in the organization is thus motivated by the positive influence of an underlying sense of values or ethics and moves away from the legalistic approach to compliance. To quote him:

> In the responsibility-driven approach there is a genuine concern with reconciling the interests of all the stakeholders within the decision making process. Recent research has confirmed that organisations that are able to undertake this reconciliation effectively are those that produce the best long-term benefits for any stakeholder group, including the shareholders. (Lloyd, 2001)

Stakeholder engagement

The process of stakeholder engagement, therefore, becomes a natural and logical basis for operationalizing CSR. The funds for development of the people (citizens, community) ultimately come from business—either directly or indirectly. Some funds come from private philanthropy and some come from the community itself, but these also ultimately come from business. Business pays taxes to the government from its profits. Individuals also pay taxes to government from their incomes and profits. Taxes provide the funds to government to provide public goods and services to its citizens. The governments of rich countries provide development aid to poor countries by setting up special vehicles in the form of governmental aid agencies which are financed through the taxes they (the rich countries) collect from their businesses and citizens. Businesses and individuals set up philanthropic organizations from their own funds and assets. Businesses spend directly from their surpluses on interventions to help the community. Individuals contribute directly from their own incomes and assets to support interventions which may improve their own and/or other people's lives. Thus, the sources of funds for public goods and services are the commercial transactions engaged in by business—both by natural persons and legal persons—which constitutes the economic contract of business with society. Government constitutes the political contract with society, and civil society is trying to develop a social contract with society.

The CSR initiatives try to establish the metrics for the terms of exchange with the various stakeholders of each of the three institutional anchors of society. The terms of exchange with some stakeholders have become standardized and well established, whereas the terms of exchange with other stakeholders are evolving and are being better understood through active engagement. These are described in the following paragraphs.

Employees' interests have to be protected—they form trade unions and employee associations to negotiate with the employers and become a distinct stakeholder of the business/government/civil society entity. There is a need to retain employees to run the business and various types of incentives are provided towards this end. The organizational model of limited liability joint stock company in its engagement with employees has borrowed the concept of partnership/ownership from full liability business by making employees part owners of the business through Employee Stock Options and payment of percentage of profits as remuneration. This combination of terms of two forms of business has led to extremely high risk-taking behaviour by employees, especially in the financial sector, to achieve economic growth up to infinity for their companies. The employees themselves stand to gain a lot in the short-term through these risk-taking behaviours but the long-term sustainability of the business is compromised. The current economic meltdown facing the world is partly rooted in this faulty design of modern business organizations and their terms of engagement with one stakeholder—the employees—to make their businesses attractive to another stakeholder—the investors. Instead of an employer–employee relationship, if the business engages with them in a buyer–seller relationship or as partners in full liability organizational form, then the nature of risk-taking behaviour of business would be different. Similarly, government has to strive very hard to get high performance from its employees and has to continuously provide them monetary and other incentives which ultimately consume a large share of public funds. Holding government office and exercise of power is another major incentive for government employees. Civil society organizations try to function on volunteer inputs, low remuneration, poor benefits and social security, and so on for their employees and have to find innovative ways to get high performance from them. Making a difference to the lives of people and playing a role in shaping official policies and in the functioning of societal institutions is a major incentive for those working in civil society organizations.

Investors are the major beneficiaries of joint stock companies when their businesses do well. Increasingly, modern economic theories persuade governments to transform the institutional architecture of the economy to persuade all savers to become investors in business by providing various fiscal benefits to investors. As long as the going is good, these measures work positively for the markets, government and investors. But when the economic bubble bursts, as in the case of the current financial meltdown that the global economy is experiencing, there is tremendous erosion of investor wealth. 'Socially Responsible Investing' is emerging to guide investors, but it is doubtful that they can prevent the bursting of economic bubbles unless the structure of business and government regulation changes. ISO 26000 is being developed as an international social responsibility standard for all types of organizations.

Suppliers and customers become stakeholders by virtue of their buyer–seller relationship with the business entity which makes the whole transaction of running the business commercially viable. Suppliers themselves are also in business and they sell goods and services to companies as business organizations. The small suppliers have to protect their interests against large businesses, but when large business organizations are suppliers to other large businesses they do negotiate equitable terms for themselves. Consumers buy goods and services from companies. Consumer activism has emerged as a form of civil society action to protect the interests of consumers from the malintentions of business and lead to consumer protection laws being legislated and implemented effectively. Government is also a large buyer and seller of goods and services from the marketplace, thus government organizations also become suppliers and customers for other businesses. Initiatives of business to organize people in the community for economic activities lead to making the members of the community either suppliers, or consumers, or employees of business. Civil society interventions around livelihoods for the people also help to link them directly with the economy as producers, suppliers, consumers, employees, investors, and so on.

Government as the regulatory authority and policy-making forum constitutes a special stakeholder for business. It engages in policy advocacy with the government and tries to minimize the regulatory controls on itself, minimize tax payments and increases its profits. Civil society organizations also engage in policy advocacy with government to introduce policies which favour the people and to contain the excesses of business. Civil society engages in policy dialogue with business to correct negative impact of their activities on the people, to stop them from entering certain areas and sectors, to make them adhere to standards and ensure compliance with the law.

There are positive and negative consequences for the community as a stakeholder of business. The commercialization and exploitation of natural resources to create material wealth for business has contributed to some of the problems and negative consequences faced by the community as a stakeholder. These call for better response from business. The biggest sufferer is the community—large sections of the population do not get their full entitlements from government, their land and natural resources get taken up by business and development projects, they do not get adequate compensation, they do not get suitably rehabilitated after being displaced, they do not get absorbed in the new opportunities for work and employment and livelihood which get generated. This leads to protest and conflict with business. Besides, business has to build positive linkages with the neighbourhood where it is located, to sustain its activities at minimal cost. Hence, investment in the well-being of the community is in the long-term interest of the business.

All the stakeholders of the three institutional anchors are ultimately dependent on the natural environment for their survival. Business tends to exploit natural resources for material gain, and government is charged with the responsibility of ensuring that safe and sustained natural resources of air, water and land are available to its citizens. Civil society takes up the cause of protecting the environment and engages with government and business for this purpose.

Can the CSR reconcile the inherently contradictory objectives of greed versus need, of consumerism versus sustainable consumption, of economic growth up to infinity versus sustainable growth, of economic growth versus environmental sustainability, of throwaway lifestyles versus repair–reuse–recycle lifestyles which are being debated today in the interests of the two superordinate stakeholders—the environment and society? These are basically win-lose type of options which are being sought to be resolved as win-win options for all the stakeholders. They call for serious introspection on the directions of growth which have been pursued so far as well as of the structure and functioning of the three institutional anchors of society. The community as a stakeholder holds an important key to reconciling these contradictory options.

Community as a stakeholder

The metrics for the terms of exchange with the community as a stakeholder have to be understood in greater detail as this provides some direction for the future of society. The remaining sections of this chapter attempt to do so.

The work of Jumani (2006) and others highlight that the interventions of business, government and civil society to improve the lives of people are more effective when they are able to organize people around livelihood issues to increase their incomes, for example, through programme interventions such as watershed development, micro-credit, integrated agriculture development, afforestation, handicrafts production, and so on which lead to the formation of self-help institutions at the village level in the rural areas and the ward level in the urban areas. The infrastructure facilities and resources necessary for improving incomes have to be created and be placed in people's hands. The people get organized around the tasks of management of the infrastructure facilities and the resources. People grow as they gain experience and realize their own potential. The principle is to develop a stake for people in the infrastructure and resources being created, and economic growth will be taken care of by people themselves. They will, thus, also be better integrated in the economic mainstream. Federating these initially small-scale interventions into larger forums happens in varying degrees and leads to the development of viable businesses which are owned and managed by the members themselves, thus improving their effectiveness. The members are able to access various services like health, education, water and sanitation, childcare, housing, credit, roads, electricity, insurance, and so on as the strength of their own organizations increases. They are able to demand and get accountability from the government vis-à-vis their entitlements as citizens, and they are also able to pursue, protect and promote their interests on various facets of life. Their economic strength enhances their political and social strength positively. Interventions where only the social and political strength of people are increased without a self-sustaining economic basis tend to falter over time.

The scale of operations that such interventions are able/encouraged to achieve becomes the basis for their place in the mainstream of the economy and society. The examples of the Gujarat Cooperative Milk Marketing Federation (GCMMF) and the Indian Farmers Fertiliser Cooperative Ltd (IFFCO) are a case in point for highlighting this process of going to scale (Jumani, 2006). The challenges to be faced in developing people's capacities to represent themselves in institutions of ever increasing economic size and scale are clearly highlighted in the history of the GCMMF. In the case of IFFCO, the challenges of working with the government as a shareholder are highlighted. If the efforts made by various stakeholders to facilitate people's own institutions are successful and develop in size and scale in the same way as in the case of GCMMF and IFFCO, then they will also face similar challenges in bringing people's self-help initiatives into the mainstream of the economy and society to become strong and self-reliant business and social organizations.

The initiative of the Magarpatta Township Development and Construction Company Ltd is often cited as an example of how farmers can collectively develop their own agricultural land for urban requirements instead of selling it individually to real estate developers (Dalal and Basu, 2007). Magarpatta is a planned city on 400 acres of land on the outskirts of Pune city which has been developed by a farmer's co-operative of some 120 families consisting of 800 individuals. The total sale value of its township properties is Rs 4,000 crore. The farmers own the company, manage it, sell services to it and draw comfortable sustenance from the returns it generates.

Displacement of people from their land has become a serious bone of contention between business and the community. Solutions where the land is leased out to business by the community instead of being sold outright show how involvement of the community as a stakeholder in the business prospects of the land and other natural resources they own can lead to a more harmonious and equitable resolution of this complicated issue.

Similarly, when the community becomes a consumer or supplier or both of business, then their stakes in the business increase as is the case with Gujarat Ambuja Cements Ltd, Excel, Tata Chemicals Ltd (Jumani, 2006).

The Government of Nagaland has taken up a unique reform initiative called 'Communitization' which is a partnership between government and community involving transfer of ownership of public resources and assets, control over service delivery, empowerment, decentralization, delegation and building capacity. It is based on the triple 'T' approach which says Trust the user community; Train them to discharge their newfound responsibilities and Transfer government powers and resources in respect of management. A legal basis was provided to this by enacting the Nagaland Communitization of Public Institutions and Services Act 2002, under which administrative and financial powers of government have been progressively transferred to the community. The experience of communitization of elementary education, primary healthcare, power distribution, tourism has been very positive and future plans include covering all the villages in the state under this initiative. Village water supply, village approach roads and urban amenities and services will also be included in future.

Micro-credit, micro-enterprise, micro-insurance interventions by business, government and civil society for the community (among several other interventions) have the potential to develop into strong self-help institutions which can be genuinely member owned and managed, if they are designed and implemented accordingly.

When a set of people form their own organization to pursue, protect and promote their interests in any sphere of life; manage their organization themselves and take responsibility for it; then a people's organization comes into existence. There are traditional and modern people's organizations; there are spontaneous and induced people's organizations and there are voluntary and mandated people's organizations. The state, business and civil society all have examples of people's organizations. They may emerge from people's own initiative, from state sponsored programmes, from donor funded development interventions and from business funded development action, to mention only a few ways of their coming into being. The centrality of people's organizations is not yet fully acknowledged by any of the key players in the development process.

If the efforts of government, business and civil society to strengthen the community (people, citizens) really do bear results, then the community will become stronger in terms of having their own funds and being able to manage their own resources and organizations. This will lead to development of member owned and managed people's organizations as representative organizations which are commercially and socially relevant. They will help business, government and civil society organizations to realize their desire to be commercially and socially relevant.

Business organizations are expected to be socially responsible and a social audit is considered necessary for a business to establish its social responsibility. The reverse can be made to apply to social organizations (civil society). They also need to stand on their own feet and establish a direct link with the economy for long-term sustenance. Thus, they have to be commercially responsible. A business audit can be applied to social organizations for them to establish their commercial responsibility. Over a period of time, such a measure of performance will create a critical mass of organizations which are effective on the business front and on the social front—each such entity being commercially and socially relevant. The concepts of topline meaning revenue flows, middleline meaning expenditures and bottomline meaning profits/ surplus as a net of revenues and expenditures can apply to all such entities which are successful in organizing people, work and ideas in a direct interface with the economy and with society.

So, all the three institutional anchors of society can grow into socially and commercially relevant organizations, with each of them having a direct interface with the economy and being self-reliant. Each of them can then be called a business organization and a social organization. The distinction between business and civil society will become increasingly blurred in the process with a great deal of overlap between their societal spaces, leading to the re-emergence of the two major anchors of society as was the situation in ancient and medieval times—government and business in the form of member owned and managed people's organizations—but on renewed terms of engagement appropriate to modern realities. Enlightened self-interest of both these anchors will work to positively align the individual interest of the members with the collective interest of their organizations.

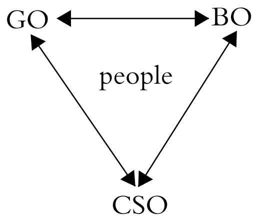
When all the stakeholders have their own representative organizations in the form of member owned and managed people's organizations, then the probabilities of negotiated settlements to balance the conflicting interests of various stakeholders can increase. Consequently, the scope for more equitable distribution of wealth generated from business can also be greatly enhanced. People's organizations which are commercially and socially relevant for their members develop when people learn to work together effectively which in turn necessitates having trust in each other. Thus, development of people's organizations can play a critical role in building high-trust relationships between individuals and various stakeholders leading to the evolution of a high-trust society. Successful people's organizations, however, are vulnerable to being captured as vote banks by political interests in society and the members have to be constantly on the alert to pre-empt such moves.

Partnerships between stakeholders

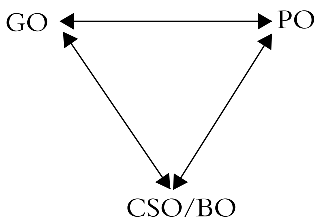
Partnerships between stakeholders are emerging and are being encouraged to improve the social, economic and political fabric of society, particularly for the poor and deprived sections of the population. The terms of engagement between stakeholders in these partnerships span the whole spectrum from confrontation and struggle to collaborations and alliances, from conflicting to complementary roles, from competition to cooperation depending on the larger goals of the stakeholders being grounded in a rights-based approach or a service delivery approach to development, and depending on their pursuit of public goods and services or private goods and services. The terms of engagement also lead to partnerships at grassroots, national and international levels in the globalized world of today. The positive impact of these partnerships on society as a whole largely depends on which stakeholders interest is being maximized—business or government or civil society or the community? Inclusive business approaches try to reach out to the large numbers of people who are not yet in the ambit of the market economy—they want to do well by doing good, that is, business with a social and human face. These also are initiated by all the three institutional anchors of society in some form of partnership.

What these partnerships and alliances are really addressing is the consequence of state failure and market failure on large sections of the population and trying to turn it around into state success and market success. The extent to which they can turn it around into success is the impact of their CSR achievements. For how many people, for how long, and for incremental or dramatic improvements at what cost–benefit terms is the substance of sustainable change in the lives of people. The extent to which people themselves are in charge of these interventions and the degree of self-help that is built into the intervention design paves the way for a more egalitarian society and reconstructs the foundations of society on two institutional anchors—the state and business. The greater the centrality of the community in these partnerships, the greater is the likelihood of a strong and self-reliant member owned and managed people's organization to develop and flourish through self-help. Self-help is the most effective way for people to pursue, protect and promote their interests.

If we refer to governmental organizations as GOs, people's organizations as POs, business organizations as BOs, and civil society organizations as CSOs, then the following graphic depicts them as working in partnership for the benefit of people on for-profit or not-for-profit terms. They are the accepted partners in a public–private partnership.



When this partnership shifts to government and people engaging directly with each other for improving the life of people with some help from business organizations and/or civil society organizations, it becomes a public–private–people partnership, or as is sometimes called the public–private–community partnership, as depicted in the following graphic:



When these initiatives facilitate the emergence of strong and self-reliant people's organizations, then the partnership shifts to one between government and people in guild type of representative organizations which has business and social interests of people (its members) combined in the same forum. This relationship is depicted in the graphic below:

GO ⟷ PO (combining characteristics of BO and CSO)

At present, government deals with the people's organizations of the rich and well-to-do directly in the GO–PO interface without feeling the need for any intermediary. For example, when government deals with industry bodies like the Confederation of Indian Industry or the Federation of Indian Chambers of Commerce and Industry or other such forums, it does not feel the need for any intermediary civil society organization to facilitate interaction with them. But when it deals with the poor and underprivileged sections of the population, it encourages intermediaries in the form of civil society organizations through which it interacts with the concerned people. Similarly, when it deals with people's organizations of the underprivileged and disadvantaged, which come into existence through development interventions, the GO–CSO relationship mediates. In this situation, the people's organizations, more often than not, become extensions of the CSO. Such people's organizations of the underprivileged and disadvantaged are very fragile and vulnerable and need to be strengthened the most as representative organizations. The underprivileged and disadvantaged have yet to stake their claim for representativeness through their own organizations. They have to empower themselves to become the rightful partners of government in development interventions in the same way as that of people's organizations of the rich and well-to-do.

The Indian population is highly organized on social and religious lines in the form of caste/tribe associations, occupational guilds (often overlapping with caste/tribe), religious bodies, linguistic groups, and so on. However, a large proportion of the population in India (the poor, the underprivileged, the disadvantaged, the marginalized) is excluded from the organizational framework that characterizes the modern world of work, finance, trade, communication, governance, education, health, insurance, and so on. This world is typified by large-sized, formal organizations that function within a written, legal, regulatory framework and are held accountable to designated authorities of the state. The modern world is conspicuous by its organizational forums and the predominance of individual-to-organization as well as organization-to-organization transactions on practically all facets of life. These types of transactions vis-à-vis the modern world are thus a reality for a very small section of the population in India. It is the modern world which is defining the mainstream of progress and development globally and nationally. Individually, and on their own, a large majority of the people in India are not able to be integrated in the larger development processes of the modern world unfolding around them. Their ability to improve their situation in life, consequently, is handicapped considerably (Jumani, 2006).

