Management Paradigms Beyond Profit Maximization

S K Chakraborty, Verghese Kurien, Jittu Singh, Mrityunjay Athreya, Arun Maira, Anu Aga, and Anil K Gupta

Pradip N Khandwalla (Coordinator)

Executive Summary

The dominant paradigm today, both in corporate management and in business education, is profit maximization and maximization of the wealth of the owners. But, the obsession with ‘profit at any cost,’ when carried to an extreme, can lead to Enrons, WorldComs, and Parmalats and the shortening of hundreds of thousands of lives in sweat shops.

Fortunately, alternatives have appeared that successfully blend concern for profits with humane concerns. Today, virtually, every Fortune 500 company has adopted a code of conduct and put in place the needed management structures and processes to ensure compliance. Similarly, corporate social responsibility has gathered momentum. Spirituality in management, the democratization of the workplace including internal justice systems and ‘good citizenship’ behaviour in the organization, and catering to the needs of all the stakeholders—not just shareholders—are some of the other offshoots of humane corporate management.

In a developing country context, in which there are so many battles to be won against poverty and deprivation and in which a society needs to be modernized without losing track of its ethical and spiritual moorings, humane business management is a necessity. In this colloquium, our panel members addressed the following issues:

- What humane alternatives there are to mindless commercialism and how to manage each alternative without loss of profitability.
- How to enrich business practices and what we teach in business schools with these new paradigms of management.

The salient features of the responses are as follows:

- The globalization strategy of a few powerful nations has robbed country after country of its right to choose its own path—not only economic but cultural as well—with the new milieu verging on the inhumane. An immense effort is necessary to nourish humane values as the cause and ethical conduct as a consequence.
- Cooperative enterprises or new workers’ enterprises can provide the organizational means whereby a significant proportion of humanity takes on the tasks of creating productive employment and overcoming poverty, thus achieving social integration without placing undue importance on the interests of capital providers.
- Enduring companies have demonstrated that by simultaneously attending to a variety of stakeholders and focusing on composite goals, rather than profit maximization alone, it is possible to acquire and maintain industry leadership.
- Firms need to move from a feudal relationship with their business partners to a ‘strategic partnership’ and invest more in hygiene factors and HRD for long-term employee satisfaction, performance, and development.
- The need is to evolve through dialogue among businessmen, government, and civic society a consensus on what the social responsibility of business is and what are legitimate and illegitimate actions.
- A larger social conscience can emerge if corporate leaders recognize that they cannot ensure long-term growth without generating sufficient ‘social capital.’ ‘Social capital’ involves the creation of trust, reciprocity, and tolerance of third party actions.
- There is a bonus from corporate social responsibility, ethicality, and spirituality in terms of stronger staff bonding with the organization and stronger motivation. This can be converted into higher productivity, better product quality, better and faster implementation of the needed changes and innovations.
INTRODUCTION TO THE COLLOQUIUM
Pradip N Khandwalla
Former Professor
IIM, Ahmedabad

In the 18th century, Jeremy Bentham and John Stuart Mill, two Utilitarian philosophers, enunciated the ethics of the greatest good of the greatest number. Adam Smith, a philosopher of morality and economics, came up with the idea that the greatest good of the greatest number is effectively served by the Invisible Hand of self-interest. Alfred Marshall and other economists refined Smith’s idea into an economic theory that argued that under competitive conditions, profit maximization by firms leads to the most efficient allocation of resources, lower prices than under monopoly, and larger aggregate output than under monopoly. Such excellent theoretical results elevated profit maximization to an academic cult. One of the foremost exponents of this cult is Milton Friedman of the University of Chicago. He once boldly proclaimed: “There is one and only one social responsibility of business — to use its resources and engage in activities to increase its profits” (Friedman, 1962). Later, he relented a little by accepting that profit maximization should be attempted within a legal framework and subject to broad social ethical norms (Friedman, 1970).

Profit and wealth maximization has become a business cult as well (Kennedy, 2000). Executive compensation schemes through stock options have bolstered this profit and wealth maximization cult. But, it can extract a fearful cost, especially in societies where ethics, legal structure, and governance are weak.

Consider some facts. According to World Bank estimates, up to $80 billion a year are given as bribes to officials in developing countries (Pacini, Swingen and Rogers, 2002). In the US alone, 0.7 million children are illegally employed in businesses and on farms, and some 0.2 million get injured at work (Khera, 2001) — the numbers may be in millions in the Third World. Thanks in part to unbridled cigarette promotion by tobacco companies, often targeted at the young, some four million are dying each year from lung cancer and other smoking-related diseases (Hilts, 1996). The crime becomes graver because, for 30 years, the tobacco industry concealed from the public its knowledge of the addictiveness of smoking and the associated health risks. Globally, business dumps several billion tons of pollutants in the air, not to mention billions of tons of solid and liquid industrial waste. Millions of people lose jobs without due compensation and a livelihood cushion before they find another job. Prosecuted corporate frauds increased in the US by 150 per cent between 1984-85 and 1998-99 (Chirayath, Eslinger and de Zolt, 2002).

What can be done? Seven Indian panelists, who can be considered philosopher-royals of management, have attempted to analyse the malaise and provide answers.

Professor Chakraborty has long been a votary of spirituality in management. His piece, sharply polemical, is from the heart. In the climate of globalization, WTO, and hyper-competition, it is, he says, pointless to talk of humane management because the mindset of bottom-line maximization converts all noble initiatives into instrumentalities: “One of the chief, though unrecognized, difficulties in the way of business/management ever reviving humaneness is its penchant for instrumentalization, thereby trivializing every ennobling or uplifting ideal…. For example, ethics is good because it is ‘good business.’ Ethics is not its own justification.” Presumably, managers need to get spiritual first before
they can contemplate humane management. As he puts it, “Let us learn to sit before wishing to walk or run.”

Dr Verghese Kurien, considered by many to be the father of India’s ‘white revolution,’ excoriates greedy commercialization or profit maximization at any cost. He discusses three value orientations: the egocentric perspective that argues that what is in the interests of the individual is in the interests of society; the social-altruistic perspective which tries to promote the greatest good of the greatest number; and the eco-centric perspective that emphasizes conservation, thrift, and stability. He advises: “Management professionals can be beneficial in the long run only if they can shed their narrow loyalties to shareholders and recognize their obligations to strive for the larger social good without undermining social harmony and ecological balance.” He believes that the cooperative form of organization is best suited to avoid the excesses of egocentrism and greedy profit maximization. As he puts it, cooperative enterprises “constitute a model for a people-centred and sustainable form of societal organization based on equity, justice, and solidarity.”

Professor Jittu Singh, distinguished both as a corporate executive and as an academic, separates profit maximization as an efficient pricing and resource allocation tool from the profit-at-any-cost mindset that has led to widespread unethical business practices, cut-throat competition, and corporate social irresponsibility. He supports a multiple stakeholders’ perspective that implies multiple criteria for assessing businesses, not just profit. As he puts it, modern corporations are “expected to meet the diverse expectations of all their stakeholders. While earning their profits, they must conduct themselves righteously... and keep in mind the well-being of all their stakeholders.”

Modern corporations are “expected to meet the diverse expectations of all their stakeholders. While earning their profits, they must conduct themselves righteously... and keep in mind the well-being of all their stakeholders.”

