

# Corporate Governance- Organisational and Individual Responsibility and Accountability

(Continued from Jan/March 2016 issue)

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## Responsibility Towards Governments & Legal Institutions

Every organisation has certain responsibilities towards government and other legal institutions. An organisation must have a policy statement to convey to its stakeholders that they respect laws of the land and universal principles of ethics, and to highlight their position in respect of the following:

### *Legal Compliance -*

Especially consumer safety, environmental and anti-monopoly laws must be strictly complied with. If they are not up-to-date, work on the government agencies to improve them and ensure compliance at all times.

### *Political Engagement -*

Political engagement for improvement of society and its quality of life, for bringing about better adherence to universal principles of ethics, rather than for lobbying and payments to political parties and politicians.

Relation with Governments in Countries with Non-Democratic Regimes -***Government relations*** in countries with non-democratic regimes are an aspect that businesses have to

be concerned about from an ethical perspective. It may be easy for them to do good business in such countries developing and using their contacts with those in authority; but as a responsible citizen of the human race, they have to ensure that the regimes are moulded and corrected to follow the best ethical practices.

### *Eliminating Bribery & Corruption -*

***Bribery*** and ***corruption*** in business practice must be eliminated. If it is impossible to do so, at least fight against it to the extent you can, without harming yourself.

### *Honesty in external communications -*

An universally acceptable business value is honesty and truthfulness. If we cannot share truthful information for some valid reason or the other, at least desist from telling lies and making untrue pronouncements, or sending out wrong messages as true information.

### *Sponsorship of “Not-for-Profit Groups”-*

Sponsorship, donations and partnership arrangements with ***“not-for-profits groups”*** is being realised as an important way to contribute to society by many organisations.

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Companies should contribute to the work of agencies in civil society, which promote charitable, under-represented or underfunded causes, and encourage employees to do the same.

### ***Transparent Principles of Engagement with Governments & NGO's -***

There should be a clear, published statement of the ***principles of engagement*** with governments with NGO's (Non-governmental organisations), including charitable, voluntary and other philanthropic activities.

### ***Public Policy Initiatives***

Companies should carry out their ***public policy initiatives*** in the open without resort to disguised intermediaries and front organisations.

### ***Do Not Distort Political Processes***

Companies should ***not distort the political processes*** of political parties by using their contacts, networking capabilities or through attached or excessive donations.

## **ETHICS FROM THE PERSPECTIVE OF LAW:**

Often it is claimed that it is sufficient if business is carried on within the framework of **law of the land**. Clearly all business must operate within the laws of the land where it operates. However, **ethics is more than law** it is not sufficient to be law abiding to be ethical. Law has its own problems of validation; the need to prove that there is a break of law. Take the case of a businessman who purchases a product at say Rs. 5 per kilogram, which can be normally sold at Rs.6 or 7 per kg. He hoards the product and ensures that it is unavailable,

people suffer due to nonavailability and sells it for Rs.30 per kg to a person who can afford it, rather than one who is in dire need of the item. Law cannot deal him with. His own personal ethics only can contain him and guide him from being a profiteer. No law can, except under special conditions. There will be umpteen explanations justifying his action but it is necessary to deal with such behaviour using the principles of ethics by himself and the society around him. Take another case A scheduled caste person is entitled to be given special preference for admission to a given educational course. A boy belonging to an upper caste is very keen on joining the course, but cannot get admitted through normal means, as he does not have enough merit among the seats available for meritorious students. He approaches a poor scheduled caste family and gets adopted as the son of the poor man by paying him money. Neither before the payment, nor after, he visits or treats the poor old man as his father, except that the adoption papers say so, and the boy is said to be belonging to the SC. Legally he is right he belongs to the SC and gets the seat. Is he morally and ethically right? How do we control and eliminate such behaviour only through the internal force of self-questioning and self-control plus the force of society around him.

### **Responsibility of Business to Monitor & Guide Legal Behaviour of Stakeholders**

There has been a growing interest in various kinds of social accounting and auditing as a means of increasing the public accountability of corporations to their multiple stakeholders. A variety of initiatives seek to provide more information to the public on a host of concerns ranging from environmental performance, product safety, affirmative action, working

conditions, and community charities. All make an incremental contribution towards increasing corporate accountability. Most, however, are at once fragmented, divided, and partial. Beyond the quite valid idea that a corporation should serve more than the narrow financial interests of its shareholders they are not grounded in a coherent theory of either the market or the corporation. ***While being responsible for social accountability, one must remember that a corporation is never intended to function as a public charity or policy advocate and is not by design suited to such functions.***

At the same time, one cannot miss the point that in spite of all its power and wealth, the global corporation is a rather simplistic organisational form. In the capitalist economy, legally it is mainly accountable to one constituency, its shareholders, and for one thing, profit and growth. Compare the corporation's accountability to the rich complexity and sophistication of the responsibilities of modern democratic governments (if and when they discharge this responsibility conscientiously as in the case of Mahatma Gandhi) designed to hold them accountable to and working for the whole community.