Political parties in India are one modern organizational entity which effectively utilize the social and religious affiliations of the people on a large scale for political mobilization and vote bank calculations. Hence, there is a much skewed scenario where the population is affiliated to political organizations of the modern world but is not yet able to deal with the handicaps arising from being underprivileged, disadvantaged and marginalized because of lack of organizational affiliations with other modern organizational forums.

What it means then is that all people and groups in the population need an organizational umbrella in the modern world to be able to interact as equals with other people in the world around them and to pursue, protect and promote their interests. To create such an umbrella is a major societal need in India and also the major development challenge.

Conclusion

In the Indian context, institutions and organizations of people which are rooted in our cultural context have to be integrated into the business-society contract as a GO–PO relationship described in this chapter. People's organizations are self-organizing, self-governing, self-managing, self-regulating, self-controlled and self-led. When they become self-reliant in material terms also then their strength increases immensely. When people's organizations become a sustainable business activity, they can create more equity, more involvement and more responsible behaviour by various stakeholders which can lead to more accountability and transparency in society. Self-regulation works when everyone is part of a representative organization which is a genuine people's organization because going back on self-regulatory behaviour brings a backlash from other actors. When only some people are part of such representative organizations, self-regulation can become selectively beneficial to suit the convenience of some at the cost of many. Community-based organizations, youth clubs, cooperatives, self-help groups, professional associations, trade guilds, user groups, residents welfare associations, panchayats, caste associations, chambers of commerce, industry associations are all examples of people's organizations. Sustained empowerment of people is linked to the strength of the people's organizations which develop. The following equation highlights the various strengths which people's organizations have to develop if they are to lead to sustained empowerment of their members:

Sustained Empowerment	=	Numerical Strength	+	Financial Strength	+	Organizational Strength

The CSR interventions can play a very useful role in bringing about societal change of this magnitude. As the material condition of the deprived changes, ideally it should affect the status quo between the rich and the poor as also between the elite and the common person. The extent to which this actually happens can provide an indicator to assess the impact of various development initiatives. The change in the hierarchical nature of our society and increase in the horizontal linkages between various groups and segments of the population is yet another measure of sustained impact. Stakeholder engagement through the CSR initiatives has to be assessed through such yardsticks.

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10

Integrating Environmental Management in Small Industries of India: Towards Socially Responsible Initiatives

Ananda Das Gupta

Introduction

The focus on environmental impact has been on the rise and companies are struggling to keep up (Gupta and Sharma, 1996). As this trend continues, the question arises of how best should industries manage productivity and at the same time increase profits without causing damage to the environment. This challenge is faced by Indian industries, and in addition, they are faced with the problem of how to effectively make use of their processes and deliver environmental-friendly products. In India, industrial pollution is regarded the worst among the many environmental impacts that are causing damage through excessive exploitation of resources and degradation of the environment. The Bhopal (India) tragedy clearly demonstrated one of the world's worst industrial accidents. The significance of this accident, however, extends well beyond avoiding such a disaster and a need to move beyond just polluting the environment. Since the legacy of Bhopal, large manufacturing houses in India (such as Reliance Industries, Tata Chemicals, Indian Petrochemicals Corp., and so on) have all committed themselves to the environmental movement.

However, the crux of the problem is the pollution generated by small and medium industries. Although they are promoted in a large way by the Indian government and play an important role within the economy with their prime role and vast scope in employment, the unsafe environmental practices of these industries for a long time have gone unnoticed. The collective environmental damage done by small industries can obviously be much higher than envisaged.

This chapter is a study on small industries in India. The central purpose of this chapter is to highlight the importance of small industries and their role in the economy. Despite their importance, research has indicated that they are the worst polluters and are faced with numerous problems—major and minor (Nyati, 1988). Technical and financial issues are problems that can be handled internally, but external problems such as legislative and regulatory compliance are more problematic. This chapter will discuss the importance of industrialization, the role of small industries, their importance in a country like India, and problems they encounter. Finally, India's major problem—population—and its relationship with the environment will be discussed. This chapter seeks to shed some light on small manufacturing industries and their environmental performance. An attempt is made to address some solutions that can improve environmental quality within these small industries by focussing on a sustainable vision—that is, a trade-off between economic growth, profitability and sustainable environment.

WHY IS INDUSTRIALIZATION IMPORTANT IN INDIA?

Industrialization is the central dynamic force for most countries. It has been a key growth objective of India's planned economy, with heavy investments being made in this sector. Labour productivity is the highest in manufacturing industries; this has assisted in raising national income at a faster pace. It is a precondition for agricultural development and it induces development in other sectors (Tiwary and Singh, 1990). The importance of industrialization in economic development is crucial for a growing economy with a large population like India, so prosperity through industrialization has been a long-term strategy for the Indian government. Communities, businesses and governments have debated the results of industrialization, a debate that has continued to grow unabated. Being reliant on agriculture and having a large population base has made India impoverished, and hence industrialization is roughly a synonym for economic development as a means to conquer poverty and provide employment.

India's increasing population crossed the one billion mark in May 2000 (Vedantam, 2000) placing an additional burden on the Indian environment. The contrast between India's successful economic development and rapidly deteriorating environments, particularly urban-industrial environments, makes this country a test for the sustainable vision.

India's focus on growth witnessed two problems. One is population and the other industrialization. India realized that in order to become more self-reliant and increase economic growth some changes had to be made. During the 1980s, India moved away from its planned market, emphasizing industry growth. Its economy grew at about 5.5 per cent annually. Prior to those years there was a 3.5 per cent growth and recently it has been about 6 per cent, although 8–9 per cent growth is required for the 10 million new jobs needed each year (US-AEP, 1996).

Industrialization enables India to utilize its resources optimally, diversify the economic base, raise the living standard of people and attain balanced regional development through fiscal incentives and concessional finance for backward regions. At the same time, industries contribute significantly to pollution. Small industries have contributed significantly in the area of urban as well as rural establishments. Raising concerns on environmental grounds are not seen much as a problem with large industries, as they are more supportive of environmentally protective issues, but more so in the case of small industries. These small industries seem to have acute environmental problems.

ROLE AND PROBLEMS OF SMALL UNITS IN INDIA

As industrialization gathered momentum, so did the increase in small-scale industries (SSIs). Small units play an important role in the Indian economy, as they are labour intensive and create job opportunities. Small companies are defined as those with less than US$180,000 in capital equipment (US-AEP, 1996). They offer a higher productivity of capital than capital-intensive enterprises, as they have low investment per worker. They help in dispersal of industries, rural development and the decentralization of economic power. All this is required to increase and disperse economic growth.

In addition, small companies support entrepreneurial talent and skills, stimulate personal savings and help in developing innovative and appropriate indigenous technology, providing dynamism and contributing to competition (Rajendran, 1989). Therefore, these industries are supported by the government and have been actively encouraged; no public or private enterprise with more than 100 employees has been allowed to go out of business (US-AEP, 1996). Several policy initiatives and procedural simplifications have been undertaken by the government to support this sector, not only for employment generation but also to enhance their competitive strength. The government has also provided measures such as greater infrastructural support, more and easier availability of credit, lower rates of duty, technology upgradation, assistance to build entrepreneurial talent, facilities for quality improvement and export incentives (Parthasarathy, 1996).

Contributions of SSIs to India's industrial production, exports and employment are significant. About three million SSI units employing nearly 16.7 million persons account for 35 per cent of India's total exports and about 40 per cent of industrial manufacture (SIDBI, 1999: p. 6). In real terms, the small-scale sector recorded a growth rate of 10.1 per cent in 1994–95 as against 7.1 per cent in 1993–94 and 5.6 per cent in 1992–93. By the year 2025, if not controlled, this sector will grow even more rapidly (Parthasarathy, 1996).

The government's prime role has been to encourage growth of these industries, often neglecting environmental considerations. Industrial effluent largely comes from the three million small- and medium-sized units that are scattered throughout the country, particularly in the production of paper, sugar, leather and chemicals. Unfortunately, only about half the medium- to large-scale industries have partial or complete effluent treatment. Fourfold industrial growth from 1963 to 1991 resulted in sixfold growth in toxic releases. Heavy industries like iron and steel producers contribute nearly 70 per cent of the toxic wastes released but only 20 per cent of industrial output. Industrial disposal of polluted effluent occurs via open drains into streams and reservoirs or through underground injection. Most industrial estates lack wastewater treatment systems (US-AEP, 1996).

Besides pollution problems, SSIs also have other kinds of problems. One is internal, that is, the techno-managerial and financial problems that they encounter, and the other is the external problems that they confront due to non-compliance with regulatory and legislative measures.

TECHNO-MANAGERIAL AND FINANCIAL PROBLEMS

Small industries in comparison with large industries lack environmental commitment, technical expertise in environmental management and the financial capabilities to address environmental problems. Nor do they have standards or effective treatment opportunities and services (Nyati, 1988). Interestingly, one would imagine that because small industries are heavily supported by the government, availability of finance and obtaining finance for pollution control measures should not be a problem.

Small industries also lack additional space for pollution control facilities. There are difficulties in obtaining the technical assistance of knowledgeable consultants. Since most of the units are dispersed, they find it difficult to come together for a joint or common treatment plant. The concern of depressed profit margins and decline in competitiveness prevents these units from using pollution control measures. More emphasis is laid on new investments, production and other return-oriented opportunities. Soft loans for pollution control measures are not lucrative. There are subsidies offered for investments in pollution control as incentives, but the impact of these incentives on these units is little or nothing, for they do not alter the cost–benefit analysis in favour of pollution control investments (Nyati, 1988).

REGULATORY PROBLEMS

Research done by Pargal et al. (1997) on industrial plants in India indicated that high levels of pollution elicit a formal regulatory response in the form of inspections, but these inspections appear to have no impact on the emissions. Inspections are probably ineffective in bringing about desired changes in behaviour because of bureaucratic or other problems, including the probability that enforcement is low and that the penalty for non-compliance is not stringent enough to act as a deterrent. They suggest that Indian policy makers and regulators thus need to explicitly recognize the trade-off in environmental quality of the existing regulatory bias towards the small- and medium-scale sector.

Regulatory compliance has been a major issue for these units. Environmental legislation in India, although seemingly as tough as that in major developed nations, is not well enforced. Though multinationals and the large domestic companies are monitored, poorly funded regulatory bodies find it nearly impossible to police the millions of small- and medium-scale units. Bribing poorly paid inspectors is reported to be common (Roberts, 1995).

Environmentalists have viewed enforcement as lax, despite the regulatory framework and oversight authority of the central and state boards. There have been no incentives to invest in the pollution control effort because of weak monitoring and enforcement of environmental regulations. It is mainly small industries that continue to lack incentives to set up treatment equipment or to operate equipment, if it already is installed, because operating that equipment has been more expensive than non-compliance (Dasgupta et al., 1998). Obviously, in India, scarcity of natural resources is less a concern than misuse of them. The pressure for profits predominates. Porter and Linde's (1995) suggestion that environmental regulations can spur innovations that increase product value and decrease total costs seem appropriate. The trade-off between economy and environment for production processes, customer needs and technology is dynamic and complex. Porter and Linde suggest that innovation-friendly regulations can improve resource productivity and competitiveness, but the problem is getting small industries to cooperate and to view it as a long-term solution rather than a short-term goal.

ENVIRONMENTAL POLLUTION LAWS

India began to develop distinctive forms of environmental laws and regulations in the 1970s. The first of India's modern environmental laws was the Water (Prevention and Control of Pollution) Act of 1974, which established the Central and State Water Pollution Control Boards; the Water Cess Act of 1977; the Air (Prevention and Control of Pollution) Act of 1981 and the Environment (Protection) Act of 1986.

The latter is umbrella legislation designed to provide a framework for central government. The problem envisaged here is not about insufficient laws or pollution control boards that can control pollution but, as the World Bank has stated, that these boards have been plagued 'by poor enforcement due to political interference…whereas as with other enforcement activities in India, corruption is pervasive' (US-AEP, 1996).

Another point worth noting is that the mandate of the Central Pollution Control Board (CPCB) is to set environmental standards for all plants in India, lay down ambient standards and coordinate the activities of the State Pollution Control Boards (SPCBs). Unfortunately, the implementation of environmental laws and their enforcement are decentralized and so is the responsibility of the SPCBs (Mani et al., 1996). This is another haphazard method of addressing the issue.

In addition, pollution laws have achieved little success. The courts have been slow to respond to enforcement actions sought by state pollution boards. The boards themselves have been poorly funded and charges of corruption have been regular and wide-spread. Large industries have achieved pollution compliance more easily than small industries (US-AEP, 1996). The reason is that they are afraid of taking risks. Lau and Srinivasan's (1997) research on identifying the driving force for better environmental performance found results that implied the current effort in environmental management is driven largely by a fear of the penalty that can be imposed by the government when environmental laws are violated. However, Cornell and Shapiro (1987) explained that a firm's value depended on the cost of explicit and implicit environmental claims. Explicit claims of the shareholders can be recognized, but the implicit claims of the firm cannot be ignored. If the firm refuses to comply with its social responsibility and quality service, parties to implicit contracts, like consumers or regulatory agencies, can force burdensome explicit contracts on the firm. Cornell and Shapiro's explanation applies widely to large industries, but in the case of small firms it is apparent from the literature above that this can be totally dismissed by resorting to other means.

POPULATION VERSUS ENVIRONMENTALISM

Finally, population issues are a major growing problem in India. To sustain this growth, economic development and industrialization are the compounding factors that are an environmental burden. An approach first used by P. Ehrlich and A. Ehrlich (1990: pp. 132–134) was to consider per capita environmental impacts on citizens. Their notion of the realization that we live in a finite world in which euphoric economic growth and population expansion would eventually exhaust the natural resources was not met without controversy. Stikker (1992) further expanded P. Ehrlich and A. Ehrlich's approach and defined the environmental burden as:

Global environmental burden = Global population × GNP per capita × Environmental impact per unit of GNP

where GNP is Gross National Product.

If one considers population, GNP and environmental impact per unit of GNP, India, with an annual population growth of 1.91 per cent, increases every year by the size of the population of some countries in Europe. India's population doubled in the last 30 years and is expected to surpass China's population early in the 21st century (US-AEP, 1996). On an individualistic approach, if one considers individual country populations, India and China would be the countries with the highest burden. What Stikker, and P. Ehrlich and A. Ehrlich suggest is that if industry is to operate within a level of global environmental quality that is not deteriorating, it must reduce its global environmental impact. Peattie's (1995: pp. 1–15) suggestion regarding the concern generated by P. Ehrlich and A. Ehrlich, and Stikker concentrated on the issues of shortages of economically important resource inputs. The problems that emerged in the 1980s were not concerned with the inputs but dealt more with the environmental impact of the outputs due to indiscriminate economic growth.

Resources will be required to sustain population growth as well as the outputs of industrialization and economic growth. Said (1997) provides two logical solutions to the P. Erlich and A. Erlich's theory, one is that humanity should breed less and the other is that we should consume less and produce lower environmental impacts in the process. Changing lifestyle and consumption habits in the long run will be effective but will not directly address environmental impact unless industries themselves take the stance and priority of protecting the environment and measures are enforced to curb population growth.

Discussions

The major environmental concerns in India today are poverty coupled with growing population and the side effects of enhanced industrial activities. As long as poverty remains the main stumbling block, industrialization provides hope of significantly improving the standard of living. One of the measures most talked about that might gain recognition within these industries is sustainable development. Removal of poverty and environmental protection are two sides of the same coin, that is, sustainable development (Dwivedi and Khator, 1995), but policy makers, governments, politicians and industrialists have challenged many of the underlying values and assumptions of sustainability. Sustainability or sustainable development can also be described as development or progress that meets the needs of the present without compromising the ability of future generations to meet their own needs.

Although industrialization is seen as a solution to providing economic growth and increasing employment levels, irrespectively, industries, whether large or small, low-tech or hi-tech, manufacturing or agricultural, all inevitably produce discharges and wastes that are capable of polluting. Where high population and economic growth demand resources (inputs) and discharges (outputs) in the form of pollutants, not many industries have arrived at suitable suggestions on sustainable measures, thus putting pressure on the environment. In fact, Hart (1997) recognized the problem of a growing population, rapid economic development in emerging economies, and political and social issues that exceed the mandate and the capabilities of any corporation. However, the suggestion that learning to balance ecological principles, economic growth and social responsibility be priorities of businesses (Johannson, 1994) does eventually make more sense. Sustainable development challenges industry to produce high levels of output while using lower levels of inputs and generating less waste with a more effective use of raw materials in production that would eventually result in diminishing costs. This greener corporate image could then lead to an increased market share (Welford and Bhargava, 1996). Hart (1997) states that the business logic for greening has been largely operational or technical, and bottom-up pollution prevention programmes have saved billions of dollars, but few have realized that environmental opportunities might actually become a major source of revenue growth. The suggestion made by Hart, and the concept of sustainable development should, in fact, be made the core objective within the operations of small industries.

Small industries could also go one step further in addressing a sustainable vision, that is, a trade-off between economic growth, profitability and sustainable environment. Within industries, management should be charged with the responsibility of implementing this concept of the sustainable vision into action by firms. One such measure is Johannson's (1994) trisect of sustainable business. It is founded on the concept of balancing ecology, economic and social factors that are included in the industry's value system, and included in the business planning or design phase resulting in profits through ecologically sound products, processes or services. In a complex relationship between population, economy, industry and ecology, managing the environmental responsibility is a prime issue in India. Population will always be a problem if not properly curtailed, but in the case of industrialization there is a growing need for a sustainable vision where industries are made responsible for their acts. With today's current technology and strategic management systems, industries can be effective in reducing the gravity of environmental impacts. The green challenge is an issue that is relevant to every industry, big or small. Every business faces pressure to improve its eco-performance.

