

# Synergy between government & business

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## **Indian economy – a toast of the world**

**2005** has been a year of great strides for India when India's stock market surged to roaring heights and its economy became the toast of the world. Never before have the corridors of India's hotels been humming so much with overseas investors. Never before have India-bound aircrafts been bustling with so many suitors. 2005 saw the rapturous rise of the roaring bull market. The capital market has almost doubled this year. Foreign Institutional Investors have invested with a vengeance. For the first time the market has been wooed even by the Japanese investors. They participated in a big way with an investment to the tune of \$3 billion. The FII in 2005 reached a whopping \$10 billion. As the index stood at 9238 towards the close of the year even the domestic investors had joined the fray. The year also marked a high point in the global reach of Corporate India. Deals of over a billion of dollars were struck by TATA group alone. Trailing behind were Videocon, Matrix, AV Birla Group, Dr Reddy's & Sun Pharma.

## **Foreign Institutional Investors**

Indian assets were hugely valued abroad and in great demand from the foreign direct investors. All three giants – Microsoft, Intel and CISCO systems have announced multi-billion-dollar investment plans with large recruitments of Indian personnel. Microsoft has announced plans to invest \$1.7 billion in India over the next four years. "The only thing that limits us in India is the speed at which we can recruit," said Bill Gates. He was competing with Intel who had earlier announced plans to invest more than \$1 billion over five years. In October, CISCO systems had announced their own plans to invest \$1.1 billion in India. Vodafone has invested \$1.5 billion to buy 10% equity of Bharti. Merrill Lynch has bought 50% of DSP for half a billion dollars. POSCO's commitment of \$13 billion to build a steel plant in Orissa must be an all time record for a single FDI commitment till date. The South Korean steel giant is even developing its own port near the state owned Paradeep port.

## **Private equity**

Private equity also came up of age in 2005. Many of the best VC firms from US were on road to raise funds. Never before has there been so much liquidity afloat. Companies were able to float IPOs and complete the offerings overnight. Despite all this, IT powered Indian exports got us \$17.2 billion in the year ending March 2005. Compared with it China exported to US alone computer hardware, mobiles and digital stuff worth a whopping \$180 billion.

## **Lack of consensus**

2005 was also heralded by the tragic death of a dozen people, most of them tribals, due to the police firing in Orissa's Jajpur district. The tribals had been protecting against the construction of a steel plant on their land. The government action tragically underscored the tremendous communication gap between the government and the business. Quite clearly the government had not been able to create a buy in even when benefits were so obvious and legion. Orissa, though rich in morals in strand of resource to extract it. Here is an opportunity for Orissa's poor to uplift themselves. But all this requires skills for sustained dialogue. Citizens have a right to demand

explanation. It is for the government to use democratic process and involve the locals in decision making. Lack of consensus marks the grim reality of India's development and is manifested in every facet of India's economy. Take the case of the cost of operations in India. According to Ernst & Young study it is 3.2% higher than in its Southeast Asian members. It takes 81 days in India to start operations unlike in China, Taiwan and Korea where it takes 36 days. The working capital interest is 14% in India compare to 8% in other countries.

### **Growth of two nations**

The story of India's development is typified as the march of two nations- rich and the poor and the gap is growing. The spectacular growth of the sensex is shared only by the 2% of India's population. 98% of Indian have no part in it. While the rich and middle classes have never had it so good the 799 millions earning less than \$2 a day have little to celebrate.

### **Abysmal Human Development Index**

The Human Development index ranking for India was 127<sup>th</sup> among 177 countries, as per the Human Development Report of UNDP issued in September 2005. The measure is a composite index of health, literacy, longevity, gender balance and poverty. Our competitive position as determined by the World Economic Forum was 50<sup>th</sup> among 117 countries, well below even Botswana in Africa, that ranked 48<sup>th</sup>. In Corruption Perception Index as determined for 2005 by the Transparency International, India ranked 88 alongside Armenia, Bosnia, Gabon, Iran, Mali, Moldavia, and Tanzania. India regarded as the Software Giant had a dubious distinction of being home to the world's largest number of hungry and illiterate people. 34.7% earned less than \$1 a day. 286 million people live below the national poverty line. 79.9% earned less than \$2 a day. 720 million people do not have access to proper sanitation. 540 million women are still illiterate. 1.7 million live with AIDS.

