

**IIMB WORKING PAPER NO.2009-11-298**

**Governing the Socially Responsible Corporation  
A Gandhian Perspective**

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# Governing the Socially Responsible Corporation

## A Gandhian Perspective

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**12/14/2008**

### **Abstract**

There is increasing evidence of migration towards an integrated model of governance which is sensitive to the needs of the society even as it emphasizes the imperatives of shareholder wealth creation, its accounting and reporting, and equitable distribution. While much of this transformation is usually credited to initiatives from the developed markets of the west, there is in fact a large measure of such wisdom and counsel available in the Indian tradition, and Gandhi has been among its foremost exponents and interlocutors in modern times. Gandhian concepts of trusteeship, truth, non-violence, and satyagraha or truth-force are in perfect sync with, but go much farther than, the modern expectations of corporate stewardship that stands for caring for other peoples' money and resources entrusted to the care of corporate directors and executive management, transparency and accountability, eschewing physical and emotional violence at the work place as well as against natural and environmental resources, and for upright and conscientious behavior on the part of directors in doing what they are convinced to be in the best interest of all shareholders and other stakeholders. If corporations would seriously consider adapting and living up to these principles in their governance structures and systems, there would indeed be little need for punitive regulation on the part of the State.

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This paper is organized as follows: Section I reviews the changing scene relating to corporate stewardship around the world; Section II summarises some of the key Gandhian concepts relating to responsibility; and Section III explores the concordance and imperatives of these principles to corporate governance of socially responsible businesses to achieve their goals and realize their potential truly in the service of the societies they seek to serve.

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## Foundations of Corporate Stewardship

Who owns the corporation? The obvious commonplace response to this question would simply be the shareholders. To get a clearer picture, however, one would have to explore the underlying basis of *ownership* that involves the notion of *property*, which itself in a traditional sense covered *real* or tangible property derived essentially from land and rights flowing therefrom, *personal* or portable by the person who had rights of control over its possession, usage and exploitation, and *intangibles* where a claim against others for any infringement would be sustainable (Berle and Means, 1932).

The corporate format of business introduces an intermediary between property of all these three kinds and the investor who puts in his risk capital, and this is the *corporation* itself, an entity created by a sleight of legal fiction, endowed with an identity of its own *albeit* through the medium of human interaction, with perpetual existence, that can sue or be sued, and exercise control, both in fact and in law, over ownership of its assets and responsible for its liabilities. Shareholders in such entities 'own' a derivative instrument labeled a 'share' in the capital of the corporation which entitles them to vote on certain major decisions and more importantly, represents a kind of property which can be owned, sold or otherwise disposed of as the owner desires; but under no circumstances does the share entitle a shareholder or shareowner to claim as his own property a proportionate slice of the assets of the company which strictly remain its property. The only persons who, acting on behalf of the company, can exercise its ownership rights are the board of directors and under their authorization, the executive management of the company. The directors, on whom this authority and responsibility have been conferred by members of the corporation, either through the initial charter documents or by periodical resolutions, are thus in the position of *fiduciaries* or trustees for the beneficiaries on whose behalf and in whose interest they are charged with the responsibility of carrying on, to the best of their ability and in good faith, the operations of the company on a sustainable ongoing basis.

There has been a raging debate as to whether the board and the directors are only accountable exclusively to the shareholders or to a broader set of other stakeholders as well. Since Bowen (1953) raised the question, "What responsibilities to society can business people be reasonably expected to assume?" and illustrative of the general response, Nobel laureate Milton Friedman (1962, p. 133) had

averred that the "... one and only ... responsibility of business [was] to use its resources and engage in activities designed to increase its profits, so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud." there has been, in recent decades, considerable mellowing down in the corporate approach to stakeholder recognition. In a perceptive observation, an OECD Advisory Group chaired by Millstein (1998, p. 67) had captured the essence of the emerging balanced thinking in the following words:

"Companies do not act independently from the societies in which they operate. Accordingly, corporate actions must be compatible with societal objectives concerning social cohesion, individual welfare and equal opportunities for all. Attending to legitimate social concerns should, in the long run, benefit all parties, including investors. At times, however, there may be trade-offs between short-term social costs and the long-term benefits to society of having a healthy, competitive private sector. Societal needs that transcend the responsive ability of the private sector should be met by specific public policy measures, rather than by impeding improvements in corporate governance and capital allocation."

In similar strain a Committee, chaired by Hampel (1998, i.16, 1.18) in the UK had commented:

"A company must develop relationships relevant to its success. These will depend on the nature of the company's business; but they will include those with employees, customers, suppliers, credit providers, local communities and governments. It is management's responsibility to develop policies which address these matters; in doing so they must have regard to the overriding objective of preserving and enhancing the shareholders' investment over time. ...

"As regards stakeholders, different types of companies will have different relationships, and directors can meet their legal duties to shareholders, and can pursue the objective of long-term shareholder value successfully, only by developing and sustaining these stakeholder relationships. We believe that shareholders recognize that it is in their best interests for companies to do this and-increasingly-to have regard to broader public acceptability of their conduct."