Conclusion

As regards regulatory pressure and compliance, many businesses spend more time in fighting regulations and take a less proactive, strategic approach to environmental management (P. Schoemaker and J. Schoemaker, 1995). Although Indian courts closed almost 1,000 factories for pollution problems, and the Supreme Court fined 15 plants, including some multinationals (Shaman, 1996), the effectiveness of these regulatory pressures and compliance has still to be realized. Johannson (1994) addresses a 'green firm' as one that does not look at regulatory or legal compliance as a first step. The ability to assure that a firm is 'in compliance' is therefore a poor tactic, and very cost-ineffective. Managers who understand environmental laws can be counted on. In other words, regulation, compliance and environmental laws will take care of themselves if managers adopt a sustainable vision or green objectives for industries. Much of the literature seeks to establish that there is an acute need for regulatory and legal measures. However, pressure for sustainable vision in these small industries lies within themselves. They must realize the importance of environmental management and quality, and that it could be highly effective if it is administered by the small units themselves.

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11

Ethics in Science and Technology: Exploring a Select Perspective

Parthasarathi Banerjee

Introduction

Science and technology (S&T) brings about changes. The practitioners of science and even the implementers of changes are most often ignorant of the consequences of changes that they have brought. A typical measurement on the consequences would draw data from the fields nearby the locale of scientific changes; in fact, maps of causal links between near and distant phenomenon have so far remained mostly intractable. More often, these practitioners would be ignorant of the implications while conceptualizing the scientific or technological inquiries. This ignorance or lack of complete foreknowledge or of complete causal chains raises critical ethical issues that the practitioners of science or the social votaries of science cannot neglect. In this chapter, we would explore a few dimensions of the ethical underpinning of the undertaking of science and technology.

It is important to recall that much of ethical dilemmas result from an instrumentalist perspective of science. The investment that most modern societies are making in S&T is with an expectation that, first, S&T will bring about changes, and second, such changes are not evil. Let us not overlook the fact that contemporary S&T gains its vitality from organized investment and organized undertaking. However, there was no organized investment in S&T in the earlier periods of human history; consequently, earlier S&T was little if at all organized. Modern large-scale investments in S&T have transformed or have challenged the S&T in multiple modes. Perhaps the most important of such challenges is rendering S&T more instrumental progressively. No less important is the burden of imperatives that the instrumentality of S&T ought to be for good without any blemish of evil. Should we then capture ethical dilemmas in terms of degree of instrumentality that S&T is constrained to? Should we also implicitly repose our faith in multiple paths and missions of S&T or in the existence of alternate worlds!

Another closely related issue, therefore, is the degree of acceptance of experimental reality or engineered world. Instrumental S&T would necessarily fabricate a version of world that cannot be a clone of the natural world. Nonetheless, the investing society often expects S&T to engineer the natural world so as to get rid of evil blemishes. This could be described as the utopian vision of S&T. A moot question is who owns this vision of evil-free world engineered by S&T! Investment has been made by the entire society while no second person holds identical opinion on what constitutes an evil. Should the ethical questions pertaining to S&T be then captured in the interpersonal world!

Contrarily, several philosophies of life, such as from India, accepts the brightness of realty with its shadow. Good and evil coexist in those life views. A typical Indian accepts, moreover, multiple forms of good, and consequently believes in multiplicities of shadows of which none is perhaps an evil. A good brought about by S&T, these believers reckon, would also conjure corresponding shadow images. For such perspectives, risks that the weights of shadow pose appear important. In fact, shadows resist traceability. More importantly, causal traces are temporal; while interpersonal traces are often atemporal. The difficult but tractable shadows might yield to calculation of risks while the intractable especially temporal causal chains would throw up uncertain results that cannot be calculated in terms of probability. It would appear then that this mode of life view is less affected by instrumentality and the 'evils' ensuing from instrumental S&T experimentation. Such a view could pose questions of ethics in terms of risks and ignorance or uncertainty. Further, this view might also accommodate the best multiple experimentally fabricated small worlds. Should the ethical questions be addressed from this last perspective! Much of such a perspective to ethical issues in S&T

would, therefore, be on management of uncertainties in S&T and its outcome. In this small chapter, we look at the ethical issues only from this perspective of managing uncertainty.

Features of science and technology consequences

In a typical non-linear world, even a flutter of bird's wings can cause mighty eruptions thousands of miles away days later. Tracing and mapping such temporal and spatial distribution of causal links would be impossible or extremely difficult. Hindrance to tractability often undergirds our approaches to ethical issues. The instrumentalist perspective suggests that much of difficulties in mapping of traces could be addressed through technology management. Managing development, for example, of a space mission cannot be compared with issues that managers face while developing new drug molecules. Shop floor management too is not uniform across types of businesses and technologies. A space mission would require plenty of novelties in project management techniques while not disregarding the inventive dimension. Managing an oil platform in deep sea surely would be different. However, never undermine the intricacies that are involved and the small innovations that go into making and running such a platform.

These differences one could argue stems from a simple difference-generator. We can offer a simple but robust difference-generator; technology management changes according to the differences in the risks. Of course, we can bring in the concept of uncertainty. Uncertainty differs from risk—the former applies to situations where ignorance about the nature of outcome prevails. The latter is applied where nature of outcome is known beforehand; however, the degree and extent of the outcome are not known beforehand. The nature of much of the technologies we are dealing with in space missions or in the oilrig and in the development of a drug molecule are known beforehand, however, till the space mission proves successful we remain scared whether some snags would dislodge the mission. Such cases are risky. However, risks in the three examples cited above are very different. No less importantly, within the same project the risk profiles keep changing over the time of progress. So, we can differentiate managerial aspects of technology in terms of differences in the risks, both across several projects and within the same project but across the time.

To summarize, a simpler and instrumental approach to ethical issues in S&T is offered by technology management which is about managing risks. Very novel and highly inventive facets of developing technology are rare, and we exclude such novelties from our purview. However, any management of technology necessarily involves certain newness even if that is creeping and incremental. We can rarely be certain about the exact technological outcome. Such creeping probably introduces elements of risk and therefore, we deal with managing risks.

The unknown and the manageable in technology

Most often, we suffer from a lack of clarity about, what is this 'technology'! In our folk understanding, by technology we implicate machines. Further down, we also add up technology experiments involving instruments, and going further, we begin adding more items, such as methods of undertaking experiments, methods of designing and of course the designs, new materials, and so on. However, as soon as we identify methods and designs as constituents of technology, no wonder we discover that we have implicated processes and practices as technology. For example, farmers of a geographic region might share a common practice of sowing, such as distances between the seeds or the depths of the furrows. We know that productivity depends on such minor yet important intricacies of sowing, and therefore such practices constitute technology. Practice, however, is sociological. So, we realize that technology implicates the social organization of practices.

Similarly, any chemical or biological laboratory must follow very strictly defined steps. Often the nature of biological product gets fundamentally changed as we introduce changes in procedures, practices and the protocols. In fact, new genetics-based biologicals demand very rigid setting of specific steps, departure from which can lead to manufacturing biologicals not identical with what the original factory setting had been producing. Such practices, let us not overlook, organize how we line up our experiments or our productions. While in the preceding paragraph we noticed that technology implicated social setting of much diffused modes of practices, in this paragraph we notice that for most technology there are very rigid steps set up by the organizational practice.

Another related aspect of technology is about technology as a set of interactions. A factory which produce cars must interact with steel suppliers or the suppliers of auto components, as well as with excise and customs, the customers, the environmental groups, the regulator and similar several others. Any change in technology of car production, changes the whole set of interactions. This seems to be obvious since technological changes in car production are predictable and are known in general. However, there are instances when technological changes cannot be predicted precisely or the exact contours of changes are not known. Take up the simple case of energy consumption. Simplicity of consumption, however, overlooks how complexly the process of consumption affects the environment. Risks involved in the consumption are precisely not known well. In mobile phone and in mobile computing technology, interactions between firms have been changing nearly every day. Risks in investment, for example, in mobile computing have been extremely high.

In all the above three types, there are risks. Such are the characteristics of risk maps in technology management. In the first type, social processes of productive practices inform us about the predictability as well the quantum of risks involved. Precisely, in order to control such risks, organizations evolved. In cases, where organizations failed to provide for enough buffers to the risks or organizations failed to reduce risks in productive transactions, as happened in the USA, professional associations came up stronger. Such professional associations held on to theoretical disciplines and professional conducts proved an assurance against departures from professional norms. For example, chemical society in the USA exerted very strong influence on the course of technological changes.

In parallel to such associations, business organizations grew larger. Again this was evidenced most in the USA. These large business firms in order to reduce risks in transactions grew even larger. Within a business firm, the authority, such as of the director, can easily control the behaviour of a technologist and hence technological risks can be reduced to the minimum. World over and during the first to the middle of the 20th century business firms continued to grow and became large.

In fact, this aspect of risk related to organization is of the second type. Organization is the embodiment of risk reduction. Technology management, therefore, is managing the organization as an organization of technology. With this business organization growing larger in size, the task of risk reduction becomes central. Much of the risks of the first type pertaining to the social forms of productions then get reduced because organization through its rules, procedures and through the direction of authority can put to categories standardized forms of technological actions. Inside the organization, managing technology is but managing fewer risks and more procedures.

However, agents in charge of technological actions suffer from idiosyncratic predilections and self-interests. No wonder, even the otherwise uniform standards and the rules are subjected to interpretations. Verbal dialogues and imputation of intention subvert the very core of the formal apparatus of organization. As it grew in size, the business organization suffered increasingly from loss of predictability. Units or divisions of interests within the organization challenged the very rationale of large organization. The initial excitement about reduced risks appeared now as euphoria. In fact, divisions and groups within the business organization now became the new sources of a different type of risk. Loss of predictability in this case is owing to subversions within while in the case of socialized processes of production a similar loss owed not to subversive intentions.

With the loss of glory and increasing costs of internal monitoring affairs internal to the organization, its largeness got challenged. The Japanese success proved beyond doubt that cooperation and trust could provide sufficient foundation to inter-organizational technological fiats. Boundaries to the firm became hazy; you did not know exactly where the vendor interfaced with the parent firm. One found it difficult also to predict risks arising within the organization that could be predicated as independent of risks in supply of standards, technology, materials or schedule.

Thus came up the third type of risk. In this case, risk arises out of two facets: (*a*) from problems of cooperation between multiple organizations, and (*b*) from vulnerability of processes internal to organization to the processes outside, belonging to another one or more organization(s). This third type of risk is distinctly different from the first two types. In the first type, risks are caused least by organized production. In the second type, risks are owing to a singular organization entity; and in the third, risks arise from inter-organizational dependencies.

Managing risk and prudence in ethics

Necessarily, nature as well as the quantum differs according to the respective type of risks. Accordingly, risk coverage or the actuarial calculations would vary over the types. However, calculations or risk estimation in any of these types could prove formidable. In fact, till date minor advances could have been made in estimating only one type of risk. Estimation depends upon the ability to identify and characterize data that could be exploited and gathered possibly against a control.

Somewhat obvious though we understand easily is the difficulty of identifying and characterizing data for the first type of risk situations. In this situation, there are indefinite number of participants, who all could be generously creative and therefore be destructive of anything known beforehand. Possibly, one could theorize a bit of such social interactions as in sociology or in economics. However, predicting and controlling risks in such cases appears to be formidably difficult.

Control within an organization apparently seems to be tractable. However, even this appears immensely difficult. It would be better if I first narrate some historical facts and then we can have a better understanding as to how we could estimate risks within the organization. In fact, given this understanding we will appreciate that types two and three of risks would possibly become similar or closer in future.

Historically, to recall, authority within an organization grew up as the power to keep aside internal information from the gaze of the outside. This outside need not be a public domain. Contrarily, even board members of a firm enjoyed little access to information internal to the firm organization. Such power to keeping aside out of the gaze has been the authority.

Internal to the firm, the manager of a strategic business unit (SBU) or of a division often could set aside information known to him or her as important from even the monitoring by the executive director. There arose the fiefs. Similarly, this executive director enjoyed the privilege of a disclosure of information whose definitions and content got decided almost always by the executive. Hence, there was the famous agency problem. Such privileged disclosure necessarily lumped several types of information into a single gelled undifferentiated mass. Lumpiness of information is therefore corollary indicator of power. In fact, lumpiness of information had also helped easier and cost-effective monitoring by the board members as well as by the providers of fund, including the stock community.

In analogy to lumped information, the external fund to the business got lumped up. In fact, there is a causal relationship between lumpiness of monitoring information and the lumpiness of monitored fund. The relationship goes beyond mere analogy. As a result, the monitored fund divided into two lumped parts: the (long-term) capital and the working capital. As a consequence of this separation, host of associated rules, regulations, information standardization, including the structure of business organization came up. In turn and over the decades or the century, we received very stable business model of business organization.

However, the insider management easily could siphon off funds from the long term to the short term. In several other ways and in consonance with lumping of monitoring information, the internal manager could enjoy powers to allocations including that of unreported dividends out of what often these days we describe as rights to cash flow. Internal to the organization, therefore, assessing the risk of a project that necessarily involved technology could easily flout all rationales and reasons. We could have solutions, provided insurers were to be involved in a project or if the bankers could secure lumped information alone and if such information provided clues to lumped funds and to lumped risk profiles.

The business organization, therefore, shielded the market from undertaking any assessment of the risk of technologies. Managing technology was often nothing but managing negotiations with your principles. The mercurial and wily CEOs decimated no wonder most fruitful insights into technologies that often sprang up from even the shop floor. The bankers or the insurers had to remain satisfied with prospects of steady yet very low returns. Innovative yet risky projects alone could offer prospects of economic profits. From such technology management both the insurer and the banker profit. There have been instances, such as in the Silicon Valley, where novel institutional setup appeared that enjoyed closer and privileged access to information on technology projects. The success of the Valley is attributed to this novel institution of information access and correspondingly the novel mode of venture funding.

A study of this and other similar developments inform us that as soon as we break up and allow differentiation of the previously lumped monitoring information—thus ensuring closer gaze inside the business organization—estimation of risk profiles become feasible. In other words, managing technology becomes increasingly feasible as we break up information, allow deep gaze and make feasible estimation of both risk and the business potential. In other words, only with breaking up organizational fiefs we open up innovative potentials.

Conclusion

In fact, contemporary information technology has increased immensely our power to observe nearly every details of the information internal to the organization. In parallel, we have observed the developments of novel financial products broadly classed under the derivatives. Such financial products derive their respective prices from the disaggregated risk estimation. Similarly, we are witnessing the slow yet steady and sure emergence of novel insurance products. These products have begun appearing in markets of some of the advanced economies. The core philosophy of the new insurance products is based on breaking up lumped information categories into large and differentiated profiles. There then emerges new business in technology management. In short, ethical issues of S&T are often amenable to analytical processing through which the ethical problem can be instrumentally reduced to a technology management problem. The technology management in turn offers opportunities in new business especially given the fact that much of risks and uncertainties could be traded, provided enough information is made available. Such an approach to some problems in ethics offers pragmatic solutions and helps us overcome the 'evil' in technology.

12

Indian Model of Leadership

Prasad Kaipa

Introduction: The context

On 4 November, I just came out of my flight from Seattle and there was a lot of commotion in the terminal. There was a loud cheer, tears in people's eyes and there were a lot of hugs—not exchanged just with their friends or family but with strangers. People of all ages, races, nationalities that were present in that terminal were celebrating and there was hope, joy and a sense of pride. Obama was just announced as the winner of presidential elections in the US. It was a transformational moment. Obama ignited new capability in people—not just in the US, but around the world. A capability that will be tested repeatedly in the future—never the less—the capability to be inclusive, to persevere in the face of early failures, courage to face issues head on and be calm when confronted with calamity. Obama is a great example of a 21st century leader.

These days, 'leadership' is the in-thing—everybody wants to be a leader. Interestingly, a few years ago, 'manager' was the role people aspired to and the top team was called the 'management team' of the organization. Before that, 'administrator' was the aspired role—think about it—MBA is short form for masters in business administration; IAS is an acronym for Indian Administrative Service. As time changes, names change and sometimes the roles and expectations change as well.

According to Dr Russ Volckmann, the editor of Integral Leadership Review, leader is a role that an individual plays. Leading is what people do when they are in the leader's role. Leadership includes the context—relationships, culture, systems, structures and processes that make the organization—in which leader leads. It means leader development is not same as leadership development and most of what is done is leader development and not focussed on developing systems, structures, culture and processes in the organization and hence, the return on investment (ROI) of such programmes is low.

But these distinctions of leader and leadership are by no means clear cut and accepted by everyone. There are as many models as the number of people who write about leadership. Underneath—different aspects of leadership: leadership traits, competencies, behaviours, cognitive models, contingency, situational and transformational leadership—there is an assumption that the leader is a single person and if one is a leader, all others in the group are followers.

To a great extent, leadership models are also context-dependent. When the context changes, certain behaviours, characteristics, traits and models become more important than the others.

Dr Deming and Japan, Inc. came up with quality practices and Kaizen approaches that brought manufacturing excellence to Japan. When American companies tried to adopt the 'best practices in quality' from Japan, they were unsuccessful because the cultural context in America is quite different from that of Japan.

What quality is to manufacturing economies, leadership, especially innovative leadership, is to service economy. Just like Japan made significant contribution in the area of continuous improvement, India has an opportunity to make a similar contribution in the area of leadership by bringing the wisdom it has accumulated in the areas of personal mastery, values, ethics and integral approaches that bear on creating a new model of leadership in the service economy context.