Looking from a purely internal angle, many would argue that to ask the corporation to be responsible in some way to a broader set of stakeholders for meeting a variety of often vague and fragmented legal standards is to deny its nature as an institution designed to pursue a single clearly defined objective for a single interest constituency. They argue that 'It essentially means asking the corporate CEO to be responsible for making value choices on behalf of the corporation's shareholders, customers, and the society beyond profit maximisation.

Even if the law and the corporate board were to grant a CEO such discretion, what reason do we have to expect he or she will exercise it to the larger benefit of society? To whom and through what mechanisms is a corporate CEO accountable for the exercise of this discretion? Why should we assume that all persons who happen to head powerful corporations have the wisdom and the motivation to make decisions for the whole? And even for those who do have the wisdom and motivation, by what right do they hold such power over the rest of the society?' Looking from the perspective of the power that they enjoy, and that they can and do wield, this is an impertinent issue. The corporate world, particularly the Multi-national and trans-national corporations already control the legal behaviour of the stakeholders through the sheer power of their wealth and clout. The whole world knows how wars are created, people movement, immigration and emigration, salaries and expectations of people are already being controlled and guided by the corporate world. ***Can*** we ask them to use this vast power that they wield in a more responsible manner: guiding the behaviour of stakeholders that are already dancing to their tune, towards a higher level of moulding the behaviour and psychology of societies?

At the same time, governments recognise no such incapability on the part of the CEO or the company. They expect companies to ensure that their employees ensure legal compliance and adhere to the laws while using resources of the company. Companies just have to ensure that this happens. Even where they cannot directly control, companies are expected to exercise subtle psychological and behavioural pressures to promote legally correct behaviour.

Market theory also embodies a number of basic assumptions regarding the fundamental responsibilities of the firm. Among others it should fully internalise its own costs, practice full disclosure with investors and consumers, avoid any form of anti-competitive practices or price fixing, and obey the law. While these are nothing more than fundamentals of ethical business practice, they represent serious commitments indeed for a business operating in an unregulated global market economy that encourages and rewards quite the opposite behaviours. A commitment to honouring these principles represents the essential core of the firm's responsibility to the whole and should be the foundation of any social responsibility program. A firm *that is not* seriously committed to meeting these standards has no legitimate claim to being socially responsible no matter how much it gives to charity or otherwise supports beneficial social causes.

### **Role of Business in Moulding Government Policies -**

Many business leaders have traditionally argued that it is acceptable for governments of developing countries to give a low priority to civil and political rights while focusing on economic development. Their theory is that respect for civil and political rights will naturally follow later, after trade and investment create a middle class and induce political liberalisation. Another argument often put forward by business is that investment and trade with a repressive governments should be encouraged because withdrawal by international business or sanctions hurt the people and deprive the country of the liberalising influence of engagement with the outside world.

A few decades ago, most liberal thinkers held that the main role of government in a developed capitalist system was that of a policeman, that is, to preserve law and order, uphold the sanctity of private property, and give business as much freedom as possible. The Great Depression of the 1930s in USA made it apparent that a totally free economic system did not automatically provide the necessary incentives to the innovation and risk taking ability essential

### **Management programme for Economic growth**

This led to a good deal of writing on the role that governments might play in stimulating growth. Economists have argued that, at the very least, governments can undertake to prevent serious and prolonged recessions. Only in this way can a general business psychology be developed that focuses on growth as a natural part of economic development, so that investment programs will payoff.

One aspect of directing the movement of economy is for a *government to intervene and determine the distribution of expenditure between those types of expenditure that contribute to growth and those that lead to the immediate satisfaction of consumer demand*. Here the choice lies between business investment, research, and education on the one hand and consumption on the other. The larger the first three, the more rapid will be the rate of growth. Governments giving a high priority to growth have various means at their disposal for influencing it. Consumption can and has been controlled through increases in income tax rates. Tax credit for research and development expenditures is a common method

for encouraging business outlays on Research & Development.

