Corporate Governance: Beyond Profit Maximisation

Business and society have been inter-dependent since time immemorial. Though the dominant paradigm of business has been profit earning, the obsession with profit at any cost causes harm to both business and the society and ultimately the business flounders and fizzles out. Fortunately, corporate examples are there to vindicate that ultimately businesses that successfully blend their concern for profit with humane concern stay, survive and thrive. Hence, there is the need for humane business management. In this background this article focuses on humane alternatives to mindless commercialisation and how to apply these without loss of productivity, and how to enrich business practices to make the business enduring.

Initially, the dominant objective of business was profit and of the wealth of the owners. But, business history is replete with instances that the mindless obsession with profit maximisation at any cost, when carried to any extreme, can lead to failures like Enron, WorldCom, Parmalat, and Union Carbide. At the same time, these are also the business organisations confirming that organisations conducting business following practices detrimental to the social well-being ultimately perish. On the other hand, business organisations demonstrating their social concern by blending their concern for profits with humane concerns like Johnson & Johnson, Maruti Limited, Reliance Industries Limited, and Tata Iron & Steel Company, etc. stay, survive and thrive in the long-run. That is why there has been a dominant shift in business paradigm beyond profit maximisation to social/humane concern. Now, social responsibility of business has become the buzzword of business terminology and also has been caught by storm in business discussions and debates.

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What is Corporate Social Responsibility?

Few terms have been discussed and defined, during the last decade, in as many different ways as corporate social responsibility. Thus, different people have described it differently. Some of the more popular meanings include "profit making only", "going beyond profit making", "voluntary activities", "concern for the broader social system", and "social responsiveness (Carroll, 1979)". In fact, this is an old concept but new term. As a concept, corporate social responsibility has gained momentum recently in India, but as a way of life, Indians have practiced corporate social responsibility since times immemorial to affect social welfare and social well-being. Here is one such instance to quote from the first verse of '*Ishavashya Upanishad*' that describes: **"**All that exists in this Universe is the abode of the Almighty. Therefore, enjoy the good things in life by sharing them with others. Do not covet the possessions of others (quoted by Raj, 1999)**".** This is akin to the concept of *Vasudhaiva Kutumbakam***,** in which the whole earth is to be

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treated as one's family.

Without going into semantics of its definition, corporate social responsibility can simply be defined as businessman's decisions and actions taken for reasons at least partially beyond the firm's direct economic or technical interest. The underlying justification behind corporate social responsibility is that business organisations operate within the society and earn profits by taking inputs from the society and then selling its outputs to the society itself. Therefore, just like a citizen, corporations also like corporate citizens have to reciprocate to the society for what it receives from the society. This implies that both business and society are interdependent. Both can survive only with cooperation with each other.

Paradigm Shift: From Profit to People

The inter-dependent nature of relationship between business and society is best illustrated by the management guru Drucker (1954) by an example of a ship and the sea. He states that the *relationship between business and society is "like the relationship between a ship and the sea which engirds it and carries it, which threatens it with storm and shipwreck which has to be crossed but which is yet alien and distant, the environment rather than the home of the ship. But the society is not just the environment of the business enterprise. Even the most private of private enterprise is an organ of society and serves a social function."* The evolution of corporate social responsibility in its formal form is traced back to about seven decades in USA when Alfred North Whitehead (1933) for the first time made a mention in his essay about businessmen. He mentioned: *"A great society is a society in which its men of business*

think greatly of their function."

However, there are two types of views, namely, opposing and supporting the corporate social responsibility. A brief mention of these seems pertinent here.

I. Opposing View

Earlier, profit as the dominant paradigm of business was considered both in principle and practice. For the 'puritanical' cult of capitalism, Adam Smith is considered the high priest and Milton Friedman the most forceful evangelist of the most sacred mantra of profit maximisation. They favoured profit making as the only objective of business. Adam Smith (1776) came up with the idea that the greatest good of the greatest number, which was later in the eighteenth century known as the 'Utilitarian Theory of Business Ethics' enunciated by Jeremy Bentham and John Staurt Mill (1897), is effectively served by the 'Invisible Hand' of self-interest. According to Smith, what is good for an individual is good for society also. In a sense, it borrows much from our ancient thinking when Bhishma teaches Yudhishthira in Mahabharata: "No Duryodhana. No one from the warrior caste should use the game of dice to win his kingdom; that is cheating. Only the trader's caste can cheat as that is their profession" (Subramaniam 1993). Later, Alfred Marshall and other classical economists further enlarged and refined Smith's view into a separate economic theory. This theory argued that especially under competitive market conditions, profit maximization by firms leads to the most efficient allocation of resources, lower prices and larger aggregate output than under monopoly. Such excellent theoretical results elevated profit maximisation to a pure academic cult. Milton Friedman of the University of Chicago was one of the foremost exponents of this cult of profit maximisation of business.