Twenty-first century leadership

We can summarize the 21st century context to contain: complexity, diversity, interdependence, speed and ambiguity.

The proposed leadership model has three primary areas of focus—innovation, change management and developing other leaders.

First, leadership is about working with the creativity of people and channeling that creativity to assist in the innovation of new products, processes, services and business models. It is about leveraging the intellectual and creative potential of people to address competitiveness, organic growth issues of the organization. Innovation is what people are seeking in order to grow in the current times and it happens in the face of failure, risk-taking and perseverance. For example, look at Tata Motors and their new introduction 'Nano'—an INR 100,000 car. It is innovative, addresses the need of the masses not only in India but also in many emerging economies. It is radical, against the conventional wisdom and makes Tata Motors to be competitive in sectors where they were not even known. In the US, consider Apple. When all other markets are growing in single digits and even shrinking in size, Apple was able to grow its market share in PCs through its innovative products, software and integrated approach. Steve Jobs is a great role model for the innovative leadership.

Second, leadership is about making changes that are sustainable in organizations. Leaders who are great in managing and championing change bring efficiency, speed and commitment to the organization. Change leaders create openness, hope, excitement and engagement and make things happen through others. US President Elect, Obama, is a great example of a leader whose calm demeanour, extraordinary communication skills, grass roots organizing experience and (innovative and very successful) Internet fund raising brought new hope, excitement and citizen engagement in the United States this year. He is yet to take the office of the president but already the conversations around race, hope and the role of the US in the world have been altered. It is not what he did but who he is, and what he brought to the elections and the people made a difference and make him the change leader extraordinaire. N.R. Narayana Murthy has brought about similar transformation in India through Infosys and IT revolution. He lives the change that he proposes—simplicity, humility and commitment to make a difference. He is an authentic leader who brought hope and excitement to millions of Indians and made India a giant in the IT sector.

Third, leadership is about developing leaders and building capability in the system. No matter how great, successful and smart one is, we all get old and someday will die. Before that happens, however, the question is, 'have we developed others to take what we have started to new heights?' For example, Bill Gates left Microsoft and it no longer depends on Bill Gates to grow. Narayana Murthy is chairman and mentor and Kris Gopalakrishnan is doing just fine growing Infosys. Nandan Nilekani just released a book on India and he is getting to be known for his unique contributions just as Narayana Murthy did. Whether it is Microsoft or Infosys or Tata Group, great leaders think of nurturing others around them to be as good as if not better than them. It is as if they create a leadership field. Similar approach was taken by Jack Welch in GE Crotonville leadership development centre in the 1990s and many GE alumnae are heading other companies around the world. In Wipro, many leaders come and go but the company continues to move forward and have no dearth of leadership in its ranks.

In the new Indian model, these three elements—innovation, change management and developing leaders—are considered to be three primary colours that define leadership. They are integral and build on each other. In fact, they come from head (innovation), heart (change) and body/action (role modelling) and when they are aligned, you have a holistic leadership model.

Three disciplines play a role in shaping this leadership model: business, science/technology and spirituality. Business has become the temple of the 21st century. Microsoft, Toyota, Unilever, and so on are universally available and cut across political, religious, national and linguistic barriers. Economy and commerce link countries more than ideologies and money opens most doors. Business also represents tangibility, measurability, concreteness and a results focus.

Science and technology represent the progress that has been made—the Internet, social networking, advanced medical equipment and procedures, genetics, BlackBerries, and iPhones. In fact, science and technology has no boundaries and touches everything, and everybody everywhere. It represents tools, models, processes and frameworks. With new advances in functional magnetic resonance imaging (fMRI) and other brain imaging techniques, we can watch ideas generate, emotion take over and decisions being made in real time. With understanding of how brain works and its influence on how leaders envision, choose, innovate, relate and communicate, we gain clarity about what happens and gain access to different kinds of leader development. Similarly, cognitive psychology enhances understanding cognition, emotion, conation and the action of leaders.

By understanding scientific principles behind change, innovation and leadership, in time, we might be able to increase the effectiveness of leader development programmes using biofeedback and executive coaching approaches that are radically different from those of today.

Finally, spirituality is a discipline that has generally been mistaken for religion. Spirituality represents the essence of religions. For example, Vedanta is generally considered to be the essence of Hinduism; Sufism represents the essence of spirit of Islam, and so on. While religion has rituals, spirituality focuses on principles, values and ethics. Passion, meaning, clarity, direction, authenticity, purpose and presence are enhanced when leaders tap into their deeper selves. When principles are not coloured by moral values but give ethical choices and perspectives, we gain wisdom. In fact, we believe that wisdom allows us to gain objectivity, openness and the ability to explore multiple scenarios and perspectives without getting attached to one—detached engagement. It creates a unique, brandable presence. And in this world of ambiguity, complexity, speed and diversity, it contributes to the ability to lead with equanimity, integrity, clarity and authenticity. Such perspective is called a 'yoga-like state or balanced state of mind where the rational and analytical mind is working synergistically with instinctive and intuitive mind to make effective decisions with an inclusive attitude and ability to move forward with "deliberate haste"' (*a la* Obama).

We believe that the uniqueness of this Indian leadership model is an integral approach—marrying wisdom perspectives with scientific principles and management best practices (Figure 12.1). When they synergize effectively, at the intersection of three dimensions, the leadership genius in us is ignited. Metaphorically, body, mind and spirit represent business, science and spirituality, respectively, and aligning these three leads to greater awareness and integrity. India has a rich tradition of understanding human motivation, mind and action and if we can reframe it in the context of leadership development, we might be able to make a significant contribution to developing innovative and successful global leaders.

Conclusion

In practice, working at the intersection of these three disciplines also allow us to add values (and ethics), value (creation) and balanced

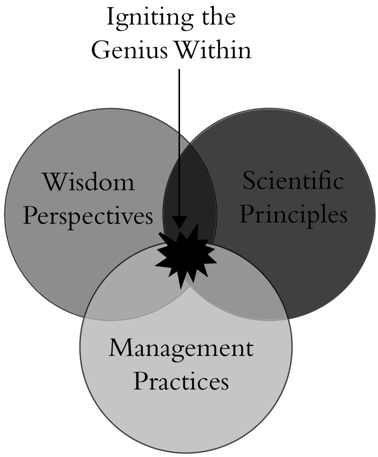

Figure 12.1 Igniting the genius within

perspective to be three cornerstones of a successful leader. Great leaders of India like Mahatma Gandhi, Ratan Tata, Narayana Murthy personify all the three cornerstones.

Here are some of the assumptions that could go into building an Indian leadership model taken from Indian wisdom traditions.

We take an appreciative stance. In other words, we believe the leadership mindset to be that of a 'genius waiting to be ignited' rather than an 'idiot waiting to be discovered'. In the first case, there is a sense of equanimity, calmness, humility and involvement of heart and body along with intellect. In the second case, the focus is on cerebral capability and IQ.

Personal leadership and self-mastery are critical components of being a leader of others. Character and presence become distinguishable when leaders master themselves through self-discipline and practice.

Leadership is not to be taken lightly. It is a choiceful act that requires you to take additional responsibilities.

If I am a leader, it does not automatically mean you are a follower when you are with me. In a leadership 'field', we can be coleaders and share the leadership based on the need and the context.

Perspectives shape mindsets. Principles allow us to scale by building capability in the system. Practices help us to test principles and perspectives in action. When practices become rigid or ritualistic, it is important to examine the principles and values behind them. When principles become too process-driven and employee engagement is low, check the perspectives and mindsets behind the principles and practices. Effective leadership aligns practices, principles and perspectives so that each can reinforce the other (Figure 12.2).

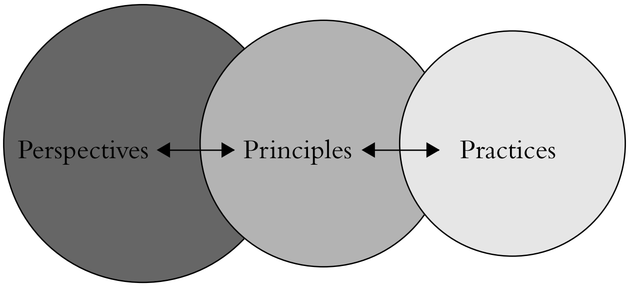

Figure 12.2 Leadership process

APPLICATION: HOW TO LEAD WHEN THINGS AROUND YOU ARE COLLAPSING OR MELTING DOWN

When everything around you is more stable, predictable and independent, you can use traditional leadership models, strategy models to lead organizations. But when things collapse around you, you have limited guidance on how to move forward in ambiguous, complex, interdependent world. Here are some guidelines on leading in such scenario.

Leading, in melt down, is about taking small steps, experimenting and learning from those experiments. It is also about empowering others to experiment and share their learning so that together you can move forward. Here are five steps that will enable you to become a successful leader in crisis scenarios.

Please try them out and do let us know what works (Prasad_kaipa@isb.edu):

1. Look for and seize opportunities around you—otherwise you will be left with predicaments and regrets. When crisis scenarios are all around, finding opportunities can pay off handsomely. Also, make sure you do not stop with just seeing new opportunities and wait forever to act. You have to seize them and then you can wonder whether it was the right time or not.

2. Make choices in the moment every moment. Analysis paralysis is the most powerful inhibitor for leaders in crisis scenarios. The tendency is to wait for 100 per cent of the data before making decisions. But choice-making balances what you know as data from the past with your gut instinct about the future. In other words, decisions are based on the data alone, whereas choices are based on the opportunity that you sense in the future in addition to data from the past. Choices create possibility amidst disasters. When you do not make choices, you end up becoming a victim of decisions made by others.
3. Take responsibility in four areas—personal, organizational, ethical and social. It is not a single choice—you have to pay attention to all the four areas. Be careful to be more than just legal; pay attention to ethical responsibility. Corporate Social Responsibility during crisis can create win-win scenarios and build brand. Without such broad responsibility, ownership is hard to come by.
4. Produce results based on what you see as possible and not based on what has been done before. Otherwise, you will not be able to stretch and live your potential. Do not let the fear stop you from taking calculated risks and taking new ground.
5. Develop others around you as leaders as you cannot do it alone. In crisis, you need others to lead from where they are, instead of waiting for you to tell them what to do. Also, if you want to leave a legacy, develop others to take over your leadership as quickly as you can. How? Get them to see and seize the opportunities, make choices…you know the rest.
6. Develop yourself through attention to cognitive, emotional, physical and spiritual aspects of your being. Those who choose to play a leader role increasingly need the capacity of resilience in the face of complexity. Your capacity for resilience is related to the degree that you have developed all of these aspects in your life.

13

Governing the Socially Responsible Corporation: A Gandhian Perspective

N. Balasubramanian

Introduction

There is increasing evidence of migration towards an integrated model of governance which is sensitive to the needs of the society even as it emphasizes the imperatives of shareholder wealth creation, its accounting and reporting and equitable distribution. While much of this transformation is usually credited to initiatives from the developed markets of the West, there is, in fact, a large measure of such wisdom and counsel available in the Indian tradition, and Gandhi has been among its foremost exponents and interlocutors in modern times.

Gandhian concepts of trusteeship, truth, non-violence and *satyagraha* or truth force are in perfect sync with, but go much farther than, the modern expectations of corporate stewardship that stands for caring for other peoples' money and resources entrusted to the care of corporate directors and executive management, transparency and accountability, eschewing physical and emotional violence at the workplace as well as against natural and environmental resources, and for upright and conscientious behaviour on the part of directors in doing what they are convinced to be in the best interest of all shareholders and other stakeholders. If corporations would seriously consider adapting and living up to these principles in their governance structures and systems, there would indeed be little need for punitive regulation on the part of the state.

This chapter is organized as follows: Section I reviews the changing scene relating to corporate stewardship around the world; Section II summarizes some of the key Gandhian concepts relating to responsibility and Section III explores the concordance and imperatives of these principles to corporate governance of socially responsible businesses to achieve their goals and realize their potential, truly in the service of the societies they seek to serve.

I - FOUNDATIONS OF CORPORATE STEWARDSHIP

Who owns the corporation? The obvious commonplace response to this question would simply be the shareholders. To get a clearer picture, however, one would have to explore the underlying basis of ownership that involves the notion of property, which itself in a traditional sense covered real or tangible property derived essentially from land and rights flowing therefrom, personal or portable by the person who had rights of control over its possession, usage and exploitation and intangibles where a claim against others for any infringement would be sustainable (Berle and Means, 1932).

The corporate format of business introduces an intermediary between property of all these three kinds and the investor who puts in his or her risk capital, and this is the corporation itself, an entity created by a sleight of legal fiction, endowed with an identity of its own albeit through the medium of human interaction, with perpetual existence, that can sue or be sued, and exercise control, both in fact and in law, over ownership of its assets and responsible for its liabilities. Shareholders in such entities 'own' a derivative instrument labelled a 'share' in the capital of the corporation which entitles them to vote on certain major decisions and more importantly, represents a kind of property which can be owned, sold or otherwise disposed of as the owner desires; but under no circumstances does the share entitle a shareholder or shareowner to claim as his own property a proportionate slice of the assets of the company which strictly remain its property. The only persons who, acting on behalf of the company, can exercise its ownership rights are the board of directors and under their authorization, the executive management of the company.

The directors, on whom this authority and responsibility have been conferred by members of the corporation, either through the initial charter documents or by periodical resolutions, are thus in the position of fiduciaries or trustees for the beneficiaries on whose behalf and in whose interest they are charged with the responsibility of carrying on, to the best of their ability and in good faith, the operations of the company on a sustainable ongoing basis.

There has been a raging debate as to whether the board and the directors are only accountable exclusively to the shareholders or to a broader set of other stakeholders as well. Since Bowen (1953: p. xi) raised the question, 'What responsibilities to society can business people be reasonably expected to assume?' and illustrative of the general response, Nobel laureate Milton Friedman (1962: p. 133) had averred that the '…one and only…responsibility of business [was] to use its resources and engage in activities designed to increase its profits, so long as it stays within the rules of the game, which is to say, *engages in open and free competition without deception or fraud* [emphasis added]', there has been, in recent decades, considerable mellowing down in the corporate approach to stakeholder recognition. In a perceptive observation, an Organization for Economic Co-operation and Development (OECD) Advisory Group chaired by Millstein had captured the essence of the emerging balanced thinking in the following words,

> Companies do not act independently from the societies in which they operate. Accordingly, corporate actions must be compatible with societal objectives concerning social cohesion, individual welfare and equal opportunities for all. Attending to legitimate social concerns should, in the long run, benefit all parties, including investors. At times, however, there may be trade-offs between short-term social costs and the long-term benefits to society of having a healthy, competitive private sector. Societal needs that transcend the responsive ability of the private sector should be met by specific public policy measures, rather than by impeding improvements in corporate governance and capital allocation. (Millstein, 1998: p. 67)

In similar strain a Committee, chaired by Hampel, in the UK had commented,

> A company must develop relationships relevant to its success. These will depend on the nature of the company's business; but they will include those with employees, customers, suppliers, credit providers, local communities and governments. It is management's responsibility to develop policies which address

> these matters; in doing so they must have regard to the overriding objective of preserving and enhancing the shareholders' investment over time....
>
> As regards stakeholders, different types of companies will have different relationships, and directors can meet their legal duties to shareholders, and can pursue the objective of long-term shareholder value successfully, only by developing and sustaining these stakeholder relationships. We believe that shareholders recognize that it is in their best interests for companies to do this and—increasingly—to have regard to broader public acceptability of their conduct. (Hampel Committee, 1998: i.16, 1.18)

The Business Roundtable, the US association of chief executive officers (CEOs) of leading corporations (reportedly with a combined workforce of 10 million employees in the US alone, and aggregating some US$3.5 trillion in revenues) is a little more cautious in its position. In its 2005 document, the Business Roundtable commented that while 'corporations are often said to have obligations to stockholders and to other constituencies, including employees, the communities in which they do business, and government, but these obligations are best viewed as part of the paramount duty to optimize long-term shareholder value', they had 'obligations to be good citizens of the local, national and international communities in which they do business',

And again,

> [A] corporation should be a good citizen and contribute to the communities in which it operates, by making charitable contributions and by encouraging its directors, managers and employees to form relationships with those communities. A corporation [should] also be active in promoting awareness of health, safety and environmental issues, including any issues that relate to the specific types of business in which the corporation is engaged. (The Business Roundtable, 2005: pp. 31, 33, 34)

The Business Roundtable thus viewed responsibility to stakeholders as a business imperative in the process of creating value for shareholders.

The Berlin Thesis on Corporate Governance is more prescriptive. Article 8 of this document postulates, '[T]he company management must sensibly balance out the interests of the various stakeholders of the company', and added,

> Among those with an interest in the public corporation are principally the owners (stockholders) but also the employees, the customers, the loan creditors

> and suppliers as well as the public at large. Within the scope of these reference groups, particular significance must be attached to the stockholders as providers of risk capital. The prominent position of the stockholders certainly does not mean an ill-balanced commitment by the company's management to a strict, short-term maximization of the shareholder value, as measured against the quoted price. On the contrary, the company management must sensibly balance out the aims of the various reference groups for reasons of economics, because ultimately all stakeholders in each case make their contributions to the success of the company. (Berlin Initiative Group, 2000)

Reflecting this growing appreciation of societal expectations of corporations, the OECD Principles of Corporate Governance (2004: IV, p. 21) postulate:

> The corporate governance framework should recognise the rights of stakeholders established by law or through mutual agreements and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises.