### **India has world's largest salary differential**

Yet, our corporates are competing with west and boasting giant size executive remunerations. In a country where even those who are lucky to get a job earn less than Rs. 90 a day, companies are vying with each other to offer almost a crore a year even at entry levels to IIM graduates. A survey of Indian billionaires conducted by a newspaper revealed the obscene salary differentials. India a country with the largest gap between the salaries of the highest paid and the lowest paid staff in the whole world. While the CEOs are getting crores of rupees a year, staff at the bottom rung earn not even Rs. 50,000 a year. There was a huge uproar in US when the salary differential reached 1:400. India has crossed the number 3 times over. Ironically a number of companies that paid huge salaries to their promoters or top management showed losses in their balance sheets.

### **People can live in poverty but cannot stand injustice**

Thus India is verily marching as two nations each remaining widely apart. The situation is most unsettling for the business, if they can read the writing on the wall. The potential for social disorder caused by these inequalities can be infinitely more than witnessed in the suburbs of Sydney and Paris in 2005. In this internet world, people may be able to live in poverty but they will not stand inequality and obvious injustice.

### **Stock markets – a great leveler**

Our effort should be to see how this gap can be bridged and how poor can be brought into the market economy. Stock market is the greatest leveler but India's investor still regards it as a casino that is working for insiders. SEBI is doing a great job in tightening norms to prevent price fixing and insider trading. Yet, UTI's US64 is still fresh in people's mind. In a startling revelation

made by CNBC TV 18, leading telecom player Bharti Tele-ventures has reportedly misstated its accounts by a whopping Rs. 2000 crore over the last three financial years.

### **Business has the power to make a difference**

The role of business today is far more pervasive than ever before. Its constituency is global. Today it is the economy that drives politics. It is the business that drives governments. Business is shaping the social values and also becoming a powerful cultural force. The political system has failed to address the human problems of inequity, poverty and terror. The governments of today and politicians particularly, have lost the moral authority. For the first time in human history, the business has the power to make a difference to human lives and can fill the vacuum eminently.

### **Value shift**

One of the greatest debates is on what is the purpose of the company. Arie de Geus in his book, "The Living Company" argues that companies are not machines owned by individuals to make as much money as possible for its owner. They are living beings having their own purpose. Companies are not controllable but influencable through complex interactive processes which are just as likely to alter the influence as the influence. He defines a living company as one that exists primarily for its own survival and improvement in order to fulfill its potential and become as great as it can be.

### **Social good a competitive differentiator**

Charles Handy has discussed the changing "meaning of business". A business, he writes, "is no longer just an economic instrument." Part of the reason can be found in its purpose. "The principal purpose of a company is not to make profit, full stop. It is to make profit in order to continue to do things or make things, and to do so even better and more abundantly. To say that profit is a means to another end and not an end in itself is not a semantic quibble, it is a serious moral point." The simplistic view that prevailed in the 1990s that business leaders need to focus exclusively on shareholder value as determined by the share price and that financial analysts are the best judge of business strategy simply cannot hold ground today.

### **Triple bottom line**

The dean of Oxford University's School of Management Studies, John Kay argues in his book "Foundation of Corporate Governance" that a firm's network of social and business relationship can provide it with a competitive advantage over other companies. One recent poll found 95 percent of the Americans agreeing with a sentiment long shared in Europe and Asia: Corporations owe a larger debt to society than simply making profits. One reason why this is true is the growing recognition of an independent, networked society in which business plays a key role. James Moore's "business ecosystem" model, for example, along with such concepts as industrial ecology, stress that corporations are not narrow institutions distinct from the social contexts in which they are embedded. The recognition among business leaders that they cannot thrive if their surrounding ecology is perishing is already leading many companies to broaden the scope of their activities. "Ten years from now, I am firmly convinced," Moore has concluded, "business leaders will be actively and daily addressing social and environmental issues."

