

# Management Ethics in Corporate Governance

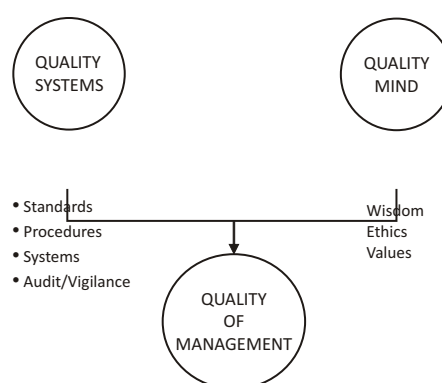
## Introduction

There is growing awareness and emphasis worldwide on good Corporate Governance. Exposure of malpractices and sometimes legal but unethical practices in the corporate world have been the major reasons for this greater awareness and emphasis for establishing standards and procedures for corporate governance. In India SEBI has formulated policies and standards on the subject and revised from time to time to tighten regulatory control. Adhering to these is expected to result in better corporate governance. However, Quality of Corporate Governance has always-another important influencing factor, namely the Quality of Mind. It is very important to develop a Quality Mind among managers and install this right from the stage one of education in order to achieve excellence in quality of management.

Quality of Management has thus two elements namely, Standards, Systems and Procedures on the one hand and the Quality of Mind on the other. Excellence in Quality of Management results by the synergy between these two elements. Standards, Systems and Procedures as well as review mechanisms and feedback etc. are evolved based on our domain knowledge and technology. Quality of Mind is a product of ethics and values embedded in the mind.

How does one assess the performance of Quality of Corporate Management? In business,

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success is generally measured in terms of growth in profit, sales, shareholders value, earning per share etc. How is it managed? Do the means justify the ends? The real quality of management in corporate governance must consider means and not only the ends (targets).

To ensure fair practice in corporate governance, Government/Company law boards etc have introduced various types of audits and vigilance procedures, in addition to guidelines and standards for corporate governance. While these are essential Part 1, corporate governance will not achieve excellence without the compliment of Part 2 namely, the Quality Mind with deep-rooted ethical and moral values and a major attitudinal change from the traditional management philosophy based on theory of competition to one of co-operation.

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Is the quality of management of corporate performance to be measured only by balance sheet? Are there any other parameters such as employees satisfaction, customer satisfaction and value addition to society, environment sustainable development etc. Professors of Management and excellent CEOs from Eastern and Western world have concluded, based on their experience in “the Search for excellence” that good corporate governance, assumes responsibility not only to the owner/shareholder but also to the employees, customers and society. There is a great synergy between the eastern and western philosophical thoughts on the subject with a major shift in the concept of management from the art of competition and exploitation to that of co-operation and sustainability, with a vision for the well being of all.

### **Corporate Governance**

Corporate Governance is generally defined as the code of practice by which a firm or Corporation’s Management is held accountable to Capital providers for the efficient use of assets. The emphasis have and always been on accountability to the Capital providers and efficient use of assets. A corporation is a legal entity that produces and or distributes goods and services, issues stocks (shares of ownership) and is designed to create wealth. This traditional definition needs to be modified to include that the corporation needs to be designed not only to create wealth but also welfare and maintain environmental balance. We have just now discussed that the accountability is not only to the capital providers but to many more. Also the efficient use of assets should not be of an exploitative nature but should have regard to sustainability and its missions, values and philosophy to govern the organisation.

It would be apparent that considerable thoughts have gone in instituting measures, systems and procedures to ensure good corporate governance. In the case of Public Sectors, there

are many more audits such as CAG, CVC and various parliamentary committees. In spite of all these, can we expect excellence in corporate governance? Man is inherently intelligent and is ingenious. Standards, procedures, rules and regulations have loopholes and ways to go around them, and these will be found by the unscrupulous, but intelligent and ingenious manager and used legally and unethically. Managers must develop Quality Mind with wisdom and virtues to make these systems work well, leading to good corporate governance. Corporate Managers have to be made aware through training and education the wider responsibilities they have to shoulder, the expanding spheres of their responsibilities and the need to be guided by their wisdom and virtues in their decisions and actions.

### **Traditional Management Education and Practice**

Management as a science evolved after the industrial revolution in the West. Managers are trained and expected to maximize shareholders’ returns, generate profits and capital appreciation. Optimal utilization of resources is often interpreted as maximum exploitation of resources, which sometimes, unfortunately, includes even the employees and customers. Ask most MBA students on the role of a Manager and answer will come, that the ‘Role is to develop business and increase share value sales and profits etc.’

