

An unethical place: Waning ethics in India's private sector

Ask any international businessman or investor about India and the word “difficult” is bound to pop up. Seventy years after Independence and more than 25 years after landmark economic reforms, India, despite its many obvious attractions, is seen as a tough place to do business in. Red tape and the inconsistent and arbitrary manner in which our governments have administered taxes and investment rules and regulations is, of course, an important reason for this sentiment. But what polite and politically correct international investors will not say openly is that Indians are seen as highly unethical.

This is not just about politicians. Political corruption plagues many societies. Much of what passes for lobbying and campaign financing in the US can be cynically viewed as tax-deductible bribery. Even the squeaky-clean Scandinavians are not above making pay-offs when it suits their interests as we saw in the Bofors scandal.

The negative perception of India is not even about our civil servants. True, India ranked 79th out of 176 countries in Transparency International's 2016 Corruption Perception Index, and last year the same organisation found India to be the most corrupt country among the 16 Asia Pacific countries surveyed. Nearly seven in 10 Indians who had accessed public services — be it schools, hospitals, official documents, utility services, the police or courts — had paid a bribe versus only 0.2 per cent in Japan, the least corrupt country.

That India's politicians and government officials are venal is hardly breaking news. Growing corruption in public life has long been a staple middle-class lament. But the dark secret at the heart of Indian society is that the decline of public morality is now mirrored by a shameful fall in ethics in the private sector. The cancer of corruption has spread well beyond the corridors of power to our educated and affluent elites — professionals, salaried employees and businessmen — who are increasingly on the take.

India was ranked the most unethical of 13 major economies in the 2016 Global Business Ethics Survey, behind even Brazil and China. Last year, Ernst and Young's Asia-Pacific Fraud survey found that unethical practices are rife in India's business community with 78 per cent of Indian respondents surveyed saying that bribery and corrupt practices occur widely, while 57 per cent said that senior management would ignore the unethical behaviour of employees to attain revenue targets.

These surveys are confirmed by an informal poll of clients, colleagues, and peers and reflect my own experience over more than 25 years as a management consultant and private equity investor in the US, Europe, Middle East and Asia, with at least half that time spent in or dealing with India: India is amongst the most unethical places to do business in the world today.

Foreign investors and companies complain that Indian businessmen don't understand the concept of good faith in negotiations. Legal agreements are routinely flouted — often in cahoots with the authorities or the court system. Creative accounting is a commonplace hazard, as is illegal diversion of profits by promoters. The non-performing loan crisis in India's banks is largely due to bare-faced cheating and fraud by crony capitalists with the connivance of pliant bank executives.

Sadly, the morals of white-collar employees are increasingly no better than business people. Recently, a top private-sector bank executive demanded a “commission” to award a contract to one of my investee companies. In another case, we found that the CEO of a subsidiary had been paid off by the winning bidder for an asset that we were disposing. The professional ethics of large swathes of our legal and financial communities is compromised. Several investment managers are

notorious for arranging funding in return for kickbacks. One of the more visible aspects of doing business in India is getting valuation certificates from chartered accountants for investments to satisfy regulators or lenders. Likewise, in many countries, private lawyers are allowed to certify copies of documents rather than having to go to a government office — something that is unthinkable in India given prevailing ethical standards.

These dishonest practices are carried abroad. As a board member of companies in the Middle East, it is shameful to disclose that Indians in the management ranks are known for taking cuts on deals and purchasing contracts. Indian names feature disproportionately in insider trading scandals on Wall Street and the City in London. Even in Silicon Valley, Indians dealing with outsourced staffing for technology companies are notorious for collecting facilitation fees through their spouses.

Back in the days of the licence raj, free-market economists and commentators blamed corruption in India on red tape and socialist controls. However, even as the economy has been liberalised to a great extent since 1991, corruption has only grown worse and today infects not just government but Indian businesses and corporate life. Even low-income levels are no excuse — dishonesty appears to have more than outpaced rising compensation packages.

The corroding ethical fabric of the country is not just an issue of morality for its own sake. No economy can perform at a high level without a basic level of integrity. The pervasive unethical behaviour of the sort that we now see in India destroys trust. As trust erodes, the cost of doing business will soar, affecting India's competitiveness and attractiveness as an investment destination. Unfortunately, stricter rules and regulations and better policing of businesses are no solution. No amount of compliance and governance can substitute for sound moral fibre.

Amidst all the stridently assertive talk these days of our pride and honour and the greatness of our culture, we might be better served by more reflection on the state of our morality as a nation.

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