

CIB on wings



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Initiatives of Change
Caux Initiatives for Business

Dear Readers,

Caux Initiatives for Business is pleased to carry in this month's updates a speech that the Chancellor of Central University of Himachal Pradesh and former Member, Planning Commission, Government of India gave at the Inaugural address in the Biennial International Conference that CIB conducted in January 2016.

Rolling mountain slopes and blue skies that surrounded beautiful Asia Plateau, ensconced in the Western Ghats of India, provided the backdrop for several people from business and industry to gather together to not only listen to Mr. Arun Maira deliver the opening address to the conference but also interact with and discuss ways that business could continue to be an engine for sustainable growth.

We hope you will enjoy reading what Mr. Maira had to say.

Editor



Five Rungs in the Ladder of Business Responsibility

Arun Maira is a management consultant and former member of Planning Commission of India. He is presently the Chancellor at the Central University of Himachal Pradesh. He was born in Lahore. He received his Post-graduation and Graduation degrees in Physics from St. Stephen's College, Delhi University. He was a part of Tata Administrative Services for 25 years and worked at various important positions in Tata Group till 1989. He was the first non-Bumiputera CEO in Malaysia when he served Tata Industries from 1977 to 1979.



He was board member of Tata Motors from 1981 to 1989. He was Resident Director from 1981–86 and Executive Director in Corporate Office from 1987-89. He played a key part in Tata Motors' successful entry into the LCV segment. After this, he worked with Arthur D. Little for 10 years where he was the Leader of Global Organization Practice and Managing Director of Innovation Associates, a subsidiary of Arthur D. Little. In 2000, he returned to India and held the position of Chairman of Boston Consulting Group till April 2008.

The following is written from a talk that Mr. Maira delivered at the Inaugural Session of the Biennial International Conference that Caux Initiatives for Business conducted from January 22 to 26, 2016. At the conference 132 delegates from 15 countries, including India, several of them prominent CEO's from business and industry discussed and deliberated on making business an engine of sustainable growth.

Arun Maira spoke on the topic of 'making business a sustainable engine of growth' as described in the following pages. He said that as business people, our focus should not be just the growth of business itself, because business can grow like cancer and destroy the world that is their host.

“Just like we are meeting here on this plateau,” he said, “quite far away, in Davos, Switzerland, many more business people are gathered right now. They gather every year around this time. For the last 4 or 5 meetings, the subject introduced to them was



the condition of the world through surveys. The word 'Trust' had been used and the World Economic Forum had been reporting to the business and national leaders the results of the survey conducted by Adelman Foundation. It is called the Adelman Trust Barometer. Using this, they ask people from different strata of society in many different countries about which institutions they trust and how much. Their survey showed that, at that point, there was a rapid decline of trust for big businesses and in Government too.”

So he asked that, rather than talking about the interest rates and GDP of the economy, should not the leaders reflect on why the people we are supposed to lead, trust us? What is our relationship with people? In Davos, people go around the party with a glass of Champagne but fortunately, here, things are simpler. Thank goodness! Perhaps we can be more sober and reflect about the real condition of the world. There, if one hears that there are people who do not trust us, they can say well lets have another glass of Champagne and forget about them. The differences between those who are in big businesses and those who invest in big businesses have been increasing. In a survey done earlier, it was said that 84 people own as much wealth as 350 million people.

A more recent survey says that 62 people own as much as half the population's wealth. So we see the graph showing rapidly accelerating concentration of wealth and leaving many far behind.

CIB talks about the definition of sustainability being Trust. He asked - What is business doing about building trust for the people in it? Businesses must be conscious about the sort of growth and whose growth they are pursuing. Most discussions in business papers and forums are on expected growth rate. However, real condition and disparities of the world and the declining trust of the people is not discussed. Businesses should be conscious about whose growth they are sustaining, their own or the sustainable health of the hosts of business, who are Humanity, Society and the Earth. On the yearly growth of their own revenues and profits and what businesses should single-mindedly be focused on or should it be the impact of their growth on the sustainability and improvement of the world around them?

He talks not just about well-managed companies but about genuinely good businesses. Good businesses, he says, are good citizens of the world. They are not selfishly bothered only about their own growth and



their own ease of doing business. They feel a strong moral responsibility for the conditions of society, environment and for sustainable growth of the world. There is a mistaken belief among many in the business world that only 'large companies' can 'afford' to be good.

