

CORPORATE GOVERNANCE

K.S. Madhavan*

Continued from Vol-8 (1)

Role of Business in Hinterland of Operations

Some company executives believe that their companies should act as “**responsible**” public institutions, holding power through trust of the community. Most companies engage in at least some public-service projects and make contributions to charities. A certain percentage of these donations can be deducted from a corporation’s taxable income. Most of the donated money goes to private health, education, and welfare agencies, ranging from local hospitals, health care centres and charity funds to civil-rights groups and cultural institutions.

At the other extreme, it is generally agreed that companies should reject the notion that they have public duties; and that society as a whole will be better off, if companies maximise their profits, for this will expand employment, improve technology, raise living standards, and also provide individuals with more money to donate to causes of their own choosing. A cornerstone of this argument is that

management has no right to withhold from shareholders dividends earned out of profits. If shareholders wish to give gifts themselves, they should do so from their personal funds. On the other hand, some critics complain that large companies have been much too conservative in defining their social responsibilities. Not only have most firms avoided public controversy through apparent social support rather than out of deep conviction and commitment, but also they have sought to reap public-relations benefits from every sum that they donate. Very few, say the critics, have made more than a token effort to promote hiring of weaker sections, provide day-care centres for children of women employees, or take on physically disabled, dropouts and former convicts. Companies have also been charged with abandoning the weaker areas of cities, profiting from military contracts, misrepresenting their merchandise, and investing in foreign countries governed by repressive regimes, etc. An oft-quoted indictment has been that profits, prices, and executive compensation are too high, while

* *The author is a management expert specialising in TEI (Total Employee Involvement) with expertise in turning around sick companies - selected 'Man of the Millennium' by Economic Times in 2000 E-mail - info@shingo.institute*

the wages and taxes paid by corporations to their lower level employees are too low.

In the late 20th century, a new school of critics emerged who stressed the social costs of the large companies. The hinterland provides for and supports their existence. The support given by the businesses in return to society in and around its plants is generally minimal. It is high time that companies realise this and do something about it. However, we must definitely accept that many businesses do support the local community, participate in their economic, cultural and political development and guide the community to improve.

Responsibility to Conserve Resources of the Nation

One of the most important social challenges to business is to strike a balance between industrial production and nature's limits. Industrial production, mining, and farming are today producing waste, (which cannot be re-circulated/ recycled) and pollution that is not just to be controlled but prevented, along with needed goods and services. With the present way of industrial operations, waste and pollution are the price society pays for supporting modern ways of life, urbanisation and more goods and services, with no immediate and quality resources available to sustain them. Consumers too are responsible for much solid waste and pollution because they demand, buy, and use pollution generating products. Modern

advertisement approach, coupled with lack of education and awareness of consumers is responsible for this. Human behaviour is the greatest pollutant on earth. Companies have the responsibility to see that the situation is reversed and natural resources are conserved.

Can our industrial system not **create a human system, both biological and industrial, that merges with, sustains and enables nature to flower?** Companies are learning how to adjust their products, manufacturing processes, purchasing activities and business strategies to the need for sustainable economic and ecological practices. Pollution and waste cannot be stopped entirely but their volume can be reduced through improved product designs, better controls and the recycling of reusable materials (though the author personally feels why our research and development cannot be made to focus on how to stop it entirely). The basic goal of industries should be to **achieve a sustainable balance between human needs and nature's limits.**

Most of the mineral wealth like gold, diamond, steel etc are being overused. It was Genichi Taguchi of Japan who introduced the concept of **"COST TO NATION"**. Taguchi said that supplier should focus on "Cost of a Product to Nation" rather than the very limiting notion of cost of production. A product can be produced at a particular cost to the producing company. This includes

the cost of waste and cost of over-usage of scarce material. The fact that the customer is forced to bear the cost of such wastages does not hide the fact that the nation has been denied the wasted resource for other valuable uses. Further, from the company, when the product goes to the customer, the customer has to spend money over the lifetime of the product. The cost includes the cost in the consumable, maintenance cost and service cost. Whenever, the equipment is not available for production, it is also a cost. The cost of non-production, the sum of the cost to the supplier and the cost of the customer is the real cost of the product to the Nation. Before and after Taguchi, many western companies emphasised on the idea of lifetime cost of a product. $\text{Lifetime Cost} = \text{Price of product} + \text{Total Sum of other costs to the customer over its lifetime}$.