The Business Roundtable, the US association of chief executive officers of leading corporations (reportedly with a combined workforce of 10 million employees in the US alone, and aggregating some \$3.5 trillion in revenues) is a little more cautious in its position. In its 2005 document pp. 31, 33, 34), the BRT commented that while

"Corporations are often said to have obligations to stockholders and to other constituencies, including employees, the communities in which they do business, and government, but these obligations are best viewed as part of the paramount duty to

optimize long-term shareholder value", they had "obligations to be good citizens of the local, national and international communities in which they do business,"

And again,

"[A] corporation should be a good citizen and contribute to the communities in which it operates, by making charitable contributions and by encouraging its directors, managers, and employees to form relationships with those communities. A corporation [should] also be active in promoting awareness of health, safety and environmental issues, including any issues that relate to the specific types of business in which the corporation is engaged."

The Business Round Table thus viewed responsibility to stakeholders as a business imperative in the process of creating value for shareholders.

The Berlin Thesis on Corporate Governance<sup>1</sup> is more prescriptive. Article 8 of this document postulates, "[T]he company management must sensibly balance out the interests of the various stakeholders of the company," and added:

"Among those with an interest in the public corporation are principally the owners (stockholders) but also the employees, the customers, the loan creditors and suppliers as well as the public at large. Within the scope of these reference groups, particular significance must be attached to the stockholders as providers of risk capital. The prominent position of the stockholders certainly does not mean an ill-balanced commitment by the company's management to a strict, short-term maximization of the shareholder value, as measured against the quoted price. On the contrary, the company management must sensibly balance out the aims of the various reference groups for reasons of economics, because ultimately all stakeholders in each case make their contributions to the success of the company".

Reflecting this growing appreciation of societal expectations of corporations, the OECD Principles of Corporate Governance (2004, IV, p. 21) postulate:

"The corporate governance framework should recognise the rights of stakeholders established by law or through mutual agreements and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises."

Indian thought had of course long before reconciled the imperatives of societal contentedness and satisfaction with the stability and prosperity of the kingdom. Illustratively, Kautilya, the eighth century B.C. political strategist, had counseled his emperor Vikramaditya, "In the happiness of his subjects lies his [king's] happiness; in their welfare, his welfare" (Rangarajan, 1992). Gandhi, Father of the Indian nation and its political independence from British rule in mid-twentieth century, propagated both by

precept and practice a set of citizenship ideals (to which we return in the next section) which can be applied to corporate as much as to individual behavior. The Indian position on corporate responsibility towards stakeholders also fully supports the perceived needs to balance shareholder and stakeholder interests. The SEBI guidelines<sup>2</sup> expressly provide for stakeholder interests to be addressed even while pursuing a company's principal objective of maximizing shareholder wealth on a long term basis. This dispensation not only provides an opportunity to, but perhaps also casts an obligation upon, the Board and its members to address issues bearing upon societal expectations.

Could all these approaches herald the beginning of an integrated corporate governance model that seeks to straddle the competing claims of shareholder primacy and stakeholder stridency? Certainly, it would appear to be the most balanced approach to corporate governance in recent decades. There is indeed striking evidence that successful corporations have almost always practised these precepts without perhaps labeling them with such clarity. General Electric, consistently a world leader in terms of market capitalization and corporate performance, is an impressive case in point. Monks and Minow (1996, p.50) quote its long-time CEO Ralph Cordiner calling its top management a *trustee* responsible for managing the enterprise "in the best balanced interest of shareholders, customers, employees, suppliers, and plant community cities". Decades later, topping the *Fortune 500* listings again in 2007 both within the US and worldwide, GE's Citizenship Report (2007, p.7) quoted its chairman Jeff Immelt, with regard to its approach to stakeholder engagement:

"As we expand in developed and emerging markets, we will be continually challenged to ensure that we invest in a sustainable and intelligent way that leverages our financial, technical and intellectual resources to the benefit of our investors, employees and communities.

"To some, this may seem incongruous for a public company like GE whose primary mission is to make money and deliver value to investors. We don't agree. ... Our early experience with ecomagination has shown us that we can develop products to address these [environmental and other] challenges and make money in doing so.

"Our corporate citizenship must be aligned with our business goals in order to drive future growth and better understand and mitigate these [environmental] risks. This alignment also helps us deliver on our promises while answering the needs of society."

The number of companies worldwide publishing Sustainability (or other equivalent) Reports bearing up on their impact and initiatives with regard to societal and environmental issues (besides the purely financial performance reporting) has grown substantially in recent years, providing further evidence of recognition of the relevance and imperatives of corporate responsibility to the society in which they operate.