Mr Arun Maira, the India head of an MNC management consultancy with experience in industry, has pointed to an important need. Given that the privilege of limited liability of a company is provided by society, as a creature of society, the company has social responsibility. But what is its social responsibility? As Maira puts it, “What, therefore, is the proper role of the company in society? Without an agreement on this, how can we argue about how to measure its performance?” The need, he says, is “to evolve through dialogue between businessmen, government, and civic society a consensus on what the social responsibility of business is and what are legitimate and what are illegitimate actions.”

Ms Anu Aga, who turned around an ailing Thermax, reviews some of the forces that have made corporate social responsibility pre-eminent. She argues that corporate social responsibility makes good business sense and can earn much patronage to the company. She identifies six groups of stakeholders that need to be served by the company and provides several suggestions for how they should be served. She says that the company “should balance the short-term interests of the present day shareholders with the need to safeguard the interests of all the stakeholders — now and in the future.” She argues for a partnership between the corporate sector on the one hand and civil society institutions and the government on the other: “In partnership with government, NGOs, and concerned citizens, it can make a significant and measurable contribution towards
improving the lot of the less fortunate men, women, and children of our country.”

Professor Anil Gupta, equally well-known as an academic and as an activist champion of the intellectual property rights of rural innovators, points to the high prevalence of bad business behaviour, but also to the fact that there are corporations with a social conscience that are able to generate for themselves substantial social capital or goodwill through their benevolent activities. He identifies several opportunities for collaboration between the corporate sector and the social and small enterprises sector. He calls for a new social contract between the small sector and the corporate sector. He says, “The new paradigm based on incorporating social capital in the analysis of corporate purpose and profits does not see the social sector as a ‘sink’ of resources. On the contrary, the social sector including small enterprises is seen as a ‘source’ of innovations, creativity, values, and perspectives that can improve motivation and efficiency even in the corporate sector.”

S K Chakraborty
Founder, Management Centre for Human Values
IIM, Calcutta

Here are a few unprofessional convictions from a simple heart. Brickbats alone are expected for them.

The phrase ‘human resource management’ should exit before humane management can be ushered in (I have been protesting against this phrase for the last 15 years). It is an affront to call any ‘human being’ a ‘human resource.’ Long before Greek thought had labelled man as a ‘rational animal,’ ancient Indian thought had christened him as amritasya putrah. The more we highlight the ‘resource’ in the human, the more we lose out on the ‘being’ in him/her. All the rest follows inevitably. Now, ‘animal’ and ‘resource’ put together can only be a recipe for inhumane management. Whatever the sphere of human endeavour, be it business or otherwise, the true aim is to help the person to recover his/her ‘being’ through the process of ‘becoming.’ Is this irrelevant philosophical stuff? No. A sound philosophy is the most practical thing — in the long term. All are not dead in the long term.

When the human genome got decoded a few years ago, The Economist exultantly declared that man has now left Nature far behind, and that the future could look forward to human progeny performing ‘inhuman feats’! So, whither ‘being’ and ‘becoming’? Whither ethics? This is an era not only of disposable income but of disposable nappies to disposable spouses as well. So, employees are disposable too — at the altar of competitiveness. The ‘resource’ notion comes in handy, of course. Employees are now stuffed with money from head to foot at less than 30, and then squeezed dry in ten years. Add to this the glorification of a 24-hour instant gratification society. With all our information, intellectual, and knowledge capitals in the secular El Dorado, moral capital is at its nadir. Is this not a terrain barren enough for humane management to hew its path? Yet another factor compounding the above bewildering man-scape (both man and management) is the loudest mantra of the past two decades: Globalization. Is globalization’s agenda humane? Who are its votaries? What are their motives? Are they imposing it out of love for humanity? Teaching us about transparency, are they themselves transparent? What are the motives of those Indians who tend to wax eloquent about it? An honest French professor of management, who had been on the boards of a few well-known MNCs but who resigned from them in disgust, had told me in Geneva in the year 2000: “These MNCs are all sharks and crooks.” Sometime in 1996-97, when the WTO was just born, a professor of the Copenhagen Business School, who loves India and visits the country a couple of times each year, had told me: “The WTO is one of the most inhuman engines to bulldoze developing countries.” Yet, a year or two later, I heard an RBI Deputy Governor chastising the Government of India for delaying its decision to join the WTO!

Ironically, it is from these very quarters that we have to take lessons on ‘human rights.’ The globalization strategy of a few powerful nations itself is robbing country
after country of its right to choose its own path — not only economic but cultural as well. Thus, the entire milieu has verged by now on the inhumane. Too many basics have crumbled. Can cosmetic adjustments or noble homilies achieve much? Where is the courage of individual and collective conviction to return to the basics, to swadharma?

Given the above capsule vision, it makes strange reading when prestigious organs like the *Harvard Business Review* launch out on spirituality. It appears from these organs as if the domains of values and ethics have already been straddled and fully annexed. Our capacity for self-delusion is unlimited. So is our audacity. About the same time when the magnificent collapses of Enron, WorldCom, and others were occurring, such writings on spirituality had also begun to emerge. Interesting coincidence! The few such samples that we have read unmistakably reveal the same persistent streak (veiled or explicit): Can spirituality become yet another means or instrument to improve competitive strength, market share, and bottom line? If yoga reduces tension and high blood pressure, then human resources will ‘yield’ more work and output. Of course, slaughterhouses are ready to finish off the carcasses left on the trail.

One of the chief, though unrecognized, difficulties in the way of business/management ever reviving humaneness is its penchant for instrumentalization, thereby trivializing every ennobling or uplifting ideal. Let spirituality at least be spared the Midas touch!

I feel it is premature to speak or write about spirituality in business in the present climate of hedonistic egotism. We in management do not understand what spirituality is. Let us not bring it down to our low-level consciousness. Spirituality is the ultimate saviour of humanity, not a business tool. Immense toil is necessary to nourish human values as the cause and ethics as the effect. We have not even scratched the surface of this dimension as yet. Spirituality, therefore, has to wait as a new avenue of academic and consultancy ventures in management. Let us learn to sit before rushing to walk or run. Unless we begin to combat squarely the globalized scourge of ‘I need your greed for my greed,’ values and ethics have little chance to revive. Without such a base, spirituality will get no foothold.

Nevertheless, here are two worthy examples of ethical and humane management — one from a small retail business, another from a large enterprise.

- Amal and Kamal, father and son respectively, had built up a thriving retail groceries shop. One of their suppliers, having delivered a large consignment of rice and sugar, left the bill with Amal. Amal kept it in a small cabinet in the shop. Then, both the suppliers and Amal forgot about it. After about eight months or so, at the end of March, Kamal began to clear up the backlog and looked carefully into the cabinet. He discovered the unpaid bill and informed Amal. Amal was shocked. He asked Kamal to contact the supplier immediately and clear his dues. Kamal replied: “No father. It is the supplier’s duty to remember and collect his dues. Why should we chase him?” Amal replied, “Son, that is not the way honourable people do business.”