However, there are other costs also incurred by society due to the existence and usage of this product in society. What about the depletion of natural resources? What about increasing health costs due to pollution? Are they also not costs to the Nation?

Responsibility to Create & Develop New Technologies

Businesses have the responsibility to develop new technologies, which firstly will help the customer in terms of safety and reliability, and secondly will enhance the quality of life of greater number of people.

Organisations have to ensure that their products, even if they fail, fail safely. That is, a failure should not harm human beings, affect their health or affect / damage the other assets. They also have to constantly work to make the product and services available to more and more people, that is, at lower and lower costs, providing greater and greater value to the consumer.

Differently and more selfishly stated, with the demand for high quality products, businesses have the responsibility to create new products and develop new technologies to withstand the competition. Today as we are into Globalisation, the competition is more intense. Businesses today have to compete in the world market even for selling in their local areas, with worldwide producers. With the development of new technologies, costs and consequently prices came down, better features are incorporated and the demand for their product increases. The company will make profits with and through the development of new technologies. Businesses generate employment, thereby aiding in the economic growth of the country. Technological advancement should not contract job availability on the macro scale.

At the individual industry level, the jobs might contract, but overall in the economy, more opportunities and more jobs shall be available. This has to be seen as an important responsibility of the business

through technological development. With economic growth, the consumers will have more money to buy more goods. As technology develops the products/ services rendered to the customers should be of high quality and reliability.

Applying creativity and **tapping the creative potential of its employees for technological advancement is the only way businesses can survive** in the intensely competitive global market. Hence this is more a necessity than a responsibility.

Business ethics calls upon companies to discharge their responsibility to society by focussing on research and development for their own benefit and that of the community.

RESPONSIBILITY OF BUSINESSES TOWARDS HUMAN ENVIRONMENT

While the details of business responsibilities towards the physical environment and its conservation with a view to protect the future of mankind is discussed at great length in the next section, we focus our attention on the human environment, both physical and psychological in this section. While the other unit covers ecology and nature, this unit will cover the human physical and psychological environment. Again, issues like standard of living and quality of life have been covered in earlier units. In this unit we discuss the responsibilities of business to improve the conditions in terms of housing, water, air and agriculture expected by human beings

as the standard of living improves. The aim is not to put responsibilities on businesses to provide for these to their stakeholders, particularly employees. The aim is to show how business prosperity can be achieved while focussing on social aspects. It is only the business, which can contribute to upgradation of human environment. The other arms of society can govern, direct and control, but not create a better human environment as well as business can do.

The human psychological environment throughout history has been vitiated by constant conflicts arising out of different ideologies, philosophies, cultures, religions and social expectations. Businesses have performed the role of slowly but surely reducing and in some cases eliminating the stresses and strains caused by such problems in the human psychological environment. Today business is poised to take self-esteem of all individuals to the highest level providing them necessary autonomy without negatively impacting others. **Businesses have innocuously accepted the responsibility to bring the people of different communities and people of the world together.**

It is advisable to study this unit together with the other related units.

Human Physical Environment

This section does not purport to cover the flora, fauna and ecology related ethical issues. They will be taken up in the next.

We focus here on mundane issues that affect families and individuals.

- **Housing**

Over the years, housing standards and provision of housing amenities have improved for the great majority of households and individuals. Homelessness affects a majority of households in large metropolises as also severe overcrowding. State and Central Governments are seized of the problem of such households and their members (particularly children) who are materially deprived and without meaningful accommodation. Households which lack any of the basic amenities or have to live in decaying “slums” are rightly seen as deprived and under stress, and becoming homeless is regarded by most individuals and particularly by families as a disaster, as well as being stressful in itself; it cripples their ability to take part fully in life’s other activities. Local and national governments are therefore concerned not only about housing provision, but also about the physical condition of the housing stock. The major factors here are the age of the structure, the quality of the original building and the degree to which it has been maintained and repaired. The issue of quality of constructions has become a major one since the Gujarat earthquake and other natural calamities. There is a need to design houses, which can withstand the forces of earthquake and other natural calamities.

Businesses, particularly those involved in construction and related activities, should improve the quality of life of people by providing quality materials and design. They can also support the local community by improving the amenities.