In India, illustratively, the Value Statement of the Tata Group (which has been ranked number one in the 2008 BT Sustainable Development Index for India) sets out its purpose as improving “the quality of life of the communities we serve. We do this through leadership in sectors of national economic significance to which the Group brings a unique set of capabilities. ...”<sup>3</sup> The five-year vision of Wipro Corporation (1999), again among the top in terms of market capitalisation, puts “its people first”, and had a whopping 78% of its employees affirming the company to be the best organisation for them to be in. Its compatriot Infosys Technologies thrives on its objective of making thousands of its employees millionaires through the company’s stock sharing programmes, while retaining a top slot in the capital market and attracting international investors.<sup>4</sup> The tobacco and hospitality major, ITC’s avowed mission is “[T]o enhance the wealth generating capability of the enterprise in a globalizing environment, delivering superior and sustainable value;” its chairman, Y C Deveshwar, speaking at the annual general meeting of the shareholders in 2000, articulated ITC’s belief that “creation of shareholder value provides the only basis for sustainable contribution to the superordinate goal of creating national value.” Speaking to his shareholders in 2007, Deveshwar continued in the same strain, referring to the heartening spectacle of being a “witness to a growing corporate consciousness to ensure that the future generations are more secure,” and assuring them of the company’s “commitment to creating enduring value will continue to inspire us as we strive to achieve even greater success in the future.”<sup>5</sup>

Thus, there seems to be a measure of growing appreciation at least among leadership companies around the world that their board’s role was to steer a middle course that while protecting and enhancing shareholders’ wealth would also ensure that the real stakeholders’ aspirations are factored in. In recent times, it has also become abundantly evident that corporations in pursuit of their profits can ill afford to ignore their impact on the other two dimensions of their interface with the environment and the society in which they operate.

Having said that though, it should also be recognized that corporations in general have still a long way to go before these concepts could be deemed as generally accepted as a matter of course. Even those that have made some progress in this direction have further to go before they can truly command the trust and respect of the society at large. There are numerous instances of corporate expropriations of the natural resources in the geographies they operate in.<sup>6</sup> Executive compensation and separation packages for top managers continue unabated,<sup>7</sup> even when their corporations were hurtling down towards disaster.<sup>8</sup> India too has a surprisingly large population of highly paid corporate executives relative to the country’s overall wage levels (Hiral Sheth, et al, 2008, pp. 58-98). The number of high profile banks that suffered in the aftermath of the sub-prime mortgage triggered financial meltdown would indeed lead to questions of whether their boards and directors did exercise the necessary levels of care and caution that as trustees of other peoples’ monies they were required to, as other institutions that were more circumspect with regard to what have since been referred to as *toxic assets* appear to have been spared similar pains Causey, 2008, p. 50). Taken together, all these are symptomatic of a general state of



indifference to certain values and morals, many of which Gandhi stressed as the cornerstone of good, responsible human behavior in a civilized society. We now turn to a brief review of some key tenets that Gandhi espoused, principles that go beyond rule-based regulatory prescriptions.

## II

### **Gandhi and Social Responsibility**

Mohandas Karamchand Gandhi (1869 – 1948), a legend in his lifetime, was referred to as the *Mahatma* or the Great Soul. He did indeed richly deserve this sobriquet not only for his achievements in the political sphere (great and unparalleled as they were) but also because of his legacy of ethical thought and societal responsibility. His bust was put up next to the podium in the general Assembly Hall of the United Nations in 2007 as a tribute to the apostle on the Second International Day of Non-violence. It was apparently the first time in the entire history of the United Nations an image of any leader had been displayed in the General Assembly Hall. As an Indian educated in the United Kingdom and politically baptized by fire in South Africa before his monumental Indian independence movement, who took to the path less travelled in terms of personal and political behaviour, do his copious writings, speeches and practices offer any scope for learning to the corporate world? Not surprisingly, most of his philosophical approaches, some of them bordering on the religious, although primarily evolved in the political domain, are indeed adaptable and extendable to the world of profit making corporations around the world. Following is a selection of some key concepts Gandhi advocated and lived by.

#### **Trusteeship**

Gandhi's overarching principle concerning wealth and wealth creation was one of trusteeship. A working description of a 'trustee' is an individual or corporate entity placed in a position of looking after the resources of another for his or her or its benefit. The Oxford English Dictionary (1933, XII, p.433) defines the word as "one to whom property is entrusted to be administered for the benefit of another" and "one who is held responsible for the preservation and administration of anything." Little has changed since then: in our own times, Webster's Dictionary (2007, p153) defines a trustee as "a person to whom another's property or the management of another's property is entrusted."

Gandhi's thoughts on trusteeship are to be found dispersed in his speeches and writings over the years, not codified as a compact theoretical document. but nevertheless their thematic consistency is striking. He had no problems with people and businesses creating wealth and working for profit. In an individual context, wealth may be the result of earning and saving, or inheritance: in either case, Gandhi did not look down upon the wealthy (and in fact counted many among his friends and close associates), so long as the accumulation or accretion was through what he called "pure" means. This approach indeed is in tune with a scriptural edict that lists *Artha* or material profit as one of the

four life objectives of individuals so long as it is earned with due regard to *Dharma* or the righteous means ordained. Gandhi, accordingly, was rigidly concerned with the means of making money, that they should be fair and ethical, a prescription even Milton Friedman (1962, p. 133) had subscribed to in his oft-quoted statement that the