He does not want to hear about Starbucks and Pepsi anymore because small companies worry about keeping their business going. He wants to question this belief that small companies do not have the resources to be good until they grow larger. Size does not have a correlation with goodness. Sweden, Norway and Finland, with a population of 10, 5 and 5 million respectively, are much smaller countries than USA and Russia with a population of 325 and 140 million respectively. The GDP of USA is 35 times larger than that of Sweden or Norway. Though these countries are tiny in comparison, the Nordic countries do far better in all aspects, like health, education, environment and well-being of their citizens. They also make much larger contributions to the improvements of societies around the world than USA or Russia. This he averred that, to be good, being large is not essential.



A good business has the qualities of a good human being. A bad human being is a selfish person who does not care whether his/her actions harm others. They care only for personal benefits. Such

human beings, through bad actions, can become very wealthy and powerful. The fact that they are wealthy and powerful does not mean they are good. Similarly, the fact that a company is large and dominant in its industry does not mean that it is a good company. A good company cares about others. It is very mindful about the effects its products

and processes have on the environment and on the lives of people. It believes that it is responsible for the condition of the society and the environment, not just for the profits for its owners and investors. Any company, big or small, can learn to be more responsible. Business leaders can learn to climb up a ladder of business responsibility. He described the five rungs of the ladder of business responsibility.

The first rung, he said, is accountability to investors and lenders. This is the financial domain, the domain of corporate accounting and auditing, corporate law and stock market regulators. This is the principle focus so far, of good corporate governance practices. There should be transparency in information to your investors and fairness in the distribution in the profits among the small and large investors.

The second rung is accountability to the direct participants in the businesses, financial value creation process, to customers, employees and vendors. This is the domain of good consumer protection law, labor laws and commercial contracts.

The higher rungs take companies into domains where their responsibilities to others can conflict with their own selfish interests.

Therefore, the first two rungs are the principle focus of good business management. However, he did not dwell on these two levels as they are merely good management. They are required, he said, for survival and success, through healthy cash flow and profits.

The higher rungs take companies into domains where their responsibilities to others can conflict with their own selfish interests. The third rung is the accountability for the effect of business operations on the physical environment. Companies can reduce their costs and increase the profits by dumping their wastes in their surroundings, discharging

their effluents into the rivers, by drawing excess underground water, which drains wells of the community around them. The damage is to the environment that belongs to everybody. The profits of the shareholders in the company increase. This is a selfish act. Bad companies resist environmental regulations as they see it as a curb on their own profits. On the other hand, good companies do not need to be regulated because they voluntarily take care that their products and production processes do not harm the environment.

The fourth rung is the accountability for the effect of businesses' products and processes on the lives of people, their health, education and values. This is difficult territory for business to navigate. It is easy to give customers what they want even though it may be bad for their health. In fact, it is good management to find out what people need but are not getting and produce it and increase revenues. As humanity's knowledge increases, we realize what damages lives. Fifty years ago, smoking was acceptable. In fact, people who smoked were considered sophisticated. Tobacco company ads promoted such ideas. They created a growing market of smokers and became very large and profitable. They resisted regulations. They continue to want people to buy their products even though they know it is harmful. There are many such things that people want and are willing to pay the price for. Many companies take advantage of this and become big. But that does not make them a good company.

The fifth rung of business responsibility takes business even higher into their role as responsible citizens of the societies in which they operate.

As we climb the ladder, let's look back. The first two rungs of the ladder of business responsibility were about smart business management. They were about responsibility to investors and participants in the business's value chain - customers, employees and suppliers. The third and the fourth rung that is accountability for the impact of the business's footprint

on the environment and on the health and livelihoods of the people and broad businesses up to their broader responsibilities to society. The fifth rung of business responsibility takes businesses even higher into their role as responsible citizens of the societies in which they operate.

