

‘Doing business in India today — Does it call for compromises?’

Anu Aga’s speech at KS Narayanan Oration, 2018 in January 2018, Chennai

I would like to thank both Kumar and Shankar of Sanmar Group for inviting me today. I am delighted to share my thoughts on a very relevant subject on the occasion of the Oration instituted in the name of K.S. Narayanan, their illustrious father.

K.S. Narayanan in his life time managed to lead several lives: that of an institution builder, an industry leader, a patron and lover of cricket and music, and a supporter of worthy causes. I am happy to be a speaker at an event to commemorate his life and also to speak on a theme close to his heart.

In India, are there certain businesses that find it almost impossible to succeed without corruption? I do believe that businesses which are most susceptible to constant government intervention are likely to be corrupt. In spite of liberalization, there are certain sectors which need several government clearances, and this breeds corruption. Let me give you a few examples.

The politically sensitive Indian sugar industry with its roots in agriculture is one such industry where successive governments have routinely intervened in every aspect from the price of cane to the selling, marketing and distribution of sugar. It is accepted and well known that mill owners can survive only by bribing state level politicians. I am given to understand that this seems to be improving but has a long way to go.

Mining is another example, where government needs to grant access to scarce resources. Getting environment clearance for a project, or for other numerous clearances, nothing can be achieved in the mining sector without greasing the palms of bureaucrats and government officials.

In my talk, I will not address these businesses because I have no solution, and unless the entire system goes through a drastic clean up, not much can be achieved.

I am also aware that as long as political parties need corporates for funding elections, the politician-business nexus will be a fact and corruption in India will continue. A few years ago, there was an attempt to bring all the political parties under the Right to Information (RTI) Act – which all political parties unanimously refused. Unless there is transparency in electoral funding we will have to live with some form of corruption.

Even if you opt to be in businesses that do not depend on a great deal of government regulation, there could arise a few instances when a company is harassed for no fault of its own. Let me cite two typical situations:

A labour dispute has been engineered by a local politician and he demands a price to settle the issue. You are aware that if you refuse, the consequences are unpredictable and could seriously affect business. After prolonged negotiations, the politician accepts that the bribe can be converted to a cheque payment to a school that he runs for poor children. What would you do?

A routine audit by the tax authority has found no tax evasion and yet they keep demanding more and more information thus taking up management bandwidth and time. As we are all aware, evasion is a criminal offence and the authorities can bring up a non-issue to make you liable. Finally, the tax officials suggest a way out by hiring a tax-consultant costing the company 20 lakhs. What would you do?

The two examples given were of honest companies being harassed by politicians and bureaucrats. However, on the other side, there are many business houses that syphon out large amounts from their companies for their personal avarice.

At times, family owned businesses consider a public limited company as their belonging and think it is okay to let the company pay for their personal expenses. Is this ethical?

About 20 years ago Indian Express on its front page named one company each day under the broad heading "Loot & Scoot". It left a deep impression on me and I remember a family-business house which was not doing well at all, had defaulted on paying its employees, suppliers and shareholders, but still had a New Year's party, spending over one crore in inviting dancers and musicians from abroad. For argument's sake, they may have spent from their personal wealth for this extravagance, but was it ethical?

During the UPA Government, the media was full of stories on corruption cases. As a fallout, CII convened a meeting and asked its member companies to sign a boy-scout promise saying henceforth they will not indulge in any corrupt practices. Most members signed this code, though I wonder how many genuinely adhered to it. Creating a façade of honesty is as bad as or worse than being unethical. It is dangerous for everyone when the mask becomes the face.

Companies resort to corrupt practices for 5 reasons

1. Bribery:

A bribe is paid to get a distinct advantage. It could take many forms. It could be to bribe a customer to buy one's product over that of a competitor. It could be to have defunct pollution control equipment and bribe the pollution control board officer to get away with it. Or pay the tax authorities to reduce one's due taxes.

2. Pay to deal with harassment from bureaucrats in power.

At times an inspector handling a factory or boilers, or a pollution control official may demand a bribe, though you may not be in the wrong and threaten to close down the factory or not allow the boiler to be dispatched for weeks or months.