“... one and only ... responsibility of business [is] to use its resources and engage in activities designed to increase its profits, so long as it stays within the rules of the game, which is to say, *engages in open and free competition without deception or fraud.*” (emphasis supplied)

Unfortunately though, business in general whether carried on in personal capacity or a corporate format has always attracted unsavoury connotations. Ethical business is considered as an oxymoron, an inherent contradiction in terms. Upadhyaya (1976, p. 72-3), for example, cites from the *Oxford English Dictionary* (1933, XII, p.433) defining management as “[T]he application of skill [or] care in the manipulation, use, treatment, or control (of things or persons) or in the conduct (of an enterprise, operation, etc.)” The term, alternatively, is also<sup>9</sup> defined as “[T]he use of contrivance, prudence or ingenuity for effecting some purpose; often in unfavourable sense, implying deceit or trickery.” While the so-called *professional* management in modern times has gained a measure of respectability and rectitude (notwithstanding the periodical misdemeanours of such professional managers and professionally managed corporations), similar credit, as a general rule, is unavailable to the other categories of managerial personnel and management systems, although, as with all generalizations, there will always be notable exceptions in either category.

And Gandhi was not alone in conceding and even advocating that wealth could be acquired by honest or pure means: illustratively, John Ruskin (1860, p.190), whose writings greatly influenced Gandhi, relates the story of a Jewish merchant of great fortune centuries before the Christian era through trading on the Gold Coast whose maxims for wealth acquisition, held in great respect, demonstrated that “it is possible for a very practical and acquisitive tradesman to hold through a not unsuccessful career, that principle of distinction between well-gotten and ill-gotten wealth.” In our own times we have been witness to commercially successful individuals and corporations with a reputation for clean trading and business practices.

Having legitimately made (or inherited) the money, Gandhi felt that beyond what was required for maintaining oneself and one's immediate family in line with their societal norms, the rest should be considered held in trust for society. How should these societal norms be determined? Gandhi's prescription was quite severe and in some ways rather idealistic. Adherence to his standards was not entirely feasible and he was aware of it but nevertheless postulated his expectations as a kind of normative standard to be striven for. He asked the rich class to reduce its needs to a basic minimum consistent with what the average citizen of the country could afford. He argued against overly conspicuous consumption and expenditure on wedding feasts and celebrations on grounds of their being immoral in the context of a large part of the country's population suffering from starvation and malnutrition. He asked the landlords and princes to work and earn their living and not depend up on their inherited or unearned wealth and incomes. The message of living in tune with the rest of the society was indeed well made but there were naturally few converts to this philosophy. Gandhi presumably was happy with the signaling effect of his exhortations even if there were only some limited movement towards containing rather than eliminating extravagance in the midst of the abject poverty that surrounded these islands of prosperity.

The principal ground for trusteeship concept was that such wealth came from societal constituents and (beyond modest personal needs) truly belonged to them, and hence should be kept in trust, prudently and productively used for the benefit of society. Many modern day philanthropists, among them Bill Gates and Warren Buffett in recent times, seem to share a similar view. This principle can easily be extended to corporations as well. While they should optimize profits for their shareholders after addressing their other stakeholder interests, they need to put all the surpluses to productive use to create more wealth, and hold them in trust for their shareholders until they are distributed to them. They could also engage in corporate philanthropy for the advancement of their reputation and on causes that would advance their business interests, with the concurrence of their shareholders and after due consultative and approval processes within the corporation. It would be instructive to note that the principal shareholders in Tata Sons, the multi-billion-dollars worth unlisted parent company of the Tata group in India and elsewhere, are a clutch of charitable trusts whose wealth and income running into several billion dollars were defrayed to support societal welfare projects; two-thirds of every rupee earned by Tata Sons, thus goes to charity (Gopalakrishnan, 2008).

## Truth

To Gandhi, an unswerving adherence to **truth**, defined as the concordance of impressions or opinions with unadulterated facts, was, in Kant's terminology, a categorical imperative. There were no ifs and buts in the Gandhian lexicon where truth was concerned. Religiously inclined as he was, Gandhi believed in the Hindu scriptural edict *Satyam Vada*, meaning Speak the Truth. Truth in Sanskrit is *Satya*, itself derived from the root *Sat* meaning '*that which is*'; interestingly, the *Oxford English Dictionary* (XII, p.435) also defines truth as "That which is true, real or actual (in a general or abstract sense)" and in religious usage as "spiritual reality as the subject of revelation or object of faith." Gandhi's view was that "truth resides in every human heart, and one has to search for it there, and be guided by truth as one sees it." From this also developed the concept of listening to the *inner voice* or the message of the conscience as a guide for action decisions.

Raghavan Iyer (1973, pp.152-154) believed that "The Gandhian apotheosis of *Satya* is conceptually more in accord with the views of the ancient Greeks and of the Stoics than with the Cartesian conception of truth, but it is in practice closer to modern existentialist rather than classical notions of truth in so far as it stresses action rather than thought. ... For him ... truth is nothing less than the splendor of reality and nature, but when it is perceived and seized, it must be acted upon." Truth as the basis of legitimate or well informed action has also been alluded to by Frankfurt (2006, p. 15) who noted that "any society that manages to be even minimally functional must have ... a robust appreciation of the endlessly protean utility of truth."