Indian thought had of course long before reconciled the imperatives of societal contentedness and satisfaction with the stability and prosperity of the kingdom. Illustratively, Kautilya, the 8th century BC political strategist, had counselled his emperor Chandragupta, 'In the happiness of his subjects lies his [king's] happiness; in their welfare, his welfare' (Rangarajan, 1992). Gandhi, Father of the Indian nation and its political independence from British rule in mid-20th century, propagated both by precept and practice a set of citizenship ideals (to which we return in the next section) which can be applied to corporate as much as to individual behaviour. The Indian position on corporate responsibility towards stakeholders also fully supports the perceived needs to balance shareholder and stakeholder interests. The Securities and Exchange Board of India (SEBI) guidelines (2000) expressly provide for stakeholder interests to be addressed even while pursuing a company's principal objective of maximizing shareholder wealth on a long-term basis. This dispensation not only provides an opportunity to, but perhaps also casts an obligation upon, the Board and its members to address issues bearing upon societal expectations.

Could all these approaches herald the beginning of an integrated corporate governance model that seeks to straddle the competing claims of shareholder primacy and stakeholder stridency? Certainly, it would appear to be the most balanced approach to corporate governance in recent decades. There is indeed striking evidence that successful corporations have almost always practised these precepts without perhaps labelling them with such clarity. General Electric (GE), consistently a world leader in terms of market capitalization and corporate performance, is an impressive case in point. Monks and Minow quote its long-time CEO Ralph Cordiner calling its top management a trustee responsible for managing the enterprise 'in the best balanced interest of shareholders, customers, employees, suppliers and plant community cities'(1996: p. 50). Decades later, topping the Fortune 500 listings again in 2007 both within the US and worldwide, GE's Citizenship Report quoted its chairman Jeff Immelt, with regard to its approach to stakeholder engagement,

> As we expand in developed and emerging markets, we will be continually challenged to ensure that we invest in a sustainable and intelligent way that leverages our financial, technical and intellectual resources to the benefit of our investors, employees and communities.
>
> To some, this may seem incongruous for a public company like GE whose primary mission is to make money and deliver value to investors. We don't agree…. Our early experience with ecomagination has shown us that we can develop products to address these [environmental and other] challenges and make money in doing so.
>
> Our corporate citizenship must be aligned with our business goals in order to drive future growth and better understand and mitigate these [environmental] risks. This alignment also helps us deliver on our promises while answering the needs of society. (GE, 2007: p. 7)

The number of companies worldwide publishing Sustainability (or other equivalent) Reports bearing up on their impact and initiatives with regard to societal and environmental issues (besides the purely financial performance reporting) has grown substantially in recent years, providing further evidence of recognition of the relevance and imperatives of corporate responsibility to the society in which they operate.

In India, illustratively, the Value Statement of the Tata Group (which has been ranked number one in the 2008 British Telecom [BT] Sustainable Development Index for India) sets out its purpose as improving 'the quality of life of the communities we serve. We do this through leadership in sectors of national economic significance to which the Group brings a unique set of capabilities....'[1] The five-year vision of Wipro Corporation (Wipro Corporate Overview, 1999), again among the top in terms of market capitalization, puts 'its people first', and had a whopping 78 per cent of its employees affirming the company to be the best organization for them to be in. Its compatriot Infosys Technologies thrives on its objective of making thousands of its employees millionaires through the company's stock sharing programmes, while retaining a top slot in the capital market and attracting international investors.[2] The tobacco and hospitality major, Indian Tobacco Company (ITC)'s avowed mission is '[T] o enhance the wealth generating capability of the enterprise in a globalizing environment, delivering superior and sustainable value'; its chairman, Y. C. Deveshwar, speaking at the annual general meeting of the shareholders in 2000, articulated ITC's belief that 'creation of shareholder value provides the only basis for sustainable contribution to the superordinate goal of creating national value'. Speaking to his shareholders in 2007, Deveshwar continued in the same strain, referring to the heartening spectacle of being a 'witness to a growing corporate consciousness to ensure that the future generations are more secure', and assuring them of the company's 'commitment to creating enduring value will continue to inspire us as we strive to achieve even greater success in the future.'[3]

Thus, there seems to be a measure of growing appreciation at least among leadership companies around the world that their board's role was to steer a middle course that while protecting and enhancing shareholders' wealth would also ensure that the real stakeholders' aspirations are factored in. In recent times, it has also become abundantly evident that corporations in pursuit of their profits can ill afford to ignore their impact on the other two dimensions of their interface with the environment and the society in which they operate.

Having said that though it should also be recognized that corporations in general have still a long way to go before these concepts could be deemed as generally accepted as a matter of course. Even those that have made some progress in this direction have further to go before they can truly command the trust and respect of the society at large. There are numerous instances of corporate expropriations of the natural resources in the geographies they operate in.[4] Executive compensation and separation packages for top managers continue unabated,[5] even when their corporations were hurtling down towards disaster. India too has a surprisingly large population of highly paid corporate executives relative to the country's overall wage levels (Sheth et al., 2008: pp. 58–98). The number of high profile banks that suffered in the aftermath of the subprime mortgage triggered financial meltdown that would indeed lead to questions of whether their boards and directors did exercise the necessary levels of care and caution that as trustees of other peoples' monies they were required to, as other institutions that were more circumspect with regard to what have since been referred to as toxic assets appear to have been spared similar pains (Causey, 2008: p. 50). Taken together, all these are symptomatic of a general state of indifference to certain values and morals, many of which Gandhi stressed as the cornerstone of good, responsible human behaviour in a civilized society. We now turn to a brief review of some key tenets that Gandhi espoused, principles that go beyond rule-based regulatory prescriptions.

II - GANDHI AND SOCIAL RESPONSIBILITY

Mohandas Karamchand Gandhi (1869–1948), a legend in his lifetime, was referred to as the Mahatma or the Great Soul. He did indeed richly deserve this sobriquet not only for his achievements in the political sphere (great and unparalleled as they were) but also because of his legacy of ethical thought and societal responsibility. His bust was put up next to the podium in the General Assembly Hall of the United Nations in 2007 as a tribute to the apostle on the Second International Day of Non-violence. It was apparently the first time in the entire history of the United Nations an image of any leader had been displayed in the General Assembly Hall. As an Indian educated in the United Kingdom and politically baptized by fire in South Africa before his monumental Indian independence movement, who took to the path less travelled in terms of personal and political behaviour, do his copious writings, speeches and practices offer any scope for learning to the corporate world? Not surprisingly, most of his philosophical approaches, some of them bordering on the religious, although primarily evolved in the political domain, are indeed adaptable and extendable to the world of profit-making corporations around the world. Following is a selection of some key concepts Gandhi advocated and lived by.

TRUSTEESHIP

Gandhi's overarching principle concerning wealth and wealth creation was one of trusteeship. A working description of a 'trustee' is an individual or corporate entity placed in a position of looking after the resources of another for his or her or its benefit. The *Oxford English Dictionary* (1933: XII, p. 433) defines the word as 'one to whom property is entrusted to be administered for the benefit of another' and 'one who is held responsible for the preservation and administration of anything'. Little has changed since then: in our own times, *Webster's Dictionary* (2007: p. 153) defines a trustee as 'a person to whom another's property or the management of another's property is entrusted'.

Gandhi's thoughts on trusteeship are to be found dispersed in his speeches and writings over the years, not codified as a compact theoretical document. Nevertheless, their thematic consistency is striking. He had no problems with people and businesses creating wealth and working for profit. In an individual context, wealth may be the result of earning and saving, or inheritance: in either case, Gandhi did not look down upon the wealthy (and in fact counted many among his friends and close associates), so long as the accumulation or accretion was through what he called 'pure' means. This approach indeed is in tune with a scriptural edict that lists *artha* or material profit as one of the four life objectives of individuals so long as it is earned with due regard to *dharma* or the righteous means ordained. Gandhi, accordingly, was rigidly concerned with the means of making money, that they should be fair and ethical, a prescription even Milton Friedman had subscribed to in his oft-quoted statement that the '…one and only… responsibility of business [is] to use its resources and engage in activities designed to increase its profits, *so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud*' (1962: p. 133) (emphasis supplied).

Unfortunately, business in general whether carried on in personal capacity or a corporate format has always attracted unsavoury connotations. Ethical business is considered as an oxymoron, an inherent contradiction in terms. Upadhyaya (1976: pp. 72–73), for example, cites from the *Oxford English Dictionary* (1933: XII, p. 433) defining management as, '[T]he application of skill [or] care in the manipulation, use, treatment, or control (of things or persons) or in the conduct (of an enterprise, operation, and so on).' The term, alternatively, is also defined as, '[T]he use of contrivance, prudence or ingenuity for effecting some purpose; often in unfavourable sense, implying deceit or trickery.' While the so-called professional management in modern times has gained a measure of respectability and rectitude (notwithstanding the periodical misdemeanours of such professional managers and professionally managed corporations), similar credit, as a general rule, is unavailable to the other categories of managerial personnel and management systems, although, as with all generalizations, there will always be notable exceptions in either category.

And Gandhi was not alone in conceding and even advocating that wealth could be acquired by honest or pure means: illustratively, John Ruskin (1860: p. 190), whose writings greatly influenced Gandhi, relates the story of a Jewish merchant of great fortune centuries before the Christian era through trading on the Gold Coast whose maxims for wealth acquisition, held in great respect, demonstrated that 'it is possible for a very practical and acquisitive tradesman to hold through a not unsuccessful career, that principle of distinction between well-gotten and ill-gotten wealth'. In our own times, we have been witness to commercially successful individuals and corporations with a reputation for clean trading and business practices.

Having legitimately made (or inherited) the money, Gandhi felt that beyond what was required for maintaining oneself and one's immediate family in line with their societal norms, the rest should be considered held in trust for society. How should these societal norms be determined? Gandhi's prescription was quite severe and in some ways rather idealistic. Adherence to his standards was not entirely feasible and he was aware of it but nevertheless postulated his expectations as a kind of normative standard to be striven for. He asked the rich class to reduce its needs to a basic minimum consistent with what the average citizen of the country could afford. He argued against overly conspicuous consumption and expenditure on wedding feasts and celebrations on grounds of their being immoral in the context of a large part of the country's population suffering from starvation and malnutrition. He asked the landlords and princes to work and earn their living and not depend upon their inherited or unearned wealth and incomes. The message of living in tune with the rest of the society was indeed well made but there were naturally few converts to this philosophy. Gandhi presumably was happy with the signaling effect of his exhortations even if there were only some limited movement towards containing rather than eliminating extravagance in the midst of the abject poverty that surrounded these islands of prosperity.

The principal ground for trusteeship concept was that such wealth came from societal constituents and (beyond modest personal needs) truly belonged to them, and hence should be kept in trust, prudently and productively used for the benefit of society. Many modern day philanthropists, among them Bill Gates and Warren Buffett in recent times, seem to share a similar view. This principle can easily be extended to corporations as well. While they should optimize profits for their shareholders after addressing their other stakeholder interests, they need to put all the surpluses to productive use to create more wealth, and hold them in trust for their shareholders until they are distributed to them. They could also engage in corporate philanthropy for the advancement of their reputation and on causes that would advance their business interests, with the concurrence of their shareholders and after due consultative and approval processes within the corporation. It would be instructive to note that the principal shareholders in Tata Sons, the multi-billion-dollars worth unlisted parent company of the Tata group in India and elsewhere, are a clutch of charitable trusts whose wealth and income running into several billion dollars were defrayed to support societal welfare projects; two-thirds of every rupee earned by Tata Sons, thus goes to charity (Gopalakrishnan, 2008).

TRUTH

To Gandhi, an unswerving adherence to truth, defined as the concordance of impressions or opinions with unadulterated facts, was, in Kant's terminology, a categorical imperative. There were no ifs and buts in the Gandhian lexicon where truth was concerned. Religiously inclined as he was, Gandhi believed in the Hindu scriptural edict *Satyam Vada*, meaning Speak the Truth. Truth in Sanskrit is *Satya,* itself derived from the root *Sat* meaning 'that which is'; interestingly, the Oxford English Dictionary (XII, p. 435) also defines truth as 'That which is true, real or actual (in a general or abstract sense)' and in religious usage as 'spiritual reality as the subject of revelation or object of faith'. Gandhi's view was that 'truth resides in every human's heart, and one has to search for it there, and be guided by truth as one sees it.' From this also developed the concept of listening to the inner voice or the message of the conscience as a guide for action decisions.

Raghavan Iyer believed that,

> The Gandhian apotheosis of Satya is conceptually more in accord with the views of the ancient Greeks and of the Stoics than with the Cartesian conception of truth, but it is in practice closer to modern existentialist rather than classical notions of truth in so far as it stresses action rather than thought…. For him…truth is nothing less than the splendor of reality and nature, but when it is perceived and seized, it must be acted upon. (Iyer, 1973: pp.152–154)

Truth as the basis of legitimate or well-informed action has also been alluded to by Frankfurt (2006: p. 15) who noted that 'any society that manages to be even minimally functional must have…a robust appreciation of the endlessly protean utility of truth.'

We should also note the two broad levels of truth that Gandhi visualized: the Absolute Truth and Relative Truth. The former related to the perfect Truth which was impossible to realize within the mortal frame of individuals and could only be visualized through one's imagination. At a practical level, though, every individual has to follow truth according to his lights; if there is a mistake it would be set right automatically since no one can lose his or her bearings for long. This directive leads us to a situation where there can be different perceptions of truth in the minds of different individuals. No matter, Gandhi counsels and compares different truths to the countless and apparently different leaves of the same tree, which after all is one and the same for everybody (Iyer, 1991: pp. 232–233). In the context of truth, we need also to briefly refer to when an untruth prevails over truth as a better choice. There is scriptural support to the view that at times and in certain circumstances an untruth may be a lesser evil than the consequences of truth itself. For example, Chaturvedi (2006: pp. 188, 189) quotes from *The Mahabharata* (Kama Parva, 69: 23 and 32), the great Indian epic, 'To save others from being killed is the most exalted *dharma*. If by speaking a lie, a life is protected, then speak the lie, and protect that life.' And again, 'Where the result of speaking a lie is good, akin to speaking the truth, and where speaking the truth will bring great harm, akin to speaking *a lie*, there one must not speak the truth. There one had better speak a lie.' The Kantian view would not permit this flexibility, 'By a lie I do wrong to men in general...it always injures another; if not another individual, yet mankind generally, since it vitiates the course of justice' (Iyer, 1973: pp. 229–30). Gandhi chose a middle course. He was clear that 'one must never tell a lie, but one may refuse to tell people what they want to know when they are likely to put the information to evil purpose....Truth must be told at any cost. But one is not always bound to disclose facts'[6] (Iyer, 1973: p. 230). In practice, this approach may entail some tight rope walking and under certain circumstances such as when under oath in a court of law or under mandate through legislation, when one may have to tell not only just the truth and nothing but the truth but also the 'whole truth'. But the Gandhi's basic counsel in this matter is always to tell the truth and never a lie, with the caveat that all known facts need not be disclosed if the person believes doing so may, in the process, hurt the life and property of another, or otherwise lead to major undesirable consequences.

NON-VIOLENCE OR AHIMSA

Ahimsa means non-injury and of course includes non-killing; in a wider connotation, it would also reflect abstaining, in thought, word and action, from causing injury or violation to any living being. And, from there it will indeed be a small step forward to include violence against nature and its bounties as well, although he did not specifically cover environmental violence in his canvas. His adherence and propagation of non-violence was probably based, initially, on a religious platform (both Hinduism and Jainism strongly advocated ahimsa) but his firmer conviction and fine tuning of the concept was greatly influenced by Tolstoy's (1905) *The Kingdom of God is Within You*, which was an exhortation favouring the Christian concept of non-resistance. Gandhi made huge political capital out of this concept in the Indian freedom struggle against the British, honing his practices on the experience he gained in South Africa earlier.

Another important aspect of Gandhian ahimsa needs highlighting. His concept of violence was not limited to physical violence alone but covered other forms of violence as well, for example, psychological or traumatic violence involved in instances of gender-based or workplace harassment and discrimination as well as acquiescence either by active support or tacit inaction in the face of such violence. To him, the creed of ahimsa is applicable under all circumstances and can admit of no exceptions (Tendulkar, 1951–54: pp. 153–54).

SATYAGRAHA OR TRUTH FORCE

Satyagraha was a missile or mechanism that Gandhi employed to devastating effect. The expression literally translates to truth force or the active application of the moral strength of truth to highlight a desired objective. The key ingredients were genuine concern and conviction as to the truth or fairness of an issue in general interest without any personal bias, and a strong adherence to its redressal through non-violent means. The important element in *satyagraha* is the emphasis on the issue rather than the personae responsible for it, very similar to the distinction between a sin that was to be atoned, and the sinner that ought not to be hated.

This part of Gandhian philosophy was based on a conviction that the State (or 'the establishment') was a soulless machine, given to more than minimal violence to impose its will on those who dared to dissent, with the officials or bureaucracy generally inclined to presume forceful coercion as a legitimate weapon of its sovereignty, a situation that people espousing their right to basic freedom ought to resist. This position accords well with the views of several other scholars and philosophers through the ages who even while approvingly visualizing the need for a governing authority for the protection and welfare of its citizens, had anticipated the potential abuse of such powers of the State and prescribed countervailing mechanisms and institutions for safeguarding the liberty and freedom of the governed (Lewis, 2003). Similar injunctions of kingly governance and countervailing institutions to preempt abuse of such powers have been documented in Indian scriptural tradition, illustratively in The Mahabharata (Chaturvedi, 2006) and elsewhere. Resistance to unfair governance could be either violent or non-violent in nature; Gandhi preferred the non-violent route as the most preferred alternative based on his firm belief that people were capable of developing their moral capacities to an extent that state excesses in intervention and regulation could be contained (Iyer, 1973).