- Sometime in 1999, I had interviewed Dr S C Dutt, the Chairman of DCL Group of companies. Among other things, I had asked him whether and how he would differentiate between the approaches in managing the Group’s Indian units and its American unit (Kuljian Corporation had been acquired by DCL in 1974). Dr Dutt’s reply was: “The business outlook in the West is basically self-oriented and strongly success-driven. But, here, we cannot adopt such an orientation. Our main business area, power plant design, is in crisis today. Ninety per cent of our income used to be from this source. But, for the last three years, this flow has dwindled to a trickle. Yet, we do not think of sacking our people. The better ones of course can always fend for themselves. So, we carry on with the rest, though they too are not much worse, and certainly more loyal. We are diversifying into software in a big way to hold on to...
The lesson of history is that to the degree people and civilizations have operated in harmony with correct principles, they have prospered. At the root of societal declines are foolish practices that represent violations of correct principles.

— Stephen Covey

I find misunderstandings about profit maximization are often at the core of disharmony within organizations; conflicts among different sections of population within society; and cause of wars between nations. Can we interpret profit so narrowly, as is often done, to mean only profit maximization to shareholders who contributed capital, leaving out the workers who contributed labour and suppliers who contributed materials; the wider society in which the enterprise is embedded and operating; and the natural context in which activities have to be carried out within the environmentally benign limits of depletion and pollution? Such narrow interpretation of profit encourages many enterprises to get away with obnoxious practices like underpayment to workers, employment of child labour, and many inhuman practices harming the interest of workers and their families; pauperization of farm produce suppliers; depletion of precious ground water; intolerable pollution like in many chemical industries — all in the name of pursuing greater profits to shareholders.

The right to life is sacred and the foremost among the human rights; but one needs pure air, potable water, and nutritionally balanced food to nourish life. Words such as ‘environment’ or ‘environmental’ include both social and ecological aspects. Viewed from the larger societal perspectives, such anti-life practices cannot be allowed to go unchecked. They must be curbed. Nature is compassionate and promotes universal happiness provided advances in science and technology do not lead to production-consumption patterns that violate social and ecological laws that sustain nature. Human beings seem to have forgotten the ancestral heritage of nature worship and reverence for that harmony which sustains the universe on its spiritual-material foundations.

Individual and societal environmental practices, including those of managers, will tend to be consistent with the ethical grounds on which they are based (Merchant, 1992). Stern, Dietz and Kalof (1993) have identified ‘egocentric,’ ‘social-altruistic’ and ‘eco-centric’ as three value orientations and perspectives that shape practices. Management paradigms and practices can be examined from these perspectives.

Individual and societal environmental practices, including those of managers, will tend to be consistent with the ethical grounds on which they are based (Merchant, 1992). Stern, Dietz and Kalof (1993) have identified ‘egocentric,’ ‘social-altruistic’ and ‘eco-centric’ as three value orientations and perspectives that shape practices. Management paradigms and practices can be examined from these perspectives.

Egocentric perspective refers to the maximization of self-interest. In this perspective, people adhere to the philosophy that ‘what is good for each individual will benefit society as a whole.’ The ‘Invisible Hand’ that Adam Smith uncovered in 1776 was thought to be universal. This assumption underlies most of the management paradigms. Closer observation shows that, quite often, socio-economic, political, and cultural evolution is governed by a contrary process — in serving one’s own interests exclusively, the individual may go against the interests of the society as a whole.

Social-altruistic perspective has been studied by Heberlein (1972) using the Schwartz (1977) norm-activation model of altruism. The Schwartz model (Schwartz, 1970) holds that an individual experiences a sense of moral obligation (a personal moral norm). The person acts on it when one believes that adverse consequences are likely to occur to others (awareness of consequences to others) and that one personally can, by appropriate
action, prevent or ameliorate those consequences (ascription of responsibility to self). People who apply such values judge management decisions on the basis of costs or benefits for a human group, such as a community, ethnic group, nation or all humanity within a society, or for shareholders, employees, suppliers, distributors or consumers in the context of an enterprise. These people believe in ‘the greatest good for the greatest number of people,’ adopting social justice as their guiding doctrine. However, managerial actions are often guided by group interests within the enterprise rather than encompassing all the stakeholders. Societal concerns too are limited and still narrow, as the concept of society in many cases has not yet become all inclusive as the concept of ‘Vasudhaiva Kutumbakam,’ in which the whole earth is to be treated as one’s family.

Eco-centric perspective holds that rational, scientific belief systems should be based on laws of ecology and in consonance with the ‘unity, stability, diversity, and harmony’ of the ecosystem. This view looks at profit maximization, growth, change, ‘development,’ spending, and rapid turnover as not ends without limits, and consequently emphasize conservation, thrift, and stability. More importantly, this view brings into focus the cyclical (as opposed to linear) nature of social and natural laws based on principles of feedback and reciprocal influencing.

Management professionals can be beneficial in the long run only if they can shed their narrow loyalties to shareholders and recognize their obligations to strive for the larger social good without undermining social harmony and ecological balance.

I believe cooperative enterprises or new workers’ enterprises provide the organizational means whereby a significant proportion of humanity is able to take into its own hands the tasks of creating productive employment, overcoming poverty, and achieving social integration without placing undue importance to the interests of capital providers.

Cooperative enterprises or new workers’ enterprises provide the organizational means whereby a significant proportion of humanity is able to take into its own hands the tasks of creating productive employment, overcoming poverty, and achieving social integration without placing undue importance to the interests of capital providers.

Jittu Singh
Tata Steel Professor of Management
XLRI, Jamshedpur

For the ‘puritanical’ cult of capitalism, of which Adam Smith is the high priest and Milton Friedman the most forceful evangelist, profit maximization is the most sacred mantra. Though this cult may have shrunk to a minority status in recent years, its surviving zealots still cling passionately to their belief that profit is the noblest objective of all. Those who pursue it with single-minded devotion are regarded as contributing the most to society and, therefore, being the true inheritors of the ‘kingdom of heaven.’

The scripture of their faith is Smith’s The Wealth of Nations (1937). It preaches the doctrine of self-interest. According to it, seeking the maximum gain, or profit, for oneself is both natural and constructive from the society’s point of view. High profits represent high efficiency. When a firm succeeds in earning the maximum profit for itself, it also renders the most efficient service to its customers. Therefore, society is the greatest beneficiary of the combined efficiency of all its constituents.

True, there may be conflicts of interest among economic players. To ensure that they do not adopt unfair methods to gain competitive advantage and always act in the interest of the society in general, Smith invented the ‘Invisible Hand’ of the market. It was bestowed with the mysterious power to supervise the pursuit of self-interest (or profit maximization) and guide resources into uses that would have the greatest social value. This magical hand would mediate in such a way that all parties would emerge with ‘win-win’ solutions.
— with each being conferred the maximum benefit possible.

In reality, Smith’s cult has belied its promise. The pursuit of self-interest has seldom been orderly. It has degenerated into a vicious zero-sum game with competitors employing ingenious methods to gain advantage at the expense of their rivals. The Invisible Hand that was expected to come into play has proved to be conspicuously inept at its mediating role. Its failure is reflected in unfair trade practices, emergence of monopolies and cartels, consumer grievances, exploitation of labour, environmental degradation, corporate fraud, unethical conduct, and social irresponsibility. Profit maximization is now synonymous with ugly cut-throat competition.

