India’s big business needs an ethical fibre

In 2017, India’s corporate landscape did not present a pretty sight. Even as the smaller companies struggled to make the necessary adjustments to the new goods and services tax (GST) regime, the largest Indian companies gave little evidence of the innovativeness and the derring-do that would suggest a brave new future for them. All that we saw were some fierce price wars, lots of hand wringing and a wait-and-watch attitude.

The abiding image of the year was the two infamous Reserve Bank of India (RBI) lists of companies that had defaulted on their dues to banks.

If Vijay Mallya bagged all the notoriety stars in 2016, this year, the bad news was more evenly spread across 40 companies which was somewhat more representative of the malaise.

Companies are microcosms of societies and people. When a Mitsubishi Materials Corp. admits to falsifying data on its components used in cars and airplanes over a year, it is a reflection on Japanese society. Similarly, when a Mallya goes absconding with employees’ salaries and other dues, it isn’t just a one-off problem restricted to a man who has since become the favourite whipping boy of investigating agencies.

No, Mallya’s failings are shared in small and large measure, by many other companies. That’s because the men and women who work for these companies are from the same society in which they operate.

The dilemma facing a pharma company selling stents at over 600% of their cost price is the maximization of profits for its shareholders versus its responsibility towards society and its customers.

We can see this dilemma played out in many of the key moments of the year.

The conflict between a promoter and the management at Infosys Ltd, the repeated warnings issued by the US Food and Drug Administration, or FDA, against the quality practices of India’s generics makers, the Delhi government’s censure of hospitals in the capital for overcharging patients, the ongoing battles between home buyers and large builders like Jaypee Infratech Ltd and Unitech Ltd, are all a consequence of these conflicting corporate urges.

The sequence of events is almost always the same. A business house spots an opportunity, seizes it using funds from obliging banks and, then, proceeds to build upon it.

So far, so good, but then comes the greed, the desire to grow exponentially and the realization that the system can be worked, that banks can be milked, markets manipulated and customers fleeced.

It is this cycle of greed, manipulation and eventual capitulation that encapsulates the fortunes of most of the companies now referred to the National Company Law Tribunal for insolvency proceedings.

The problem has been compounded by the toothlessness and, in many cases, the active collusion of the appointed regulators.

A year when the sins of the past appeared to have caught up with many Indian companies points to a missing ethical fibre. Six months ago I wrote a column (http://bit.ly/2EHuuk0) on Dilip Pendse,

former managing director of Tata Finance Ltd, whose misdemeanors included attempts to manipulate the markets and frauds against investors.

Towards the end of the year, we saw the ignominious exit of Shashi Arora, CEO of Airtel Payments Bank, after the firm's eKYC (know your customer) licence was suspended by the Unique Identification Authority of India following disclosures of the misuse of customer data (http://bit.ly/2EJ5kkY).

The two events, separated by nearly two decades, are part of the same malaise, a failure to follow the ethics of business.

And it is always the leaders who make these calls. Call it a failure of leadership in the face of unrealistic expectations from investors or merely the lack of a clear ethical foundations, but in too many cases, they are the ones who call for the rules to be bent.

Yet, how often have we seen chief executive officers (CEOs) being punished for the deviant behaviour of their companies?

Wipro Ltd's chairman Azim Premji has always insisted on doing business with stringent ethical norms in place even if that meant sacrificing a few percentage points of growth.

He has been able to ensure acceptance and adherence because he sets the standards with his own actions. This is a man who once refused a complimentary upgrade on a domestic flight and would often hop into an auto rickshaw at the old HAL Airport in Bengaluru.

The buck starts and stops at the top. Indian business leaders have to lay down the law on corporate integrity by setting themselves up as models of rectitude.

END