The distinguishing characteristic of Gandhian *satyagraha* was its non-malicious dissent, or civil disobedience as he styled it after Thoreau (in contradistinction to Tolstoy's passive Resistance) where the 'establishment' as represented by the State was defied in terms of disobeying a laid down rule of law but, concurrently, without offering any resistance by force or otherwise to any punitive actions that may follow,

> As the Satyagrahis, who are not allowed to use violence in advancing their cause (the idea being that the adversary, too, is sincere since what seems truth to one person may seem untruth to another, while violence never carries conviction,) they must rely solely on the love-force that radiates from their faith and on their willingness to accept suffering and sacrifice joyously, freely. (Rolland, 2002: pp. 49–50)

Two important criteria relating to *satyagraha* need special mention: first, the cause must be just, in tune with *dharma* or the norms of conduct and behaviour ordained by tradition and one's own faith even if it was against the temporal laws of the state; second, it should only be directed against the impugned 'unjust' law, with no trace of hatred or disaffection towards the people enforcing it (since they believe they were right in what they were doing). Elsewhere Gandhi presses home the point about the non-malicious nature of the movement: '*Satyagraha* is gentle, it never wounds. It must not be the result of anger or malice. It is never fussy, never impatient, never vociferous. It is the direct opposite of compulsion. It was conceived as a complete substitute for violence' (Easwaran, 1997: p. 54, quoted from *Harijan*, April 1933).

These then are some, and by no means an exhaustive listing, of the key Gandhian tenets that may well accord with the best practices that one associates with good corporate governance and stewardship. The subsequent section explores this concordance and reviews their application in practice.

III - GANDHIAN THOUGHT AND CORPORATE RESPONSIBILITY

Modern day commercial corporations, as noted earlier, are a legal contrivance for pooling financial and other resources of people to be put to use in carrying on designated business objectives with the ultimate objective of earning a profit for their risk-bearing shareholders. Having thus been incorporated, corporations also bear a strong resemblance to social and political networks of willing and resourceful people coming together for productive purpose, albeit for private gain. The shareholders, especially those not in operational control, part with their monies of their own free volition to invest in the equity of the corporation; in this sense, they do bear a striking similarity to the citizens of a country foregoing part of their individual freedom to join in with other like-minded people into a political entity to safeguard their common interests with greater certainty than if they were on their own. Like the citizens, shareholders do vest in their boards of directors the power to use their monies as they deem appropriate in overall interest of all the shareholders, and let themselves be 'ruled' (to the limited extent of applying their invested monies towards common benefit) by the directors and their executives. The directors on their part, not unlike the kings or rulers of the State, have their fiduciary obligations to the shareholders and the corporation—again similar to the rulers' responsibilities to their citizens and the country—of administering their estates with due care, loyalty and diligence (Balasubramanian, 2005).[7] In both the cases, there are countervailing provisions for abuse-prevention-or-mitigation, both by law and internal agreements and accepted best practices. The employees bring in their skills and expertise; the community provides them with their sanction to operate and serve the needs of the society. Modern corporations are so large and powerful that they truly resemble nation states in their complexity, impact and operation. With such power comes also the potential danger of abuse and it is in that background that we explore the application of Gandhian principles to corporate governance (Figure 13.1).

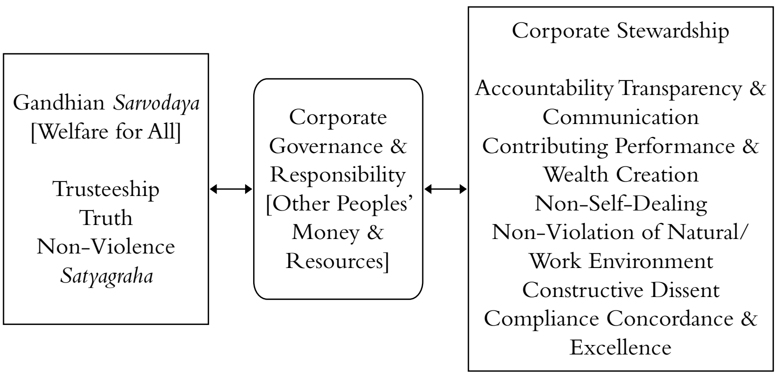

Figure 13.1 Sarvodaya and stewardship

The Gandhian concept of *sarvodaya* or welfare for all was the end-result of all his teachings that were but instruments in achieving this objective. Corporate stewardship, in its application to a subset of society, also strives to promote the equitable welfare of all its constituents. Figure 13.1 brings out the interacting relationship between the two systems with reference to corporations.

EXHIBIT I

Gandhian concept of trusteeship sits in eminently well with the governance concepts of fiduciary capitalism and stakeholder responsibility, as well as of corporations having to discharge trusteeship obligations in respect of the natural environment and other earth resources. The corporate board's stewardship role in governing the corporation in the interests of its shareholders was succinctly articulated in the Canadian Guidelines (TSE, 1994) as comprising of the adoption of a strategic planning process, risk management, appointment, training and monitoring senior management, laying down an effective communications policy and ensuring the integrity of corporate internal control and management information systems. To these, must be added an overarching responsibility of setting, communicating and monitoring the value systems in the corporation within which such corporate objectives are to be achieved and its affairs conducted. All these are key ingredients in the proper discharge of the board's fiduciary duties to the shareholders of protecting their interests, and being accountable to them for the proper application and enhancement of the monies that they have entrusted to their care. Illustratively, Directors and Officers, as trustees, may not indulge in deception, self-dealing or tunneling, poaching into created wealth or wealth-creating opportunities the fruits of which truly belong to the shareholders. They have to be truthful in their accounting and financial and other reporting to the shareholders and the outside world, in their dealings and communications with customers and other stakeholders, as well as in their communications within the organization to employees and managers. The truth will involve incorporating sound principles of transparency in accounting, reporting and communication, whether to internal constituents or to external stakeholders including shareholders and investors. Truth in this sense also applies to fair dealings with internal and external constituencies, including customers, vendors, employees, civil society and the government, in short to a corporation's entire relevant stakeholder population.

Truth is also at the root of all disclosures required to be made by directors and others in respect of transactions with the company in which they have a personal or other interest, and can be easily linked to the fiduciary duties of loyalty to the company and its shareholders. Even when the financials of the corporation are certified by independent auditors as representing a true and fair view of its affairs, or when the CEO and CFO certifications of their company's financials, one can see the imperatives of validated truth that form the core elements of good trusteeship and governance. Truth is so fundamental to trust that leads to reputation that corporations can hardly afford to take it lightly.

One may not violate the rights of their employees (one would include also those employed on their behalf by other outsourcing contractors) or other stakeholders. Besides, it can also be extended to include violence against non-humans that was not excluded from the ambit of his coverage, as in the case a cruelty to animals as well as impairment of the environment through operations involved in the business processes and products and services and where such violations were unavoidable in the business process, seek concurrence from the affected with transparent disclosures and reparatory measures, have the responsibility, in board deliberations, to express their views on decision matters, and where overruled by a majority, insist on their dissent being recorded. Board independence is not necessarily a question of numbers; even a single director may be able to convince others on matters where he or she holds a strong unbiased selfless view that must follow the laid down *dharma* or legal or regulatory domain through compliance in letter and spirit is a key attribute of governance that must comply with the laws of the land in respect of their operations (and where possible improve upon them, especially if home country practices are superior to host country requirements).

Fortunately, directors are not expected to be supermen and women in their role; the ends of justice would be met if they are demonstrably diligent, loyal and careful in their application to their jobs; Gandhi would have been less forgiving in his demands of the trustees to an extent that often his standards may have appeared far too difficult, if not altogether impossible, to strictly comply.

Box 13.1 Some do's and don'ts for Gandhian corporations and directors

- Do care for the interests of all shareholders and strive utmost to create wealth for them through legitimate means; be loyal to their interests to the exclusion of any undisclosed or unauthorized personal gain.
- Do not indulge in deception, self-dealing or tunneling, poaching into created wealth or wealth-creating opportunities the fruits of which truly belong to the shareholders.
- Do be truthful in accounting and financial and other reporting, communications within the organization to employees and managers, communications with customers and other stakeholders.
- Do be fair in dealings with internal and external constituencies including customers, vendors, employees, civil society and the government.
- Do promptly and fully disclose any actual or potential conflict of interest in respect of transactions with the company in which there is personal or other interest.
- Do not violate the rights of employees (including contracted and outsourced employees) and preempt workplace harassment and safety breaches.
- Do not tolerate cruelty to animals and other non-humans; if unavoidable in the nature of business, do institute the most caring treatment to ensure the least pain.
- Do not tolerate any damage to or impairment of the environment; if unavoidable in the nature of operations, do seek concurrence from the affected with transparent disclosures and reparatory measures.
- Do comply with the laws of the land in respect of operations (and where feasible improve upon them, especially if home country practices are superior to host country requirements).
- Do express views on decision matters based upon personal conviction (inner voice) at board and other meetings, and if overruled by a majority, insist on dissent being recorded

WOULD GANDHIAN CORPORATE GOVERNANCE PAY?

Does good governance in this Gandhian frame (similar but much more rigorous than most international stewardship expectations) pay? There certainly is a strong business case for Gandhism (much as Gandhi himself disliked this label) in corporate governance. As noted earlier, leadership companies around the world—and in India—have incorporated many of these tenets (with varying degrees of rigour) in their governance frameworks, often long before legislators and regulators had stepped in. Are they the leaders because they follow good governance practices or do they follow them because they are leaders? The debate can go on but there is no denying that one good thing leads to the other, and often good practices seem to grow on each other's back!

While on this, a related issue that has been and even now is, raised may be addressed. Should these principles of praiseworthy and preferred behaviour not more appropriately be applicable to individual men and women rather than to inanimate entities like corporations? In other words, could artificial creatures, like corporations, be credited with having a conscience or soul, which essentially prerequisites such behaviour? Fortunately, it was Henry David Thoreau who wrote more than a century and half ago that while corporations are truly enough said not to have a conscience, those of conscientious men could be taken as corporations with a conscience. After all, corporations as inanimate entities created by a sleight of law have to act and express themselves through their human representatives, and it is those men and women who in fact provide leadership for all corporate initiatives, good or bad.

Conclusion

There is often some skepticism on good governance principles and practices especially in the context of many corporations around the world that are not reputed to follow such preferred practices, still managing to be at the top of the pack and receive approbation from the shareholders and the media. One could only speculate how much better and how much higher their reputation and therefore their performance would have been if only, besides their excellent financial bottom lines, their governance frameworks had also been more attuned to truth, transparency, trusteeship and welfare for all.

Governance is critical to corporations as it is to nations. Sooner or later, often sooner than later, the society weeds out the undesirables, untrustworthy, unworthy and the untruthful. If any evidence is required, one would only have to see the churn in the Fortune 500 companies in the last three decades and see how many of the earlier Greats continue their position in later years. The financial distress of several United States Corporations and Banks in the last quarter of

2008 is a gruesome reminder that the day of reckoning does indeed arrive for the unprincipled, unethical, incompetent, indifferent and the overly greedy. India has had its share similar bail outs at the expense of the common citizen and tax payer.[8]

Martin Luther King Jr once said 'Gandhi was inevitable. If humanity is to progress, Gandhi is inescapable. He lived, thought and acted, inspired by the vision of humanity evolving toward a world of peace and harmony. We may ignore Gandhi at our own risk'. Likewise, Gandhian thoughts and philosophy appear to be the inevitable prescription for a corporate sector that is struggling to regain its credibility and win the trust of the societies in which they function. Corporations aspiring to reach or retain their top billings in the world of corporate business could do worse than by taking this counsel seriously and on their own initiative introduce and internalize these wholesome principles in spirit before they are inflicted by mandate. It is not just they look good for business, but indeed they are as has been proved by so many successful companies. Corporations may, therefore, like to adopt, adapt and benefit from these guidelines based on real life experiences and experiments of a man about whom Albert Einstein wrote, 'Generations to come will scarcely believe that such a one as this ever in flesh and blood walked upon this earth.'

Notes

1. Sourced from the company website.
2. And keeping its shareholders delighted, as well. After a record, 2590 per cent dividend payout for the year ended 31 March 2004, delighted shareholders at the company's annual general meeting in Bangalore reportedly equated Infosys with Lord Balaji or Venkateswara of the famous religious shrine at Tirupathi in the southern state of Andhra Pradesh, in terms of revenues earned! See *The Economic Times* (13 June 2004) on Sunday.
3. Chairman's speeches at the Annual General Meetings of shareholders, sourced from company website.
4. Coca Cola's alleged mismanagement in the use of natural ground water resources in some of their bottling operations in India is a case in point. See Amit Srivastava (2008).
5. A study by the pro-labour Economic Policy Institute in the US estimated that in 2005, US CEOs (of sample companies) on average earned 262 times (300 in 2000) more than the workers (Allegretto et al., 2006).

6. In a corporate context, this may be the justification for the conservative practice of allowing banks to build secret reserves or even avoiding or delaying bank bankruptcies to mitigate the contagion effects of such realities, if allowed to surface prematurely!
7. A veritable checklist and commentary are available in The Mahabharata, *Santi Parva* which details the essential features of *Raj Dharma* or royal responsibilities and duties.
8. The state-owned Unit Trust of India that had to be bailed out twice in the late 1990s and at the turn of the century, is a case in point.

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Corporate Governance and the Role of Independent Directors

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I - Introduction

A company's board of directors is responsible for the company's corporate practices as it is up to the board to decide and establish suitable corporate governance values and structures, processes and practices into its business model. Thus, the aim of corporate governance, as often understood, is to ensure that companies that are not managed by their owners are run in the best interest of the shareholder. As agents, the board members and managers are responsible to protect the principals' (shareholders') interest, and board members are in turn accountable to shareholders and the company. In a broader perspective, corporate governance is the set of processes, customs, policies, laws and institutions that affects the way in which a corporation is directed, administered or controlled in order to facilitate the interest of stakeholders such as employees, shareholders, customers and banks. Good corporate governance plays a vital role in underpinning the integrity and efficiency of financial markets. Poor corporate governance weakens a company's potential and at worst can pave the way for financial difficulties and even fraud.

It is often said that no capitalist system is immune to greed, fraud and theft. However, the developed economies have a key advantage over the emerging ones because of their strong judiciary and alert regulating bodies. Still, episodes like those of Enron, WorldCom and Madoff happen at almost regular intervals. A poisonous mix of accounting opaqueness, regulatory laxity and judicial indolence, on the other hand, is a major roadblock to smooth development of the capital market in emerging countries—particularly when these invite greater participation from foreign investors.

The recent Satyam scandal in India has brought to focus the importance of good corporate governance among publicly held companies even in emerging economies. The irony is that while the Satyam story went public in January 2009, the company had regularly been winning accolades and awards for the quality of its corporate governance and even as late as in September 2008, Satyam won the coveted Golden Peacock Global Award for Excellence in Corporate Governance for 2008 (Banik and Bhaumik, 2009).

This is no run-of-the-mill award that could be *won* by any company having sufficient market power. Satyam was named the winner by the World Council for Corporate Governance (WCFCG), with Dr Ola Ulster, the former Prime Minister of Sweden, serving as lead judge. In India, the award is coordinated by the Institute of Directors (IoD). According to the IoD, they are in the process of taking away the award, but this simple and embarrassing event does highlight the difficulty of identifying the issues involved in conceptualizing, calibrating and evaluating corporate governance.

Interestingly, the history of capitalism is replete with such headline-making scandals with relentless regularity. Take Enron for example, the energy company that has become a byword for corporate fraud. It had 22,000 employees and claimed revenue of nearly US$100 billion the year before its 2001 collapse. The group had a complex accounting structure, under which huge debts were hidden behind fraudulent off-balance sheet partnerships. Its top executives were found guilty of insider trading and lying to investors. Ken Lay, its disgraced chairman, died before he could be sentenced.

In another episode, WorldCom, then the largest corporate insolvency, saw a simpler accounting trick: executives at the telecom group reclassified operating expenses as capital expenditure, boosting the bottom line. Both Bernie Ebbers and Scott Sullivan, chief executive and finance chief, were jailed. A recent parallel to the above is Bernard Madoff. During his trial in Manhattan federal court, he pleaded guilty to each of the 11 criminal charges and was ordered to jail to await a sentence that could send him to prison for the rest of his life. Madoff's swindle, which took in as much as US$65 billion over two decades before the 2008 market meltdown, could land him in prison for the rest of his life (McCool and Graybow, 2009). The maximum possible penalties on 11 criminal charges add up to 150 years. According to a statement that he read out in court, he would tell prospective investors that their money would be invested in shares of common stock, options and other securities of large well-known corporations. In reality, those funds were deposited in a bank account at Chase Manhattan. Money was withdrawn from the bank whenever clients asked for redemptions. Obviously, the Ponzi scheme suffered and was exposed when the demand for redemptions rose beyond Madoff's ability to pay from the bank account.

For many, the above scandals affirm the warning of the economist Adam Smith, which dates from 1776 (Smith, 1910),

> The directors of [joint stock] companies, however, being managers rather of other people's money than of their own, it cannot be well expected that they should watch over it with the same anxious vigilance [as owners]....Negligence and profusion, therefore, must always prevail, more or less, in the management of the affairs of such a company.

Heeding this fundamental wisdom, various regulatory agencies in several countries have turned to independent directors as an important element of legal and policy reform in the field of corporate governance. In the United States, insider-dominated boards have been rare for years, and although the New York Stock Exchange (NYSE) has required that independent directors constitute a board majority in domestic companies only since 2004, as of 2001 approximately 75 per cent of NYSE-listed companies already had such majorities. In the wake of Enron and other corporate scandals, to federal mandates has been made necessary for listed companies under the Sarbanes–Oxley Act (SOA) in the USA. Britain's own set of corporate scandals led to the Cadbury Report, which recommended, along with subsequent similar reports and studies, a greater role for outside and independent directors. More interestingly, last decade has seen a number of corporate law reforms in Japan designed to enhance the role of directors and auditors not tied to management.