All evidence suggests that profit maximization by a firm does not necessarily confer maximum benefit on all parties. Instead, it results in inequitable consequences. Much of the explanation for this failure lies in ‘market imperfections.’ The Invisible Hand can function efficiently only when there is:

- perfect competition in all economic activities
- proper pricing of all effects relevant to the welfare of all stakeholders (i.e., there are no externalities)

The real market is characterized by the absence of these conditions. Its principal features are:

- Disproportionate concentration of economic and market power as a result of which the market is not a self-regulating cybernetic system where consumer demand regulates resource allocation, production, and equilibrium.
- An inequitable distribution of resources and incomes.
- The widespread nature of externalities which are not priced in the market, e.g., pollution. Firms do not generally pay for these inconveniences (or social costs) that they impose upon others. Therefore, they continue polluting without restraint. Also, since the costs to others of the pollution they generate is not charged to the polluters, they have a hidden incentive to produce more than is socially optimal.

In view of these shortcomings, effectiveness in the present era ought not to be defined only from the perspective of investors and owners. Such a bias is clearly unacceptable to other interest groups; it discriminates against their respective needs. They would welcome profits of the legal owners being lowered and the funds thus made available being redirected towards meeting their own expectations.

It would be wrong to infer that profits are not important. On the contrary, they are crucial for survival. Only when a firm is profitable can it hope to continue in business. Profits are needed to finance current operations and future growth plans. They also contribute to the overall image of a company. Potential investors, suppliers, customers, and employees would hesitate associating with a loss-making company.

But, to earn reasonable profits is quite distinct from treating it is as the raison d’etre of corporate existence. In the end, profit is like oxygen — necessary for survival, but not the purpose of it. Therefore, it is important to be profitable; but to make a fetish out of profit maximization would be counterproductive. Beyond a reasonable level of profits, it is important to pay attention to a higher set of objectives.

Existing laws confer ownership of modern firms on shareholders — people who have invested their money in financial equity. As a result, they have been given exclusive rights to the profits earned. They are naturally interested in maximizing the profit accruing to them and also in the appreciation of the market value of their investments.

But, a modern company has several types of equity in addition to financial equity. Investments in these other equities are made by a variety of stakeholders. For instance:

- **Intellectual equity:** Employees invest their ideas in improving technological processes, product quali-
ty, cost management, marketing techniques, and customer service. These initiatives usually go far beyond the call of normal duty for which they are compensated.

- **Goodwill equity:** The community around a firm invests its goodwill; it continues to support operations in spite of inconveniences it suffers in the form of, for example, environmental pollution and traffic congestion.

- **Growth equity:** The government’s investment is in the form of law and order, infrastructure development, and economic policies conducive to business growth.

- **Knowledge equity:** Educational institutions invest their expertise through their research and their students.

From their point of view, it is unfair for shareholders to appropriate all the profits. They too would like to receive some dividends for their investments.

Can a person, at the end of his life, be judged simply by the amount of wealth he accumulated in his lifetime? The answer is unequivocally no. We would also take into account the means he employed to generate his wealth, how he used it subsequently, his other accomplishments, and the overall quality of his life. We attach greater value to those who live ‘rich’ lives, rather than merely become rich. Very often, those who are most admired are not necessarily those who are the wealthiest. Success is multivariate.

Modern corporations are multi-dimensional. Therefore, like individuals, they too cannot be judged by a simple measure of profit maximization. They are viewed not only as wealth-creators for their legal owners (their equity shareholders), but also as vehicles for economic and public policy. They are expected to meet the diverse expectations of all their stakeholders. While earning their profits, they must conduct themselves righteously, uphold social norms, and keep in mind the well-being of all their stakeholders. In the end, they must be perceived as having enriched all of society. If they have a multi-dimensional role, they cannot be judged in terms of a single measure.

As the flurry of recent corporate frauds that have come to light suggest, the single goal of profit maximization has the germ of unethical conduct. It acts as a trigger for a variety of unethical practices:

- bribery to secure orders
- deceptive advertising to boost sales
- launching of products which have not adequately been tested for safety
- financial jugglery to exaggerate corporate performance and influence stock prices
- withholding of information about problems from shareholders and the public
- misreporting of profits to increase personal bonuses and stock options.

If firms are embedded in a society and draw all their resources from it, then they must act like responsible citizens. While pursuing their interests, they must also ensure that they contribute to the well-being of those around them. They must apportion some of their surplus resources to a variety of socially-oriented activities. These could be directed either towards neutralizing some of the adverse consequences arising from their own operations or towards more activist social causes.

The history of enduring companies (those that have met the test of time and have maintained a consistent track-record of excellence) suggests that it is indeed possible to go beyond profit maximization. They have demonstrated that by simultaneously attending to a variety of stakeholders and focusing on composite goals, rather than profit maximization alone, it is possible to acquire and maintain industry leadership.

Tata Steel is a notable Indian example. Founded by Jamsetji Tata, an exceptionally enlightened industrialist, it has a deep, abiding commitment to sharing its wealth with the community around it in addition to enriching its shareholders. It has always been guided by the principle that wealth must be ploughed back where it is generated. This is the only way to sustain it and multiply its impact.
Each year, it spends on an average five per cent of its profits on a portfolio of social activities in the underdeveloped, tribal communities around its steel plant, collieries, and mines. The range of social programmes includes health care; education; family planning; watershed management; sports; tree plantation; tribal art and culture; rural development; disaster relief and women’s empowerment.

These programmes, undertaken voluntarily rather than in response to legal requirements, have been sustained through ups as well as downs of the company’s life cycle and therefore are a testimony to its unflinching commitment to its social responsibilities.

**Mrityunjay Athreya**

Management Advisor
New Delhi

The worldwide domestic liberalization of the erstwhile command economies and the simultaneous globalization of the hitherto closed economies are unleashing more of the animal spirits of capitalism and competition. While this has potential benefits such as better quality, service and price for the consumer, higher growth of the economy, jobs, etc., it also has costs, primarily social and ecological. There are rising concerns about the sustainability of such growth, consumption, life styles, inequalities, stress, crime, conflict, and erosion of the eco-system.

The conventional management paradigm stressed profit maximization as the sole, or, at least, the most important objective of business. The parameter was basically taken from economic theory. But, Herbert Simon, a non-economist, got the Nobel Prize in Economics for challenging two of its axioms, namely profit maximization by firms and utility maximization by individuals. He noted the prevalent human and organizational tendency to ‘satisfice’ rather than maximize. Cyert and March came up with an alternative, ‘behavioural’ theory of the firm. However, the maximization thesis has continued to hold sway. The collapse of the Soviet Union and the reforms in Britain, China, and India, have seen the rise of global capitalism. The US corporations and the others imitating them have focused on somehow reporting short-term quarter-on-quarter rising profits, even if this means sacrificing the long-term, as well as product quality, safety, jobs, ecology, etc.

Wisdom consists in striking a balance between multiple objectives — hard and soft, commercial and social, private and public, etc. I have been advocating a ‘stakeholder management model.’ The basic value is for the promoters and managements to be ‘trustees’ of all the stakeholders. As a start, the management must empathize with and understand their stakeholders and their expectations. It also needs to anticipate their future expectations which are usually rising not only quantitatively but also qualitatively.

There are five important stakeholders. They are not all on the screens of most managements. For example, before economic reforms, state-owned enterprises (SoEs) tended to work more for the benefit of their political and administrative masters, employees, and their local communities. On the other hand, private enterprises used to be primarily concerned with the interests of the promoters. Profit was not a popular word. It smacked of profiteering. The pendulum is now swinging the other way. As their shares get listed on the stock exchanges,
both SoEs and companies focus more and more on ‘maximizing the shareholder value’ measured by their market capitalization. This leads to attempts at shoring up their EPS and PE ratios. This has, in many cases, led to short-term strategies, such as the neglect of R&D, training, customer care, employee engagement, ecology, and ethics. A balance needs to be restored. It is happening to some extent through valid critiques, legislation, exposure through court cases and punishments, as in the case of Enron, Martha Stewart, Samir Arora, DSQ, and others.

