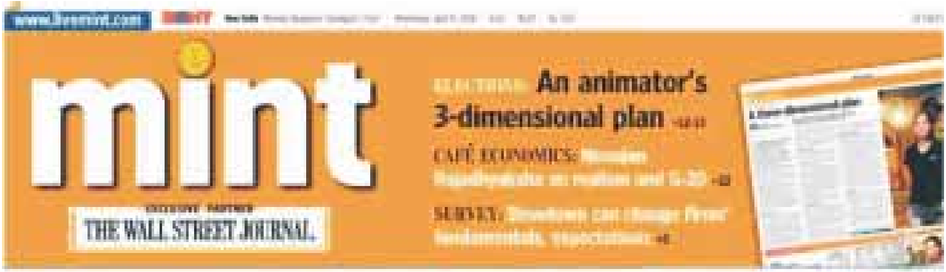

BEYOND PHILANTHROPY

Lessons from Satyam

BY ASHOK ASHTA

Repercussions of the unfolding corporate fraud at Satyam, which is now India's Enron, are far-reaching. Shareholders are suffering from shrinking investments, while employees—such as my colleague's wife, Ekta—worry about getting paid. Ekta considers herself lucky. Her neighbours, husband and wife, both continue working at Satyam. As the ramifications unfold, what can we learn from Satyam to encourage socially responsible behaviour in India?

The Satyam fraud will result in a significant shift to corporate governance (CG) codes; in fact, these are already being extensively evaluated. CG is concerned with improving board structures and procedures to make a firm more accountable to shareholders through financial reporting, auditing, transparency and director qualifications.

What I find overlooked in the discussion is corporate social responsibility (CSR). While CG emphasizes the letter of the law, CSR requires an organization to broaden its focus, from shareholders to stakeholders. CSR pushes a company to redefine relationships with employees, customers, non-governmental agencies and others.

The conventional Indian model of CSR is too focused on philanthropy, and the nature of philanthropy is often unrelated to business. These problems must be addressed at two levels: First, broad-based, unfocused philanthropy, which can be an abuse of power by managers, must take on a more strategic orientation and second, CSR codes should be made more holistic and incorporated into companies at every level.

Remember Milton Friedman's strong opposition to CSR beyond legally and ethically making money. Friedman argued that if a manager spends corporate money for general social interest, he taxes respective stakeholders by reducing profits, dividends, wages etc. If the stakeholders want to give donations, they should be allowed to decide on their own.

One exception to this theory is strategic philanthropy, involving community support programmes designed to increase business. Also, CSR goes beyond financial support to respecting social norms which are not necessarily legislated, such as respect for environment. In respecting these social norms, philanthropy may or may not be required.

The truth is there is no globally accepted standard of CSR. Practices vary widely; however, broad patterns are visible. In the US, the objective often is to separate CSR activity and establish distinct foundations. Europe is similar to Japan in business conduct, which follows the concepts of *shobaido* (the way of good business) and *shonindo* (the way of merchants).

The Japanese and European ideology is explained by CSR specialist Mallen Baker. As he puts it, "CSR is no longer defined—if it ever really was—by the process of how much money a business gives away, but by how that business makes its money in the first place." I contend that companies in India have not yet embraced this notion.

No society is immune from fraud and CSR programmes alone are not magic elixirs. The sad irony is that Satyam was receiving international awards for CG. What is important is that issues such as human rights, corporate ethics, environmental stewardship and basic values are recognized as fundamental to good corporate behaviour—not just legal or governance matters. If CSR's parameters are defined strictly by corporate philanthropy, the risk of irresponsible behaviour is high—and more people such as Ekta will find themselves fearing for the future. A new recognition of CSR's requirements will help elevate Indian companies to the next level of responsibly serving society.

Ashok Ashta is responsible for CSR strategy at Hitachi in India. These are his personal views. Comments are welcome at yourviews@livemint.com