### **Management Philosophy (the Old Concepts)**

- Product of Industrial Revolution
- Based of competition
- Killer attitude – survival of the fittest
- Accountability to the Capital Provider
- Maximize benefits to owners / share holders
- Exploitation of Resources (Nature, Men & Animals)

- Motivation by Fear & Monitory / Materials Incentives

Success in management is taught to be the result of competition and ability to survive in a competitive environment. Competitive killer attitude and survival of the fittest are emphasized. End (achieving targets) is justified more than the means. It is very evident from the high pitched and aggressive advertisements and marketing campaigns which we see everyday. It has no relation to reality. Claims made in such advertisements through mass media are not often based on factual data or research. In addition to this, there are also criminal acts of companies being made sick while their owners become prosperous. Multinationals acquire other companies, some time to kill competition and monopolise, and become more powerful in the market.

Competitive advantage, competitive strategy, competitive excellence are taught to MBA students. Actually there is an increasing trend towards greed based un-ethical efforts, to achieve success by destroying or disadvantaging others in business. Even networking which is a buzz word in management, is employed with a calculative and cunning approach for short term gains, rather than for a long term co-operative existence. MBA graduate is so conditioned that he has no time to even contemplate on the “co-operative survival of all” philosophy in place of “the killer – survival of the fittest” philosophy. Motivation is based on fear and material incentives. The basic assumption is that man is lazy and need to be coerced into work, as against our spiritual belief that man is divine and creative.

Fortunately, there is a shift, in the expectation from managers and there are efforts to introduce values and ethics in management, as part of the management curricular. There is a shift in the emphasis on managers’ role in maximizing wealth for the capital providers to that of protecting the interest of other stake holders in

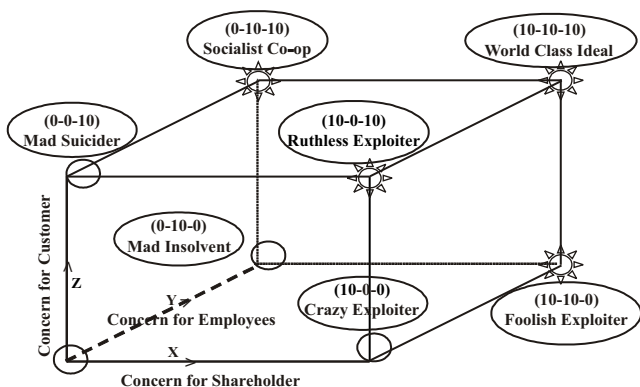
business such as employees, customers and the society / Nation. Peters and Waterman in their “Search for Excellence” in corporate governance evaluated company performance in terms of Asset growth, Equity growth, market to book value, return on equity, return on sales etc, but concluded that all excellent companies had the following three basic characteristics in common: “Concern for welfare of employees, Concern for welfare of customers and concern for welfare of shareholders”. Many today evaluate excellence of corporate governance not only in terms of financial parameters but also on subjective criteria such as quality of product and services, innovations, and nurturing and retaining of talented people, social and environmental responsibilities etc.

### **Styles of Corporate Management**

If one asks traditional MBA graduates of the relative importance of employees, customers and shareholders, for business success and rate them in the order of importance, majority will rank them in the following order: 1. Shareholders, 2. Customers, 3. Employees. The manager is taught of his highest accountability to the capital provider and so is such an answer. There is another strong view, as per which the rating order is : 1. Employees, 2. Customers, 3. Shareholders. This is a socialistic view in which the employee who is the worker contributing to both the customer and shareholder is to be given the first place. It is also an enlightened HRD view that through the motivation and teamwork of this most important partner, business grows contributing in greater measure to the shareholder and the customer. A Third view, where customer is the ‘God’ – the very purpose of business will rate customer as one.

I have developed a three dimensional model on the Styles of Corporate Management, taking into account, the degree of concern for owner/shareholders (X-axis) and concern for

employees (Y-axis) and concern for Customer (Z-axis). The illustration characterizes and names the extreme cases. Please note that in this model 'O' means near zero (very low) and not absolute zero. In practice there are various combinations within the model, hopefully moving towards 10-10-10 World Class Ideal.



### 3-D Model on Styles of Corporate Management

{Concern for Shareholder (X-axis), Employees (Y-axis) and Customers (Z-axis)}

**0-0-0 Dead :** This is a non-entity with no concern for any one and thus a dead organisation.

**10-0-0 Crazy Exploiter :** Crazy Exploiter, exploits both the employees and the customers for maximizing the returns for shareholders. Exploitation will lead to eventual death of the organization.

**0-10-0 Mad Insolvent :** This organisation has maximum concern for employees with little or no concern for shareholders and customers. Without any benefits to the shareholders and the customers, the company will liquidate itself, for want of financing and orders.

**0-0-10 Mad Suicider :** This type of organisation will appease the customer at all costs to the shareholders and the employees and is suicidal as there is no welfare or wealth creation for the shareholder and employees.

