

Corporate virtue in India

CSR is fine but it does not preclude a firm making large profits through unethical business behaviour

In previous columns, I discussed the concept of virtuous growth, which encompasses inclusive growth. Virtuous growth includes promoting fairness, but it also means avoiding societal change that corrupts and degrades positive human values. I discussed how virtuous growth might be promoted in practical terms, in the realms of governance and civil society. Here I want to discuss the role of business, specifically large firms that are India's leading institutions of capitalism. What can and should their role be?

One idea of virtue is that of corporate social responsibility (CSR). This is fine as far as it goes, but it does not preclude a firm making large profits through unethical business behaviour and then allocating a small amount for superficial do-good efforts. Business tycoons also set up charitable foundations with their wealth, but, like CSR, these have no impact on the manner of doing business. The key desideratum is more ethical behaviour at the core of business practices.

One problem in effecting better business behaviour is that corruption is endemic in Indian society. The corruption scandals that are so common in government functioning also involve corruption by private sector firms. People in government demand bribes, and people in business supply them, in an unholy equilibrium. How can this equilibrium be changed? Kaushik Basu's proposal to decriminalise bribe-giving (but not bribe-taking) focused on situations in

which individuals are entitled to a government service but are forced to make illegal payments to receive it. At the Delhi Economics Conclave earlier this month, Avinash Dixit of Princeton offered a different focus and proposal for reducing corporate corruption.

If corporations need government approvals, or are competing for government as a client, they may pay bribes to avoid being at a competitive disadvantage if "everyone else is doing it." Dixit proposes to address this problem through collective action mechanisms. In particular, he advocates self-regulation by the major industry associations, with clear codes of ethical conduct, explicit pledges, and mechanisms for punishing violations. The judicial system would have to create a framework for recognising such extra-judicial mechanisms, just as it does in the case of special arbitration. Existing examples of such institutions are university and military honour codes, and the workings of local associations to manage common pool resources (studying which earned Elinor Ostrom an Economics "Nobel"). Implementing such mechanisms is not easy, nor are they ever perfect, but they can work.

Dixit's proposal is important as well as timely. Here I describe developments on the Indian institutional side, which

complement his theoretical nuances. Interestingly, private sector bribery is not even a criminal offence in many cases. The government drafted a Bill in 2011, and it is circulating for comments. Major industry associations such as the Confederation of Indian Industry (CII) and the Federation of Indian Chambers

of Commerce and Industry (FICCI) have come out in support of the Bill. Changing the legal playing field is an important start to institutional reform, and complements Dixit's ideas. Ideally, some of the practical monitoring and enforcement tasks would be assigned to an independent regulator, as they are in the US or UK.

Closer to Dixit's idea is last year's proposal by CII, of a Code of Business Ethics for its members. While the draft code is too vague and broad in many places, it is categorically against corruption, including all bribe-giving. BS Raghavan, in the *Hindu Business Line*, has made specific suggestions for increasing the specificity of the requirements of the code, and raising levels of transparency with respect to lobbying and influence activities. Dixit's proposal would strengthen this effort even further, with sanctions against violators. It is surprising that there has not been more public debate on this effort, and discussion of how to get it right. In fact, none

of the other major industry associations appears to have followed CII's lead.

Also just a few months ago, the Global Compact Network India (GCNI), an arm of the United Nations Global Compact, released a report '*Raising the Bar Through Collective Action: Anti-Corruption Efforts in Action in India*.' The report release gained much attention, but there appears to have been no follow-up: the document is nowhere to be found on the Web. Press releases suggest that the report consists of a few case studies featuring transparency, monitoring and public standards of behaviour, together with advice for more collective action. Exactly!

In a sense, industry associations do not need GCNI's report—they know what they have to do. But public debate has to push them into moving forward, to enshrine the ethical best practices that some of India's iconic companies already have in place. In the short run, this will be difficult, as a critical mass of acceptance has to be reached. CII's effort has broken the ice, and the other industry associations should follow its lead, or even leapfrog it, in creating and enforcing anti-corruption codes. In the long run, raising standards of corporate behaviour on this front will benefit those firms that can do well by being more efficient or innovative, not by bribing. This will enhance growth in the long run and make it politically more sustainable.

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