3. Speed money:

What is the difference between a bribe and speed money? In a bribe, you pay to get an advantage and it is for doing something wrong. Speed money however, is paid for something that ought to have been done but will not be done with speed without payment. Usually speed money is demanded for small amounts to facilitate routine transactions and services to avoid inordinate delays – for example, it could be for the registration of a land deal.

4. Extortion:

This is not very common but crooked politicians or bureaucrats demand large sums of money with life-threatening consequences.

5. Employee Fraud:

Dishonest employees at different level of hierarchy demand kickbacks from vendors or while selling or acquiring an asset. At senior levels, it could be fudging financials to show better periodical results in order to get bonuses.

This problem is an internal one and needs to be dealt with very strongly by having a clear, written code of conduct, training employees to observe it in letter and spirit, and finally enforcing it without fear or favour. A whistle-blower policy can highlight such frauds.

In my experience, it is very tough to deal with harassment and grease money.

In India, it is very difficult to fight corrupt bureaucrats. If there is a genuine desire on the part of the government and corporate houses to fight corruption, this is where business bodies like CII, FICCI and ASSOCHAM can facilitate a dialogue between the members and local governments to find ways of dealing with this menace. If this issue can be addressed, relatively honest business houses would sigh with relief and continue to do their business honestly.

With this context, let's approach the topic for the day "Do you have to make compromises to do business in India today?"

There is an insightful article, *Business vs. Ethics: The Indian trade-off* written by a group from the Wharton School's Lauder Class of 2013. This article opens with an observation from Ratan Tata. Let me quote him, "If you choose not to participate in {corruption}, you leave behind a fair amount of business." Yes, obviously, there's a cost involved in not taking short cuts. Even after the cost benefit ratios are worked out, we are still left with the question, is it worthwhile to indulge in corruption?

The answer will depend on your value system and whether you define business as maximizing share-holder value...or while you make profits you also uphold some principles. In the short run a corrupt company may succeed and earn profits but it can be at the cost of the entire spectrum of national life and the cumulative effect will be on the poor and the marginalized.

We business people are very clever. When it comes to corruption we think that it belongs to street level politicians and we try to take the sting and stink out of that word by using euphemisms like "Governance deficit" when it relates to business.

Transparency International defines corruption as "the abuse of entrusted power for private gain." Which are the institutions entrusted with power in today's world? It is mainly the organized and established entities like Governments and business houses that wield power. Governments, of course, are powerful, and it is in the nature of power to corrupt. But many companies today wield enormous powers too. Government-business nexus works together to encourage and foster corruption. As Warren Buffet stated in another context, "There is

seldom just one cockroach in the kitchen”

A few decades ago it was believed that corruption is a by-product of certain societies, especially the developing nations. But today, thanks to several studies, it is accepted that corruption can exist in any society, and it is equally prevalent in countries under authoritarian governments as well as advanced liberal economies and democracies.

In the pre-liberalized India, while the government controlled the economy, crony business houses profited from closeness to the political class. Only business houses like those in the IT sector which had minimal engagement with the government or companies that were export oriented could operate and thrive without the blessings of the ruling governments. Though we embarked on economic liberalization in the 1990s, and moved away from the licence raj, old habits die hard, and corruption has found new forms of practice and patronage. The popular Indian practice of “Jugaad” – that untranslatable Hindi word to convey a curious mix of innovative thinking, bypassing of approved channels, and fixing – has meant that ethical standards of doing business remains very pliable, capable of infinite adjustments.

Today, every walk of Indian life is tainted with corruption, be it politics, bureaucracy or business. Over the years we have become immune to corruption. For example, while selecting our electoral representatives, dishonesty has become a non-issue. All pervasive corruption, certainly, is the biggest challenge before the country as it erodes the effectiveness of resource allocation and strategy for development. However, this awareness does not necessarily move us to act. We all grumble against corruption and yet we keep accepting and helplessly adding to it. We look to someone or the other to clean up the mess. Can we respond differently? Instead of expecting others to change can we business owners make a start?

Legally appointing independent directors with a restricted term of office are expected to assure corporate governance. But does that happen in practice and in spirit? If critical information is not shared and if their opinions are not respected and followed, independent directors won't be able to be successful in their duties.

Media continues to highlight so-called respectable companies who have won coveted awards and had high powered independent directors and yet have swindled the shareholders. Facades often mask unpleasant realities.