We should also note the two broad levels of truth that Gandhi visualised: the Absolute Truth and Relative Truth. The former related to the perfect Truth which was impossible to realize within the mortal frame of individuals and could only be visualised through one's imagination. At a practical level, though, every individual has to follow truth according to his lights; if there is a mistake it would be set right automatically since no one can lose his bearings for long. This directive leads us to a situation where there can be different perceptions of truth in the minds of different individuals. No matter, Gandhi counsels, and compares different truths to the countless and apparently different leaves of the same tree, which after all in one and the same for everybody. (Raghavan Iyer, 1991, pp.232-233) In the context of truth, we need also to briefly refer to when an untruth prevails over truth as a better choice. There is scriptural support to the

view that at times and in certain circumstances an untruth may be a lesser evil than the consequences of truth itself. For example, Badrinath (2006, pp. 188,189) quotes from *The Mahabharata*, the great Indian epic, "To save others from being killed is a most exalted *dharma*. If by speaking a lie, a life is protected, then speak the lie, and protect that life." And again, "Where the result of speaking a lie is good, akin to speaking the truth, and where speaking the truth will bring great harm, akin to speaking a lie, there one must not speak the truth. There one had better speak a lie." The Kantian view would not permit this flexibility: "By a lie I do wrong to men in general... it always injures another; if not another individual, yet mankind generally, since it vitiates the course of justice." (Raghavan Iyer, 1973, pp.229-30) Gandhi chose a middle course. He was clear that "one must never tell a lie, but one may refuse to tell people what they want to know when they are likely to put the information to evil purpose. .. Truth must be told at any cost. But one is not always bound to disclose facts"<sup>10</sup> (Raghavan Iyer, 1973, p.230) In practice this approach may entail some tight rope walking and under certain circumstances such as when under oath in a court of law or under mandate through legislation, when one may have to tell not only just the truth and nothing but the truth but also the "whole truth." But the Gandhi's basic counsel in this matter is always to tell the truth and never a lie, with the caveat that all known facts need not be disclosed if the person believes doing so may, in the process, hurt the life and property of another, or otherwise lead to major undesirable consequences..

### **Non-violence or *ahimsa***

*Ahimsa* means non-injury and of course includes non-killing; in a wider connotation, it would also reflect abstaining, in thought, word and action, from causing injury or violation to any living being. And, from there it will indeed be a small step forward to include violence against nature and its bounties as well, although he did not specifically cover environmental violence in his canvas. His adherence and propagation of non-violence was probably based initially on a religious platform (both Hinduism and Jainism strongly advocated *ahimsa*) but his firmer conviction and fine tuning of the concept was greatly influenced by Tolstoy's *The Kingdom of God is Within You.*, which was an exhortation favouring the Christian concept of non-resistance. Gandhi made huge political capital out of this concept in the Indian freedom struggle against the British, honing his practices on the experience he gained in South Africa earlier.

Another important aspect of Gandhian *ahimsa* needs highlighting. His concept of violence was not limited to physical violence alone but covered other forms of violence as well, for example, psychological or traumatic violence involved in instances of gender-based or work-place harassment and discrimination as well as acquiescence either by active support or tacit inaction in the face of such violence. To him, the creed of *ahimsa* is applicable under all circumstances and can admit of no exceptions. (Tendulkar, 1951-54, V, pp.153-54)

### ***Satyagraha or Truth Force***

*Satyagraha* was a missile or mechanism that Gandhi employed to devastating effect. The expression literally translates to truth force or the active application of the moral strength of truth to highlight a desired objective. The key ingredients were genuine concern and conviction as to the truth or fairness of an issue in general interest without any personal bias, and a strong adherence to its redressal through non-violent means. The important element in *Satyagraha* is the emphasis on the issue rather than the personae responsible for it, very similar to the distinction between a sin that was to be atoned, and the sinner that ought not to be hated.

This part of Gandhian philosophy was based on a conviction that the State (or 'the establishment') was a soulless machine, given to more than minimal violence to impose its will on those who dared to dissent, with the officials or bureaucracy generally inclined to presume forceful coercion as a legitimate weapon of its sovereignty, a situation that people espousing their right to basic freedom ought to resist. This position accords well with the views of several other scholars and philosophers through the ages who even while approvingly visualizing the need for a governing authority for the protection and welfare of its citizens, had anticipated the potential abuse of such powers of the State and prescribed countervailing mechanisms and institutions for safeguarding the liberty and freedom of the governed (Lewis, 2003). Similar injunctions of kingly governance and countervailing institutions to preempt abuse of such powers have been documented in Indian scriptural tradition, illustratively in *The Mahabharata*

(Badrinath, 2006) and elsewhere. Resistance to unfair governance could be either violent or non-violent in nature; Gandhi preferred the non-violent route as the most preferred alternative based on his firm belief that people were capable of developing their moral capacities to an extent that State excesses in intervention and regulation could be contained. (Raghavan Iyer, 1973).

