THE HINDU Business Line

'Cost of corruption less profitable to companies'

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A matter of time before companies realise that corruption is not a good means to their ends: Sheth

Prof Jagdish Sheth: The more you are driven to serve the society, the more money you make. — Bijoy Ghosh

Contrary to what Milton Friedman says, the business of businesses is not just business, insists renowned management guru Professor Jagdish Sheth, the Charles H. Kellstadt Chair of Marketing in the Goizueta Business School at Emory University.

In his book Firms of Endearment *he, along with his co-author, Rajendra Sisodia, who coined the term 'Conscious Capitalism', show how companies who take care of multiple stakeholders outperform the S&P 500 index four times.*

So, what does Sheth, who has devoted a lot of time researching the benefits that companies gain by making money the right way, feel about the current spate of corruption scandals rocking India Inc?

"If you do a cost analysis, let's say you want to corrupt a politician to do you a favour — then the cost of corruption is less profitable to companies. There are any number of examples from history that the corrupting way of business is very short-term. It is not long-lasting," responds Sheth.

In Delhi last week to receive the Global Management Guru Award 2011 awarded by the Birla Institute of Management *Technology, Sheth paints a rosy future for Indian companies.*

By 2025, according to him, India Inc. will transform into truly global enterprises, not through exports but through large, global acquisitions of world-class companies with strong technical, manufacturing or branding assets.

He also predicts that India will become the second largest consumer market, if not the largest, in many products and services.

Third, India will partner with strange bedfellows in search of industrial, agricultural, energy and talent resources around the world, he forecasts. So, from Bolivia, Peru to Egypt to resource-rich African countries, we could see India aligning itself with countries based less and less on ideology but more on markets and resources.

Just before the awards ceremony, Sheth, who is a prolific writer, spoke to BrandLine on the books that he felt have had the maximum impact on businesses. Excerpts:

Of all your business books, which have had the maximum impact and how do they continue to be of relevance?

Probably three different books have had a major impact, on reflection. The first one was *Rule of Three* which is an understanding of how competition shapes industry. It has a simple message. That companies tend to be either small or niche players, either margin-driven or volume-driven. And the worst place is when you have neither margin nor scale advantage. The ‘rule' has today become a powerful framework worldwide to understand how competition is likely to emerge and impact companies.

Now the current interest in *Rule of Three*, I would say, is in the global automobile sector. We are all watching to see who will be the three large global players likely to survive.

Toyota will definitely be there. But the number two player, we think, will be Volkswagen. Because the markets are shifting from the advanced countries to emerging countries such as China and India. As Maruti is partly owned by Suzuki, which is partly owned by Volkswagen, Volkswagen is already strongly positioned in the two biggest and fastest growing markets.

What will be interesting to see is what is going to happen to the other players? Will they sell out now or become more regional players or will they move into product specialisation?

The second book, *Firms of Endearment*, which we think will have a long-term impact, is more recent. We found that companies that take care of multiple shareholders outperform financially.

It shows you that the more you are driven by serving the society, the more money you make. Everybody blesses you to make money and they admire you because you are making money the right way.

What about the converse? India has recently been rocked by the Radia tapes and other scandals that show that companies are not making money the right way.

Surprisingly, we have not as yet calculated the cost of corruption on the companies that want to corrupt the politicians. If you look at the whole history of monarchy, lots of people lost money because they were aligned with the monarchs. That was what happened during the Russian Revolution. When the tsars were thrown out of Russia, if you look at the corporations and family businesses who made money by aligning themselves with the monarchs in some fashion, they lost everything. So ultimately, the risk attached to corporations aligning themselves to political parties is much greater. We are trying to calculate how much the risk will be. Ultimately, what works and has impact is numbers — we are all driven by economic calculations.

Just to give an analogy. Four years ago, we became curious about workplace violence in America. We documented police records of one-and-a-half million instances of violence, hold-ups, and others, by people at workplaces.

The second biggest cause of workplace violence is disgruntled employees bringing their problems to the workplace. It turns out that the average annual cost to the company — not to the victim and not to the community — just to the company, exceeds $200 billion a year which is much more than the money spent on any war, except for Iraq and Afghanistan.

In a $14-trillion economy, $200 billion does not look that big. Till you do the numbers.

Now we are trying to see how you can handle workers who are agitated, very angry, so that they do not become militant. We are going back to the Gandhian principles to do that. Interventions for drug assistance, alcohol. Creating employee assistance programmes.

It's the same thing with corruption. We just have not calculated the cost. But it's a matter of time before companies begin to understand that corruption is not a good means to achieve their ends.

What about the third book?

The third book was on why good companies fail. It took me seven years to do the research. Companies do not get destroyed by the competition, companies do not get destroyed by sociology and ecology. Companies destroy themselves.

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(This article was published in the Business Line print edition dated January 27, 2011)