### **Collaborative problem solving**

According to Peter Senge, companies will have to explore the relationships between the business, society and the environment more deeply. "Companies will have to focus on a triple bottom line of people, planet and profits, not just the last one. The big fish in the global pond will lead the way. The big companies have a moral role to start and legitimize these issues as important business issues and start creating different standards." This insight will help

corporations find innovative ways to contribute to broader needs of society by collaborative problem solving. Businesses have to find new models of constructive engagement involving all stakeholders to bring about change in the society. The question no longer is whether the business has a role in social change but how it should play this role.

### **Two billion teenagers**

By far the most important reason for business to adopt the social agenda is the shift in public values. The purchasing power in the 21<sup>st</sup> century is fuelled by two billion teenagers who contribute a third of world population. They are highly sensitive on social and environmental issues and look for companies, which have a social and environmental agenda. No wonder companies are using CSR as a powerful PR platform. They can do much better if they use CSR instead as a business goal. 60% of the customers surveyed in a millennium survey said they would punish companies who were found to be environmentally or socially irresponsible. ITC has increased its market capitalization phenomenally since its adoption of a triple bottom line approach focusing on people, planet and profits, as a way of doing business.

### **Fortune at the bottom of the pyramid**

Socio economic inequalities provide imperatives that provide compelling reasons to make development a business issue. These compelling reasons are not altruistic. The poor offer the world's most exciting, fastest-growing untapped markets and are the greatest source of innovation. Throughout history businesses have expanded and multiplied only by reaching what C K Prahalad, the noted management guru calls, 'the bottom of the pyramid'. Both Microsoft and mobile telephony that spawned some of the 21<sup>st</sup> Century's most successful businesses have proved the point. IBM failed because the vision of its founder Thomas Watson was "there was to be a world market of just five computers". Microsoft succeeded because it aimed to deliver computer in each home. Reliance Infocom, a mobile phone operator in India received one million applications in the first 10 days when it offered a mobile phone for \$10. India today has more mobile phones than landlines.

### **New Business Models**

The success stories of Gramin Bank in Bangladesh, Casas Bahia in Brazil, Cemex in Mexico and ICICI Bank and Nirma in India show how accessing the poor markets have transformed both these businesses and the poor constituencies they served. No amount of handouts could have improved the lot of the poor served by these businesses. ICICI Bank has developed a new model of relationship with its customers. It has no direct contact with its half a million rural clients. It monitors their loans which are as little as 6 dollars with instalments of 20 cents each month through self help groups formed by rural women. Cardiac care and cataract operations are reaching new heights of process innovation in India. A cataract operation in Aravind Eye Hospital costs barely \$50 including stay. 40% of the patients are treated free. Yet, the hospital is debt free and has a return on capital of 120 to 130%.

### **ITC's farm forestry**

ITC, a former subsidiary of British American Tobacco, has transformed sections of rural India. It had serious problem in sourcing pulp for its paper-mills and soyabean for export. It organised the poor tribals of Andhra Pradesh with wastelands into self supporting farm forestry groups. It provided them with high yielding, disease resistant saplings. It claims to have greened some 26500 hectares of wastelands with 108 million saplings and ensured high quality woodbased raw material for its paper-based business. In another initiative called e-choupal linking the villages electronically through a PC kiosk, it has saved Rs 270 (US\$ 6) per tonne for farmers and the same amount for itself in procurement of soyabeans.

### **HLL's Shakti Amma**

A revolution has been brought by a Unilever subsidiary in India, Hindustan Lever. They have created a distribution network of some 30,000 women called Shakti Ammas to distribute their products in remote villages as direct-to-consumer initiative targeted at individuals at the bottom of the pyramid. Training these women in entrepreneurial skills will have a cascading effect on the rural economy.