The following may be a balanced approach: *Harmonize* the expectations of the following five stakeholders — customers, shareholders, employees, business partners, and society. The expectations of these five stakeholders make it imperative that management keeps in mind multiple objectives and does not go fundamentalist on profit as the sole objective. There are four objectives that are now mandatory for all enterprises — profitability, growth, image, and survival. The reckless pursuit of profit by any means led to the extinction of Enron. Survival is threatened not only by competition but also by the law and its sanctions. Firms with injurious products, unfair employment, procurement or other such practices face an erosion in their image with negative impacts on their profits and growth that may even threaten their survival. A recent case is that of The Body Shop. Ethical investors, like Calpers Fund, have made good practices a condition of their institutional investment. Some retail investors follow their example.

Firms need to recognize that there are no more internal bosses and servants, but all have a *common* boss, namely the customer. A *well-deserved* revenue stream is the only basis of long-term high performance. After dominating the Indian car market in the 1990s with 85 per cent market share, Maruti’s share fell sharply to 50 per cent. The management adopted a set of core values, the first being customer ‘obsession,’ not just ‘orientation,’ or even ‘focus.’ It is fighting its way back to retain and enhance its leadership by being more sensitive and responsive to customer complaints, needs, and suggestions. With respect to shareholders, the promoters need to put the interests of the outside shareholders first. To some extent, they are forced to take into account the interests of FIIs and FIs, because of their clout. But, they should be visibly fair to retail shareholders. As the share of MFs in stocks rises, more of this will happen. The government, as owner, should also not divert SoE funds for its budgetary and party convenience.

The initial impacts of the Indian reforms have been to benefit the long-neglected customer, and, to a lesser extent, the shareholder. The employee, especially in the organized, unionized sector, has been under some pressure to catch up with globally competitive levels of quality, productivity, speed, and work culture. With on-going industry and corporate restructuring, firms need to invest more in hygiene factors and HRD for long-term employee satisfaction, performance, and development.

Business partners, primarily vendors and dealers, have also been under pressure to reduce costs. The paradigm has shifted from ‘cost-plus pricing’ to ‘price-minus costing.’ The price tends to be a globalized price, influenced by the competitive pressure of countries like China. Firms need to move from a feudal relationship with their business partners to a relationship of ‘strategic partnership.’

While globalization and the WTO regime are giving undreamt of freedom to businesses, they also greatly increase their corporate social responsibility. They have to go beyond earning just profit for the owners. They have to become the primary engines of growth, job creation, innovation, exports, etc.
After the collapse of the Soviet Union, many people thought that capitalism had triumphed for good. But, the corporate scandals in the US and elsewhere led many to wonder whether the capitalist establishment was not too much focused on its own benefits rather than the well-being of the people. Bill Emmott, the Editor-in-Chief of *The Economist* in his book *20:21 Vision: Twentieth Century Lessons for the Twenty-first Century* questioned why, if capitalism is the best option, it has faced repeated challenges. May be all is not well within contemporary capitalism and a battle may have to be fought to alter it for the greater good of society.

The limited liability company, the dominant business form, is itself a creature of society. In *The Company: A Short History of a Revolutionary Idea*, Micklethwait and Wooldridge of *The Economist* point out that such a company could operate with limited liability because it was allowed to do so by the state, which represented the interests of society. The privilege of limited liability greatly encouraged the formation of such companies and made capitalism such a productive force. But, the core concern in permitting limited liability was the greatest good of the greatest number. Every such company, therefore, is duty bound to protect not only the interests of its investors but also of society’s.

What, therefore, is the proper role of the company in society? Without an agreement on this, how can we argue about how to measure its performance? Measuring only its profitability would clearly be a very incomplete measure. A major new development, thus, is the notion of corporate social responsibility. It embraces three concerns. The first is preserving and improving the physical environment such as by afforestation and reduction or elimination of pollution. The second is community development such as meeting the community’s needs for education, health, water, infrastructure, etc. The third is attempting to improve public policy and governance. There is reasonable consensus on the role of business in preserving and improving the physical environment and on improving social development through community development. But, attempts by business to improve governance and the political environment can be interpreted as meddling in the political system. The need, therefore, is to evolve through dialogue between businessmen, government, and civic society a consensus on what the social responsibility of business is and what are legitimate and illegitimate actions.

The need is to evolve through dialogue between businessmen, government, and civic society a consensus on what the social responsibility of business is and what are legitimate and illegitimate actions.

The need for a consensus on business responsibility is even more critical in India than in the West. Traditionally, there has been a distrust of business. At the same time, business has the resources to alleviate physical, social, and political concerns. The need in a poor, under-developed country like India for better facilities for health, education, etc., is obviously far more urgent than in the West. Unfortunately, public sector companies are withdrawing from their corporate social responsibility mandate under pressure to become more commercially-oriented, while private sector companies are retreating to core business concerns in the face of escalating competitive pressures. Indian businesses, both in the public and private sectors, need to reconsider their stances vis-à-vis corporate social responsibility and evolve consensus on an activist, legitimate agenda.
Since corporations have to draw on the community in which they operate for all resources, they also have obligations to their multiple stakeholders, namely, those who get affected by corporate policies and practices who may affect the corporation in turn. Today, it is acknowledged that business has not just financial accountability but also has social and environmental responsibility — popularly known as the triple bottom-line of good governance.

One definition of corporate social responsibility is ‘achieving commercial success in ways that honour ethical values and respect people, communities, and the natural environment.’ The fundamental idea embedded in corporate social responsibility is that business corporations can no longer act as isolated economic entities detached from the broader issues of society. Although there is a clear difference between corporate social responsibility stemming from a desire to do good (the normative case) and corporate social responsibility that reflects an enlightened self-interest (the business case) in many cases, a firm’s reasons for embracing corporate social responsibility reflect a mixture of both these motives.

Powerful forces have contributed to the recent visibility of corporate social responsibility in India — increased consumer and societal expectations from business, voiced by powerful NGOs like Greenpeace, and closer home, by the Delhi-based Centre for Science and Environment which has exposed the wrong-doings of cola and bottled water majors. The extended reach of media, assisted by advances in information technology, has made these corporations run for cover, forcing them to orchestrate expensive and elaborate damage control exercises.

What is expected of companies is not their bragging about the positives in media releases and annual reports but rather their reporting candidly what has gone wrong along with a credible plan of action to limit or undo the damage. The ‘greenwash’ mentality, where things are done just for the sake of appearances and statutory compliance, will no longer hold. It can eventually lead to a full-blown crisis—be it a devastating oil spill, a killer gas leak, or a product recall crisis.

Socially responsible behaviour makes good business sense and firms could be rewarded by increased patronage. Merck, the pharmaceutical giant, developed a treatment for a tropical disease which in layman’s language is called ‘river blindness.’ This disease affects millions of people in some of the world’s poorest regions. Despite having no commercial market for this drug in the West, Merck invested millions of dollars in developing this drug. In 1987, in collaboration with the World Health Organization, Merck organized free distribution of this drug. Around 25 million people a year are treated under this programme to eliminate the risk of premature blindness. Doing this has in no way diminished the profitability of the company. As a matter of fact, this humanitarian gesture has enhanced its reputation capital.