For the fortunate group of households, the basic facilities and amenities of the dwelling and material quality of life generally are nowadays usually enhanced by possession of “consumer durables”. These include devices for domestic labour saving (example: washing machines), for food storage (example: refrigerators), for communication (example: telephones and computers) and for entertainment (example: televisions and video and audio systems). The largest and most expensive consumer durable for many households is a private motor vehicle, which, although not internal to the house is nevertheless like the durables mentioned in being an adjunct of the relatively affluent lifestyles enjoyed by many households. These amenities to the people were only possible by constant technological innovation and upgradation by the businesses.

- **Water**

Water is probably the natural resource we all know best. All of us have had experience with it in its many forms - rain, hail, snow, ice, steam, fog, and dew. Yet, in spite of our daily use of it, **water is probably the natural resource we least understand.**

Why is there sometimes too much of it and other times too little? Water management is becoming increasingly poorer day by day due to the way industry is operating and the way human urban settlements are expanding. There is normally too little water for daily use of city dwellers or in remote villages far away from water sources. During monsoon or the rainy season or storms and cyclones, there is too much of it causing devastation everywhere. It is predicted that water famine would be the major problem that would be faced by most urban settlements in the near future and we must not lose sight of the fact that businesses and the way they have grown or developed bear a major responsibility in this.

Businesses have to collaborate with governments in handling these issues. This is an ethical requirement.

Conditions that lead to water scarcity and the responsibilities of business towards conserving water will be discussed in detail in the next section.

• Air

We have discussed about air and its pollutants in an earlier unit. Here we discuss the importance of pure air in our daily life. Air is an important resource for the survival of human beings. Human beings understand this but they do not acknowledge the fact that **air should be pure for long life and good quality of life**. Only a few are aware of the importance of inhaling pure air, or consider

the consequences of inhaling impure air. An important cause of pulmonary complaints, colds, coughs, etc at the present time are the gases released in the form of pollutants by the automobile sector, a major business sector. The trucks, cars and two wheelers are either not designed to ensure pollution free burning of petrol or diesel are maintained badly. This is a major health hazard and industries have to take the major blame for it. On the one side, automobile makers can manufacture pollution free vehicles. On the other, all businesses can refuse to deal with employees, transport contractors and others who are maintaining their vehicles badly.

The other **reason for impure air is the development of business processes without considering the environment related issues**. Many of the chemical and other processes in businesses cause heavy air pollution. While many businesses are responsible for spoiling air, very few businesses have taken responsibility of correcting it, while others are not bothered. The day businesses understand that air is more precious than food, money and other amenities; we can see transformation in the physical environment. Let businesses take the responsibility for building heaven on earth where there is pure and fresh air, pure water, and abundance of natural resources.

• Agriculture

The major factor, which contributed to our general economic growth, is the

transformation of agriculture. An energetic and highly motivated population, responsible organisations, and a rich base of natural resources contributed to the development of agriculture. An important point to stress at the outset is the great variety in the types of farming, in climatic and soil conditions, and in regional specialisation in agriculture. Over the years, India has brought about significant improvements in agriculture and drove away famines through the Green Revolution. The Green Revolution was aided by extensive use of farm machinery like tractors and use of fertilisers. The agricultural folk were extensively educated and trained. On the other hand, in USA the farming developed through mechanisation. This was possible due to the businesses, which took the responsibility to develop villages by teaching them advanced techniques in farming. The distinctive features that make most of US farms different from those in the other nations are the wide diffusion of land ownership in comparatively large units, the high ratio of capital (plant and machines) to land and labour, and the extensive and long term commitment to agricultural research and education. Businesses have started entering the agricultural sector in a big way in India of late.

As more and more businesses enter the agricultural sector or the related food processing and marketing fields, one must reiterate that they have a great responsibility-

towards increasing efficiency, quality, productivity and ensuring that the vast agricultural lands are not degraded. At the same time, it is also necessary that the culture and ethnicity of the agricultural folk are not obliterated.

Human Psychological Environment

There is a lot of psychological pressure on the human being at the workplace-

- Pressure to perform
- Pressure to earn money
- Pressure to achieve targets
- Pressure to achieve personal goals
- Pressure to please top management
- Pressure to please colleagues and peers
- Pressure to be with family

An employee, in an organisation, has to undergo all these pressures at one time or the other. An employee who cannot withstand these pressures will come under heavy stresses, which ultimately lead to disappointment, depression and conflicts. This is where togetherness will help an individual. Top management also should support employee by giving them autonomy and empowering them to achieve goals and targets. This would free them psychologically from feeling trapped and marginalised. At the same time, they should support and encourage the employees in times of failures.

to be continued...