Friedman boldly proclaimed: "The business of business is business." According to Friedman, "There is one and only one social responsibility of business – to use its resources and engage in activities to increase its profits" (Friedman, 1962). Yes, he later relented to some extent and accepted that profit maximisation should be attempted within a legal framework and subject to broad social ethical norms (Friedman, 1970). This is akin to what we now call 'social obligation.'

The classical economists also have their apprehensions about who will bear the cost of social responsi-

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bility. If the cost of social responsibility is passed on to customers by adding it to the price of the product, it will make the product relatively dearer than the products offered by the competitors. As such, the customers will not demand for the costlier products. If the cost of social responsibility is to be borne by the owners, they will get lesser returns on their investments. As a consequence, they will siphon off their investments from socially responsible firms towards that are not, because the latter will provide higher rates of return. According to them, in either case, business firms will suffer from shortage of funds and may not run for long.

As already mentioned, the obsession with profit maximisation has led to several undesirable and unethical business practices such as unhealthy work environment shortening workers' life, bribing government officials, evading tax liability, manipulating share prices through insider trading practices, polluting the environment, palming off harmful products to unsuspecting customers, and driving the competitors off from the market through underhand means. In WorldCom, for example, the profit making motive led to unethical practices of financial lapses and the serious accounting misdemeanors which, in turn, led to death of WorldCom (Kadlec, 2002).

According to the World Bank estimates, up to $80 billion a year are given as bribes to official 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 corresponding number may be in millions in the developing and third countries like India. The tobacco industry, for about 30 years, concealed from the public the knowledge of the addictiveness of smoking and the associated health risks. The prosecuted corporate frauds increased in the US by 150 per cent between 1984-85 and 1998-99. Nonetheless, these unethical business practices can extract rather fearful cost in societies where ethics, legal structure, and governance are weak and moral capital is at its nadir (Khandwalla, 2004).

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II. Supporting View

Evidences are available to mention that the alternative business practices of blending concern for profit with humane concerns ensuring stay and survival of business abound in corporate history. Corporate social responsibility does not impinge upon business profitability, rather it helps increase the profitability in long run, if not in short-run. The relationship between business and society is just like a ship and sea. Just as no ship can reach the other side of its destination without cooperation and sanction from the sea, business can also not stay and succeed for long period without acceptance and sanction from the society. Corporate history is witness that business flourishes only where society thrives. Hence business corporations need to show and exhibit their concern for the well being of the society within which these operate. Corporate social responsibility earns 'social capital', also called 'social patronage', for the business, which involves the creation of trust, reciprocity, and tolerance of third party actions. Corporate social responsibility offers bonus also in terms of stronger employee bondage with the organisation and stronger and deeper motivation (Verma, 2002).

Let me illustrate some of the humanising practices that have created social capital or reputation capital for business organizations, which has, in turn, benefited these organisations run their business successfully.

Merck, the pharmaceutical giant of US, developed a treatment for a tropical disease, which in layman's language is called 'river blindness.' This disease afflicts 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 Organisation, 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 of Merck has enhanced its social or reputation capital (Khandwalla, 2004).

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 supply 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.

Having justified the need for corporate social responsibility, let us now investigate into the alternatives available to business corporations to judiciously discharge their social responsibility.

Alternatives to Corporate Social Responsibility

All evidence suggests that profit maximization by a business organisation does not necessarily confer maximum benefit on all parties and stakeholders. Instead, it results in inequitable consequences. At the same time, it would also be wrong to infer that profits are not important. In fact, they are crucial for survival of business. Only when a firm is profitable can continue in business and discharge its social responsibility also. But being profitable is not an end itself. It is a means to other wholesome pursuits to be undertaken by the business. Here, what is really important is to earn reasonable profits is quite distinct from treating it is as the *raison d'etre* of business existence. The reason being profit in the end is just like oxygen –certainly necessary for survival, but, of course, not the purpose of it. Thus, it is desirable and important to be profitable, but to make a fetish out of profit maximization would be counterproductive. Therefore, beyond a reasonable level of profits, it is important to consider a higher set of objectives. For example, 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. Similarly, Thermax has decided to contribute 1.0 per cent profit after tax to social causes. These along with other business organisations like Tata Steel and Matsushita make it sufficiently clear that business firms must pursue a higher goal than mere profit maximization. Profit with a purpose larger than one's 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.