The distinguishing characteristic of Gandhian *satyagraha* was its non-malicious dissent, or civil disobedience as he styled it after Thoreau (in contra-distinction to Tolstoy's passive Resistance) where the 'establishment' as represented by the State was defied in terms of disobeying a laid down rule of law but, concurrently, without offering any resistance by force or otherwise to any punitive actions that may follow. "As the *Satyagrahi*, who are not allowed to use violence in advancing their cause (the idea being that the adversary, too, is sincere since what seems truth to one person may seem untruth to another, while violence never carries conviction,) they must rely solely on the love-force that radiates from their faith and on their willingness to accept suffering and sacrifice joyously, freely." (Romain Rolland, 2002, PP.49-50).

Two important criteria relating to *satyagraha* need special mention: first, the cause must be just, in tune with *Dharma* or the norms of conduct and behavior ordained by tradition and one's own faith even if it was against the temporal laws of the State; second, it should only be directed against the impugned 'unjust' law, law with no trace of hatred or disaffection towards the people enforcing it (since they believe they were right in what they were doing). Elsewhere Gandhi presses home the point about the non-malicious nature of the movement: "Satyagraha is gentle, it never wounds. It must not be the result of anger or malice. It is never fussy, never impatient, never vociferous. It is the direct opposite of compulsion. It was conceived as a complete substitute for violence." (Eknath Easwaran, 1997, p.54).



These then are some, and by no means an exhaustive listing, of the key Gandhian tenets that may well accord with the best practices that one associates with good corporate governance and stewardship. The following section explores this concordance and reviews their application in practice.

### III

#### **Gandhian Thought and Corporate Responsibility**

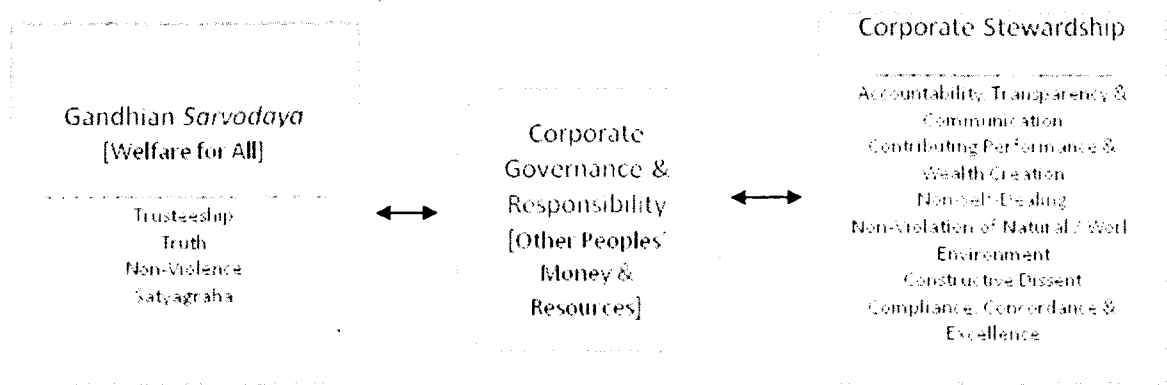
Modern day commercial corporations, as noted earlier, are a legal contrivance for pooling financial and other resources of people to be put to use in carrying on designated business objectives with the ultimate objective of earning a profit for their risk-bearing shareholders. Having thus been incorporated, corporations also bear a strong resemblance to social and political networks of willing and resourceful people coming together for productive purpose, albeit for private gain. The shareholders, especially those not in operational control, part with their monies of their own free volition to invest in the equity of the corporation; in this sense they do bear a striking similarity to the citizens of a country foregoing part of their individual freedom to join in with other like-minded people into a political entity to safeguard their common interests with greater certainty than if they were on their own. Like the citizens, shareholders do vest in their boards of directors the power to use their monies as they deem appropriate in overall interest of all the shareholders, and let themselves be 'ruled' (to the limited extent of applying their invested monies towards common benefit) by the directors and their executives. The directors on their part, not unlike the kings or rulers of the State, have their *fiduciary* obligations to the shareholders and the corporation –again similar to the rulers' responsibilities to their citizens and the country- of administering their estates with due care, loyalty and diligence (Balasubramanian, 2005).<sup>11</sup> In both cases, there are countervailing provisions for abuse-prevention-or-mitigation, both by law and internal agreements and accepted best practices. The employees bring in their skills and expertise; the community provides them with their sanction to operate and serve the needs of the society. Modern corporations are so large and powerful that they truly resemble nation states in their complexity, impact and operation. With such power comes also the potential danger of abuse and it is in that background that we explore the application of Gandhian principles to corporate governance.

The Gandhian concept of *Sarvodaya* or Welfare for all was the end-result of all his teachings that were but instruments in achieving this objective. Corporate Stewardship, in its application to a sub-set of society, also strives to promote the equitable welfare of all its constituents. Exhibit I brings out the interacting relationship between the two systems with reference to corporations.