The belief that governments should have a large say in *choosing the “right” rate of growth* has also led some writers to challenge the social and economic value of economic growth in an advanced industrial society. They attribute to growth such undesirable side effects of industrialisation as traffic congestion, the increasing pollution of air and water, the spoiling of the landscape, and a general decline in man’s ability to enjoy the “real” amenities of life. As has been seen, growth is really a transformation whereby certain industries experience a rise in importance followed by an eventual decline as the market for their output becomes relatively saturated. Demand, relatively speaking, moves on to other types of industries and products. All of this naturally implies a reallocation of resources over time. The faster these resources move, other things being equal, the more rapidly can growth and transformation proceed. The argument can be recast in terms of this transformation. A slower rate of growth in per capita consumption will slow down the rate of transfer of resources, but it may also result in a more liveable environment. The rate of growth of individual welfare, so measured as to take into account non-consumable amenities, may even be increased. Some argue that in a growth-oriented society wants are created faster than the industrial machine can satisfy them, so that people are more dissatisfied and insecure than they would be if growth were not given such a high value. Some critics hold that, in modern industrial society, consumption exists for the sake of justifying production, rather than production being carried out to satisfy consumer demand. These arguments are a powerful challenge to

those who see growth as the most important economic goal Of a modern society. Whatever the argument, *business constantly interfaces with government to mould its thinking and its policies.*

## **RESPONSIBILITY OF BUSINESS TOWARDS SOCIETY**

Companies, which maintain the support and involvement of society where they operate, will help create a more vibrant local economy from which they will inevitably benefit. This social responsibility should be enhanced and improved through moulding the ethical perspectives and behaviour of the society. Some of these issues are explained below.

### **Responsibility to Improve Quality of Life in Society**

The market is a powerful and indispensable mechanism for facilitating efficient economic choices. The invisible hand of the market works to the larger benefit of the society only to the extent a number of rather specific conditions are met.

For example, the socially efficient market will comprise of small locally owned enterprises that are rooted in place and operate within a framework of community norms and relationships.

Business cannot operate in society in isolation for example: we cannot have an excellent plant with all amenities and superior standards of life in a locality with the people in the entire surrounding area living in penury and drudgery. We do come across very beautiful plants in certain areas having the best of what life can offer to its employees, while the

surrounding villages are in abject poverty. This has led to enormous social tensions.

On the one hand, by their very existence and for operations in the locality these plants provide employment to the locals both directly and indirectly. Slowly the locals derive benefits out of the operations of the plant in the area as wealth produced by the plant gets distributed into the surrounding area slowly.

On the other hand *these businesses also have to ensure that they pro-actively cater to the needs of the people in the surrounding areas and contribute to improving their quality of life.* This would improve the education, attitudes, health and amenities, and give salaries and wages to the locals working in the plant, contributing to their increased purchasing power and the many other indirect employment created through greater economical activities in the area. With greater purchasing power, people are able to own and use items of better comfort, better health and better life style.

### ***Mould Ethical Behaviour of All in Community - Emergence of Business as Driver of Social Behaviour-***

As the needs of human beings for better lives increased, various kinds of businesses emerged to meet these needs. The belief that “the one and only social responsibility of business is to increase its profits” started getting questioned with vast increase in the sizes of businesses in society, as also the enormous increase in the stake of the society and the common man in proper working of business. The role of business started growing as never before. All kinds of service became businesses. Education and specialised coaching teaching children and aspiring students to excel in studies and

in the examinations became business. With the tentacles of businesses spreading all over, the effect of its behaviour influenced the social behaviour.

As business has become an all-encompassing presence in the lives of people, it is natural that business affects people’s social and moral behaviour. In fact, they drive behaviour of people in society. Businesses are influencing today even most of policies of government and controlling bodies. What is guided by businesses is influencing even small children and their parents. This change has come about mainly through the print and audio-visual media.

Since anyway social behaviour is greater influenced by the businesses, it is natural for society to expect them to be responsible for moulding social behaviour properly. Today’s business is expected to behave ethically and morally in all their dealings. At the same time they are also expected to propagate ethical and moral behaviour in society and social behaviour.

The social challenge reflects the fact that as the private sector has grown in power and importance, so has the expectations of a diverse group of stakeholders. Stockholders, customers, employees, local communities, and the variety of interest groups that comprise civil society may all have different priorities. With the increased visibility of corporate behaviour and the increased vulnerability of companies that run afoul of today’s volatile public opinion, no company can afford to neglect its relationships with its stakeholders or escape the need to be part of building a better society.