A company is responsible to all its stakeholders:
- customers
- employees
- shareholders and investors
- environment and community
- suppliers
- government.

It should balance the short-term interest of the present day shareholders with the need to safeguard the interests of all the stakeholders—now and in the future.

The first obligation of business is to its customers. Corporate social responsibility starts with producing quality products on time at fair prices and with ploughing back a substantial part of profits so that the products can be further improved, delivered faster, and at much lower costs.
With the advent of information technology and service industry, corporations have suddenly realized that employees today represent the most valuable ‘intellectual property’ that is their most precious asset. They have become aware that this asset has legs and could walk out! Since working people spend most of their waking hours at work, is it not the responsibility of the company to make the environment challenging, joyous, and collaborative, so that each individual gives out her/his best?

Profits are a must for the survival of any organization but being profitable is not an end in itself. It is a means to other more wholesome pursuits. Excessive focus on profits at any cost has tempted companies to fudge accounts, take a short-term view, and do anything to look attractive. Instead of taking a narrow, short-term view and defining the purpose of business as profiteering, can we define the purpose of business as human well-being?

With the growing awareness and concern about environmental degradation, depletion of natural resources, and the phenomenon of global warming, there is moral and legal pressure on corporations to behave responsibly in the interests of our future generations. The neglect of environment and society can be very detrimental and can actually shake the foundations of a business that has been built over decades. This is best illustrated by the examples of Union Carbide in India and the tobacco giants in the US.

The initiatives of the Tatas in the social sphere have been very well documented. The National Dairy Development Board (NDDB) has transformed huge areas in Indian villages by empowering producers and creating a marketing outlet for their produce. Operation White Flood is a result of this initiative. Wipro, through the Azim Premji Foundation, has dedicated itself to the cause of universalization of elementary education in India and currently runs 1,900 schools in various parts of the country. Infosys currently commits up to 1.5 per cent of its profit after tax annually for social and community causes which include education, women’s projects, healthcare, community development, and preservation of art and culture. For the last two years, Thermax has decided to contribute one per cent profit after tax to social causes.

From literacy promotion to the creation of sustainable livelihood, there is a world of opportunities for Indian corporations. It is predicted that by 2020, there will be an acute water shortage because of wastage and also because we have indiscriminately polluted our surface and ground water. Can corporations take a lead in harvesting rainwater, recycle, and reuse this precious vital resource?

Companies are now required to take the responsibility to ensure at least minimum and humane standards a supplier must offer to its work force. The case of Nike being forced to review the employment practices of its overseas factories, some of which employed child labour, is a classic example.

For years, government and business have been viewed as adversaries in different camps. We need to move away from this mindset, and industry and government together need to find solutions that will meaningfully address problems of the community. The government through its various regulatory bodies tries to protect the interests of various stakeholders.

The corporate sector has financial and organizational muscle. In partnership with governments, NGOs, and concerned citizens, it can make a significant and measurable contribution towards improving the lot of the less fortunate.
Few corporations realize that if they have to pay for all the services that society provides in securing the safety, well-being, and happiness of their workers and executives, they would be left with little profit, if any. The social contract between a corporation and the state is that the state provides the infrastructure and regulatory environment that enables a corporation to generate profit. In return, the corporation acts like any good citizen. Often, corporations, like other actors in society, generate, in addition to profit, considerable negative externalities that are not factored into their balance sheets. However, a reasonable autonomy has to be granted to every private corporation to unfold its creative and managerial potential that the government is seldom able to grant to its organizations. The civil society, comprising of various associations, NGOs, and also NGI (Non-Government Individuals) bridges the social aspirations of a large majority in the unorganized sector and the privileged access to resources enjoyed by the organized sector and the state bodies. It is natural that, with the passage of time, democratic forces would expand expectations in the civil society about the role of various actors in fulfilling the social contract. Nobody expects a corporation to take care of all the problems in its neighbourhood. But, it is expected that, in any society, a responsible corporate citizen would fulfil at least the minimum expectations derived from ethical, environmental, economic, and social norms.

When a corporation paints its advertisements on beautiful natural rocks injuring the aesthetic rights of the society, the Supreme Court intervenes and punishes the action. Likewise, when a corporation releases its toxic effluents in a river, in the sea or in bores, people protest. But, a large number of actions of corporations do not elicit similarly focused reaction from the judiciary, state or civil society. Extraction of ground water without harvesting rainwater or recycling waste water is a pervasive problem in India. Numerous hoardings advertise chemical pesticides but one never finds a single hoarding anywhere advertising the safety precautions that workers ought to take while spraying pesticide. Some MNCs use different standards of accountability in different countries. For instance, years ago, there was an advertisement in Newsweek, the American news magazine, captioned ‘A Case Where Prevention is Not Better Than Cure.’ The implication of the advertisement was that farmers should not make preventive sprays of chemical pesticides, but let nature take care of the problem; and only when the pest population goes beyond a threshold level, they should spray. This advertisement, so relevant in developing countries, was never issued in the edition sold in India.

There are many instances where corporations engage in corrupt business practices and yet complain about the rising level of corruption in society. However, the corporate world is not characterized only by unethical or irresponsible behaviour. There are many significant examples in the country of large corporations engaging with local unorganized communities to conserve resources, generate opportunities for social well-being, and trigger entrepreneurial development in the hinterland. They do not snatch or tear off the nets of the fishing communities just because they dared to fish in the sea near their jetties or pipelines. On the contrary, they develop technologies for the desalination of water or the use of saline water for flushing toilets and make such water available to local municipalities and other bodies. Many corporations run rural

The social contract between a corporation and the state is that the state provides the infrastructure and regulatory environment that enables a corporation to generate profit. In return, the corporation acts like any good citizen.

Profit with a purpose larger than one’s narrow self-interest is the best guarantee for long-term peace, stability, and social cohesion, and is fundamentally necessary for corporations to pursue their business unhindered.
development programmes and set up foundations that fund social development efforts. But, a culture in which every corporate citizen accounts for every drop of water used, the air polluted by him/her, the trees planted or uprooted, and soil reclaimed or eroded is yet to unfold.

Let me share some signs of hope and suggest that India might, not in a very distant future, have a compassionate, collaborative, and creative culture nurturing partnership between the state, the civil society, and the private sector for the common good. A mature capitalist society is characterized by a relatively high degree of self-regulation, so that neither the state nor the judiciary is required to intervene in the legitimate pursuit of profits. Profit with a purpose larger than one’s narrow self-interest is the best guarantee for long-term peace, stability, and social cohesion, and is fundamentally necessary for corporations to pursue their business unhindered.

The corporate sector needs to do more. When an earthquake struck Gujarat a few years ago, there was indeed a tremendous upsurge of contribution by the corporate and civil society in working together to provide relief and helping in rehabilitation. Similar cooperation was unfortunately largely absent when the rehabilitation of riot victims was to be organized. Perhaps, the difference was in the willingness of the state institutions to mediate in the emergence and execution of the social contract. The House of Tatas has supported some of the most outstanding fundamental research institutions of India. This business group has created an unsurpassed benchmark for trust, reciprocity, and responsibility. However, even the Tatas have been trapped in the glory of the past and have stopped creating new benchmarks and standards of social, ethical, and environmental responsibility.