### **Synergising with government**

It is time that the government, business joined hands to develop synergies to bridge the inequalities through adoption of an aggressive development agenda in an innovative way that benefits the poor and at the same time improve its own bottom line. Such partnership and synergies cannot be developed through rhetoric. This would require intense dialogue to bridge centuries old distrust so that the government and public perceives the business to be an agent of development. This will make the government see the perniciousness of its own subsidies and instead allocate them for promoting social enterprise in partnership with this.

The equation for wealth creation has changed vastly in the knowledge economy. Value comes not from conformity but dissent, not from deference but difference, not from uniformity but diversity. Variety improves the yield. We must vigorously pursue the diversity agenda in all our work groups starting with corporate boards and include diverse individuals from different sex, caste, creed, religion, race and discipline. Both government and business have to learn to value 5Ds – diversity, difference, descent, dialogue and disclosure.

### **Cocreation of entrepreneurial solutions**

It is imperative for the business to cocreate entrepreneurial solutions with the government and offer value proposition for the rural India. The trigger of India's growth has to be rural infrastructure and business should identify infrastructural gaps that inhibit the delivery and supply chains in rural India. Bridging these gaps will open a huge potential in the life style products in India's villages. It will make business sense to invest in bridging these infrastructural gaps. This will not only transform the rural populations and improve the bottomlines of the businesses.

### **SRI Investments and social enterprise**

Fortunately for the business there is a whole lot of investors hold over looking for socially responsible investment. Business should find imaginative models that can solve the burgeoning unemployment in India. The best way to go forward is to build social enterprises as distinct from the public enterprises and private enterprises to create buy in with each constituency. Social enterprise is an entity structured specifically to solve social and environmental problems through entrepreneurial approaches. That enables the business benefits to be shared with the community involved. Amul and SEWA are the best example of social enterprises in India. Social enterprises are UK's best guarded secret. Until this summer, no one knew how many people were employed by social enterprises. But an economic mapping of social enterprises by the Department of Trade and Industry last July showed that the sector makes an £ 18bn contribution to the economy, three times the size of agriculture. Nearly 500,000 are in paid employment and 200,000 are working voluntarily. A substantial majority of social enterprises make most of their income from trading, and 50 per cent are located in disadvantaged areas.

### **Changing the paradigm**

Social enterprise models can be scaled up to include India's public services, healthcare, education, bridging the infrastructure gaps and providing new transactional platform for promoting services and products for the poor and disadvantaged. Social enterprises have the potential to offer a dedication that blue chip corporates only talk about. They can offer the possibility of social cohesion in neighborhoods, solve the environmental problems and alleviate poverty through cooperative effort. Social enterprises benefit the community, because they offer entrepreneurial

solutions. At the same time they help the cooperatives as the profits are ploughed back to the employees. Social enterprises break the dominant paradigm of seeking employment. They encourage a culture where skilled people are involved more in creating jobs than seeking jobs. Since the focus of social enterprise is ethical and its operations transparent, it can attract a substantial section of socially responsible investors.

### **Inequalities will breed terrorism**

The rapid expansion of trade and flows of cross border capital and technology made possible through globalisation, have created unparalleled opportunities for growth and financing of business. Business has been the greatest beneficiary of globalisation. But globalisation cannot work properly if the poor are not made part of it. Sharpening inequalities are the spring wells of terrorism and the greatest threat to the security and sustainability of businesses. The communities that are marginalized harbour a deep sense of injustice that provides a lush recruiting ground for determined extremist outfits who cannot be overcome by war. The problem has to be dealt with at its roots.

### **Global Dream**

In a report last November titled "Dreaming with BRICs : The Path to 2050, " Goldman Sachs asserted that India will overtake Japan in 2032 and that by 2050 India will be the third largest economy in the world after China and US. Such a global dream cannot be realized until the inequalities are abridged and poor become part of our economic miracle. Intense synergy between business and the government is the only way to make it happen.

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