It is to be noted that the influence of business is maximum in the territory in which it operates and in the hinterland where the plants are located.

### ***Business Guides Social Expectations Today***

As already discussed in the previous section, social expectations spreads and widens as industrial progress takes place and along with it comes economic progress. Let us look at some of the important aspects through which business guides social expectations -

- Over the last few decades international business has demanded the abolishment of child labour. A child has a right to grow and reach adulthood and maturity without pressure of work. Working to earn a living so early in life stunts the intellectual and physical development of the child. Hence mature businesses have demanded that child labour should be abolished.
- Many businesses do not want to deal with companies, which do not give minimum wages to their employees. Thus, they force other companies dealing with them to improve the standards of living of their employees.
- Many businesses today have agreed of their own accord not to produce or use products, which are environmentally unsafe. Thus, they contribute to protecting-the future of mankind.
- Many companies have taken a lead in reducing and eliminating the use non-biodegradable plastics. With this they ensure that the drainage system in urban localities is not blocked and thus prevent major calamities during rains and storms.

- Many companies are demanding their structures to be earthquake proof. Thus the possibility of loss of life and property is reduced and the society is aware that by using technology, damages to property and life through natural calamities can be reduced.
- Many companies constantly raise their own quality standards and teach their clients as to what better quality is and what better specifications and performance norms are.
- Thus the society's expectations are constantly improving.

### ***Business Creates New Thinking & New Beliefs***

In the earlier days people were used to buying products/ services that were available in the market without question. The customers had limited choice and have always tried to adjust their needs to suit the products available and their capabilities. ***But it was business itself that opened the minds of people to demand better quality and better performance, and get it.*** People started to realise that they can get what they want. Businesses are now expected to assist in eliminating poverty and famine across the world. ***Continuous improvement at different levels*** - social dynamics in everyday life, short-term transformations and long-term developments in society at large - ***has become the focus of business attention today.***

Some of the major new social beliefs are to be regarded as the result of the diffusion of innovations, such as technological development, inventions and new scientific knowledge. Diffusion is not automatic but selective; people only adopt an innovation if they are motivated to do so and if it is

compatible with important aspects of their culture. One reason for the adoption of innovations by larger groups is the example set up higher status elite. They become the references for other people. Successful innovations, which affect the majority of the people of a society, tend to follow a pattern of diffusion from higher to lower status groups. More specifically, most early adopters of innovations in modern Western societies, according to several studies, are young, urban, and highly educated, with a high occupational status. Often they are motivated by the wish to distinguish themselves from the mass of the population.

**After diffusion has taken place, however, the innovation is no longer a symbol of distinction; this motivates the same group to look for something new again.**

***Contribute to Bring Down the Poverty Line - Increase Number of People Above Poverty Line***

One of the scarcely understood contributions of businesses is bringing down the poverty line in the society. They do not have to change their normal business goals and roles into that of a social service organisation for this purpose. In the process of creating wealth, they create jobs and provide people with economic resources to improve their own standards of living. This way the standard of living of the community improves. More the employment, more the jobs and better the salaries, higher would be the poverty line and less and less people would be in the below poverty line group.

***Eliminate Sexual Discrimination***

As highlighted elsewhere businesses have to eliminate sexual discrimination and

treat men and women as equals. They should choose persons to do a job based on his or her own skills and knowledge or competence level and not based on imagined sexual weaknesses or biases.

***Eliminate Racial, Language Based, Religious & Caste Based Discrimination***

Just as in the case of sexes, the discrimination that is widespread world over, particularly in certain less developed countries, among religious groups, racial groups and based on castes will have to give way to purely competence and performance based employments or economic transactions.

***Control Negative Impact of Monetary & Economic Power***

As already discussed the enormous power wielded by businesses often leads to strong negative impact on society and many other stakeholders. This needs to be controlled by businesses themselves rather than by external authorities.

***Pro-active Approach of Business Needed to Create Social Norms & to Guide Ethics & Morality***

Companies are increasingly recognising that only if they have a good reputation and social record will they be able to attract and retain the best and brightest employees. If a large percentage of society falls into a disadvantaged class, investors will find it hard to source skilled and alert workers; manufacturers will have a limited market for their products; criminality will scare away foreign investments, and internal migrants pushed to limited areas of opportunities that will strain basic services and lead to urban chaos. Under these conditions,



no country can move forward economically and sustain development. It therefore makes business sense for corporations to complement the efforts of government in contributing to social development.