Talking of awards, to the best of my knowledge corporate awards for companies and owners are given for turn-over and maximizing profits or for high net worth individuals but not for adhering to ethics and following the straight and narrow path. What role models are we projecting to our younger generation? Yes, there are CSR awards, but the question that we need to ask is whether CSR too is designed to be part of the facade? Is CSR taken up after doing business honestly?

Some years ago, I was on the board of a highly respected company. It believed that it was ethical because it did not directly indulge in any corrupt practices but to my surprise I came to know that they got all their dirty work done through a third party. Is there any difference between a company directly soiling its hands or getting the work done through dubious

means?

I remember, in the 90s, there used to be in Chennai, a real estate firm, named Alacrity. I was a board member. Alacrity did not believe in compromises in a sector notorious for shady deals and unscrupulous practices. They tried to do business in a fair and transparent manner. The CEO-cum-owner felt that he was not doing well because he was not following corrupt practices, and the world owed the company a rescue strategy by giving interest-free loans. This is not a realistic expectation. The challenge is to do business honestly, without expecting special favours and be successful. In fact, Alacrity, by failing, in a way, gave a negative message – business cannot succeed if it remains ethical.

To be able to say “No” to certain questionable practices and yet do better than the competitors, the products and services offered by that company have to stand out. It has to focus on outstanding quality, on-time deliveries, constant upgradation through innovation and be one-up over the competitors in all aspects of business. If this happens, there will be no need for under the table exchanges and it will lead to win-win business for all concerned.

To compensate for the loss in domestic business, Thermax has started focussing a lot more on globalising our operations. From a single digit figure at the turn of the century, we have reached 40% in the international share of our business.

The goals and methods for ethical business have to be set by the top leadership of companies. It is alright to get employees sign the Code of Conduct or Business Ethics. But the demonstration of intent has to come from the top management and it cannot be fair weather conviction. A company’s determination to stay on and do ethical business is tested in times of business adversity. It won’t do for us to tell others the old Groucho Marx line that “Those are my principles, and if you don’t like them ... Well I have others.” It is only when individual conscience speaks firmly and with conviction that the other two dominant players in this entire shadowy game – that’s government and companies – will pause to listen, act and reform their time-tested and questionable ways of doing business.

Corporate Governance is not window dressing and business ethics is not another public relations practice to enhance corporate reputation or the company’s brand. Ethical business goes beyond profit maximization and envelops the entire society in a virtuous wrap. Just think how it would be, if in India, we could do business without compromises, without having to wallow in the slush of shady practices?

At Thermax, we decided to say no to compromises while securing orders and focus only on taking clean orders. Of course, it meant foregoing some business opportunities, which means a degree of loss in the short term. We are a capital goods company, and over 60% of our business comes from repeat orders from customers with whom we have been doing business over the last 2 or even 3 decades. I am convinced that there are enough business houses keen on adopting transparent business practices as we are. Though we still continue to experience difficulties with several government arms, as far as possible we will continue to resist harassment, strengthen our processes and, with growing confidence, walk the talk.

My company’s healthy balance sheet does not give me as much joy as listening to my employees saying they are proud of being part of an organization that has a great culture

and is by and large honest. Today, youngsters are looking not just for pay and perks but also for occupation that's meaningful and fulfilling. That is why movements like Teach for India are able to attract outstanding talent – young people from the best educational institutions who can be placed in blue chip companies. I am sure open culture and ethical conducts are qualities that will go a long way in helping business houses attract excellent talent.

So, in the long run, I think our decision should benefit us all and make a small but significant move towards making our overall environment cleaner. Business should think beyond maximization of shareholder wealth and embrace the idea of maximising value for the larger community. My late husband, Rohinton, expressed the idea aptly when he said, "Profit is not only a set of figures, but of values." In business, we are used to listening to the voice of the shareholders. Can we also listen to that small voice within each of us that tells us what is right and wrong?

Let me end by reading out the last stanza of a favourite poem of mine – The Man in the Glass by Dale Wimbrow:

"You may fool the whole world down the pathway of life
And get pats on your back as you pass
But your final reward will be heartaches and tears
If you've cheated the man in the glass."