In fact, the Securities and Exchange Board of India (SEBI) has made it mandatory for publicly listed companies to have some minimum number of independent directors on their board. This may have two broad objectives: first, effective corporate governance, and second, enhanced investors' confidence. Indeed, the combined code on corporate governance of the Financial Reporting Council of United Kingdom (UK) contains general principles and more detailed provisions relating to the corporate governance of listed companies. It emphasizes the roles and responsibilities of the non-executive directors, including the need for an independent board and independent non-executive directors. Independent non-executive directors are expected not only to participate in committees, such as the audit, remuneration and nomination committees, but also to form the majority in such committees.

The increasing worldwide interest in independent directors has not gone unnoticed by Chinese policymakers.[1] Indeed, Chinese interest predated the corporate scandals that led to federal-level corporate governance reforms in the United States, possibly because of the many similar scandals that had already occurred among Chinese companies listed on one of the country's two stock exchanges.[2] In August 2001, the China Securities Regulatory Commission (CSRC) attracted attention with the issuance of its Guidance Opinion on the Establishment of an Independent Director System in Listed Companies (the Opinion).[3.] Covering all companies listed on Chinese stock exchanges (but not Chinese companies listed overseas), the Opinion constitutes the most comprehensive measure taken to date by the CSRC or any Chinese governmental authority to regulate internal corporate governance through the institution of the independent director. Although the institution of independent directors has been mooted largely as part of a solution to governance problems in listed companies, the problems in question are not necessarily unique to listed companies. Truly, the government abandons the traditional ways of managing state-owned enterprises, due to two fundamental reasons which are the product of the influence of Chinese economic reform. They are, first, individual wealth increasingly makes possible the accumulation of private assets on a scale too large to be managed by an individual owner, and second, there will increasingly exist corporate entities in one form or another that are run by professional managers who do not own the assets, and yet are unconstrained by the disciplines that functioned reasonably well under the system of state planning. Thus, Chinese scholars and policymakers have been searching for new mechanisms of corporate governance and accountability not just for listed companies, but for all concentrations of assets managed by non-owners.

This chapter examines the institution of independent directors, as a potential solution to corporate governance problems. We argue that proponents of the institution misconceive the nature of the corporate governance problem in developing economies as well as the functioning of independent directors in the developed ones. We feel that the policy makers have not taken into account specific features of the institutional environment of developing economies. The discussion of independent directors will, we hope, shed light on a number of broader issues in corporate governance in developing economies, including such questions as the basic approach to the regulation of corporate activity. Part II of this chapter discusses issues relating to practice of Corporate Governance across countries. Part III looks at the specific institution of independent directors as a proposed solution, and canvasses regulatory responses. Part IV pulls these strands together, discussing first the evidence regarding the effect of the presence of independent directors on the board of directors, and then the policy implications for corporate governance of what we know about corporate structure and the legal system in developing economies. Part V offers a conclusion.

II - Corporate governance models around the world

Corporate governance arrangements and institutions vary from one country to another, and experience in both developed and emerging economies has shown that there is no single framework that is appropriate for all markets. They differ according to the level of capitalism in which they are embedded. The liberal model common in Anglo-American countries tends to give priority to the interests of shareholders, while the coordinated model in Continental Europe and Japan also recognizes the interests of workers, managers, suppliers, customers and the community. The liberal model of corporate governance encourages radical innovation and cost competition, whereas the coordinated model of corporate governance facilitates incremental innovation and quality competition. Both models have their distinct competitive advantages, but in different ways.[4]

ANGLO-AMERICAN MODEL

In the US, a corporation is governed by a board of directors, which has the power to choose an executive officer, often known as the chief executive officer (CEO). However, the CEO needs board's approval for certain major actions, such as hiring his or her immediate subordinates, raising money, acquiring another company, major capital expansions or other expensive projects, and so on. Other duties of the board may include policy setting, decision-making, monitoring management's performance or corporate control. The responsibility of selecting the board of directors rests on the shareholders. However, the by-laws of many companies make it difficult for all but the largest shareholders to have any influence over the formation of the board. Individual shareholders normally are not even offered a choice of board nominee. Other problems in board composition include questionable incentives given to the board members, who then may become 'own person' to the CEO. It has also been observed that members of the Boards of Directors are CEOs of other corporations, which may be seen as a conflict of interest. UK has pioneered a flexible model of regulation of corporate governance, known as the 'comply or explain' code of governance. This is a principle-based code that lists a dozen of recommended practices, such as the separation of CEO and Chairman of the Board, the introduction of a time limit for CEOs' contracts, the introduction of a minimum number of non-executive directors (independent directors), the designation of a senior non-executive director, the formation and composition of remuneration, audit and nomination committees, and so on. Publicly listed companies in UK have to apply those principles. Alternately, they are to explain and justify in a designated part of their annual reports why they have decided not to comply with any of the recommended practices. The monitoring of those explanations and their subsequent acceptance is left with the shareholders of the respective organizations.

NON-ANGLO-AMERICAN MODEL

In East Asian countries, family-owned companies dominate the market. Family-owned companies also dominate the Latin American model of corporate governance, such as companies in Mexico, Italy, Spain, France (to a certain extent), Brazil, Argentina, and other economies in

South America. The characteristics of this model are: shareholders are the major stakeholders; a small number of listed companies with an illiquid capital market where ownership and control are not frequently traded; and there is high concentration of shareholding in the hands of corporations, institutions, families or government.

In 1999, the Organization for Economic Co-operation and Development (OECD) published its Principles of Corporate Governance, the first international code of good corporate governance approved by governments.[5] These principles focus on publicly traded companies and are intended to assist governments in improving the legal, institutional and regulatory framework that underpins corporate governance. They also provide practical guidance and suggestions for stock exchanges, investors, corporations and other parties that have a role in the process of developing good corporate governance. The new principles call for a stronger role for shareholders in a number of important areas, including executive remuneration and the appointment of board members. They call on companies to make sure that they have mechanisms to address possible conflicts of interest, to recognize and safeguard the rights of stakeholders and a framework in which internal complaints can be heard, with adequate protection for individual whistleblowers. They stress the responsibilities of auditors to shareholders and the need for institutional investors acting in a fiduciary capacity, such as pension funds and collective investment schemes to be transparent and open about how they exercise their ownership rights. And they call on company boards to be truly accountable to shareholders and to take ultimate responsibility for their firm's adherence to a high standard of corporate behaviour and ethics.

For board members, this means fostering the best interests of the company and the shareholders who have invested their money in the company which they oversee. But, it also involves establishing productive relationships with other stakeholders, such as employees and balancing their interests with others. Recent history shows that boards in some cases have failed to play this role, condoning remuneration packages that have no true link to performance, for example, and approving excessively ambitious expansion projects that have undermined a company's stability. To guard against such practices, the OECD Principles of Corporate Governance call for directors 'capable of exercising independent judgement' and for boards able to 'exercise objective independent judgement on corporate affairs', independent, in particular from management and in many cases from controlling shareholders and others in a position to control the company.

In almost all developed economies, investors have fairly extensive legal rights. In practice, however, their ability to exercise them is often restricted. Company by-laws and corporate practices can impose restrictions on investors' ability to submit questions to company boards. Investors' ability to propose or oppose individual members of the board is often limited to the point of being non-existent. More open board elections would enable shareholders to exercise their ownership rights in an effective manner. Shareholders need to be able to pose questions to the board and to put forward proposals to the general meeting of shareholders. Resolutions passed by shareholders should be taken into account by boards.

III - Independent directors as institutions

It thus appears from the aforesaid discussion that there is room for non-management directors on the board in the interests of the shareholders. In other words, non-management directors are there to help shareholders' agency problem. Theoretically, if such directors are to monitor management effectively, they must be independent of management. From this contemplated role stems the typical definition of independent director: one who has no need or inclination to stay in the good graces of management, and who will be able to speak out, inside and outside the boardroom, in the face of management misdeeds in order to protect the interests of shareholders.

A counter argument may be raised here that the independent director's duty is to protect the interests of a number of different groups, not just shareholders, and indeed sometimes to act against the interests of shareholders in order to protect, for example, employees. The latter view of the role of the independent director—one who is independent of profit-seeking shareholders as well as independent of management—has, however, found little support from the American corporate law practice. Interestingly, in most of the cases, it has been observed that directors who are responsible to many constituencies are in effect responsible to none. The directors often deal with entities, such as customers, workers and suppliers, who can protect themselves through contract. The shareholders are uniquely unable to terminate their association with the firm (if there is a threat) because their investment is sunk and cannot be withdrawn.

It is thus clear that the directors expected to perform their designated function cannot do so unless they are systematically independent of management. While 'independence' has generally proven fairly easy to conceptualize, it is difficult to define in precise legislative language. Those who see the independent director primarily as a defender of shareholder interests against management will naturally see their interest, because it will more closely align the interests of the director with the shareholders as against management. Those who view the independent director as someone whose judgement should be untainted by any financial interest in the company are suspicious of share ownership.

The aforesaid abstract definition of independent director is quite common in the US federal law but as discussed earlier the concern of the law seems to be to defend the interests of the shareholders as a whole against management self-seeking. Interestingly, the interests of the minority shareholders against dominant shareholders are ignored.

The Chinese literature and regulations contemplate a number of roles for independent directors. One can see the criteria, such as about how they will reduce corruption, bring an objective view to board meetings, dare to ask uncomfortable questions, criticize company management and ensure good corporate governance practices. However, there are few specific, measurable goals and predictions in defining roles. In addition, one cannot design and evaluate rules about independent directors without knowing what problems the institution is designed to address.

As mentioned earlier, a major perceived problem in Chinese corporate governance is the dominance of large shareholders. This is sometimes confused with the problem of insider control, although that problem stems from the inability of shareholders to supervise management effectively. Many Chinese commentators appear to view concentrated ownership as almost perverse and unnatural, and see the stereo typical Berle and Means corporation, as the ideal ownership structure.

Independent directors will, it is hoped, represent the interests of small shareholders and prevent the recurrence of corporate scandals. A study (Poon et al., 1998) conducted by the Shanghai Securities Exchange identified the following major problems in Chinese corporate governance, several of which are evidently connected with the exploitation of small shareholders by large shareholders: (*a*) irrational shareholding structure; (*b*) lack of independence (presumably from management) of the board of directors; (*c*) inability of the board of supervisors to play its proper role; (*d*) relative weakness of oversight role of creditors; (*e*) unlimited powers of key management personnel; (*f*) low level of transparency and professionalism in investment decisions; (*g*) lack of a market for corporate control; (*h*) lack of a market for management services; (*i*) skewed system of incentives; (*j*) lack of protection of interests of small shareholders; (*k*) lack of a system for accountability and (*l*) lack of a shareholder culture and corporate governance culture. Thus, many of the criticisms of existing independent directors centre on their powerlessness to protect the interests of small and medium shareholders from the depredations of large shareholders and management. They are said to fail in this mission because, among other things, they are a minority on the board and they are nominated by controlling shareholders.

A major problem with this approach is that it starts from the notion that control of the company by any particular large shareholder is itself bad. The literature is full of lamentations that shareholder votes are mere formalities because one shareholder owns an overwhelming block. But directors, independent and otherwise, are supposed to be elected by shareholders. For the majority shareholder to out-vote minority shareholders is precisely the intended consequence of the voting system set forth in China's company law and the corporate laws of other countries. There is a perception that companies with dominant shareholders are not run 'democratically', or lack true collective decision-making. This seems to be based on a conception of the company as a political enterprise, not as an economic one (Jong, 2005).

Given that large shareholders get to choose directors, it is hard to see how directors representing minority shareholders could be elected to the board in the first place unless the basic principles of selection of director were changed. Cumulative voting is a possible solution—it is, in fact, encouraged by the Corporate Governance Principles—but this system will at best elect directors representing a concentrated minority, not a dispersed minority, and even then such directors will be in a minority on the board and can always be voted out.

It is not clear, however, if this is the kind of strong protection envisaged by advocates of the independent director system, some of whom propose that independent directors should constitute a majority of the board, even while expecting them to serve the interests of minority shareholders.

This view also ignores the problems with dispersed share ownership pointed out so long ago by Berle and Means (1932), as well as the considerable evidence that having a controlling shareholder may be good for corporate performance.

Finally, this view runs up against the special position the state wants to reserve for itself when it is the dominant shareholder. For example, a Dean of a Chinese Business School who serves as an independent director, was quoted as saying, 'I have never thought that the independent director is the protector of medium and small shareholders; never think that. My job is first and foremost to protect the interests of the large shareholder, because the large shareholder is the state' (Trautman, 2008).

A second proposed function for independent directors is to monitor transactions, where there could be a conflict of interest. Note that, if independent directors are to perform this function effectively, 'independence' cannot be an abstract concept referring to independence from management. A transaction-based approach that looks at the director's interest in a particular transaction is required; otherwise a director wholly independent of management would be deemed fit to vote on a transaction between the company and himself or herself.

A third function for independent directors frequently mentioned is that of consultant. They are also considered as a proxy of outside directors. In either case, however, it is not clear why the company would not do better hiring consultants and other experts for advice, instead of having them sit on the board until such time as they might be needed. What incentives do such directors have to devote time and resources to their advisory task? If outside or independent directors who give valuable advice are compensated, then they may cease to meet the definition of outside or independent director. Furthermore, if giving advice is the appropriate role, why do the directors need to satisfy any criterion of independence at all?

Finally, a fourth function sometimes mentioned is that of serving the public interest. We use this broad category to include concepts of the independent director as a kind of agent of state regulatory bodies or as a kind of mole operating on behalf of the state to monitor its assets and prevent managerial waste. Here, the director serves the 'public interest', arguably he or she should be independent of *everyone*—dominant shareholders, management and indeed all those who have an interest in the company—and follow only the dictates of his or her conscience. Assuming accountability to be a good thing, however, it is hard to see how such a director could properly be made accountable. In the real world, of course, any director without security of tenure will, in the absence of counterincentives and assuming that the position is desirable, tend to be accountable to whoever was responsible for appointing him or her (Creveld, 2004).

It is imperative to discuss the magnitude of relationship between the independent director and the board of supervisors in the Chinese company. The independent directors are said to owe a duty of good faith (*chengxin*) and diligence (*qinmian*) to the company and to the entire body of shareholders, but the Opinion singles out for special attention the interests of small and medium shareholders, and states that the independent directors are not to be influenced by major shareholders, controlling persons or others who have a relationship of interest with the company. Evidently, opinion seems to come down clearly in favour of viewing the independent director as independent from everyone with a significant interest in the company, and as the protector of small shareholders against both management and dominant shareholders.

QUALIFICATIONS OF INDEPENDENT DIRECTORS

According to the corporate law and jurisprudence of most states in the United States (but like various US federal statutes and regulations), the Opinion defines 'independence' in a single way, instead of taking a purposive transaction-by-transaction approach. The Opinion takes a positive approach and a negative approach to the qualifications of independent directors. On the positive side, an independent director must (*a*) be qualified to serve as a director pursuant to the company law and other regulations; (*b*) possess the independence required by the Opinion itself; (*c*) possess basic knowledge relevant to the operations of the listed company, and be familiar with relevant laws and administrative rules and regulations; (*d*) possess at least five years' work experience in law, economics, or other fields necessary for the proper exercise of his functions as independent director and (*e*) possess other qualifications stipulated in the company's articles of association.[7]

On the negative side, persons may not serve as independent directors such as (*a*) a person who holds a position in the listed company or its subordinate affiliates as well as the direct relatives of, and those with important social connections to, the former; (*b*) a person, or the direct relative of a person, who directly or indirectly holds at least 1 per cent of the company's stock or is among the top 10 shareholders of the company; (*c*) a person, or the direct relative of a person, who is employed by an entity that directly or indirectly holds at least 5 per cent of the company's stock or is among the top five non-natural person shareholders of the company; (*d*) a person about whom any of the above conditions have been met within the last year; (*e*) a person who supplies accounting, legal, consulting or other similar services to the company or its subordinate affiliates; (*f*) any other person specified in the company's articles of association and (*g*) any other person specified by the CSRC.

The Draft Independent Director Opinion stipulated that independent directors should spend at least 15 days per year on the business of the company, but this was changed in the final Independent Director Opinion to a prohibition 'in principle' on persons serving as independent director of more than five listed companies. While the former rule seems unenforceable in practice, the latter rule serves little purpose, since it says nothing about what else the independent director might be doing with his or her time. In practice, independent directors seem to spend much less time on company business, while at the same time not being excessively distracted by other directorships. According to a 2001 study by the Shenzhen Stock Exchange, eight independent directors from its sample served on five boards, 95 served on two boards only. Another study found roughly similar numbers: 63 per cent of the independent directors surveyed served on only a single board. The same study found that independent directors typically spend nowhere near 15 days per year on the business of the company; they spend five to nine days attending board meetings and one to five days working at the company offices on other matters.

The real issue lies in whether, given the many and subtle ties that may exist between nominees and company management, independence can really be ascertained in the abstract on the basis of paper submissions by management and whether independence so ascertained is really very meaningful.

Indian market regulator, SEBI, has proposed amendments to Clause 49 of the listing agreement in Indian stock markets. It is essentially tightening the norms to improve corporate governance. The amendments are based on the recommendations of the Narayana Murthy Committee. The recommendations are as under:

1. If the non-executive chairman is a promoter or is related to promoters, he would not be treated as an independent director. So, in such a case, the company would be required to have 50 per cent independent directors on its board. Because such a chairman 'cannot be considered as truly "non-executive" in the sense of the term'.

   (Clause 49, as it exists today, says that if the chairman of the board is a non-executive director, at least one-third of the board should comprise independent directors.)

   So, naturally, if the chairman is an executive director, at least half the board should comprise independent directors.
2. The SEBI also proposes to delete the current provision that treats nominee directors as independent directors. This is based on the assumption that the nominee directors represent the interests of the institution which has nominated them.
3. Also, the government nominees in government-held companies (public sector units [PSUs]) should also be treated as non-independent directors since they have a material pecuniary relationship with the government, from which they draw salary and perks.
4. A new clause has been proposed asking companies to disclose the relationship between independent directors and other directors of the company who may not be a part of the management. This information has to be mentioned in all documents containing details of the board of directors, issued to the public or shareholders.
5. Ensure that companies have a replacement for an outgoing independent director within 90 days of his removal or resignation.
6. A person below 21 years would not be eligible to become an independent director.