Business finds itself having to deal in a practical way with human rights issues and contribute proactively to ensure furtherance of human rights everywhere. This is not a matter of choice but a reality in this global environment. And getting it right is not only a matter of ethical behaviour and moral choice. Enlightened business people have realised that good business is good social citizenship. Good business is sustainable, and is part of the global society, not at odds with it, and reflects values that are shared across the world.

**As the expectations of companies regarding human rights have increased, so too has awareness of the business value of developing and implementing policies and practices to ensure compliance with human rights expectations. Companies that have adopted corporate codes of conduct or other human rights principles and that have taken effective steps to enforce these policies have reaped many benefits, in addition to being socially recognised and acclaimed. They have been able to set new benchmarks in corporate values.**

### ***Set Ethical Standards for Stakeholders -***

An organisation must start looking at its stakeholders not only from the point of view of providing and enhancing physical values, but also from the angle of developing, providing and enhancing ethical values. An organisation must create ethical values for both

the organisation itself and in the process ***set ethical standards for the stakeholders*** also. The customer of the community becomes aware of the ethical value system of the organisation and tries to follow the ethics in his community. The ethics can be taught to the community by clearly making the community understand the basic universally applicable ethical values, thus ***shifting the behaviour of the community towards more universal ethical value system***, however slow and painful the process may be. Today, ethics is playing a major role in all businesses. All businesses must follow ethics and teach them to the members of the community. It is the responsibility of the organisation to mould good ethical behaviour in the community.

In recent years, companies have developed credos, instituted corporate codes of conduct, and implemented ethics programmes throughout organisations. Companies are writing and standardising their ethics codes, so that they do not find themselves in ethical misconduct situations. These codes that are introduced in the organisation, can be introduced in the community as well to mould the ethical behaviour of the community.

### ***Individual Freedom & Privacy vs. Ethical Responsibility -***

Some of the ethical issues that companies are not eager to touch thinking that it may infringe on individual freedom and privacy are

- Wife-beating by employees,
- Mistreatment of family members by employees,
- Ditching of and ignoring their responsibilities towards old-age parents by employees,

- Having sexual affairs with others while being married with children,
- Misusing official positions to sexually entrap needy employees,
- Sexual misconduct with gullible people,
- Cruelty towards dependents,
- And many more.

The question is-should organisations turn a Nelson's eye towards such issues or work quietly on the employee/s concerned to ensure that his/their behaviour is ethically and morally sound. It is the opinion of the author that organisations must work to reduce ethical behavioural problems among the stakeholders of the organisation, even if it is purely a private affair. But they must do so after ensuring that all information is collected, verified and the correct approach is worked out and ensuring that they do not do anything illegal. Particularly it is important that organisations should ensure that their employees behave rightly towards their wives, parents and children.

#### **RESPONSIBILITY TO AID ECONOMIC GROWTH OF THE COUNTRY**

Since most business operations and strategies are self-centred and inward looking, they do not realise that while struggling to establish themselves and prosper, they contribute to the economic prosperity without meaning to do so. With the tremendous improvement in the interactions among the various segments of society, today it is realised that business has the primary responsibility to contribute to the economic growth of the country of which it is a part. In fact, only business contributes to a nation's economic growth and prosperity. *All*

*other segments have non-economic responsibilities and use the wealth created by business. They are costs to the nation, while business is the economic value creator.*

Economic growth is stimulated with the encouragement of investment. Inviting foreign investors to locate facilities in the country, patented production, providing key services like- roads, sanitation etc. Creating jobs and economic value addition in the country. It also creates a capable work force through education, training and providing valuable experience. Economic growth is promoted because it creates increased national wealth. With economic growth, there will be less unemployment. *More of the work force will be weaned away from dependence of government support and subsidies.* There will be less pressure on the government to increase the taxes. It is mainly the governments that significantly influence business to have better economic growth through their policies and directions. Political and business leaders recognise that governments can create or destroy the basic conditions necessary for businesses to establish, grow, prosper and compete, and for citizens to prosper.

While recognising that business is the main provider of economic growth and prosperity in a nation, we must also highlight that businesses have the responsibility to ensure that they do so *in a more and more efficient manner.* Businesses cannot be complacent that they are the creators of economic value in the nation; they have to *graduate beyond this to do their job better and better.*

**To be continued ...**