**0-10-10 Socialist Co-op. :** This is a cooperative management by the employees

satisfying the customer. This type of organisation can effectively contribute and grow if the employees themselves are shareholders. But if this is not so, the concern for employees and customers being maximum and least concern for the capital provider namely the shareholder it will become an unholy alliance and perish very soon as the shareholders interests are not met.

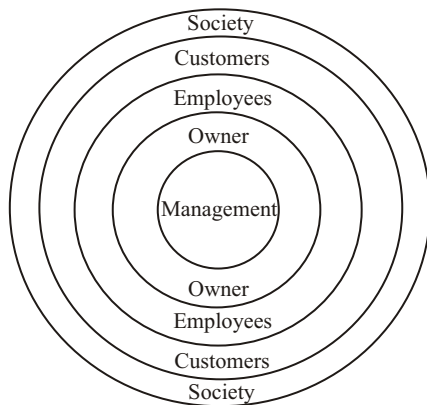
**10-10-0 Foolish Exploiter :** This type of management exploits the customer and maximizes benefits for the employees and shareholders. It forgets the very purpose of business – the customers and is self-destructive. There will be no customers and no business in the end.

**10-0-10 Ruthless Exploiter :** Concern for shareholder and the concern for customer are the highest and least for the employees. The management ruthlessly exploits the employees to benefit the Capital provider and the business provider. This demoralizes the employees and will lead to mistrust, agitation and sickness, and eventual death.

**10-10-10 World Class Ideal :** This is an ideal situation where the management has equal and high consideration for shareholders / employees and customers. The business will continue to prosper contributing to the well-being of all.

In the above model we have only considered three responsibilities for the management. The responsibilities to the shareholder (capital provider), responsibilities to the customer (purpose of business) and the responsibilities to the employees (who provides the services to the customer). To this three dimensional model, we need to add the organisation's responsibility to the society. In fact, the value addition to the society and environment is an important aspect of modern management. The management has several spheres of their responsibilities, to the owner, to the shareholder, to the customer and to the society.





**Spheres of Management Responsibility**

Greater awareness on the management responsibilities to the owner/employees/customers and society and various guidelines, standards and systems including audit and vigilance for good corporate governance can produce results only when the managers develop quality mind with good ethical and moral values.

A Transformation in attitudes as given below is required:

**Transformation**

There has to be a shift in emphasis on co-operation as compared to competition. The survival of the fittest to formation of consortiums and survival of all with a shift from self-interest to common well-being will yield positive results. Separatism and Parochialism, which are root cause of corruption and unethical practices must be replaced by universal brotherhood. The gluttonous exploitation of resources and over consumption needs to be replaced by moderation and concern for future generation, with greater emphasis on sustainability and protection of environment. Our pre-occupation with rights and privileges need to be over shadowed by our commitments to responsibilities. The organizational management should use resources efficiently with respect to needs and not for greed. Envy, jealousy and vanity must give way to teamwork and humility.

Greed increases our desire for material wealth and ignores spiritual development, and

From	To
• Competitive survival of the fittest	• Cooperative Survival of all
• Self Interest	• Common good
• Separatism / Parochialism	• Universal Brotherhood
• Gluttonous Exploitation of Nature	• Protection of Environment & Sustainability
• Greed	• Need
• Rights & Privileges	• Responsibility & Accountability
• Owner wealth focused	• Society & welfare focused
• Profit sole objective	• Profit & Value Addition to Society
• Envy / Jealousy / Vanity	• Team work, Humility
• Temporary & Calculative Networking	• Sincere long term mutually rewarding relations
• Anger & mistrust	• Trust & Compassion
• Static	• Innovative & Creative
• Sloth / Red Tape	• Dynamic / Mission oriented

adversely affect our sense for right and wrong. Monopolies are established on the basis of greed. Some gather un-limited power by acquisitions of competing and establish control over prices and enter prizes markets. Envy is desire to possess by unfair means that which others have and which we lack. Envy and jealousy go together. Vanity is a feeling of importance that no one else but ‘I’ only can do the job. I alone am important; others do not matter.

Vanity must be replaced by humility. Anger and mistrust in management can lead to many unfair treatment not only to competitors but also to employees and customers and surely come in the way of progress. Anger and mistrust must be replaced by trust and compassion. Sloth and red tape are tools for inactivity and procrastination. Sloth is also indifference to talents and creativity. It avoids recognition and nurturing of talented people in the organisation and kills the spirit of enthusiasm. Sloth and red tape must be replaced by dynamism and focus on mission. A quality mind must use wisdom, that virtue which enables one to know the difference between good and evil, right and wrong and use the domain knowledge, technology, standards and procedures and systems for well being of all causing no harm to any.\_\_\_\_\_●