IV - Evidence

Despite the great effort being put into developing the institution of independent directors, it is far from clear that it will function as expected. This part will first briefly describe empirical research in India and China, and then discuss specific institutional reasons why an externally imposed requirement of independent directors may not make much of a difference.

THE STORY

Satyam Computer Services Ltd was founded in 1987 by B. Ramalinga Raju. The company offers consulting and information technology (IT) services spanning various sectors, including engineering and product development, supply chain management, client relationship management, business process management and business intelligence. The company is listed on the NYSE, National Stock Exchange (India) and Bombay Stock Exchange (India). In June 2009, the company unveiled its brand new identity 'Mahindra Satyam'.

On 7 January 2009, company Chairman Ramalinga Raju resigned after notifying board members and the SEBI that Satyam's accounts had been falsified.

Raju confessed that Satyam's balance sheet as of 30 September 2008 contained:

1. Inflated figures for cash and bank balances of Rs 5,040 crore (US$1.04 billion) (as against Rs 5,361 crore [US$1.1 billion] reflected in the books).
2. An accrued interest of Rs 376 crore (US$77.46 million) which was non-existent.
3. An understated liability of Rs 1,230 crore (US$253.38 million) on account of funds was arranged by himself.
4. An overstated debtors' position of Rs 490 crore (US$100.94 million) (as against Rs 2,651 crore [US$546.11 million] in the books).

On 10 January 2009, the Company Law Board decided to bar the current board of Satyam from functioning and appoint 10 nominal directors. Analysts in India have termed the Satyam scandal as India's own Enron scandal.

Immediately following the news, Merrill Lynch (Now with Bank of America) terminated its engagement with the company. Credit Suisse too suspended its coverage of Satyam. It was also reported that Satyam's auditing firm PricewaterhouseCoopers will be scrutinized for complicity in this scandal. According to the SEBI, the stock market regulator's license to work in India may be revoked, if found guilty. The founder of Satyam was arrested two days after he admitted to falsifying the firm's accounts. Ramalinga Raju is charged with several offences, including criminal conspiracy, breach of trust and forgery.

Satyam's shares fell to Rs 11.50 on 10 January 2009, their lowest level since March 1998, compared to a high of Rs 544 in 2008. In the NYSE, Satyam shares peaked in 2008 at US$29.10; by March 2009, they were trading around US$1.80.

The Indian Government has stated that it may provide temporary direct or indirect liquidity support to the company. However, whether employment will continue at precrisis levels, particularly for new recruits, is questionable.

On 14 January 2009, the Indian division of PricewaterhouseCoopers, announced that its reliance on potentially false information provided by the management of Satyam may have rendered its audit reports 'inaccurate and unreliable'.

On 22 January 2009, the Criminal Investigation Department (CID) told in court that the actual number of employees is only 40,000 and not 53,000 as reported earlier and that Mr Raju had been allegedly withdrawing Rs 20 crore every month for paying these 13,000 non-existent employees.

It is worth remembering, as we consider reforms in a post-Satyam world, that Satyam's independent directors were among the most respected and renowned in India.

The glory of Indian IT firms rests largely on the efforts of one or two companies, such as Infosys, which are impeccably run. Investors delude themselves if they think standards in most Indian technology firms, let alone the rest of its 9,000 listed companies, are close to those set by Infosys. The Asian Corporate Governance Association's (ACGA) 2007 ranking of corporate governance placed India third out of 11 Asian countries, behind Hong Kong and Singapore, but far ahead of China, in ninth place. India's financial reporting standards are high;

its principal regulator, the SEBI, is independent of the government and its business press is enthusiastic. But enforcement is weak, loopholes are large and shareholder activism is lacklustre. 'There is virtually no voting by poll at AGMs [annual general meetings]', ACGA notes, 'and meetings are often held in remote locations.'[8]

As a consequence of Satyam, new laws may matter less than the spirit that animates them. Satyam's independent directors, for example, met the standards set by the NYSE. But they did not ask hard questions. Directors in India may sit on as many as 15 boards, which leave them little time to do their job properly (refer to Note 8).

The lesson to take away is that while it might help the cause of good corporate governance to have a large number of independent directors on their board, the episode highlighted the inherent weakness of independent directors in terms of delivery (Durnev and Fauver, 2008). In most cases, they are appointed by the promoters and so are not strictly independent; they might well acquiesce to the promoters' agenda without unduly worrying about its impact on company performance. There are reasons to remain worried about the rationale of independent directors' long-term appointments. Arguably, they may not be able to independently act when taking an unbiased decision, thus only supporting the coloured decision. Sometimes financial incentives are too strong for them to remain silent spectators of the board. It is also observed that in most cases independent directors are retirees; eventually they are guided by their own economic rationale.

Poor corporate governance may not always be tantamount to fraud. Lesser forms involving a hierarchy of reasons such as the lack of transparency, acting in other than the company's own interest or of minority shareholders, may also lead to appropriation and theft. While the final deterrence against fraud may be quick and exemplary punishment, other mechanisms do have a role in incentivizing better corporate governance. At present, there are no such incentives—at least as perceived by the promoters. This can be seen from the fate of corporate governance ratings initiated by Indian rating agencies. First undertaken by Credit Rating Information Services of India Limited (CRISIL) and then by Investment Information and Credit rating Agency Limited (ICRA) and Credit Analysis and Research (CARE), corporate governance ratings have not emerged exactly as hot favourite of Indian companies. Of the 4,700 listed firms, the trio have rated around 50; only 19 have disclosed their ratings to the public.

INDEPENDENT DIRECTORS IN CHINA

It has been argued that independent directors are reluctant to oppose those who selected them because their fees are high. The evidence on this point is mixed. One study[9] reports annual director fees in the range of 5,000 to 12,000 yuan. This is between US$600 and US$1,500 at current exchange rates—in the range of a junior white-collar worker's monthly salary. In view of other studies, however, this figure seems low. A survey of 69 listed companies reports that over 50 per cent paid between 20,000 and 40,000 yuan per year to independent directors, while another 31 per cent paid between 40,000 and 60,000 yuan. A study conducted in 2001 by the Shenzhen Stock Exchange reportedly found annual director fees in the range of 20,000 to 50,000 yuan. Another 2001 study of 130 listed companies is reported to have found that 18 companies paid between 10,000 and 20,000 yuan, 26 paid between 20,000 and 30,000 yuan, 49 paid between 30,000 and 40,000 yuan, 21 paid between 40,000 and 50,000 yuan, and 16 paid more than 50,000 yuan. In the 56 companies with independent directors studied by He and Wang (2009), only 13 independent directors received fees (or at least were reported to have received fees). The other 80 did not receive any compensation from the company. A study of disclosure of independent director compensation by 1,116 listed companies found that 777 (70 per cent) did not disclose one way or the other, 137 (12 per cent) reported that they compensated directors and 202 (18 per cent) reported that their independent directors received no compensation. Of the top 20 companies in terms of compensation, the highest paid 265,000 yuan per year, while the lowest paid 60,000 yuan. Fifteen of the top 20 paid between 60,000 and 80,000 yuan per year. Thus, this amount would seem to represent the general maximum, aside from a few outliers. The bottom 20 reporting companies all paid less than 10,000 yuan per year, but this number does not include companies that paid nothing and companies that did not disclose.

A later survey is that of Yue (2004), based on data as of 30 July 2002 from a random sample of 500 listed companies. He found that directors' fees averaged 31,900 yuan per year, with a highest reported fee of 200,000 yuan and a lowest reported fee of 5,000 yuan. The most recent study is based on data from the annual reports for 2002 of 81 listed companies that had independent directors since at least 2000.

The authors found that over half the companies paid less than 30,000 yuan annually to each independent director.

Perhaps more telling are the personal characteristics of independent directors. Unlike independent directors in US companies, who often, but not always, share personal characteristics, such as education and business experience with inside directors, independent directors in China are typically quite different from their fellow directors. In a survey of the occupational background of independent directors, Shi (2007) found that almost half of them were teachers in institutions of higher education or researchers in scientific institutes. A CSRC study in 2002 found a similar number, with accountants, lawyers and other intermediaries making up another 30 per cent. Only 10 per cent were executives from other companies. Shi's 2007 study found that some 22 per cent were from the world of business, and another 15 per cent were current or former government officials, whereas the CSRC study found that 10 per cent were company executives and only 5 per cent were 'other', a residual category that included retired government officials (current government officials are not supposed to be independent directors). A more recent study based on a random sample of 500 listed companies found that 45 per cent of independent directors were university professors or researchers from institutes, similar to the figure in previous studies. Other (presumably industrial) companies were the source for 28 per cent of the independent directors, while lawyers, accountants and other service industry professionals accounted for 14 per cent.

Also striking was the differences in educational background and age. In short, the numbers appear to bear out the common stereotype of independent directors as perhaps well-meaning but ultimately ineffectual academics and celebrities brought onto boards for their prestige value and perhaps to satisfy the CSRC, but for little else.

V - Conclusion

The relative ineffectiveness of independent directors described in the previous part is not limited to only China. More formal analysis in the literature also do not find any significant association between corporate performance and any indicator of board independence like CEO non-duality and outsider-dominated boards (Dalton et al., 1998).

Hermalin and Weisbach (2003) have also concluded that there is no conclusive evidence that independence contributes to the performance of the firm.

The literature on boards and corporate governance is replete with issues of the boards' ability to control its top managers and to protect the interests of its shareholders. In their review of 127 empirical papers in prestigious academic journals, Gabrielsson and Huse (2004) found that 54 per cent of the papers applied agency-theoretical arguments in support of their logic. The principal-agent theory, first enunciated by Jensen and Meckling (1976) in their seminal paper of 1976, was developed as a response to the key governance problems inherent to the public corporation. These governance problems arise because of separation of ownership and control leading to managers having their own goals of maximizing their private benefits without considering the shareholders' interests and minority shareholders free-riding on the monitoring activities of other shareholders. In fact, papers such as Villalonga and Raphael (2006) have distinguished between the shareholder–manager conflict (Agency Problem I) and large and small shareholders conflict (Agency Problem II), and noted that in firms where the large shareholders are family members or individuals, Agency Problem II may overshadow Agency Problem I because their incentives to exploit smaller shareholders as well as monitor the managers would be large.

In his critique of the agency theory, Ghoshal (2005) argues that agency theory, 'which underlies the entire intellectual edifice in support of shareholders value maximization, has little explanatory or predictive power'. The solution to the agency problem leads to some relatively straight forward prescriptions like splitting the roles of the chairman of the board and the CEO so as to have a duopoly rather than a monopoly of power and control, creating markets for corporate control so that raiders can take over from wasteful managers, paying managers in stock options to ensure their pursuing in the interests of the shareholders and augmenting the number and influence of independent directors on corporate boards so that they can effectively monitor the managers. Ghoshal (2005) quotes several studies and metastudies to conclude that 'none of these factors have the predicted effects on corporate performance'.

In the literature on corporate governance, a company board's output is categorized in terms of two generic sets of tasks: the monitoring or control tasks and the resource, service and strategy tasks (Zahra and Pearce, 1989). While the monitoring tasks of the board are based on the agency theory emphasizing internal control mechanisms that safeguard the interests of shareholders, the resource, service and strategy tasks (advising tasks) are highlighted by the stewardship theory of management (Davis et al., 1997). From an agency-theoretic perspective, an arm's length relationship between board and management facilitates independence of the board and makes it easier for the board to exercise effective control. However, as Adams and Ferreira (2007) have pointed out, proximity and interaction between managers and board members create information advantages that can also improve board control. This dichotomy gives rise to the 'independence paradox' (Hooghiemstra and Manen, 2004) highlighting the importance of an effective balance between proximity and objectivity in the context of the working relationships between the management and the board as well as between insider and independent board members.

This line of analysis leads to the pertinent question of competence of the board members to carry out both monitoring and advising tasks effectively. As shown in the previous part, many independent directors are teachers, researchers, accountants, lawyers, retired government officers, and even celebrities are brought into boards for their prestige value. It is questionable if many of them can perform the monitoring tasks effectively even if they want to; leave alone the advising tasks for which more industry-specific and technical knowledge is needed. Over and above all this, researchers have identified that the 'loyalty to authority' (Morck, 2008) can be a possible explanation of the aberrant and apparently illogical behaviour of so many respectable board members in plenty of corporate governance disasters, particularly when independent directors are chosen by the CEO directly or indirectly.

Corporations are legal persons having no (physical) body, mind and soul of their own. Regulations and guiding principles aim at creating a functional body for such a legal person. In its broadest interpretation, corporate governance can be thought of as the construct that provides the mind and soul to a corporation. Obviously, regulations alone will not be sufficient to ensure that the body is graceful, the mind peaceful and the soul enlightened.

At a more practical level, the investors need to be aware that stricter securities laws may not be enough for firms to enhance their governance standards. This is not going to help their confidence unless countries improve their policies towards businesses by respecting property rights, fighting corruption and reducing crime. Naturally, there are calls for effective regulation from governments. Given the increased strain that the current financial crisis has placed on corporate structures, a variety of regulatory regimes need to be examined and tried out. Satyam's troubled road to recovery and some of the Chinese examples should teach us that lesson.

Notes

1. See for useful background Donald C. Clark, 'The Independent Director in Chinese Corporate Governance', *Delaware Journal of Corporate Law*, vol. 3 , 2006, pp.125–228.
2. The two Chinese Stock exchanges are in Shanghai and Shenzhen.
3. China Securities Regulatory Commission, *Guanya Zai Shangshi Gongsi Jianli Duli Dongshi Zhidu de Zhidao Yizian* (Guidance Opinion on the establishment of an Independent Director System in Listed Companies, 1(1), issued August 16, 2001 (hereinafter Independent Director opinion or opinion).
4. For a brief review see, Ahmed et al., (2008).
5. Work on corporate governance has been going on at the OECD for a number of years. The OECD is an ideal forum for such discussions, as it brings together representatives of 30 OECD member countries as well as numerous other countries that participate in the Organisation's work. Together, these countries account for more than 90 percent of world stock market capitalization. Their governments have a vested interest in working on behalf of their citizens to ensure good practice in corporate governance, as an essential element in the promotion of prosperity and economic growth, see OECD (2004) *Principles of Corporate Governance,* Paris, mimeo.
6. Theory about governance in public corporations where the ownership and control is separated, and the owners (shareholders) rely on the board of directors to represent their interests. The theory states that over time the boards become so dominated by the management that their supervisory role becomes ineffective and the executives get to have the final say. Named after Adolf A. Berle and Gardner C. Means, the US authors of the 1932 paper 'The Modern Corporation and Private Property'.
7. In a later press release, the CSRC stated that independent directors *must* also undergo a training course organized by the CSRC in conjunction with Tsinghua University.
8. To quote, '….But even an assertive board and reputed auditors will struggle to stop managers who are determined to hide their dirty laundry from view.

About half of the 30 companies in the Sensex, India's benchmark stockmarket index, are run by business families, most of whom trace their roots back to the closed economy of India's past', *The Economist* (2009).
9. See Clarke (2003).

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Epilogue

Globalization along with changed norms of production, labour and environment with conditions of best practice has influenced behaviour of businesses across the world. The success of the acceptance of these norms has been outside the letter of law and the adoption has often influenced state to adopt better/improved or at least changed role for itself. The norms of resettlement and rehabilitation as dictated by the Indian state are by law, adopted by joint venture companies involved in extractive industries; yet, many other activities are also undertaken as corporate social responsibility, which are neither detailed nor dictated by law. Growth of civil society organizations has also led to increasing democratization in the marginalized and impoverished communities creating local responses to the grant metanarratives. Yet, nation state needs to evolve a new role for itself in this fast changing world. A stable nation providing good governance is thus basic requirement for developing countries in their attempt to safeguard rights and interests of their poor and marginalized.

Indian business has been actively involved in corporate philanthropy since the early 1900s. The charitable outlook of Indian businesses is progressively undergoing change under some external and internal influences. The increase in the momentum of corporate social responsibility has created new routes or avenues via which issues of corporate social responsibility are put to practice.

This has led to a marked and a welcome participation of corporate house in the local development agenda, showing that they do feel responsibility for the environment and people of the area where they set up business. Now it is no longer a question of what and how they help, because they have already proven, more so in the last decade, that they do want to help, and that they do have the local welfare at heart.

This attitudinal shift is not a response to any industrial, commercial or government diktat, of course, certainly increases goodwill. The fact that this makes it a two-way interaction is very welcome too, as that was the primary goal of the exercise anyway.

The time for unmotivated philanthropy seems to be coming to an end in the Indian context, and the usage of the term 'corporate social responsibility' is gaining currency since the 1990s. Therefore, well-established business also may have a well-established strategy of 'corporate social responsibility' to (*a*) effectively deal with the instability of the Indian politico-economic climate, (*b*) proactively deal with all the other stakeholders and (*c*) meet the demands of international customer especially as regards to labour and environment.

The success of the acceptance of these norms has been outside the letter of law and the adoption has often influenced state to adopt better/improved or at least changed role for itself. The norms of resettlement and rehabilitation as dictated by the Indian state are by law adopted by joint venture companies involved in extractive industries yet many other activities are also undertaken as corporate social responsibility, which are neither detailed nor dictated by law. Growth of civil society organizations has also led to increasing democratization in the marginalized and impoverished communities creating local responses to the grant meta narratives. Yet nation state needs to evolve a new role for itself in this fast changing world. A stable nation providing good governance is thus basic requirement for developing countries in their attempt to safe guard rights and interests of their poor and marginalized.

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