Exhibit I somewhere here

## Exhibit I

### *Sarvodaya & Stewardship*



Gandhian concept of trusteeship sits in eminently well with the governance concepts of *fiduciary* capitalism and stakeholder responsibility, as well as of corporations having to discharge trusteeship obligations in respect of the natural environment and other earth resources. The corporate board's stewardship role in governing the corporation in the interests of its shareholders was succinctly articulated in the Canadian Guidelines (TSE,1994) as comprising of the adoption of a strategic planning process, risk management, appointment, training and monitoring senior management, laying down an effective communications policy, and ensuring the integrity of corporate internal control and management information systems. To these must be added an overarching responsibility of setting, communicating, and monitoring the value systems in the corporation within which such corporate objectives are to be achieved and its affairs conducted. All these are key ingredients in the proper discharge of the board's fiduciary duties to the shareholders of protecting their interests, and being accountable

to them for the proper application and enhancement of the monies that they have entrusted to their care. Illustratively, Directors and Officers, as trustees,

- may not indulge in deception, self-dealing or tunneling, poaching into created wealth or wealth-creating opportunities the fruits of which truly belong to the shareholders
- have to be truthful in their accounting and financial and other reporting to the shareholders and the outside world, in their dealings and communications with customers and other stakeholders, as well as in their communications within the organization to employees and managers. This will involve incorporating sound principles of transparency in accounting, reporting and communication, whether to internal constituents or to external stakeholders including shareholders and investors. Truth in this sense also applies to fair dealings with internal and external constituencies including customers, vendors, employees, civil society and the government, in short to a corporation's entire relevant stakeholder population.

Truth is also at the root of all disclosures required to be made by directors and others in respect of transactions with the company in which they have a personal or other interest, and can be easily linked to the *fiduciary* duties of loyalty to the company and its shareholders. Even when the financials of the corporation are certified by independent auditors as representing a true and fair view of its affairs, or when the CEO and CFO certifications of their company's financials, one can see the imperatives of validated truth that form the core elements of good trusteeship and governance. Truth is so fundamental to trust that leads to reputation that corporations can hardly afford to take it lightly.

- may not violate the rights of their employees (one would include also those employed on their behalf by other outsourcing contractors) or other stakeholders. Besides, it can also be extended to include violence against non-humans was not excluded from the ambit of his coverage, as in the case a cruelty to animals as well as impairment of the environment through operations involved in the business processes and products and services and where such violations were unavoidable in the business process, seek concurrence from the affected with transparent disclosures and reparatory measures

- have the responsibility, in board deliberations, to express their views on decision matters, and where overruled by a majority, insist on their dissent being recorded. Board independence is not necessarily a question of numbers, even a single director may be able to convince others on matters where he or she holds a strong unbiased selfless view
- must follow the laid down Dharma or legal or regulatory domain through compliance in letter and spirit is a key attribute of governance.
- must comply with the laws of the land in respect of their operations (and where possible improve upon them, especially if home country practices are superior to host country requirements)

Fortunately, directors are not expected to be supermen and women in their role; the ends of justice would be met if they are demonstrably diligent, loyal, and careful in their application to their jobs; Gandhi would have been less forgiving in his demands of the trustees to an extent that often his standards may have appeared far too difficult, if not altogether impossible, to strictly comply.

(Exhibit II somewhere here)

## Exhibit II

### Some Do's and Don'ts for Gandhian Corporations and Directors

- Do care for the interests of all shareholders and strive utmost to create wealth for them through legitimate means; be loyal to their interests to the exclusion of any undisclosed or unauthorized personal gain
- Do not indulge in deception, self-dealing or tunneling, poaching into created wealth or wealth-creating opportunities the fruits of which truly belong to the shareholders
- Do be truthful in accounting and financial and other reporting, communications within the organization to employees and managers. communications with customers and other stakeholders
- Do be fair in dealings with internal and external constituencies including customers, vendors, employees, civil society and the government
- Do promptly and fully disclose any actual or potential conflict of interest in respect of transactions with the company in which there is personal or other interest,
- Do not violate the rights of employees (including contracted and outsourced employees) and preempt workplace harassment and safety breaches
- Do not tolerate cruelty to animals and other non-humans; if unavoidable in the nature of business, do institute the most caring treatment to ensure least pain
- Do not tolerate any damage to or impairment of the environment; if unavoidable in the nature of operations, do seek concurrence from the affected with transparent disclosures and reparatory measures . .
- Do comply with the laws of the land in respect of operations and where feasible improve upon them, especially if home country practices are superior to host country requirements)
- Do express views on decision matters based upon personal conviction (inner voice) at board and other meetings, and if overruled by a majority, insist on dissent being recorded

## **Would Gandhian Corporate Governance Pay?**

Does good governance in this Gandhian frame (similar but much more rigorous than most international stewardship expectations) pay? There certainly is a strong business case for Gandhism (much as Gandhi himself disliked this label) in corporate governance. As noted earlier, leadership companies around the world – and in India- have incorporated many of these tenets (with varying degrees of rigour) in their governance frameworks, often long before legislators and regulators had stepped in. Are they the leaders because they follow good governance practices or do they follow them because they are leaders? The debate can go on but there is no denying that one good thing leads to the other, and often good practices seem to grow on each other's back!