Let me illustrate some of the humanizing practices that have emerged in small companies. This can perhaps spur other actors in the society to follow suit.

Parishudh Sadhan Yantra (now Micromatic Machine Tool) was a precision tool unit in Ghaziabad started by Mr N K Dhand and his friend Mr Goindi. They decided that they would not pay bribes or follow any unethical practice for securing orders or supplying materials. Some years ago, they sent a particular component for repairs abroad. The concerned company, instead of repairing it, replaced it. The customs department charged duty on this machine part claiming that it was an import of a new component and thus merited duty. Instead of settling the matter with a bribe, Mr Dhand paid the duty under protest and pursued the matter till he recovered it. In their factory, they have an interesting rule about the health entitlement of their workers. The workers go to the same doctor who treats the children of the owners. Some years ago, the two friends decided to divide their business to let the new generation take over the respective parts. The principle they used was very interesting. One of them made two parts of the company and the other chose any one of the two. The partition of the company did not partition their hearts.

In another construction company, Alacrity in Chennai, an assurance was given to the owners of houses that they would be compensated for delay in delivery every day after the promised date. The lineman responsible for giving electrical connections wanted a bribe to do what anyway was the entitlement of the company under the law. Alacrity chose to pay compensation of a few hundred thousand rupees to the owners of the houses for not having delivered homes with all the facilities on the due date rather than pay just a few hundred rupees as bribe. The trade-off created substantial social capital for Alacrity, besides setting an example in a corruption-ridden industry. Customers who wanted hassle-free occupation of houses without having to make any black money payment increasingly went to Alacrity. This social capital paid-off through social network that influenced the company’s business growth. It is a different matter that in this company, unlike Parishudh Sadhan Yantra, the noble purpose could not yield adequate profits.

It is possible to humanize the environment within and outside the firm. After all, a person spends much more time outside the company than in the company. Shouldn’t the company be concerned about the quality of life of its workers?
be insulated from the quality of life of other people amidst whom they live and the quality of the products they make or the services they provide? An enlarged social conscience can emerge if corporate leaders recognize that they cannot ensure long-term growth for their businesses without generating sufficient social capital or goodwill. Social capital is generated through trust, reciprocity, and tolerance of third party actions. Accountability to one’s self is enough — it can actually deliver larger corporate social responsibility if only the leaders of these corporations dare to listen to their inner voice. The only way authenticity can be achieved is by harmonizing one’s inner and public voices. Breakthroughs in life occur when cutting corners becomes impossible because of watchful inner eyes. Future leaders will perhaps have the courage to look inwards so that they can relate to the world outside creatively, and with compassion, collaboration, and healthy respect for dissent, diversity, and a more holistic development. I offer a few suggestions for corporations:

- Many social enterprises need managerial inputs to improve their efficiency. Corporations can offer services in managing accounts and marketing and provide design and developmental support to such ventures.
- During the last decade and a half, the Honey Bee Network has identified numerous grassroots innovators, inventors, and traditional knowledge holders. Many of their inventions have the potential to be commercialized. Corporations can license these, incubate them, help commercialize them, and share the benefits equitably with the knowledge holders or innovators. A new social contract between knowledge-rich but economically poor people and corporations can emerge for mutual advantage.
- Large corporations often have huge infrastructure, including R&D facilities, which frequently may not be utilized optimally within the boundaries of the firm. The small-scale sector, on the other hand, does not have R&D facilities to solve its technological problems. Joint product development or leasing out of R&D facilities on concessional terms to small enterprises may spawn new partnerships between the large and the small sectors.
- Academic institutions are becoming more and more insular in terms of social responsibility and accountability. More than 0.4 million technology students carry out projects. A majority of these projects solve no real life problems. Why not let the small sector influence the choice of projects in technology institutions? Corporations that have the capability to manage knowledge in a distributed manner could provide mentoring and monitoring support for such ventures.

The new paradigm based on incorporating social capital in the analysis of corporate purpose and profits does not see the social sector as a ‘sink’ of resources. On the contrary, the social sector including small enterprises is seen as a ‘source’ of innovations, creativity, values, and perspectives that can improve motivation and efficiency even in the corporate sector. The environmental, ethical, equity, excellence, and efficiency dimensions of enterprises can be converged if we negotiate a new social contract between these two sectors. Such a contract can contribute to India becoming a competitive, collaborative, compassionate, and creative society.

**CONCLUDING REMARKS**

**Pradip N Khandwalla**

Most of the panelists have identified two kinds of ‘profit maximization’ behaviour of companies. The first is the greedy kind, the second one is the responsible kind. The greedy kind of ‘profit maximization’ is the one where ethics, corporate social responsibility, and the concern for stakeholders other than the promoters do not matter. The responsible kind of ‘profit maximization’ is subject to ethical restraints, appropriate discharge of the company’s social responsibility, and a balanced concern for the needs of all the
stakeholders, not just the promoters. The greedy kind is disastrous for mankind; the responsible kind is the future of civilization. This differentiation has enormous implications for our ideas about professional management. It means that institutionalizing ethics in business is as vital a function of management as, say, marketing; managers need to get as skilled in assessing and discharging corporate social responsibility as, say, in developing and evaluating investment proposals; and the top management needs to listen responsively as much to all the stakeholders — vendors, customers, regulatory agencies, minority shareholders, the leaders of the local communities in which the company is operating, workers, white collar staff, junior and middle level managers — as to promoters and financial analysts. A lot more needs to be incorporated into the professional management paradigm. Here is a sampling:

As some of the panelists have indicated, business ethics are the foundation of the institution of business. Most of the Fortune 500 companies have adopted a code of conduct that spells out what is appropriate ethical behaviour of the company towards its staff, customers, etc.; of its staff members vis-à-vis each other and the company, and vis-à-vis their dealings with the company’s stakeholders (Schwartz, 2002). Merely adopting a code of conduct may not lead to more ethical conduct. The code of conduct needs to be institutionalized, that is, accepted by the rank-and-file, with practical, measurable consequences. One large Hong Kong company, for example, brought in experts from an MNC to launch a code of conduct. Internal change agents secured the endorsement of the CEO and the support of other senior managers by seeking inputs from them. Much training materials were developed. A training programme was participatively designed for educating the staff in what the code of conduct implied and the entire staff of 6,000 was put through the training programme (McDonald, 2000). Institutionalizing a code of conduct requires that the managers and other staff members are assessed on how they have performed vis-à-vis the code of conduct, and suitably rewarded and punished; whistle-blowing mechanisms are emplaced so that breaches are swiftly observed, reported, and punished; periodical audits or stock-takings of the utilization of the code of conduct are conducted for suitable modifications.

Corporate ethicality can, in fact, be quite beneficial for staff morale. Surveys have indicated that ethical organizations elicit high employee loyalty (Joyner and Payne, 2002). Staff commitment to the organization is correlated with how ethical the organization is perceived to be by the employees (Valentine, Godkin and Lucere, 2002), and with how ethics supportive the organization’s climate is seen to be (Herudon, Fraedrich and Yeh, 2001). The perceived integrity of the leader is correlated with the level of motivation of the followers (Parry and Procter-Thomson, 2002). An effective management can convert the bonus from corporate ethicality, in terms of stronger staff bonding with the organization and stronger motivation, into higher productivity, better product quality, better and faster implementation of needed changes and innovations, etc.