Last year, many Indian writers, artists and filmmakers expressed their anguish with the divisiveness being fanned within India by some political forces. As concerned citizens, these artists, writers and filmmakers believed that it was their duty to protest. However, when financial rating agencies expressed its concern that societal tensions will throw sand into the wheels of India's economic progress, senior Indian officials and ministers told Moody to stick to its business and concern itself only with economy. Some Indian business leaders also warned against the hate mongering among the political leaders. Did they have a duty as citizens to speak up on what had become a politically contested matter or should the business be only business? These questions about business



responsibility had also come up after the riots in Gujarat in 2002. Some business leaders had spoken up then. Reacting to those business leaders, a political leader wondered why industry was making a noise when it had remained silent when Hindus before that were driven out of Kashmir.

Similarly, Royal Dutch Shell was accused of complicity by remaining silent when the Nigerian government executed the activist and author Ken Saro Wiwa in 1995. Shell was in a quandary at that time. Its business philosophy was to be a good cooperate citizen by working in partnership with governments everywhere. But, what if the government is not effective in protecting human rights? According to Shell's critics, the company should have stood up for what was right in Nigeria even if its own business suffered. Businesses have acquired the rights of citizens in

society, rights to property, rights to protection under law, rights to sue the government and so on. However, with rights, should they not have responsibility like every citizen for building a good society? The most simplistic interpretation of the nostrum that 'the business of business must be only business' is the role of business in society is to run profitable operations and create value for shareholders. Associated with the ideas of free markets and freedom for business and minimum government, this became the dominant paradigm since the 1990. At the same time, another set idea of has acquired great force in global governance. These are ideas about the governance of the entire system of which everyone, individuals, businesses, and nations, each one are only a small part. These ideas were translated into the millennium development goals in 2000 and then to the sustainable development goals in 2015.

Realization is dawning universally that everyone, including businesses must act to improve the commons that we all share the natural environment as well as the quality of society, including human rights and justice. Right now, we are celebrating start-ups. Leaders of successful business start up sometimes wax eloquent about how they motivate



their employees. Some say they urge their employees to find true meaning in their lives. They say their enterprises enable employees to fulfill their life purposes. These are lofty statements indeed. However, what about these leaders themselves, what is their purpose in life? Is it to make more money for themselves and their investors or to make the world better for everyone?



When leaders must stretch to reach higher rungs, India's new CSR law is pulling them down. India's retrograde CSR law 2 – 3 years ago demanded that businesses spend a small portion (2%) of their net profits to fulfill their social

responsibilities. It does not ask whether the products and processes of the business had harmed the community and the environment. Further downhill, the government is asking businesses to pass on their 2% CSR money to the government for its programs. Thus, the concept of business responsibility has degenerated into a small additional tax on businesses, rather than the way for business to discharge its own responsibilities to society by improving the way it operates. With 2% CSR, the responsibility of business to society stays on the lowest rung on the ladder. The aim of business remains making money. It is easier to sign a cheque than to look into one's conscience and to change one's behavior. Societies need new scorecards to measure the worthiness of business. Business leaders need new yardsticks to measure societal values, which they do not even think about and often destroy in their drive to create more shareholder value. Leaders venture where others have not. It is easier to stay lower down in a well-traversed territory. Higher up, the ladder goes into the cloud and it is not easy to see the way. Real leaders take risks, pursuing a purpose higher than merely making

and obtaining a large amount. Unless growth respects the environment and the needs of human beings and societies for fairness and justice, it cannot be sustained.

In essence, for businesses to become an engine of sustainable growth, business leaders must climb the ladder of business responsibility. It does not have to be large to climb the ladder of business responsibility. What is needed is a good conscience... a voice within that is not silent.



While every human being has a conscience, some pay more attention to it. Similarly, leaders of all businesses, large or small, have a conscience and they must listen to it, not only to financial analysts. When they are troubled, societies find real business leaders who can be trusted to care for their causes. These leaders are on the fifth rung. Every leader of a business - small or big, must honestly ask oneself how many rungs s/he has climbed by then and how many more must be learnt to climb to make the business an engine of sustainable growth of humanity's enterprise. This is more difficult and worthy than merely increasing profits.

Mr. Maira concluded with his best wishes for a worthwhile conference in which each one will be able to connect deeply with a passion to make business an engine to improve the world.

Transcribed and written by Mrs. Ishika Banerjee. Our thanks to Mahendra Shah for his valuable help in going through the same.