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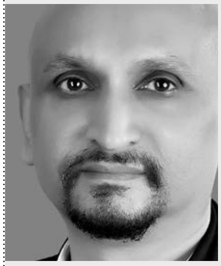

Shouldn't companies manage stakeholder interests?

Without the welfare of stakeholders (employees, customers, suppliers, communities, and society at large), businesses will soon find a bottom and pushback

Most enterprises run on the fundamental principle of maximizing shareholder value. The exploitative capitalism is ever pervasive even in a pandemic setback. Questions have been raised now in the wake of vaccine-resistant, mutative COVID-19 whether it has become a panacea for over-exploitation – of labor, environment, the poor, women, lower castes, etc. It seems not many businesses are in a hurry to prove Ayn Rand wrong. (She had stated that the soul of capitalism was dead).

Add to that the ever-increasing corruption at every level (from containment zone management to vaccine tourism) and the growing poverty (80 crore Indians were identified for free ration by the Prime Minister himself). Without the welfare of stakeholders (employees, customers, suppliers, communities, and society at large), businesses will soon find a bottom and pushback. The concept of maximizing "shared" value

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is finding currency in many developed economies ever since the 2008 financial meltdown and several billionaires across the world are showing commitment to it. Not much of that is visible in India though.

Take for instance how one of the biggest shareholder wealth creators in India made a big show of donating Rs 500 Cr to the PM CARES Fund only to announce within the week unilateral wage cuts citing lack of funds. Clearly, it was a show for PR and a probable quid-pro-quo from government/policymakers. How could a board approve donations when the enterprise didn't have the resources to pay salaries to their own employees who toil long hours and suffer stress-related chronic illnesses? Where is the governance these directors are supposed to do?

Perhaps this reluctance to share the wealth with stakeholders prompted the Indian government to statutorily mandate a social responsibility tax on corporates. India seems to be the first and only country in the world to do so which raises the question of why Indians have a tight fist. Currently, over 60 percent of our population is considered to be below the poverty line, receiving free food supplies, while the rich increased their wealth by as much as 35 percent, which happens to be much higher than the 23 percent crash in India's GDP.

As with most regulatory and legal things in India, the problem with the CSR rule is that enforcement has never been a strong virtue. No statutory audit of CSR spends is done and so most companies and their promoters find ways to divert these funds back to their own pockets by way of setting up own trusts and foundations. Surprisingly, the government has allowed this to flourish. The number of companies having their own trusts and foundations has gone up ever since the CSR rules came into effect in 2014 and is growing every year. This is drying up the funding for genuine non-profit organizations that do dedicated last-mile fulfillment.

Prior to 2014, how many Indian companies had in-house foundations for social outreach? How come companies found a sudden passion for social responsibility post-2014? Why are many of them doing their own social work now even though it's not their core competency? Are they expecting to add better value or lower costs of implementation by doing the CSR work themselves? If they cannot do either, why wouldn't they outsource this to NGOs, in a similar way they would do with their business processes? The government should ban CSR spending by in-house trusts with retrospective effect to ensure that social impact is sacrosanct for CSR.

The Economic Times had reported sometime back how middlemen operate for a handsome commission to take out the CSR funds transferred to an in-house trust as cash and manage the eventual payback to the promoters. No wonder why so little development is visible on the ground despite claims of thousands of crores supposedly spent under CSR.

The misplaced wisdom of maximizing shareholder wealth is also evident in another area: Share buybacks. In 2019, over 60 Indian companies bought back shares, but in a crisis like what we face today, if they don't have cash reserves to support employees, layoffs and pay cuts are likely. It will be interesting to see how

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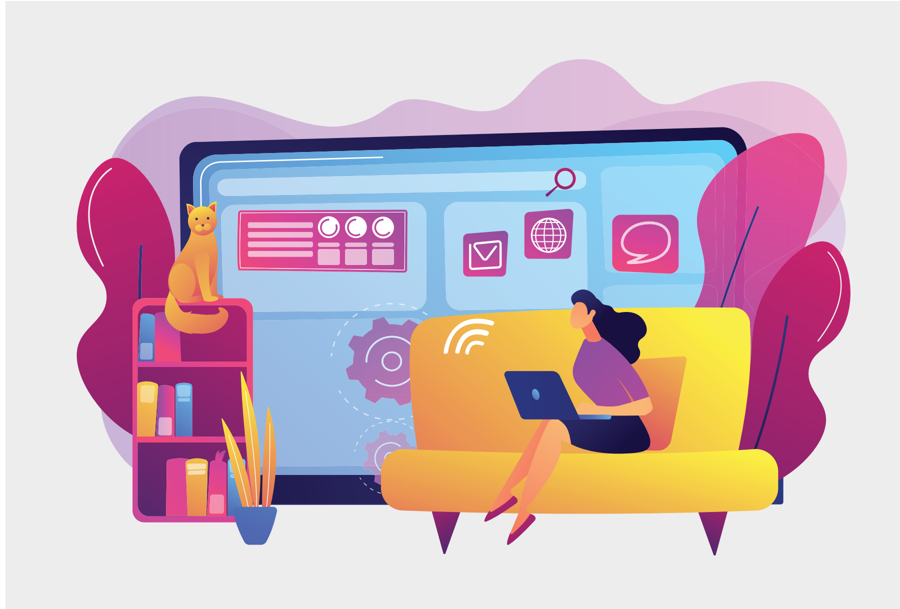

many of these companies actually increased wealth for shareholders once the current financial year closes.

Shouldn't the board of directors be cognizant of all these issues and be made responsible and accountable?

A year ago, several US corporate heavyweights vowed to stakeholder capitalism and address the interests of employees, communities, the larger public, etc as opposed to the traditional narrow focus on shareholders. Some 180 marquee companies including Amazon, BankAm, Ford, and Walmart committed to pare their CEO/median pay ratios, aim for a longer-term shared-value focus, and build the interests of suppliers, employees, and the environment into their governance.

One year later, a review of how well they have performed on these pledges turned out to be a mixed bag. The biggest stumbling block was timing. In the late summer of 2019, no one anticipated that the next year would bring a crippling global pandemic, a crashing economy, riots in American cities, and the current level of world political brinksmanship. When corporations face sudden shutdowns, cash drains, and massive uncertainty, social responsibility becomes the first casualty.

The original plan was that they would adopt the somewhat-vague goals to suit their business strategies. Yet, none had published their own "here's how we plan to do it" stakeholder empowerment details. A journey without roadmaps tends to never leave the driveway just as a journey without a destination will always let you claim wherever you reach as the destination. Sounds familiar?

If the CEOs signing the stakeholder statement were serious, why hadn't their boards joined in with endorsements and targetted calls for action? Why didn't they insist on specifics?

2020 has made the call for stakeholder governance shriller. Companies are forcing employees to sacrifice by asking them to work remotely from homes that aren't designed for it and to accept pay cuts. All of these are more realistic with employees treated more like stakeholders. Suppliers and customers are in real danger of failure and need help. Let's hope that businesses will share the responsibility for the ill-health of society and the economy.

ABOUT THE AUTHOR

(With inputs from Ralph Ward)
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