As the panelists have indicated, corporate social responsibility is multi-dimensional. It extends to economic, legal, ethical, and philanthropic aspects (Aupperle, 1982). More concretely, it encompasses ‘greening policy’ aimed at protecting the environment from pollution by the company; ‘affirmative action,’ involving the employment and/or training of the members of the disadvantaged sections of society; community development activities; ‘domain development’ (Khandwalla, 1990), that is, activities aimed at strengthening the domain of activity of the organization such as its industry or sector; activities aimed at increasing the social and economic development of the nation such as through import substitution or pro-

---

**The responsible kind of ‘profit maximization’ is subject to ethical restraints, appropriate discharge of the company’s social responsibility, and a balanced concern for the needs of all the stakeholders, not just the promoters.**

---

**An effective management can convert the bonus from corporate ethicality, in terms of stronger staff bonding with the organization and stronger motivation, into higher productivity, better product quality, better and faster implementation of needed changes and innovations, etc.**
duction and distribution of products/services of national priority; and activities aimed at improving the quality of governance in the country (through, for example, lobbying the government for 'reform' of governance or a more rational tax structure). Corporate social responsibility does not mean that every company does all of the above. Just as it is selective in what products/services to market and in which markets, the company needs to be selective in what corporate social responsibility activities to engage in, to what extent, and how. For this, it needs to identify projects, allocate resources, and develop execution, monitoring, and review mechanisms.

An effective way of managing corporate social responsibility is through developing the corporate social performance scorecard (Wartick and Cochran, 1985; Wood, 1991). Wood has developed an elaborate model of corporate social performance that includes principles of corporate social responsibility, processes of corporate responsiveness, and the outcomes, respectively, for business as a whole, the particular business, and the manager.

Corporate social performance is desirable in its own right. But even in corporate business performance terms, the research to date indicates that corporate social performance is generally positively associated with business performance (Griffin and Mahon, 1997). As an example, in a study of 385 American banks, there was a strong positive relationship between the bank’s social performance scores and their financial performance (Simpson and Kohers, 2002). Corporate social performance has been found to reduce the riskiness of the firm (Orlitzky and Benjamin, 2001). By raising the return on investment and by reducing risks, corporate social responsibility practices may raise the stock market valuation of the company and, therefore, contribute to the maximization of the wealth of the investors.

Corporate social performance can also bind customers and employees more closely to the company. In an American survey, it was found that nearly 50 per cent of the consumers polled preferred to buy from a corporate social performance company (other things being equal), and 70 per cent indicated that they would not do business with socially irresponsible firms, regardless of price (Joyner and Payne, 2002). In another American study, there was a strong positive association between the corporate social performance of the organization and how attractive prospective employees found the organization (Turban and Greening, 1997).

As several of the panelists have pointed out, the shareholders are not the only stakeholders of the company. There are several others. But, the top management of large companies frequently gets distanced from the concerns of various stakeholders such as vendors, distributors, financing institutions, minority shareholders, local community leaders, and regulatory agencies. Their concerns, queries, and suggestions need to reach the ears of the top management, and equally, the vision, plans, and expectations of the top management need to reach the stakeholders. Stakeholders’ council is an effective way of ensuring this (Freeman and Reed, 1983). An effective way of designing interaction with stakeholders is to set up a council for each type of stakeholder. Each council should have representatives of the relevant stakeholders and should meet with the management of the company periodically for a productive interaction. An MIS, centered around periodic surveys of stakeholders for their expectations from the company and their satisfaction level, can usefully supplement stakeholders’ councils. For this purpose, the key requirements are the identification of key stakeholders, their needs, their expectations from the company, their strategic importance to the company, the resources that the company needs to devote to each stakeholder type, and the effective implementation of the programmes aimed at stakeholders’ satisfaction. Effective management of the interface with the stakeholders can significantly increase the competitive advantage of the organization (Jones, 1995).

A calm mind is required to make corporate deci-
sions that are ethical, socially responsive, and in the long-term interests of the organization. A variety of techniques, mostly originating in India, are available for this purpose. Professor S K Chakraborty, one of the panelists, has conducted several training workshops with companies aimed at mind-stilling through yoga and at aligning the managers’ values and perceptions to Indian spiritual values (Chakraborty, 1995). Some quite remarkable results have been reported for the practice of transcendental meditation (TM) popularized by Maharishi Mahesh Yogi (Druhl, Langstaff and Monson, 2001). TM studies in the corporate context have shown that not only do the participants in TM training programmes improve their mental, psychological, and physiological functioning, teams become more effective, open, and cohesive. In a US chemicals and auto parts manufacturing company, during the years TM was widely practised, productivity rose 54 per cent, sales per employee rose 88 per cent, and absenteeism declined by 89 per cent.

There are some political philosophers who believe that democracy is incomplete if the political establishment alone is democratic (Hirst, 1993). All the major institutions of the society need to be democratized and these include business organizations. In the corporate context, democratization implies robust systems of grievance redressal, staff participation in management (industrial democracy), a participative rather than an authoritarian style of management decision-making, and institutionalization of such ‘basic’ rights as the right to criticize management decisions without being victimized, the right to information about how well or ill the company is faring and about its strategy and plans, the right to form associations, the right to empowerment through training, career planning, and counselling, the right to appeal against ‘arbitrary’ decisions of superiors (such as concerning one’s promotion, transfer, etc.) or ‘ill-treatment’ and victimization by them, the right to be heard when a grievance arises, etc. A considerable body of research suggests that participative management is associated with high productivity, job satisfaction, and organizational effectiveness, organizational justice systems are associated with staff commitment to the organization, and managerial rights and freedoms are associated with perceived organizational excellence (Khandwalla, 1995; Levine and D’Andrae Tyson, 1990; Likert, 1961; Verma, 2002; Viswesvaran and Ones, 2002). Corporate democracy may confer substantial competitive advantage in securing high quality human resources in the emerging knowledge society.

In a hyper-competitive world, if ethics, social responsibility, spirituality, stakeholders’ management, corporate democracy and so forth erode corporate profits, there may not be too many corporate takers for them. Fortunately, evidence suggests that these need not be at the cost of profitability. Indeed, if they are properly managed, they may enhance profitability. There are a whole lot of companies throughout the world that are seeking the responsible sort of profit maximization. These include Weizhi Corporation of China, Merck Pharmaceuticals of the US, Matsushita of Japan, Dow-Canada of Canada, Fisher-Paykel of New Zealand, SbN Bank of Denmark, and The Body Shop of the UK. In India, too, there is no shortage of such companies: Tata Steel, Bharat Heavy Electricals, Godrej & Boyce, Infosys, Wipro, Hindalco, Thermax, Dr Reddy’s, Titan, Bajaj Auto, and so forth come readily to mind. Many of these profitable companies have won awards for corporate social responsibility. Not that they are perfect, but they are trying hard to be both profitable on the one hand and ethical and socially responsive on the other, and they are succeeding. They are the living examples from which we can learn a lot and develop a new paradigm of professional management.

Can a civilization-enhancing paradigm of professional corporate management emerge that stresses corporate democracy, social responsibility, ethics, spirituality, and concern for all the stakeholders? Yes, indeed; we already know its feasible outline although many details need to be grafted into it. Will it? Possibly, if we so will it.
REFERENCES