While on this, a related issue that has been and even now is, raised may be addressed. Are these principles of praiseworthy and preferred behavior not more appropriately be applicable to individual men and women rather than to inanimate entities like corporations? In other words, could artificial creatures like corporations be credited with having a conscience or soul which are essential prerequisites such behavior? Fortunately, It was Henry David Thoreau who wrote more than a century and half ago that while corporations are truly enough said not to have a conscience, those of conscientious men could be taken as corporations *with* a conscience. After all, corporations as inanimate entities created by a sleight of law have to act and express themselves through their human representatives, and it is those men and women who in fact provide leadership for all corporate initiatives, good or bad.

There is often some skepticism on good governance principles and practices especially in the context of many corporations around the world that are not reputed to follow such preferred practices, still managing to be at the top of the pack and receive approbation from the shareholders and the media. One could only speculate how much better and how much higher

their reputation and therefore their performance would have been if only, besides their excellent financial bottom lines, their governance frameworks had also been more attuned to truth, transparency, trusteeship and welfare for all.

Governance is critical to corporations as it is to nations. Sooner or later, often sooner than later, the society weeds out the undesirables, untrustworthy, unworthy, and the untruthful. If any evidence is required, one would only have to see the churn in the Fortune 500 companies in the last three decades and see how many of the earlier Greats continue their position in later years. The financial distress of several United States Corporations and Banks in the last quarter of 2008 is a gruesome reminder that the day of reckoning does indeed arrive for the unprincipled, unethical, incompetent, indifferent, and the overly greedy. India has had its share similar bail outs at the expense of the common citizen and tax payer.<sup>12</sup>

Martin Luther King, Jr once said: "Gandhi was inevitable. If humanity is to progress, Gandhi is inescapable. He lived, thought and acted, inspired by the vision of humanity evolving toward a world of peace and harmony. We may ignore Gandhi at our own risk." Likewise, Gandhian thoughts and philosophy appear to be the inevitable prescription for a corporate sector that is struggling to regain its credibility and win the trust of the societies in which they function. Corporations aspiring to reach or retain their top billings in the world of corporate business could do worse than by taking this counsel seriously and on their own initiative introduce and internalize these wholesome principles in spirit before they are inflicted by mandate. It is not just they look good for business, but indeed they are as has been proved by so many successful companies. Corporations may therefore like to adopt, adapt, and benefit from, these guidelines based on real life experiences and experiments of a man about whom Albert Einstein wrote, "Generations to come will scarcely believe that such a one as this ever in flesh and blood walked upon this earth."



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## Notes

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<sup>1</sup> *German Code of Corporate Governance*, (June 2000), Berlin Initiative Group on German Code of Corporate Governance. [www.gccg.de](http://www.gccg.de)

<sup>2</sup> *Report of the Kumar Mangalam Birla Committee on Corporate Governance*, (2000), The Securities and Exchange Board of India

<sup>3</sup> Sourced from the company web site

<sup>4</sup> And keeping its shareholders delighted, as well. After a record 2590% dividend payout for the year ended March 31, 2004, delighted shareholders at the company's annual general meeting in Bangalore reportedly equated Infosys with *Lord Balaji or Venkateswara* of the famous religious shrine at Tirupathi in the southern state of Andhra Pradesh, in terms of revenues earned! *Infosys is lord of the shareholders*, The Economic Times on Sunday, June 13, 2004

<sup>5</sup> Chairman's speeches at the Annual General Meetings of shareholders, sourced from company web site

<sup>6</sup> Coca Cola's alleged mismanagement in the use of natural ground water resources in some of their bottling operations in India is a case in point: *Coca-Cola's Latest Scam - Water Neutrality*, Amit Srivastava, November 25, 2008 – Source - <http://www.indiaresource.org/campaigns/coke/2008/neutralty.html>

<sup>7</sup> A study by the pro-labour Economic Policy Institute in the US estimated that in 2005, US CEOs (of sample companies) on average earned 262 times (300 in 2000) more than the workers, The EPI *Snapshot* June 27, 2006, previewing their publication *The State of Working America, 2006-2007*

<sup>8</sup> Illustratively, *Some Chieftains Took Money off Table*, Mark Maremont, John Hechinger and Maurice Tamman, (2008), The Wall Street Journal, November 21-23, pp. 1, 16-18

<sup>9</sup> *Oxford English Dictionary*, (1933), 1970 reprint, Oxford University Press, Vol XI, p. 433

<sup>10</sup> In a corporate context, this may be the justification for the conservative practice of allowing banks to build secret reserves or even avoiding or delaying bank bankruptcies to mitigate the contagion effects of such realities, if allowed to surface prematurely!

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<sup>11</sup> A veritable checklist and commentary are available in *The Mahabharata*, Santi Parva which details the essential features of *Raj Dharma* or royal responsibilities and duties.

<sup>12</sup> The State owned Unit Trust of India that had to be bailed out twice in the late nineteen nineties and at the turn of the century, is a case in point