Justification for corporate social responsibility can well be imbued with the example of an individual. Can an individual, at the end of his life, be judged simply by the amount of wealth he/she accumulated in his/her lifetime? The answer is unequivocally no. For judging so, we would also take into account the means he/she employed to generate the wealth, how he/she used it subsequently, his other accomplishments, and the overall equity of his life. We actually 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. The reason being success is multivariate. The same holds good for the business organization also.

As per the existing laws, ownership of modern business firms is conferred on people who invest their money in financial equity. Accordingly, they have been given exclusive rights to the profits earned. But, the fact remains that a modern firm has other types of equities as well in addition to financial equity. Investments in these other equities are made by a variety of stakeholders. These include:

Intellectual Equity: Employees invest their ideas in improving technological processes, product quality,

cost of management, and customer services. It is worth mentioning that these initiatives usually go far beyond the outline of normal duty for which they are compensated.

Goodwill Equity: The community around a business organisation invests its goodwill by continuously supporting the operations of business inspite of inconveniences the business causes to the community, for example, environmental and noise pollution and traffic congestion.

Growth Equity: The government by providing law and order, economic policies, and infrastructural facilities as supportive conditions of business invests her growth equity in the business.

Knowledge Equity: Educational, training, and research institutions invest knowledge equity by investing their expertise through their research and knowledge product, i. e. the students.

Therefore, it is unfair for shareholders to appropriate all the profits. These other stakeholders too would like to receive some dividends for their investments, i.e. equities. The same serves as the germane for the idea of corporate social responsibility. As business firms are embedded in a society and draw all their resources from it, they must act like responsible citizens. That the neglect of societal interests can be very detrimental and can shake the foundations of business built over decades is best illustrated by the examples of Union Carbide in India, known as the Bhopal Gas tragedy, the world's worst industrial disaster on December 3, 1984, claiming over 15,000 lives and left five lakh people ill and the tobacco giants in the US. Therefore, while pursuing their interests, they must also ensure that they contribute to the well-being of those around them. 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. The flurry of recent corporate frauds that have come to the light suggests that the single goal of profit maximization neglecting concern for the social well-being has the germ of unethical conduct. For example, the reckless pursuit of profit by any means led to the extinction of Enron. The examples of Enron, Union Carbide, WorldCom, Parmalat, and many more conform to the view expressed by Stephen Covey while establishing relationship between people and civilisation.

Covey opines, "The lesson of history is that to the degree people and civilisation 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." Business organisations 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.

As mentioned earlier, where society thrives, business flourishes. The business 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 350 American banks, there was a strong positive relationship between the bank's social performance scores and their financial performance (Simpson and Kohers, 2002).

On the whole, business organisations exhibit either of the two kinds of profit maximization motives. The one is of greedy motive, and the other is of responsible motive. The greedy motive of profit maximisation is one where ethics, corporate social responsibility, and the concern for stakeholders other than the promoters do not matter. While the greedy motive is disastrous for mankind, the responsible motive is the future of organizational civilisation. There are a whole of companies throughout the world that are seeking the responsible motive of profit maximisation. To quote, 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 business organisations: 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.

Conclusion

Profit is oxygen to business. No business can survive without profit. Hence, business must earn profit but with social concern. Business operations need to benefit to business and society on a symbiosis basis. The reason being where society thrives, business flourishes. Therefore, there is an urgent need to mould the motive of businessmen toward profit maximisation with social concern. A successful way to achieve this objective is conducting training programmes on Transcendental Meditation (TA) for businessmen to improve their mental, psychological, and physiological performance. In India, Professor SK Chakraborty, a votary of spirituality in management, has conducted several training workshops with companies aimed at mind-stilling through yoga and at aligning the managers' values and perceptions to the Indian spiritual values (Chakraborty, 1995). The results are quite perceptible and encouraging. Sooner it is done on increasing scale, better will be business in totality. ■